

THIRD REPORT
FROM
THE COMMITTEE OF
PUBLIC ACCOUNTS

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

Session 1946-47

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Committee of Public Accounts *nominated*:— Mr. Benson, Mr. Cuthbert, Mr. Ernest Davies, Lieutenant-Colonel Alan Dower, Mr. Glenvil Hall, Lieutenant-Colonel Hamilton, Mr. Haworth, Mr. Horace Holmes, Mr. Kirby, Mr. Lever, Sir John Mellor, Mr. Peake, Sir Frank Sanderson, Mr. Thurtle and Mr. Wadsworth.—(*Mr. Robert Taylor.*)

Friday, 6th December, 1946.

Mr. Ernest Davies *discharged* from the Committee of Public Accounts; Mr. John R. Thomas *added*.—(*Mr. Popplewell.*)

Friday, 16th May, 1947.

Mr. Lever *discharged* from the Committee of Public Accounts; Mr. McAdam *added*.—(*Mr. Michael Stewart.*)

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THIRD REPORT

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

GENERAL

Standards of Accounting and Financial Control

1. In paragraphs 1—3 of their Fourth Report the Public Accounts Committee of 1945-46 referred to the relaxations of normal checks, and to some degree of the normal standards of accounting, which had occurred during the war as a result of the man-power situation. Your Committee have made enquiries as to the extent to which these relaxations continue and the likelihood of their being completely removed in the near future.

2. The Comptroller and Auditor General drew attention to certain additional relaxations of Inland Revenue procedure in connection with the Pay-as-you-earn system of collecting Income Tax, including a decision, announced by the Chancellor of the Exchequer in the House of Commons, to abandon the assessment to tax for the years 1944-45 and 1945-46 in cases where the tax deducted under the system amounted to less than £175. In addition, the decision taken earlier to dispense with the balancing of Inspectors' records of Schedule E tax at September, 1945 was extended to cover the two following years. In the absence of such balancing, the amount of arrears of tax, due to be collected under the Pay-as-you-earn system, cannot be stated.

3. Despite the exclusion of Pay-as-you-earn figures the arrears of Income Tax shown by the Inland Revenue Balance Accounts have risen to £283,723,000. The following table shows the increase in arrears of the larger Inland Revenue duties during the war:—

	<i>Amount of Arrears</i>		
	<i>1939</i>	<i>1944</i>	<i>1945</i>
	£	£	£
Income Tax (excluding P.A.Y.E.) ...	55,502,000	243,097,000	283,723,000
Surtax	17,575,000	31,464,000	36,818,000
Nat. Defence Cont.	4,004,000	16,386,000	22,381,000
Excess Profits Tax	245,000	368,851,000	437,012,000

The total arrears, excluding Pay-as-you-earn, were thus nearly £780,000,000, the increase during 1945 being £120,136,000.

4. It was explained in evidence that the arrears of Income Tax were largely due to the fact that the assessments could not be finally settled until the Excess Profits Tax had been assessed, Excess Profits Tax being allowed as a deduction for Income Tax. The Inland Revenue Department were short of the staff necessary to assess Excess Profits Tax and this shortage gave rise to arrears on both Income and Excess Profits Taxes.

5. The Post Office have restored some of the checks relaxed during the war, but they do not intend to revert entirely to the pre-war standard as they consider that some of those checks were unnecessarily extensive. At the Post Office Savings Bank, however, no improvement has been possible in the internal checks, owing to additional work connected with benefits payable on release from the Forces, etc.

6. Some progress towards the resumption of pre-war standards has been made by the Defence Departments. The Admiralty hope to reach during 1947-48 a full resumption of the checks on pay and allowances which were

suspended during the war because of staff difficulties, and they have already restored the normal standard of examination of certain classes of store accounts. The War Office have issued instructions for the resumption of full formal accounting by all units and establishments, at home and abroad, from April, 1947, and the practice of returning receipted copies of issue-vouchers to consignors, which was abandoned during the war, has been restored. The Air Ministry have been able to resume, on a reduced basis, certain departmental checks on pay accounts, etc., and have expressed the hope that a complete return to pre-war standards may be possible towards the end of 1947-48.

7. As regards Government Departments as a whole, the Treasury stated that in the two years since the end of the war good progress had been made in restoring pre-war standards of accountancy and financial control. They regarded controls necessary to prevent frauds, or for the exercise of proper administration, as objectives of the first importance and would not let anything stand in the way of their attainment. They were not aiming at a restoration of all pre-war checks, as experience had shown that the field of selective checks in operation in pre-war days could be extended. They agreed that it was unsatisfactory to have large arrears of taxes, but there was a difficulty in that it takes time to recruit and train the experienced staff required for Inland Revenue work.

8. Your Committee are glad to be assured that, despite the continuing shortage of man-power, progress has already been made towards the resumption of higher standards of accounting and financial control. They note with concern the substantial losses recorded in the Accounts of the three Defence Departments and trust that the measures taken will prevent a recurrence of such losses. They view with particular anxiety the large arrears in the Inland Revenue Department. Growing arrears of taxation of the magnitude recorded not only have a harmful effect on the budgetary position, but also encourage laxity in the payment of taxes. They hope therefore that every effort will be made to expedite the recruitment and training of the staff necessary to reduce the arrears of tax due to be collected.

9. In paragraph 100 of this Report reference is made to the fact that depletion of staff led to a delay in revising the selling prices of timber which were estimated to be involving losses at the rate of £9,000,000 a year. Your Committee recognise that at present there is a manpower shortage, but they would press Departments to make periodic reviews of the work that is being done as well as that left undone in order to ensure that the staff at their disposal is employed on the most profitable work.

Form of Estimates and Accounts for Works Services

10. The Public Accounts Committee of 1945-46 were consulted about the form of estimates for works services proposed by the Treasury as a result of the decision not to ask Parliament for Votes of Credit in 1946-47. In paragraph 5 of their Fourth Report they agreed that the reversion to the very detailed form of the pre-war statements of works services was to be deprecated. They thought that the adoption of a higher limit than before the war for the display of individual works would secure greater prominence for the important works undertaken and would give Parliament all that was necessary for controlling capital expenditure. The Treasury welcomed this suggestion.

11. The Treasury suggested to Your Committee and to the Select Committee on Estimates that, for reasons of security and the difficulty of getting

out normal estimates for works services, the services of the Defence Departments and the Ministry of Supply should no longer be set out in detail, but grouped under broad headings. These proposals were accepted for the years 1946-47 and 1947-48, continuance on this basis to be subject to further review. The Treasury, in making these proposals, had suggested that further information beyond that published could be made available in evidence and Your Committee accordingly asked them to consult with the Comptroller and Auditor General on the point. Your Committee understand that, as a result of this consultation, arrangements will be made to furnish the Public Accounts Committee next year with a list of the estimates for, and expenditure on, new works services of £100,000, or more, related to the 1946-47 Accounts. A similar course will be adopted, where appropriate and necessary, to supplement the published information on works services in other Civil Department Votes. Your Committee recommend that the proposed arrangements be accepted and reviewed by the Public Accounts Committee next year.

Statutory Authority of Government Departments

12. The Public Accounts Committee of 1932, in paragraph 3 of their Second Report, and the Committee of 1933, in paragraph 3 of their Second Report, considered cases of expenditure out of Votes of Parliament under the sole authority of Appropriation Acts. They expressed the view that, as a matter of general principle, where it is desired that continuing functions should be exercised by a Government Department, particularly where such functions may involve financial liabilities extending beyond a given financial year, it is proper, subject to certain recognised exceptions, that the powers and duties to be exercised should be defined by specific statute. The Treasury, while holding that it is clearly within the right of Parliament to provide grants, even though they may relate to continuing services, on the authority of Appropriation Acts, concurred in the view of the Committees of 1932 and 1933 that the power should be used within reasonable limits. The Treasury undertook to do their best to comply with the wish of the Committees that, when this power has been exercised to authorise continuing grants, opportunity should be taken to insert regularising clauses in any appropriate legislation which may be in contemplation.

13. This matter has been considered by Your Committee. They were glad to learn that specific statutory authority for grants in respect of police expenditure from the Vote for Police, Scotland, had been included in the Police (Scotland) Act, 1946, but regret that similar authority for the corresponding but much larger grants from the Vote for Police, England and Wales, to which reference was made in paragraph 12 of the Second Report of the Public Accounts Committee of 1936, was not included in the Police Act, 1946. The Home Office stated that they recognise these grants as a proper subject to be covered by statutory authority, and the omission was due to the urgency of the matters dealt with in the 1946 Act. Other cases were noticed where money has been voted annually for a number of years for expenditure which is not authorised by statute other than the Annual Appropriation Act, e.g. the Votes for (a) the National Savings Committee, (b) the Department of Scientific and Industrial Research and (c) Universities and Colleges, etc., Great Britain.

14. Your Committee are in full agreement with the principle enunciated by the Committees of 1932 and 1933. They are aware of the heavy programme of legislation confronting Parliament at the present time, but they hope nevertheless that, with the reversion to peacetime procedure, every endeavour will be made, as opportunity occurs, to obtain specific statutory authority for continuing services involving substantial expenditure.

Record of Outstanding Loans, etc.

15. Your Committee have observed that there is a lack of uniformity in the information given in Appropriation Accounts as to the sums that remain outstanding from loans which have been made from time to time by various Departments from their respective Votes. In most instances a statement of such outstanding loans is appended to the Account, but in others the amounts outstanding are not recorded in detail or not recorded at all. The Treasury stated in evidence that it was supposed to be the rule that a statement of outstanding loans should be included in each of the Accounts concerned, but this had not yet been done in the case of some of the loans made during the recent war.

16. Your Committee recommend that Appropriation Accounts should include a list of all outstanding loans for the recovery of which the Department concerned is responsible, with the exception of any loans which are recorded in the Finance Accounts of the United Kingdom.

17. Some Departments, particularly during the war, have found it necessary to acquire the share capital of commercial companies. Your Committee consider that particulars of any shares held at the end of the financial year should also be recorded in the relevant Appropriation Account.

Superannuation Schemes for Public Organisations

18. The Public Accounts Committee of 1945-46 considered the revised superannuation benefits granted by the Coal Commission to its officers in 1944. In paragraph 35 of their Fourth Report they expressed the opinion that these benefits went much beyond those allowed to civil servants under the Superannuation Acts. The Committee regarded it as important that the pension rights of staffs in State service should conform broadly with accepted standards, and recommended that the arrangements made by the Coal Commission should not be regarded as a desirable precedent.

19. In their minute of 8th January, 1947, the Treasury stated that they would pay full regard to the Committee's recommendation in considering any schemes for which their concurrence was required. Informal arrangements had also been made for consultation between them and other Departments on any general questions of principle arising in connection with the superannuation arrangements of nationalised undertakings and similar public boards, where responsibility for approval rests with a Department other than the Treasury.

20. In evidence before Your Committee the Treasury stated that there was no reason why the superannuation schemes of public boards should be more favourable than the civil service scheme unless there were some factor which differentiates between the two, such as the very early age at which pilots leave the service of the Airways Corporations. There was practical difficulty however in achieving uniformity. When the State takes over an industry, such as the coal industry, a great variety of pre-existing schemes are found, some of which provide very generous terms; but where the undertakings have relied upon high salary rates and savings by their employees, there may be no scheme. Whilst, in framing a new scheme for a nationalised industry, there must be some provision for protecting existing rights, the Treasury consider that the general scheme should be settled on broad lines conforming with accepted standards.

21. In the particular case of the National Coal Board, the Treasury are by statute consulted in regard to the superannuation scheme, and consideration of the scheme was well advanced. The broad lines were very close

to the civil service superannuation scheme, and the transfer of the Coal Commission's staff, with more favourable superannuation rights, had not proved an embarrassment.

22. Your Committee are glad to note the Treasury view that the superannuation schemes of nationalised undertakings and similar public bodies should not normally be more favourable than the civil service scheme. Arrangements on these lines should be helpful in facilitating interchange of staff among the different boards and also, if it should prove desirable, with the Civil Service.

Trading Accounts

23. During the war many of the Trading Accounts relating to the operations of various Government Departments ceased to be published. It was also decided not to publish Trading Accounts of new trading services undertaken by the Ministries of Food and Supply during the war. Previous Public Accounts Committees accepted these decisions as a necessary wartime measure.

24. Your Committee have reconsidered this question in the light of post-war circumstances, and they are of the opinion that the time has come when Parliament should be informed of the outcome of the trading services of Government Departments through the publication of trading accounts certified by the Comptroller and Auditor General. The Treasury have agreed that trading accounts are to be rendered both for services for which accounts were suspended during the war and for any new services, commencing where possible with those for the year 1946-47.

CIVIL APPROPRIATION ACCOUNTS

CLASS II, VOTE 3—BRITISH COUNCIL—FINANCIAL CONTROL

25. The Comptroller and Auditor General drew attention to the steps taken to secure adequate financial control over the British Council's expenditure, which is almost entirely met out of grants in aid voted by Parliament. The Council are now virtually subject to the same Treasury control as a Government Department.

26. There have been shortcomings in the Council's financial control, particularly of overseas expenditure, and a regional internal audit scheme has now been approved by the Council to operate from 1st April, 1947. This scheme will cover as many as possible of the Council's offices overseas, and special arrangements will be made to deal with those offices which cannot conveniently be brought within the scheme.

27. The Council stated that they had not yet issued a comprehensive code of instructions as they were proposing to bring the Council's Service into line with the Civil Service. When this was settled they would prepare a code of instructions for their staff similar to the regulations applicable to the Civil Service.

28. At the end of the financial year the Council had made advances of £38,000 to the manufacturers for certain purchases of motor cars ordered, but not delivered. They thought that a body financed by a grant in aid could charge such advances as expenditure, although they were aware that this was inadmissible for services directly charged against Votes of Parliament. The Comptroller and Auditor General considered that the same principles should apply in both cases and the Treasury concurred in this view.

29. Your Committee fear that there has been in the past some lack of appreciation by the Council of the canons of government accounting. They

were glad to learn of the measures taken to ensure proper financial control and they hope that the Council will issue a comprehensive code of instructions at an early date.

CLASS II, VOTE 9—COLONIAL AND MIDDLE EASTERN SERVICES

Expenditure by the British Council in the Colonies

30. It was pointed out by the Comptroller and Auditor General that the expenditure of the British Council in the Colonies amounted to £342,490, including an apportioned share of the cost of headquarters staff, etc. This expenditure is, in effect, disbursed by the Council as agents of the Colonial Office; it is refunded from the Vote for Colonial and Middle Eastern Services, and the general policy is under the control of the Secretary of State for the Colonies.

31. The Colonial Office stated that the British Council's local representatives worked in close touch with the Colonial Governments and they thought that, while the Council's cultural work was on parallel lines with the Governments' educational work, there was little, if any, overlapping between them.

32. Although it may be necessary to employ a separate organisation such as the British Council for cultural activities in connection with foreign nationals, Your Committee consider that it might be more appropriate to place upon Colonial Governments the responsibility for all educational and cultural work on behalf of their local population. If, however, the British Council are to continue their activities in the Colonies, Your Committee recommend that the expenditure thereon should be audited by the Colonial Auditor with a view to ensuring that there is no overlapping with the expenditure incurred by the Colonial Governments.

CLASS II, VOTE 11—DEVELOPMENT AND WELFARE (COLONIES, ETC.)

Colonial Food Yeast, Ltd.

33. The Public Accounts Committee of 1945-46 referred in paragraphs 20 and 21 of their Fourth Report to a project for the manufacture of food yeast in Jamaica by a private limited company, Colonial Food Yeast, Ltd., financed from the Development and Welfare Vote. The erection and equipment of the company's factory were entrusted to the West Indies Sugar Company, who were to operate it in conjunction with their own sugar factory. Of the board of seven members of the Colonial Food Yeast, Ltd., three are members of the West Indies Sugar Company, who serve on it without remuneration. The Committee expressed themselves as not entirely satisfied that the interposition of a new company as a link between the Colonial Office and the operating Company was necessary, nor were they clear what advantages were gained by its formation. In their minute of 8th January, 1947, the Treasury stated that they had urged that Colonial Food Yeast, Ltd., should be put into liquidation at an early date.

34. The Colonial Office, however, explained in evidence that the Treasury had since agreed to continue the present arrangements subject to review at the end of this year. The principal reason which persuaded the Treasury was that it was unlikely that the West Indies Sugar Company would be prepared to enter into direct arrangements with the Colonial Office at this stage. The project was a novel experiment which the Colonial Office had good reason to hope would prove to be financially successful as well as of great benefit to other parts of the Empire.

35. Your Committee note the Colonial Office view that it is unlikely that the West Indies Sugar Company would be prepared to enter into direct negotiations. They find some difficulty in accepting this view and recommend that the question should be further examined.

CLASS V, VOTE 9—MINISTRY OF NATIONAL INSURANCE

Administration of Insurance Schemes

36. The Ministry of National Insurance took over from 1st April, 1945, the functions of the Ministry of Health in relation to National Health Insurance and Widows' Orphans' and Old Age Contributory Pensions, and those of the Ministry of Labour and National Service in relation to Unemployment Insurance, though the latter Department continues to deal with unemployment benefit on an agency basis. The Ministry of National Insurance have, in the main, been carrying on existing schemes on the same lines as before, but, by the time when the new schemes of national and industrial injuries insurance first come into operation, about 1,000 local offices will be required for the work of the Ministry. What the ultimate number will be cannot yet be determined.

37. Your Committee have inquired into the possibilities of economies, particularly in the provision of office accommodation, to be gained from the concentration of the new social service schemes. At present the Ministry of Labour and National Service have about 1,200 local offices which, in addition to paying unemployment benefit on behalf of the Ministry of National Insurance, have important functions in relation to employment and training. The Assistance Board deal with unemployment assistance, non-contributory old age pensions and supplementary pensions at 300 local offices. Efforts are being made, where possible, to house the local offices of the Assistance Board and of the Ministry of National Insurance in the same buildings, but little has yet been done, mainly because of the difficulty of securing premises. Even when one building can be obtained, there is no intention of treating it as a unified office.

38. Your Committee cannot believe that the multiplication of local offices is likely to be conducive to economy and efficiency, or to the convenience of those applicants who may require the help of more than one of the departments concerned with the various social services. They hope that every opportunity will be taken to reduce the number of separate buildings occupied by the three departments, especially in the smaller centres of population.

39. The question of common premises is, however, only one aspect of this matter. Your Committee had hoped that the vesting of responsibility for these various services in the hands of one Minister would have made it possible to reduce the overall costs of administration. The Ministry of Labour and National Service stated, however, that up to the present the transfer of functions had only resulted in a very small saving on their own Vote. While Your Committee recognise that there may be difficulties in the way of a complete merger of the staffs and services of the three Departments, they feel confident that economies could be secured by some measure of administrative integration. For instance, where one department has periodical variations in volume of work, the staff and accommodation required to deal with increased pressure could be lent by the other Departments. Such arrangements would be facilitated by accommodating all three Departments in one building and might show that the administrative difficulties of complete integration were not insuperable.

CLASS VII, VOTE 4—MINISTRY OF WORKS

Estimates of Cost

40. In the course of their examination of the account furnished under the Housing (Temporary Accommodation) Act, 1944, Your Committee learned that the latest estimate of the cost of each of the principal types of temporary houses is much higher than the original estimate and that further increases are expected. These facts support the experience of previous Public Accounts Committees who have commented on a number of instances of constructional works where the original estimates have been seriously inadequate. While Your Committee recognise that accurate estimating is very difficult where costs of labour and materials are liable to vary, they cannot help feeling that there has been a tendency to err on the side of under-estimation. They therefore hope that in future, when any project is proposed, every effort will be made to present as accurate an estimate as possible of the total cost likely to be incurred, including any cost which may fall on the Votes of other Departments or on Local Authorities. It is in their view prejudicial to economy and efficiency that the estimates of cost, on which may well depend the decision to adopt or continue a particular line of action, should so frequently be unreliable.

Standardisation of Fittings

41. Your Committee were informed that, although the fittings for temporary houses are to a large extent standardised, there are differences between the various types of house which have made it impossible to interchange the fittings between one type of house and another. This lack of complete standardisation has not only added to the cost of the fittings themselves, but has also rendered it more difficult to adhere to the programme of construction owing to shortages arising of some one thing needed for one type of house. Your Committee recommend that every effort should be made by the various Government Departments concerned to ensure the maximum standardisation of fittings for both permanent and temporary houses. As the Exchequer is bearing so large a part of the cost of these houses, they consider that Local Authorities should be required to conform to common national standards since this must conduce to both economy and speed of production.

NAVY

Arrangements for securing economy in manufacture

42. In paragraphs 27 and 28 of their Fourth Report the Public Accounts Committee of 1945-46 noted that the Admiralty had not introduced the systematic use of efficiency returns and comparative costs on the lines adopted by the Ministry of Supply. Under Admiralty production arrangements, the question of efficiency in technique was, for warship building, left to the ship-builders whereas, in the general field of engineering, they made extensive use of the Principal Technical Costs Officer, one of whose duties was to secure that the most efficient technique practicable was employed. The Committee were unable to assess the adequacy of the Admiralty system, but they recommended that the arrangements should be kept under review with the object of adapting them over the widest area practicable in peacetime conditions.

43. In further evidence before Your Committee the Admiralty explained that efficiency in warship building was left largely to the shipbuilders because the Admiralty's overseeing staffs, who are working in the actual establishments of the shipbuilders, are satisfied that proper methods are employed.

In regard to their arrangements generally, the Admiralty stated that, with the size and complication of the problem now altered by the end of the war, the scope for special measures designed to secure economy in manufacture had inevitably been restricted, though the importance of the subject in some fields was still very great. They had recently decided to appoint a departmental committee, which would examine the methods at present used for securing economy over the whole field of Admiralty production and recommend any improvements that might seem desirable and possible, paying due regard to the view that as far as practicable arrangements common to all the Production Departments should operate for dealing with questions of efficiency in production matters. The committee would include a prominent industrialist and would start its work quite shortly.

Your Committee welcome this development and trust that the results of the departmental committee's deliberations will be available at an early date.

Warship Prices—Future Arrangements for Control

44. The Comptroller and Auditor General reported that the Admiralty were aiming at obtaining fixed prices for warships at the earliest practicable stage; but, until conditions become stable, they apprehend that it may be difficult to fix a satisfactory price when an order is placed. In evidence the Admiralty stated that, except possibly for quite small vessels, there was likely to be delay in securing this object. It was also unlikely that they would be able to obtain competitive tenders while there was pressure of work in the shipbuilding industry.

45. In the meanwhile the Admiralty have considered various ways in which, in the absence of effective competition, it might be possible to prevent contractors under fixed price contracts making excessive profits. The procedure which they have now in mind for application to fixed price contracts for warships provides for submission by contractors, in addition to full details of their quotations at the tender stage, of certified statements of actual costs on completion of the vessel. The knowledge thus acquired of current costs in private yards would provide a basis for criticising subsequent tenders and, in the opinion of the Admiralty, should remove the chief cause of the excessive profits reviewed by the Public Accounts Committee of 1943.

46. Your Committee recognise the present and prospective difficulties of obtaining fixed price contracts. They were informed that the new procedure which the Admiralty have in mind had not yet been discussed with the shipbuilding industry. They trust that the importance and urgency of the problem will be fully appreciated by the Admiralty and that effective action will be taken without further delay to ensure that only fair and reasonable prices are paid.

Statutory authority for the Admiralty to undertake commercial work

47. The Ministry of Supply and the Ministry of Works have statutory authority to undertake certain classes of commercial production, but the Admiralty considered that there was no need for any special authority, other than Government approval, to undertake commercial work at Admiralty establishments even on a considerable scale. They explained that, for many years, they had undertaken various kinds of repayment work in the dockyards, though admittedly on a small scale. The work was now sought to keep the organisation and skilled manpower together as war potential, as it would be wasteful to allow this labour to remain idle when there is work of great urgency to be done. They expected that the scale of commercial work at the dockyards would soon be relatively small; in other establishments, although the work was to continue indefinitely, it was on quite a small scale.

48. The Treasury regarded the question as one of degree. In the case of the Ministry of Supply and the Ministry of Works it was clear that the point at which statutory approval was desirable had been reached, but they did not consider this point had been reached in the Admiralty establishments, where the work was relatively inconsiderable. Your Committee do not dissent from this view, but recommend that the question should be reconsidered if the amount of commercial work undertaken by Admiralty establishments should show any considerable increase in future years.

Production of Civilian Goods in Admiralty Establishments

49. On the ground that it was necessary to preserve war potential, in conjunction with the wider Government policy of maintaining full employment and of using productive capacity to the maximum whilst shortage of civilian goods persists, the Admiralty decided in 1946 to seek commercial orders for certain Admiralty establishments, including the home dockyards and the Naval torpedo factories.

50. In the case of the dockyards, there was sufficient work on warship repairs to employ their full resources. The original 1946-47 Navy Estimate did not, however, provide the necessary money to carry out this work; so there was surplus capacity available for commercial work. The Admiralty did not obtain sufficient commercial orders to utilise all the surplus capacity, but they retained their workmen and employed them on naval work. As a result they spent more money than Parliament had provided, and it was necessary to present a Supplementary Estimate to cover this overspending.

51. The Admiralty stated that the torpedo factories were an essential unit in our preparedness for war, and they could not afford to see the organisation and manpower fall away through lack of work. There is almost no requirement nowadays for the manufacture of torpedoes, and they came to the conclusion that the right way to keep the labour force together and the factory going was to seek commercial work. The commercial orders obtained do not appear to employ more than about 20 per cent. of the skilled manpower retained and the remainder are employed on torpedo maintenance work which is still required to be done.

52. The Admiralty also decided that one of the firms acquired during the war, which had collected technical staff, skilled labour and modern plant and which constituted a high precision unit, should be retained in Admiralty ownership as war potential. Government orders were not, however, expected to absorb more than 20 to 30 per cent. of its capacity. Whilst general control will continue to rest with the Admiralty, so as to ensure operation on lines best suited to the national interest, the Directors are invested with full authority to operate the firm as a commercial unit. This will include the setting up of selling and servicing agents at various points throughout the world in order to enable the firm to sell its specialised articles in the face of competition.

53. Your Committee note that Government policy for the provision of service equipment in the present abnormal circumstances includes the maintenance of a reasonable war potential (Cmd. 7042). This may involve the retention of skilled labour in excess of requirements for current service orders in the hope that it may be employed on such work as can be secured. Failure to obtain other work may result in additional expenditure on voted services or, alternatively, payment for labour not fully employed.

54. In view of the urgent manpower requirements for general industrial purposes, Your Committee consider that any labour retained as war potential

should be the subject of continual and rigorous review to preclude any possibility of this labour being in excess of current minimum requirements. They are glad to learn that the financial results of the Admiralty commercial operations will be examined by the Comptroller and Auditor General.

CIVIL APPROPRIATION ACCOUNTS (WAR SERVICES)

CLASS X, VOTE 2, MINISTRY OF AIRCRAFT PRODUCTION

CLASS X, VOTE 12, MINISTRY OF SUPPLY

Antedating of Payable Orders

55. The volume of contractors' bills authorised for payment by the Ministry of Aircraft Production in the last days of March, 1946, was so large that the work of preparing the payable orders and schedules could not be completed by 31st March. The schedules dispatched to the Paymaster General after 31st March, were, however, antedated to 31st March, and the payments authorised thereon, totalling £3,989,481 5s. 9d., were charged to the 1945-46 Account.

56. In these circumstances this charge is contrary to the provisions of Section 24 of the Exchequer and Audit Departments Act, 1866, and the Appropriation Act, 1945, under which there may be charged only the sums that have come in course of payment within the year of account. The Treasury agreed with some hesitation, however, that the charge should stand as there was no deliberate intention to antedate the schedule.

57. The Ministry explained that the rule was known, but they felt that its importance was lessened under Vote of Credit procedure. With the ending of Votes of Credit, Your Committee consider that the rule is essential to Parliamentary control of expenditure, and they were glad to learn that the Ministry have re-issued instructions to avoid recurrence of the irregular antedating of payment documents.

58. In the special circumstances Your Committee raise no objection to the charge of £3,989,481 5s. 9d. to the 1945-46 Account.

Sale of Government Factories by Private Treaty

59. The normal Government policy in disposing of surplus factories is to lease them to approved firms for industrial use, but some of the wartime agreements with firms operating Government factories gave those firms an option to purchase the factories on the termination of the agreements. Where such options are exercised sales are generally negotiated after valuation by the Inland Revenue Valuation Department, but that Department did not feel able to assess the value of certain light metal and alloy factories erected between 1938 and 1943 in order to expand production during the war. Some of this expansion is of very little use in peacetime.

60. The Treasury asked to be consulted in regard to the disposal of any of these factories where the Ministry proposed to sell below four-fifths of estimated 1939 value less depreciation at Inland Revenue rates; and some have been sold to the operating firms at prices markedly below their depreciated 1939 values. The largest instance brought to notice was of a factory costing £3,100,000 and sold for £750,000, the depreciated 1939 value being £1,767,000. In evidence the Ministry explained that, owing to the specialized lay-out of this factory, a great part of it would not be of much use to the purchaser, but agreed that he had got a very good bargain. It was definite Government policy, in order to encourage the light metal industry, to dispose

of these factories on specially favourable terms to existing firms in the industry; this precluded offering the factories for public sale even where options were not exercised.

61. The Ministry stated that the options did not provide for sale at depreciated 1939 values, or on other precise terms, but at prices to be agreed. The light metal industry was now prosperous and it had made rebates of about £40,000,000 out of its wartime profits.

62. Your Committee recognise that the wartime agreements must be honoured, but they consider that there should be some time limit within which the option to purchase factories can be exercised on specially favourable terms. In view of the evidence given to them as to the prosperity of the light metal industry they recommend that a date should be fixed after which the factories which still remain unsold should no longer be available on specially favourable terms to firms in the industry.

CLASS X, VOTE 3, MINISTRY OF FOOD

British Sugar Corporation, Limited

63. The wartime arrangements for assistance to the British Sugar Corporation, Limited, provided with Treasury approval for an annual payment by the Ministry of Food of (a) a sum equal to the loss properly incurred by the Corporation on revenue account as determined by the Minister of Food with the concurrence of the Treasury, after allowing for interest at such a rate as the Treasury considered reasonable on the issued ordinary share capital of the Corporation and (b) an agreed proportion of any savings in the cost of assistance attributable to economies affected by the Corporation. Under the provisions of the Emergency Laws (Transitional Provisions) Act, 1946, these arrangements remain in force until 31st December, 1947, but it is proposed to seek powers to extend their operation until March, 1949.

64. The Treasury have allowed $3\frac{1}{2}$ per cent. as a reasonable rate of interest on the share capital of the Corporation under these arrangements for the years 1940-41 to 1945-46, and the Corporation has paid a dividend of $4\frac{1}{2}$ per cent. for each of those years. The Ministry explained that the payment of this rate of dividend had been possible owing to payments made to the Corporation in respect of savings in operating costs.

Your Committee are doubtful whether $3\frac{1}{2}$ per cent. is a reasonable rate of interest to be guaranteed under present conditions, and they were glad to learn that the Treasury will review the rate to be allowed for the year 1946-47.

CLASS X, VOTE 5, MINISTRY OF FUEL AND POWER

Petroleum Pipe-lines in the United Kingdom

65. During the war petroleum pipe-lines were constructed in this country at a total cost of over £6,500,000 borne on Votes of Credit. The lines were managed by the Petroleum Board as agents for the Ministry of Fuel and Power who reimbursed the Board their net costs of operation and maintenance and received from the Board an agreed charge per ton-mile upon the oil moved through the lines. The Ministry's receipts substantially exceeded their operational and maintenance payments until August, 1945, since when, owing to the decline in use of the lines on cessation of hostilities, costs have exceeded receipts. In November, 1946, only a small portion of the lines was in use. The remainder had been placed on a care and maintenance basis, and it had been decided not to use the lines to move oil in peacetime. The cost of maintenance, when all the lines are out of use, is estimated at £15,000 per annum, including any necessary replacements but excluding any allowance for depreciation.

66. The Ministry of Fuel and Power explained that the lines were designed largely for strategic purposes, D-day operations or to serve airfields and not with reference to economic needs, and therefore did not necessarily follow the routes on which petrol would normally be moved. A Committee of the Defence Services examined the whole matter with the Petroleum Board in 1946, and came to the conclusion that, while the lines would not be an economic method of moving oil generally, it was necessary to maintain them for strategic purposes.

67. Oil was now being moved by road and rail, and in answer to a Question in the House on 5th May, it was stated that in one week 73 special trains were run involving 3,500,000 ton-miles of petrol moved. The Ministry thought it was more economical to use road and rail transport than the pipe-lines, but in evidence they were not able to give the comparative costs.

68. They have recently furnished a memorandum (Appendix 13) stating that pipe-lines are a rapid and cheap form of transportation for bulk movements of oil over long distances, but offer no advantages over rail, water, or road, transport in Great Britain. As regards the 73 special trains mentioned above only nine carrying petrol and kerosene, for which the pipe-lines could have been used, were for the areas served by the pipe-lines. The Ministry estimate that the cost of delivery of motor spirit under present arrangements is $\frac{1}{4}$ d. a ton-mile, and the full cost by the pipe-lines would be 1d., including interest on capital, depreciation, major replacements, and overhead expenses.

69. Your Committee regret that no peacetime use of the pipe-lines is considered possible. They are a national asset costing over £6,500,000 and, in addition to the maintenance cost of £15,000 a year, interest is payable by the Exchequer on the capital cost. There is also the possibility of some deterioration in the value of the lines if they are not used. In view of the present heavy pressure on road and rail transport they suggest that, in the general interests of the national economy, the question of the use of the pipe-lines should be reconsidered by the Ministry of Fuel and Power and the Ministry of Transport.

Coal Charges Account

70. The Public Accounts Committee of 1945-46 in paragraph 37 of their Fourth Report noted with concern that the debt to the Exchequer on the General Purposes Section of the Coal Charges Account, which was £34,580,000 at 31st March, 1945, had been reduced by only £1,000,000 in 1945-46 and expressed their trust that every effort would be made to repay the debt and thus place the production and marketing of coal on a self-supporting basis.

71. The Coal Charges Levy, from which the Account derives its revenue, was raised from 12s. to 15s. a ton on 1st May, 1945, and the Ministry of Fuel and Power expected that there would be a rapid diminution of the debt. The increase in the levy had, however, been largely absorbed since January, 1946, in paying off £13,500,000 to the Ministry of Supply in respect of losses on mining timber, the liability for such losses having been assumed by the Account from 1st April, 1944, when the separate timber levy was abolished.

72. The Ministry explained that when they discussed the prices and costs of timber with the Ministry of Supply in March, 1944, there was a small credit balance on the timber levy account. Consequently, in framing the increase in the Coal Charges Levy on 1st May, 1945, it appeared to them that a provision of £500,000 per annum would be sufficient, and would

have some correspondence to the timber levy of $\frac{1}{2}$ d. a ton on coal. The Ministry after March, 1944, kept fairly frequently in touch with the Ministry of Supply, who were thought to be very much in arrears with accounting, and as uncertain as the Ministry of Fuel and Power as to the real position of the timber account. It was only in January, 1946, that the Ministry of Fuel and Power had any indication that there was any substantial difference between their provision and the actual loss.

73. Your Committee note, however, that in December, 1943, the Treasury informed the Ministry of Fuel and Power that the timber levy was showing considerable losses, which would shortly render the account insolvent, and that the home grown supplies to South Wales collieries, which were also to be provided for under the new arrangements from 1st April, 1944, were involving a subsidy of some £250,000 per annum.

74. On 1st January, 1947, the date on which the mines were vested in the National Coal Board, the Coal Charges Levy was abolished. After allowing for the collection of outstanding levy and for the settlement of outstanding liabilities, including the losses on timber referred to above, the debt to the Exchequer on the Account was estimated at £25,000,000. The Treasury have decided that this debt shall be borne by the Exchequer and not by the National Coal Board. This decision has the effect of giving a retrospective subsidy of about 8d. a ton on the 780 million tons of coal produced since the Account was formed.

75. Your Committee consider that, if the Ministry had heeded the warning given by the Treasury in December, 1943, it would have been possible to have avoided a substantial part of the loss of £25,000,000 which has fallen on the Exchequer. They regret that there was a failure to implement the general Government policy that the mining industry should operate on a self-supporting basis. They were glad, however, to be assured that there is no question of any further losses of this nature being borne by the Exchequer as the Coal Charges Account was terminated and timber prices were increased to an economic basis when the National Coal Board assumed responsibility for the industry.

CLASS X, VOTE 6—MINISTRY OF HEALTH

Advances and Loans to Local Authorities

76. The Comptroller and Auditor General drew attention to the relationship between the finances of the London County Council and the grants made by the Ministry of Health since 1940-41 to metropolitan boroughs whose loss of revenue had involved them in financial difficulties. No such grants have been made to the London County Council itself, but the Council obtains its revenue by precepts on the boroughs, and the grants made to the latter would therefore be affected if the Council's precepts were unnecessarily high. In this connection the Comptroller and Auditor General observed that the District Auditor's report drew attention to the fact that the surplus on the Council's General County Account had increased from £3,325,592 in 1939 to £14,455,834 at 31st March, 1944.

77. The Ministry of Health stated in evidence that, taking for example the period between 1st April, 1941, and 31st March, 1944, the London County Council's balance increased by about £5,000,000. Of this sum about £3,000,000 came from boroughs which did not receive assistance from the grants, and the remaining £2,000,000 could be regarded as the amount of Exchequer assistance which might have been diminished, if the increased balance had not been accumulated. Your Committee have no information as to the effects on Exchequer grants made in 1940-41.

78. More recently the London County Council have used the surplus balance to keep down their precepts, so that in effect some part of the grants made by the Ministry of Health in the period 1st April, 1941, to 31st March, 1944, is already being used to save Exchequer grants to boroughs which still require assistance.

79. The increase in the London County Council's balance during the war years was considered to be due to inadvertent over-estimating of expenditure, and delay in the production of accounts, in the difficult circumstances of the time. The Comptroller and Auditor General, however, pointed out that as early as December, 1942, the Council apparently realised that they had a very considerable surplus as they then decided to invest £3,000,000 of their cash balance.

80. Your Committee have thought it necessary to refer to this matter, as it is unsatisfactory that certain metropolitan boroughs should have received grants from the Exchequer, which are borne by taxpayers as a whole, in excess of actual requirements. They recognise that, in so far as the surplus is used by the London County Council to keep down the rates, the excessive grants will be in effect partly refunded so long as the Ministry's grants to metropolitan boroughs continue. It is, however, for consideration whether the general taxpayer should bear any part of the cost that has arisen as a result of the London County Council's over-estimate of expenditure.

VOTE OF CREDIT

SERVICE 45—COLONIAL OFFICE

Assistance to Colonies Occupied by the Enemy

81. The Comptroller and Auditor General drew attention to the expenditure incurred by the War Office during the period when they were responsible for the administration of Malay, Hong Kong and British Borneo after their liberation. The War Office explained that their accounts should give this expenditure with a fair degree of accuracy, though not precisely. They estimate that the expenditure incurred amounted to more than £18,000,000 in Malaya, £3,000,000 in Hong Kong and £2,000,000 in British Borneo. The value of certain services rendered without financial adjustment has also to be determined. The War Office were leaving the Treasury and the Colonial Office to deal with the general question of the amount to be recovered from the Colonies.

82. In addition to the Army expenditure the Colonial Office have given assistance by way of loans to liberated colonies. The charges against Votes of Credit up to 31st March, 1946, amounted to £160,000 for British Borneo and £2,500,000 for Hong Kong, and further provision was made for assistance in the 1946-47 Estimates.

83. The Colonial Office explained that they had already received £650,000 from British Borneo and negotiations were proceeding with Hong Kong.

84. Your Committee note that some progress has been made, and they hope that the Treasury and the Colonial Office will use every effort to secure a settlement with the assisted colonies which will have due regard to their ability to pay.

SERVICE 67—MINISTRY OF AIRCRAFT PRODUCTION

Control Price of Aluminium

85. The controlled selling price of aluminium was reduced from £110 to £85 on 1st March, 1945, and to £67 a ton on 10th April, 1946. The American

selling price in 1946 was £78 a ton. The Ministry explained that, as part of a policy to establish a flourishing light metal industry in this country, the price of £67 a ton had been fixed in relation to the cost of current purchases under a specially favourable contract for Canadian supplies. This was considerably below the current cost of home production and the price at which their heavy stocks had been acquired. They had adjusted the price from 9th September, 1946, to £72 15s. a ton, to allow for the increased sterling costs of the Canadian contract resulting from the revision of the sterling value of the Canadian dollar. Recently the price had been raised to £80, i.e., £2 more than the American price.

86. The Ministry stated that the 1945-46 trading account showed a loss of £6,829,500, after writing down stocks to the selling price, £85 a ton, current on 31st March, 1946. Some £4,750,000 of this loss is directly attributable to the reduced selling price. A further £950,000 arose from the loss on sales of home production, the cost of which exceeded the controlled selling price. The Ministry's Estimates for 1946-47 (Class X, Vote 1, Subhead I) provide for further losses of £1,125,000 on sales of home production and the lower selling prices in 1946-47 may also result in losses on sales of the Ministry's stocks.

87. The Ministry considered that the policy of subsidising the light metal industry had been completely successful. The consumption of aluminium in this country rose from 80,000 tons in 1939 to 176,000 tons in 1946; for the first quarter of 1947 it was at the rate of 200,000 tons a year, and they thought that the industry could now stand on its own feet.

88. The present price (£80 a ton) of aluminium was broadly equivalent to the world market price; so the subsidy to the light metal industry has ceased. By selling at this price the Ministry cover the whole of their costs, including the extra cost necessary to maintain home production.

89. Your Committee are glad to learn that it is no longer necessary to subsidise the light metal industry. They note that the subsidy to the home production of aluminium is now on a much reduced scale and that provision for this subsidy has been included in the Ministry's 1946-47 Estimates. They consider that, in all cases where it is necessary to assist industries by the sale or purchase of raw materials at uneconomic prices, a similar specific provision for the cost should be made in the appropriate Estimates.

SERVICE 69—MINISTRY OF FOOD

Food Subsidies

90. The Comptroller and Auditor General drew attention to the fact that the trading accounts for 1945-46 maintained by the Ministry of Food showed a deficit of £235,659,083 representing the net cost of subsidies on food borne by that Department. In order to give a more complete picture of the expenditure on food subsidies there should be added to this figure £23,167,915 for crop acreage payments and an estimated sum of £9,000,000 for other payments to producers by way of aids to agricultural practice borne on the War Services Votes of the Ministry of Agriculture and Fisheries and of the Department of Agriculture for Scotland (Class X, Votes 1 and 17). There was also a subsidy of some £6,500,000 on fertilizers borne by the Ministry of Supply.

91. Your Committee note that other expenditure by the agricultural departments, particularly within the net expenditure incurred through agricultural executive committees, is excluded from the subsidy figures. On the whole they incline to the view that all expenditure met from the Food Production

Votes of the Ministry of Agriculture and Fisheries and of the Department of Agriculture for Scotland (the successors from 1st April, 1946, of the War Services Votes of those Departments) should be treated as a subsidy. Your Committee wish to suggest therefore, so far as it is not already the case, that all such expenditure should be taken into account in the calculation of total expenditure on food subsidies.

Subsidies to particular classes

92. The Comptroller and Auditor General drew attention to the fact that the total subsidy on milk during 1945-46, amounting to £45,146,998, included £16,014,253 in respect of the National Milk Scheme and £4,694,864 in respect of the Milk in Schools Scheme. Both these Schemes are limited in their application to particular classes of the community, and may therefore be regarded as providing a specific social service, as distinct from the general food subsidies which are related to the policy of stabilising the cost-of-living index and are in consequence enjoyed by the whole population.

93. The Treasury stated that in the current Estimates there is a footnote to the subhead for trading services showing the approximate expenditure on the two milk Schemes, but there would be no separate item in the Appropriation Account.

94. Your Committee consider it desirable that the accounts should show the actual expenditure on these and any other similar Schemes, and they recommend that this information should be made available, either by a note to the Appropriation Account, or by the inclusion of a separate item in the Trading Accounts which are to be presented to Parliament.

Powers of Ministry of Food in relation to long-term contracts

95. The Public Accounts Committee of 1945-46 reviewed the question of the powers of the Ministry of Food to make long-term contracts when the Vote of Credit procedure ceased. They were informed by the Treasury that the powers of Departments to make long-term contracts depended on the powers given to them by the Supplies and Services (Transitional Powers) Act, 1945. This Act will expire on 10th December, 1950, unless expiry is postponed under the provisions for its yearly extension by Order in Council after presentation of an Address by each House of Parliament.

96. Your Committee have also examined this question and were informed that the Ministry of Food have already entered into certain contracts extending beyond 10th December, 1950. It was explained that the office of Minister originally came into existence by an Order in Council made under the Ministers of the Crown (Emergency Appointments) Act, 1939. In 1946 the Ministers of the Crown (Transfer of Functions) Act, 1946, applied certain functions to the Minister permanently. As a result it was held that the Minister does not require express statutory authority to buy or sell and he can engage in such operations subject to any provisions in other statutes limiting his powers in this respect. He would, however, be unable to meet his commitments under long-term contracts if Parliament later refused to vote the sums necessary for that purpose.

97. In view of the limited duration of the Supplies and Services (Transitional Powers) Act, 1945, Your Committee are not satisfied that the Ministry of Food have power to enter into contracts extending beyond 10th December, 1950, and in these circumstances they were glad to learn that it is the intention to define the powers exercisable by the Minister in a Bill dealing generally with food policy which it is proposed to submit to Parliament shortly.

SERVICE 70—MINISTRY OF SUPPLY

*Raw Materials**Timber*

98. The prices of timber were stabilised in July, 1940, and, apart from small changes, were maintained at the 1940 level throughout 1945-46 and 1946-47. This exception to the policy of increasing selling prices of raw materials to cover the full estimated post-war costs (apart from certain transitory increases) was made because of the importance of timber in building and other services affecting social well-being.

99. The bulk of the timber sold up to 31st March, 1946, had cost less than the stabilised selling prices and at that date the trading account showed an accumulated profit of £7,000,000. Replacement costs had, however, been rising and were so much above selling prices that by 31st March, 1947, this profit was exhausted. In August, 1946, it was estimated that if prices remained stabilised the resulting losses would be at the rate of £4,500,000 a year on softwood, £2,000,000 a year on hardwood and £2,500,000 a year on plywood, and the Treasury, with the agreement of the Ministry of Health, expressed the view that timber prices should be adjusted at once. No adjustment was, however, made until 1st May, 1947, when softwood prices alone were increased. The May, 1947, price increase is believed to have stopped the losses on softwood and it is proposed to raise the prices of the other types shortly.

100. The Board of Trade took over responsibility for policy and administration of the timber and certain other raw material controls in October, 1945, and for accounting in April, 1946. They explained that the decision to increase prices was taken in late October or early November, 1946. The drafting of the necessary Orders and price schedules was an extremely lengthy job, and at the same time they had to increase the prices for purchase and sale of home-grown timber, an even lengthier process. With their extremely depleted staff the Timber Control had not been able to complete the work by March, 1947, when it became clear that purchase prices in 1947 would be different from those previously estimated, and it was decided to wait till 1947 prices were known before increasing selling prices. Your Committee have already commented on the cause of this delay in paragraph 9.

Flax

101. In 1945-46 trading in flax resulted in a loss of £1,250,000 and it was explained that a part of this loss was due to a variation between actual cost and the estimates prepared on a broad basis in 1944, when prices were raised to bring them to an economic level. The prices then fixed are being maintained until October, 1947, and further losses may presumably be expected in 1946-47.

General

102. Your Committee desire to call attention to the need for frequent review of trading results with a view to prompt adjustment of prices. Where the work of revising price schedules is likely to take a long time owing to the large number of individual items in the schedules, they recommend that current costs should be covered by an overall percentage increase, as an interim measure, until the prices of the individual items can be precisely determined,

SERVICE 73—CONTROL OFFICE FOR GERMANY AND AUSTRIA

103. The cash expenditure on the civilian element of the Control Commissions for Germany and Austria was accounted for to 31st May, 1945, by

the Foreign Office (Class II, Vote 2) and from 1st June, 1945, to 31st December, 1945, by the Army (Vote 11). In October, 1945, the Control Office for Germany and Austria was established and assumed responsibility for the work of the Commissions, becoming a separate Accounting Department, financed from the Vote of Credit, from 1st January, 1946.

104. During the period when the War Office were responsible, the standard of accounting was below normal but as the Control Office became responsible from 1st January, 1946, Your Committee did not examine the War Office in detail on the matter.

105. As regards the Control Office period the Comptroller and Auditor General records that there was considerable delay in rendering the accounts, the Appropriation Account for 1945-46 having been received only on 17th March, 1947, too late for his officers to complete their examination before the date of his report. His examination which is of necessity in the nature of a selective test audit was handicapped by difficulties in linking charges in the accounts with relevant vouchers. The expenditure in 1945-46 was mainly on salaries and allowances and, as during the Army period, accounting fell far short of normal standards. Difficulties arose particularly in connexion with the salaries of the staff overseas. Adequate records were not maintained in the Control Office of the advances made overseas or of the information reported from overseas affecting the pay and allowances issuable, and as a result considerable overpayments had occurred on accounts of officers who had left the service. There was no evidence of internal audit nor of the issue by the Control Office of any instructions for store accounting, and the enquiries raised by the Comptroller and Auditor General from June, 1946, were still unanswered.

106. In evidence the Control Office admitted justification for the criticism and in extenuation referred to the chaotic conditions existing in Germany and to the difficulties in building up staffs for service in London and overseas. They took over the organisation from the War Office with its existing imperfections and were clearing up the overpayments and losses incurred in the War Office period as well as their own. As regards these overpayments, identifiable over-issues of about £38,300 had been made to staff who had left the Department's service up to April, 1947, of which some £16,500 had so far been recovered. In addition there was a discrepancy, now calculated at about £50,000, between the total advances made overseas and the total amount charged to the pay accounts, which was at present under investigation. Very considerable improvement in the standard of accounting had been attained from 1st April, 1946, onwards and steps had been taken to furnish replies to the Comptroller and Auditor General's inquiries.

107. Your Committee regret that such an unsatisfactory state of accounting should have been allowed to develop. They trust that immediate steps will be taken to remedy any defects in the accounting for cash and stores and to maintain departmental records so that they are readily susceptible to audit by the Comptroller and Auditor General.

108. Your Committee were glad to learn that the accounts were now being rendered more promptly and that some progress was being made in regard to an internal audit. Expenditure in 1945-46 was comparatively small, but the Estimates for 1946-47 provide for an expenditure of about £154,000,000 gross (£120,000,000 net) including about £10,000,000 for salaries, etc. Although the accounting for expenditure on imports of food and materials to Germany may be a simpler matter than the accounting for salaries, they are of opinion

that immediate steps should be taken to ensure that all cash and store accounts falling to be maintained by the Control Office should be subjected to an adequate departmental examination before being rendered to the Comptroller and Auditor General, whose officers are not in a position to carry out more than a selective test audit.

THE COMPTROLLER AND AUDITOR GENERAL

109. This session Your Committee have had for the first time the assistance of the new Comptroller and Auditor General, Sir Frank N. Tribe, who, in accordance with the high traditions of his office, has been of the greatest service to them.

PROCEEDINGS OF THE COMMITTEE

THURSDAY, 12TH DECEMBER, 1946.

Members present:

Mr. Benson.	Sir John Mellor.
Mr. Cuthbert.	Mr. Peake.
Lieut.-Colonel Alan Dower.	Sir Frank Sanderson.
Mr. Horace Holmes.	Mr. Thurtle.
Mr. Kirby.	Mr. John R. Thomas.

Mr. Peake was called to the Chair.

The Committee deliberated.

Two Statements by the Treasury on the Form of Service Estimates considered.

[Adjourned till Tuesday, 25th February, at a quarter to Four o'clock.

TUESDAY, 25TH FEBRUARY, 1947.

Members present:

Mr. PEAKE in the Chair.

Mr. Benson.	Mr. Kirby.
Mr. Cuthbert.	Sir John Mellor.
Lieut.-Colonel Hamilton.	Sir Frank Sanderson.
Mr. Haworth.	Mr. John R. Thomas.
Mr. Holmes.	Mr. Thurtle.

Resolved, That, where the Treasury Officers of Accounts are present during the taking of evidence from any Accounting Officer, the Chairman may at his discretion direct that copies of any documents, put in by such Accounting Officer in supplement to his evidence, be sent to the Treasury Officers of Accounts. (*The Chairman.*)

Revenue Departments Appropriation Accounts, 1945-46: Vote 2, Inland Revenue; Civil Appropriation Accounts, 1945-46: Class I, Vote 23B, Overlapping Income Tax Payments, considered.

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

Revenue Departments Appropriation Accounts, 1945-46: Vote 3, Post Office; Post Office Savings Banks Account, 1945; Savings Banks and Friendly Societies Accounts, 1945; Post Office Commercial Accounts, 1945, considered.

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

Sir Frank Tribe, K.C.B., K.B.E., Comptroller and Auditor General, Sir Eric Bamford, K.B.E., C.B., C.M.G., and Mr. C. E. I. Jones, Treasury Officers of Accounts, also called in and examined on the Accounts considered.

[Adjourned till Tuesday next at a quarter to Four o'clock.

TUESDAY, 4TH MARCH, 1947.

Members present:

Mr. PEAKE in the Chair.

Mr. Benson.

Lieut.-Colonel Hamilton.

Mr. Haworth.

Sir Frank Sanderson.

Mr. Thurtle.

Mr. Wadsworth.

Civil Appropriation Accounts, 1945-46: Class I, Vote 2, House of Commons, considered.

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

A Statement of Excess, 1945-46; Civil Appropriation Accounts, 1945-46: Class IV, Vote 10, Scientific Investigation, etc., considered.

Sir Eric Bamford, K.B.E., C.B., C.M.G., called in and examined.

Civil Appropriation Accounts, 1945-46: Class I, Vote 9, Exchequer and Audit Department, considered.

Sir Frank Tribe, K.C.B., K.B.E., called in and examined.

Civil Appropriation Accounts, 1945-46: Class IV, Vote 1, Ministry of Education, considered.

Sir John P. R. Maud, K.C.B., C.B.E., Permanent Secretary, Ministry of Education, called in and examined.

Civil Appropriation Accounts, 1945-46: Class IV, Vote 13, Public Education, Scotland, considered.

Sir John Mackay Thomson, C.B., F.R.S.E., Secretary, Scottish Education Department, called in and examined.

Civil Appropriation Accounts, 1945-46: Class VII, Vote 10, Stationery and Printing, considered.

Sir Norman Scorgie, C.V.O., C.B.E., Controller, H.M. Stationery Office, Mr. A. R. McBain, C.B., O.B.E., Under Secretary, Ministry of Supply and Mr. S. Gilmour, Assistant Secretary, Admiralty, called in and examined.

Revenue Departments Appropriation Accounts, 1945-46: Vote 1, Customs and Excise; House of Commons Members' Fund Accounts, 1945-46; Civil Appropriation Accounts, 1945-46: Class I, Vote 1, House of Lords Offices, Vote 5, Privy Council Office; Cinematograph Fund Account, 1945-46; Civil Appropriation Accounts, 1945-46: Class I, Vote 7, Charity Commission, Vote 8, Civil Service Commission, Vote 10, Government Actuary, Vote 11, Government Chemist, Vote 13, The Mint, Vote 14, National Debt Office; Local Loans Fund Accounts, 1945-46; Sinking Funds, 1945; Civil Appropriation Accounts, 1945-46: Class I, Vote 16, Public Record Office, Vote 17, Public Works Loan Commission, Vote 22, Tithe Redemption Commission, Vote 24, Scottish Home Department, considered.

Sir Frank Tribe, K.C.B., K.B.E., Sir Eric Bamford, K.B.E., C.B., C.M.G., and Mr. C. E. I. Jones also called in and examined on the Accounts considered.

[Adjourned till Tuesday next at a quarter to Four o'clock.

TUESDAY, 11TH MARCH, 1947.

Members present:

Mr. PEAKE in the Chair.

Mr. Cuthbert.

Lieut.-Colonel Alan Dower.

Lieut.-Colonel Hamilton.

Mr. Horace Holmes.

Mr. Kirby.

Sir John Mellor.

Mr. Thurtle.

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

Civil Appropriation Accounts, 1945-46: Class V, Vote 10, Assistance Board, Vote 15, Supplementary Pensions, considered.

Mr. H. Fieldhouse, C.B., O.B.E., Principal Assistant Secretary, Assistance Board, called in and examined.

Civil Appropriation Accounts, 1945-46: Class VI, Vote 6, Office of Commissioners of Crown Lands; Crown Lands Abstract Accounts, 1945-46, considered.

Mr. O. S. Cleverley, C.B., C.V.O., Permanent Commissioner and Secretary, Office of Commissioners of Crown Lands, called in and examined.

Civil Appropriation Accounts, 1945-46: Class I, Vote 15, National Savings Committee, considered.

Mr. E. C. H. Jones, C.B.E., Secretary, National Savings Committee, called in and examined.

Civil Appropriation Accounts, 1945-46: Class III, Vote 2, Broadmoor Criminal Lunatic Asylum, Vote 4, Prisons, England and Wales, Vote 7, County Courts; County Courts Fund Account, 1945-46; Civil Appropriation Accounts, 1945-46: Class III, Vote 8, Land Registry, Vote 9, Public Trustee, Vote 12, Police, Scotland, Vote 13, Prisons, Scotland, Vote 14, Approved Schools &c., Scotland, Vote 15, Scottish Land Court, Vote 16, Law Charges and Courts of Law, Scotland, Vote 17, Register House, Edinburgh, Vote 18, Northern Ireland Services, Vote 19, Supreme Court of Judicature &c., Northern Ireland, Vote 20, Irish Land Purchase Services; Land Purchase Account, 1945-46, of the Supreme Court of Judicature, Northern Ireland; Irish Land Purchase Fund Accounts, 1945-46, considered.

Sir Frank Tribe, K.C.B., K.B.E., Sir Eric Bamford, K.B.E., C.B., C.M.G., and Mr. C. E. I. Jones also called in and examined on the Accounts considered.

[Adjourned till Tuesday next at a quarter to Four o'clock.

TUESDAY, 18TH MARCH, 1947.

Members present:

Mr. PEAKE in the Chair.

Mr. Benson.

Mr. Cuthbert.

Lieut.-Colonel Alan Dower.

Lieut.-Colonel Hamilton.

Mr. Haworth.

Mr. Horace Holmes.

Sir John Mellor.

Sir Frank Sanderson.

Mr. Thurtle.

Mr. Wadsworth.

Civil Appropriation Accounts, 1945-46: Class II, Vote 1, Foreign Office, Vote 2, Diplomatic and Consular Establishments, &c., Vote 3, British Council, Vote 4, League of Nations, Vote 15, United Nations, Vote 16, Financial Assistance to Greece, considered.

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

Sir Frank Tribe, K.C.B., K.B.E., Sir Eric Bamford, K.B.E., C.B., C.M.G., and Mr. C. E. I. Jones also called in and examined on the Accounts considered.

[Adjourned till Tuesday next at a quarter to Four o'clock.

TUESDAY, 25TH MARCH, 1947.

Members present:

Mr. PEAKE in the Chair.

Mr. Benson.	Sir John Mellor.
Mr. Cuthbert.	Sir Frank Sanderson.
Lieut.-Colonel Alan Dower.	Mr. Thurtle.
Lieut.-Colonel Hamilton.	Mr. Wadsworth.
Mr. Horace Holmes.	

Exchange Equalisation Account considered.

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

Civil Appropriation Accounts, 1945-46: Class II, Vote 5, Dominions Office, Vote 6, Dominion Services, Vote 7, Overseas Settlement, Vote 12, Development and Welfare (South African High Commission Territories), considered.

Sir Eric Machtig, K.C.B., K.C.M.G., O.B.E., Permanent Under-Secretary, Dominions Office, called in and examined.

Civil Appropriation Accounts, 1945-46: Class II, Vote 14, Imperial War Graves Commission, considered.

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

Civil Appropriation Accounts, 1945-46: Class V, Vote 3, Registrar-General's Office, considered.

Mr. G. C. North, M.C., LL.D., Registrar-General, called in and examined.

Civil Appropriation Accounts, 1945-46: 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 12, Broadcasting, Vote 14, National Galleries, Scotland, Vote 15, National Library, Scotland; Class V, Vote 2, Board of Control, Vote 6, Commissioner for Special Areas, England and Wales, Vote 11, National Insurance Audit Department, Vote 12, Friendly Societies Registry, Vote 13, Old Age Pensions, Vote 17, Board of Control for Scotland, Vote 18, Registrar-General's Office, Scotland, Vote 19, Commissioner for Special Areas (Scotland), considered.

Sir Frank Tribe, K.C.B., K.B.E., Sir Eric Bamford, K.B.E., C.B., C.M.G., and Mr. C. E. I. Jones also called in and examined on the Accounts considered.

[Adjourned till Tuesday next at a quarter to Four o'clock.]

TUESDAY, 1ST APRIL, 1947.

Members present:

Mr. PEAKE in the Chair.

Mr. Benson.	Mr. Kirby.
Mr. Cuthbert.	Sir Frank Sanderson.
Lieut.-Colonel Hamilton.	Mr. Thurtle.
Mr. Haworth.	Mr. Wadsworth.
Mr. Horace Holmes.	

Air Services Appropriation Account, 1945-46, considered.

Sir James H. Barnes, K.B.E., Deputy Under-Secretary of State, Air Ministry, called in and examined.

Civil Appropriation Accounts, 1945-46: Class VI, Vote 16A, Ministry of Civil Aviation: British Overseas Airways Corporation, Reports and Accounts for 1945 and 1946, considered.

Sir Henry Self, K.C.M.G., K.B.E., C.B., Permanent Secretary, Ministry of Civil Aviation, called in and examined.

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

[Adjourned till Thursday, 17th April, at a quarter to Four o'clock.

THURSDAY, 17TH APRIL, 1947.

Members present:

Mr. PEAKE in the Chair.

Mr. Cuthbert.

Lieut.-Colonel Alan Dower.

Lieut.-Colonel Hamilton.

Mr. Thurtle.

Mr. Wadsworth.

Navy Appropriation Account, 1945-46, considered.

Mr. J. G. Lang, C.B., Permanent Secretary, Mr. C. B. Coxwell, C.B., O.B.E., Principal Under-Secretary, and Mr. E. C. Jubb, C.B., O.B.E., Director, Contract and Purchase Department, Admiralty, called in and examined.

Civil Appropriation Accounts, 1945-46: Class VII, Vote 11, Peterhead Harbour; Greenwich Hospital and Travers Foundation Accounts, 1945-46; Civil Appropriation Accounts, 1945-46: Class VI, Vote 3, Department of Overseas Trade, Vote 8, Surveys of Great Britain, etc., Vote 9, Forestry Commission; Trading Accounts and Balance Sheets, 1945-46 (Forestry Commission); Civil Appropriation Accounts, 1945-46: Class VI, Vote 15, State Management Districts; Trading Accounts and Balance Sheets, 1945-46 (State Management Districts); Civil Appropriation Accounts, 1945-46: Class VI, Vote 16, Clearing Office; Debts Clearing Offices and Import Restrictions Act, 1934, Accounts, 1945-46; Civil Appropriation Accounts, 1945-46: Class VI, Vote 18, Fisheries, Scotland; Class VIII, Vote 3, Royal Irish Constabulary, Pensions, etc., Vote 4, Superannuation and Retired Allowances; Class IX, Vote 2, Exchequer Contributions to Local Revenues, Scotland, considered.

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

[Adjourned till Tuesday next at a quarter to Four o'clock.

TUESDAY, 22ND APRIL, 1947.

Proceedings of the Committee attached to the Second Report.

THURSDAY, 24TH APRIL, 1947.

Members present:

Mr. PEAKE in the Chair.

Mr. Benson.

Mr. Cuthbert.

Lieut.-Colonel Dower.

Lieut.-Colonel Hamilton.

Mr. Haworth.

Sir John Mellor.

Mr. Thurtle.

Army Appropriation Account, 1945-46, further considered.

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

The Committee deliberated.

Sir Frank Tribe K.C.B., K.B.E., Mr. D. F. C. Blunt, C.B., and Mr. C. E. I. Jones also called in and examined on the Account considered.

[Adjourned till Tuesday next at a quarter to Four o'clock.

TUESDAY, 29TH APRIL, 1947.

Members present:

Mr. PEAKE in the Chair.

Mr. Benson.

Mr. Cuthbert.

Lieut.-Colonel Hamilton.

Mr. Horace Holmes.

Sir John Mellor.

Mr. Thurtle.

Army Appropriation Account, 1945-46, further considered.

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

Royal Hospital Chelsea Account, 1945-46, considered.

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

[Adjourned till Thursday at a quarter to Four o'clock.

THURSDAY, 1ST MAY, 1947.

Members present:

Mr. PEAKE in the Chair.

Mr. Cuthbert.

Mr. Horace Holmes.

Sir Frank Sanderson.

Mr. Thurtle.

Civil Appropriation Accounts, 1945-46: Class VI, Vote 7, Ministry of Agriculture and Fisheries; Trading Accounts and Balance Sheets, 1945-46 (National Stud, Gillingham, Dorset); Sugar Industry (Research and Education) Fund Account, 1945-46; Land Fertility (Research) Fund Account, 1945-46; Civil Appropriation Accounts (War Services), 1945-46: Class X, Vote 1, Ministry of Agriculture and Fisheries (War Services) considered.

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

Civil Appropriation Accounts, 1945-46: Class VI, Vote 17, Department of Agriculture for Scotland; Civil Appropriation Accounts (War Services), 1945-46: Class X, Vote 17, Department of Agriculture for Scotland (War Services) considered.

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

Civil Appropriation Accounts, 1945-46: Class VI, Vote 19, Herring Industry; Herring Industry Act, 1935-44, Account, 1945-46, considered.

Sir Norman Duke, K.B.E., C.B., D.S.O., M.C., Secretary, Scottish Home Department, called in and examined.

Wheat Fund Accounts, 1945-46; Civil Appropriation Accounts (War Services), 1945-46: Class X, Vote 3, Ministry of Economic Warfare, Vote 10, Postal and Telegraph Censorship Department, Vote 11, Ministry of Production, considered.

Sir Frank Tribe, K.C.B., K.B.E., Sir Eric Bamford, K.B.E., C.B., C.M.G., and Mr. C. E. I. Jones also called in and examined on the Accounts considered.

[Adjourned till Tuesday next at a quarter to Four o'clock.

TUESDAY, 6TH MAY, 1947.

Members present:

Mr. PEAKE in the Chair.

Mr. Benson.	Mr. Horace Holmes.
Mr. Cuthbert.	Sir John Mellor.
Lieut.-Colonel Hamilton.	Sir Frank Sanderson.
Mr. Haworth.	Mr. Thurtle.

Civil Appropriation Accounts, 1945-46: Class V, Vote 1, Ministry of Health; Class IX, Vote 1, Exchequer Contributions to Local Revenues, England and Wales; Civil Appropriation Accounts (War Services), 1945-46: Class X, Vote 6, Ministry of Health (War Services) 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, called in and examined.

Civil Appropriation Accounts, 1945-46: Class X, Vote 18, Department of Health for Scotland (War Services); Housing Act, 1914, Account, 1945-46; Civil Appropriation Accounts, 1945-46: Class V, Vote 16, Department of Health for Scotland considered.

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

Sir Frank Tribe, K.C.B., K.B.E., Sir Eric Bamford, K.B.E., C.B., C.M.G., and Mr. C. E. I. Jones also called in and examined on the Accounts considered.

[Adjourned till Thursday at a quarter to Four o'clock.

THURSDAY, 8TH MAY, 1947.

Members present:

Mr. PEAKE in the Chair.

Mr. Benson.	Mr. Horace Holmes.
Mr. Cuthbert.	Mr. Thurtle.
Lieut.-Colonel Hamilton.	Mr. Wadsworth.

Housing (Temporary Accommodation) Act, 1944, Account, 1945-46; Building Materials and Housing Act, 1945, Account, 1945-46; Civil Appropriation Accounts, 1945-46: 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; Civil Appropriation Accounts (War Services), 1945-46: Class X, Vote 16, Ministry of Works (War Services), considered.

Sir Harold C. Emmerson, K.C.B., Permanent Secretary, Ministry of Works, and Mr. E. L. Pickles, C.B., O.B.E., Under-Secretary, Ministry of Supply, called in and examined.

Sir Frank Tribe, K.C.B., K.B.E., Sir Eric Bamford, K.B.E., C.B., C.M.G., and Mr. C. E. I. Jones also called in and examined on the Accounts considered.

[Adjourned till Tuesday next at a quarter to Four o'clock.

TUESDAY, 13TH MAY, 1947.

Members present:

Mr. PEAKE in the Chair.

Mr. Cuthbert.	Sir John Mellor.
Lieut.-Colonel Hamilton.	Sir Frank Sanderson.
Mr. Horace Holmes.	Mr. Thurtle.

Civil Appropriation Accounts, 1945-46: Class V, Vote 9, Ministry of National Insurance; National Health Insurance Fund Accounts, 1945; Widows', Orphans' and Old Age Contributory Pensions Acts Accounts, 1945-46; Unemployment Fund Accounts, 1945-46, considered.

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

Civil Appropriation Accounts, 1945-46: Class V, Vote 4, Ministry of Labour and National Service, Vote 5, Grants in respect of Employment Schemes; Civil Appropriation Accounts (War Services), 1945-46: Class X, Vote 9, Ministry of Labour and National Service (War Services), considered.

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

Civil Appropriation Accounts, 1945-46: Class I, Vote 23, Ministry of Town and Country Planning considered.

Sir Frank Tribe, K.C.B., K.B.E., Sir Eric Bamford, K.B.E., C.B. C.M.G., and Mr. C. E. I. Jones also called in and examined on the Accounts considered.

[Adjourned till Thursday at a quarter to Four o'clock.

THURSDAY, 15TH MAY, 1947.

Members present:

Mr. PEAKE in the Chair.

Mr. Benson.	Mr. Horace Holmes.
Mr. Cuthbert.	Mr. Thurtle.
Lieut.-Colonel Hamilton.	

Civil Appropriation Accounts, 1945-46: Class VI, Vote 2, Mercantile Marine Services, Vote 10, Roads, etc.; Road Fund Accounts, 1945-46; Civil Appropriation Accounts, 1945-46: Class VI, Vote 11, Miscellaneous Transport Services; Class VIII, Vote 1, Merchant Seamen's War Pensions; Civil Appropriation Accounts (War Services), 1945-46: Class X, Vote 15, Ministry of War Transport; War Risks (Marine) Insurance Fund Account, 1945-46; British Shipping (Assistance) Act, 1935, Account, 1945-46; Cunard Insurance Fund Account, 1945-46, considered.

Sir Cyril Hurcomb, G.C.B., K.B.E., Secretary, Ministry of Transport, and Mr. T. W. F. Dalton, C.B., Accountant-General, Ministry of Labour and National Service, called in and examined.

Sir Frank Tribe, K.C.B., K.B.E., Sir Eric Bamford, K.B.E., C.B. C.M.G., and Mr. C. E. I. Jones also called in and examined on the Accounts considered.

[Adjourned till Tuesday at a quarter to Four o'clock.

TUESDAY, 20TH MAY, 1947.

Members present:

Mr. PEAKE in the Chair.

Mr. Benson.
Mr. Cuthbert.
Lieut.-Colonel Hamilton.
Mr. Haworth.
Mr. Horace Holmes.

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

Civil Appropriation Accounts, 1945-46: Class III, Vote 1, Home Office, Vote 3, Police, England and Wales; Metropolitan Police Fund Account; Class III, Vote 5, Approved Schools, etc., England and Wales; Civil Appropriation Accounts (War Services), 1945-46: Class X, Vote 7, Ministry of Home Security, Vote 7A, Home Office (War Services), considered.

Sir Alexander Maxwell, G.C.B., K.B.E., Permanent Under-Secretary of State, Sir Frank Newsam, K.B.E., C.V.O., M.C., Deputy Under-Secretary of State, and Mr. A. S. Hutchinson, C.B., C.V.O., Assistant Under-Secretary of State, Home Office, and Mr. F. C. Johnson, C.B., Receiver for the Metropolitan Police District, called in and examined.

Civil Appropriation Accounts, 1945-46: Class III, Vote 6, Supreme Court of Judicature, etc.; Supreme Court of Judicature Account, 1945-46; Supreme Court: Prize, etc., Deposit Account, 1945-46, considered.

The Hon. Sir Albert Napier, K.C.B., Clerk of the Crown and Permanent Secretary, Lord Chancellor's Department, called in and examined.

Civil Appropriation Accounts, 1945-46: Class III, Vote 10, Law Charges considered.

Sir Thomas Barnes, K.C.B., C.B.E., Procurator-General and Treasury Solicitor, called in and examined.

Civil Appropriation Accounts (War Services), 1945-46: Class X, Vote 19, Scottish Home Department (War Services) considered.

Sir Frank Tribe, K.C.B., K.B.E., Sir Eric Bamford, K.B.E., C.B. C.M.G., and Mr. C. E. I. Jones also called in and examined on the Accounts considered.

[Adjourned till Thursday at a quarter to Four o'clock.

THURSDAY, 22ND MAY, 1947.

Members present:

Mr. Benson.
Mr. Cuthbert.
Lieut.-Colonel Hamilton.
Mr. Haworth.

Mr. Horace Holmes.
Mr. McAdam.
Sir Frank Sanderson.
Mr. Thurtle.

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

Civil Appropriation Accounts, 1945-46: Class II, Vote 8, Colonial Office, Vote 9, Colonial and Middle Eastern Services; Bureau of Hygiene and Tropical Diseases Account; Class II, Vote 10, West African Cocoa Control (Disposal of Profits), Vote 11, Development and Welfare (Colonies, etc.); Vote of Credit Appropriation Account, 1945-46: Services 42-52, Administered by the Colonial Office, considered.

Sir Thomas I. Lloyd, K.C.M.G., Permanent Under-Secretary, Colonial Office, and Mr. W. L. Bloomfield, Finance Officer and Secretary, West African Produce Control Board, called in and examined.

Civil Appropriation Accounts, 1945-46: Class VIII, Vote 2, Ministry of Pensions; Vote of Credit Appropriation Account, 1945-46: Service 66, Administered by the Ministry of Pensions, considered.

Sir Harold Parker, K.B.E., C.B., M.C., Permanent Secretary, Ministry of Pensions, called in and examined.

Civil Appropriation Accounts (War Services), 1945-46: Class X, Vote 8, Ministry of Information, considered.

Mr. Robert Fraser, O.B.E., Director-General, Central Office of Information, called in and examined.

Sir Frank Tribe, K.C.B., K.B.E., Sir Eric Bamford, K.B.E., C.B. C.M.G., and Mr. C. E. I. Jones also called in and examined on the Accounts considered.

[Adjourned till Thursday, 5th June, at a quarter to Four o'clock.

THURSDAY, 5TH JUNE, 1947.

Members present:

Mr. PEAKE in the Chair.

Mr. Benson.
Mr. Cuthbert.
Lieut.-Colonel Hamilton.
Mr. McAdam.

Sir John Mellor.
Sir Frank Sanderson.
Mr. Wadsworth.

Civil Appropriation Accounts (War Services), 1945-46: Class X, Vote 4, Ministry of Food; Vote of Credit Appropriation Account, 1945-46: Service 69, Administered by the Ministry of Food, considered.

Sir Percivale Liesching, K.C.M.G., Secretary, and Mr. E. E. Bailey, C.B.E., Under-Secretary, Ministry of Food, called in and examined.

Sir Frank Tribe, K.C.B., K.B.E., Mr. C. E. I. Jones and Mr. W. N. Fisher, Principal H.M. Treasury, also called in and examined on the Accounts considered.

[Adjourned till Tuesday next at a quarter to Four o'clock.

TUESDAY, 10TH JUNE, 1947.

Members present:

Mr. Benson.
Mr. Cuthbert.
Lieut.-Colonel Dower.
Mr. Haworth.

Mr. Horace Holmes.
Sir Frank Sanderson.
Mr. Thurtle.

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

Coal Commission Accounts, 1945-46, considered.

Sir Ernest Gowers, G.B.E., K.C.B., lately Chairman, Coal Commission, called in and examined.

Civil Appropriation Accounts, 1945-46: Class VI, Vote 5, Ministry of Fuel and Power; Civil Appropriation Accounts (War Services) 1945-46: Class X, Vote 5, Ministry of Fuel and Power (War Services), Coal Charges Account, Miners' Welfare Fund Account, Miners' Welfare General Endowment Fund Account; Vote of Credit Appropriation Account, 1945-46: Services 63-65, Administered by the Ministry of Fuel and Power considered.

Sir Donald Fergusson, G.C.B., Permanent Secretary, Ministry of Fuel and Power, called in and examined.

Civil Appropriation Accounts (War Services) 1945-46: Class X, Vote 14, War Damage Commission, considered.

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

Mr. F. N. Harby, C.B.F., Secretary, Exchequer and Audit Department, Sir Eric Bamford, K.B.E., C.B., C.M.G., and Mr. C. E. I. Jones also called in and examined on the accounts considered.

[Adjourned till To-morrow at a quarter to Four o'clock.

WEDNESDAY, 11TH JUNE, 1947.

Proceedings of the Committee attached to the Second Report.

THURSDAY, 12TH JUNE, 1947.

Members present:

Mr. PEAKE in the Chair.

Mr. Benson.
Mr. Cuthbert.
Lieut.-Colonel Hamilton.
Mr. Horace Holmes.

Mr. McAdam.
Sir Frank Sanderson.
Mr. Thurtle.
Mr. Wadsworth.

Civil Appropriation Accounts, 1945-46: Class VI, Vote 1, Board of Trade, Vote 1A, Services in Development Areas; Civil Appropriation Accounts (War Services) 1945-46: Class X, Vote 13, War Damage (Business and Private Chattels), War Risks (Commodities) Insurance Fund; Vote of Credit Appropriation Account, 1945-46: Services 54-61, Administered by the Board of Trade, considered.

Sir John Woods, K.C.B., M.V.O., Permanent Secretary, Mr. S. J. Campling, O.B.E., Assistant Secretary, Finance Division, Board of Trade, and Mr. S. C. Leslie, Director, the Council of Industrial Design, called in and examined.

Civil Appropriation Accounts, 1945-46: Class VI, Vote 4, Export Credits, Acquisition of Guaranteed Securities Fund; Trading Accounts and Balance Sheets, 1945-46 (Export Credits Guarantee Department Credit Insurance Scheme); Vote of Credit Appropriation Account, 1945-46: Service 46, Administered by the Export Credits Guarantee Department, considered.

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

Trading Accounts and Balance Sheets, 1945-46 (Dominions Office, British Phosphate Commission Account for the year ended 30th June, 1945), considered.

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

Sir Frank Tribe, K.C.B., K.B.E., Sir Eric Bamford, K.B.E., C.B., C.M.G., and Mr. C. E. I. Jones also called in and examined on the Accounts considered.

[Adjourned till Tuesday next at a quarter to Four o'clock.

TUESDAY, 17TH JUNE, 1947.

Members present:

Mr. PEAKE in the Chair.

Mr. Cuthbert.
Lieut.-Colonel Dower.
Lieut.-Colonel Hamilton.
Mr. Horace Holmes.

Mr. McAdam.
Sir John Mellor.
Mr. Thurtle.

Civil Appropriation Accounts (War Services) 1945-46: Class X, Vote 2, Ministry of Aircraft Production; Vote of Credit Appropriation Account, 1945-46: Services 67-68, Administered by the Ministry of Aircraft Production; Civil Appropriation Accounts (War Services) 1945-46: Class X, Vote 12, Ministry of Supply, considered.

Sir Archibald Rowlands, G.C.B., M.B.E., Permanent Secretary, and Mr. W. F. Jenkins, C.B.E., Director-General of Disposals, Ministry of Supply, and Mr. R. F. Bretherton, Under-Secretary, Board of Trade, called in and examined.

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

[Adjourned till Thursday at a quarter to Four o'clock.

THURSDAY, 19TH JUNE, 1947.

Members present:

Mr. PEAKE in the Chair.

Mr. Benson.
Mr. Cuthbert.
Lieut.-Colonel Dower.

Lieut.-Colonel Hamilton.
Mr. McAdam.

Vote of Credit Appropriation Account, 1945-46: Services 70-72, Administered by the Ministry of Supply, considered.

Sir Archibald Rowlands, G.C.B., M.B.E., Permanent Secretary, Ministry of Supply, and Mr. R. F. Bretherton, Under-Secretary, Board of Trade, called in and further examined.

Mr. D. F. C. Blunt, C.B., also called in and examined on the Accounts considered.

Civil Appropriation Accounts, 1945-46: Class VI, Vote 14, Department of Scientific and Industrial Research; Vote of Credit Appropriation Account, 1945-46: Service 75, Administered by the Department of Scientific and Industrial Research, considered.

Sir Edward Appleton, G.B.E., K.C.B., D.Sc., LL.D., F.R.S., Secretary, Department of Scientific and Industrial Research, called in and examined.

Vote of Credit Appropriation Account, 1945-46: Service 73, Administered by the Control Office for Germany and Austria, considered.

Sir Gilmour Jenkins, K.B.E., C.B., M.C., Permanent Secretary, and Mr. S. J. S. Secker, Director of Accounts, Control Office for Germany and Austria, called in and examined.

Sir Frank Tribe, K.C.B., K.B.E., Sir Eric Bamford, K.B.E., C.B., C.M.G., and Mr. C. E. I. Jones also called in and examined on the Accounts considered.

[Adjourned till Tuesday next at a quarter to Four o'clock.

TUESDAY, 24TH JUNE, 1947.

Members present:

Mr. PEAKE in the Chair.

Mr. Cuthbert.
Lieut.-Colonel Hamilton.
Mr. Horace Holmes.
Mr. McAdam.

Mr. John R. Thomas.
Mr. Thurtle.
Mr. Wadsworth.

Civil Appropriation Accounts, 1945-46: Class II, Vote 13, India and Burma Services; Vote of Credit Appropriation Account, 1945-46: Service 53, Administered by the India and Burma Office, considered.

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

Vote of Credit Appropriation Account, 1945-46: Services 23-35, Administered by the Foreign Office, considered.

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

Vote of Credit Appropriation Account, 1945-46: Service 7, Administered by the Treasury, considered.

Sir Wilfrid Eady, K.C.B., K.B.E., C.M.G., Second Secretary, Treasury, and Sir Leonard Paton, C.B.E., M.C., lately Director, United Kingdom Commercial Corporation, called in and examined.

Vote of Credit Appropriation Account, 1945-46: Services 1-6 and 8-22, Administered by the Treasury; Civil Appropriation Accounts, 1945-46: Class I, Vote 3, Registration of Electors, Vote 6, Privy Seal Office, Vote 12, Government Hospitality, Vote 18, Repayments to the Local Loans Fund, Vote 19, Royal Commissions, etc., Vote 20, Miscellaneous Expenses, Vote 21, Secret Service; Treasury Chest Fund Account, 1945-46; Civil Appropriation Accounts, 1945-46: Class I, Vote 23A, Repayments to the Civil Contingencies Fund; Civil Contingencies Fund Accounts, 1945-46; Civil Appropriation Accounts, 1945-46: Class III, Vote 11, Miscellaneous Legal Expenses, Medical Research Council, Agricultural Research Council; Class IV, Vote 11, Universities and Colleges etc., Great Britain; Class V, Vote 7, Special Areas Fund, Vote 8, Financial Assistance in Special and Other Areas, Vote 14, Widows', Orphans' and Old Age Contributory Pensions; Class VI, Vote 12, Development Fund, Development Fund Accounts, 1945-46; Civil Appropriation Accounts, 1945-46: Class VI, Vote 13, Development Grants; Class VII, Vote 9, Rates on Government Property; Czechoslovak Financial Claims Fund and Czechoslovak Refugee Fund Accounts, 1945-46; Tithe Act, 1936, Accounts, 1945-46, considered.

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

Sir Frank Tribe, K.C.B., K.B.E., Sir Eric Bamford, K.B.E., C.B., C.M.G., and Mr. C. E. I. Jones also called in and examined on the Accounts considered.

[Adjourned till Thursday at a quarter to Four o'clock.

THURSDAY, 26TH JUNE, 1947.

Members present:

Mr. PEAKE in the Chair.

Mr. Benson.
Mr. Cuthbert.
Mr. Horace Holmes.
Mr. McAdam.

Sir Frank Sanderson.
Mr. John R. Thomas.
Mr. Thurtle.

Tithe Act, 1936, Accounts, 1945-46, further considered; Public Income and

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Expenditure Account, 1945-46; Consolidated Fund Abstract Account, 1945-46, considered.

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

Civil Appropriation Accounts, 1945-46: Class I, Vote 4, Treasury and subordinate Departments, considered.

Sir Edward Bridges, G.C.B., G.C.V.O., M.C., Permanent Secretary, and Sir Bernard Gilbert, K.C.B., K.B.E., Second Secretary, Treasury, called in and examined.

Sir Frank Tribe, K.C.B., K.B.E., Sir Eric Bamford, K.B.E., C.B., C.M.G., and Mr. C. E. I. Jones also called in and examined on the Accounts considered.

[Adjourned till Thursday, 24th July, at a quarter to Four o'clock.

THURSDAY, 24TH JULY, 1947.

Members present:

Mr. PEAKE in the Chair.

Mr. Benson.	Mr. McAdam.
Lieut.-Colonel Alan Dower.	Sir John Mellor.
Lieut.-Colonel Hamilton.	Sir Frank Sanderson.
Mr. Horace Holmes.	Mr. John R. Thomas.
Mr. Kirby.	Mr. Thurtle.

Draft Third 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 and 2 agreed to.

Paragraph 3.

Question put " That the paragraph stand part of the Draft Report "

The Committee divided: Ayes 7; Noe 1.

Ayes.

Mr. Benson.
Lieut.-Colonel Hamilton.
Mr. Kirby.
Mr. McAdam.
Sir John Mellor.
Sir Frank Sanderson.
Mr. Thurtle.

Noe.

Mr. John R. Thomas.

Paragraphs 4 to 7 agreed to.

Paragraph 8.

Question put " That the paragraph stand part of the Draft Report "

The Committee divided: Ayes 8; Noe 1.

Ayes.

Mr. Benson.
Lieut.-Colonel Alan Dower.
Lieut.-Colonel Hamilton.
Mr. Kirby.
Mr. McAdam.
Sir John Mellor.
Sir Frank Sanderson.
Mr. Thurtle.

Noe.

Mr. John R. Thomas.

Paragraphs 9 to 16 agreed to.

Paragraph 17.

Question put " That the paragraph stand part of the Draft Report ".
The Committee divided: Ayes 8; Noe 1.

Ayes.

Mr. Benson.
Lieut.-Colonel Alan Dower.
Lieut.-Colonel Hamilton.
Mr. Horace Holmes.
Mr. Kirby.
Mr. McAdam.
Sir John Mellor.
Mr. Thurtle.

Noe.

Mr. John R. Thomas.

Paragraphs 18 to 60 agreed to.

Paragraph 61 amended and agreed to.

Paragraphs 62 and 63 agreed to.

Paragraph 64.

Question put " That the paragraph stand part of the Draft Report ".
The Committee divided: Ayes 7; Noe 1.

Ayes.

Mr. Benson.
Lieut.-Colonel Alan Dower.
Lieut.-Colonel Hamilton.
Mr. Horace Holmes.
Mr. Kirby.
Mr. McAdam.
Mr. Thurtle.

Noe.

Mr. John R. Thomas.

Paragraphs 65 to 79 agreed to.

Paragraph 80.

Question put " That the paragraph stand part of the Draft Report ".
The Committee divided: Ayes 7; Noe 1.

Ayes.

Mr. Benson.
Lieut.-Colonel Alan Dower.
Lieut.-Colonel Hamilton.
Mr. Horace Holmes.
Mr. Kirby.
Mr. McAdam.
Mr. Thurtle.

Noe.

Mr. John R. Thomas.

Paragraphs 81 to 86 agreed to.

Paragraph 87 amended and agreed to.

Paragraphs 88 to 109 agreed to.

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

Ordered, That Sir Archibald Rowlands be given leave to withdraw a document, put in by him in evidence, on the subject of fees paid to the Northern Ireland Government and other Dominion, etc. Governments for carrying out disposals on behalf of the Ministry of Supply, and to put in another in place thereof.

Ordered, That the papers forwarded on 25th February, 27th May, 9th and 11th July, by H.M. Treasury, on 2nd April, by the Air Ministry, on 10th July, by the Ministry of Food, on 8th and 15th July, by the Ministry of Fuel and Power, on 19th June and 17th July, by the Ministry of Supply and on 29th May, by the Ministry of Transport, 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.

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COMMITTEE OF PUBLIC ACCOUNTS

TUESDAY, 25TH FEBRUARY, 1947.

Members present:

Mr. PEAKE in the Chair.

Mr. Benson.
Mr. Cuthbert.
Lt.-Col. Hamilton.
Mr. Haworth.
Mr. Horace Holmes.

Mr. Kirby.
Sir John Mellor.
Sir Frank Sanderson.
Mr. John R. Thomas.
Mr. Thurtle.

Sir FRANK TRIBE, K.C.B., K.B.E., Sir ERIC BAMFORD, K.B.E., C.B., C.M.G., and Mr. C. E. I. JONES called in and examined.

TREASURY MINUTE ON PARAGRAPH 17 OF THE FOURTH REPORT OF THE
COMMITTEE OF PUBLIC ACCOUNTS, 1946.

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

Chairman.] The first matter is the Treasury Minute of the 8th January, 1947, which is interleaved with our report for 1946. I do not think we need bother you with this, Sir Cornelius, because at the end of paragraph 17 of our Report we have stated: "Your Committee bring the matter

to notice but they do not wish to offer any criticism"; and the Treasury Minute merely states: "My Lords note the comments of the Committee." I have no question to put to the witness on this. Has any member of the Committee any questions?

REVENUE DEPARTMENTS APPROPRIATION ACCOUNTS, 1945-46.

VOTE 2.

INLAND REVENUE.

Chairman.

1. Will members of the Committee turn to the Revenue Departments Appropriation Accounts, 1945-46, to pages iv to ix of the Report of the Comptroller and Auditor General, paragraphs 6 to 17. Paragraph 6, Sir Cornelius, includes the Balance Accounts which we have every year, I think?—(Sir Cornelius Gregg.) Yes.

2. I note on them that under "Income Tax for Local Collection" the arrears, which were £210 million at the end of 1944 have risen to £237 million at the end of 1945. That is right, is it not?—Yes.

3. Would you like to say a word in explanation of the increase in the arrears?—The £237 million is 22.9 per cent.—call it 23 per cent.—of the total charge, as compared with 20 per cent. last year and 19½ per cent., say 20 per cent., the previous year. It is slightly worse. That figure of £237 million is the total of arrears carried forward plus current charge. If you take the current charge, which is the last line but one in the table, the current charge of £827 million has left an arrear of £111.9 million. That is 13.5 per cent. of the charge as compared with 12.9 per cent. the previous year, so it is slightly worse; but as

compared with 14.2 per cent. in 1943 it is slightly better. The point is this, that both the current collection and the overall collection are worse this year than last year, but the current, though worse than last year, is better than the year before. It is largely due to the old arrears consisting mainly of Income Tax assessments which are held up because of Excess Profits Tax assessments that have not yet been settled. You cannot finally settle the Income Tax assessment until you have settled the Excess Profits Tax assessment because E.P.T. is a deduction for Income Tax. In these old arrears, particularly, there are quite a number of cases which are hanging fire waiting for Excess Profits Tax to be cleared up.

4. I wondered how much this increase in the arrears was due to shortage of staff in the Inland Revenue Department?—This work in connection with Excess Profits Tax would be done by the Inspectors of Taxes, and undoubtedly there we are short of staff. We had 1,800 Inspectors before the war. We have only 1,600 now, and we estimate that on the current volume of work on pre-war standards we would want 2,000 now. We are heavily down in the number

25 February, 1947.] Sir CORNELIUS GREGG, K.C.B., K.B.E.

[Continued.]

of trained Inspector staff that deals with these big liabilities, with companies' liabilities in particular.

5. I assume that the year under review, the tax year ended April last year, was a particularly difficult one for you owing to so many people changing their employment at the end of the war?—That would not affect this. This table is Schedules A, B and D. It does not cover the employment income, with the exception of one small item. The only Schedule E item here is the £12 million, which is subject to comment later on. It is Schedules A, B and D; that is, property, farms and profits.

6. You attribute the increased arrears to the lag in settling Excess Profits Tax now?—That is the main item.

Chairman.] Are there any questions on paragraph 6 of the Report of the Comptroller and Auditor General?

Mr. Benson.] I would like to ask Sir Cornelius what exactly is meant by "Transfer." You have "Transfer" as the heading of the third column.

Mr. Hamilton.

7. "Cleared by transfer".—There is a footnote which says: "Transferred to Inspectors of Taxes. . ."

Mr. Benson.

8. Does that mean transferred to some other Department for collection, or some other section for collection?—If you take the £12,109,000 which is the main item in this table, which shows the transfer—

9. Where is that?—It is the Schedule E figure in this table, in the first column of figures. That yields £2,562,000 of the transfer of which you are speaking. The £12,109,000 represents Schedule E arrears that had not been collected by the Collector and were not handed over by him to the Inspector to code in for Pay-as-you-earn, on the ground, for instance, that the person is dead or could not be found, or something like that. £2,562,000 has now been handed back to the Inspector. It is a transfer to the Inspector.

10. "Discharge" means that the assessment is cancelled, does it not?—"Discharge" means a statutory right to a reduction in the assessment if a person is assessed at a figure and is entitled by law to relief from that figure. If the relief was not given in computing the figure then the figure of charge is reduced; and that is a discharge. It is the reduction of a liability under a statutory right, whereas a "remission" is a reduction under an extra-statutory practice.

11. In effect, it is the outcome of an over-assessment in the first place?—Yes.

Chairman.

12. Are there any further questions on paragraph 6? We turn to paragraph 7. As you explained, Sir Cornelius, the tables we have just been considering do not include figures relating to Pay-as-you-earn?—No.

13. Pay-as-you-earn is referred to in paragraph 7. You cannot ascertain the arrears due under Pay-as-you-earn because there are not any assessments? Is that right?—Yes.

14. But I see that the tax receipts for the year ended September, 1945, amounted to £536 million?—Those are the total receipts in that year. That is the tax deducted by employers and paid over by them to our Collectors.

15. I wondered how that figure compared with a figure you must have got out to enable the Chancellor to present his Budget, namely, the figure of receipts of tax which you anticipated under Pay-as-you-earn for that period. Of course, it is true that you would not budget for that particular period in September?—That is so. It is composed of actual receipts up to that point of time, whereas the Chancellor's Budget is struck on the receipts at the 31st March.

16. You cannot express any opinion as to whether that £536 million represents what you really ought to have received?—No, and, of course, our estimate would not be the measure of what we ought to receive. It would be the estimate of what we hoped to receive.

17. You cannot give us even a guess as to what you would have hoped to receive in that period?—I do not think so, because, as I explained in evidence in previous years, under the old method we assessed the tax first and collected it afterwards, and you compared what was collected with an ascertained assessed charge. Here, in effect, the tax has been collected first; it is handed over by the employers to us, and we have the collection before we know the charge. We shall come to that later on.

18. In collecting Pay-as-you-earn you really rely upon the integrity of the employers?—Up to that point of time, and then, at the end of the year, the employer has to hand over to us the tax deduction cards, showing for each man in his employ who was liable to tax what tax he has deducted. Then, in theory, you could proceed to construct a charge. You could take that man and say what his true liability was, compare it with the tax deducted, and if there was underpayment you would record it, and so on. You would have a charge then, but you create it after the actual collection.

Chairman.] Are there any questions on paragraph 7?

25 February, 1947.] Sir CORNELIUS GREGG, K.C.B., K.B.E.

[Continued.]

Mr. Thurtle.

19. In some cases these Pay-as-you-earn taxes are remitted by the employers either monthly or quarterly, are they not?—Monthly is the usual practice. The amount is usually paid over about the 19th of each month in respect of the tax deducted in the previous month.

20. So that at the end of 11 months you would know the amount of tax which was due for those 11 months?—Yes. We would know, but to return to the Chairman's point about constructing the Budget Estimate, we should know the amount due up to the year just closing, but then you have to make estimates as to whether there is any increase in the number of people in employment or any fall. Is there any increase in the income level? It is factors of that kind by which you come down to a Budget Estimate in respect of the Pay-as-you-earn receipts.

21. I wondered whether, when you came to the final clearing up for the twelve months, you found any very considerable divergence from payments which had been made in the other eleven months?—You will find a divergence as the numbers in employment vary. Take, for example, these recent Budgets. They not merely reduced the tax but increased the personal allowances, thereby relieving something like 2,000,000 people from liability to tax. 2,000,000 dropped out. But we are finding now that the numbers of taxpayers in employment are practically as they were, because although 2,000,000 dropped out by reason of the lifting of these allowances and the lifting of the exemption limit, 2,000,000 more flowed in by reason of higher wage levels, increased employment, and so on. You have the two things fluctuating—the numbers employed and the income level.

Chairman.

22. Are there any further questions on Paragraph 7? We pass to Paragraphs 8 and 9, which I think we might take together. I have only one question on those Paragraphs. In the second half of Paragraph 9, Sir Cornelius, the Comptroller and Auditor General tells us that he understands that it is not now proposed to construct Balance Accounts in respect of tax chargeable in public departments for the years prior to the introduction of the Pay-as-you-earn system. Would you explain that to us?—Yes. That is in the same position as it has been for the last few years. Owing to the war, we simply could not get the public departments charge computed. It would mean in the Civil Departments taking every Civil Servant, computing his actual liability, and then adding it up and constructing a charge, and comparing that with the tax deducted; and the work involved in that has been quite beyond us. Still more so in the case of the Forces where the same point arises.

23. You take the view that to do the work now would be useless?—We could not do it, to commence with. It is a transient question because it is now swept into the whole body of Pay-as-you-earn.

24. Can you tell us why the work was not done?—Was it due to the pressure of war circumstances?—The pressure of war circumstances entirely.

Chairman.] Are there any questions^a on Paragraphs 8 and 9?

Sir Frank Sanderson.

25. I would like to ask one question. The Schedule E arrears are stated to be £12,109,000. In view of all the circumstances is that regarded as reasonable or excessive?—I must say first what the £12,109,000 is. The £12,109,000 is the figure mentioned in the table. It relates to the position before Pay-as-you-earn, to commence with. There was then in the hands of the collectors of taxes unpaid something like £60 million of tax due under Schedule E. Of that £60 million, £48 million was handed over by the Collectors of Taxes to the Inspectors of Taxes to be coded in by them under Pay-as-you-earn. The other £12 million remained in the hands of the collectors because that did not relate to persons then in employment—or generally on that ground. That £12 million is the residue of the pre-Pay-as-you-earn Schedule E arrears, plus this £48 million, the other part of the residue that was handed over to the Pay-as-you-earn machine to code in and gather in under Pay-as-you-earn. That £12 million has been reduced, as you see from the first table, to £7,500,000 at the end of this year. As a matter of fact in the following year it has gone down to £4 million. It is shrinking; it is an old residue which will shrink and disappear.

26. It is substantially improving?—Yes. It is not a current figure. It is an old debt, so to speak, that is being gradually wiped off.

Mr. Thurtle.

26A. In the last line of the second subparagraph of Paragraph 9 the Comptroller and Auditor General refers to a test check of individual cases. To what extent did that go? Was it 10 per cent. of the individual cases, 5 per cent., or what?—It is very small. It will be only one per cent. All we can do is to carry out a small check. The whole of the activities in this respect are governed by the fact that there is not an equation between the staff and the work. There is a shortage of staff with the result that all sorts of things have to be dropped, cut down, and so on.

Chairman.

27. Are there any further questions on Paragraphs 8 and 9? We pass to Paragraph 10, which refers to the announcement

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[Continued.]

by the Chancellor of the Exchequer that he had approved relaxations in procedure to relieve still further the pressure of work in tax offices. Apparently one of the relaxations which he announced was the abandonment of the statutory assessment to tax under Schedule E for the years 1944/45 and 1945/46 in the generality of cases where the tax deducted under Pay-as-you-earn was less than £175. As I understand the position, the tax-payer, whether he pays under Pay-as-you-earn or some other system, is entitled by Statute to receive an assessment?—Yes.

28. That in practice you have been unable to do in the generality of cases of Pay-as-you-earn?—That is true.

29. It is in fact impossible, is it not?—Yes. If you take a particular year, the year to the end of March, the employer deducts tax from each of his employees, and then he hands over to us after the end of the year all these cards which show on their face the total wages paid and the total tax deducted. Then we should draw up an assessment of what the true liability of that particular individual was and show him: "Your true liability was so much. There was in fact deducted from you so much. There is an under-payment" (or an over-payment; nearly always an under-payment, for the reasons which I will explain) "due from you. That under-payment will be gathered into the next available Pay-as-you-earn account". That is the process of work which we simply could not do. By abandoning it we have abandoned in effect the recovery of these under-payments. There is nearly always an under-payment because Pay-as-you-earn is so constructed as never to charge more but always to charge a trifle less. You are coded in for Pay-as-you-earn according to the amount of the personal allowances to which you are entitled, the amount of your tax-free income, so to speak, and if your tax-free income is £83 you will be coded into the code of £80 to £85 and tax will be deducted as if you were entitled to tax-free income of £85, because it has to cover all the cases. Therefore, tax is deducted as if your tax-free income were £85, whereas it might be £81, £82, £83 or £84. Therefore, in nearly every code zone there is a small under-payment, and that we have lost for ever by abandoning this "check-up," as the Chancellor of the Exchequer called it in the House, or this formal assessment, which is an analysis of each case, a determination of the true liability and a formal assessment which in itself would create the charge that we were speaking of in earlier questions. It is that assessment which would have created a charge after the collection, to compare the collection with.

30. Do you maintain that, apart from mistake, it is impossible for anybody to pay more than their true liability under

the Pay-as-you-earn?—They may do. It would not be due to the Pay-as-you-earn tables because they are always constructed so that one pays less. But it might be due to a person not having received in his coding all the allowances to which he is entitled. He can always claim that and we pay it to him. It is generally a change in personal affairs. The birth of a child is the commonest instance. If that is notified to us at any time we alter the coding to give effect to the relief.

31. Do I understand that on account of the sheer physical administrative difficulties you abandoned the idea of serving assessments on all these people for these two years?—Yes; we have abandoned the idea of calculating it for each person and serving assessments. We simply have not done so. That was the point of the Chancellor's announcement. We reached it by stages.

32. Surely that will require some statutory cover at some time, because the law lays down that you have to serve an assessment upon the taxpayer, does it not?—Our own regulations provide it. All those matters of the computation and service of notices of coding and notices of assessment are by statutory regulations. I do not think in substance it requires statutory authority because nothing happens if we do not do it.

33. If an individual taxpayer demanded an assessment he would get one, would he not?—Yes. We should observe the law.

34. You are prepared to observe the law—on demand?—Our instructions to our Inspectors of Taxes are that any taxpayer who asks for an account is to be given it. There is no doubt about that. We have said that.

35. May I put one other question to you? There are people with fairly substantial salaries being taxed under Pay-as-you-earn, are there not?—Yes, everyone is taxed whether it is on wages or salaries, and regardless of the amount of the salaries. Directors' salaries and all other salaries are subject to Pay-as-you-earn. They are not within this announcement, you observe, because this announcement of the Chancellor extended only to cases where the total tax paid in the year was less than £175.

36. I quite appreciate that, and I was going to ask you a point about the larger taxpayers. I want to ask about tax free emoluments. In many posts, both under private and public enterprise, people are rewarded both by a salary and by some other payments in kind: it may be a free house, a free motor-car, travelling expenses, or something of that kind. Have you any check at all from the Revenue point of view as to whether these payments in kind are limited to a reasonable figure?—Pay-

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[Continued.]

ments in kind as such would not be liable. The commonest of all forms of payment in kind is board and lodging of the ordinary employee. That is not income. Payments for expenses—which were incurred, of course—would not be income.

37. Supposing there were an annual payment just for expenses to a director or to an official of £1,000 a year, would your machine have any way of looking into whether that was a reasonable amount?—It is not merely a question whether it is reasonable. The first point is this. The mere labelling of an allowance as an expense allowance does not make the allowance exempt from Income Tax. We have to be satisfied that they are expenses of the office actually incurred in order to justify that figure. If a person gets a salary plus an allowance for expenses, that does not mean that the salary is liable and the allowance for expenses is not. We have to be satisfied. We call for evidence as to the nature of the expenses.

38. How do you, first of all, get to know whether a man is or is not receiving a payment by way of an expenses allowance—because it is not income in the ordinary way, and it would not be shown on his return?—We have powers, of course, to get the information from the employer. The employer's accounts would show it when the profits of the business were being examined for Income Tax, Schedule D. We took power in some Finance Act before the war to require any employer to return not merely salaries and wages but any other payment made in addition.

39. There have been a number of public corporations established in recent months, we have noticed. Do they pay Income Tax in the ordinary way?—A public corporation is liable to Income Tax like anybody else.

40. So that you see their accounts. Take the Coal Board, for example?—We have not seen any yet.

41. You will have an opportunity of checking these matters in relation to the public corporations?—It will be exactly the same with the public corporations as with any trading concern.

Chairman.] Are there any questions on paragraph 10?

Mr. John R. Thomas.

42. Sir Cornelius mentioned that they received only the total amount from the cards at the end of the year. Is it not a fact that a return is made monthly, so that the Revenue would know from month to month the actual payment made by any person assessed under Pay-as-you-Earn?—We know month by month simply what the employers pay us, but until we see the cards we are not satisfied that that amount which has in fact been paid over to us

month by month was the actual amount which that employer deducted from his employees.

43. The company sends a remittance, does it not?—The company sends a remittance.

44. With the card?—No, not with the card. They simply pay us a remittance. There is a card which comes with the remittance, but it does not give any details of the employer's deductions from the individual employees. It is only at the end of the year, when they hand over in respect of every employee from whom they have deducted tax a card showing the total amount for the year that we can be satisfied that the payments made to us represent the actual amount which the employers have deducted.

45. There is one other point arising out of that, and that is the absence of an assessment on those persons charged under Pay-as-you-earn who do not pay a total amount exceeding £175. If there is some change in their personal allowances, and so on, which justifies a differentiation in the amount of tax from their existing code, and they do not make application to be recoded they lose the benefit. For instance, you mentioned the birth of a child?—Yes.

46. If there is another child there will be an extra allowance and I take it that would mean a different code. Is there any means of bringing that to the notice of the public, to make it generally known that in the event of a change in circumstances justifying an increased allowance application should be made for recoding? I suggest that it is perhaps not generally known to those taxpayers if they do not get recoded that in the absence of assessment the onus is on them to claim for recoding?—I think it is well-known. At any rate we have given it very full publicity. At the inception of Pay-as-you-earn (and we reproduced it again as Pay-as-you-earn developed) we issued a lot of literature including in particular what is known as the "Quiz," which brings out every point like this. We have also brought it out in publicity on the wireless. There has been ample publicity of it and I think as regards allowances of that character there is no doubt about it that they are known.

Mr. Benson.

47. Have you abandoned the assessment permanently, or is it a temporary arrangement?—The Chancellor's concession here is a complete abandonment.

48. In the last line of paragraph 10 the Comptroller and Auditor General speaks of: "the probability of divergence between the true liability and the tax deducted." How should that arise? The Comptroller and Auditor General speaks of a "great divergence." I should have read that to mean a greater divergence than any error in personal allowances can account for?—There may be salaries and commissions paid

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[Continued.]

late—paid in one year and belonging to another. There are all sorts of payments of that kind which Pay-as-you-earn cannot cover. It deals with them provisionally and then you have to adjust and all such cases will be examined because this £175 in effect limits this to taxpayers whose income does not exceed about £500 a year. I think the Chancellor mentioned that figure in the House. It is roughly a figure corresponding to £500 or £600 a year, and every one over that will be assessed.

Mr. *Horace Holmes*.

49. With respect to the assessments, if there are changed circumstances what happens then? I agree with Sir Cornelius that most people know about the procedure. When there are changed circumstances then an assessment form is sent down to them to complete showing the changed circumstances?—No. The changed circumstances usually show themselves by the taxpayer coming into our office and simply saying: "I have a child"—that is the commonest case. Then we alter the coding during the year and send the new coding to the employer. In the following week the employer gives the employee full credit for that £50 as from the beginning of the year, £50 being the measure of the child allowance.

50. I have known one or two instances where they are several miles from the office and they have communicated with the office and told them that there have been changed circumstances, and in many instances the office sends them an assessment form, so there is some check on it?—Sends them a return form?

51. Yes?—They may have done that because normally we should get a return from every taxpayer every year, but we are not doing it, particularly under Pay-as-you-earn. We simply could not do it. We are only getting a return every few years. But if a particular case of that kind cropped up involving re-assessing a man we should send a return form and get a complete return of all the reliefs to which he claimed to be entitled, be it a relief in respect of a child, a dependent relative, a housekeeper, or whoever else it might be.

Sir *Frank Sanderson*.

52. In regard to expense allowances and other allowances, is it not a fact that in regard to the smaller cases there is laid down in the regulations what is permitted in the way of expenses? As an illustration, would it not be in order to let a man have a house rent-free if he works at a factory? Is it not already laid down in the regulations that such expenditure would be permitted?—The Pay-as-you-earn regulations prescribe that the value of board and lodging and items of that kind are not to be taken into account, but they go on to pro-

vide for other emoluments that are to be taken into account—such as bonuses, and items of that kind. Whether a particular benefit in kind is a taxable emolument, of course, is not—

• 53. That is a point, too, which I wish to raise. In the cases where special allowances are made, whether it be in respect of a car, or a fixed amount for travelling expenses, or whatever it may be, have not the employer's accounts to satisfy the Inland Revenue authorities?—Yes. Of course, a payment for the expense of running a car on the firm's account would not be income any more than expenses of travelling to London on the firm's account and staying in a hotel.

Mr. *Thurtle*.

54. In the case of a man who is getting as part of his salary a house free, value £200 a year, how and when do you collect tax on that £200?—We certainly could not, of course, collect it under Pay-as-you-earn. I am not so sure that such a case would be liable. I should not like to answer without notice. There are provisions for official residences in the Income Tax Acts which make them liable. There have been various cases of bank managers and their residences, and clergymen and their residences. Generally speaking, of course, a payment in kind is not income. But to come to your point as to how you would collect it, you would have to collect that independently of Pay-as-you-earn, because Pay-as-you-earn predicates the movement of cash from A to B, and you step in and deduct the Revenue's share of that cash on the passage of the money. There is not any passage of money here. In any case in which there was liability you would have to collect it independently of Pay-as-you-earn.

55. There must be many cases of the kind where that condition obtains, where a free house is part of the emoluments?—The commonest of all cases is board and lodging—lodging free. There is the case of the domestic employee. You may have a house and grounds and a gardener, and so on. That would not constitute his income.

Sir *John Mellor*.

56. I want to ask, on a similar point, what is the practice of the Inland Revenue with regard to taxation in respect of cash allowances for the upkeep of uniform, as in the case of, say, hospital nurses? Is the hospital nurse who gets a cash allowance for the upkeep of uniform in a worse position from the point of view of taxation than the nurse who gets a free uniform?—That is a question of Income Tax law.

57. I ask rather as a matter of practice than as a matter of law?—In general, of course, the cost of upkeep of any uniform required for your employment is a permissible expense. The commonest of all cases

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[Continued.]

is the case of miners who are given a special allowance for clothes. There are various kinds of industrial employees who have to wear overalls, and so on, and they have to provide them. We allow that as an expense if they provide it themselves.

58. To put a slightly different question to avoid that complication, what about the case where a hospital nurse gets a cash allowance for laundry as against a nurse who gets free laundry provided?—I would not like to answer on laundry.

59. It is a very important question, I think you would agree, to a large number of people?—The more common question is food. If you get your food as part of your employment it is not part of your income, but if you get a salary and provide yourself with food you have to pay tax on your total salary. That applies to everyone. Food is not a taxable emolument if as part of the conditions of your employment you are given free food but if, as most people are, you are given a salary or a wage and have to buy your own food the Revenue give you no allowance from salary in respect of the food.

60. If you are given a free ticket for travelling I take it no tax could apply to that, but if you are given the cash to buy the ticket that would be taxable?—I do not agree with your first proposition that there would be no charge. I should have to answer generally. You can only claim a deduction under Schedule E in respect of any expenses wholly, exclusively and necessarily incurred in the performance of the duties of the post or employment. Travelling from your residence to your job is held not to be an expense wholly, exclusively and necessarily incurred in carrying out the duties. It is incurred in getting to the place to do the duties.

Chairman.

61. The theory of the Inland Revenue is that taxpayers ought to live in tents on commons, is it not? That is why they are taxed under Schedule A on the house they live in?—If you pay your employee's personal travelling bills or his children's school-bills or any other expense—his food, or anything else—that is a payment of income. These expenses are not expenses incurred in carrying out the duties. On the other hand, I do not want to pronounce about the nurse generally in the case you put a moment ago. The cost of her uniform might be an expense incurred in carrying out her duties. Laundry in general I would not like to say would fall within or without that.

62. In the case of travelling, a person who is given a season-ticket by his firm would not be taxed on the value of it, but if he is given cash to pay for his travelling he would be taxed. Is that not a correct proposition?—I would not agree to that.

Chairman.] He would have a deduction for his expenses of travelling.

Sir John Mellor.] I was not talking about travelling on business, but travelling from his home to his place of business.

Mr. Benson.] On a point of order is this entirely relevant?

Chairman.

63. I hardly think it is?—We are getting on to pure law.

Mr. John R. Thomas.] The answer is quite simple. The amount of the ticket is added to the employee's income for the purposes of taxation so that it would be returned to the revenue. If he were getting £500 a year and his ticket was worth £10 a year the employer should return £510 in which case the employee is taxed on it. That is the answer.

Sir John Mellor.] I am grateful for that piece of information.

Chairman.

64. Are there any more questions on Paragraph 10? We pass to Paragraphs 11 and 12, which we will take together. I have only a question on those Paragraphs, and that is on the second sub-paragraph of Paragraph 12. The Comptroller and Auditor General states that you made a sample test of the accuracy of a certain number of assessments. Can you tell me what the percentage of errors revealed by the test was?—This is a test that we have actually carried out. It was one per cent. of the cases. I can give you some information about it. It applied to about one per cent. of the entries in the 1943-44 Schedule E and half-yearly Assessment Book. It was carried out by senior officers in the district. It showed that out of 50,000 cases we found errors exceeding 5s. in 680. That is 1.3 of the 50,000. In another sample that was more fully checked we found errors in 7.8 per cent. of the cases, and the amounts of tax were greater than £5, but no very big case was recorded. We found errors all along the line; that is what it came to. They were generally small, and nothing to indicate that there was any serious loss.

65. What were the errors due to in the main?—Simply mistakes. This is not Pay-as-you-earn, as you understand. These are the assessments that were in existence before Pay-as-you-earn.

66. Were they just errors of arithmetic or were they errors due to slackness in filling figures in, or were they errors that could have been foreseen at all?—I should say both. They were due to the non-carrying forward from one document to another. They were omissions, I should say.

67. You do not regard those percentages as unsatisfactory?—It was a very small sample but as far as the sample goes there was nothing to frighten us in the results.

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[Continued.]

Chairman.

68. Are there any questions on Paragraphs 11 and 12? We will pass to Paragraph 13 "Remissions and Amounts Recoverable." This Paragraph is a regular annual. As stated at the foot of page vii the amount is £4 million less than the previous year, which looks satisfactory. You have remitted only £1,750,000 in the year under review against £5,750,000 in the preceding year. Is that right?—Yes it is £1,750,000 this year, and £5.9 million last year.

Chairman.] That seems satisfactory. Are there any questions on Paragraph 13?

Mr. John R. Thomas.] I would like to have an example of a remission on the grounds of equity.

Chairman.

69. Would that not include all the extra-statutory remissions you made due to people being unable to live in their houses during the war?—That is a different point. That is lost rent. I am reminded that equity does include lost rents.

70. That does come into equity?—Yes.

71. I thought it did?—The honourable Member asked for an example. One example—it happens to be the biggest of all in this particular class—was a company having a block of service-flats which had a rental of one figure and, owing to the war, the actual rents which they were getting for the flats fell. The rents fell from £50,000 to £40,000. The Schedule A assessment on that block of flats stood at £50,000 corresponding to the rental. With the fall of the rentals to £40,000 we abated the tax down to £40,000 being the actual rent drawn from the block of flats. The case was a block of service-flats which customarily had a rental of £50,000 and stood assessed in the Schedule A Assessment Book at £50,000. Owing to war circumstances the rents fell to £40,000. We have abated our charge from the tax on £50,000 to tax on £40,000, and the tax so written off becomes an extra-statutory remission on the grounds of equity.

Chairman.] Does that satisfy you, Mr. Thomas. You asked for an example?

Mr. John R. Thomas.] Yes; it is an unusual example, because I should have thought in the example given there would have been a right in the tax-payer to be assessed on the actual instead of the Schedule A; but it is interesting and does answer my question. I see how this figure is made up.

Chairman.

72. Are there any further questions on Paragraph 13? Will members of the Committee now turn to Paragraph 14? Paragraph 14 sets out a table similar to the previous one for excess profits tax. Again there is some growth in the arrears.

You told us that the growth in the arrears of Income Tax was due to the lag in assessing or collecting excess profits tax. Here we have the excess profits tax table which shows a similar growth of arrears. Can you tell us what this growth is due to?—It is simply a lag in dealing with all these assessments. It is the pressure of work again. That is the real cause behind it. There is no specific cause in the Excess Profits Tax which inherently involves the delay. It is the getting of the accounts and the working out of the liability for all these years. You must remember that not merely are we short of staff, but the firms are short in the sense that the accountants, particularly in the war years, were less in number.

73. So you would expect this figure to fall next year, would you not?—The Excess Profits Tax figure?

74. Yes—the figure of arrears?—Well, of course, the Excess Profits Tax is ending at the end of 1946. Of course many assessments still remain to be made. You will have new assessments continuing to be made for many years. We are actually making assessments at present for the Excess Profits Duty of the last war.

75. This figure may continue to increase for another year or so?—The assessments will go on. Fresh assessments will be made. The actual percentages of Excess Profits Tax are these. This year the total carry forward is £437 million. That is 44 per cent. of the total charge, which is worse than the previous year, which was 39 per cent., and the previous year 35 per cent. The newly-created assessments are better, as they always are. That £235 million is 38 per cent. of the newly-created assessments.

Chairman.] Are there any questions on paragraph 14?

Mr. Benson.

76. With regard to the £284 million, mentioned in the paragraph below the table, which was in the hands of Inspectors of Taxes under inquiry, that means that the assessments have not yet been agreed by the taxpayer?—Yes.

Sir Frank Sanderson.

77. I understand that the Excess Profits Duty for the last war has not yet been completely settled. Can you state whether the amount of £2,739,000, the figure for 1940 or prior to that date includes any balance still due to the Exchequer for Excess Profits Duty from the last war?—This is solely the present tax which is the Excess Profits Tax. The tax of the last war was Excess Profits Duty.

78. It is not included in this figure?—No.

Mr. Benson.

79. Are you going to collect that £437 million before the next war?—If the last

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[Continued.]

war is any indication we shall collect a great deal of it. A certain amount of it will be discharged. Many assessments are under appeal and they will be reduced. There will be a hard core of it left there to be collected for many years to come.

Chairman.

80. Are there any further questions on paragraph 14? Has any member of the Committee any questions on paragraph 15, "Securities accepted in satisfaction of tax liabilities"? Are there any questions on paragraph 16, "Fraud and Evasion"?

We pass to paragraph 17, "War Damage Contribution." Are there any questions on that paragraph? We turn to the Account, which is on page 7. I see that your total grant was £14,642,000?—Yes.

81. And you spent £14,449,000, which is £193,000 less than the grant. The only comment on that, I think, is that you are to be congratulated on the accuracy of your estimates. We usually meet with much wider disparities nowadays. Has any member any questions on the Account? May I take it that the Account is approved?—(*Agreed.*)

CIVIL APPROPRIATION ACCOUNTS, 1945-46.

CLASS I.

VOTE 23B.

OVERLAPPING INCOME TAX PAYMENTS.

Chairman.

82. We turn to the Civil Appropriation Accounts, 1945; Class I, Vote 23B, "Overlapping Income Tax Payments." Here there was a grant of £250,000 in respect of payment to temporary Crown servants in respect of overlapping Income Tax payments. The expenditure was only £2,000. So the surplus to be surrendered is £248,000?—(*Sir Cornelius Gregg.*) Our estimate here was not so good.

83. The estimate here was a little wide of the mark. But I do not think we need trouble you to explain it. It simply means that people have not claimed?—People have not claimed; that is all. It is not a taxation matter at all. It is really a payment made which is measured by taxation. It is a payment made by the Government as employer to an employee to make up to him the loss he suffered when he came into the Government service by having to pay two taxes. If he leaves the

Government service, under Pay-as-you-earn he becomes liable immediately to tax when he goes out instead of having what is called "a tax holiday." So it applies only to those people who enter the Government service still owing tax outside so that they do pay two taxes when they come in and now after the war they go out under Pay-as-you-earn. It is impossible to say how many cases there are because it depends not merely on those who came into the Government service but those who are leaving it. It applies also to the Forces. There may be quite a number of cases in the Forces and there will be a time lag in settling them because we have to trace the man.

Chairman.] Thank you. Are there any questions on the Account? May I take it that the Account is approved? (*Agreed.*) Thank you, Sir Cornelius. We are much obliged to you.

(*Sir Cornelius Gregg withdrew.*)

REVENUE DEPARTMENTS APPROPRIATION ACCOUNTS, 1945-46.

VOTE 3.

POST OFFICE.

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

Chairman.

84. Will members turn to the Revenue Departments Appropriation Accounts, 1945-46, to paragraphs 18 to 23 of the report of the Comptroller and Auditor General. Sir Raymond, you are the Accounting Officer to the Post Office and I think you appeared before us last year, did you not?—(*Sir Raymond Birchall.*) Yes.

85. This refers to bulk supply agreements and to contracts for various Post Office requirements. Paragraph 18 is general so we will pass straight on to paragraph 19. The Comptroller and Auditor General says that your agreement for the purchase of cables was due to terminate in 1941, and the extension was arranged "at prices fixed after cost investigation with contractual

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and Sir GEORGE ISMAY, K.B.E., C.B.

[Continued.]

provision for cost variation but not, it appears, for the effect on overheads of changes in the volume of supplies." Then he goes on to tell us that the volume of cables required during the war was, of course, much greater than had been anticipated, or at any rate was much greater than the Post Office required at ordinary times, and the question of a refund was taken up with the contractors. Is that right?—Yes.

86. The Comptroller and Auditor General tells us in the last part of the second subparagraph that he understands that the group of contractors have now agreed to make a voluntary refund of 2½ per cent. on the orders valued at roughly £20 million. That comes out at £500,000?—Yes.

87. Is that a refund by an individual contractor or by a group of contractors, or by all the contractors who were supplying cables to you?—By all the contractors in the group. Perhaps I might explain that the bulk supply agreements, under which the greater part of the telephone plant is obtained by the Post Office, in terms apply only to plant which is required by the Post Office for its own purposes. That was a matter of some importance when the agreements were negotiated because under the arrangements we made as a large customer and as a continuing customer under these agreements, the manufacturers gave us more favourable prices than they were prepared to give for orders for export, for instance. They were very nervous that we should order plant for other countries under these agreements, and that was ruled out, the agreements applying only to Post Office plant itself. When the war came along the Post Office orders themselves after the first year of the war fell very considerably, but we were asked to take responsibility for ordering telecommunications equipment for all the Defence Services. Strictly speaking those do not come under these bulk agreements. We had the choice really of entering into separate contracts for all that defence equipment or persuading the contractors (and they were persuaded in the end) to allow the schedule of prices which applied to Post Office orders to be applied to these defence orders; but this defence equipment never came, technically, under the bulk agreements at all.

88. But your case, as I understand it, is that the prewar Post Office contracts gave only a very small margin of profit, if any, to the contractors, and that the supply of additional cable equipment during the war at the prices under the Post Office agreement did involve undue profits to the contractors?—In the end, after we got this rebate, we reckoned that the increase was about a half of one per cent. of their profit margin.

89. The Comptroller and Auditor General says: "Taking into account, however, the refund of approximately £500,000 . . ."

Did all the contractors contribute to this £500,000?—Yes. I do not know the proportions in which they contributed. I think they all agreed (individual cases I have seen) to 2½ per cent. applying to their orders. That was an average figure. It was an average figure taken over the years.

90. Then the Comptroller and Auditor General goes on to say: "The Post Office consider that the profit on employed capital obtained by contractors under the extended contracts is only very slightly in excess of that contemplated when the price structure was framed, and that the resultant prices are fair and reasonable." What would be the profit on employed capital which was assumed when the contracts were fixed?—This was a 10 per cent. figure.

91. On employed capital?—On employed capital.

92. May I ask the Treasury witness, Mr. Jones, whether he has any view on this?—(Mr. Jones.) I think this question was before the Committee in 1941 and 1942, and the Treasury in 1941 agreed that the prewar agreement should be continued subject to variations in the light of wages and materials variations based on costings investigations by the Post Office. That is the last the Treasury have heard officially of this subject. We should have no reason to disagree with the Post Office view that 10 per cent. on employed capital for a contract of this nature was a reasonable figure.

Chairman.] Has any member of the Committee any questions to ask on paragraphs 19 and 20?

Mr. John R. Thomas.

93. Would that 10 per cent. be profit only, or would there be overhead charges included?—(Sir Raymond Birchall.) That is a figure to cover profit and certain contingencies. After taking direct charges and overheads then, on top of all that, you have to add what is called a profit figure. It is excluding overheads.

Mr. Benson.

94. What exactly do you mean by a bulk contract?—The bulk contract is really this: this arrangement goes back some 20 years or more to when we decided to convert the telephone system from manual operation to automatic working, and then standardisation of equipment becomes a vital factor. There were three or four systems in existence at that time. Instead of selecting one of those systems and putting ourselves in the hands of one contractor only, we took the best features in the various systems and combined them into a Post Office standard specification, and spread the orders among a group of manufacturers. They undertook to pool all their patents, and so on, and to accept orders from the Post Office in accordance with a price schedule. We place the orders

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[Continued.]

in bulk with the group. The group itself distributes those orders to the individual manufacturer according to his productive capacity, and so on. We do not place the orders with the individual contractor but with the group as a whole.

95. And all this is subject to costings?—They are subject to costings, and that had been arranged before the war started. Originally the price schedules, back 20 years ago, were frankly based on bargaining on such information as we had, but before the war started we had got general agreement to substitute cost investigation, and we had started on the examination of the books of some of the firms, and I think we had got the price schedules working just when the war started.

Sir *Frank Sanderson*.] In the last subparagraph of paragraph 20 the Comptroller and Auditor General states that proposals for a new bulk agreement for cable, covering the period of the next five years, are under consideration. Is it in your opinion better to purchase on such an agreement than by open competition between the different manufacturers?

Chairman.

96. I think the trouble is that there is not any competition, is there?—For some classes of equipment I think you could get competition. There is no competition under these arrangements as regard cables and some of the equipment so far as the home market for the Post Office is concerned. But this group is very highly competitive as regards export orders. They only combined, at the Post Office request, for Post Office orders, and what we save by this combination is all the time which is wasted by calling for tenders and issuing detailed specifications. That amounts, on this type of plant, to a saving of six months or more in the case of cable to over 12 months, I should say, in the case of exchange equipment which is, of course, more complicated.

Sir *Frank Sanderson*.

97. One could appreciate the advantage of that during the period of the war, but the period which is now being considered is from October, 1946, for the next five years?—This is a peace-time arrangement. As I say, some of these bulk agreements have been in existence for over twenty years, and during the war we merely continued them in existence instead of negotiating new agreements. The general practice is every five years to negotiate fresh prices, have a fresh cost investigation of at least two of the firms in each group, to go through their books and negotiate a fresh schedule of prices. The advantages of the arrangement are very definite so far as the contractors are concerned, but there are also advantages to the Post Office. It does out a large amount of work on our side in the way of

calling for very detailed tenders against specifications. That does mean a reduction of cost. We get the benefit of that reduction of cost, as well as the contractors getting an advantage.

98. There is one other question I should like to ask. In the same paragraph a little higher up the Comptroller and Auditor General states: "Taking into account, however, the refund of approximately £500,000, the Post Office consider that the profit on employed capital obtained by contractors under the extended contract is only very slightly in excess of that contemplated when the price structure was framed." Is the suggestion that the cost is only slightly in excess of that contemplated before or after the £500,000 has been deducted?—After. The approximate figure which we had agreed was 10 per cent. in this agreement and it works out, after taking account of that rebate, at a figure of about 10½ per cent.

Mr. Thurle.

99. I wanted to ask one question which is really I think a matter for the Treasury. Did I understand the Treasury took the view that 10 per cent. on the capital employed was not an unreasonable amount of profit?—(Mr. Jones.) Yes, for contracts of this class where the contractor is under a certain amount of risk. I think I am right in saying that these are not cost-plus contracts; they are fixed price contracts subject to variations for labour and material changes.

100. Is that the view on profits which the Treasury would take in regard to any contracts made by any Department—that there should be a profit of 10 per cent. on capital?—The general Treasury views on profit rates have been laid before this Committee from time to time. There is a rather complicated formula, which starts off with a basic rate of 7½ per cent., with additions for efficiency and risk, which are based on turnover and which build up, in a case of this sort, to a rate which is of the order of 10 per cent.

101. There is a basic rate of 7½ per cent.?—The Committee has been informed of that rate as the basis from which these calculations start.

Chairman.

102. Are there any further questions on Paragraphs 19 and 20? We pass to Paragraph 21 which deals with rather similar arrangements in regard to transmission equipment. I see from the first subparagraph that there was a contrast between the war extension of the agreement for transmission equipment as compared with cables since the extended agreement did contain a clause relating to an increase in overheads?—(Sir *Raymond Birchall*.) It is not really quite on the same footing. It is not

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a bulk agreement proper. In this case there are only two firms concerned. This really is a very modern development of the technique of transmission. It is dealing mainly with things like co-axial and carrier cables, and there are only two firms that are really in that business at the moment. We have not entered into a formal bulk agreement because we felt that the technique is changing rapidly, and two firms are hardly sufficiently representative of the whole industry. Others may want to come in.

103. All I really wanted to know on this was: Is the £250,000 which was refunded by one of the two contractors the result of taking into consideration what is called here a volume variation—an unexpected volume of orders?—Partly. There are several factors here. There is a discount under the original agreement which applied to rather obsolescent plant. That amounts to about £95,000. Then there is this question of volume variation which we have agreed in principle, but we have not the final figures yet. But I would expect that under that heading we should get something approaching £700,000 or £800,000. This £250,000 is really a payment on account. I think the figure there is likely to be something like £750,000.

104. Do I gather that both the two contractors are going to make a refund?—Yes.

105. It is not clear from the Report. The Report rather indicates that only one contractor has made a refund?—One contractor does a good deal more business than the other, and we have been mainly dealing with him, of course, on it, but we have, I think, got the agreement of the second contractor also to follow.

106. Have you looked into the question of the rate of remuneration on capital in these contracts as under the previous ones for cables?—I am not sure of the exact figure here, but it is very much the same as the 10 per cent. It may be slightly higher because, as I say, this is a very rapidly changing technique. There is much more development and research work involved in this than in cable business, which is comparatively stable now.

107. What are the two firms involved here?—Standard Telephones and Telegraphs and General Electric. Standard Telephones really introduced the process in this country and are the main firm concerned.

Chairman.] Are there any questions on Paragraph 21?

Mr. Cuthbert.] What would be the extent of this contract on which we are going to get this refund of £250,000? What would be the total?

Chairman.

108. Sir Raymond explained that the total repayment was estimated to be more

like £800,000?—There is more than that. I had only got as far as those two heads.

Mr. Cuthbert.

109. I mean the total of the contract?—The volume of business for this period was about £13 million under this contract. There is more to come back still, but it is a question really of the difference between payment at provisional prices and at final prices. It is rather like a maximum price contract, and there again will probably come back over £1 million, so that altogether, by the time we have finished under this, we shall be getting something like £1,500,000 to £2,000,000 back, I expect. But some of that comes back automatically simply on the schedule of prices.

Sir Frank Sanderson.

110. I should like to be quite clear on that one point. Do I understand the total volume of contracts is approximately £13 million?—£13 million, yes.

111. And the allowance to be credited is £250,000?—No; that is simply a payment on account. We have only got in preliminary reports so far. We have not the final figures in from the investigating accountants.

Sir Frank Sanderson.] It is only about 1½ per cent. on a percentage basis, which is not a very big figure.

Mr. Cuthbert.

112. It will be increased to £2 million?—We expect to get back something approaching £2 million before we have finished; but that is not all rebate. The rebate on the volume of business I would put at about £700,000 to £800,000.

Chairman.

113. Are there any further questions on paragraph 21? We pass to paragraph 22. This deals with wartime modifications of accounting control. Do you hope to get back one day to the prewar system?—I do not think we would try to get back completely to the prewar system because we have felt, from general considerations and from war-time experience, that the 100 per cent. check is rather unnecessary. We would probably prefer to go in for sampling processes, and something less than a 100 per cent. complete check. On this particular question of stores accounting, we have gone back to the stores valuation and next year we should be in a position to produce figures on that in the usual way. We have gone back towards the prewar practice on stocktaking. That used to cover 100 per cent. of the stock in the course of a year. What we are hoping at the moment to do is to cover that 100 per cent. over a period of about three years. That is the stocktaking done by the stores departments themselves. There

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is also an independent check on that done by the Comptroller and Accountant General's Department of about 20 per cent. to 25 per cent. on a sampling basis. That again is being started and would be spread over a period of about three years. In auditing we would not expect to get back to complete audit in a year. It would be more like doing it in two years, I think, in the future. The difficulty with regard to the restoration of all these pre-war checks is the manpower problem.

Chairman.] Are there any questions on paragraph 22?

Mr. Horace Holmes.

114. I should like to ask whether the stores record is just a financial record, or is it on a tallycard system; and when you refer to the audit, do you mean the financial audit, or is there in being a stores audit?—(Sir *George Ismay.*) This is definitely a stores audit. It is an actual check that the stuff is there. Then, in addition to that, there is an audit of the correctness of the records, the postings, and all that.

115. A stores record?—Yes. Then there is a check by the Comptroller and Accountant General's Department of the efficiency of the stocktaking itself.

Chairman.

116. Are there any further questions on paragraph 22? Are there any questions on paragraph 23? We turn to the Account, which is at page 11. We shall come to the Post Office Commercial Accounts in a minute, and I have only one or two questions on this Account. Would you look, Sir Raymond, at the foot of page 15. In footnote G we are told: "Value of vehicles and accessories received from the Ministry of Supply without payment was" £1 million-odd. I take it that amount will be included in the Commercial Accounts as a debit?—(Sir *Raymond Birchall.*) Yes. There was not a cash adjustment between us and the Ministry of Supply.

117. On page 16, under H, there is an item "Deficiencies due to burglaries, etc.," a figure of £39,000. Is there a tendency for burglaries at Post Offices to increase?—I believe there is a slight tendency for burglary proper to increase, but there has been a quite considerable drop in housebreaking. The result of the two together is that there is a decrease.

117A. The distinction, I think, is the hours at which the offence is committed, is it not?—Housebreaking dropped from £11,000 to £700 in this last year, and the total came down by several thousands of pounds. The figures shown in the Account, of course, are merely taken from the date at which the Accounts are adjusted. They do not show the actual burglaries occurring during the year.

118. I do not think this item includes the result of hold-ups by armed gangsters at Post Offices?—That is shown separately as "Loss due to street robbery."

119. That is called a "street robbery"?—Yes. That was the case of a hold-up by four gangsters in a car.

120. On the succeeding page there is an item "Fraud or irregular action in connection with Savings Bank business" a figure of £35,000?—The Savings Bank position has been steadily deteriorating this last year. It has been much worse, really, in 1946. That £35,000 is only up to March, 1946.

121. I observed that one of His Majesty's Judges was making some comments on this subject yesterday or the day before?—Yes. That I hope will be very helpful, but the Courts are dealing rather with what we call the non-systematic cases. We split these cases into what we call systematic frauds and non-systematic frauds. The non-systematic are the larger in number. They consist mainly of the holder himself perhaps altering figures in his account, and trying to get away with it, or more generally the theft of a book and then impersonation.

122. Have you not for some time past insisted upon the person who presents the book presenting his identity card?—That is so, but he generally gets that when he gets the book—very often at least. They are generally together in the same wallet. But in any case I am afraid that the identity card, whilst still useful, is beginning to lose its value. There is a fairly easy market in identity cards now I think, and it does not seem to be really the deterrent it was.

123. Have you reduced the amount which can be withdrawn on demand?—We have not yet but we have that under consideration as one of the remedies.

124. What is the amount now?—It is now normally £3, but it can be £10; that is if a good case is made out for it. That was the war-time arrangement and we have been reviewing the question. We are likely I think before long to reduce it and go back to the £3. The systematic cases are the ones that trouble us most and that is a regular trade, now mainly army deserters, and so on, who are making a regular business of this.

125. Of stealing Post-Office Savings books?—No. It is really business-like forgery, the manufacture of books, and all sorts of methods on a really skilful basis. It is a much more serious problem than the casual stealing of an individual book. Accounts are opened by these people and then forged with the deliberate intent of fraud and nothing else. It is a lot of our old clients coming back out of the army.

Chairman.] Are there any questions on the Accounts?

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[Continued.]

Mr. *Cuthbert*.] On page 11 it says that the excess of the expenditure over the gross estimate met from the Vote of Credit was £3 million. Is that the profit that we always hear about? Does that represent the profit?

Chairman.

126. We do not see the profit here?—This is a cash account really. It will be on the commercial accounts that the profit will come up.

Chairman.] Are there any further questions?

Mr. *Benson*.

127. What percentage does the figure of £35,000 loss due to fraud represent on cash turnover of the Post Office Savings Bank?—The cash turnover is now well over £1,000 million.

128. Actually fraud can only take place in connection with withdrawals. Roughly what is the amount of the withdrawals? That is the real thing. You cannot defraud the Post Office when paying in?—The withdrawals are roughly about £300 million a year for 1945.

129. Then it is a very small percentage?—It is a small percentage, but it is growing. This next year's figure will be about £70,000—about double what it was in this last year.

130. With regard to the expenses of foreign mail, each country carries the mails of every other country free, does it not?—So far as delivery and forwarding are concerned. There are payments for purely transit work.

131. Where do those appear in the accounts?—I do not think they do. They come out of revenue, I think. (Sir *George Ismay*.) Yes, they are treated very much the same as drawback in a taxation department. They are not monies really due to this country and they are not our Postal monies. We are merely an agent for them. They are therefore dealt with on the revenue account and you see the net results of it in the Finance Accounts of the United Kingdom but not in any of these.

132. How is that calculated? It can surely only be a very rough estimate?—

(Sir *Raymond Birchall*.) Transit rates are fixed by international conferences.

133. If, for instance, we send postal packets to America we are responsible for getting them to the American shores and they take charge of them for internal delivery?—There would be no accounting between us and America for mails from here to America or from America to here.

134. If a certain percentage of those mails goes through to Canada then America will debit us with the transit charge through America to the Canadian border?—Yes, on so many tons of mails.

Chairman.] Are there any further questions on the Account? There is an Appendix on pages 24 to 26. I have no questions on the Appendix. Has any member of the Committee any questions?

Sir *Frank Sanderson*.

135. On page 26 there is an item "Renewals, Re-arrangements and Miscellaneous Works (including telegraphs)," an excess of £424,765. That is rather a substantial amount and the note does not appear to be very clear. I wondered whether you could give any information which would substantiate that very considerable excess. Perhaps there is one item of importance?—The renewals works proper under that come to rather over £200,000. That is really very largely the repair of faults caused through bombing, and so on—damage which subsequently appears on cables, where you have to renew a whole section of cable.

136. Do you not think that when there is one single separate item which represents nearly a quarter of a million out of the total of £400,000 it would be just as well if that were shown in the note? It is purely a practical suggestion; that is all?—Yes. I do not think there would be any difficulty in doing that.

137. There would be no objection to doing that?—No, none at all.

Chairman.] Are there any further questions on the Appendix? On page 27 there is the Post Office Loan Expenditure Account. Are there any questions on that? May I take it that the Account is approved? (Agreed.)

POST OFFICE SAVINGS BANKS ACCOUNTS, 1945.

SAVINGS BANKS AND FRIENDLY SOCIETIES ACCOUNTS, 1945.

(On these Accounts no questions were asked.)

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[Continued.]

POST OFFICE COMMERCIAL ACCOUNTS, 1945-46.

(Paper circulated for the information of the Committee.)

Chairman.

138. You are going back to the publication of commercial accounts now, are you not?—(Sir Raymond Birchall.) Not just yet. We are for the 1947-48 Account. That will really mean it will come before this Committee in 1949.

139. Yes. You will not be publishing Accounts in respect of the year 1946-47?—No.

140. Why not?—It is simply a question of being able to get the material into position to go through a complete audit by the Comptroller and Auditor General. At present these accounts are to some extent based on estimates, apportioning, and so on, which would not strictly, I think, pass the Comptroller and Auditor General; and also there is the fact that there are a number of things we want to get straightened out before we produce a full statutory commercial account. We still have to take into account the war plant to be absorbed—taken over—by the Post Office. That will be taking place very much during this next year. It is a very large item. There is about £34 million worth of plant of which we have roughly estimated about 50 per cent. will be taken over by the Post Office and be useful to the Post Office. There is the question of war damage to be cleared up, and there is the question still of the pension liability to be cleared when the Government actuary has produced the figures.

141. Looking at these figures as presented to us, the surplus for the year 1945-46, as the footnote tells us, after charging interest on capital and bringing in non-operating income, is £36 million?—Yes.

142. That is £3,500,000 less than the preceding year?—Yes.

143. It is divided up between a profit of £15,500,000 on the Postal Services, a small loss on the Telegraph Services—smaller than you have incurred for a great many years, I think?—Yes; I think that must almost be a record.

144. —and a very handsome profit on the Telephone Service of nearly £21 million?—Yes, nearly £21 million on telephones.

145. The £21 million is on a turnover of £80 million?—Yes.

146. That is 25 per cent. on turnover?—That £21 million, of course, still includes a large amount of war traffic. That figure on the telephone side will fall fairly rapidly in the next year or two as demobilisation proceeds and the Defence Services get straightened out. The value of Government Services on telephones, I think, comes to rather more than that £21 million, so that the profit level in the way of telephones in the future is rather likely to depend on

what Government user will stabilise at. We expect it to be quite a considerable drop in the course of this next year.

147. You hardly anticipate a state of affairs in which civil servants cease to use the telephone, do you?—No, but a large part of it is Defence, the Air Ministry and the War Office, and their user was very large. The prewar user was a matter of only two or three million pounds.

148. The Income and Expenditure Account is attached. That shows for each of the three sub-divisions a separate account. I am looking at the last one, Telephone Service. That again shows us this surplus of nearly £21 million on the left-hand side, and interest on capital. 9½ per cent. of the total income is charged out as interest on capital. Can you tell the Committee what capital figure is taken to be the capital of the telephone system and what the rate of interest charged is?—Yes. The depreciated capital figure now stands at about £164½ million. The interest rate, I think, comes out at rather over 3 per cent., but it depends, of course, on the Local Loan rate when the money is being raised; but over the whole system I think it averages well over 3 per cent.

149. But your surplus of nearly £21 million is arrived at after charging 7½ millions approximately for interest on capital?—That is so. It is after charging interest.

150. Can you tell me about depreciation? You will see in the Accounts, a little higher up, about £12 million?—£12 million-odd, yes.

151. That seems to me a very generous provision for depreciation?—It takes into account obsolescence as well as the physical life, and a good deal of your modern telephone plant is scrapped after a period of 20 years or so. In fact I think the average life of plant works out at something like 20 years. For cables it is probably something nearer 30 or 40 years. For ducts it would be 60 years or more. Over the whole it averages about 20. Some of your very modern equipment would have a shorter life than that on the ground of obsolescence. The technique of the telephone service is changing very rapidly in recent years.

152. The Post Office fixes its own rate of depreciation on different classes of plant?—Yes.

153. You do not have to consult the Board of Inland Revenue about this matter?—No. It is based simply on the physical life and our own views as to the obsolescence of the plant.

154. You do not think a provision of £12 million on a written-down capital of, I

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[Continued.]

think you told us, £164 million, is excessive?—No. I think, if anything, it is probably too low, because prices are, of course, rising fairly rapidly, and I think one must expect that prices will continue to be very high for many years to come. That means that the plant we have to renew we have to put in at a very much higher price than the original price.

155. But a good deal of your original figure of £164 million is surely represented by buildings—buildings of a rather extensive character?—No. This is telephone plant only, not buildings. Buildings are a separate account and they are charged on a rental basis, apportioned between the various services. That £164 million is just telephone equipment, cables and exchange equipment.

156. There is nothing in that figure for telephone exchange buildings?—There is nothing at all for buildings in that figure.

157. So this £12 million is depreciation of plant valued at £164 million?—Yes.

Chairman.] Are there any questions on the Post Office Commercial Accounts, 1945-46?

Sir Frank Sanderson.

158. Could you state to what extent approximately the profits made in operating the telephone service of some £21 million would be reduced if subscribers did not pay for calls which they never receive?—I should say it would be negligible.

159. I thought perhaps that would be the answer?—In theory we do charge only for effective calls, not for ineffective ones.

Chairman.] Are there any further questions? Thank you very much, Sir Raymond.

(The Witnesses withdrew.)

(Adjourned till Tuesday next, at 3.45 p.m.)

TUESDAY, 4TH MARCH, 1947.

Members present:

Mr. PEAKE in the Chair.

Mr. Benson.
Lieutenant-Colonel Hamilton.
Mr. Haworth.

Sir Frank Sanderson.
Mr. Thurtle.
Mr. Wadsworth.

Sir FRANK TRIBE, K.C.B., K.B.E., Sir ERIC BAMFORD, K.B.E., C.B., C.M.G., and Mr. C. E. I. JONES called in and examined.

CIVIL APPROPRIATION ACCOUNTS, 1945-46.

CLASS I.

VOTE 2.

HOUSE OF COMMONS.

Sir GILBERT CAMPION, K.C.B., and Mr. A. J. MOYES, O.B.E., called in and examined.

Chairman.

160. Will Members turn first to the Civil Appropriation Accounts, 1945-46, Class I, Vote 2, House of Commons. The Account is on pages 10 and 11. Sir Gilbert, I have only one or two questions on this Account. It may be that Mr. Moyes can better answer the first question I am going to put. Sub-head A.2. deals with Members' travelling expenses. There was a supplementary estimate of £4,500, and the expenditure was some £1,500 less than the grant. It was during the financial year ended 31st March, 1946, that some change was made as regards Members travelling to and from their

homes?—(Sir Gilbert Campion.) Yes, in November, 1945. (Mr. Moyes.) In 1945. It took effect on the 1st December, 1945. It gave free travel by rail, sea and air to London, the home and the constituency.

161. That was the reason for the supplementary estimate?—Yes.

162. Can you tell me whether the additional expenditure due to the concession can be measured and, if so, what is the amount which it costs in a full year?—It could hardly be measured exactly, but I can give you some rough idea. It was estimated that a full year might cost as much as £20,000.

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Sir GILBERT CAMPION, K.C.B.,
and Mr. A. J. MOYES, O.B.E.

[Continued.]

So far this year we have spent approximately £15,000. We have not yet got our bills in for the current month. It may amount to another £2,000; I do not think the expenditure will be more than £17,000 for the year. You have to remember that in addition to that there has been a 15 per cent. increase in the railway rates from the 1st August last.

163. These amounts shown here for travelling are, I suppose, higher than they were in the war years probably?—Yes, the cost of Sub-head A.2. is definitely much heavier than in the war years. There was only about two-thirds the amount of travelling.

164. The other point I wanted to ask I think perhaps Sir Gilbert can answer. It is on Subhead B "Salaries, etc.," a figure of £41,000 odd. Is your department now fully staffed, Sir Gilbert, or are you still short of personnel?—(Sir Gilbert *Campion*.) We are employing a certain number of temporary clerks at the moment. I have still some vacancies on my establishment which will be filled up in the course of this year.

165. You will complete your establishment in the course of the year?—Yes, except probably, for one junior vacancy, which it was agreed with the Pethick-Lawrence Committee, which considered the reorganisation of the Department, should not be filled up till it was clear that for the work of the Estimates Committee this extra staff would be needed.*

166. When did the Pethick-Lawrence Committee sit, and when did they recommend an increase?—In the summer of 1945.

167. When your staff is complete, will it, in your opinion, be adequate for all the work that is being thrown upon it?—The work is undoubtedly growing, especially with regard to standing committees. We are not able completely to staff our standing committees at present when more than four are sitting simultaneously. That is to say, each standing committee normally has two clerks, a senior and a junior. We can supply all the senior clerks and four junior, but if anybody is away, or if more than four standing committees sit simultaneously, I have made arrangements by which we get help from outside by young barristers. I am in communication with certain Chambers. They supply at need from a panel young barristers who are qualified to take the place of the second clerk—the junior clerk—of a standing committee.

* Note by witness :

They increased our staff by four, and we agreed not to appoint all the four unless the course of work on the Estimates Committee proved that that was necessary. Although the increase of my establishment referred to resulted from the re-organisation recommended by the Pethick-Lawrence Committee, both the increase and the condition imposed upon it were authorised independently by the Commissioners for the House of Commons offices.

168. Is that satisfactory?—It worked quite well last Session.

169. Is it likely to be a permanent feature?—I am afraid it may be, because it would never be economic to fill our staff up to such an extent that we would always be able to cope with standing committees at their maximum intensity, because that lasts for a comparatively short period.

Chairman.] Are there any questions on the Account?

Mr. Thurtle.

170. On the note to Subhead A.1, I wonder if we could be told how many Members declined their salary in whole or in part?—From figures I have here there were five in the last Parliament and there is one in the present Parliament.

Sir Frank Sanderson.

171. I have one question to ask. On page 11 Subhead K is "Retired Allowances," and the grant was £20,435. Does that refer to pensions?—Certainly, yes.

172. Have they not their own Superannuation Fund, which is kept separately?—No, there is no contributory fund.

173. They have not an entirely separate fund?—No, they come under the Superannuation Acts which apply to the Civil Service equally.

Lieut.-Colonel Hamilton.

174. I have a small point regarding Subhead H, "Shorthand Writers." The amount seems very small. Does that apply only to additional shorthand writers for Committees? Presumably it does not include the ordinary Hansard reporters?—No. It applies to Select Committees.

175. What Subhead do the Hansard reporters come under?—The salaries of Hansard will come under the Department of the Speaker, Subhead D.

Mr. Benson.

176. With regard to Members declining their salaries, there were five last year, you say, and only one this year?—Yes.

177. Was that due to Members who were Ministers?—No, it was entirely separate and apart from that.

178. With regard to the Appropriations in Aid, Subhead L, on page 11, how did you manage to get £3,600 out of the General Election?—You mean how did it fall short?

179. No. It is an Appropriation in Aid?—The Appropriation in Aid fell short by a small sum.

180. What is the Appropriation in Aid? How do you arrive at it?—It arises out of fees for private bills.

Mr. Haworth.

181. I have a small point to raise on Subhead A.1, "Salaries, etc.". You stop £1 a month from Members' salaries which

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Sir GILBERT CAMPION, K.C.B.,
and Mr. A. J. MOYES, O.B.E.

[Continued.]

is a voluntary payment I believe?—Perhaps Mr. Moyes may answer that. (Mr. Moyes.) It is not a voluntary payment. It is statutory under the Members' Fund, Act, 1939.

Mr. Haworth.] That answers my question. I think in evidence before the Select Committee on Members' Remuneration it was stated that it was a voluntary fund, and it struck me as rather strange that we had never been invited to pay; the contribution is always stopped without Members being invited to pay. If it is a statutory payment, that answers the question. Thank you.

Mr. Wadsworth.

182. I have a small point on Subhead E on page 10, "Delivery of Votes and Parliamentary Papers." I see the expenditure was nearly double the amount of the grant. Could we have an explanation of that?—(Sir Gilbert Campion.) It was brought about by a return to the pre-war standard of delivery, which required the employment of six part-time porters. As soon as the war was over we tried to get back to the pre-war standard.

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

HOUSE OF COMMONS MEMBERS' FUND ACCOUNTS, 1945-46.

Chairman.

183. Will Members turn to the House of Commons Members' Fund Accounts, 1945-46. Members of the Committee might want to ask a question on these Accounts, which have been circulated. We said that we would take these Accounts without witnesses this year because a Select Committee is going into the whole matter. That is so, is it not, Sir Gilbert?—(Sir Gilbert Campion.) Yes.

Chairman.] I am a member of that Committee. The Committee looked at the Accounts last year. I should have thought it was hardly necessary to pursue the

(Sir Gilbert Campion and Mr. Moyes withdrew.)

matter to-day, unless any Member wants to do so.

Sir Frank Sanderson.

184. I have one question. Who is responsible for the investment of the funds?—(Mr. Moyes.) If I may answer that, the Managing Trustees are responsible. The money is invested by the Public Trustee, who is the Custodian Trustee, but the responsibility is that of the Managing Trustees.

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

CIVIL APPROPRIATION ACCOUNTS, 1945-46.

CLASS IV.

VOTE 10.

SCIENTIFIC INVESTIGATION, ETC.

Sir ERIC BAMFORD, K.B.E., C.B., C.M.G., examined.

Chairman.

185. Will Members turn to the Civil Appropriation Accounts, 1945-46, to Paragraph 41 of the Report of the Comptroller and Auditor General. We have first to deal with the Statement of Excess, which is referred to in Paragraph 41. Sir Eric, we have the Treasury standing in a white sheet to-day on this; but it seems to be a voluntary act of penance, because the Comptroller and Auditor General tells us at the foot of Paragraph 41 of his Report: "The Treasury considered that this should not be regarded as available to meet the excess expenditure under Subhead U." That refers to an unissued balance of a grant in aid to the Royal Society. So the Treasury have taken the view that the Treasury have made a mistake?—(Sir Eric Bamford.) Yes. The Treasury thought that they were obliged to take a rather strict view of their own peccadillos in this case. It was clearly a piece of carelessness on the part of the Department

concerned. It was a perfectly proper thing to pay the subscription, but the people in the division who are used to the Vote of Credit procedure failed to notify the Accountant. They notified the Foreign Office in November, 1945, after discussion with the Ministry of Agriculture. They notified the Foreign Office because the payment had to be made in Copenhagen in Kroner, and 60,000 Kroner were duly paid by the Foreign Office in February, 1946, the authorisation having been given in November, 1945. After that of course it came back to the Treasury, and the Treasury Accountant appreciated that there was no provision in the original estimate, that it was too late to take a supplementary estimate, and that this amount had been paid on behalf of the Treasury, so that unless there were proper savings available there was technically no way out but an Excess Vote. There were some savings available on this Vote, but the great bulk of them were a saving of £15,000 on a grant in aid Subhead, which

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Sir ERIC BAMFORD, K.B.E., C.B., C.M.G.

[Continued.]

was not a real saving but was due to be re-voted in the following year. It was part of the grant in aid to the Royal Society and was required for the Empire Scientific Committee. So that there was no real saving there, and we felt that it was up to the Treasury to recognise that it had got itself in this jam and to take the usual steps towards an Excess Vote. I can only express regret that we have caused so much trouble.

186. Thank you, Sir Eric. I do not know whether the Comptroller and Auditor General would have taken an equally strict view if you had considered that the £15,000 which was not paid to the Royal Society could have been appropriated against this grant?—(Sir *Frank Tribe*.) I think we should have taken the same view as the Treasury has taken, that it would have been an improper procedure.

187. Are there any questions on Paragraph 41 of the Report of the Comptroller and Auditor General? I think the matter is quite clear. It appears that there was an oversight in the Treasury, and we shall have to make a special report by the end of the financial year, shall we not?—(Sir *Eric Bamford*.) Yes.

188. If members have any questions to ask Sir Eric, will they ask them now? If there are no questions, I will prepare a special draft report and bring it up at our next meeting?—Thank you.

Chairman.] We will take the Account, which is at 190, as it is before us now. I have no questions on the Account. Has any member of the Committee any questions?

Mr. Benson.

189. I should like to know how it is that two grants in aid have not been paid to the amount of the grant. They are Sub-heads M. and S. I thought grants were usually made in full?—I think possibly those are Scottish grants which are calculated at eleven-eightieths of the British provision. That is the arrangement with regard to the Royal Scottish National Academy of Music grant. Sub-head S. is a grant; Sub-head M is a grant in aid. The reason why the Scottish grant is an odd figure was that provision for the Scots should be eleven-eightieths of what was voted to the three British institutions, the Royal Academy of Music, the Royal College of Music and the Royal Manchester College of Music, and that the issues from the grants in aid should be restricted to the amount due under the Scottish Grants Regulations.

190. So that the Scottish grant in aid is, as it were, a kind of token figure?—It is a kind of token. I think that is the explanation.

Mr. Haworth.] Is a statement of accounts given by these various bodies who receive the grants to the Treasury?

Chairman.

191. Sir Frank Tribe can answer that question?—(Sir *Frank Tribe*.) The only two bodies who were receiving grants in aid which were audited by my Department are the last two. That is explained in the Estimates which are presented. I audit the Accounts of the Medical Research Council and the Agricultural Research Council. Their Accounts are appended on pages 192 to 194.

Mr. Haworth.

192. In the other cases have the Treasury any check on the fact that the money is spent? It is listed as expended in all these cases?—I satisfy myself that the grant has actually been made to the body to whom Parliament has authorised it to be made, but I do not examine the way in which the money is expended after the grant has been made. Before I sign these Accounts I satisfy myself that these grants have actually been made.

Mr. Wadsworth.

193. If I may amplify that, I suppose there will be a report made, which we could find probably in the Library of the House, showing how this money has been spent by the Societies in question? In each case there would be a report?—(Mr. *Jones*.) The Treasury would normally get any reports issued by these Societies who receive subscriptions from this Vote. We should be generally in touch with their activities by getting copies of their reports.

194. The Accounts, I appreciate, are not audited by the Comptroller and Auditor General, but at the same time the Treasury do keep in touch to see that the money is more or less expended and in the right channels?—Yes. (Sir *Eric Bamford*.) There are one or two which are audited by the Comptroller and Auditor General.

Chairman.

195. Yes, but as a general rule a grant in aid is not audited by the Comptroller and Auditor General, nor do the accounts come before this Committee. I suppose it is the Treasury who have the primary duty of seeing that the money is well spent?—In the case of a contribution to a worthy purpose we keep in general touch, but we would not expect to pry too closely into the affairs of a big organisation to which we gave £250, or whatever the amount was. Some of these grants are, of course, quite small.

Mr. Haworth.] The fact that in three cases the amount expended is less than the amount granted would imply that in all the other cases 100 per cent. of the grant has been spent?

Chairman.] That is so.

Mr. Haworth.] I was wondering whether there was any check on the fact that it had been spent?

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[Continued.]

Chairman.

196. These cases where the grant in aid has not been expended in the year are all special cases. The ordinary practice is for the whole grant to be made and entered as expended in the financial year?—Yes, the grant equals actual expenditure, but the grant in aid is normally given and paid out in full, and not surrendered.

Mr. Benson.

197. May I ask one further question? With regard to Subhead T "British Museum General Catalogue of Printed Books", it looks from this Account as if this is a form of subsidy to the catalogue. Is that correct?—It is a subsidy towards the supply of the catalogue at 25 per cent. below the listed price to certain Universities and institutions.

198. But the catalogue must have been paid for? It has been printed and it must

have been paid for and the cost of it carried somewhere. Is this merely a book-keeping entry? I take it that the actual printing, which took place, I think, in 1930 or thereabouts, was carried on Government funds?—(Mr. Jones.) Yes. It is shown in the British Museum Vote. The receipts there are shown from the ordinary subscribers, together with this £122 which has been paid from this Vote, so that the British Museum, which bore the cost of printing the catalogue in the first instance, receives a subscription from subscribers in the ordinary way, and for those subscribers who receive the benefit of the 25 per cent. discount it gets the discounts from this Vote; so that it is an inter-departmental accounting transaction.

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

TREASURY MINUTE ON PARAGRAPHS 1-3 OF THE FOURTH REPORT OF THE COMMITTEE OF PUBLIC ACCOUNTS, 1946.

Sir FRANK TRIBE, K.C.B., K.B.E., examined.

Chairman.

199. Will Members turn to the Treasury Minute on Paragraphs 1-3 of the Report of the Committee of Public Accounts, 1946? In our Fourth Report of last year we made some observations on the shortage of experienced accounting staff and the lower standard of audit generally in public departments. The Treasury has issued a Minute in which they say they fully agree with the comments of the Committee. In their Minute they state: "My Lords do not doubt that there will be a progressive improvement in the standard of internal audit and control as the difficulties connected with transition from war to peace diminish." Then they deal with the special case of the Department of the Comptroller and Auditor General, and state in paragraph 2: "My Lords share the view of the Committee that the present minimum standard of audit carried out by the Comptroller and Auditor General should be raised to a higher level as soon as possible. They will give full consideration to the Committee's comments should the Comptroller and Auditor General deem it necessary to seek an increase in the post-war establishment of his Department." Now, Sir Frank, I should like to ask you to tell the Committee the present position as regards your Department, and to comment generally on the Treasury Minute?—(Sir Frank Tribe.) Taking my own Department first, as regards staff our total staff is about the same as it has been for the last three or four years. It is almost exactly the same as it was a year ago; but there is this big difference in the staff, that it contains a considerably higher proportion of permanent officers and a smaller proportion of temporary officers, and that

change has undoubtedly made for greater efficiency during the course of the year. The additions have come from three sources. We have now got back practically every man who went into the Forces. About 80 people have come back. I am sorry to say that 10 of our staff were killed or lost their lives on active service, which is a very large proportion for a staff of that size. But the other 80 have come back and are largely replacing temporary staff, who have left us. Then, we are recruiting through two sources. One is the Reconstruction Examination, which is open to ex-service candidates, and some of those who served in the Government service. We have had so far nine of those and have declared 75 vacancies for auditors and 50 clerical vacancies for candidates from these Reconstruction Examinations. We have also had five youngsters join us from the direct Executive Class Examination, under which entrants come in at about the age of 18. Unfortunately, of course, as soon as these lads join us they have to go away and serve their two years in the Armed Forces, so that they are not very much use when they do join us but they are counted on our strength. Over all the number of staff is about the same as it was this time last year. The number of staff loaned to other Departments has rather gone up, and I am afraid they are proving so useful to the Departments who have them that we are unlikely to see most of them back. As regards complements, to which the Treasury Minute more particularly refers, following the Public Accounts Committee Report of last year we took up the question of complements with the Treasury, and the Treasury have agreed to increase our total complement. The agreed figure now for the whole Department is 542

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Sir FRANK TRIBE, K.C.B., K.B.E.

[Continued.]

as against 412 before the war. We are gradually building up to that 542. Actually at present we have 491 in post. The Treasury have given us all we asked for, and I think there is no difference of opinion between us on this matter. I do not feel that it is any good trying to build up the staff too rapidly, for three reasons. Firstly, one is aware of the national manpower shortage, and one does not want to engage any staff who are not really necessary. Secondly, we are very insistent upon giving a thorough system of training to the staff who are recruited. These who come into the auditor grade are given three years training, and there is a limit to the number who can be trained at any one time. Thirdly, if one takes in too many people of the same age it upsets the whole age distribution of the staff of the Department and leads to difficulties later on. But in view of those factors I am satisfied we are building up the staff satisfactorily, and over the last year (I myself have been there for only five months) I am assured there has been a slight but definite improvement in the standard and scope of audit by my Department. Of course, war work will not end at once. We in particular have to audit and examine accounts relating to the war quite a number of years after the war has come to an end. At the same time new duties are being thrust upon us pretty constantly. So the volume of work is certainly not getting less and it looks on the whole like getting more, but I think I may repeat the assurance which Sir Gilbert Upcott gave this Committee last year, that my staff are able to undertake the minimum standard of audit which does enable me to sign the accounts and to bring to the notice of this Committee points of outstanding interest. Whether we are ever likely to go back again after the war to the system of detailed audit I think is doubtful. We may have learned much during the war in the way of test checks and the art of finding out what has got to be found out with a minimum expenditure of manpower. We are constantly developing that. It would be quite impossible if it were not for the provision in the 1921 Exchequer and Audit Departments Act which enables me to use discretion and have regard to the character of the Departmental examination. That is the examination carried out by Departments themselves of their own accounts. That rather leads me to the second question which you asked me to comment upon, namely, the general standard of audit in the Government Service as a whole. Frankly, I am not too happy. I feel that most Departments have made some effort to get away from the relaxations of war time and back to pre-war standards, but it has been very uphill work, and the reports that I have rendered to this Committee and shall be rendering in the next few months draw the

attention of the Committee in several cases to serious gaps in the internal audit and accountancy operations of Departments, to lack of stocktaking and to a general laxity of control on the financial side—in all cases, I think, due to shortage of manpower. It is to be feared, I am afraid, that with the present intense interest in the manpower position and the great pressure that is being brought to bear on all Departments to keep manpower down to the minimum, Departments may be tempted to delay the restoration of a full and detailed audit and stocktaking machinery. It may be that some work which was done before the war and even some which is being done now is unnecessary, and my officers draw attention to cases in which they think excessive staff is being employed upon this, but, broadly speaking, I am sure the danger lies in the other direction, namely, that the laxity of control which inevitably arose during the war may be maintained much longer than it should be maintained in peace time under the extreme present pressure of manpower shortage. It is so easy to decide not to reinstitute an audit or investigation or stock record because manpower is not available; and on several occasions during this Session I am sure the Committee will have that brought to light by Accounting Officers. One case, which is not exactly a matter of audit, was brought to your attention last week, when Sir Cornelius Gregg told the Committee that hundreds of millions of pounds of tax are in arrears. The arrears are growing every year, and he said, as the Committee will remember, that it was largely owing to lack of staff that these arrears were growing and he was not able to collect them. There must obviously be some balance between manpower and finance and whether one man can collect a million pounds or one hundred thousand pounds or ten thousand pounds or one thousand pounds, or whatever it may be, I do feel that it is essential to bear this financial side of the manpower problem in mind, and it may be that, at the end of their investigation this Session, this Committee may feel that it would be appropriate to draw the attention of Parliament to the need for maintaining anyhow a minimum of efficient manpower engaged in these internal audit and other financial operations in Government Departments.

200. Thank you. That was a very valuable statement. I gather from what you said that you are much happier about the efficiency of your own Department than you are about the efficiency of the internal audits in the various Departments of Government?—Yes, most certainly, but I would qualify that by saying that I am only enabled, by virtue of that 1921 Act I mentioned, to approve this comparative lack of detail in my audit if I am satisfied that the systems of the Departments themselves are satisfactory.

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[Continued.]

201. If you were to endeavour to go back to a meticulously careful detailed audit such as was carried out before the war you would want two or three times your present staff?—Certainly if I were to go back to the system before that Act was passed I would want many times my present staff—almost as many staff as my counterpart in Washington has.

Chairman.] Has any member any questions on the Treasury Minute on paragraphs 1 to 3 of our Fourth Report?

Sir Frank Sanderson.

202. In regard to recruits, would you say that the terms and conditions laid down are comparable with those offered by private enterprise? In other words, do you feel that there is any lack of recruits due to the terms and conditions laid down?—[No, on the whole I should say that the terms and conditions attract adequate and, indeed, a very good staff to the Service. We recruit our auditor grades through the normal Civil Service Executive Class examination, which recruits lads, and, to some extent, women—although we have not many women—who have been through a secondary school and generally have reached the Higher Certificate standard; they come in through the general examination and those who express a preference for audit work are normally allotted to us. Having got them at the age of 18, which is, I suppose, about the age at which a lad outside would normally be articled to a chartered accountant, we put them through an intensive training course, both by external training and internal training for three years, which you may say in a way corresponds to the articles which an articled clerk serves with a chartered accountant. At the end of those three years we maintain that, from the point of view of Government accounting, they are quite as good as the articled clerk in private enterprise, and the results, I am bound to say from the little experience I have had, are eminently satisfactory.

Lieut.-Colonel Hamilton.

203. I would like to ask whether any attempt has ever been made to make a comparison between the cost of the audit staff and the money they are saving, in order to see that the staff is not too large and expensive in comparison to the actual gain to the taxpayer. It would be a difficult thing, I know, but I wondered whether any attempt had been made?—Not that I am aware of. I think it would be extremely difficult; though I have no doubt that the amount we save is many many times the cost of our Department.

Mr. Benson.] Is not the question what the taxpayer might lose if we did not have the Comptroller and Auditor General?

Chairman.] Yes, that is the question.

Lieut.-Colonel Hamilton.

204. It is the degree of meticulousness that I really had in mind?—I think it will be agreed that a staff of under 500, which includes typists, messengers and everybody, for examining the whole vast expenditure of the public service is not excessive. I am told that compared with the staff of my counterparts in other countries it is minute.

Lieut.-Colonel Hamilton.] I was not suggesting it was excessive. I was wondering whether a comparison had ever been effected. You have also to consider, as you say, what already takes place in the Departments at the same time.

Mr. Wadsworth.] I have only one observation to make. It does appear that in this transitional stage from war to peace the responsibilities of the Public Accounts Committee have never been greater and that we, by our attitude here, can help the Comptroller and Auditor General considerably to improve the situation.

Chairman.

205. I thought you were going to suggest some special remuneration for the Public Accounts Committee! Sir Eric, you have heard the comments of the Comptroller and Auditor General on your Minute and upon this question of audit generally. Is there anything you would like to say?—*(Sir Eric Bamford.)* It is a very important question at this time of course, as the Committee has recognised. On the question of Sir Frank Tribe's own Department, as he says we have met his demands and we have recognised the need for increasing the staff and improving the standard of audit carried out by the Department, but the real crux of this comes in the internal audit of Departments themselves, and there we must recognise that the manpower question is going to be a very great obstacle to any great stiffening up of audit requirements. With the present drive to reduce the numbers of the Civil Service, as Sir Frank Tribe says it is going to be very difficult to persuade Departments that in stores accounting and matters of that kind they should add on rather than subtract staff. In writing to Departments, calling their attention to the Committee's remarks on this subject, we have rather carefully drawn attention to two things—to the audit requirements which are intended to prevent fraud and the audit requirements which are necessary for the exercise of proper administration, and have said that those are the two things which have to be looked at by Departments first. It may not be possible—I think indeed it would be wrong in present conditions—to go back to the complete peace-time procedure. I do not think any of us would contemplate all the steps which were taken being restored 100 per cent. One can do much more by

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[Continued.]

test checks than was perhaps realised before the war. We look, in the Treasury, to doing something to raise the standard of the Government accounting staff under training schemes as perhaps the best hope of getting more out of the same number of people. We shall have to look rather carefully at these things as they come up and

as we move in this transition between war-time laxity and a proper peace-time standard not necessarily the same as the pre-war standard.

Chairman.] Would any Member of the Committee like to ask Sir Eric any questions on his statement?

CIVIL APPROPRIATION ACCOUNTS, 1945-46.

CLASS I.

VOTE 9.

EXCHEQUER AND AUDIT DEPARTMENT.

Chairman.

206. Will Members turn to the Civil Appropriation Accounts, 1945-46, Class I, Vote 9, which is the Account of the Exchequer and Audit Department. It is on page 23. Sir Frank, except that your expenditure fell short of your grant by something in excess of 10 per cent., I have no comment to make at all on the Account?—(Sir Frank Tribe.) That of course is due, very largely, to the general application of the scheme with regard to serving personnel.

207. It is mainly due to savings of civil pay of officers with the Forces?—The estimate includes the total cost of that staff and the actual expenditure is only the balance of their civil pay.

Chairman.] Has any member of the Committee any questions on this Account?

Mr. Benson.

208. What accounts do you audit for which you are entitled to charge? I take it that fees charged make up your Appropriations in Aid. Will you tell me some of the major ones—just the type of thing?—We audit, broadly speaking, funds which are not entirely composed of Exchequer moneys; for instance, the contributory Widows', Orphans' and Old Age Pensions Account pay us nearly £3,000. The Unemployment Insurance Fund pay us £1,500. Then there are the Metropolitan Police, the Ecclesiastical Commissioners and the Isle of Man accounts. Generally, accounts which are not entirely related to Exchequer money pay us an audit fee.

209. Those with extra - Governmental funds?—Yes.

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

CLASS IV.

VOTE 1.

MINISTRY OF EDUCATION

Sir JOHN P. R. MAUD, K.C.B., C.B.E., and Mr. B. L. PEARSON, D.S.O., M.C, called in and examined.

Chairman.

210. We take now the Ministry of Education, Class IV, Vote I. Will members turn to paragraph 38 of the Report of the Comptroller and Auditor General in the Civil Appropriation Accounts. Sir John, this refers to the contributions from the Vote of your Ministry towards the administrative expenses of the Conference of Allied Ministers of Education, including the cost of the Inter-Allied Book Centre in London. Would you just explain to the Committee what this Conference was, where it sat, what it did and how much we subscribed to it?—(Sir John P. R. Maud.) The Conference of Allied Ministers was first assembled in 1942 by the President of the Board of Education at that time. It consisted of representatives from nine countries who at the time were exiled in London. They met at first informally

and then rather more formally to consider plans for the rehabilitation of education after the war, and it was this Conference which decided some permanent organisation would be of advantage after the war and therefore arranged for the summoning of a Conference in November, 1945, which drew up a constitution for a United Nations Educational Scientific and Cultural Organisation. It appointed a Preparatory Commission which would sit at first in London and later in Paris to work out the details, and when that Conference had completed its work the Conference of Allied Ministers came to an end and the Preparatory Commission in effect took its place. The Preparatory Commission sat throughout 1945 and led up to the first full Conference of U.N.E.S.C.O. which took place in Paris in November, 1946.

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Sir JOHN P. R. MAUD, K.C.B., C.B.E.,
and Mr. B. L. PEARSON, D.S.O., M.C.

[Continued]

211. That gives us the background. In paragraph 38 the Comptroller and Auditor General tells us that contributions from your Vote towards the expenses of the conference of Allied Ministers in the present account amounted to £10,900, making a total, with the previous year, of £25,800. Did we find the bulk of the money for this Conference, or was it contributory with other nations?—It was contributory, on an agreed scale. We and the United States gave, I think, rather more money than the other countries, but all the other countries did subscribe.

212. I am told that there is some money in the hands of the Conference or in the hands of somebody which the Conference has had but has not spent. Is that right?—There was a very small balance which was to be used towards the winding-up of the Inter-Allied Book Centre, which was a part of the activity of the Conference of Allied Ministers.

213. Has the Inter-Allied Book Centre come to an end, too?—It has in fact been handed over to U.N.E.S.C.O. very recently. During the period of the Preparatory Commission, that is to say during 1946, it continued to exist in London outside the scope of the Preparatory Commission, and its work has now been handed on to U.N.E.S.C.O.

214. We had better take the two paragraphs, paragraphs 38 and 39, together; it will shorten the proceedings a little. I want to ask you a question on paragraph 39 which deals with the formation of U.N.E.S.C.O. What is our contribution as a proportion of the total?—To the U.N.E.S.C.O. body?

215. Yes?—That has not yet been decided. It might be of interest to the Committee to know that the decision of the Conference of U.N.E.S.C.O. held in Paris last November/December was that the contributions of the contributing countries should be based on the United Nations scale but adjusted to take account of the fact that various countries are members of United Nations but are not members of U.N.E.S.C.O., and therefore a higher proportion somehow would have to be found from countries to meet the budget of U.N.E.S.C.O.

216. Can you hazard any guess on that basis as to what our percentage contribution would be?—It cannot be less than 11.4 per cent., I think, which is our United Nations contribution. Our estimate at the moment is that it cannot be more than 13.4 per cent. But there is no decision on that.

217. Does this body exist quite apart from United Nations? Is it a self-governing body?—It is a Specialised Agency of the United Nations and it comes under the general aegis, therefore, of the Economic and Social Council, but it determines its

own budget and reports to the Economic and Social Council and, through them, to the Assembly.

218. It decides how much it will spend and what it will spend it on?—It does.

219. And what will it spend its money on?—It will spend its money on various projects. First, in the field of education, I think in particular on the rehabilitation of education in devastated countries both in Europe and the Far East, and also on what they call Fundamental Education—that is to say the campaign against illiteracy in backward countries as distinct from devastated countries. In the field of science it has a programme agreed by the Conference last November/December which included plans for co-operating scientific centres in two or three places—one in South America. In the cultural field there were various projects approved by the Conference, one of which was an International Theatre Institute to encourage the movement of works of art, theatrical works of art in that case, between one country and another. If I may sum it up, it was to raise the standard and increase the accessibility of works of art throughout the world.

220. Can you give the Committee any idea of the sort of figure contemplated as an annual budget?—Yes, I can. The budget which was passed at the Paris Conference provided for an expenditure in 1947 by U.N.E.S.C.O. of 6,000,000 dollars. The budget is calculated in dollars. That, together with the expenditure of the Preparatory Commission which I think was to amount to something in the neighbourhood of 1,000,000 dollars, meant that the sum to be raised by the contributing countries was 7,000,000 dollars for 1947.

221. Will the money be spent only or mainly in the countries contributing to the organisation, or are you going out on missionary work among the illiterates in Central Africa?—I think where the money will be spent will be determined by the programme—it may be in Africa, Europe or anywhere else—but the currency in which the contributor wishes to pay will be the currency in which, as far as possible, U.N.E.S.C.O. will allow it to pay. For example, I think the United Kingdom will be allowed to make its contribution in sterling in London and that will be converted as necessary into francs.

222. As regards the staff and the offices of this organisation, the organisation lays down its own salary scales?—Yes, based on the United Nations salary scales, in fact, but it is its own master. The executive board was charged by the General Conference to fix such scales, and that board has already met twice since the Conference. I am a member of it.

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Sir JOHN P. R. MAUD, K.C.B., C.B.E.,
and Mr. B. L. PEARSON, D.S.O., M.C.

[Continued.]

223. You are on the board which fixes the salaries, are you?—Which fixes the scales.

224. Is it not true that you have gone rather beyond the United Nations' scales and added a few extra highly-paid posts at the top?—No, I think that is not quite correct. No one in U.N.E.S.C.O. is paid more than certain officials are paid in United Nations, but the highest salaries in United Nations, I think, are not in accordance with a scale, and we thought it would be convenient to have all our salaries on a scale. That is why there are three scales added at the top of the United Nations' scale for U.N.E.S.C.O. purposes.

225. You have appointed a Director-General?—Yes, and a Deputy Director-General.

226. The Director-General will probably reside at the headquarters, which are in Paris?—Yes, he does.

227. Will he get any of his salary free of tax?—I cannot answer that question precisely. My recollection is that only after one year abroad will any British member of an international organisation be excused Income Tax.

228. At any rate, his salary will fall to be dealt with under whatever the Income Tax law provides. Is that correct?—Yes.

229. There is no special provision for any of the salaries paid by U.N.E.S.C.O. to be free of tax?—No.

Chairman.] Are there any questions on paragraphs 38 and 39 of the Report of the Comptroller and Auditor General?

Mr. Thurtle.

230. I take it that as we are going to pay 11.4 per cent. to 13.4 per cent. of £1,500,000, mainly in the battle against illiteracy and in helping to revive the devastated countries from the point of view of culture, this is really an altruistic action on our part. We have no illiterates here, and we are not expecting to get any succour from U.N.E.S.C.O. in regard to our devastated areas. We are doing this for other countries?—I think broadly that would be true, but I ought to say that I myself hope (and I think it was the hope of the United Kingdom delegates to the U.N.E.S.C.O. conference) that this country will get benefit from the work of U.N.E.S.C.O.; for example, by the pooling of information collected from other countries by U.N.E.S.C.O. we should hope to see some improvement in our own institutions and work here.

231. What sort of information are you thinking of when you speak of that?—For instance, the size of theatres in the capitals of Europe which it might be possible that British companies would wish to go and tour in, and to have a pool of information might make it much easier for example for

the "Old Vic" or other companies in this country to make visits abroad.

232. You think perhaps our theatre people need that kind of information? They cannot get it for themselves?—That was the impression we gained from those who were more expert in this matter than I am.

233. I noticed you spoke of an international theatre as being, possibly, one of the activities of U.N.E.S.C.O. Have you ever thought of trying to help to establish an international language?—That has not been before U.N.E.S.C.O.—at any rate when I have been present—at any conference yet.

Sir Frank Sanderson.

234. I understood, from a reply to a question which the Chairman put to you, that there were no special arrangements in regard to Income Tax upon the remuneration paid, but is it not a fact that all the remuneration paid to those overseas is in fact paid free of all tax? Am I wrong in that surmise?—With great respect, I think you are, because at any rate as far as nationals of this country are concerned, I think they do pay Income Tax on salaries as International Civil Servants until they have been in the employment of the international agency for at least a year. But I speak with some hesitation on that.

Sir Frank Sanderson.] I think if we could have it considered and confirmed it would be useful, because I am informed that the remuneration paid for services when they are serving overseas is free of all taxation—both income tax and surtax.

Chairman.] You are speaking of the employees of these international organisations, Sir Frank?

Sir Frank Sanderson.] Yes.

Chairman.

235. Perhaps the Treasury could let us have some information on that at a later stage?—(Sir Eric Bamford.) I will find out about that.

236. The inquiry is about the income tax paid by British people who are employed by the various international organisations if they reside here or if they reside abroad?—We will get a note from the Board of Inland Revenue.*

Sir Frank Sanderson.

237. At the moment I am thinking of those residing in Paris. There is another question I would like to ask in connection with that. I understand that they receive, in the form of expenses or allowances, an amount approximately the same as their salary, which is also free of taxation. Could

*See Appendix 4.

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[Continued.]

you confirm that?—(Sir John P. R. Maud.) That is not true of the employees of U.N.E.S.C.O. Only the very senior posts have any allowance and in no case is the allowance equal to the salary.

Sir Frank Sanderson.] I have in mind young women of an age certainly not over 34 or 35, who get approaching £1,000 a year free of tax and also an equivalent amount for expenses?

Chairman.] Not in the service of U.N.E.S.C.O.?

Sir Frank Sanderson.] In the service of U.N.E.S.C.O.

Chairman.

238. I suppose you could furnish us with the salary scales of U.N.E.S.C.O. if we so desired?—I could, but they would not in themselves answer the question because they are only the scales. Exceedingly few appointments have yet been made by U.N.E.S.C.O. They are working with a temporary extension of the staff of the Preparatory Commission of U.N.E.S.C.O. which may perhaps explain the particular point that has been raised.

Sir Frank Sanderson.] I do not know whether I am quite in order, Mr. Chairman—I have no desire to press the comment if I am not in order—but I thought that it was generally recognised that anyone who could get a job in these International Organisations simply regards it as money for nothing and it is a great disappointment to those with whom I have been associated—and I have been associated with a number—as they really have little or no work to do save to collect their salaries and take their expenses.

Chairman.

239. I think we are going a little wide really because the matter before this Committee is the amount of our contribution?—If I might say so, the Executive Board of U.N.E.S.C.O. has taken an extremely strong line in the rather short time since it has existed, namely since December, and has set its face ruthlessly against any situation arising which might legitimately give rise to the criticisms we have heard. So far as my experience goes the appointments that have been made are very few in number because it has been regarded as axiomatic that we should not automatically take over those employed provisionally by the Preparatory Commission and until the last meeting of the Executive Board there were only a matter of six or seven appointments that had been made, and the last meeting was ten days ago.

Sir Frank Sanderson.] I am very pleased to hear that. The first part of your remark would rather seem to confirm what I said, and that the situation was in fact appreciated and steps are now being taken since December to tighten it up. I hope that may be so.

Chairman.] It looks as if your information was not in every particular accurate, Sir Frank.

Lieut.-Colonel Hamilton.

240. It only began in December?—U.N.E.S.C.O. did not exist before December.

241. I should like to make a comment, with which I should think you would agree, on Mr. Thurtle's point. Although it may be altruistic from a sort of short-term point of view to spend money on reducing illiteracy in Europe, surely a more enlightened Europe is going to be an advantage to us as well as to a good many other people?—Yes.

Mr. Benson.

242. There is a reference in the second sub-paragraph of Paragraph 39 to the transfer of financial responsibility to the French Government. How do you achieve that?—That was for the Preparatory Commission which sat in London for some months after it was first set up in December, 1945, and then moved to Paris.

243. I gather that we were not financially responsible while it sat in London; we merely provided the money which would be ultimately charged against the income of U.N.E.S.C.O. Does this phrase of the Comptroller and Auditor General merely mean that what we have done is to advance money for preparatory work, and the money will now be advanced by France? France will advance the money for preparatory work?—Precisely, only in respect of the Preparatory Commission which ceased to exist when U.N.E.S.C.O. itself came into existence as the result of the Conference in November-December, 1946.

Mr. Thurtle.

244. Might I ask one further question? Could you say who was responsible for bringing U.N.E.S.C.O. into the world? Was it Great Britain who took the initiative?—Undoubtedly it was Great Britain who took the initiative in bringing the Conference of Allied Ministers into existence. There had of course been the Institute of Intellectual Co-operation which was an organ of the League of Nations in which I think the French would claim to have taken the initiative, but certainly as far as U.N.E.S.C.O. as deriving from the Conference of Allied Ministers is concerned the lead was with the United Kingdom.

245. And presumably the real parent was the Board of Education?—I think so.

Chairman.

246. Are there any further questions on Paragraphs 38 and 39? I think the most convenient course now would be to turn to your Account which is at page 162, but

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[Continued.]

perhaps you would not mind remaining in the room when the Accounting Officer for the Scottish Department of Education is here?—If you please.

247. Because there may be certain questions in regard to matters raised in Paragraph 40 where we shall want to know what is happening in England as well as what is happening in Scotland?—Yes, certainly.

248. I have one question on page 165. At the top of the page Subhead C is: "Grants to Local Education Authorities," a figure of about £82,000,000.

249. What would be approximately the comparable figure before the war? Could you tell me?—(Mr. Pearson.) It would be something over £40,000,000; between £40,000,000 and £45,000,000.

250. Could you tell me whether the proportion of expenditure borne by the Exchequer to that borne by the rates has increased since before the war?—Oh, yes, that has increased substantially, and that is brought out in the estimates memorandum which was issued last year. The increased cost to the Exchequer of education as compared with 1938-39 is very substantially higher than the increased cost to the rates.

251. But the pre-war percentage was just under 50 per cent. borne by the Exchequer, was it not?—Of local education authority expenditure, yes.

252. That figure will have gone up now beyond 50 per cent.?—Now it averages rather more than 55 per cent., under the formula which was attached to the Bill of 1943.

253. I would like to ask a question with regard to the foot-note at the foot of page 165 about amounts remaining unpaid. It seems a curious thing that the local authorities do not appear to have drawn all the grants to which they are entitled. Is that right?—(Sir John P. R. Maud.) No. That is due to a decision of the Ministry of Education. It only pays 90 per cent. of the grant in the year in respect of which it is payable and the subsequent 10 per cent. is paid in subsequent years as the audited accounts come forward.

254. Therefore, the fact that there are arrears in payments going back for several years is due to delay in accountancy. Is that right?—It is due partly to the slowness of local authorities in preparing their accounts and partly to the necessary delays on the part of the District Auditor in auditing those accounts.

255. Then there is a foot-note right at the foot of the page on this question of providing the buildings and equipment for the school meals service. It says that the expenditure of nearly £2,000,000 was undertaken by the Ministry of Works without

any repayment, I gather, from the Ministry of Education. That is right, is it not?—Yes, that is right.

256. In future will the Ministry of Education contribute to this capital expenditure?—No. I think the same procedure will be continued in respect of this particular item, but it will be shown clearly on the papers as it is here.

Mr. Wadsworth.] Before you leave that point, I should like a rather better explanation than that, if we could have it. It seems most unsatisfactory on the face of it that the Ministry of Works should pay this grant at all.

Chairman.

257. That is rather what I was going to point out. This is educational expenditure, is it not, in the sense that it provides free meals for the school children?—Yes, it is for the provision of buildings, canteen equipment and kitchens.

258. Buildings and all the fittings for the buildings?—And what happened was that in 1943, when the campaign to extend this very widely as a war service began and it had been agreed that it would rank for 100 per cent. grant from the Central Exchequer, it was arranged that a local authority could, with the consent of the Ministry of Education, ask the Ministry of Works to carry out on its behalf the particular work needed, and, in order to save accounting work, instead of our paying the local authority a grant of 100 per cent. which it then paid to the Ministry of Works to complete the transaction, the Treasury agreed that the Ministry of Works itself should carry the expenditure; and it is here made quite plain on the face of it that that is an addition to educational expenditure although it is carried on the Ministry of Works Vote.

Mr. Wadsworth.

259. It is the buildings and equipment?—Yes.

260. Not the actual school meals?—No.

261. It is not a recurring item?—No, it is a disappearing item.

Mr. Wadsworth.] That is quite clear.

Chairman.

262. The buildings and the equipment have become the property of the local authority?—Yes. (Mr. Pearson): If I may add this, the point is being brought out clearly in the Estimates for 1947-48 by a note in the Estimates as well as a corresponding note which will appear in the Appropriation Account. (Mr. Jones): This formed the subject of a recommendation of this Committee last year and is dealt with in the Treasury Minute on paragraphs 38 to 40 of the Public Accounts Committee Report.

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[Continued.]

Chairman.

263. The Treasury Minute says, in paragraph 2: "My Lords recognise that the normal accounting procedure would have required the work to be performed by the Ministry of Works as agents of the local education authorities on a repayment basis, with provision on the Ministry of Education Vote for 100 per cent. grant on the payments made to the Ministry of Works by local education authorities." Then they add: "They consider, however, that They would not have been justified in imposing this additional accounting burden on local education authorities and Government Departments at a time when accounting resources were strained to the utmost." But would it impose any additional burden upon anybody for this £1,800,000 which is charged against the Ministry of Works to be charged against the Ministry of Education? The Minute refers to what would have been the strictly correct procedure; for the local education authority to have claimed from the Ministry of Education and to have paid the Ministry of Works from the grants made to them by the Ministry of Education. That would have been the full and normal accounting procedure, which we decided in 1943 was really not justified in the light of war conditions.

264. It is a little confusing to the Committee, is it not, to find that what is in fact educational expenditure appears in the Account of the Ministry of Works?—Yes, we agree, and that is the purpose of this note and our undertaking to cause a suitable note to be made in the Estimates for the Ministry of Education for 1947-48 and future years so long as this particular programme continues.

265. There is only one question I want to put on page 167: "Explanation of the causes of variations between expenditure and grant" and Number (12) is: "College of Aeronautics." Could you tell the Committee what the College of Aeronautics is, how much it is likely to cost and what in fact it will do?—(Mr. Pearson): The College of Aeronautics was brought into being as the result of the report of the committee over which Sir Roy Fedden presided. The object of the College is to train the higher technicians in flying and in all kinds of aeronautical techniques. It is to be a college equivalent to University standing for people engaged both in the Services and in the aeroplane industry.

266. Where will it be situated?—At Cranfield Aerodrome in Bedfordshire.

267. How many students will it eventually accommodate?—We hope to work up to 400 or rather more students.

268. It will consist of permanent buildings?—Yes. They are taking over the existing air station there and adapting the buildings where necessary and extending them.

269. What will the University cost?—It would be hard to say what it will cost ultimately. The Fedden Report envisaged a very large expenditure indeed, but the Fedden Report envisaged a new building, not the use of an existing building adapted.

Chairman.] Are there any questions on the Account?

Mr. Benson.

270. On page 166 I notice there has been an extra statutory grant of £1,550 to local authorities in respect of the provision by them of education for inmates of prisons, Borstal institutions, approved schools and probation homes. Is that a general term? Was there any actual work done in prisons, or were the prisons merely thrown in whereas the work was done primarily in approved schools and probation homes?—It was done also in prisons.

271. What prisons were they?—Can you give me some detail of the work?—The Prison Governor, at the instance of the Prison Commissioners asked the local education authorities to provide instructors and equipment to enable simple classes in various forms of practical work and other forms of adult study to be carried on for the prisoners in prisons. It is not a new service, because it has been done for a number of years by some authorities. It is particularly strong, I believe, in Durham.

272. Durham, of course, has recently developed that. Surely that ought not to fall on the local authorities? It is a prison service. Surely the local authorities ought to be completely reimbursed?—It is part of the education of the people in their locality.

273. Hardly free people?—Not free people.

Mr. Wadsworth.

274. What is the Central Welsh Board, at the foot of page 166?—(Sir John P. R. Maud.) It was set up under, I think, the Act of 1889, and it is at present under consideration. It is a Board which does a certain amount of examining and inspecting work, in connection with intermediate schools.

275. It is considered at the moment redundant, or likely to be redundant?—The future of it is at the moment under consideration.

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

(*Sir John P. R. Maud and Mr. Pearson withdrew.*)

4 March, 1947.] Sir JOHN MACKAY THOMSON, C.B., F.R.S.E.

[Continued.]

VOTE 13.

PUBLIC EDUCATION, SCOTLAND.

Sir JOHN MACKAY THOMSON, C.B., F.R.S.E., called in and examined.

Chairman.

276. Sir John Mackay Thomson, will you please turn to paragraph 40 of the Report of the Comptroller and Auditor General on the Civil Appropriation Accounts. This refers to Scottish education. This paragraph deals with the Camps Act, 1939. Total advances of £1,200,000 were authorised by the Act, and I take it the advance for Scotland was £168,000. Is that right?—(Sir John Mackay Thomson.) That is right.

277. How was the matter handled in Scotland? Was a Company formed?—The camps in Scotland were dealt with by a body called the Scottish Special Housing Association, which was formed for the main purpose of erecting dwelling-houses, but it was found convenient to entrust the camps to that body. Recently, the Secretary of State came to the conclusion that it would be better if the Housing Association were left with no responsibility but that of looking after housing; he has arranged for the formation of a new association called the Scottish National Camps Association, and it will take over the administration of the school camps from the 1st April, this year.

278. Who will be the head of that?—Sir Garnet Wilson, the Lord Provost of Dundee, who was at one time Chairman of the Scottish Special Housing Association, but not at present (he resigned, I think, about six months ago), has accepted the Chairmanship of the new body.

279. These camps had not got under way properly when the war began and during the war they were used for evacuees, were they not?—That is so.

280. What is their peace-time purpose?—We hope that education authorities will use them in two ways: first of all for sending parties of children during the school term to continue their work in a new environment, and that during the school holidays they will send to these camps children who are considered to be likely to benefit from a spell in the country.

281. That is to say they will not be entirely holiday camps. They will be educational camps as well?—That is so; and then we hope also that they will be used by some of the many youth organisations which have come into being since the war began.

282. In the last sub-paragraph of paragraph 40 the Comptroller and Auditor General says "Payments to the Companies by Education Authorities for the use of the camps by evacuated children were refunded

in full to the Authorities from the War Services Votes of the Health Departments. Under present arrangements payments by those authorities to the companies for the use of the camps for educational purposes are partly refunded by grants from the Vote for the Ministry of Education and from the Education (Scotland) Fund." In fact, does any charge at all fall upon a local education authority in Scotland when a pupil of that authority goes to one of the camps? That is to say, is the expense of sending a child to the camp divided in any way between the Exchequer and the local authority?—The charge per head for sending a child to one of these camps is at present £1 9s. od. That is paid by the local authority sending the child to the Association.

283. That is the sum paid by the local authority?—Yes. Then in respect of the expenditure incurred by local authorities in sending children to the camps, we pay to the local authority a grant under Serial I of our Grant Regulations, which is calculated at the rate of 50 per cent. or the standard percentage for that particular area.

284. So that the cost of sending these children to the camps in Scotland is divided between the Exchequer and the local authority?—In that way.

285. You are quite clear about that? There is no doubt about that?—The grant paid under our Grant Regulations to the Education Authority in respect of sending these children to these camps is not 100 per cent. grant; it is a grant of only 50 per cent. or the percentage appropriate to the area. The difference falls upon the rates.

Chairman.] Are there any questions on paragraph 40?

Mr. Thurtle.

286. You said you hoped the education authorities would make use of these camps. You have not any assurance on that point I take it?—I am glad to say we have. We calculate that in this coming year very full use will be made of the camps, judging by the enquiries that have already been made by the education authorities and the youth organisations.

287. There is one further question. I ought to know the answer to this, but I do not. I wanted to ask you if this is a new service for the schools which Scotland is providing and which is not now being provided by England. Is this something peculiar to Scotland—this provision of huts for the children, sort of recreational huts?—(Sir Frank Tribe.) Perhaps I could explain. This paragraph 40 is intended to apply both to the Ministry of Education and to the

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[Continued.]

Scottish Education Department. The grants are borne on the Votes of both Departments.

Chairman.] It appears in the second subparagraph that the total of £1,200,000 authorised by the Act is divided as to £1,032,000 for England and Wales and £168,000 for Scotland. There is a corresponding provision for England and Sir John Maud would answer any questions with regard to England. He is still in the room.

Mr. Thurtle.] I put that question under a misapprehension; I am sorry.

Chairman.

2288. Are there any further questions on paragraph 40? We turn now to the account which is at page 198. Sir John Mackay Thomson, on this account subheads C. and D, deal with general aid grants and superannuation, and both these items are calculated on what is called the Goschen formula, are they not?—(Sir John Mackay Thomson.) That is so.

289. Which gives eleven-eightieths of whatever the sum granted in England is to Scotland?—That is so.

290. As regards the superannuation of teachers can you tell me are there eleven teachers in Scotland for every 80 teachers in England and Wales?—I am afraid I cannot answer that.

291. To put it in another way, is not the Goschen formula rather favourable to Scotland upon the present basis of population?—I suppose originally the Goschen percentage was worked on a population basis, but whether the advantage lies for or against Scotland at the moment in respect of population I cannot say.

292. We find where Parliamentary representation is concerned that Scotland gets a very good representation per number of electors, as the population there has remained very steady whilst the population of England and Wales has grown; and I have no doubt the same thing applies so far as education is concerned?—Of course, it has to be borne in mind that we have in Scotland a greater extent of sparsely populated areas than there are in England,

(Sir John Mackay Thomson withdrew.)

CLASS VII.

VOTE 10.

STATIONERY AND PRINTING.

Sir NORMAN SCORGIE, C.V.O., C.B.E., called in and examined.

Chairman.

296. We turn now to Class VII, Vote 10, Stationery and Printing. Will Members turn to paragraph 71 of the Report of the Comptroller and Auditor General at page 27. This deals, Sir Norman, with the question of typewriters mainly, I think?—(Sir Norman Scorgie.) Mainly, yes.

297. It may be that there is other machinery here, too, is there?—Yes, other

namely, the Highlands and the Islands, so that I think any comparison on a strict population basis would hardly take account of all the factors that ought to be borne in mind in respect of our needs.

293. At any rate there has been no suggestion as far as you know that the formula should be revised?—No suggestion has ever been openly made. We sometimes hear people wondering whether Scotland is in fact deriving any advantage from the eleven-eightieths arrangement, but no formal move has ever been made by any of the interests in Scotland recently to upset it.

294. Complaints about the formula do not originate in Scotland at any rate?—We have plenty of complaints. (Sir Frank Tribe.) I believe the Estimates Committee in 1939 suggested a revision of the basis of calculation, but the Treasury and the Department agreed that it was not an opportune moment to revise the whole question.

Mr. Wadsworth.] In view of that, is the time opportune now, your having mentioned the matter and it having been raised before the Public Accounts Committee.

Mr. Haworth.] I think we have enough troubles without starting Civil War.

Chairman.] We can look at the population figures, but, as you say, Mr. Haworth, I think there are a good many quite sufficiently major changes in progress at the present time. Are there any questions on the Account?

Mr. Thurtle.

295. On that point I take it that if there were such an inquiry started you would always be in a position to put the mitigating factors about the wider agricultural areas, and so on, to see that justice was done to Scotland?—(Sir John Mackay Thomson.) I should certainly hope so. There are the Islands in particular. It is not only the Highland Counties, but the Islands, of which account must be taken.

Chairman.] Are there any further questions? May I take it that the Account is approved? (Agreed.) Thank you, Sir John Mackay Thomson.

office machinery, such as duplicators and calculators.

298. Would you tell the Committee shortly what the position is so that they can get the background a little. Do the Stationery Office own a great deal of the machinery on loan to the Government Departments and other bodies?—We own it all. It is all bought out of our Vote and in theory it remains our property wherever it is. There-

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[Continued.]

fore, if it is lost we have to be responsible for the write-off. That explains why it is on the Vote for Stationery and Printing that this note is attached by the Comptroller and Auditor General. But as you will see from the note the actual position, I think, is that the Admiralty and the Ministry of Supply can best explain to the Committee what the present position is as regards the machines they have on charge and, to suit the convenience of the Committee, we have two witnesses from the Admiralty and two from the Ministry of Supply here this afternoon, if the Committee would be willing to hear them.

299. In the last sub-paragraph of paragraph 71, the Comptroller and Auditor General states: "As, however, it appeared from Stationery Office files that the Admiralty records had not been completed and that the Ministry of Supply had not furnished the details asked for, inquiry was made by my Department in December, 1945, as to the position on these outstanding matters. The Stationery Office replied in June, 1946, that in both Departments staff difficulties had been a constant obstacle to the compilation of records. The Admiralty could give no indication when the information would become available, and the Ministry of Supply stated that the clearance of requisitioned industrial premises by the end of the year would require all their resources of staff and this would enable them to clear the bulk of the contractors' inventories." I am not clear what that means. Can you explain that to us, Sir Norman?—I would rather the Ministry of Supply explained that.

Mr. S. GILMOUR and Mr. T. G. COOPER called in and examined.

Chairman.

304. Perhaps you can help us about this matter and explain what the position is?—(Mr. Gilmour.) To the best of my knowledge we have now practically concluded our investigations in the Admiralty, and we are reasonably happy about the position; that is, we believe that all the office equipment and office machinery which we should have is there. It has been sighted recently, and we have either recently informed the Stationery Office of the position or we shall do so in the very near future.

305. Have you any system at all of keeping a check on the office machinery and furniture?—Very definitely. We keep a record at headquarters, and each of the particular technical departments responsible for the particular factories where the machinery is used retains inventories and sights the office machinery in question at regular intervals.

306. What has the difficulty been, then? Has it been in collecting this information?—It is very much a matter of collecting information, yes.

(Mr. Gilmour and Mr. Cooper withdrew.)

300. We will ask them to come forward in a moment. The Comptroller and Auditor General goes on to say: "The Stationery Office further stated that it was proposed to re-open the question with the two Departments at the end of 1946." Have you re-opened these questions with the two Departments?—We have re-opened them.

301. With what result?—Both Departments were reminded of the question on the 18th December. We understand the Admiralty have now practically completed their investigations and have either sent or are on the point of sending us the required information, but from the Ministry of Supply I have as yet no definite information.

302. Can you give the Committee any idea of the value of the machines which cannot be accounted for—what they cost?—I am not in a position yet to say that there are any machines that cannot be accounted for. All the machines that we know have been destroyed or lost are written off as we go along. You will find in another part of this Account there is a write-off in respect of office machinery. I certainly cannot commit these two Departments by saying that there are any machines that cannot be accounted for at this stage.

303. We had better hear the witnesses from the Ministries?—The two witnesses are Mr. Gilmour and Mr. Cooper from the Admiralty and Mr. McBain and Mr. Goad from the Ministry of Supply.

Chairman.] We will take the Admiralty witnesses first.

307. And of collating it when it is collected?—And of collating it, and checking it with central records.

308. Sir Frank, have you anything to say about this?—(Sir Frank Tribe.) No. I think that reply gives sufficient information for the present on the Admiralty side.

Chairman.] Thank you, Mr. Gilmour. Has any member of the Committee any questions to put to Mr. Gilmour or Mr. Cooper?

Mr. Haworth.

309. You say you have either advised the Stationery Office or are about to do so. Does that mean in some cases you have advised them and in others you have not?—(Mr. Gilmour.) Mr. Cooper can probably answer better than I can on that, but the point, as I understand it, is that we are doing it not as a whole so much as piecemeal. We have sent the vast majority of our records for individual factories forward, and there are a few still to come.

310. In some cases you have advised them where you have reached that stage, and in others you will do so?—(Mr. Cooper.) That is so.

4 March, 1947.]

Sir NORMAN SCORGIE, C.V.O., C.B.E.,
Mr. MCBAIN and Mr. GOAD.

[Continued.]

Chairman.] We will now hear the Ministry of Supply witnesses.

Mr. A. R. MCBAIN, C.B., O.B.E., and Mr. C. S. GOAD called in and examined.

Chairman.

311. Mr. McBain, as far as the Ministry of Supply are concerned what has your difficulty been?—(Mr. *McBain.*) Our difficulty has been very much the same as that of the Admiralty. We had all the information available—at least it was there in the list—for the Stationery Office, but the trouble was to collect it from several thousands of inventories, many of which ran to hundreds of pages, and it was not so much the clerical labour of getting that, extracting it and collating it, and so on (although that would have been considerable) as the fact that these inventories would have been immobilised during the time when we were trying our hardest to dispose of the plant and equipment which these assisted contractors and agency factories held in their possession, because naturally you will appreciate we wanted to get the premises cleared. We wanted to get the plant and equipment into the hands of civil purchasers who wished to make use of it. It was that factor which prevented us getting down to it and extracting information in the form required. We have been getting on with it as occasion permitted and we, I think, can undertake to supply the information to the Stationery Office at the end of March.

312. This relates to typewriters and other office machinery, does it, at agency factories?—Agency factories and at what we called assisted contractors; that is to say contractors who have received a loan of capital equipment.

313. Was there no record kept centrally at all of the furniture and typewriters issued to these various people?—No, not centrally. It was contained in the inventories which were kept by the agent or by the contractor and checked by our technical authorities, but, I am afraid, it was not kept in any convenient form which would enable us to extract the information. Machine tools were probably mixed up with typewriters in some of the inventories.

314. Have you had any returns already from any particular quarters?—All the inventories are available, and so far as we have had any examination, I think Mr. Goad will be able to tell you that there have been no typewriters unaccounted for. (Mr. *Goad.*) That is so.

315. The returns you have had so far are 100 per cent. satisfactory, are they?—(Mr. *McBain.*) May I ask Mr. Goad, who is in charge of the division concerned, to answer that? (Mr. *Goad.*) Supplementing what Mr. McBain has told you, our difficulty has been that the inventory of all Government equipment supplied to an assisted contractor or to an agency factory

(Mr. *McBain and Mr. Goad withdrew.*)

has not shown typewriters and office equipment as a special and separate item, so that to produce the information which the Stationery Office want we have to go through a very large number and check them off and make the Stationery Office list for them. We have not done what the Admiralty has done. We have not sent it along piecemeal, but we are preparing a comprehensive list and that, as Mr. McBain has said, will be in their hands at the end of March. We hold inventories in respect of all the agency factories, shadow factories and assisted contractors, and in the cases where we have checked so far—and we are a very long way through the checking necessarily, because the checking is done in conjunction with sending away machinery and all the office equipment for disposal—we have had no cases where equipment is missing. We have no reason to think that we have not a complete record. Our difficulty has simply been that it has been contained in a very large number of separate inventories and sheets of paper, and not in a form which would enable us to hand it to the Stationery Office. That has, I think, been our only difficulty.

316. Have you any comment to make on that statement, Sir Frank?—(Sir *Frank Tribe.*) I think the reply is very satisfactory.

Chairman.] Are there any questions?

Mr. *Wadsworth.*

317. Would it be an advantage to you to have a central record in addition to the inventories?—(Mr. *McBain.*) Yes. I think the answer to that is that in setting up a permanent post-war record of this inventory material, which in due time and with proper arrangements can be made, plant should be put in separate categories and kept separately, there should be a separate list of office equipment, of machine tools, ancillary plant, and the like. If that had been done this difficulty would not have arisen.

318. It is your intention to go ahead with that?—It is our intention to do that.

Mr. *Haworth.*

319. You will have just got your list ready when the stuff has gone. Are you not hoping to get all this disposed of now?—I am bound to say in the year which has passed, in the year when I reported that I could not help the Stationery Office, there was not much clearance; now, when I say I can, a very great deal of clearance has considerably reduced my task.

320. It is too late to worry about, I should think, now?—Except that there will always be some permanent holding of some kind.

Chairman.] Are there any further questions? We are very much obliged to you.

4 March, 1947.]

Sir NORMAN SCORGIE, C.V.O., C.B.E.

[Continued.]

Chairman.

321. Sir Norman, it looks as though you will get the information you need fairly shortly now?—(Sir Norman Scorgie.) Yes.

Chairman.

322. Are there any further questions on paragraph 71? Will Members turn now to the Account which is at pages 358 to 361? On page 358, subhead F: "Printing," the expenditure was a great deal more than the grant—nearly £3,000,000 more. Can you explain that?—It is more than the grant, but it is not more than was anticipated. You possibly remember from previous meetings this curious position of the Stationery Office, that our Estimate is limited to what one might call the normal peace-time expenditure. All the rest—all the war-time expenditure—had to be defrayed out of Vote of Credit. So that explains why, on certain subheads there is apparently an enormous excess over the grant, but there is not necessarily an excess over the combination that was estimated for the Vote of Credit and for the Estimate. This is fortunately the last year that this will ever happen.

323. The only point I wanted to make on that was that I think you have told the Committee on previous occasions that a great deal of your printing which is placed out with contractors is done on a basis of competitive tendering?—Yes.

324. Rather than upon cost plus or any other system?—There is practically no cost plus.

325. Do you find competitive tendering satisfactory still?—It is not as good as it was. It is getting difficult. Private printers have more work offered to them than they can accept, and in some cases we have to search to find a tenderer. But that, of course, is not our only check on prices. As you know, we have the experience of our own Works; we have comparative experience over many years, and there is no printing job that is new in the sense that, although this particular book may be new to print, the cost of printing so many pages of that size in that type has been known for many years. The increase in wages and materials is known. So that we are not actually worrying about the absence of competitive tenders on the financial side half as much as we are worrying about it on the production side. It is becoming increasingly difficult—more difficult than it was during the war—to get the work done.

326. So far as the tenders are concerned, you judge them by your own experience of what it costs you to print?—Yes. Actually at the moment we are finding that if they can take the work printers are only too willing to take our work because we can find them paper and we can get them power turned on.

327. But your experience is that the printers are not making unreasonable profits. Is that it?—Not out of the Stationery Office, certainly.

328. Not out of the Stationery Office; but it may be from other people. On page 360, at the top of the page in the details of receipts (b) is: "Sales of Parliamentary Debates" and the amount estimated was £16,000 and the amount realised nearly £34,000. How do you account for that?—Your successor, the Financial Secretary, Mr. Glenvil Hall, ought to have most of the credit for that, because it was on his suggestion that we introduced the Weekly Hansard, and although it was running for only two or three months in this Account we got in a very large number of annual subscriptions for it, and that explains why the sale of Hansard is so much greater in this year of account than was estimated.

329. I am afraid I have not seen a Weekly Hansard. Is it the ordinary daily Hansard bound up together?—Yes. Have no other Members of the Committee seen it?

Chairman.] Why are they so much more popular if they are fastened together?

Mr. Haworth.] They are cheaper, for one thing.

Mr. Thurtle.] The Weekly Hansard is in an abbreviated form.

Mr. Haworth.] No, it is not. It is the complete Hansard for the week, but it costs 1s. 6d. instead of 2s. 6d.

Lieut.-Colonel Hamilton.

330. It is in a very handy form?—It is in a form which is very popular with libraries and for general reference.

Mr. Wadsworth.

331. But it is not actually an abbreviated report?—The copies are printed off at the same time as the daily parts and thereafter bound up together in a rather beautiful cover, we think. The Speaker approved it very much. I am so sorry you have not seen it, Mr. Chairman.

Mr. Haworth.] You can get it at the Vote Office.

Chairman.

332. I will purchase a copy, not having been sent a complimentary one. Sir Norman, will you turn to the next page, page 361. Amongst the losses there is an item: "Value of despatch boxes, etc., retained by ex-Ministers and members of a Royal Commission," a figure of £38 6s. Is that a normal figure for the appropriation of despatch boxes by ex-Ministers?—It is rather more than usual this year. It was, if you remember, the year of the Caretaker Government.

Mr. Haworth.] There were two lots of ex-Ministers in one year. Is that the reason?

4 March, 1947.]

Sir NORMAN SCORGIE, C.V.O., C.B.E.

[Continued.]

Chairman.

333. But it is quite common for Ministers to retain a despatch box as a souvenir of their official career?—It is not officially recognised. The position is that they can buy the box from us at second-hand value if they want it as a souvenir, but in practice we do not find all those that are taken, because unless the box is sent back for alteration of the lock, or the Department indiscreetly asks for a new one very quickly for the successor to a Minister (which is how we found out all about the Caretaker Government so quickly) then I am afraid some do vanish. But in theory it is improper that they should, and therefore we have to get Treasury consent to a write-off if Ministers are extremely reluctant to return them or to pay for them.

334. But are retiring Ministers pressed when they have been discovered?—Yes, they are pressed.

335. For payment?—For the return of the box.

336. Or payment as an alternative?—Or payment.

Lieut.-Colonel *Hamilton.*] But they are let off if they do not return the box or pay. Is that so? Why should they be in a particularly privileged position? The ordinary citizen has to pay anything that is due to the Government. Why should Ministers have a privileged position?

Chairman.] Perhaps we might refer to it in due course in our Report.

Mr. *Thurtle.*] I understood that an unpaid Lord of the Treasury was entitled to a box and a case as a perquisite of office. Is that so?

Lieut.-Colonel *Hamilton.*] Apparently it is not so.

Mr. Thurtle.

337. I am asking because I thought he was in a special position?—I have never heard of that. I believe that contention was raised in this instance, but these were delicate matters considered on a political level at the Treasury far above my head. As far as the Stationery Office is concerned, the position is that these boxes are non-consumable stores and are returnable.

(Sir Norman Scorgie withdrew)

REVENUE DEPARTMENTS APPROPRIATION ACCOUNTS, 1945-46.

VOTE 1.

CUSTOMS AND EXCISE.

(On this Account no questions were asked.)

CIVIL APPROPRIATION ACCOUNTS, 1945-46.

CLASS I.

VOTE 1.

HOUSE OF LORDS OFFICES.

VOTE 5.

PRIVY COUNCIL OFFICE.

(On these Accounts no questions were asked.)

Lieut.-Colonel *Hamilton.*] It appears that Ministers are being treated not like other citizens, and I do not altogether approve of it.

Mr. Haworth.

338. There is a point I would like to raise, but I cannot find anything on which to hang it, and that is the question of a Stationery Office shop for distribution in Liverpool. I cannot find any reference to your premises here. You have a big shop in Kingsway and you have one in Manchester, have you not, but there is not one in Liverpool. Has that ever been considered?—Yes. We have been asked to open Stationery Offices in, I think, almost every large provincial town. You, Mr. Chairman, yourself, when you were Financial Secretary, received a big deputation from Glasgow.

Chairman.

339. Yes, I remember?—The general answer is that it would not be economic except in those places where there is already a general branch of the Stationery Office. A Stationery Office shop is not allowed to sell "Punch," "Tatler" and ordinary books. It has to live on the sale of Government publications, and with a position which is fairly central, and so on, rents are expensive and it probably would not pay. But the modern device by which we try to meet the public convenience without too much burden on the taxpayer is to make special arrangements in the big cities with one or more of the leading booksellers. We send them advance copies of publications. We give them all our literature, and in general we are trying to establish that as a working system for all large provincial cities which will, we hope, meet public convenience without the expense of having to open a separate shop.

Mr. Haworth.

340. Of course we say that anything that can pay in Manchester will pay in Liverpool?—That is nothing to the jealousy of Glasgow and Edinburgh, as you know!

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

4 March, 1947.]

[Continued.]

CINEMATOGRAPH FUND ACCOUNT, 1945-46.

(On this Account no questions were asked.)

CIVIL APPROPRIATION ACCOUNTS, 1945-46.

CLASS I.

VOTE 7.

CHARITY COMMISSION.

VOTE 8.

CIVIL SERVICE COMMISSION.

VOTE 10.

GOVERNMENT ACTUARY.

VOTE 11.

GOVERNMENT CHEMIST.

(On these Accounts no questions were asked.)

VOTE 13.

THE MINT.

Chairman.

341. I think the Committee would like to be informed, if they may be some time later, when the trading accounts of the Mint are going to be resumed. They used to furnish, before the war, trading accounts?—(Mr. Jones.) We had hoped that they would be able to furnish trading accounts for the year beginning 1st April, 1947, but the Mint have not been given the trained staff for the purpose in time for

them to put this in train and, therefore, it looks as if they will have to postpone publication of those accounts until 1948-49, although in the course of next year they will restart their costing processes which are the basis of information on which they publish their trading accounts.

311

Chairman.] Thank you. Has any Member any questions on this Account? May I take it that the Account is approved? *(Agreed.)*

VOTE 14.

NATIONAL DEBT OFFICE.

(On this Account no questions were asked.)

LOCAL LOANS FUND ACCOUNTS, 1945-46.

(On these Accounts no questions were asked.)

SINKING FUNDS ACCOUNTS, 1945.

(On these Accounts no questions were asked.)

CIVIL APPROPRIATION ACCOUNTS, 1945-46.

CLASS I.

VOTE 16.

PUBLIC RECORD OFFICE.

VOTE 17.

PUBLIC WORKS LOAN COMMISSION.

VOTE 22.

TITHE REDEMPTION COMMISSION.

VOTE 24.

SCOTTISH HOME DEPARTMENT.

*(On these Accounts no questions were asked.)**(The witnesses withdrew.)**(Adjourned till Tuesday next at 3.45 p.m.)*

11 March, 1947.]

Mr. H. FIELDHOUSE, C.B., O.B.E.

[Continued.]

TUESDAY, 11TH MARCH, 1947.

Members Present:

Mr. PEAKE in the Chair.

Mr. Cuthbert.
Lieutenant-Colonel Alan Dower.
Lieutenant-Colonel Hamilton.
Mr. Horace Holmes.

Mr. Kirby.
Sir John Mellor.
Mr. Thurtle.

Sir FRANK TRIBE, K.C.B., K.B.E., Sir ERIC BAMFORD, K.B.E., C.B., C.M.G., and
Mr. C. E. I. JONES called in and examined.

CIVIL APPROPRIATION ACCOUNTS, 1945-46.

CLASS V.

VOTE 10.

ASSISTANCE BOARD.

Mr. H. FIELDHOUSE, C.B., O.B.E., called in and examined.

Chairman.

342. Will Members turn to the Civil Appropriation Accounts, 1945-46, to paragraph 52 of the Report of the Comptroller and Auditor General. Mr. Fieldhouse, I see that the number of weekly allowances in payment—this is to able-bodied unemployed persons, is it not?—(Mr. Fieldhouse.) Yes.

343. —averaged 28,754 compared with 22,572 in the previous year. Is there any clear explanation of the increase?—I would put it down to the end of the war and the fact that, with the end of the war, rather less able and less fit people lost work, and, after a spell of benefit, came back to the Assistance Board. The numbers, of course, even at the end of the year were very low compared with the pre-war level; they were only about one-tenth of the pre-war level.

344. These are people who have exhausted their insurance rights?—Yes.

345. Or who have not any?—Or those who have not any insurances rights. They are mainly those who have exhausted their insurance rights.

346. The Comptroller and Auditor General tells us that the average weekly rate of allowance increased from 29/- to 31/1. Can you explain that?—That is due to a higher proportion of married applicants with dependent children and, to a very much less extent, to higher additions for rent following increases in local rates.

347. Then there are payments in supplementation of unemployment benefit: the number there has also increased slightly, but the weekly rate of supplementation is, on the average, less?—Yes. I can only put this slight increase down to the fact that we were operating over a larger unemployed field. There were about three times as many people on unemployment benefit in the year under review as there were in

the previous year. The lower average rate of payment is rather difficult to account for on a small number, but I think this fact bears on it, that the increase in benefit rates which was made in the preceding year was in operation over the whole year. The higher the benefit rate (I think it is fairly obvious) the less the amount of supplement.

348. Can you tell me, on this paragraph, what is the ordinary rate of assistance to a married couple without children?—That, of course, depends on the circumstances as a whole, including the rent, but the standard figure for a married couple without children is 31/- to which the rent (usually the actual rent) is added. There may, of course, be additions for special circumstances, but those are the standard figures.

Chairman. Has any Member of the Committee any questions to ask on paragraph 52 of the Report of the Comptroller and Auditor General?

Mr. Horace Holmes.

349. On the last statement by Mr. Fieldhouse about the rent, it is an allowance when the rent exceeds a certain figure, is it not?—No. The scale rates prescribed by the regulations make no provision for rent. An addition is made for rent, and the addition is the full rent if that rent is reasonable.

Chairman.

350. Are there any further questions on paragraph 52? Will Members turn to the Account, which is on pages 238-240. The Account shows an expenditure on salaries of just under £3,000,000, and under Sub-head E an expenditure of £2,634,000 on allowances to applicants and provision for training and work centres. The administrative costs have to cover the provision of quite a number of other services which are not shown here, do they not?—That is so.

11 March, 1947.]

Mr. H. FIELDHOUSE, C.B., O.B.E.

[Continued.]

351. Can you give me the total amount paid out to applicants under the various schemes which you have to operate? I want to get the ratio between your administrative expenses on the one hand and the amount you are disbursing on the other?—I am afraid I can give you only the two you have in front of you—the unemployment assistance allowances in this Vote, and the supplementary pensions in the other Vote, to which you will be turning presently. We make no provision in our accounts for the allowances paid on behalf of other Departments, such as the war injury allowances for the Ministry of Pensions and the war damage compensation for the Board of Trade; although we do other work I think those are the only allowances. But I have not with me the amounts we pay.

352. The main two items are the ordinary allowances which we have here in front of us of just under £3,000,000 and—?—Supplementary pensions, of rather over £60,000,000. The allowances we pay for other Departments are of course shown in the accounts of those other Departments.

353. Can you give me the number of the Assistance Board staff?—The average weekly number in post for the year was 8,613. That includes messengers and cleaners. That is the number of all the staff.

354. Excluding the messengers and cleaners, what is the number of staff who are actually working on the assessments?—There were 564 messengers and cleaners. 8,049 is the figure.

355. Approximately how many offices have you?—At the beginning of 1946 we had 378. The number at the present time (that is today) is 298.

356. These are scattered all over the country, are they?—Yes, they are spread throughout England and Scotland and Wales.

357. Where is the actual assessment of need done—at your offices?—Yes, at the local office.

358. The allowances are paid out at the Employment Exchange, are they not?—These allowances are paid out by the Employment Exchange in the normal course, though we make a few urgent payments at our own offices.

359. The supplementary pensions are paid at the Post Offices?—Yes.

360. At the present time, or at any rate during the year of account, the Assistance Board is answered for in the House of Commons by the Minister of Labour, is it not?—The Minister of National Insurance.

361. The transfer has been made?—The transfer has been made.

362. When was it made? Can you tell me?—It was made on the 1st April, 1945.

363. So far as I remember the Beveridge Report recommended that there should be a merger of offices between the Assistance Board, the Employment Exchanges and the Ministry of National Insurance offices, did it not?—Yes.

364. I think they were to be called "Social Security Offices" under the Beveridge plan. I wondered whether any thought has been given to the question whether the offices should be merged or whether each of these three Departments should continue to retain its own offices?—Thought has been given to that so far as the Ministry of National Insurance and ourselves are concerned. Some months ago an inter-departmental Committee was set up under a Treasury chairman. Agreement was reached with a view to certain sharing and mergers and it was decided that, wherever possible, the Ministry of National Insurance and ourselves should be housed in the same local office. Not very much has been done, I am afraid, mainly because of the difficulty of securing premises, but also because of the fact that the Ministry of National Insurance have not yet got very far in the way of providing local offices for themselves. That has been looked at. The Ministry of Labour were not in at these discussions, but consideration is now being given I know in the Treasury to this possibility of some sharing of offices between the three Departments.

365. You perhaps cannot tell us what number of offices the Ministry of National Insurance contemplate having?—Various figures have been suggested. I do not think I should be far wrong if I said that the probable figure is of the order of 1,000 offices.

366. And there are probably something of that order of Employment Exchanges?—There will be more. I do not know the precise number, but it is certainly more than 1,000.

367. Do you recall whether the Government White Paper on the Beveridge plan adopted the Beveridge suggestion that there should be a single Social Security Office?—I have no recollection of it being mentioned in the Government White Paper, but I would not say that it is not there.

368. On the face of it, it would appear a desirable objective with a view to economy of office accommodation?—There are arguments both ways. I do not know whether you wish me to enter into those?

369. I should like to know what the main arguments are against a merger of these offices?—Objection may be taken to the Assistance Board sharing offices with Departments paying benefit as of right, whereas assistance is paid according to need, because of the danger of blurring the benefit which is paid for, and earned by,

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Mr. H. FIELDHOUSE, C.B., O.B.E.

[Continued.]

contributions and assistance which is not paid for. That is one of the arguments. I am not saying that I would use it.

370. But if that is the main argument it surely is rather invalidated by the fact that at the present time the allowances granted by the Assistance Board are in fact paid out of the Employment Exchanges?—Yes, and the argument, although it was used in the previous Government's White Paper, in which it was said that it was undesirable to blur too much the distinction between benefit and assistance, has been thrown on one side, or rather the other arguments have been regarded as more weighty in favour of combined offices where possible.

371. But at the present time the matter rests with an inter-departmental Committee, does it?—An inter-departmental committee has already recommended (and its recommendations have been adopted) that there should be a sharing of offices between the Ministry of National Insurance and the Assistance Board. What I said was that the Treasury, I have reason to believe, have under consideration the possibilities from a practical point of view of a sharing of offices between the three Departments.

372. I am much obliged. The other question I want to ask you on this Account arises on Subhead E. That covers allowances to applicants and provision for training and work centres. Is there in fact any sum included here for the provision of training and work centres?—No. We had work centres before the war, but when the number of applicants became so very low and we were left with people who in the main were not likely to benefit from training the need for them became much less.

373. Did you have more than one work centre before the war?—We had two. They were only in an experimental stage. We had one in London and one in Newcastle.

374. They were intended to provide for the people who are known as "work-shy", were they not?—They were certainly intended to provide for those people, though when we got people who were thought to be work-shy we found that many of them were quite willing, if treated decently. They responded very well to the treatment they got and, indeed, many of them took themselves off after a short period of discipline in the training centre and got work. I hesitate to generalise about work-shyness, because past ideas about that have been proved unfounded by the number of people who did get work during the war.

375. Supposing an applicant comes to the Board and asks for an allowance because he is in need, if there is suitable work available what happens?—He would

be refused. If there is a specific job and a suitable job to which he could be sent he would be refused.

376. If you had these work centres operating you would then have a choice either of giving him relief in cash or giving him relief in kind—I believe you have still that power, have you not?—Yes.

377. Or offering him accommodation in the work centre?—That is so.

378. Before the war you used to accommodate a number of people in these work centres?—Yes.

379. That has now dropped altogether owing to the war?—Yes.

380. Is it intended to restore it?—There is no call for it today, but it is certainly intended to restore it when the poor law is taken over, as is proposed for next year.

381. Can a man, having been refused assistance by the Board, make a successful application to the public assistance authorities?—Only to the Relieving Officer, and he can only get from the Relieving Officer (that is in England and Wales) relief in kind if he is in sudden or urgent need. He cannot be given cash relief by the Public Assistance Committee.

382. I have one other question, and that is about the footnote to Subhead E which refers to a number of different kinds of extra-statutory payments, and (b) is an item of £3,295 odd "by way of assistance or reimbursement of relief granted to persons engaged for work in national factories, where a system of deferred payment of wages operates." Could you explain that item to me?—Yes. Section 38 (1) (b) of the Act governing the payment of unemployment assistance (that is the Unemployment Assistance Act, 1934) has the effect of precluding the payment of an allowance to a person who is in full-time work. Cases sometimes arise where at the beginning of employment a man finds himself in difficulties because of the industrial practice of keeping in hand one week's wages or more than one week's wages. When people come to us in those circumstances we have to say: "We cannot do anything for you; you must go to the Public Assistance Committee". They can go to the Public Assistance Committee. Now, this difficulty arose early in the war because this practice of keeping wages in hand was followed in national factories, and it was felt altogether unreasonable to tell a man to go to the Public Assistance Committee and to require the Public Assistance Committee to provide assistance out of local rates when the reason for not being able to assist was under the Government's own control in the national factories. It arose from the fact that wages were kept in hand in these national factories.

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Mr. H. FIELDHOUSE, C.B., O.B.E.

[Continued.]

383. What do you mean by keeping wages in hand—paying them a week after they are due, or something of that sort?—Yes, keeping in hand a week's or more than a week's wages and not paying the wages until the man has been in work for, say, a fortnight. That means that a man starting work on the Monday would have nothing to draw from his employer on the following Friday or Saturday.

384. These extra-statutory allowances would not be paid where a man commenced work on the Monday and drew his week's wages on the following Friday or Saturday?—They would not be paid if he drew his week's wages on Friday or Saturday, but when he could not draw any wages and he was in difficulty he came along to us for help which we could not have given him under the Act, but which the Treasury authorised us to give to him on the understanding that they would be noted in the accounts as extra statutory payments.

385. Would it not be preferable in a case like that, where a man is earning money but is not going to be paid it for another 10 days, for you to advance the money by way of loan?—If you want my opinion, yes; only that is not the law. The Act makes no provision for assistance by loan.

386. You have no power to grant a loan?—No.

Chairman.] Are there any questions on the Account?

Mr. Thurtle.

387. I take it that one of the factors you would have to bear in mind in connection with the amalgamation of the three sets of offices, those of the Assistance Board, the Ministry of National Insurance and the Employment Exchanges would be

the provision of adequate facilities for people who are in need of assistance to come and put their claim to you?—Yes.

388. Because if you carried this business of amalgamation to an extreme extent it might make great difficulties for the applicants who would want assistance?—Yes. Of course they would have to be very big offices in many places.

389. Yes, and I gather the fact that you have 8,000 as against the 1,000 Employment Exchanges indicates that you have offices in many places where there are no Exchanges?—No. I said 8,000 staff. We have about 300 offices as against 1,000 contemplated, I believe, for the Ministry of National Insurance and a larger number in being of the Ministry of Labour.

390. One other point about the disablement and training centres. Part of that work now is surely the provision of training centres for all sorts of disabled people?—Yes.

391. Both industrial disablement and Service disablement?—Yes. I am much obliged: I might have mentioned when the Chairman put the question to me before that any person on our books who is unemployed but can be trained—could be made fit for employment by the training—would be passed over to the Ministry of Labour who have very extensive training facilities.

Chairman.

392. Are there any further questions on the Account? Sir Frank, have you any comments to make on any of the evidence we have heard on this matter before we pass the Account?—(Sir Frank Tribe.) No, I have not any comments.

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

VOTE 15.

SUPPLEMENTARY PENSIONS.

Chairman.

393. Will Members turn now to paragraph 53 of the Report of the Comptroller and Auditor General which deals with Supplementary Pensions. In this case the cost has gone up by a little over £4,000,000 compared with the preceding year, and the average supplement was 16/3 in 1,441,000 cases?—(Mr. Fieldhouse.) That is so.

394. Here, again, there is some increase in the number of supplements granted. Can you account for that?—One cannot be absolutely sure. We have no control over the people who apply to us, but, in my view, the increased number of applicants is due in the main to two reasons. The first is that pensioners who kept on

working during the war and decided to give up their work at the end of hostilities would naturally look to us for a supplement to compensate them in part for loss of wages. The second reason, if I may advance it, is the natural growth of a scheme which, since its inception in 1940, has year by year become increasingly popular. The satisfied customer is the best salesman.

395. Can you tell me to what figure you make up the income (again leaving rent out of account, as we did in the case of the able-bodied unemployed) of a married couple both entitled to a pension?—The normal figure would be a scale rate of 35/- for needs other than rent, and rent on top.

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Mr. H. FIELDHOUSE, C.B., O.B.E.

[Continued.]

396. Why do you take a higher basic figure for the aged couple than you do for the younger couple, one of whom is able-bodied?—That, of course, is a matter of policy that was decided by the Board and approved by Parliament. I was there when the policy was decided. I can only say that it was with a view to giving more favourable or additional amenities to the old people—giving them a rather higher margin for things other than absolute essentials.

397. On a basis of pure need one would have thought it would have been the other way round?—There is this to be said on pure need, that supplementary pensioners are with us for life, speaking generally. The unemployed man we all hope will not be with us for very long; unemployment assistance is merely something to tide him over between one job and another. It does not always follow. The few we had during the war had been with us a very long time and the argument is weak in regard to them. But I am telling you what was in the minds of the people who framed the policy. That certainly was in their minds.

398. Can you tell me what the proportion to the total number of old-age pensioners this number of 1,140,000 is? That is to say what proportion of old-age pensioners applied for and obtained a supplementary pension?—I have not the precise figure in my head but we always think of a figure of 4,000,000 total pensioners.

399. So this represents about one in three?—Yes.

400. You supplement the over 70 pension—the non-contributory pension—as well as the contributory pension, do you?—Yes.

401. The over 70 pension is subject to a statutory means test?—Yes.

402. Which is applied by the officers of the Board of Customs and Excise?—Yes.

403. In supplementing those pensions do you apply a precisely similar test of means as do the Board of Customs and Excise?—No.

404. Why not?—Because the two schemes are founded on two different bases. There is one particular means test for the non-contributory pension which was laid down originally. It may have been modified since, but basically it is the same as it was in 1908, in the original Old Age Pension Act. Supplements are based on the provisions made in the 1940 Act with amending legislation and the regulations made under those Acts.

405. But surely the result of having two different schemes of means tests to apply to the same individual must mean

some very anomalous results?—On the face of it it certainly looks odd. It looked odd to our officers at one time. But it gives rise to no practical difficulty, because he has got to satisfy a certain test for a pension at the maximum rate and when he gets that pension then he comes along to the Assistance Board if he needs any more and a different test is applied. It does not give rise to any real difficulty, though I think it looks rather odd.

406. I remember being told last year, I think, that there were cases where you had to grant an *ex gratia* or an extra-statutory pension of 1/- in order to have something which you could then proceed to supplement?—That is quite true. In a few cases we have to do that. There are a few cases where the Customs means test operates more stringently than the Board's means test.

407. It would surely be a good thing some day to get these various means tests brought into line?—In my own view it would; but I had better remind the Committee that the non-contributory means test has in effect been confirmed by the provisions of the recent National Insurance Act, which continued the existence of this non-contributory pensions scheme for another 15 years.

408. The number of pensioners drawing benefit under the non-contributory scheme is diminishing steadily year by year, is it not?—On the long view, yes. Recent modifications made in the test to provide for the 26/- pension, of which you are well aware, have resulted in a larger intake, more people applying. But it is a diminishing figure as time goes on.

409. Has any Member of the Committee any questions on paragraph 53 of the Report of the Comptroller and Auditor General? We turn to the Account which is on pages 246 and 247. The only question I have to ask on this Account is in regard to the receipts authorised to be used as Appropriations in Aid which were estimated at £80,000 and realised £137,000. Then in the footnote we are told that over-payments amounted to £420,000. I take it these Appropriations in Aid are recoveries from persons who have been over-paid. Is that right?—Mainly, but not entirely. Out of £137,477 realised £118,589 was recovery of sums over-paid.

410. Then you did not recover anything like the whole amount of the over-payments of £420,000 odd?—No. The reason why we did not is that these people are assisted according to their need, and we can recover only where they have resources which are not taken into account in assessing their need; that is to say if they have got capital, or if they have got income which is disregarded in the assessment of need.

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Mr. O. S. CLEVERLY, C.B., C.V.O.

[Continued.]

411. Which you would recover in all cases, or try to recover in all cases, where there was any element of fraud, of course?—That, of course, depends on the ability to re-pay. If there were an element of fraud we should always consider whether we should prosecute the person.

412. Was a substantial part of this £420,000 over-paid due to fraud?—£73,106.

(Mr. Fieldhouse withdrew.)

CLASS VI.

VOTE 6.

OFFICE OF COMMISSIONERS OF CROWN LANDS.

CROWN LANDS ABSTRACT ACCOUNTS, 1945-46.

Mr. O. S. CLEVERLY, C.B., C.V.O., called in and examined.

Chairman.

414. Will Members turn to the Civil Appropriation Accounts, 1945-46, Vote 6, Office of Commissioners for Crown Lands. The Account is on page 82. We will take also the Crown Lands Abstract Accounts, 1945-46. In the Civil Appropriation Accounts your Account does not by any means show the whole of the administrative expenses of your Department, does it?—(Mr. Cleverly.) It shows the head-quarter expenses in that Account. The local staffs and agents who are employed are remunerated out of land revenues and their expenses appear on page 5 of the Crown Lands Abstract Accounts.

415. As I understand the position, the Commissioners of Crown Lands were established by an Act of 1829, were they not?—Yes.

416. I suppose they took over certain Crown lands at that time.—I should not like to give a dissertation on the exact history of it without notice, but, roughly speaking, the land revenues of the Crown were more or less sterilised by an Act of Queen Anne so that the Crown—that is to say the King and the Executive—were restrained from selling them, and at the time of George III more or less the present system was instituted, and the lands were put under the charge of Commissioners and the revenues were sacrificed finally by the Crown at the time of the Civil List being voted by Parliament. I should not say they were "sacrificed finally" because it is done at the beginning of every reign at the time of the Civil List.

417. You hold today considerable areas of land to an unspecified value—because there is no Capital Account here, is there?—No.

418. And you hold also something over £3½ million worth approximately of investments?—Yes.

419. Could you tell the Committee how it comes about that your investments are

413. Are there any questions on the Account? May I take it that the Account is approved? (Agreed). That concludes your evidence, Mr. Fieldhouse. Thank you very much, and I should like to congratulate you on the clarity with which you have given your evidence on what, I believe, is your first appearance, is it not?—Yes, Sir. I am very much obliged to you.

such a large figure?—Under our Act we are directed to re-invest the proceeds of the sales of Crown lands in the purchase of further lands. The original Act said that if other lands were not available for purchase immediately the capital could be invested in the three percents.

420. "For the time being" I think are the words of the Act, are they not?—That is so. It is not laid on us that we must immediately invest. We are entitled to wait till a favourable opportunity occurs to invest on an economic basis, but we are, as Commissioners, very conscious of the fact that we have far too much in the funds. They are very much swollen of course at present by coal compensation money. Before the war the policy was to try to get the money back into land.

421. Your investments did not stand at this height before the war, did they?—No. The cost price in the 1939 Account was £1,671,000 and the market value at the 31st March, 1940, was £2,000,000. So they were pretty high, but they had been higher I think. It was before my time, but I know my predecessor was trying to get the money back into land. During the war the Treasury wished us not to sell on grounds of public policy, and since the war we have had £2,000,000 from the Coal Commission. We are also finding it very difficult to find suitable investments, and a certain amount of possibly compulsory expenditure that may be in sight has caused us to hesitate a little.

422. You would not regard it as in accordance with the spirit of your statutory powers and duties to continue indefinitely to hold £3,000,000 worth of investments?—No, certainly not.

423. And the Treasury I take it would concur in that view, would they?—(Sir Eric Bamford.) That is the Treasury view, that the duty of the Crown Lands Commissioners still remains the same, namely, to invest in land.

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Mr. O. S. CLEVERLY, C.B., C.V.O.

[Continued.]

424. Last year, according to the Receipts and Payments, Capital Account, Account No. 1, you sold estates to the value of £281,000. You bought no land in that year, on the other side of the sheet?—There is that £30,776 at the top.

425. Yes.—In the figure for sales of estates, there is £174,000 coal money. It was the last instalment from the Coal Commission.

426. In "Sales of estates" is included the Coal Commission receipts?—£174,000 was an instalment of coal compensation. The other sales were mostly covered by the instalments that the Ministry of Works are paying us for Government offices, we have sold them. The only real sale was I think a house in London which was bought a few years ago from the Westminster Estate as a house for a member of the Royal Family. It is now no longer required for that purpose. The agreement with the Westminster Estate was that if we wanted to change the user they had the right of pre-emption. We asked them if they wanted to exercise it because we thought that the user of the house would have to be changed and they bought it back for the price that we had given to them. In addition we sold for £10,000 a sports ground to the London Passenger Transport Board in Essex.

427. That is all I want to ask you on that Account. Turning to the next page, Account No. 2, Receipts and Payments, Income Account, this shows that you have landed estates which are revenue producing, and then you have Windsor Parks and Woods which is something which costs a good deal of money every year?—Yes. The Windsor Parks and Woods are not and never have been expected to be revenue producing. They are kept up partly as an appendage to Windsor Castle, the residence of the Sovereign, and partly for the recreation of the people who use them. It is open to the public.

428. Would it not be much more satisfactory if the Commissioners of Crown Lands performed their true function which is owning and managing landed estates, with a view to producing revenue, and handed over Windsor Parks and Woods to the Ministry of Works who have an account for the other Royal Parks?—That is a view that might be held. I should be very sorry personally to subscribe to it. The long, historical connection of my office with Windsor gives us a great, you might say sentimental attraction, to Windsor. We would claim that we manage it as well as the Ministry of Works would manage it.

429. Let me put the question in this way: Is it not a little unfair that your Account should be clouded by a charge of £54,000 (it may be more or less, but it is something of that order) from year to year for maintenance of a Park out of

which you are not attempting to make a revenue?—We do not complain of that.

430. Would it not be more orderly if Parliament could see as a whole in one account what the Royal Parks were costing?—It might be more orderly. But I think there are advantages in the present arrangement.

431. You would view any change with regret, I gather?—Very much so.

432. I do not know whether you can give the Committee even a hazard of the capital value of your properties, leaving Windsor Park out of account?—I think it is really impossible unless you would like to take a number of years purchase of the income.

433. The balance at the foot of that Account is £992,000 for the year on the land revenues alone?—Yes.

434. In order to arrive at an approximate capital figure you would have to take 20 or 25 years' purchase of that?—Rather more than that I think now. It is very well secured.

435. Turning over the page to the Income Account, No. 3, the amount paid to the Exchequer was £960,000. That is the subject of a comment by the Comptroller and Auditor General in his Report. Perhaps we had better turn to the Report of the Comptroller and Auditor General; I ought really to have taken it sooner. In the second paragraph we are told that the corresponding figure for 1944/5 was £980,000, and I think your figure of £960,000 transferred to the Treasury is about £100,000 less on the average than in recent years during the war.—It is certainly £20,000 less than last year. The year before was just over £1 million. It was £1,060,000; the year before that it was around £1 million. (Sir Frank Tribe.) If it would help the witness I have the figures here for the war years. In 1939/40 it was £1,250,000. In 1940/41 it was £1,110,000; in 1941/42 it was £950,000; in 1942/43 it was £1,000,000. In 1943/44 it was £1,060,000. In 1944/45 it was £980,000, and in 1945/46, the year of this Account, the figure was £960,000.

436. To what would you attribute the smaller amount transferred recently compared with earlier years of the war?—(Mr. Cleverly.) It would require a certain amount of analysis; some things have gone up and some things have gone down. I think in the early years we had the income from the mines, which is now represented partly from income from investments, and partly from income from new estates purchased. The expenses of the last year or two have been higher, because during the war we were unable to do anything in the way of agricultural repairs, for instance, and improvements, and we have got a pretty considerable sum in repairs and improvements in this

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[Continued.]

year. The property tax allowed has gone up a good deal since 1939. The 1939 figure for property tax was £347,000, and the figure now, as you see, is £597,000. That is, of course, because the rate of tax has gone up.

437. You pay income tax in the ordinary way, do you?—No, but our lessees and tenants do and we allow the amount.

438. There is one other question I would like to ask you and that is on the first paragraph of the Report of the Comptroller and Auditor General. He says: "As a war-time measure, the Treasury had delegated to the Commissioners more extended powers . . . and had also authorised certain relaxations of accounting checks". Then he tells us that the accounting checks have been restored and certain of the extended powers with regard to management of property were withdrawn or modified on 1st October, 1946. Can you tell me whether any harmful results had followed to your knowledge from the relaxation of the accounting checks?—Some things went wrong, but we have been very fortunate in picking them up. We relaxed our own check on our Receivers' Accounts quite considerably owing to shortage of staff; deliberately we gave up the staff and accepted the risk. We have now got sufficient people back not only to resume the checks but to check back on the past rentals, and we have found some mistakes, but I believe practically all of them we have been able to pick up.

439. You regard the resumption of these checks as a good thing?—Yes, I think so, undoubtedly.

440. As regards the withdrawal of certain extended powers which you possessed during the war, could you explain that to the Committee?—Before the war we were subject to a good many checks about doing things without Treasury sanction in the way of granting leases over certain amounts, and so on, and during the war, owing to the shortage of staff, in order to save a lot of correspondence, the Treasury delegated to me their powers really of authorising these things. It was quite right that after the war we should revert to the ordinary procedure, which we have now done, with certain exceptions. The exceptions are that before the war the Commissioners were authorised to spend up to a certain amount on repairs, improvements, and so on, which it was very difficult to work because it was very difficult to keep check of what was actually being spent. We knew what was being authorised, but what was being spent was another matter. Under the new system we shall be reporting to the Treasury very soon, about this time of year, an estimate of how much we want to spend on each of our estates, and we hope the Treasury will sanction what we estimate we shall spend, and we shall

then know what we are authorised to spend and what we are not authorised to spend.

Chairman.] Those are all the questions I want to put. Has any member any questions on the Crown Lands Abstract Accounts, 1945-46 or on the Account in the Civil Appropriation Accounts?

Lieut.-Colonel *Alan Dower.*

441. Are the managers of Crown Lands Estates subject to the normal restrictions on the amount of money one can spend on repairs?—We are more or less in the position of trustees under the Settled Lands Act.

442. That does not really answer my question. There are very severe limits which have been placed upon what one may spend on the maintenance, repair and upkeep of an estate?—Licences, and so on?

443. Yes?—I beg your pardon. Technically, the Crown does not require a licence to build, but contractors require the usual priorities, and so on, before they can get materials; and furthermore we have, by inter-Departmental agreement with the other Ministries concerned, agreed to consult their local people before we embark on building, to see whether what we are proposing to do is in fact going to interfere with the local housing programme, and so on.

444. I think the Regents Park Estate comes under you, does it not?—Yes.

445. My remarks are not in any way intended as a criticism. Being unable to carry out repairs has resulted in an enormous amount of damage by dry rot?—Yes.

446. That is on the average, ordinary estate. In the case of Crown Lands, have you been able to take the necessary steps to avoid that?—No, we have not—not on the technical grounds that we could not get a licence, but on the grounds that it would not have been right and in accordance with the policy of the Government under whom we are working, to divert labour and material from more urgent businesses for that purpose. Although we do not require licences we should never embark on big expenditure of that sort, which might be contrary to the policy of the Government without consulting the department of the Government concerned.

Lieut.-Colonel *Hamilton.*

447. Looking at the receipts and payments, I notice that, even allowing for the large amount in respect of coal, you still appear to have sold £90,000 worth and purchased £30,000 worth. Is that right?—Yes.

448. I understood from what was said earlier, that the aim was not that this should be a sort of huge investment trust with very large amounts invested, but more a matter of developing landed estates?—Yes.

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[Continued.]

449. Why, then, have you been selling more than you have been buying?—It is certainly not our policy to sell, but for various public purposes we have to do so, and nearly all our sales are for public purposes—housing, and so on. One case—a £10,000 case—was a sports ground for the London Passenger Transport Board, which we regard as more or less a public case. £32,000 of that amount is sales of land round about Whitehall to the Ministry of Works for a public purpose. The only real, genuine sale there was that Green Street house which I mentioned, which was really bought only for a special purpose, and when that purpose came to an end we sold it back to the original vendor.

450. Is it your aim now to convert a good deal of your securities into land again?—Yes.

Mr. Thurtle.

451. I think you said earlier, Mr. Chairman, that it was the function of the Commissioners so far as they could, to re-invest moneys which they acquired as the result of the sale of land in other land, and that that should be done without undue delay. I was wondering if we could be told what the Commissioners are really attempting in that respect—whether they are just waiting (I do not want to be offensive) on time and chance, as it were, or whether they are seriously on the lookout for new land into which to put this £3 million pounds?—We are seriously on the lookout, and in this Account that £30,000 represents all genuine purchases. There is a small estate in Scotland. In the last year's Account we had some bigger estates. We feel that we must not invest recklessly, and the Treasury would not in fact agree to our investing unless we saw some reasonable return on our money. So what we try to find is an estate that will return something that the taxpayer ought to have on the money invested—and just at the present moment it is not very easy.

Sir John Mellor.

452. What sort of percentage do you look for on your money?—Before the war I understand that my predecessors thought a 4 per cent. net return should be looked for. We now are quite ready to look for smaller returns than that.

Chairman.

453. I have one other question to put to you. The Chancellor, in his last year's Budget, introduced some provision to enable land to be accepted in part payment of estate duties more freely. Is it contemplated that the Crown Lands Commissioners will hold some of this land accepted in lieu of cash?—I think not; but I think perhaps

the Treasury ought to answer that. We have had some discussion with the other Departments on the question.

454. It occurred to me that land is going to be offered to the Board of Inland Revenue in payment of estate duties. You, on the other hand, are looking out for land to purchase. I should have thought the two transactions might have married each other very well. Can you make any observation on this, Sir Eric?—(Sir Eric Bamford.) We have not got very far with the Land Fund purchases. The Bala Estate and one or two others are in process of negotiation, but at the present moment I think there is nothing in hand. It would be the intention to find some body other than the Treasury, obviously, to take them over and manage them.

455. Some body other than the Commissioners of Crown Lands, you mean?—Some body other than the Treasury. I do not know what particular arrangement will be made about the estates we have in hand at the moment.

456. The Commissioners of Crown Lands are the most experienced public body in the management of land?—(Mr. Cleverly.) If I might interject there, we are trustees for the corpus of our trust, and while it may be a pity and wrong in principle to have large sums in stocks and shares, we do not think it is right to sell out our stocks and shares and take over very poor-class land that is going to cost us far more than it is going to bring in and will be a bad bargain. Without any reflection on this Land Fund, some of the estates might not be very attractive investments from the investment point of view. (Sir Eric Bamford.) There is the question of amenity value. A lot of the estates naturally are looked at from the point of view of amenities and arrangements are contemplated with the National Trust. They will be a mixed bag. Some of them may be taken over by the Ministry of Agriculture, and some will be available for public use.

Mr. Thurtle.] I take it, Mr. Chairman, that some of these lands which might be offered in lieu of cash by way of payment of death duties might be looked upon rather suspiciously as being of an inferior character?

Chairman.] I gather that the Commissioners of Crown Lands are rather choosy about the land they take over. Are there any further questions on the Account, Vote 6 of the Civil Appropriation Accounts or on the Crown Lands Abstract Accounts? May I take it that the two Accounts are approved?—(Agreed.)

(Mr. Cleverly withdrew.)

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Mr. E. C. H. JONES, O.B.E.

[Continued.]

CIVIL APPROPRIATION ACCOUNTS, 1945-46.

CLASS I.

VOTE 15.

NATIONAL SAVINGS COMMITTEE.

Mr. E. C. H. JONES, O.B.E. called in and examined:

Chairman.

457. I believe this is your first appearance before this Committee?—(Mr. E. C. H. Jones.) Yes.

458. Have you been long with the National Savings Committee?—Yes, I have been a member of the staff of the National Savings Committee since 1920.

459. Then you can tell us how it originated? Perhaps you cannot?—Yes, I think I can. In January, 1916, a Treasury Committee was considering mobilising the support of small investors for the finances of the war. They made certain recommendations which resulted in the Savings Certificate being produced as a suitable investment for small investors, and two committees were set up by the Treasury, one to carry out propaganda for the new Savings Certificate which was then known, I believe, as a National Deposit rather than as a Certificate (the word "Certificate" was introduced later)—

460. That is all I want to know on that. The point I was coming to was this. The Committee has been in existence since 1916?—Since 1916.

461. It has been in receipt of Voted money ever since that date for its expenditure or part of its expenditure?—Yes, the whole of it.

462. There is no statutory authority for the Committee?—No.

Sir John Mellor.

463. Is the Committee an agent for the Government, or how do you describe it? What is its constitution?—The officers of the Committee and the members of the Committee are nominated by the Lords Commissioners of the Treasury. The members of the Committee include 12 elected members from the voluntary workers within the movement. Therefore, a high degree of policy control is exercised by the voluntary workers of the movement, they being a very important—a most important—part of our machine. Their views, as expressed by their elected members on the Committee, are very seriously considered.

Chairman.

464. I want to get back to the point that I was on. When the Committee was instituted in 1916 I suppose it got its first Vote money by means of a Supplementary Estimate, and there has been an Estimate from year to year ever since for the expenses of the Committee?—Yes.

465. It seems a little strange to me that there should never have been any statutory authority for the spending of the money. Is this Committee to assume that the National Savings Committee has become a permanent part of our national life and will continue?—I can express only my own view on that.

466. As it has gone on for over 30 years, it is very likely to continue, is it not?—I think so, certainly.

467. And even if the time comes when, according to certain economic doctrines, saving becomes a positively bad thing, as Lord Keynes suggested it well might, the National Savings Committee will have to advocate spending, I suppose?—I do not think it would be necessary to advocate spending. A little relaxation of our savings propaganda would have the same effect.

468. Turning to the details of your Account, I am told that the new Estimates for the 1947-48 year show certain additional amounts which are borne by other Votes. For example, the expenses of your printing and premises and postal services do not appear here at all?—That is so.

469. Could you tell me what are the main items that other Departments bear?—Printing, which is probably the heaviest item, is borne on the Stationery Office Vote. Rents are borne on the Ministry of Works Vote and the Post Office carry a fairly heavy expense in relation to the registration of National Savings Certificates.

470. Why is it that £552,000 is a grant and the balance of £766,000 is allocated from the Vote of Credit? That is shown in the Appropriation Account. Is that because a large part of your work is regarded as a wartime service?—Yes, that was so. We came under the normal Vote of Credit procedure during the war.

471. But you are going to spend even more money than this figure in these Appropriation Accounts in the forthcoming year, are you not?—No. Our Estimate shows a decrease of £20,000. (Sir Frank Tribe.) That is a reduction for 1947-48 on the Estimate for 1946-47, but it is higher than the actual expenditure shown for 1945-46, I think, in the Civil Appropriation Accounts. (Mr. E. C. H. Jones.) Yes, that is so.

472. It is £1,413,000. I want to ask a question about your advertising, under Sub-head E. That is mainly in the Press, is it not?—Yes.

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Mr. E. C. H. JONES, O.B.E.

[Continued.]

473. Do you get the most favourable rates from the Press?—Yes. The rates we get from the Press now are governed by arrangements made with the Press by the Central Office of Information and are common to all Government Departments.

474. Are they the ordinary commercial rates that private advertisers pay?—They are rather lower, I understand.

475. Is there some discount granted?—There was, until quite recently, a 2½ per cent. discount granted to Government advertisers. That has since been withdrawn.

476. Do you know why?—The newspaper proprietors, I think, were able to prove to the Treasury that their expenses had increased and they could no longer afford this discount. (Sir *Eric Bamford*.) The discount was granted as a special wartime concession by the Press and they were able to claim that it required to be reviewed after the war, and they proved to their own satisfaction that costs were higher and that they should put the Government on the same footing as the ordinary commercial advertiser.

477. There is a footnote F. over the page which deals with miscellaneous losses, some involving suspicion of fraud or negligence and others not. I take it that the losses are very small in proportion to the amount of money handled?—(Mr. *E. C. H. Jones*.) Yes, very small indeed.

478. Can you give us any idea of the ratio which the losses form to the cash handled?—I could not, by mental arithmetic, give you the percentage proportion, but the £15,000 there refers to losses by Savings Groups, and during that period those Groups were responsible for bringing into the Exchequer well over £100 million. The annual average number of losses by Groups is about 1,900, and there are somewhere around 200,000 Groups.

479. Have you any system of internal audit?—Of the Savings Groups?

480. Yes?—No. They automatically check themselves, except in the case of a few Groups working a particular scheme where an audit is required.

481. What do you mean when you say they check themselves?—The arrangement is by means of National Savings Stamps. The majority of the Groups adopt the stamps method. They sell these stamps to their members. The stamps have an intrinsic value for the amount collected; that is to say, they can be exchanged at any Post Office for that amount. So we supply the Secretary of the Group with a float, or imprest, of the stamps. He sells those stamps and recoups himself by buying stamps, to the same value as the money taken, from the nearest Post Office. Once a year he accounts

for his imprest of stamps, and by that arrangement there is no need for an audit either so far as the members are concerned or so far as the National Savings Committee is concerned.

Chairman.] Are there any questions on the Account?

Lieut.-Colonel *Alan Dower*.

482. I should like to ask a question or two on the expenditure on advertising. Who decides the amount that shall be spent on advertising?—The Treasury.

483. You carry out what the Treasury suggest you should do?—We make our proposals to the Treasury according to the work we are expected to do in the coming year. We make our proposals based on the responsibilities placed upon us and discuss, then, our suggestions with them. They finally determine it.

484. They are the approving authority?—Yes.

485. But the suggestions come from you?—Yes.

486. In an ordinary business it is quite possible for a firm to have a check on whether advertisements of a certain type are successful or are not successful, and to what extent they are successful or not successful. Have you any means such as that?—We are very familiar with the checks which commercial firms may adopt. It is not at all easy to adopt them in connection with National Savings advertising, and we are advised by our advertisement agents (we employ six agents to work together on this business) that it would not be practicable to adopt any of those checks.

487. Without adopting those checks have you any idea as to what is useful and what may be extravagant expenditure on advertising?—Yes. I am afraid it is a little difficult to explain the checks we have. There was a most useful and interesting survey done for our advertising agents by mass observation during the war. We refer to that from time to time. Our voluntary workers take a great interest in our advertising, and we get correspondence from them quite regularly with regard to our advertising, both in the Press and on posters. If we are not meeting their needs, backing up their efforts, we hear about it through our machinery. Also, we hear about these grumbies and complaints through our staff. Generally speaking, I think we are in close touch with public opinion with regard to that matter.

488. The only other question I would like to ask is: Have you at any time given up any form of advertising because

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[Continued.]

you have come to the conclusion that the return is not worth the expenditure?—No. We have changed our advertising, of course, but we have never given up any series of advertisements because we felt that they were not meeting the need of the time.

489. I do not quite understand your answer. What I meant to ask was this. You are spending money on advertising?—Yes.

490. You get not very accurate but certain information from your staff and the public by letters, and so on. One presumes that is the only means by which you know whether it is being a success or not?—Yes.

491. Have you at any time been spending money on advertising when that information has caused you to give up that particular expenditure for that type of advertising?—The answer to that question is "No". It has never happened.

Mr. Cuthbert.] On Subheads D. and E., the difference between the grant and the expenditure is enormous. What is the reason for that? Was it estimated in the first place that this was the amount you would really expend and then the expenditure incurred was an enormous sum above that estimate, or is it the case that you just started out with a grant and had no idea what those services were going to cost. If you take Subhead D., the Expenses of Local Committees, the grant was £5,000 and the expenditure £156,000 odd. Under Subhead E., Advertising, again you get an enormous difference. Might I have an explanation of that.

Chairman.

492. Can you explain that? I think I can.—Yes. For internal purposes we proceed in regard to these matters as though we were under the ordinary procedure of annual estimates. We knew in advance what expenditure under these Subheads we were likely to incur in the following year.

Mr. Cuthbert.] That hardly answers my question.

Chairman.

493. I do not think that is very clear. I should have thought the answer to Mr. Cuthbert was that the small sums shown by way of grant were probably the ordinary peace-time estimates for this service and the very large figures actually expended were regarded as a war-time service?—I misunderstood the question. I thought it was, did these large sums as compared with the sums in the first column arise quite without check or consideration.

Mr. Cuthbert.

494. No. The question was this. You have a figure of £5,000 here which was the grant in respect of expenses of local committees. I want to know first of all whether

that was an estimate which was made, and then how this enormous sum so very different from the estimate was arrived at?—As the Chairman has said, the £5,000 grant relates to the pre-war expenditure. It is merely there as a token amount and the amount spent was provided out of Vote of Credit procedure. (Mr. C. E. I. Jones.) That was made clear in the Estimates as originally presented. There was a footnote which explained that the additional amount over the pre-war cost under these two Subheads would be met by allocation from the Vote of Credit.

Mr. Kirby.

495. I should like to know the date the newspaper proprietors took away this 2½ per cent. which they had been giving?—(Mr. E. C. H. Jones.) That is a Treasury matter. I think it was just about a year ago. (Sir Eric Bamford.) The position is that the newspaper proprietors have the matter in their hands. There is so little space compared with the amount of applications that they fill up the space they want to fill easily. At the end of the war they were in the position of being able to claim that the arrangement which gave this 2½ per cent. discount was subject to review as a wartime measure, and they said: "We are very sorry, but we are not interested in giving you a 2½ per cent. discount any more". The Treasury did its best in a great number of discussions and negotiations but was unable to get any agreement to continue the discount in any form. They had to acquiesce and are in the unhappy position of paying the ordinary rates.*

496. At any rate, that is the official explanation?—That is the real explanation.

Mr. Thurtle.

497. I wondered if Mr. Jones could tell us what sort of things the local committees spend as much as £156,000 on?—(Mr. E. C. H. Jones.) One of the largest forms of expenditure under that head is due to savings centres which were developed during the war in all the large committee areas. Savings centres are offices serving the local savings committees and the savings groups in their area. 500 of those were set up during the war. The increase in National Savings work imposed a very great strain on the Post Office, and it was found necessary to set up this ancillary service. 392 of those centres remain. During the war a great many of them were given to the National Savings Committee free of rent by various bodies and persons. Most of them have to be paid for nowadays. Also most of them were staffed by voluntary workers during the war

*Note by Witness:

In acquiescing in the withdrawal of the 2½ per cent discount for the time being, the Treasury informed the newspaper proprietors that they proposed to re-open the question as soon as circumstances, e.g. as regards the newsprint position, show any material change

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[Continued.]

and nowadays most of them are staffed by paid workers. That is responsible for quite a large part of that sum of £156,000.

498. Does the National Savings Committee think that all these 300 offices are still necessary?—We have to maintain a high pressure propaganda for savings, yes.

499. I have been around various districts and I have found from time to time these offices in a more or less moribund state. You might watch them for an hour, I think, and see no one go in. I just wondered whether in those circumstances it was really worth while retaining so many?—We are watching them very closely, and wherever we find a savings centre which is moribund we close it. Perhaps the honourable Member would find that the local savings Committee concerned in the area might have other views about its moribundity. We consult with our local savings committees where we think there is a case for closing a centre, and we keep watching those cases very closely indeed.

500. May I then just ask you this other question? Do you keep a sort of watch on the results produced by your local committees and determine by those results whether or not a particular office and committee is justifying its existence?—Yes.

Sir John Mellor.

501. I suppose all the paid employees of the National Savings Committee would be just as much civil servants as, say, those employed by the Post Office?—Yes.

502. Does that apply also to the paid employees of the local committees?—No, it does not.

503. Who pays them?—They are paid from public funds, but they are paid from grants allocated to the local savings committees and they are servants of those savings committees and not of our central office.

504. Your central office, is, I suppose, in all matters of policy and, indeed, in all their functions subject to the control and direction of the Treasury? Is it not really part of the Treasury organisation?—No, I do not think there has ever been an occasion when the Treasury have said that the National Savings Committee is to do so and so or is not to do so. There is very close liaison between the National Savings Committee and the Treasury.

505. But if the Treasury did give instructions would not the National Savings Committee obey them? I am not putting a hypothetical question. I am putting a question that really goes to the root of your

constitution?—It is hypothetical because such a situation has never arisen in practice. Even as a hypothetical question I think the answer would be no, that the National Savings Committee must not necessarily follow the instructions of the Treasury. The honorary officers of the Committee and the voluntary members of the Committee might, by offering their resignations, cause such a public protest against any particular order which they disliked that, while the civil servants serving the National Savings Committee, might have to take orders from the head of the Civil Service who is at the Treasury, the National Savings Committee as a body need not.

506. May I ask the Treasury if that statement is accepted?—(Sir *Eric Bamford.*) I think the Treasury would attach value to the voluntary nature of the savings movement and would respect its independence as a voluntary movement. On the other hand if the voluntary movement ran very wildly away from Treasury policy I suspect that the grant next year would be exiguous.

507. May I put it in this way: the Treasury could always have the last word?—The Treasury would have the last word I think—in the following year at any rate.

508. Mr. Jones, you agree with that?—(Mr. *E. C. H. Jones.*) I would agree with that.

Lieutenant-Colonel Alan Dower.] Would I be in order in asking whether any offices (Mr. Thurtle raised the point and I thought he was going to ask this final question) have been found to be redundant and have in fact been closed up?

Chairman.

509. Can you answer that question?—I did not quite hear the question.

Lieutenant-Colonel Dower.

510. Mr. Thurtle asked whether any of these group offices had been found moribund, or rather he asked whether it was possible to find any which were moribund. I would like to know whether any have in fact been found to be moribund and have been closed down?—"Moribund" would be too strong a term to use, but the work that they were doing when the war had ended was such that we have decreased the number from 500 to 392 with the consent of the local saving committees concerned.

Chairman.] Are there any further questions on the Account? May I take it that the Account is approved? (*Agreed.*) Thank you, Mr. Jones. We are much obliged to you.

(*Mr. E. C. H. Jones withdrew.*)

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[Continued.]

CLASS III.

VOTE 2.

BROADMOOR CRIMINAL LUNATIC ASYLUM.

VOTE 4.

PRISONS, ENGLAND AND WALES.

VOTE 7.

COUNTY COURTS.

(On these Accounts no questions were asked.)

COUNTY COURTS FUND ACCOUNT, 1945-46.

(On this Account no questions were asked.)

CIVIL APPROPRIATION ACCOUNTS, 1945-46.

CLASS III.

VOTE 8.

LAND REGISTRY.

VOTE 9.

PUBLIC TRUSTEE.

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 18.

NORTHERN IRELAND SERVICES.

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, 1945-46. OF THE SUPREME COURT OF
JUDICATURE, NORTHERN IRELAND.*(On this Account no questions were asked.)*

IRISH LAND PURCHASE FUND ACCOUNTS, 1945-46.

*(On this Account no questions were asked.)**(The witnesses withdrew.)**(Adjourned till Tuesday next, at 3.45 p.m.)*

TUESDAY, 18TH MARCH, 1947.

Members Present:

Mr. PEAKE in the Chair.

Mr. Benson.
Mr. Cuthbert.
Lieut.-Colonel Alan Dower.
Lieut.-Colonel Hamilton.
Mr. Haworth.

Mr. Horace Holmes.
Sir John Mellor.
Sir Frank Sanderson.
Mr. Thurtle.
Mr. Wadsworth.

Sir FRANK TRIBE, K.C.B., K.B.E., Sir ERIC BAMFORD, K.B.E., C.B., C.M.G., and Mr. C. E. I. JONES called in and examined.

TREASURY MINUTE ON PARAGRAPH 18 OF THE FOURTH REPORT OF THE COMMITTEE OF PUBLIC ACCOUNTS, 1945-46.

Sir ORME SARGENT, K.C.B., K.C.M.G., and Mr. L. R. SHERWOOD, O.B.E., called in and examined.

Chairman.

511. Sir Orme, will you turn to the Treasury Minute on paragraph 18 of the Fourth Report of the Committee of Public Accounts, 1945-46. This deals with the purchase of specialised equipment. This is a matter on which we reported last year. The Treasury Minute directs your attention to our report and says: "My Lords share the views of the Committee with regard to the advantages of centralised purchasing. They understand from semi-official discussions that, with certain agreed exceptions, future Foreign Office requirements for specialised equipment exceeding in value £100 in any individual case will be obtained through the appropriate Supply Department". That is to say, either through the Metropolitan Police or the Post Office?—(Sir Orme Sargent.) Yes, that is so.

512. I think in the year of account about £33,000 of specialised equipment was purchased on the Foreign Office Vote. I think you may take it that that is correct?—Yes.

513. The new arrangement will be that, with certain agreed exceptions, requirements exceeding in value £100 in any individual case will be obtained through the appropriate Supply Department. I do not quite follow what the arrangement is. Does the £100 apply to an individual instrument or implement or to an individual order for a number of instruments or implements?—I think an individual instrument. We had to make certain exceptions because there are particular cases where, owing to the peculiar nature of our requirements, we cannot expect to obtain them through the usual channels. We have tried to reduce to a minimum the exceptional cases.

514. There is a difficulty about our going into this in great detail because the apparatus itself is of a highly secret character?—That is the trouble.

515. On the general point, you spent £33,000 (I think I am right in that figure) during the year 1945-46, but your estimate for the current year is considerably higher than that. I think I am right in saying it is £60,000?—For 1946-47?

516. For 1946-47.—That is quite possible because, of course, that particular branch has been developed and is in process of being developed.

517. But if you are trying to cut down the purchase of this specialised equipment from the figure which we criticised a year ago, it seems a little strange to us that the provision in the Estimates for 1946-47 is higher?—(Mr. Sherwood.) May I explain that? I think the figure you are referring to would include the cost of purchases from the Supply Departments. That is the sum total of everything we buy. We have to pay the Supply Departments for what we buy from them.

518. That is the sum total, is it?—Yes.

519. That answers my point, I think. You cannot give us a separate figure for the amount which you intend to purchase on the Foreign Office Account?—No. I hope it will be very small now, since we have been acting on the Committee's report of last year.

Sir Frank Sanderson.

520. Are you satisfied that the Supply Departments could not be entrusted with the purchase of this particular commodity? As far as I recall, on the last occasion our whole point was that the purchases should be effected through one of the Supply Departments. As far as I can recall, there has been no reason given for not so doing except that the nature of the plant is so secret that it is felt that it should be purchased through the Foreign Office. Can you assure the Committee that you are satisfied that these purchases really could not in fact be made through the Supply Departments without imparting information which should not rightly fall into their hands?—(Sir Orme Sargent.) I can certainly give that assurance, and that is the whole and the sole justification for making the exception, which we have felt is absolutely necessary for security reasons to make.

Chairman.

521. Following that up, are the Treasury satisfied that secrecy is the reason why

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[Continued.]

these purchases must be made direct?—(Sir *Eric Bamford*.) It is only the very small purchases to which the secrecy argument applies. The bulk of the £65,000, as has been explained, will be spent through the Supply Departments. There will be a few exceptions. There will be some *ad hoc* items which the Foreign Office may regard as so secret that they must be purchased direct, but there is no class of things at the moment, which is excluded from the principle of purchase through the Supply Departments.

522. I only put the question because to my knowledge very highly secret instruments were purchased for the security services during the war through the Post Office?—Yes, and that will normally continue. The procedure has been accepted by the Foreign Office and we regard it as satisfactory.

Mr. *Benson*.

523. If I remember rightly, Mr. Chairman (I may be wrong) last year the Foreign Office were buying components and building their own complete instruments. Is that correct?—(Mr. *Sherwood*.) We buy a great deal of raw material, yes, to build up into instruments.

524. In that case, if you are buying components and building the instruments, the limit of £100 does not give any great safeguard. It does not mean very much, because your components normally cost a great deal less than £100?—Very little of the expenditure, I think, would fall into that category.

525. Furthermore, on this question of secrecy, why should purchases through a Government Department result in leakage of secrets, whereas purchases apparently in the open market would not?—The agreed exceptions, I think (the Treasury were speaking of those, too), were cases where purchases would not be in the open market at all. The items would not be bought through commercial channels; they would not be obtainable in commercial channels. In any event, the great bulk of the £66,000 that we are proposing to spend will go almost entirely through the Supply Departments.

Mr. *Haworth*.

526. What was in our minds last year, I think, was the fact that the Admiralty, for instance, and the Air Ministry have very highly secret apparatus, but they have not found it necessary, as far as I know, to adopt this procedure that the Foreign Office adopt. Asdic, for instance (the anti-submarine device), at the Admiralty was supposed to be very top secret, but, as far as I know, they did not find it necessary to purchase direct, and I could not understand why the Foreign Office felt it necessary to have this special procedure?—(Sir *Eric Bamford*.) The exceptions are going to be quite small, and one imagines that 99 per cent. of the purchases will be through the normal channels of the Supply Departments, so that the Committee's wishes, as I understand it, have been substantially met.

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

CIVIL APPROPRIATION ACCOUNTS, 1945-46.

CLASS II.

VOTE I.

FOREIGN OFFICE.

Chairman.

527. Will Members turn to the Civil Appropriation Accounts, Class II, Vote 1, pages 59 and 60. There is a footnote A., Sir Orme, to explain the saving in salaries, etcetera, on Subhead A: Savings were effected on the Code and Cypher School of £690,000, and on the Research Department of £20,000. There was also a saving on the Economic Advisory Branch, and so on. The Research Department used to be called the Institute of International Affairs, did it not?—(Sir *Orme Sargent*.) No.

528. Would you tell the Committee what the Research Department do?—The Research Department function is to supply the historical facts which are necessary in taking decisions on everyday events. It was particularly necessary to have it working at full strength towards the end of the war so as to prepare for the peace-making. But when the war did come to an end we were

able gradually to reduce it, and of course this period covered the period when the war did come to an end and we were beginning to cut it down.

529. But it is not the same thing as that which the public know as Chatham House?—No.

530. Chatham House goes on, does it?—Yes, Chatham House goes on, but we did borrow certain people from Chatham House. They were seconded to us and paid by us.

531. Is the Research Department going to be a permanent part of the Foreign Office organisation?—Certainly, yes. I may say it serves not only the Foreign Office but other Government Departments, too.

532. Does it divide territory with the Central Office of Information in some way?—No.

533. It is entirely for collecting factual data?—Factual and historical data, yes.

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[Continued.]

534. The Economic Advisory Branch is what was left of the Ministry of Economic Warfare is it, after the Ministry of Economic Warfare was curtailed?—Yes.

535. What does the Economic Advisory Branch do?—It now advises the Control Office, I think. (Mr. *Sherwood*.) It has been broken up. It advises the Control Office as regards the German and Austrian side, and anyone who needs advice.

536. Is the Economic Advisory Branch part of the permanent organisation of the Foreign Office, too, or is it just a hang-over from the war?—(Sir *Orme Sargent*.) It is a hangover, and since 1946 it has been reorganised and broken up, and has taken a different form. It is used chiefly now as the economic department for advising on German and Austrian subjects in particular.

537. This is not the Department which furnishes the Foreign Office with general economic information?—No. It is used for the special work of dealing with Germany and Austria. As such it is attached at present to the Control Office for Germany and Austria.

538. Since these Accounts were closed its functions have been transferred to the Control Office?—Yes.

539. So that it will not appear on the Foreign Office Vote again?—No, I do not think it will. (Mr. *Sherwood*.) Part of it will certainly appear under the Control Office. There will be some remnants in the Economic Departments of the Foreign Office, but not as such.

540. Is the Code and Cypher School going to be permanent, too?—(Sir *Orme Sargent*.) Yes, certainly.

Chairman.] Are there any questions on the Account?

Sir *Frank Sanderson*.

541. On page 59 on Subhead C. The expenditure was £25,000 more than the grant. The note states "Due to the increased cost of the carriage of mail to reopened posts." I am not quite sure whether it comes within your purview, but can you tell me whether the costs of the carriage of mail between Government Departments is charged at the usual commercial charges? In other words, are there not any special arrangements for the conveying of mail as between the Foreign Office and any other Department?—(Mr. *Sherwood*.) This would be almost entirely for overseas mails.

542. Yes. I think my question would come better on the Post Office Vote?—(Mr. *Jones*.) It is true to say that for internal mails there is no cash adjustment between the Post Office and other Government Departments. For overseas mails accounts are rendered by the Post Office as an allied service and the Post Office assess a charge on a sample check but there is no cash transaction. They take a specimen day, and assess the charge accordingly.

Mr. *Benson*.

543. On page 60 the note to Subhead E mentions a saving on the provision for the grant to the Metropolitan Police Fund. Is the Metropolitan Police Fund really a Research Department? How did you come to make a grant to the Metropolitan Police? How did the Foreign Office impinge on the Metropolitan Police Fund?—(Mr. *Sherwood*.) It was a grant the Metropolitan Police Fund had for our use of one of their wireless stations. The specialised staff who work there are of great assistance to the Foreign Office in our own wireless works.

544. What about the Railway Research Bureau?—There was no charge for that.

545. I know, but you have saved on it. What is the Railway Research Bureau?—It never had any connection with the Foreign Office. It was something that the Ministry of Economic Warfare used to subscribe to and when we took over the Ministry of Economic Warfare Account we took with it the fact that they had not made a charge in that year.

Mr. *Haworth*.

546. On the Code and Cypher School there was a very large saving of £690,000. That seems a very large proportion of the total Foreign Office expenditure on salaries. But in the note to Subhead D at the bottom of page 59 there is an excess charge for incidental expenses for the same Code and Cypher School. I would have thought there would have been a proportionate decrease?—The answer to that is that it was very largely for travelling expenses incurred in connection with the disbandment of the staff, which produced a saving in salaries.

Mr. *Haworth*.] Yes; that is feasible. Thank you.

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.

547. We pass now to Vote II, Diplomatic and Consular Establishments, etc. Will Members turn to the Report of the Comptroller and Auditor General, paragraph 9

and 10 on page vi. Paragraph 9 deals with the clearing up of our accounts with the Protecting Powers. That is mainly Switzerland, I take it, is it not? I am dealing with the second subparagraph of paragraph

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[Continued.]

9, in which the Comptroller and Auditor General says that the Protecting Power—that is Switzerland, I think—“ had already repaid a substantial sum as unspent, and that the Accounts examined had been found unexceptionable both in accuracy and in technique ”. That is a very good mark for the Swiss Government, is it not?—(Sir Orme Sargent.) Yes, it is certainly.

548. And you are very well satisfied with the work that they did on our behalf?—Certainly.

549. In the next sub-paragraph of paragraph 9 we are told that £4,000,000 was drawn from the Civil Contingencies Fund in July, 1946. The Comptroller and Auditor General goes on to say: “ Including this amount the net total of balances at 31st March, 1946, not subsequently cleared was about £5,800,000, of which some £5,130,000 represented cash in the hands of sub-accountants or expenditure by them not brought to account ”. These are sums of money in the hands of your diplomatic posts overseas, in the main, are they not?—£2,800,000 is the overseas figure.

550. Is not that a very much bigger sum than was normally held by them in peace time?—(Mr. Sherwood.) It would have been if it had been held, but it does not mean that that sum was unspent. It was held by them in the sense that their accounts had not been completely examined by the Foreign Office.

551. You mean that a great deal of the sum is accounted for by slow accountancy?—Yes.

552. It is explained further down where the Comptroller and Auditor General says: “ The increase in these balances appears to be due partly to the financing of diplomatic and consular posts which had been closed during the war and of various special missions and services, and partly to delay in the receipt or examination of accounts from abroad ”?—Our estimate is that on March 31st, 1946, the actual cash in the hands of sub-accountants all over the world was about £750,000.

553. In March, 1946?—On March 31st, 1946, at the close of the year.

554. That would compare with a figure of something like £160,000 in peace time, would it not?—I should find it rather difficult to say what the figure was in peace time. It is a calculation that I think has not been made for some time. I should think that would be about right.

555. But the upshot of this paragraph is that you are suffering from a general delay in getting accounts made up?—We are suffering especially in the completion of the examination of them.

556. Are you taking active steps to accelerate the accountancy?—We are taking

such steps as we can. Our main difficulty is to get the experienced and trained staff necessary to cope with these accounts. They are very awkward and difficult ones. But we are very much alive to the necessity for catching up with the arrears as soon as possible, and we are doing all that we possibly can in order to do that.

557. Are you in touch with the Treasury in regard to the question of staff?—I would not like to say that we are at the moment, but we have been in the past.—(Sir Eric Bamford.) I think we have given the Foreign Office authority for all the staff for which they have asked in this connection. I do not know whether they have been able to obtain the staff or whether the staff they have obtained are as well trained as they would like them to be; but that is another matter.

558. We are told in the last sentence of paragraph 9: “ in respect of some posts the accounts for September quarter, 1945, were not cleared in time for inclusion in the present Account. ” The present Account closed at the end of March, 1946, did it not?—(Mr. Sherwood.) Yes.

559. In the normal way you would have expected to have those accounts cleared, would you not?—Yes, and it is quite possible that they were, to a large extent, cleared, but the charges could not be finally passed to the Vote because enquiries were still going on. The fact that these particular accounts for September, 1945, were not cleared does not mean that there was a complete blank in our knowledge.

560. Are there any questions on paragraph 9? We pass to paragraph 10, which deals with the recovery of advances made to distressed British subjects overseas. That is right, is it not?—(Sir Orme Sargent.) Yes.

561. We are told in the second sub-paragraph that the recoveries are likely to fall far short of the total advances?—I am afraid that is inevitable.

562. Can we be given any figure as to what proportion of the sum advanced is likely to be a total loss?—Up to March 31st we had recovered £2,000,000, as is shown in this paragraph. I am not sure how much we have recovered since, or whether we can make an estimate.—(Mr. Sherwood.) No; I do not think there will be very much to add to the £2,000,000 we had recovered at the 31st March, 1946.

563. That is out of £12½ million of advances?—Yes.

564. It means that about five-sixths will have to be written off?—About £10,000,000 will probably be the final cost of this operation.

565. Why is it that so much is in fact lost?—The greater part of the relief went to people who had no particular private

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means, but were dependent entirely on their day to day earnings, and fell into distress immediately the war broke out and had to be sustained throughout the many years of war. That is why it was expensive. In the case of the Far East, it was most peculiarly expensive because the Japanese, having us at a complete disadvantage, the alternative being that our people in their hands would die, extorted a really dreadful rate of exchange in Swiss francs in order to get the currency needed to keep our people alive. They were probably asking five or six times the real value of Yen, and we had no alternative but to comply because there were no other means of bringing help to these people. They were practically all interned.

566. Have you an organisation for following this matter up and seeing that recovery is effected for where it is financially possible?—Yes; that was the organisation which was responsible for bringing in the £2 million. We have reached the stage now (I think the Treasury will agree with me on this) at which we have probably collected all the good money that is really accessible. There may be a little left. We hope to get some back from overseas Governments, the Dominions and Colonies, whose nationals we helped; but as far as the private persons are concerned, I think all those capable of paying, without serious hardship (and we do not want to inflict that on anyone) have paid.

567. In peacetime, I suppose, when British Consuls and others assist temporarily distressed British citizens overseas, you would expect to recover the money in practically all cases?—Yes. We are very much stiffer than that in peacetime. Our easier attitude on this occasion was due entirely to the fact that most of these people had a dreadful time during the war and had got to start trying to make their fortunes anew as soon as they were released. It was quite hopeless to ask them for money.

568. If I got into trouble at Monte Carlo I should expect to be approached when I got home by somebody on behalf of the Foreign Office?—Yes, I hope you would be asked, at the time when assistance was given to you, to undertake to repay on demand—and we should have no hesitation in invoking the aid of the Treasury Solicitor.

Mr. Benson.

569. Even if the person were the Chairman of the Committee of Public Accounts?—I must be excused for having spoken in general terms.

Sir Frank Sanderson.] The position, as you have stated it, Mr. Chairman, is not strictly accurate, because if you had lost all your money gambling in Monte Carlo the Monte Carlo authorities would give you

a first-class passage home to wherever you lived—and take care you went.

Chairman.] Are there any questions on paragraph 10?

Mr. Thurtle.

570. In the second subparagraph of paragraph 10 the Comptroller and Auditor-General says: "... records are discontinued in any case where advances are deemed irrecoverable, and for this reason figures of the amounts written off are not available." It sometimes happens in ordinary civilian life that a person who is not able to meet a debt at a given time afterwards, owing to changed circumstances, is able to do so. If you did let off a person to whom you had advanced a considerable sum and whose circumstance afterwards changed, if you had a record surely you might take steps to recover it from him?—We have considered that very carefully, but we came to the conclusion that the amount of manpower needed to keep the records up to date and thereafter to follow up, shall I say, the 15,000 or 20,000 cases involved, would be not sufficiently productive in results to make the work worth undertaking.

571. But I suppose some of these cases might involve fairly considerable sums, like £1,000, £2,000, or something like that?—That would be a very considerable sum. £500 or £600 would be more probable, I think.

Lieut.-Colonel Hamilton.

572. Are the people concerned in such cases informed that you will be glad to receive back the amount of money advanced if, later on, they find themselves able to pay—as a natural sort of thing the right thing by the country?—Anyone who seemed at all likely to be able to repay would be told something on those lines, I think. In fact, it if were as good a case as that it would probably be one of the cases where we thought there was money available and we should follow it up. But the great bulk of these people are small people who were resident abroad and are still abroad—governesses, jockeys in France, ex-soldiers from the last war who married French and Italian women and German women and set up small businesses, and they were completely ruined by the war; and to follow them up I think would be quite a waste of time.

573. I was not contemplating following them up, but merely indicating to them that they had actually a debt and, if they ever were able to repay it, they might consider doing so?—They know that because they all sign, at the moment of receiving the relief, an undertaking to repay.

Mr. Haworth.

574. I cannot understand this paragraph, Mr. Chairman; I must be stupid. I do not

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understand the last sentence to which Mr. Thurtle referred: ". . . and for this reason figures of the amounts written off are not available". A Vote of Credit provision is made. There must be some record of what is either collected or written off, surely?—The individual amounts for each person are not available. The sum total is available.

575. Is this figure covered in the expenditure on Subhead GG. on page 64, a figure of £9,319,000? Is it included there?—Yes.

576. The note to that Subhead is: "A provision of £12,600,000 for this service was made in the Vote of Credit"?—That is it. That is the Subhead which provided the money.

Mr. Haworth.] I want to ask a question on that figure when we reach the Account.

Chairman.

577. Are there any further questions on paragraphs 9 and 10? We turn to the Account, which is at page 61. There is a footnote in explanation of Subhead F.—an explanation of the increase under Subhead F which is "Law Charges, Incidental Expenses, &c.". The note says: "Due generally to increased expenditure abroad owing to rising prices, and to the supply of petrol to His Majesty's Embassy at Angora". Could we be told a little about the supply of petrol to His Majesty's Embassy at Angora?—It is quite simple. Petrol is scarce in Turkey, and expensive, and it pays the Embassy (and we are still doing it) to buy in bulk for official use and for the private use of members of the Embassy. We buy in bulk. Very careful accounts are kept of the purchases and the issues against cash, and the cost of purchases of petrol which is used for official travelling is charged up as official travelling, and for the rest the recipients pay for it and the credit will be found in the Appropriations in Aid. The advantage of the scheme is that we get a greatly reduced price through bulk buying.

578. If it is so advantageous would it not be a good system to adopt at various other Embassies abroad?—It might be, but the mechanism is rather complicated. It means a considerable amount of work in order to keep the account running. The prime motive, in fact, in the case of Turkey was the shortage.

579. Can you tell us the amount included for the purchase of petrol in Angora in this £18,000 increase?—(Sir Orme Sargent.) £4,300.

580. Subhead Q on page 62 is "Relief of British West Indian Subjects". The Committee went into this question fairly thoroughly last year on the Colonial Office Vote. It is for the relief of certain British West Indians who went to Cuba and San

Domingo during the sugar boom in the 1920's and then fell on hard times about 1944. Thereafter the Colonial Office provided some money to pay various grants to them, although they are not in British territory. I do not know quite why the Subhead has been transferred to the Foreign Office Vote. Can you tell me that?—(Mr. Sherwood.) Yes. It is because, as you say, it was not being incurred in British territory and therefore became rather a matter for the Foreign Office, and also because one of the reasons for making the payment was the political importance of trying to prevent these people from coming into too violent contact with the local authorities.

581. So it was decided that this particular baby was better held by you?—Yes. We did not exactly rush for it, but somebody had to go on doing it, and between us and the Colonial Office we felt bound to agree that it was more ours than theirs.

582. The relief is in fact administered by the British Consular Offices?—Yes, by the Consuls.

583. I think a paper was put in last year giving us the scales of relief paid by the Colonial Office?—I have not the actual figures here, but I have no doubt that there was such a paper.*

584. I do not want to repeat it now. I was just interested in the Subhead being transferred to you. I want now to ask a question about Subhead W: "Passport Visa Control Abroad." The expenditure was in excess of the grant; but on page 65 we find an Appropriation in Aid set out in the details of receipts; it is the second item: "Fees from Passport Control Officers for grant of visas," a figure of £19,700. That is to say, there is a heavy loss nowadays on the grant of visas abroad?—That is true.

585. Whereas I am told in peacetime we used to make a profit on this service?—Yes.

586. Can you explain why there should be a loss and why the fees should not be so increased as to make ends meet?—To take the increase first, the increase is due to higher prices for practically everything. That means higher allowances for the Passport Control Staff, there being more posts as countries were freed from enemy domination. That accounts for the increase. The small receipt in fees was due (I am speaking now of the year of account) almost entirely to the small number of visas which was granted. The fees are in accordance with Geneva principles, and it would be, I think, quite impossible to increase them individually to any extent without the most violent protests.

587. They are fixed by international agreement, are they?—Yes. There is a standard fee of 10 gold francs, which was agreed internationally.

* Q. 4626. Evidence to Fourth Report, 1945-46.

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588. Is the standard now the same as it was before the war?—It is 10 gold francs. It is all under revision at present. For a long time the American visa was charged at 10 dollars because the Americans charged 10 dollars for visas for British subjects; but that was reduced reciprocally to 10s. some years ago, and there it stands. The present tendency is to try to get rid of the visas themselves as well as the fees; but I should like to say there, if I may, that one of the main functions of the Visa Control is *not* to grant visas as well as to grant them.

589. I am aware of that. So that the organisation is more expensive than it would be if it were merely to hand out visas? The fewer visas you grant the more expensive the organisation becomes. With freer foreign travel, or travel generally, you surely would expect this account to balance again one day?—The fees should go up, we hope, but there will still be the cost of maintaining the organisation.

590. There will not be any fees charged, I suppose, to these displaced persons. They will be under Ministry of Labour auspices, will they not?—(Sir Orme Sargent.) I should think so. (Mr. Sherwood.) I should think almost certainly the fee would be waived there.

591. I want to ask you about Sub-head DD on page 63: "Inter-Governmental Committee on Refugees (Grant in Aid)." The grant was £1 million and the expenditure was £301,000. Can you tell me what the money was spent on by the Inter-Governmental Committee on Refugees during this year?—(Sir Orme Sargent.) It involved the cost of the Director's office, meetings of the Committee and, of course, our own Government's share of the contribution which amounted to £1,944 in 1945.

592. What did our contribution amount to?—£1,944

593. If that was our contribution, what was all the rest of the money spent on?—(Mr. Sherwood.) That was the contribution to administrative expenses.

594. There must be a contribution to the actual operations of the Committee?—Yes. (Sir Orme Sargent.) During the year 1945 the Committee carried on relief operations in a variety of countries—France, Belgium, Italy, Germany, Hungary, Spain and North Africa—and the expenditure amounted to £877,000.

595. Was its work not overlapping with that of UNRRA? Was it working in different countries, or was it performing a different function?—It was performing a different function.

596. Because this Inter-Governmental Committee on Refugees was formed originally in order to get refugees out of Germany in 1931 or 1932—I remember—

or was it in 1938?—(Mr. Sherwood.) About 1938.

597. I am a little puzzled to know how it could carry on the rescue of refugees in the Year of Grace, 1945?—(Sir Orme Sargent.) The need for it became greater as the number of refugees increased, as the war went on, especially at the end of the war. It was the only existing body for dealing with the problem at that time. We are, as you know, now negotiating for the setting-up of an International Refugee Organisation which we hope will come into being this year, but until it comes into being, this is the only international body to deal with this vast problem of literally millions of refugees who have to be supported.

598. It is a grant in aid. The great part of it was not spent, so that money remains with the Inter-Governmental Committee of Refugees, does it?—(Mr. Sherwood.) No, it was not issued. We confine our issues to this Committee to the amount that they are actually spending, because their operational expenditure is dependent on the prior agreement of the two main sponsors, the British and the United States Governments. So they have nothing in hand at the end of their financial year, except a small working balance for carrying over.

599. I have a question to put to you on page 65. In the details of receipts authorised to be used as Appropriations in Aid, the first item is "Consular Fees, Fines, etc.," and the amount realised was £262,800. Are you satisfied that there is good control of the small individual sums received by Consular Officers?—Yes, I am quite satisfied about that. The control has been very carefully worked out over many years and has been improved from time to time, and I think we can say that it is as close and good a control as can be managed.

600. These are fees paid for witnessing documents, and things of that character, are they?—There are about 108 services in the table. It includes such things as marriages.

601. And each thing has its price in the table?—Each thing has its price.

602. And you have an accounting system which makes sure that the money does come back?—We use adhesive stamps of a variety of values, and the issuing officer has to account for his stamps and, also for any profits on foreign exchange which he makes.

603. Under "Receipts of other Classes" on the same page there is a heading "Karabuk Dispute: sum accruing to His Majesty's Government in respect of unfulfilled contract", a figure of £36,600. I think the Committee would like to hear how this £36,600 came to be paid over to the Foreign Office, what

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the dispute was about and what the final result of the dispute is to the British taxpayer?—(Sir Orme Sargent.) This arose out of a long-standing dispute between British contractors and the Turkish authorities in connection with the construction of an iron and steel plant at Karabuk. His Majesty's Government agreed to provide the fee and expenses of an eminent engineer to arbitrate on it. The decision was taken not simply to aid the contractors but as a demonstration of the intention of the Government to support British interests in Turkey. The arbitration succeeded, thanks to our intervention, and as part of a general plan for the furtherance of commercial relations with Turkey the British Government agreed to provide approximately £200,000 worth of material free of cost for completing and adding to the plant. The contractor's claim against the Turks, assessed by the arbitrator at £36,000, was surrendered by them as part of the arrangement, and it is for that reason that it appears in the Account. In fact they surrendered the £36,000 to us, and we gave them £200,000 worth of material to get the factory working satisfactorily.

604. As I understand the position, this steel works was in process of erection when the war began?—Yes.

605. The purchasers (I am not quite clear if that was the Turkish Government, or whether it was a private firm in Turkey) complained about the work?—They complained about the quality of the machines supplied.

606. Their claim in the ordinary way would have been against the contractors or the engineers here, would it not?—Yes, against the British contractors.

607. But I take it the Foreign Office's view is that British prestige was involved, or something of that sort?—Yes, very much so.

608. Therefore, you have come to the help of the contractors?—There was British prestige from the point of view of the contractor, but also there was a political interest in building up a steel industry in Turkey generally. That had a political interest, especially during the war, at a time when we were never certain that Turkey might not be brought into the war.

609. I gather that the Ministry of Supply have recently or are going in the near future to put this steel works in proper working order at a cost of £200,000. Is that right?—(Mr. Sherwood.) Not exactly. The Ministry of Supply are not going to do the putting in order. It is simply that they have made the materials available to the Turkish Government free of charge as part of the settlement.

610. That has nothing to do with the completion of the steel works?—Yes, that would be for the completion, but the Ministry of Supply are not doing the work.

611. I just want to get it quite clear as to why the British taxpayer is coming to the aid of the contractors who otherwise, if there were a liability on the contract, would have been the first people for the Turkish Government to have recourse to?—They were. The point was that there was a considerable doubt on which side the balance of right lay. In fact, as the account shows, the contractors had such perfectly valid claims against the Turks for not putting proper facilities at their disposal, and so forth, that the independent arbitrator assessed the contractors' damages at £36,000 owing to Turkish default. It was a very confused issue.

612. Who was the independent arbitrator?—He was an American engineer.

613. The parties agreed on arbitration rather than going to Court, either to the Turkish or the British Courts?—The Foreign Office rather forced arbitration on both parties in order to get the whole thing cleared up because it was poisoning the atmosphere generally.

614. Now everybody is happy again?—I think so, yes. We have not heard anything about it for a long time.

Chairman.] Are there any questions on pages 61 to 66? We will take page 67 separately.

Sir John Mellor.

615. On page 64, Subhead GG is: "Care of British Interests in Territory under, or liberated from, Enemy Control". To what extent have these sums expended been recovered or to what extent will they be recovered if possible from the enemy countries who were in control of the territories in question?—(Mr. Sherwood.) The enemy countries have no responsibility for these payments.

616. In the footnote to the Subhead it says: "Of the remaining expenditure approximately £2,400,000 was incurred on the relief of British subjects, including Maltese". Would that not apply to the Maltese who were in Italian territory during the war?—Yes.

617. Are we not taking any steps to claim against the Italian Government for the sums we had to expend on the care of those British Maltese subjects? I understand a lot of these British Maltese subjects were deprived of their property by the Italian authorities in North Africa?—Yes, some of them. I do not think a great deal of our expenditure was on Maltese—not a great proportion of it. A considerable sum went on Maltese, but the great proportion of it was on British subjects from this country.

618. I was rather taking the Maltese as an example. We have had to expend money in order to compensate these Maltese for loss of property in North

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Africa through the action of the Italian authorities during the war?—Not to compensate them for loss of property, but simply to provide them with means of subsistence. It is poor relief, really.

619. Is any claim being made against the Italian authorities?—Not as far as I know.

Sir Frank Sanderson.

620. I have one question relating to exchange, on page 62, Subhead J. The footnote to the subhead says: "Due to a reduction in the number of career and established officers available for service at Consular posts overseas owing to delay in recruitment, and to a reduction in allowances payable in China owing to the fall in the exchange value of the Chinese dollar". Does that infer that moneys are transferred and credits are opened and remain in whatever country it may be in sterling, and the sterling is then exchanged to Chinese currency when and as required. In other words, is it kept in sterling until the very last moment?—As far as possible, we do all our exchange transfers in sterling.

621. But there are occasions when the sterling is exchanged to the foreign currency?—Yes.

622. And you stand either to make or lose to the extent to which that exchange has been effected?—Yes. We avoid any sort of speculation of that kind if we can but sometimes we are rather forced into it. We cannot always keep our holdings down to the smallest amount that we would like.

623. I think the Committee would like your assurance that you do in fact retain the minimum amount of any foreign currency against sterling?—I can give that assurance quite readily.

Lieut.-Colonel Hamilton.

624. I notice, comparing Subhead A, "Salaries, &c.", in the Foreign Office Vote on page 59 (with which we have already dealt) with Subhead A in the Diplomatic and Consular Establishments, &c., Vote on page 61, the salary figure is £1.7 million for the Foreign Office and just £1 million for Diplomatic and Consular Establishments abroad. Does that £1.7 million for the Foreign Office refer only to people who are working in this country and not to the people abroad, and does the figure on page 61 include all our expenditure on salaries for people in Embassies abroad? The proportion seemed to me, who is quite unacquainted with the thing, rather surprising, that a great deal more should be spent on the Foreign Office than on establishments abroad. I did not know whether possibly the £1.7 million for salaries under the Foreign Office did include in actual practice people who are abroad?—

(Sir Orme Sargent.) No. For the year under review a great many posts were shut owing to the war and have been reopened since, so that in the following years there will be a considerable increase in the salary list for abroad. There is bound to be. But during the war a great many posts were closed.

625. It seemed a bit top heavy, just at a casual glance?—It does not mean only the people in the Foreign Office, because you have to include, for instance, our old friends the Code and Cypher School, which the Foreign Office is responsible for. It is not in the Foreign Office or an integral part of the Foreign Office, but it comes under the salary list.

Mr. Benson.

626. On Subhead F. on page 62, with regard to the petrol supplied to the Embassy at Angora, you said that you had a rather complicated control system or supply system?—(Mr. Sherwood.) Yes.

627. Does the cost of that fall within the £4,300, or is that purely the cost of the petrol?—That is the cost of the petrol.

628. What was the cost of the overheads?—I do not think they have been costed. In fact I am sure they have not been, because the work has been done by the existing staff at the Embassy as part of their ordinary duties.

629. Apparently it is somewhat costly because you said there was no advantage in using this method elsewhere?—I am sorry: I would not like to put it in that way. It is rather that we were hardly in a position, owing to lack of staff, to undertake the responsibility of running a petrol supply account for all posts all over the world.

630. What percentage of the petrol was used by your local staff on private account?—I think I would rather not try to guess that figure. I could probably find out and let the Committee know.

631. How did you supply this petrol?—Was it supplied free?—No. It was bought in the market from the petroleum companies only in bulk instead of in small quantities.

632. I know, but how did you charge the diplomatic staff? Did you charge them for petrol or was it supplied to them free, and they could use it either on public service or for private use?—No. They paid for the petrol they used on private business.

633. They did?—Yes.

634. At the cost to you?—At something a little better than the cost to us.

635. On Subhead Q. "Relief of British West Indian Subjects," on page 62, if I remember rightly, one of the troubles was

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that your scale of relief was so adequate that you had great difficulty either in getting them into work or getting them repatriated?—I do not ever remember hearing that point. It may have come up on the Colonial Office Account. On the contrary, the objection to repatriation is simply first of all that there have not been any ships to carry them and, secondly, that there is no room for them in the islands to which they belong. I do not think it is the attraction of being on relief that is keeping them in Cuba and San Domingo.

636. That is the impression I got last year from the Colonial Office. One of their difficulties was that the scale of relief was not particularly an incentive to them to find fresh work?—That has not ever come to the Foreign Office. The many reports we get—we have regular reports from our missions—all agree that nothing more is being done than is absolutely necessary to keep these people from starvation.

637. With regard to your visa charges, is there a separate organisation for visas? Is that not done by the local consular service?—At some places, but generally in each country there is a specially equipped visa section which deals with the more difficult aspects of the control of movements.

638. On the exchange rates, I thought the Treasury Chest Fund dealt with the exchanges on payments of salaries abroad?—(Mr. Jones.) Only at a limited number of posts where there is an Army Command Paymaster, at places like Gibraltar, Singapore. But not in foreign countries all over the world.

639. The Treasury Chest Fund is something which is attached primarily to the army and is not for the foreign service as a whole?—It is at a limited number of posts, and it is available for any department which happens to have requirements for local currency at that post, but primarily in centres of the world where there are Service Departments.

Mr. Haworth.

640. On Subhead W. "Passport Visa Control Abroad", on page 63, about which the Chairman asked you, we are told that the duty is not only to grant visas but turn them down. That does not apply in cases where the visas are abolished—in France and Belgium, for instance. Will there be a saving due to the fact that visas have been abolished in those countries?—I think the answer to that is that it must depend on how far abolition will go generally, because a passport control officer might very well be required in Paris although there was no visa required for Frenchmen, in order to cope with the other traffic passing through Paris from countries whose nationals still required visas to come here. It would perhaps leave a rather open door

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to withdraw that particular control in one particular place like that.

641. It is rather alarming to think that if we are abolishing visas with different countries we are sending the cost of the remaining visas up all the time. On page 64 the final sentence in the footnote to Subhead GG. is: "No accounts of expenditure are available". To which items does that refer? Does it refer merely to the last sub-clause, Zurich and the Japanese Government?—Yes, I think that refers only to the supplies that were sent out through the Apostolic Delegate.

642. It obviously does not apply to the whole footnote?—No.

Mr. Haworth.] It might have been better had it been worded so that it was clear that no accounts of expenditure were available for those particular items.

Chairman.

643. Are there any further questions on the Account on pages 61 to 66? We turn to page 67 which is a statement showing the expenditure on Special Missions and Services charged against Subhead I. The first item, the Control Commission, only covers a few months of the year, does it not?—Yes, the initial period when the Foreign Office was engaged in building up a nucleus staff for the Control Commission to begin operations.

644. We shall get further opportunities I think of discussing the affairs of the Control Commission, shall we not, Sir Frank?—(Sir Frank Tribe.) Yes, there is a paragraph in my Report on the War Office Vote on which this Committee will be able to discuss that.

645. There is an item "Contributions by His Majesty's Government to the Expenses of the United Nations War Crimes Commission". That has nothing to do with the Nuremberg Trial, has it? That was the Commission set up under Lord Wright to prepare the ground, was it not?—(Sir Orme Sargent.) Yes.

646. What is the Middle East Centre for Arab studies?—(Sir Orme Sargent.) That is an attempt to set up some organisation for enabling our officials generally to learn Arabic languages.

647. Where does it live?—Mr. Sherwood.) It is in Jerusalem at the moment, but its locus in the immediate future is rather uncertain. (Sir Orme Sargent.) It does play a very useful function in enabling us to send people who are going to specialise in Arab countries to learn Arabic.

648. It is a sort of further educational training centre for members of the Foreign Office is it?—It is, and it is also available to the Sudan Government, the British Council and to commercial firms generally.

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649. You think the money is quite well spent?—Certainly. We should be very much hamstrung without it.

Chairman.] Those are all the questions I have to put. Has any Member any question?

Mr. Thurtle.

650. I would like an explanation of the item on page 67: "Expenditure in connection with the maintenance of Prince Paul of Yugoslavia". I do not know whether we could have some explanation of that?—Our trouble with Prince Paul is that we were presented with him by the Yugoslav Government, as you remember, at the beginning of the war and we decided more or less to lock him up. We might have let him go free, but we did not; we thought he was too dangerous a person. Having locked him up, we had to maintain him. After all, he arrived penniless; he fled from his country. He had no means of his own. The result was that we found ourselves saddled with his maintenance throughout the war. We have now I think got rid of that obligation. We have let him loose in South Africa to fend for himself. The war is over, and therefore we do not see why we should go on paying for him. Therefore, he can move about and do what he likes, but during the war he was not allowed to do so. He had to stay where we put him, and we put him in Kenya and, having put him there, we had to pay for him.

651. These were really internment expenses?—Yes. We practically interned him, although we did not call it that.

Mr. Benson.

652. Where is he now?—He is in South Africa now.

Sir Frank Sanderson.

653. Judging by the expenditure you were not unduly extravagant, I think, in

(*Mr. Sherwood withdrew.*)

Chairman.] We will take the next item on the agenda, the Treasury Minute on paragraph 19 of the Fourth Report of the Committee of Public Account, 1945-46, which deals with the British Council Book Export Scheme, when we come to para-

graph 18 of the Report of the Comptroller and Auditor General in the Civil Appropriation Accounts, because that is the paragraph in which he deals with that matter.

Mr. Benson.

654. Why are you maintaining the family of the Assyrian Patriarch in Cyprus?—That is a very old story. It dates back to the last war when we incurred obligations towards the Assyrian community in the Middle East. They fought on our side, and were very useful and we felt under an obligation to maintain the head of the community ever since.

655. Apparently the £609 for 1945-46 is the total expenditure. Is that right?—It is £609, yes.

656. Am I misreading what "Total to 31st March, 1946" means?—(*Mr. Sherwood.*) That is correct. Until we had to come in with public expenditure at that stage, their maintenance was provided from charitable sources in this country—or very largely in this country. It was only in this year of account that we, for the first time, had to provide money to fulfil our undertaking to the Government of Cyprus, where the family was, so that they would not have to keep them.

Mr. Haworth.

657. I would like a word of explanation of this item of £93,000 for the International Waterways Commissions. Perhaps I ought to know what they are, but I do not.—The very large figure there is the expenditure to date. The expenditure in the year of account was only £208. It goes back through history quite a long way to the general arrangements which were made between friendly nations in Europe for the control of navigation and the proper control of the waters of the Rhine, the Danube and the Elbe, and this was His Majesty's Government's share, including the cost of our representative.

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

VOTE 3.

BRITISH COUNCIL.

Mr. A. J. S. WHITE, C.M.G., O.B.E., and Mr. R. DAVIES called in and examined.

Chairman.

658. Will Members turn to paragraph 11 of the Report of the Comptroller and Auditor General? Sir Orme, if you find difficulty about answering questions in regard to the British Council, perhaps the other witnesses will answer the questions?

—(*Sir Orme Sargent.*) May I refer the matter to them because I think they know much more than I do.

659. Paragraph 11 is merely factual. It deals with the transfer of part of the charge for the British Council to the Colonial Office Vote. Paragraph 12 is:

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[Continued.]

"Accounts". Apparently examination of the Accounts has on the whole shown a satisfactory position. The Comptroller and Auditor General states that local examination of accounts carried out by officers of the Council was: "sufficient to demonstrate that the financial transactions were properly presented except in one case in which shortcomings in financial control had come to light and for which the Accounts were being reconstructed. Comments were made on the doubtful propriety of some charges and on the incompleteness of inventories". I think we should like to hear a little bit about this matter?—(Mr. White.) I think the reference to the one case in which shortcomings in financial control had come to light was at Buenos Aires, where we had great difficulties. The representative himself had proved to be not very strong on the financial side and the support we had given him did not prove to be quite adequate, although we thought it would be. That has all been rectified since, and Sir Cameron Badenoch, the head of our Audit Department, we sent out to look into things in Buenos Aires. We did not realise they had been quite as bad as they were until his report came in. He was able to straighten things out, and we sent out a first-class accountant from this country, and things are now quite straight there, and we have a good representative.

660. When the Comptroller states that: "comments were made on the doubtful propriety of some charges" what class of thing is he referring to?—I do not think that is referring to Buenos Aires. I think that is referring to various places he has visited. I think that refers to cases which he regarded as rather borderline expenditure in relation to our Charter. He has raised one or two cases in regard to the support of British schools abroad, and other instances like that, which are rather on the borderline.

661. I am much obliged. That is to say, there is no suggestion of any impropriety on the part of your representative in Buenos Aires. Is that right?—I think that is so, except possibly the habit of charging things to wrong heads. I do not think there was any suggestion of actual waste of money.

662. That is right, Sir Frank, is it? You did not mean here to suggest any impropriety on the part of the representative in Buenos Aires?—(Sir Frank Tribe.) No impropriety. Our opinion was that they ought to have referred certain things home for decision which they settled on the spot, and there was a general lack of control of financial arrangements, and we thought there was some evidence of extravagance, but nothing suggesting fraud.

663. Extravagance in the way of entertaining?—That kind of thing, yes.

664. I suppose you take the view (perhaps Sir Orme can answer this) on behalf

of the British Council, that British Council representatives have of necessity to entertain to some extent?—(Sir Orme Sargent.) Certainly. I think it is part of their functions.

665. If you are going to allow entertaining, you have to lay down a code of rules of some sort, have you not, in order to keep it within reasonable limits?—Yes, and that is usually, I suppose, within the limits laid down, the allowance given for that purpose.

666. Perhaps Mr. White can tell us this: Are your representatives overseas given a fixed sum to spend on entertaining, or is their expenditure allowed after examination?—(Mr. White.) Each representative has an allowance for entertaining, and I think in this case the allowance was fixed fairly high because this was a representative of some standing who was starting up our work in Buenos Aires, and it was rather important for him to make contacts.

667. Does the individual have to show at the end of the year that he has spent the money?—There is, I understand, a block grant, as well as the representative's personal allowance. He gets an allowance which is paid over to him, for which he does not have to account, and then there is a block grant for other purposes.

668. If there is a suggestion in this case of undue extravagance in entertaining, it must mean that part of the block grant has been claimed?—I should like to refer to my Finance Officer on that. I am not sure whether it was overspent or not. (Mr. Davies.) I am not sure that the extravagance to which Sir Cameron Badenoch drew attention was in the nature of entertaining. I think that the representative, when he had a project, was rather apt to tell his accountant of the period, who was rather too subservient to his orders, to find heads against which to charge it; and expenditure was often charged against heads which were inappropriate for it; and that led to the possibility of extravagance in all sorts of expenditures, and made financial control extremely difficult, if not impossible.

669. When you say, in your last sentence, Sir Frank: "It was also represented that there was an urgent need for a comprehensive code of instructions and rulings" by whom was that representation made—by the officers of the Council?—(Sir Frank Tribe.) By Sir Cameron Badenoch, who has been appointed by the Council to examine the audit system. I understand that, having been found to various out-stations, he came to the conclusion that there was need for codification of instructions.

670. Do you agree with that recommendation, Mr. White?—(Mr. White.) Yes, we do, and we are starting to prepare it. It is held up because we are just about to put to the Foreign Office

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and the Treasury a scheme for a new permanent Council Service, and it would perhaps not be worth while to issue a code at this moment, when we are hoping to get all our regulations revised, and get them into train and in line with the Civil Service regulations.

671. You are bringing your regulations into line with the Civil Service?—That is being done more and more. That process has been going on.

Chairman.] Are there any questions on paragraph 12?

Mr. Cuthbert.

672. I take it that the very senior officials of the British Council who went out there are all unpaid, but they get block grants for entertaining. They have no salaries?—The representative is a paid member of the Council's staff, as distinct from lecturers and people we send on visits to other countries, who are unpaid. The reference here is to the representative, who is a whole-time servant of the Council.

Chairman.

673. We pass to paragraph 13. "Financial Control." This paragraph tells us what has been happening about the Accounts. There are now, I gather, to be detailed Estimates for the British Council as there are for other Government Departments. Your Estimates are going to be produced in detail?—That has already started.

674. May I ask the Treasury this question? Is the grant to the Council still to be a Grant in Aid?—(Sir Eric Bamford.) Yes.

675. But a Grant in Aid of a curious character in that you will recover anything that is unspent. Is that right?—There is a special arrangement for a carry over, with certain rather definite limits, but the general trend, as Mr. White says, is to administer the British Council much more closely on the lines of a Government Department.

676. I gather from the latter part of the second paragraph that you are getting a system of audit which will be wholly satisfactory?—(Mr. White.) Yes, we have actually selected the three people who are to take on these posts of Regional Auditor.

677. Are there any questions on paragraph 13? We pass to paragraph 14, which deals with the purchase of motor vehicles. Can you tell me how many motor-cars are operated by the British Council?—(Mr. Davies.) 165 vehicles of all kinds.

678. "In December, 1945," we are told, "the Council decided upon the purchase of 53 motor vehicles required for

various overseas posts and also of a further 26 towards the requirements of 1946-47 if these could be bought and paid for before the 31st March, 1946. Orders were accordingly placed for these vehicles and also for 16 for the home service at a total estimated cost of approximately £50,000." There are a good many motor-cars there—53, 26 and 16, which is a total of 95 motor-cars, at a little over £500 apiece. The Comptroller and Auditor General goes on to say: "Of the cars ordered, only six were delivered by the end of the financial year, but the Council made advances amounting to approximately £38,000 to the manufacturers, representing 80 per cent. of the cost of the remaining 89 vehicles." It is very unusual to make an advance to a motor manufacturer before you get the car delivered, is it not?—(Mr. White.) It is unusual. The reason we did it was that at that time we knew we should have the money during that financial year, and we knew that we should be much harder up in the following financial year. That is why we did it. We had rather got the impression from a Treasury decision on two previous cases that the ruling they applied in those two cases that we must not spend ahead like that could not apply in a case like this. We referred the question to our Director of Audit, Sir Cameron Badenoch, and he thought that for a Grant-aided body it was probably a legitimate thing to do, but that we ought to get the sanction of superior authorities, so we referred it to the Foreign Office and they felt with us that it was a legitimate thing to do, and so we did it.

679. Sir Orme, you are responsible for the British Council, are you not?—(Sir Orme Sargent.) I am afraid I am, inasmuch as the Foreign Office presents them with their Grant in Aid.

680. Surely this transaction is very difficult to defend, this payment in advance of £38,000 before the motor cars were delivered or ready for delivery because they had the money in the till that year and feared they would be hard up in the ensuing year? It looks as if they were trying to put a "quick one" across the Treasury?—I do not know whether the position is different because it is a Grant in Aid and not arising out of an Estimate. I do not know whether the Comptroller and Auditor General considers it makes any difference.

681. Would you say there was a difference, Sir Frank?—(Sir Frank Tribe.) I do not think it really makes any difference. The same principles of public finance apply, and in particular if any of us want to order a car in advance I do not think it is usual to put down a deposit for it. One does not usually pay for a car until it is delivered. The Council were deliberately advancing this sum in respect of these cars

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because they wanted to get rid of the money while they had it.

682. Does not this seem to show a great weakness in the system of Grants in Aid?—It has never been permitted in any other Grant in Aid.

683. It is an inducement to spend for fear that your Grant in Aid will be cut down in the ensuing year?—(Sir *Eric Bamford*.) I do not think it is a weakness in the Grant in Aid system. We did think this arrangement was wholly wrong, but I think it was done in good faith. If we had been consulted about it we should certainly have said no.

684. But you ought to have been consulted, surely?—I think we should have been consulted. We were consulted about the second purchase, but we did not know of the earlier arrangements.

685. In paragraph 15 we are told that "while Treasury concurrence was sought for the purchase of the batch of 26 cars required for the 1946-47 programme at an estimated cost of £16,000, the Council had deemed it unnecessary to obtain similar approval for the 1945-46 requirements, on the grounds that a separate order was made out for each country concerned and that the sum involved in each case was below the limit at which Treasury authority was required"?—(Mr. *Davies*.) Might I explain that? This is quite a different point from the point of payment in advance. The two batches of cars were alike in the fact that money was paid in advance, but they were different in this respect, that one batch was included in the Estimates of the year in which we then were, and therefore had received approval already. The other batch were cars which we, as stated here, needed the following year; therefore they had not been approved even individually. That is why we, as we were anticipating the budget of the next year, applied through the Foreign Office to the Treasury for permission to buy them at all. It was not applying for permission to pay money in advance in respect of them. It is a separate point from the point of payment in advance which is being dealt with here. We were criticised on two grounds—one that we had paid money in advance, and the other that we had placed a bulk order for cars without reference to the Treasury; but they were two distinct criticisms.

686. Both, surely, justifiable?—In the second case we have consulted the Foreign Office and I understand that this is a question about which they also find difficulty, when a number of individual items, which do not individually require Treasury approval, are ordered in one bulk order. We do not by any means invariably do that. Sometimes, for example, we have bought a car overseas in the country where it was required; we do not necessarily buy the

cars we require in one bulk order from, say, Rootes' firm, as we did in this instance, and it did not occur to us that by lumping together several orders which individually did not require Treasury approval we were incurring the necessity of going to the Treasury for approval. I do not know whether I have made that clear?

687. You have made your point clear, but I think it is a very bad one, because if you are ordering 30 or 40 cars from a single firm—I do not know how many firms you were dealing with here?—I think two, Austin's and Wolseley's.

688. —surely you do not get round the Treasury rule that contracts over a certain sum should be submitted to them by signing forty forms for forty motor cars instead of placing your order with a single firm? If you can do that the Treasury rule is quite nugatory?—(Mr. *White*.) I think the point is rather that at that time the Treasury regulation was that we need only refer to them in respect of the expenditure of 1000 guineas £5,000 if it was not covered by Budget provision. In one of these two cases the expenditure on the cars was in the Budget; it was covered by Budget provision and, therefore, their rule did not apply. We have certain regulations about reference to the Treasury for sanction for expenditure, and one of them is that before spending amounts over £5,000 from our unallocated reserve we have to go to the Treasury for prior sanction; but that did not arise in this case because it was actually in our Budget, in the Budget for each country, so it was already covered.

689. I do not want to make too much of this matter, but when we come to the last subparagraph of paragraph 15, does it not, on reflection, seem to you now a pity that you were running into the market for nearly 100 motor cars when there were hundreds of Government surplus vehicles which might have been obtained at very much less money?—We did afterwards consult the Ministry of Supply about cars, but our experience definitely is that, for our purposes anyhow, it is not economical to buy second-hand cars. You have to pay very high prices for them and we think it is very much wiser to get new cars if we can get new cars.

690. You think it is a matter of prestige for a British representative to be driving in a new car?—No, I was thinking more of this—and I think a private person takes the same view now—that for a second-hand car you have to pay almost as much as for a new car and the second-hand one wears out very much more quickly. The only reason you buy a second-hand car is that you cannot get a new one.

691. I assume that at the end of the war there were many thousands of new cars being delivered to the Services which could have been placed at the service of the British

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Council?—(Sir Eric Bamford.) There are really two points here. One is that we would have liked to see the purchases being made through the Ministry of Supply, even of new cars. Secondly, if there were surplus cars available (and of that I am afraid I have not any definite knowledge) we would have liked the British Council to have considered whether these surplus cars should not have been obtained. I, personally, would rather agree with Mr. White that probably it was very much better for his purposes to buy new cars for these overseas posts. I doubt if it would really be an economy to buy the surplus cars unless the surplus cars were themselves, in effect, new cars.

692. You take the view that they might have been bought more cheaply through the Ministry of Supply?—As a general rule, we would certainly like purchases of this sort made through the Ministry of Supply rather than direct.

693. Did you get any discounts allowed on the number of cars you ordered?—(Mr. Davies.) In the case of the Wolseley cars the price charged to us was exactly the same as the price to the Ministry of Supply. In the case of the Austin cars it was a little higher, but we obtained much quicker delivery than we should have done if we had gone through the Ministry of Supply, so we are told.

Chairman.] Are there any questions on paragraphs 14 and 15?

Mr. Thurtle.

694. I see the Comptroller and Auditor General states that only 6 of these cars were delivered by the end of the financial year. I wonder how many of the 155 have been delivered by now?—All but two, and the two are expected at any moment.

695. You made this advance of £38,000 to the car manufacturers without any necessity to make it. That was of your own volition? They did not press for this amount?—It was because we had the money then with which to make the advance, and I think the argument about the Grant-aided body is that, that we are not, as a Grant-aided body, obliged to surrender our balance of our Grant in Aid at the end of the year. I think that is what was held by the Foreign Office to distinguish us from a Government Department spending money.

696. It is quite certain that the manufacturers did not insist upon this advance payment?—No, not at all. They did not.

697. It was public money which might have been earning interest if it had been in your hands?—It was.

698. In spite of that you passed it on to the manufacturers?—Yes, we did.

699. I want to know whether it is within the discretion of the British Council to order any number of cars it likes? Has it *carte blanche* to order just as many cars as it likes?—We did not do it entirely at our own discretion. We referred it to the Foreign Office.

700. You did it at the suggestion of the Foreign Office?—No. One batch of these cars was budgeted for in our Budget which had been passed by the Foreign Office and had also been passed in a general way by the Treasury. The second batch of cars, the smaller batch, was in our Estimates for the ensuing year, which had not yet received formal Treasury approval. In respect of that batch we applied to the Treasury through the Foreign Office for approval to make the purchase, which we received.

701. Could you tell me how many out of these 155 cars were needed for this country, and how many were going abroad?—I cannot tell you how many of these cars were required for this country, but the total number of cars which the Council has in the London area is 15, and it also has in the Provinces, at its centres, cars in Manchester, Leeds, Liverpool, Newcastle, Stratford, Oxford, Cambridge, Salisbury, Bristol, Horsham, Exeter, St. Andrew's Edinburgh and Glasgow. The total of all those cars is 35 in the United Kingdom, and the remaining 130 cars are overseas. That is the distribution at the present time.

Sir Frank Sanderson.

702. In the second subparagraph of paragraph 15 the Comptroller and Auditor General states that the Treasury expressed regret that the Ministry of Supply were not consulted, since they had a large number of surplus cars for disposal. It says "surplus cars" not necessarily secondhand cars. I rather understood you to state, when the Chairman was questioning you, that you preferred new cars to secondhand cars; but there is no suggestion in this paragraph that the Ministry of Supply were offering second-hand cars. It merely states that they were surplus cars to their requirements. Have you any cause for thinking that they were, in fact, second-hand cars?—(Mr. White.) No. We assumed, I suppose wrongly, that reference was being made to surplus second-hand cars, such as those which were in the dumps at Missenden and places like that.

703. Surely there is no reason to assume that they were second-hand cars since they refer merely to "surplus cars". On that I would submit that they refer to new cars not required—cars surplus to their requirements. At any rate there is nothing in the paragraph to suggest that they are making references to second-hand cars which are being offered?—(Mr. Jones.) Perhaps I could add that the Ministry of Supply have been obliged to buy a certain

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quantity of new cars since the end of the war. I think there was an answer given in the House quite recently that they have been purchasing new cars for Government Departments; to the extent to which they had any new cars in stock which they could have supplied to the British Council, the number of such cars available for other Government Departments would have been decreased.

704. I do not think I can pursue the matter further. There is a more important question which I am very anxious to raise, and it is this. I, personally, am very concerned at the fact that is disclosed that a substantial amount was paid in advance. Is it not a fact that it is a common practice for the Service Departments who receive Grants in Aid to see that the whole of the Grant in Aid, if it is at all possible, is expended before the end of the financial year? I would go further and ask: Is it not a fact that you circulate your departments asking them to see that the money is expended before the end of the year, and that one of the greatest difficulties of spending departments often is to spend the money before the close of the year. And if that be so, is that not surely conducive to extravagance rather than to economy?—(Mr. White.) I think it was natural here, when our commitments were expanding, we were being expected to work in Europe and new areas on the same amount of Grant in Aid as we were getting already, so that we knew that we should ill be able to afford those cars in the subsequent year, and of course our keenness to expend our money according to the financial year was frustrated by this delay in the delivery of the cars by the car people.

705. Yes, but could the Committee have a direct reply to my question? Is it not a fact that the spending departments do everything which is possible, even to the extent of circularising the directorates of the respective spending departments, to spend money and get rid of it before the end of the year?—Yes, that is so. I think that is inherent in the Grant in Aid system.

Sir Frank Sanderson.] I say, Mr. Chairman, that that must be wrong. I have thought so for the last 25 years, and I really do think it is a matter which we ought at some future time to take up.

TREASURY MINUTE ON PARAGRAPH 19 OF THE FOURTH REPORT OF THE
COMMITTEE OF PUBLIC ACCOUNTS, 1945-46.

CIVIL APPROPRIATION ACCOUNTS, 1945-46.

CLASS II.

VOTE 3.

BRITISH COUNCIL (continued).

Chairman.

710. We pass now to paragraph 18. This deals with the company formed for the export of British books, does it not?—(Mr. White.) Yes.

Chairman.

706. I quite agree with you. Are there any further questions on paragraph 15? We pass now to paragraph 16, which deals with money due to the Council from members of the staff who have retired. Is that right?—Not necessarily those who have retired. I think some are still with the Council, but it is mainly to staff who have made tours, and so on, and have had advances for that purpose.

707. I think you might tell the Committee what is the largest sum due from any one individual here?—It must be quite small.—(Mr. Davies.) Might I explain that they are not necessarily sums due to the Council from the individual. In the great majority of cases they are sums which are awaiting writing off to a Subhead. For example, a lecturer is sent abroad, or a Council official is sent abroad on a tour, and he is provided with a certain sum on an imprest account to take with him. When he comes back he has to submit an account of his expenditure or his claim for subsistence allowance, as the case may be, to offset that initial loan and it is by no means certain that this sum, or any great proportion of this sum, is money due to the Council. When the accounts are settled up there may be a claim by the official against the Council, although in that case it is unlikely that it would not have been pressed; but at any rate it is only a small proportion of this figure which is money due to the Council from individuals. It is mostly a case of money which is in suspense before being written off to a Subhead. I am afraid I do not know, without reference to our accounts department, what is the largest sum which could be said to be a debt here.

708. I take it some steps are being taken to bring the accountancy up to date?—Yes, we are trying to activate this matter and get rid of it as quickly as we can.

Chairman.] Are there any questions on paragraph 16?

Mr. Thurtle.

709. You have no doubt that most of this money, at any rate, will be either accounted for or is recoverable?—That is so.

Chairman.] Are there any further questions on paragraphs 16 or 17?

711. It is the subject of a Treasury Minute on our last report. If Members want to refer to it it is paragraph 19 of our Fourth Report of 1946. The Committee said a year ago: "Your Committee doubt

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[Continued.]

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". On that the Treasury minuted a letter to the Foreign Office and another to the Central Office of Information. They said to the Foreign Office: "My Lords will be glad if the Secretary of State will ensure that the British Council take the necessary action to liquidate the Company as soon as possible". The only question I want to ask on paragraph 18 of the Report of the Comptroller and Auditor General on the Civil Appropriation Accounts is this: is it necessary to incur any expense at all in the liquidation of this company? We did not recommend the liquidation of the company. We simply said we regarded its formation as unnecessary. I should have thought the company might just have been allowed to wither and wilt, and it seems to me a little unnecessary to liquidate it, unless the Treasury insists, Sir Eric. Does it seem to the Treasury essential that this company should be wound up?—(Sir Eric Bamford.) We regarded it as essential to clear up the accounts of this company before the operations were transferred to the Central Office of Information.

712. You thought it essential to incur the expense of a formal winding-up?—I do not think the expenses are very substantial.

Chairman.] Are there any questions?

Sir Frank Sanderson.] Are there any accounts available for any time since the company was formed?

Chairman.] Yes—we have those accounts and we are going to take them in a moment.

Mr. Thurle.

713. I take it there is no intention on the part of the Central Office of Information to carry on any trading of this sort, even if the company comes to an end?—That has been agreed in principle and the arrangements have been settled between the Treasury and the Foreign Office and the Central Office, laying down the countries in which this arrangement will hold good. It amounts really to those countries where it is considered desirable to push British books, but where, for currency reasons, the ordinary British trader cannot operate at the moment.

Chairman.

714. Are there any further questions on paragraph 18 of the Report of the Comptroller and Auditor General? We turn to the Account, which is at page 68. This shows the Grant for the year 1945-46 as £2,900,000 and the expenditure as

£1,817,000, the expenditure being very substantially less than the Grant. You did not have any money on the Colonial Office Vote in respect of this year, did you?—(Mr. Davies.) Yes.

715. In respect of 1945-46?—Yes, it was £600,000, which was reduced to £500,000, in a Supplementary.

716. For the year 1945-46?—Yes. (Mr. White.) That is mentioned in paragraph 11.

717. So that if one wants to arrive at the total expenditure one has to add on the sum falling on the Colonial Office Vote?—(Mr. Davies.) In the Council's Accounts the whole expenditure is shown together, and the Colonial Office expenditure is shown as a reimbursement to the Foreign Office.

718. There is a note to this Account which says: "The expenditure of the British Council includes the payment of £23,000 to Mr. C. K. Ogden in full and final settlement of all claims by him or the Orthological Institute. In consideration of this payment, Mr. Ogden has agreed to assign his copyright in Basic English to the Crown." When it says "full and final settlement" does that mean that there were some payments made to Mr. Ogden in respect of the purchase of Basic English over and beyond this £23,000?—(Mr. Davies.) No. Nothing else was paid to him.

719. £23,000 is the cost of purchase of the copyright of Basic English, is it?—(Mr. White.) Yes.

Chairman.] Are there any questions on the Account?

Mr. Thurle.

720. Who assessed the value of the copyright of Basic English at £23,000?—(Mr. Davies.) It was decided by a Treasury Committee. (Sir Eric Bamford.) We had before us a recommendation from the Foreign Office in this matter and the amount which was paid, as I understand it, represented the purchase of the copyright and certain claims for compensation in addition.

721. What I do not quite understand is whether, if one bought a copy of Basic English and one wished to produce other volumes in Basic English, there would be any necessity at all to pay Mr. Ogden or anybody else the copyright fee in respect of the use of Basic English?—(Mr. White.) The copyright is in this list of 700 words, or whatever it is, so that you cannot use the system which uses this vocabulary of 700 words without getting permission.

722. There can be no copyright of an English word, and if one chose to take this list and out of the list write a volume, surely there would be no violation of any copyright there?—I believe there would be. There was an answer given in the House of Commons the other day on that

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[Continued.]

subject. The Minister of Education answered the Question and I believe that is what he said, that the copyright did exist in this list of 700 words.

Lieut.-Colonel *Hamilton*.] Yes, that is so.

Chairman.

723. You have transferred it to the Board of Education, I understand?—They have taken it over. We had the money in our Budget for Basic English that year, this sum of £23,000. We were asked, as a result of the Treasury Committee's deliberations, to find this sum of £23,000 which was in our Budget and we paid a cheque for that to Mr. Ogden and the copyright was surrendered to the Crown, and now the Ministry of Education have taken all responsibility.

Mr. Thurtle.

724. Could we have this clear? If I were to write a pamphlet and, by some great

(Accounts of the British Council for the year ended 31st March, 1946.)

(Accounts of the Book Export Scheme for the years ended 31st March, 1945, and 31st March, 1946.)

Chairman.

727. I want to ask a question about the accounts of the company. I am looking at the balance sheet for the year ended March 31st, 1946. You will see a note under "Sundry Debtors: Colonial and Foreign Booksellers" which says: "Some part of these debts may prove to be irrecoverable. Any loss arising therefrom is recoverable from the British publishers concerned." That surely must mean that these debts are going to be recovered from somebody. Can you explain how it comes about that if the foreign purchaser does not pay the British publisher has to do so?—(Mr. *Davies*.) I think it would be truer to say that the British publisher will not be reimbursed. We have had some discussion about the wording of this note on the Board of the company. I think the actual wording was agreed by our Audit Department with the accountant of the company, but it seemed curious wording because I think probably irrecoverable debts arise in this way, that the books were sent to South America under the Book Export Scheme and the bookseller receiving them had either to pay for them within six months or else had to return them, under what was rather inaccurately described as a sale or return clause, to the British Council. It was arranged that the British Council should pay 50 per cent. of the published price of those books to the publisher in England and then use them for its own purposes. But in many instances, owing to lack of control and multiplicity of booksellers in Latin America, the bookseller neither paid for the book nor returned it under the sale or return clause. There is thus some number of books which probably represent a dead

coincidence, it contained no other words except those contained in Basic English, would I then be violating the copyright?—(Mr. *White*.) If it went to law I think they might decide it was more than a coincidence.

Sir Frank Sanderson.

725. Would you regard the purchase price as equitable, just and reasonable?—I think we felt that as it had passed a Treasury Committee it probably was justifiable.

Mr. Haworth.

726. This is perhaps not for the witness to answer, but now that the Ministry of Education have taken it over, is there still a copyright in it?—I think the copyright vests in the Crown, now.

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

loss, and I think the publishers are hoping that the Council will regard itself as under a moral obligation to make good those losses, or at any rate to pay 50 per cent. of the purchase price of those books. The Council have not admitted that moral obligation and we are waiting until the liquidator has finished collecting all the debts which can reasonably be collected, so that we can see what the size of this remaining problem is.

728. *Sir Frank*, I hope you understand. I must confess that I do not understand it very clearly?—(Sir *Frank Tribe*.) It seems very difficult to reconcile that with the statement in the Account that any loss arising is recoverable from the British publishers. (Mr. *Davies*.) I raised that point myself with the auditors. I am not an accountant. They tried to convince me that it meant the same thing as the publishers, not being, in fact, paid for the books by the bookseller in Latin America. It sounded an upside-down way of saying it. (Sir *Frank Tribe*.) We shall have to wait on events.

Chairman.] Are there any questions on these Accounts?

Mr. Thurtle.

729. I presume this note should have some qualifying phrase in it: "Subject to no moral sacrifice on the part of the British Council" or something like that?—(Mr. *Davies*.) I have a note of the actual amount; it is the latest figure, on the 28th February. The number of debtors under the Book Export Scheme was 90, and the sum owed was just over £7,000. The principal sums were in Brazil and in the Argentine. How much of that £7,000 will

18 March, 1947.] Sir ORME SARGENT, K.C.B., K.C.M.G., [Continued.
Mr. A. J. S. WHITE, C.M.G., O.B.E., and Mr. R. DAVIES.

be collected remains to be seen when the liquidator has finished his operations, but obviously if he collects no more and the British Council did accept the moral responsibility which the publishers are trying to thrust upon us, we should be responsible for a debt of £3,500, but we hope that a good deal will be collected, and we have not yet admitted the moral responsibility.

Sir Frank Sanderson.

730. Since the Council bore all the overhead and extraordinary charges I take it that we shall never know the exact net loss of this little company adventure, shall we? The indirect contribution which the Coun-

cil has made by way of staff and premises is shown in the Trading Account. It shows more or less *pour mémoire*, what the value has been of the salaries, rent and general expenses met by the Council. In this Account it was £7,719. In the year before I think it was £4,000 odd. Those could be added up, of course, and the total cost computed.

731. Is it proposed at any time to draw an account which will show the net profit and loss?—I do not think we have considered the point.

Chairman.] Are there any further questions on those Accounts?

(Mr. White and Mr. Davies withdrew.)

CLASS II.

VOTE 4.

LEAGUE OF NATIONS.

Mr. L. R. SHERWOOD, O.B.E., recalled and further examined.

Chairman.

732. Will Members turn to Vote 4, the League of Nations? The Account is on page 69. The expenditure was £85,870, which seems a lot of money for us to be paying to an organisation which, if not completely defunct, is very moribund?—(Sir Orme Sargent.) It is defunct now, of course, but at the time of these Estimates it was not defunct. It was still alive and our contribution had to be provided for in the Estimates, and I think it more or less corresponds to what was estimated.

733. Shall we get some part of this back in the winding-up?—(Mr. Sherwood.) That comes into the general picture of the disposal of assets, which is a very difficult one at present and is being discussed by the United Nations who are the inheritors. Exactly how far the assets, or credit for the assets, will be proportioned between the contributors to the League of Nations is not yet clear, but it seems probable that the size of the total contributions to the League of Nations of its former members will have some bearing on the extent to which they are credited with a share in the assets.

734. You mean those who have paid their subscriptions regularly will have a prior claim; you hope, in the disposal of the assets?—Yes.

735. What is going to happen to the buildings at Geneva? Have you any idea?—Those are the property of the United Nations.

736. Have they been handed over to United Nations?—(Sir Orme Sargent.) They have certainly been handed over, but what financial arrangement has been made I do not know.

Chairman.] Are there any questions on this Account?

Mr. Thurtle.

737. I take it that those countries which are members of the United Nations but who were not members of the League of Nations will have no vote in deciding how these assets are to be divided?—(Mr. Sherwood.) That is rather one of the delicate topics that I mentioned just now as not having yet been settled.

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

VOTE 15.

UNITED NATIONS.

Chairman.

738. Will Members turn to paragraphs 32 and 33 of the Report of the Comptroller and Auditor General? Paragraph 32 is, I think, mainly narrative. I should like to ask Sir Orme whether the standards of salary paid by United Nations are excessive, in his opinion, in relation to what Civil Servants get in this country?—(Sir Orme Sargent.) They are certainly better. It must be remembered that they

have to live in New York, which is an expensive place to live in.

739. Will they get these salaries free of tax?—I am not sure about that. (Mr. Sherwood.) That is rather outside our province. It is a matter of how American taxation will hit them.

740. I thought we had passed legislation here to exempt from tax servants of the United States?—Employed in this country, yes.

18 March, 1947.]

Sir ORME SARGENT, K.C.B., K.C.M.G.,
and Mr. L. R. SHERWOOD, O.B.E.

[Continued.]

741. Surely there is to be reciprocal legislation in the United States? The Treasury, I think, said that they would put in a paper on this?—(Mr. Jones.) We promised to put in a paper on this matter when the Committee was dealing with UNESCO on the Ministry of Education Vote.*

Sir Frank Sanderson.] I raised it on UNESCO.

Chairman.

742. I have no further questions on those two paragraphs. Has any Member

* See Appendix 4.

of the Committee any questions? We turn to the Account, which is at page 102. Perhaps I might ask whether the other members are paying their subscriptions as well as we are?—(Mr. Sherwood.) Yes. The United Nations was perfectly solvent last October. It had got in practically the whole of the working capital that it expected.

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

VOTE 16.

FINANCIAL ASSISTANCE TO GREECE.

Chairman.

743. On this Account there is a sum of £10 million for stabilisation of the Greek currency. This money, I believe, has been paid into a joint account at the Bank of England. Is that right? (Sir Orme Sargent.) It is, yes.

744. It was a condition of our paying it that the Greek Government should make a contribution or make a similar payment?—Yes, certainly.

745. Do you know the amount of the Greek payment?—The Greek payment was £15 million.

746. Was it in fact paid to the Bank of England?—Yes.

747. There was provision also, was there not, for some joint control over the Greek currency?—Yes, and there is a committee set in Greece for the purpose, in Athens.

748. I wondered if that committee was functioning?—Yes, it is.

Chairman.] I rather suggest to the Committee that we might go into the general question of aid to Greece on some other occasion. It is rather late now.

Mr. Thurtle.

749. May I put one question? Has this achieved its purpose?—I think it may be said it has achieved it. The Greek currency is still in being. It has not collapsed completely. One cannot tell exactly what would have happened with-

out this, but I should have thought it would have absolutely gone down the drain if it had not been for this stabilisation.

Mr. Cuthbert.

750. Could you explain to us in what form this £10 million assisted? How did it assist the Greek currency? Was it backing Greek currency in some way?—It was for investment, but held in securities approved by the Bank of England as backing for the Greek currency.

751. It was not gold?—No, it was to be invested. I cannot say that some of it may not have been invested in gold. Possibly the Bank of England decided that some gold would be held, but that was rather the bankers' side of it, and the Foreign Office side of it ended with the lodging of £10 million sterling with the Bank of England. (Mr. Jones.) I think the balance is invested in Ways and Means at the Bank of England.

Chairman.

752. Will the Committee ever see how much of that has been lost?—This Committee?

753. Yes.—It was voted in the form of a loan and this Committee will certainly have to be informed if the loan is not fully recovered.

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

(The Witnesses withdrew.)

(Adjourned till Tuesday next, at 3.45 p.m.)

TUESDAY, 25TH MARCH, 1947.

Members present:

Mr. PEAKE in the Chair.

Mr. Benson.
Mr. Cuthbert.
Lieut.-Colonel Alan Dower.
Lieut.-Colonel Hamilton.
Mr. Horace Holmes.

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

Sir FRANK TRIBE, K.C.B., K.B.E., Sir ERIC BAMFORD, K.B.E., C.B., C.M.G., and
Mr. C. E. I. JONES called in and examined.

CIVIL APPROPRIATION ACCOUNTS, 1945-46.

CLASS II.

VOTE 5.

DOMINIONS OFFICE.

Sir ERIC MACTIG, K.C.B., K.C.M.G., O.B.E., called in and examined.

Chairman.

754. Will Members turn to the Civil Appropriation Accounts, 1945-46, to page 70, which is the Dominions Office Account? Sir Eric, this is your head office Vote?—(Sir Eric Mactig.) Yes. "

755. I have no questions on this Account. I think it is quite in the usual form, is it not?—Yes.

Chairman.] Has any Member of the Committee any questions on the Account? May I take it that the Account is approved? (Agreed.)

VOTE 6.

DOMINIONS SERVICES.

Chairman.

756. Will Members turn to paragraph 19 of the Report of the Comptroller and Auditor General? This paragraph deals with Swaziland and the Bechuanaland Protectorates. The Comptroller and Auditor General states: "Neither of these territories has received a Grant in Aid of expenses of administration etc. since 1941-42, but the control of their finances by the Treasury continued during 1945-46". I think you explained to us last year why this Treasury control has continued, but I think we should like to be reminded of the reasons for it?—(Sir Eric Mactig.) The short point is, I think, that the solvency of those two territories is due to wartime conditions, which may not last. It has therefore been arranged that the Treasury should retain their control of their finances.

757. The position continues the same today, does it?—Yes.

Chairman.] Are there any questions on paragraph 19?

Mr. Benson.

758. Why do these protectorates come under the Dominions Office? Do all protectorates come under the Dominions Office and not the Colonial Office?—These are the South Africa High Commission Territories, as we call them; they are administered by the United Kingdom Government but they are very closely connected with the Union of South Africa, and the United Kingdom High Commissioner in the Union is also the Governor of the territories. He is responsible to the Dominions Office.

Chairman.

759. Are there any further questions on paragraph 19? We pass to paragraph 20 which deals with Newfoundland. Is the position there similar; that is to say, that there has been wartime prosperity, but you are afraid the position may relapse?—Yes, that is substantially the position. The products of Newfoundland are still fetching very high wartime prices at the moment.

760. Is there a big Budget surplus there at the present time?—Yes, they have a considerable Budget surplus.

761. Can Newfoundland look forward to a prosperous future?—As I think I have explained on previous occasions, this prosperity is rather temporary, in that one cannot foresee what will happen when the economic situation changes. Newfoundland is very much dependent upon the price obtained for fish, wood pulp and commodities like that, which it produces and exports. These are at a very high price at present, but before the war they were at a very low price; and what will happen rather depends on the world economic situation.

762. But if Treasury control is continued during a prosperous period there will be all the more reason for continuing it when the slump comes, will there not?—Certainly. That is the idea, I think. The Treasury control has not been abandoned, because we are still closely watching the situation with a view to a possible deterioration of the position in the future.

Chairman.] Are there any questions on paragraph 20?

25 March, 1947.] Sir ERIC MACHTIG, K.C.B., K.C.M.G., O.B.E.

[Continued.]

Mr. Benson.

763. I should, again, like to know exactly why Newfoundland comes under the Dominions Office? Is it because it is so closely connected with Canada?—It always has come under the Dominions Office. It is a Dominion.

764. It is a Dominion?—It is a Dominion without Dominion status at the moment.

Mr. Thurtle.

765. Has the Dominions Office any idea as to how the economy of Newfoundland might be improved, apart from just waiting on the question of the prices of fish and wood pulp? Is any attempt being made to develop other sources of wealth in Newfoundland?—The question has been considered continuously for many years, but I am afraid the conclusion is that Newfoundland is so lacking in resources that it is bound to be a plaything of world economic conditions.

Lieut.-Colonel Hamilton.

766. This question is perhaps going rather wide. Is there any question of linking up Newfoundland with Canada?—That is rather a question of policy, is it not, which hardly arises on this Account? If you want me to speak about that—

Chairman.

767. I think perhaps you had better keep off that subject, or it will make the discussion rather wide. Are there any further questions on paragraph 20? We turn now to the Account, which is at page 71. Sub-head H is a Grant in Aid to Eire in respect of compensation to transferred officers. The footnote tells us: "The provision made was based on information furnished by the Government of Eire". That expenditure is not checked at all on behalf of the United Kingdom Government?—There is no argument as to what is to be paid. We repay the Eire Government what they pay to the individuals, and that is settled. It is a question of bonus. The only argument arises as to the estimate. It is difficult to estimate in advance what the amount for the year will be, because it depends on the cost of living, and we are bound to accept the estimates furnished by the Eire Government.

768. But so far as expenditure is concerned, that is actually checked, is it?—Certainly.

769. Could you tell me something about Sub-head I: "Contributions to Imperial Economic and Research Services: Grant in Aid"? What are these Imperial Economic and Research Services?—There is an inter-Commonwealth body called the Imperial Economic Committee, and another called the Imperial Agricultural Bureaux, which have various Subheads. Those are bodies to which the United Kingdom, as well as all the Dominions, contribute. They were

set up as the result of Imperial Conferences in the past. This sum is the United Kingdom Government's contribution.

770. Where are the headquarters of these two bodies?—They are here.

771. What proportion of their expenditure do we pay?—It is 30/100ths for the Imperial Agricultural Bureaux. That was arranged in consultation with the other governments.

772. It is a little less than 1/5th is it?—Yes, that is about it. The balance is provided by the Dominions, the Colonies, India, Burma and the Anglo-Egyptian Sudan.

773. Is this a normal figure for our contribution, or has it decreased owing to war circumstances?—For the Imperial Economic Committee it is very small in comparison with what it was before the war because the committee has not been very active during the war.

774. This is only a fraction of what it normally is in peace-time?—Yes. It is a five years' set contribution.

775. But it is a much larger figure in peace time?—Yes. The contribution represents 1/10th of the normal United Kingdom contribution. It is much less than was contributed by the United Kingdom prewar, but it is a fixed figure based over a five years' period.

776. It is much less than it was before the war?—Yes.

777. It is only about one-tenth of what it was before the war?—I am talking about the Imperial Economic Committee now.

778. Yes. Does the same thing apply to the Imperial Agricultural Bureaux?—No.

779. What is our normal contribution in a peace-time year? Perhaps we ought to split up this figure of £14,000 odd into its two constituent parts, in order to make it clear?—The contribution to the Imperial Economic Committee was only £427, which, as I said, represents one-tenth of the normal United Kingdom contribution. When you come to the Imperial Agricultural Bureaux, you have to split it up over a number of Bureaux. Particulars of the payments in this year are as follows: General contribution, £7,975; the Imperial Institute of Entomology, £1,185; the Imperial Mycological Institute, £677; the Parasite Laboratory, £700, and research schemes (which includes a potato scheme), £1,435. Those, again, are the United Kingdom contributions to schemes to which the Dominions also contribute.

780. Are these, in your opinion, valuable bodies?—Extremely so. Apart from the value of the work they do, they are that very rare thing, an inter-Imperial body; that is to say a body on which both the United Kingdom and the Dominion Governments are represented and to which they jointly contribute.

25 March, 1947.] Sir ERIC MACHTIG, K.C.B., K.C.M.G., O.B.E.

[Continued.]

781. Do we get any benefit from this expenditure other than the fostering of Imperial sentiments?—We get the benefits of the research.

782. Which is mainly agricultural?—Yes; of course reports are published, and so on.

783. Does the Bureau transmit the result of its investigations to the Ministry of Agriculture?—It is available to all departments here.

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

VOTE 7.

OVERSEA SETTLEMENT.

Chairman.

784. Will Members turn to the Account which is at pages 73 to 75? On page 75 there is a statement of loans issued under the Empire Settlement Acts and of the amounts outstanding. There are two headings "Assisted passages" and "Land settlement." So far as "Assisted passages" are concerned, could you tell me what proportion of the loans you recover and what proportion you have to write off as irrecoverable?—(*Sir Eric Machtig.*) You are asking about (a) "Assisted passages"?

785. Yes, that is right?—It falls under four heads. In the case of Australia, the total loans were £383,495 and the amount written off £52,688. Then we have Canada: £115,198 is the total amount of the loans, and the amount written off is £24,318. In the case of New Zealand £21,251 is the total amount of the loans and the amount written off £1,208. Then Voluntary Societies, £28,433 is the amount of the total loans and the amount written off £7,045.

786. That gives a total write-off of about £84,000?—Yes, £85,000.

787. On loans of £548,000?—That is right.

788. That is about one-seventh, or about 13 or 14 per cent.?—15.5 per cent., I think it is.

789. When we look at "Land settlement," below, it looks as if there had been no loans for land settlement in New Zealand or Australia. Is that right?—There were none in this Account.

790. Can you give me the corresponding figures of what you have written off as irrecoverable here?—On land settlement, Canada, a total of £873,396, as in the Account. The amount written off is £481,922. That is 55.18 per cent.

791. Have you the figures for Southern Rhodesia?—Yes. In the case of Southern Rhodesia the total advance is £25,854 and the amount written off £1,516, which is just over 4 per cent.

792. The amount written off in respect of Canada is rather disappointing, is it not?—These figures relate to transactions which took place a long time ago. This is the settlement that took place between 1920 and 1930 and, as you know, the

economic situation became very grave in 1930 and resulted in a great many failures. I think that, broadly, is the reason.

793. Was there no assisted settlement after 1930?—Very little; practically none.

794. Is there any scheme in operation now for assisted settlement?—As has been announced in the House, arrangements have been made with Australia and Southern Rhodesia for assisted passage schemes, but they are not yet in operation owing to the shipping position.

795. But the projected scheme does not extend to loans for establishing people?—No. That is confined to assistance to passages.

Chairman.] Are there any questions on this Account?

Mr. Benson.

796. On page 73, Subhead E is: "Settlement of Migrants" an expenditure of £6,001. What is that?—That represents first of all £5,000, capital expenditure contribution to the construction of a Fairbridge School in New South Wales, i.e. child migration. It also represent certain maintenance charges for children who have gone to British Columbia in Canada and New South Wales in Australia under the Fairbridge Scheme. Then there are certain grants to the New South Wales Settlers' League, which is a league which provides after-care in Australia for settlers who have gone there. I may say that the Commonwealth Government contributes a similar amount to that which we contribute. There is certain minor expenditure on child migration, i.e. payments to Dr. Barnado's and the Catholic Council for British Overseas Settlers in Australia.

797. It would appear from the note on page 74 that there are current losses on the Land Settlement Scheme. The losses are still continuing, if I gather rightly?—Yes. They are all in respect of the old schemes, but of course the settlers are still there.

798. Surely the settlers ought to be doing very well with the present prices of cereals?—I think the fact that they are doing so is, on the whole, reflected by the fact that repayments, as you will see from page 74, amount to £23,000. The

25 March, 1947.] Sir ERIC MACTIG, K.C.B., K.C.M.G., O.B.E.

[Continued.]

failures are just isolated cases. The losses mentioned lower down on page 74 are not very considerable.

Mr. Benson.] It is curious that people who have lasted right through the depres-

sion should now take the opportunity of going broke!

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

VOTE 12.

DEVELOPMENT AND WELFARE (SOUTH AFRICAN HIGH COMMISSION TERRITORIES).

Chairman.

799. Will Members turn to the Account, which is on page 92?—I think the Committee would be interested to hear; shortly, the nature of the expenditure of £328,000 for development and welfare schemes in the South African High Commission territories?—(Sir Eric Mactig.) The Vote falls really in two halves, Subhead A, which is expenditure under the Colonial Development Act, 1929, and Subheads B and C, which are expenditures under the Colonial Development and Welfare Act, 1940. As regards the former there is an item of £220.

800. I do not think we need bother with that. That is such a small amount?—No; that is for water supplies in Swaziland. It is a dying Vote.

801. Would you tell us the important ones?—Subhead B covers some 40 schemes in the three territories. The important ones are: Basutoland, motor roads; Bechuanaland Protectorate, tsetse fly control, educational development, water supplies and transport; Swaziland, land settlement, native education and the re-organization of the Public Works Department.

802. When you mention land settlement in Swaziland, that is the settlement of natives?—Yes.

803. What form does the assistance take here?—A good deal of money was spent in previous years on the purchase of land; I think £140,000. The present expenditure is about £50,000 for the settlement of natives in agriculture on the land so bought. I think I explained on a previous occasion that Swaziland has a rather special history as regards land. In early days there was a division of the territory between Crown lands, native lands and European-owned lands. Ever since, the natives have felt that they had been rather unfairly treated as regards the amount of land allocated to them. The native settlement scheme was an attempt to put that right as far as it could be done. The land has been bought and the Swaziland administration, as their financial resources permit, are gradually engaged in settling the natives on the land in agricultural pursuits, supplying equipment, training, supervision, and so on.

804. Is the land purchased from Europeans or from natives?—From private ownership.

805. In regard to these various schemes, they are administered by the High Commissioner, I suppose?—By the Swaziland administration, which is under the High Commissioner. The High Commissioner is the Governor who sits at Cape Town. He is not in the territory. The Resident Commissioner is the immediate head of the Swaziland administration.

806. Do you get audited accounts of how the money has been expended?—Yes, certainly.

807. I suppose you do not get those accounts before the money is actually handed over?—No. Schemes are presented and approved, based on estimates, and we have progress reports on which we make advances.

808. You do eventually get audited accounts?—Yes.

809. Which enable you to check that the money had been properly expended?—Yes.

Chairman.] Are there any question on the Account?

Mr. Wadsworth.

810. Subhead C is: "Research Schemes," I see that no money was expended. There is an explanation in the foot-note: "No research schemes were initiated during the year." What sort of schemes are these? Are they schemes in connection with the tsetse fly, and that sort of thing?—Yes. This £4,000 grant was in respect of a scheme for research on animal diseases and husbandry in the Bechuanaland Protectorate. The Bechuanaland Protectorate is a great cattle country. But it has not found possible to proceed with the scheme during the year.

811. I suppose that is due to war conditions and in 1947 there is a likelihood that the money will be expended?—I hope so.

Mr. Benson.

812. Are you still purchasing land, or has it all been purchased?—It has all been purchased.

813. I have a vague recollection that there was either a very good or a very bad purchase as far as prices were concerned?—I do not remember anything of that sort.

814. It was a very large purchase?—Yes, £140,000 worth.

25 March, 1947.] Sir ERIC MACHTIG, K.C.B., K.C.M.G., O.B.E.

[Continued.]

815. What was the acreage? Do you remember?—I think I put in a written report on this either last year or the year before. I am afraid I have not got the figures in my head.

Mr. Benson.] No; that is all right.

Mr. Wadsworth.

816. In connection with this research, upon whom does it depend whether this work is carried out? It may be important, and that may be why it was that it was

(Sir Eric Machtig withdrew.)

initiated at an early date?—It is up to the Bechuanaland Protectorate Administration. There is no doubt about their keenness. I take it what happened is that they have not got the men, and conditions were difficult for starting the scheme.

817. They are keen enough to do this work?—Certainly.

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

VOTE 14.

IMPERIAL WAR GRAVES COMMISSION.

(27th Annual Report of the Imperial War Graves Commission.)

Mr. F. C. SILLAR, C.B.E. called in and examined.

818. Mr. Sillar, you have come in place of Sir Fabian Ware, who is not well?—(Mr Sillar.) Yes. Sir Fabian is unfortunately suffering from phlebitis and could not attend.

819. I think you came before us last year, did you not?—Yes.

820. There is a paragraph in the Report of the Comptroller and Auditor General, paragraph 31, which refers to the arrangement by which, during the war, you lent the surplus interest on the Endowment Fund to the Treasury, or to the Government, free of interest, and the Comptroller and Auditor General tells us that the loan was increased during 1945-46 by £25,000, making a total of £523,000. Actually you had a larger surplus than £25,000 did you not?—Yes, we did, and it was felt that we were coming to the time when we should require our whole income, and the Commission decided then to stop the continuance of the loan to the Treasury.

821. You thought you had better keep a bit more in hand?—Yes. We were beginning to spend, on the maintenance of the graves, on the same scale as before the war.

822. All this money is at call, is it not?—Yes.

823. Are there any questions on paragraph 31? We will turn to the Account, which is at page 96. Could you explain Subhead E: "Maintenance of Allied and Enemy Graves of the War of 1939-45 in the United Kingdom"?—The responsibility for maintaining allied and enemy graves in this country is on the United Kingdom Government under the Geneva Convention of 1929. The Government asked the Commission to maintain them as an agency service. It means that there is no contribution towards that work from the Dominion Governments.

824. Can you tell me what responsibility, if any, you have in the matter of the graves of Civil Defence workers killed in

the course of their duties?—Only a few, where they are actually buried in Service plots, where there are men of the Fighting Services buried. Outside that, we have no duty except for recording names.

825. Will you turn over to page 97? That gives us some of the investments, but not all of the investments, of the Endowment Fund. The purpose of the Endowment Fund was to try to achieve a sufficient fund with a sufficient income, was it not, to maintain all the graves of the 1914-18 War without any further charge on the Governments?—That is so.

826. There is now, in the Endowment Fund, something like £6 million of capital, is there not?—Yes.

827. But I assume that your calculations have been upset by the great increase in the cost of maintenance?—Very much so.

828. And that your income has fallen owing to the cheap money policy?—That is quite true.

829. Can you give us any estimate of the position resulting from those two factors?—The income is working out at present at around about £205,000 a year. The original pre-war estimate of the cost of maintaining graves everywhere was in the neighbourhood of £218,000 to £220,000. It looks now as if that figure will be increased to somewhere about £350,000.

830. So you will have to have voted moneys from various parts of the Empire?—Yes. That will probably not be necessary this year, and I rather think not next year because of the surplus that we have carried forward from the under-spending during the war.

831. But within two or three years you have to get additional money to enable you to maintain the graves of the 1914-18 War?—Yes.

832. Have you formed any idea of how much money will be required for the graves of the 1939-45 War?—On a permanent

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Mr. F. C. SILLAR, C.B.E.

[Continued.]

maintenance, not at all. We simply do not know yet what that is likely to work out at. We have formed certain very rough estimates of the cost of construction. Recently the Commission decided to regard £15 a grave as the figure on which to base construction policy, which compares with a figure of something between £5 and £6 last time.

833. For the 1914-18 War, each Dominion bore a definite quota of the expenditure, did it not?—Yes.

834. And the United Kingdom share was about 81 per cent.?—It was.

835. Are you applying the same quota to the 1939-45 War?—Provisionally. We do not yet know what the total number of graves is going to be, or what the division between the various participating governments is going to be. Personally, I very much hope that we shall be able to settle it at a percentage very near the last one; otherwise it will mean such troublesome adjustments.

836. It will complicate the Accounts a great deal to have two different percentages?—Yes.

Chairman.] There has also been circulated the 27th Annual Report of the War Graves Commission—it is a draft report—for the year, with the Accounts which are in five appendices at the back. If Members have any questions on those accounts, perhaps they will ask them now as well as any questions on the Account in the Appropriation Accounts. I have no further questions to put.

Mr. Wadsworth.] I should probably know this, but I am not quite sure about it. Where did the money originally come from to make up the £6 million which is in trust in the Endowment Fund?

Chairman.

837. Mr. Sillar can explain that?—It was voted by the Parliaments of the Empire in contributions to form the capital sum.

838. After the 1914-18 War?—Yes. They started to establish the Fund about 1925

(*Mr. Sillar withdrew.*)

CLASS V.

VOTE 3.

REGISTRAR-GENERAL'S OFFICE.

Mr. GEORGE NORTH, M.C., LL.D., and Mr. F. H. DAVEY called in and examined.

Chairman.

842. We take now the Registrar-General's Office. Did you follow Sir Sylvanus Vivian as Registrar-General?—(*Mr. North.*) Yes. I succeeded him in October, 1945.

843. There is a paragraph, which no doubt you have seen, in the Comptroller and Auditor General's Report, paragraph 44, but exactly the same point is raised on the

and the Dominion Governments completed their proportion in 6½ years. The United Kingdom completed their proportion in about 13 years.

Mr. Wadsworth.] I do not know whether this is the place to say this, but with regard to these graves I should have thought that consideration might at some time be given to the question whether it would not be a better plan to have (rather than what I consider is a somewhat outmoded method of paying tribute to the fallen) a small memorial chapel, and use the method of cremation. Anyhow, perhaps this is not the time to say it. I am rather keen about that, and I thought I would like to make that observation now.

Chairman.

839. I do not know whether you would like to make any observation on that, Mr. Sillar?—If I may ask a question, do you mean for the last war or for the next one?

Mr. Wadsworth.] The next one. I appreciate that it will have to be for the next war, which we hope will never come.

Chairman.] I think the Public Accounts Committee are more concerned with the past than the future.

Lieut.-Colonel Hamilton.

840. Did you say that the estimated expenditure in the future is £15 a grave? It seemed very high to me?—It is a figure that has been taken as a guide by the Commission, which they think may enable them to carry out construction on the same standard as they did last time. There are two or three factors that have, of course, increased cost tremendously.

841. It is an overall figure, I suppose?—It is an overall figure for direct work. It does not include overheads, salaries, wages, and so on. It is simply the money to spend on the building work and the headstones.

Chairman.] Are there any further questions on the Account? May I take it that the Account is approved? (*Agreed.*) Thank you very much, Mr. Sillar.

face of the Account, and, if it is convenient to Members, I think we will turn straight to the Account, which is at page 220 in the Civil Appropriation Accounts. The Account sets out the expenditure of your department. Subhead A is: "Salaries, &c." an expenditure of £348,000 odd. Then Subhead C is: "Fees and Expenses of Superintendent Registrars, &c." on which

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MR. GEORGE NORTH, M.C., LL.D., and
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[Continued.]

the expenditure was a good deal more than anticipated. The expenditure was £22,400. Could you explain to the Committee (because we do not often have a visit from a representative of your department) what your organisation consists of? I was under the impression that some of the local Registrars were paid by local authorities?—It is a curious situation. The majority of the Registrars are paid by local authorities, but they are all subject to directions from me—a very elaborate series of detailed directions and regulations. There are also, in addition, a certain number of Registrars who are not on a salaried basis. Prior to the Local Government Act, 1929, all Registrars were on a fee basis; that is to say they subsisted by what they received by the sale of certificates. In 1929 the Local Government Act provided that in future the service should be on a salaried basis, but there are still some surviving fee-paid Registrars who were given the option to go on a salary at that time but did not exercise it. All new appointments are salaried.

844. Am I right in thinking, therefore, that the expenditure of £348,000 under Subhead A is for the salaries of your staff at the head office?—Yes.

845. Which is now at Blackpool, is it not?—No. It is partly at Southport and partly in London. The Blackpool staff have come back to London.

846. In peace time, before the war, it was entirely in London?—It was entirely in London; and the Southport branch did not exist at all.

847. It is at Somerset House?—Yes.

848. You were explaining that the Registrars all over the country are servants of the local authorities. Is that right?—They are not employed under contract by the local authorities. It is a rather curious position. They are paid by the local authority, but subject to my directions.

849. Who engages them and examines them to see that they are suitable, and so on?—The local authority engage them, but I alone can dismiss them. It is a very unusual arrangement, which has just grown up. I could hazard an explanation, if you wish.

850. I expect there is a very long history behind it. When we come to these Registrars who are rewarded by fees, they are a diminishing number, I understand, from what you said?—Yes, they are.

851. Most Registrars are now going on a salary basis?—Most of them are on a salary basis.

852. How many Registrars used there to be upon a fee-earning basis, approximately?—More than 2,000.

853. And how many are there still left surviving?—I have not the exact figure, but it is about 300 to 400.

854. That is because, since the Local Government Act, 1929, no new fee-earning Registrars have been engaged. Is that right?—That is right.

855. And all new appointments are on a salary basis?—Yes.

856. Were the existing fee-earners given the opportunity of transferring to a salary basis?—They were. Most of them took it.

857. Can you give the Committee any idea of the total cost of National Registration under the Act of 1939?—The total cost, right up to date?

858. No, I meant the annual cost?—It is round about £170,000 a year.

859. That is because a great deal of the work of the Registrars and of your Central Office is concerned with the registration of births, deaths and marriages. Is that right?—You were asking me about National Registration, were you not?

860. Yes.—That is quite a different machine. The National Registration Officers are different officers from the Registrars of births, marriages and deaths. The National Registration Officer is also the Food Executive Officer, and the local offices are joint offices for National Registration and Food.

861. You mean no part of the money borne on this Vote goes to the expenses of National Registration?—Yes, the central expenditure at Southport. The Central National Registration Office at Southport is borne on this Vote, but the local Registration Offices are borne on the Ministry of Food Vote, and similarly the Ministry of Food gets the benefit of any Appropriations arising on our side.

862. Can you tell me to what extent, annually, the expenses of the Ministry of Food are swollen by the duties placed upon their officers of acting as National Registration Officers?—I am afraid I cannot give you that.

863. It would be impossible to ascertain it?—I think it would be extraordinarily difficult. The object of the fusion of the two offices was to introduce flexibility, so that when there was a slack period on the Food side they could be helping to catch up on our side and *vice versa*. It would be very difficult to separate, but it would not be a large part. The greater part of the expenditure would be on the Food side. Ours would not be a large part.

864. I was wondering if we could arrive at any indication at all of what the National Registration Act costs the country. At present, of course, it is used for the machinery of electoral registration, is it not?—Yes, it is; and for food rationing, for National Service, and also for children's allowances, and for various other purposes.

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[Continued.]

865. Looking at the details of receipts on page 221, I see you receive £14,000 a year in connection with the administration of the Widows', Orphans' and Old Age Contributory Pensions Acts. That is, I suppose, for looking up the claimants' ages in the register?—That is so.

866. You receive a very small sum of only £100 from the Unemployment Fund. That is, I suppose, in connection with looking up the ages of dependants?—Yes. It is the same sort of thing.

867. It seemed to me curious, therefore, that you did not make a contribution to the Ministry of Food in respect of the services which the joint offices perform on your behalf in keeping the National Register up to date?—There is this difference, that, this Appropriation of £14,000 and the one of £100 are not contributions to my department from other departments. They are really contributions to my department from Funds. This is from the Insurance Fund, not from the Insurance Department.

868. Now I come to the more important matter, which is mentioned in the paragraph in the Comptroller and Auditor General's Report and is mentioned also in the notes here, namely: "A loss of receipts authorised to be used as Appropriations in Aid for the years 1940-46 has come to light this year and is under investigation with the Treasury", and the Comptroller and Auditor General, in his certificate, makes a reservation in accordance with his observations. Could you explain to the Committee, quite shortly, how this trouble arose?—This trouble arose in the Public Search Room of the office. The Public Search Room is the place where the public go in and buy certificates. It sometimes resembles nothing so much as a Bargain Basement. If a man wants a certificate he goes in there, fills up a form in an outer lobby and then goes to a desk where he pays a shilling, which is called a search fee. That fee entitles him to look at the Quarterly Index of Births. When he finds the entry he is looking for, he then goes back to the desk, having noted on the form the entry which he has found in the Index, and he pays an additional 2s. 7d. for a certificate. What happened here was that over a period of years one of the counter clerks, by faking his returns, returned a good many less search fees and a good many less certificate fees than he in fact took. This, as far as we can make out, was going on from very early after the time when the main staff was evacuated to Blackpool, until the very date when it was unearthed, which was May, 1946. I should explain that the whole staff were evacuated to Blackpool except the Registrar-General and one or two people immediately around him, who remained in touch with various other departments, and the Public Search Room. Everything else went to Blackpool.

869. What is the check upon a clerk in the Search Room pocketing fees?—Prior to the evacuation and for some time after it there were several checks applied which would have detected an occurrence of this kind immediately. One of them was the comparison of the weekly statement of receipts which was sent up to Blackpool to the Accounts Branch with the actual ledger and counterfoils of certificates which were kept by the counter clerk. We have established that that check was enforced for some little time after the evacuation, but in April, 1940, a change was made in the staff at Somerset House, and it arose in this way: the department was all the time trying to build up the National Registration staff at Southport, trying to find good men from anywhere they could, and in the process of doing this they transferred a very good Supervising Higher Clerical Officer, who carried out these checks, to Southport, taking back in exchange another Higher Clerical Officer. This was partly a case of strengthening Southport and partly of meeting a request on compassionate grounds for return to London. There was, at Southport, a Higher Clerical Officer who had left behind in London a very sick wife. She was afterwards, I think, operated on. The home circumstances were very miserable and although he was away in comparative safety in Southport he was practically no use there, and so, in order to strengthen Southport by sending a better man there and to meet his compassionate claim to come to London, he was brought back to London. When he came back to London his troubles did not by any manner of means end, because he was bombed out very shortly afterwards and he had to go and live at Lewes and travel up from there every day with all the discomforts and other incidents that go with that in war-time. I have to say, quite simply, that that particular check was not in fact applied by this Higher Clerical Officer, because he quite wrongly placed his trust in a man called Lawrence, who is the counter clerk under suspicion of making away with all this money. Lawrence was a man who had been in the department since 1934. He had been an established Civil Servant for something like 15 years. He was in the Search Room before the war for quite a long time and he was about the only constant factor in the Search Room; they kept changing, and it is work which does require a certain amount of experience. All sorts of troublesome queries arise, and he had established a position where everyone looked to him, as it were, as the mainstay of the place, and as far as I can make out he did not attempt to do anything wrong whatever until this opportunity arose in 1940. So the Higher Clerical Officer placed his trust in Lawrence and Lawrence let him down by faking the books. He kept a false set of books.

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[Continued.]

870. Can you tell us the extent of the financial loss?—It is between £7,000 and £8,000. I can give you the exact figure.

871. No, I do not want it exactly. But that represents a very substantial number of fees?—It does. It represents about 50,000 certificates and about 20,000 search fees of 1s. I should say, just to indicate the scale, that at the present time the takings of the Search Room are of the order of £500 a week.

872. The man Lawrence cannot be found?—The man Lawrence cannot be found. The Public Prosecutor was, of course, called in immediately and the Treasury were informed and the C.I.D. descended upon us. But he has never been found.

873. I think you have covered very fully and clearly the circumstances in which this unfortunate loss arose. It is a thing which could not possibly have occurred under your peacetime organisation?—I do not think it could. Certainly it could not have occurred if those checks were applied, and I am satisfied that they were applied in the ordinary way before this separation due to evacuation.

Chairman.] Are there any questions?

Mr. Wadsworth.

874. One very simple way of checking, I should have thought, would have been to number the 1s. search forms. If they were numbered it would be a very simple way of checking whether the money had been paid over, by a comparison of the numbered forms that were issued in one day or one week. In the same way, I should like to know whether the certificates are numbered? It is so easy. I can quite see how this could be done, but it could not have occurred, I imagine, if either the certificates or the search forms had been numbered?—The certificates are numbered, and the search fee is entered in a ledger, and consecutive numbers are used. The number is stamped on the application form, so that they are both numbered. But what happened was that Lawrence, the man in question, faked the numbers. He showed imaginary numbers for the search fees and for the certificates, bulking smaller than the true numbers, and when he made his returns on that basis they were unhappily taken on trust.

875. There was no comparison between the numbers of the forms that were still left in the office and numbers that he actually registered on his invoice, or whatever it was?—That is unhappily so. In other words the routine normal peacetime checks failed to be applied. That was the whole trouble.

876. There is another question on the matter of local Registrars. Now, of course, they are mostly on a salary basis?—Yes.

877. Is there any check of the work they are doing? They are issuing certificates,

and so on. What check is made on the local Registrars?—Our Accounts Branch carry out an audit on the local Registrars who have to account for their fees to the local authority. That is carried out regularly under Mr. Davey's direction.

878. That is satisfactory? This sort of thing we have been speaking about could not happen in a local office?—(Mr. Davey.) No.

Mr. Thurle.

879. I want to be clear about the local Registrars. The local authorities engage the Registrars?—(Mr. North.) Yes.

880. Have they also power to sack them?—No. I have that power. They have not.

881. When they engage these Registrars, do you have to vet the engagements? Do you have to say whether or not the engagement will hold?—Not the individual engagement, but there are, of course, very elaborate instructions issued by my various predecessors as to the kind of people we are looking for.

882. If the local authority, who knows most about the work, engages a man and finds him unsuitable, they have no power to dismiss him?—No, they have every power to come to me, and they do.

883. They would suggest that he should be dismissed?—Certainly they would, if they had any ground of complaint. They would come straight to me.

884. On this matter of the missing money, I take it there was no likelihood of there being any other member of the staff who was conniving at this? The offending person was the only one who could have been involved?—That is my belief. From what I can gauge of the character of the Supervisor who failed to carry out these tests I think it is pretty clear that, whatever he may have done or not done, there was no connivance by him.

885. Lawrence did it in such a way that he could do it without the connivance of any other member of the staff, could he?—The Higher Clerical Officer connived in a passive way, because he took the man's signature as being a complete guarantee.

886. You are quite satisfied now, at any rate, that the system is quite watertight? It could not occur again?—We have introduced certain changes and I am pretty satisfied with those; and I would say also that when we called in the C.I.D. and the Treasury we also called in the Organisation and Methods Branch of the Treasury; I should like to say here that I am very much indebted to them for the very thorough way they went into the whole thing. They have put certain suggestions to me within the last few days which I am now considering, but they have said nothing at all which casts any doubt whatever on the efficiency of the methods we are employing at present. What they have

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[Continued.]

suggested is a certain greater measure of mechanisation, but they have seen no reason at all to question the efficiency of our present methods.

Chairman.] Are there any further questions on the Account? May I take it that the Account is approved? (*Agreed.*) Thank you, Mr. North.

(*Mr. North and Mr. Davey withdrew.*)

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.

(*On these Accounts no questions were asked.*)

VOTE 12.

BROADCASTING.

(British Broadcasting Corporation Annual Report and Accounts for the year 1945-46.)

Chairman.

887. This Account is at page 197 in the Civil Appropriation Accounts. I would like to ask Sir Frank Tribe, on the B.B.C. Accounts, to report what changes, if any, have taken place in the method of audit?—(*Sir Frank Tribe.*) In the Estimates for 1946-47 provision was made for the first nine months only, when following war-time practice a Grant in Aid was made to the B.B.C. of a global figure. That was intended to be for only the first nine months of that year. Discussions took place, and a Supplementary Estimate was presented for the first three months of 1947 which split the Vote up into a Grant of £2,970,000 for Home and Television Services and a Grant in Aid to the B.B.C. for Overseas Services and other services performed for Government departments, and provision was made in the note that I should have the right of inspection of the Grant in Aid in respect of Overseas Services. That same provision is made in the Estimates which have just been presented for 1947-48, under which there is a Grant for the Home Services, which is 85 per cent. of the net revenue from the receiving licences, and a Grant in Aid which is not related to the

licence revenue but is in respect of Foreign Services. It is the latter, only, which is open to my inspection.

Chairman.] Does any Member of the Committee wish to ask any questions on this Account?

Mr. Wadsworth.

888. The Grant is 85 per cent. of the total money received?—85 per cent. of the net revenue; that is after allowing the Post Office to deduct something, which in the present year is 6 per cent. for their cost of collection. 85 per cent. of the balance is allotted as the sum which makes up the Grant to the B.B.C. for their Home Services. That arrangement is to last for 3½ years and then be reviewed.

Chairman.

889. I think the position is that out of the £1 you pay in licence duty approximately 1s. is taken by the Post Office as the cost of collection and the remainder is divided into approximately 3s. which is retained by the Exchequer and 16s. which goes to the B.B.C. to provide the Home Service. That is right, is it not?—Something like that, yes.

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[Continued.]

Mr. Thurtle.

890. Are we entitled to go into the matter of how the Home Service allocation is expended?—No, not the Home Service allocation. That is a Grant made on the basis of a contribution, but I can report to this Committee any point which comes to my notice as to the basis of allocation, for instance, of the overheads between the two, if I think that the proper apportionment is not being made between Home Services and Foreign Services.

891. I had in mind whether Sir Frank could intervene if he had an idea that money, for instance, expended on programmes was not being properly expended?—No, I have no right of inspection on the home side of the B.B.C. Accounts.

Chairman.

892. The position is that the expenditure on the Home Service will be audited by commercial auditors?—By commercial auditors appointed under the Royal Charter.

893. But you will do the audit so far as the Foreign Service is concerned?—I do not perform the audit, no. The accounts are still audited by accountants; but I have the right of inspection.

894. I think I am right in saying that the Public Accounts Committee would be en-

titled to inquire into the expenditure of the grant on the Home Service, would they not?—Certainly. It is presented by the Post Office. The Accounting Officer for the Post Office will speak to the Account, I understand that if this Committee next year would like to see the Director-General of the B.B.C. he would be pleased to come to assist the Committee in their examination of the expenditure from the Grant in Aid for the overseas service. You will remember we discussed it at the first meeting and we decided that this year we should not take this Account as a Witness Account.

895. But are the Accounts presented to Parliament?—Yes.

Chairman.] In that case we are entitled to look into them, Mr. Thurtle. That answers your question?

Mr. Thurtle.] Yes, quite.

Mr. Wadsworth.] Next year we shall have the Accounts presented?

Chairman.] I think the Accounts are here on the table. They have been circulated. We shall have the Accounts every year, and if we desire we can have the Director-General before us with the Accounting Officer, to explain them. Are there any further questions on the Account in the Civil Appropriation Accounts?—May I take it that the account is approved?—(Agreed.)

VOTE 14.

NATIONAL GALLERY, SCOTLAND.

VOTE 15.

NATIONAL LIBRARY, SCOTLAND.

CLASS V.

VOTE 2.

BOARD OF CONTROL.

(On these Accounts no questions were asked.)

VOTE 6.

COMMISSIONER FOR SPECIAL AREAS, ENGLAND AND WALES.
RECEIPTS AND PAYMENTS ACCOUNT OF THE COMMISSIONER FOR
SPECIAL AREAS IN ENGLAND AND WALES.
SPECIAL AREAS FUND.

Chairman.

896. Sir Frank, you might tell us, if you have the figures available, seeing that this is the winding-up of the Special Areas' Fund, I believe, what the total amount expended has been over the years since it was first instituted?—(Sir Frank Tribe.) The original Act was passed in 1934, and Members will remember that £2 million was first allotted to the Commissioners, and there was a considerable amount of Parliamentary discussion about that at the time, when it was made clear on behalf of the Government that that was the first figure, and that as and when the Commissioners found it necessary to spend more money more would be voted. That has actually taken place and now that the Commissioners' activities have been wound up it is rather interesting-

to know that the total net cost to the Exchequer of the activities is £18,940,000 whereas their final commitments, including that expenditure, amount to £24,848,000. Of course the commitments, in so far as expenditure has not been incurred, are now being taken over by other departments, primarily the Board of Trade. In that sum expended there is quite a considerable amount which is in the form of loans and which will continue to bring in interest to the departments which have inherited the Commissioners' estates. The amount outstanding on loan is quoted in these Accounts at £5,300,000 for England and Wales.

Chairman.] Thank you. Are there any questions on the Account? May I take it that the Account is approved?—(Agreed.)

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[Continued.]

VOTE 11.

NATIONAL INSURANCE AUDIT DEPARTMENT.

VOTE 12.

FRIENDLY SOCIETIES REGISTRY.

VOTE 13.

OLD AGE PENSIONS.

VOTE 17.

BOARD OF CONTROL FOR SCOTLAND.

VOTE 18.

REGISTRAR GENERAL'S OFFICE, SCOTLAND.

VOTE 19.

COMMISSIONER FOR SPECIAL AREAS (SCOTLAND).
 RECEIPTS AND PAYMENTS ACCOUNT OF THE COMMISSIONER FOR
 SPECIAL AREAS IN SCOTLAND.

*(On these Accounts no questions were asked.)**(The Witnesses withdrew.)**(Adjourned till Tuesday next at 3.45 p.m.)*

TUESDAY, 1ST APRIL, 1947.

Members present:

Mr. PEAKE in the Chair.

Mr. Benson.
 Mr. Cuthbert.
 Lieut.-Colonel Hamilton.
 Mr. Haworth.
 Mr. Horace Holmes.

Mr. Kirby.
 Sir Frank Sanderson.
 Mr. Thurtle.
 Mr. Wadsworth.

Sir FRANK TRIBE, K.C.B., K.B.E., Mr. D. F. C. BLUNT, C.B., Mr. C. E. I. JONES and
 Mr. M. FLETT called in and examined.

TREASURY MINUTE ON PARAGRAPHS 4 AND 5 OF THE FOURTH REPORT OF
 THE COMMITTEE OF PUBLIC ACCOUNTS, 1945-46.

Sir JAMES H. BARNES, K.B.E., called in and examined.

Chairman.

897. I think this is the first occasion on which you have appeared as Accounting Officer for the Air Ministry, is it not?—
 (Sir James Barnes.) Yes.

898. You have a long acquaintance with its work?—Yes, but not as Accounting Officer.

899. Will you turn to the Treasury Minute on paragraphs 4 and 5 of our Fourth Report of last year? This deals with the form of Estimates and Accounts for Works services. I think I had better ask Mr. Blunt to say a word on this Treasury Minute, because he has the whole

thing at his finger tips?—(Mr. Blunt.) We had at one time suggested to this Committee that we should restrict the amount of detail given in the Appropriation Accounts on works services merely by putting up the limit to £10,000. But following that we had further discussions, and we came to the conclusion that for reasons both of security and of practicability of getting out normal estimates of works services we should have to suggest to this Committee and to the Estimates Committee that we should do something rather different from what we used to do pre-war, and what we suggested was that, instead of having pages and pages of

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[Continued.]

detailed works services, setting out that you were doing an airfield at a certain named station, you should have possibly 12 bulk descriptive headings, under which you would divide all the services to be done. They would not give anything away under the security head, and it would enable the Department to show to Parliament what it was doing in broad classifications rather than setting out a whole string of works. We put that memorandum to you, Sir, and to the Estimates Committee, and in the Estimates for 1946-47—this particular year which has just finished—we had intended if the Committee agreed with our proposals, to present to Parliament, say round about last autumn, details under these bulk headings to supplement the Estimates which had merely given a total figure of expenditure and nothing else. Unfortunately we were rather late with our proposals, in July—it was too late for the Committees to consider them then, and they did consider them in December. It was agreed by both Committees that these proposals could be accepted for 1947-48, but for that year only, because I think both the Committees wished to look further into it and see whether the reasons which seemed compelling to the Treasury and the Service Departments at this time would be sufficiently compelling for the future, when we might hope that things, particularly as regards security, would be rather different. So the position is, as far as the two Committees are concerned, that we have been allowed to frame our Estimates for 1947-48 on this basis; and we have done so. I want to give only one word of explanation, and it is this. As I said, in 1946-47, when we presented our original Estimates, we had not put these proposals to either Committee; we just put in a total figure of expenditure and we did not divide that even under bulk headings, but we put a note on the Estimates to say that we should present further particulars to Parliament. What we intended then was that, if the Committee approved this proposal for bulk headings, we would present a further paper to Parliament for each service showing the Estimates under the bulk headings. As I explained, we were too late to get consideration by the Committees in the summer, and when it came to December, when the Committees were able to resume, it seemed to me that it was, by that time, rather absurd to present, in say, January, Estimates for the year which was expiring; and I suggested to the Estimates Committee, when I gave oral evidence, that we might be excused. I would like to say that I feel I owe a word of explanation to this Committee, because

I first came to this Committee, and I was told that, if the Estimates Committee approved, you would be willing to accept the proposals, subject to further review. At that time I said nothing in my letter to the Clerk about not giving these further particulars in 1946-47 because, quite frankly, at that time I had not taken the point. But when, later on, I had to go to the Estimates Committee, and I had to consider what I was going to say, it was rather borne in on me how absurd it was, and I did take the opportunity at that Committee to suggest that we might be excused. They did agree, and I felt I rather owed it to this Committee to say that there was no intention to by-pass you; it was merely that it occurred to me after I had had an opportunity of putting the paper in to your Committee.

900. On this question of the details, which we were expecting to receive, of the new works in the Estimates for 1946-47, which are referred to in the last two sentences of paragraph 4, I hope the Committee will agree to waive that statement for that year. It would not be any help to us, I think, to receive it now. On the other question, Mr. Kirby wrote to me on 6th February to say that it was suggested that the form of Estimates for the current year should be as Mr. Blunt has described, and whilst I told him in reply that I could not bind the Public Accounts Committee, I said that the matter would be raised on the first of the Service Votes which came before the Committee this year. I think the Committee will probably take the view that there should be available to the Committee a detailed list of new works, but I think the security grounds are very compelling for not setting them out in detail in the Estimates, as was done right up to the outbreak of war in 1939, and I would suggest that representatives of the Treasury might get in contact with the Comptroller and Auditor General with a view to deciding in what form the lists of new works should be made available to this Committee. I am quite sure that the Committee ought to see the detailed list of new works. The security grounds against publishing them in the Estimates are very strong, but there are almost certain to be cases where the Committee want to ask questions upon them, and therefore I feel sure that the information must be made available to this Committee in some form and at some suitable time. If the Committee agree, I think we might leave it there today, that the form in which this information is made available to the Committee is to be discussed further between the Treasury and the Comptroller and Auditor General. Is that agreed? (*Agreed.*) Very well, we will leave it there.

AIR SERVICES APPROPRIATION ACCOUNT, 1945-46.

Chairman

901. We take now the Air Services Appropriation Account, 1945-46. Will

Members turn to the Report of the Comptroller and Auditor General? Paragraphs 1 and 2, I think, are narrational and in

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the usual form. Paragraph 3 is, I think, a new paragraph, is it not, Sir Frank?—(Sir Frank Tribe.) Yes.

902. Would you explain why paragraph 3 finds its place here?—In looking at the Accounts for all three Services for this year I was struck by the fact that both the Air Services and the Army net expenditure in this year, which was, for the most part, a year of peace, exceeded the net expenditure in any year during the war. On the face of it it was rather an extraordinary thing, in view of the fact that both Services had reduced their strength very considerably by the end of March, 1946. So I thought it would interest the Committee to have this drawn to their attention and a short analysis given of the main items which had led, in fact, to the increase in this year over the war years. Corresponding paragraphs to this will appear in my Reports on the Army and the Navy Appropriation Accounts.

903. Sub-paragraph (a) of paragraph 3 shows that war gratuities and post-war credits accounted for a considerable volume of expenditure. What are the increases in pay, Sir James, referred to in sub-paragraph (b)?—(Sir James Barnes.) I should like, if I might, to present this picture rather differently from the way in which it is presented in paragraph 3.

904. If you please?—The broad picture, as I see it, is that although there was a net increase in the Estimate, there was a reduction in gross expenditure in the year under review of about £90 million. That was the result of a total gross reduction of £146 million, mainly for technical and warlike stores, offset by an increase in Vote 1 of £54 million, leaving a net decrease in expenditure of £92 million. But this was more than offset by the reductions in Appropriations in Aid of about £127 million. That gave rise to an actual increase in the Vote of £37 million. The decreases in Appropriations in Aid were mainly in respect of reduced receipts for technical and warlike stores to Dominions and Allies. With regard to your specific question as regards increases in pay, they were due to the payment of war service increments and the Japanese campaign pay, in the main.

905. Are there any questions on paragraph 3? There is nothing on paragraph 4, I think. Paragraph 5 refers to standards of audit, and so on. I think a question the Committee would like answered is whether it is intended to return to the pre-war standards in due course?—We hope to return to pre-war standards as soon as circumstances permit. We are very anxious to do so. The difficulties we are encountering in that regard are, of course, mainly questions of staff—numbers and quality. But we are doing all we possibly can to overcome them.

906. Your ultimate object is the pre-war standard?—Our ultimate object is the pre-war standard.

Chairman.] Are there any questions on paragraph 5?

Mr. Thurtle.

907. You could not define "as soon as possible" more closely, I suppose?—May I give you one illustration of the difficulty? We have target estimates of staff in the future, but, as you know, Civil Departments are requiring more and more staff, and one of the first sources of recruitment which is looked to in certain quarters is Service Departments. If we can retain the number of staff we hope to retain and are budgeting to retain, then I think we might define "as soon as possible" as perhaps towards the end of the present financial year.

Sir Frank Sanderson.

908. On exactly the same point, I want to have a little more assurance in regard to the time when it is hoped that we shall be able to return to pre-war standards. Would you say the possibility is that it will be in the following year, the year 1947-48?—Towards the end of 1947-48 unless we encounter difficulties that we hope we shall not, and unless, if we do encounter them, we fail to overcome them.

Chairman.

909. Are there any further questions on paragraph 5? We pass to paragraph 6 in which the Comptroller and Auditor General tells us about the carriage of non-military passengers and freight by Transport Command. I gather from the paragraph that before October, 1945, there were no charges made?—That is so.

910. That is to say that Transport Command may have carried British business men free of all cost to various parts of the world?—Yes, but at that time there was such a demand for transport that on the whole it would be Service and Government personnel.

911. Why was no charge made before that date?—The principle was that you pooled air services. They were all in furtherance of the war effort. The traffic was controlled by priority boards. It was only at a later stage that you began to extend it to people who were travelling on quasi-Government quasi-private business. It was in no sense a commercial arrangement. The services were there to meet a military need.

912. Was there a transatlantic service by Transport Command?—At that time there was a return ferry service. The idea of charging came when the Americans started to do it. The Americans started to do it at the beginning of the calendar year in the October of which we started to charge. There was a Presidential Order issued and we copied them. There was

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another difficulty about charging at an earlier stage. A good many of these aircraft were lend-lease aircraft, of course, and until the Americans did it I think it would have been unthinkable for us to institute it.

913. It is anticipated that in the year 1946-47, your receipts under this head will be somewhere about £2 million?—Yes.

914. The Comptroller and Auditor General goes on to say that he understands "that the scheme is being gradually curtailed as full civil air services become available." When will the carriage of fare-paying passengers and freight by Transport Command come to an end?—I do not think I can definitely answer that question. Our aim is, of course, to transfer all normal passenger-carrying to civil aviation as soon as may be, and the Departments are in close contact throughout with a view to the Ministry of Civil Aviation taking over these responsibilities. The increase that is shown in 1946-47 of course relates to a whole year, whereas in the year under review the receipts cover about half a year, and also in 1946-47 we begin to charge certain Departments who, in the year 1945-46, had not paid, as they were financed through the Vote of Credit.

915. This £2 million includes sums payable for the first time by other Government Departments for official travellers?—Yes.

Chairman. Are there any questions on paragraph 6?

Sir Frank Sanderson.

916. I would like to have that point clarified. Is the Committee to understand that business men who were engaged partly on Government business were conveyed free of all charges?—No. The traffic is controlled by means of priority boards who act on behalf of sponsoring departments. The sponsoring departments have to bear the charge in any event for their own passengers and pay for them, and people who do not pay, such as, in the particular year, the Vote of Credit Departments and the following year the Departments between whom there was a waiver of charges, would only sponsor for free travel people who were travelling on official business. It is the same principle as would apply for normal travel.

Chairman.

917. Are there any further questions on that paragraph? We pass to paragraph 7, which deals with the purchase of accumulators in Palestine. The contract for the manufacture of accumulators in Palestine seems to have turned out rather badly. It looks on the face of it as if it would have been cheaper to have permitted the contract to be completed?—I suggest the answer to that is that we did not want the accumulators by the time we cancelled the contract, and it certainly would have cost more to complete the contract than we

actually paid—considerably more. What would have happened is that you would have got your accumulators, but you would have got something you did not then want.

918. Were the Ministry supplying the lead and other raw materials?—No. They undertook to use their best endeavours to get the raw materials for the contractor, but they encountered all kinds of difficulties in doing so, and that was one of the reasons which led to the contract being carried over such a long period of time.

919. But if the full price under the contract was £485,000, I am not quite clear why it became necessary to pay £663,000 and receive delivery of only one-third of the accumulators?—We were under an obligation to give to the Palestine War Supplies Board specifications and samples of accumulators. That presented considerable difficulty. They had to be obtained from this country. There were constant changes in design of the accumulators. The main contractor was dealing with a number of sub-contractors who, again, were encountering difficulties of being asked to supply something different from the original requisition. So really, you were placing heavier demands on them and more expensive demands on them. It was not a straight contract of saying: "We want you to make such and such an article to such and such a precise specification."

920. You mean, even if the contract had been completed, the contractor would have had big claims for additional payments?—Yes.

921. Then I see the Treasury approved a settlement based on costs incurred. How were you satisfied on the amount of costs incurred? What was the machinery for establishing that the costs had been incurred?—The contract was placed by, and the main responsibility fell on, the Palestine War Supplies Board. But when difficulties arose the matter was referred home to this country and consultations took place between representatives of the Supplies Board, the Treasury and the Air Ministry, and they took all reasonable steps to satisfy themselves on the basis of cost as certified by their accountants of the Supplies Board.

922. What was the Palestine War Supplies Board?—It was a body comprising Palestine Government officials; and before the contract was placed our financial adviser discussed the standing of this body with Sir Arthur Rucker, the Permanent Secretary to the Minister of State, Middle East.

923. When it came to settling up you really had to accept the certificate of the Palestine War Supplies Board as to the costs incurred. Is that what it amounts to?—Yes, with the exception, I think, of certain sub-contracts where the R.A.F. appear to have had some responsibility. Precisely what, I am not clear. I have looked up the papers. This was action under delegated

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authority, which was extremely rare. It is about the only instance I know of action of this kind overseas, and was only done owing to the very exceptional circumstances of the time.

924. On the question of the delays by the R.A.F. in supplying samples, which the Comptroller and Auditor General mentions in the second sub-paragraph, is there anybody specifically who fell down on this job?—I do not think so. I think the difficulties were entirely due to the circumstances of the time, to changing requirements, difficulties of getting the samples from this country, and changing specifications. I endeavoured to find out who was in charge at that time, but the Chief Maintenance and Supply Officer was subsequently killed and his deputy has now left the Service. But I think I can say quite confidently that there is no suggestion of avoidable delay in supplying.

Chairman.] Are there any questions on paragraph 7?

925. *Mr. Thurtle.*] I was not quite clear from what you said as to the composition of this Palestine War Supplies Board. Could you tell me who the members of it were?—The only information I have on that, additional to what I have said, is that it included the Controller of Heavy Industries in Palestine and the Director of War Production in Palestine.

926. Could you tell me if this contractor was a Palestinian?—I think he was.

Sir Frank Sanderson.

927. I understood you to say that the money was paid for your cancellation of the contract. Could you tell the Committee whether you are satisfied that no money was paid because of cancellation of contract due to the quality not being all that was desired? In other words, are you satisfied that the goods delivered were in fact up to standard and requirements?—My information on that is of negative kind. I certainly think I could say quite definitely that if they had not been we should certainly have known about it. These things were delivered and were presumably accepted as satisfactory.

928. You have no information to the contrary?—No, none.

Mr. Benson.

929. Was this trouble that developed a trouble that you could not have foreseen? Take, for instance, the question of the continual change of design. Until this contract had been entered into, had design been stable?—You have to remember the circumstances of the time. This is Egypt, just before Alamein, when the Mediterranean was closed and we had perforce to put ourselves into the hands of local people, but the material was linked, unfortunately, in this country, with certain master designs.

930. Was this contract let prior to Alamein or as a result of Alamein, as the

result of the closing of the Mediterranean?—We first started to consider placing orders for the accumulators in, I think, June, 1942, which was a month before the Germans reached Alamein. The actual contract was placed in March, 1943, which of course was after.

931. By that time the Mediterranean was sealed and you must have known the difficulties there would have been in supplying the various master designs and samples?—I think the only answer I can give to that is that for better or for worse, owing to the initial difficulties, we had placed ourselves in the hands of the local command and got the Palestine War Supplies Board to act on our behalf, and this country and the rest of the Royal Air Force would be using their best endeavours to meet the specific demands that would be placed upon them.

932. For accumulators or for patterns?—For patterns.

933. I did not quite understand the implication of your last remark, that you put yourselves in the hands of the local command. Does that mean that the local command entered into this contract?—It means the local command in the sense that in normal circumstances no contract of this kind would be dealt with locally. It would be a headquarters contract. But in 1940 we gave fairly extended—very extended—powers to local commands in case of need to act on behalf of the Air Ministry. The way this command acted was, in the case of this particular requirement, to get the Palestine War Supplies Board to act on its behalf, and the contract was placed by that body on behalf of the command that wanted the material. No information was in the Air Ministry until a very considerable time after. Most of what I am saying has been pieced together from all kinds of subsequent records.

934. Really, what happened was that the Palestine War Supplies Board entered into this contract without making certain either that it was feasible to supply the patterns or that there was adequate raw material to make the accumulators?—I do not know the precise terms because I have not seen the contract, but I am told that we gave an assurance that we would assist to supply. Therefore I do not think we can blame the Palestine War Supplies Board for that. We said as soon as the contract was placed we would follow up the general specification with detailed specifications and master samples.

935. I take it there was failure to supply samples and also materials?—Materials, yes.

936. The materials, I take it, being the lead?—Yes. We had to find all kinds of substitute materials as the materials on which we relied were not forthcoming.

937. When you say "we" apparently it was the local people who entered into this contract and advised you later that they

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had done so. Is that correct?—Yes. We found later that they had done so, but they were acting well within their powers.

938. I am not disputing that. I am trying to find out why the contract was let and why certain specific promises appear to have been made, first with regard to the supply of samples and, secondly, with regard to the supply of materials when neither samples nor materials were available?—I should be guessing to reply to that. But if I had to guess I would say that in the special conditions of that time perhaps it was optimism; when you want something very, very badly you get on with it; you do the best you can. You place the contract and if one of the conditions that needs fulfilment is the supply of master samples and material, you say that you will do your best to produce them, and you may go further and perhaps incur an obligation to do so.

939. With regard to the question of master samples, I take it this contract was let to provide materials for the planes that were in use in Egypt and in that area?—And also I think Egypt was the central organisation for Egypt and beyond. It was a central maintenance depot dealing with Iraq and places beyond. Therefore the aircraft for which these materials were required would not be merely aircraft operating from Egypt.

940. It is no use crying over spilt milk. The Comptroller and Auditor General says that the Royal Air Force have acquired some specialised equipment and machinery of doubtful disposal value?—Yes.

941. Is it highly modern machinery? Is it not possible to dispose of it in this country, where all forms of modern plant are in short supply?—The responsibility of the Royal Air Force in regard to equipment of this kind would be to declare it surplus. It would then be the responsibility of the Ministry of Supply who have an organisation in Egypt. It would be their responsibility to see whether that machinery was of use in this country.

Chairman.

942. Are there any further questions on paragraph 7? Paragraphs 8 and 9 are general. I think, as we have a lot of ground to cover, we had better pass on now to paragraph 10. In paragraph 10 the Comptroller and Auditor General tells us about stocktaking and equipment depots?—Yes.

943. The Treasury approved procedure which provides, under sub-paragraph (b), "in the case of aircraft equipment depots and ground equipment depots, for a check of valuable and attractive items every six months." I suppose by "valuable and attractive items" is meant things which are attractive to the thief?—And easily taken away.

944. The Comptroller and Auditor General, a little lower down, states: "The Treasury, however, required discrepancies to be valued and asked to be furnished with quarterly schedules of discrepancies in excess of £500"—As I read this, that is in regard to a check of other stores whenever discrepancies are revealed.

945. That is in respect of these valuable and attractive items, is it not?—I did not read it in that way. I thought the full machinery of investigation of discrepancies and the normal approved financial procedure of write-off was applied for the valuable and attractive items, and the report goes on to say: "and for a check of other stores"—that is, of the less valuable and more bulky items—"whenever discrepancies are revealed."

946. Yes, I am much obliged. A schedule was prepared, I gather?—Yes.

947. "Which gave details of deficiencies, but not of surpluses, over the period April 1945 to July 1946"?—Yes.

948. It was not prepared till December, 1946, so there seems to have been a very long time lag about the preparation of the schedule?—There was. In October, 1944, we said we would do it. We did not adhere strictly to the request just to prepare this schedule of deficiencies because in the course of doing so we found that it was undesirable to take full advantage of the dispensation which had been granted to us, and certain matters were investigated that appeared to call for scrutiny, leading up to further correspondence with the Treasury as to the precise way in which the discrepancies should be shown.

949. When the schedule was finally furnished to the Treasury, it did not, apparently, contain any details of surpluses?—That is so.

950. Perhaps there were not any?—Yes there were very many, but they had not been taken separately on charge and could not be separately assessed.

951. Did the schedule contain a list of all the deficiencies which had appeared?—All items in excess of £500, which was the authority given to us by the Treasury.

952. Then we are told at the foot of that sub-paragraph: "Discussion with the Treasury is proceeding and no item under this head has been recorded in the Losses Statement in the present Account." What are the results of the further discussions with the Treasury on this matter?—The matter is *sub judice* at the moment. Broadly speaking, the Air Ministry contention is, subject to the views of the Committee, that adherence to the Treasury's request would not give any useful information. What it would do would be to show the total discrepancies arising in respect of items in excess of £500 in value, but it would not show items under £500, nor would it take account of surpluses which

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had already been taken on charge which there was *prima facie* evidence were very substantial, so though you could have the statement as a literal expression of fact I think any inference to be drawn from it would be rather valueless. That is the Air Ministry's contention and that is being discussed with the Treasury, and no decision has yet been reached, except to the extent of not showing anything in this particular Appropriation Account.

953. Sir Frank, have you any observations to make in relation to this paragraph?—(Sir Frank Tribe.) No, I do not think so.

Chairman.] Are there any questions on paragraph 10?

Sir Frank Sanderson.

954. I have one question. I am rather interested in the word "surpluses." Does that mean that orders were given for the delivery of certain stores, and that delivery in fact did not take place and therefore they came under the heading of "surpluses"?—(Sir James Barnes.) No, I think it is rather in relation to the consequences of lack of staff and inadequate staff and that kind of thing, resulting in wrong accounting for it. There may be paper surpluses.

955. Surely if there was wrong accounting it would mean that an order must have been handed to some third party for the delivery of stores which, in fact, were never delivered; consequently they were ultimately regarded as surplus? Is not that so?—I do not follow you there.

Sir Frank Sanderson.] In order to have a surplus it surely can only mean that certain stores for which orders have been issued for delivery have not been delivered?

Chairman.

956. No. I think a surplus here means that more stores and goods are found in the store than are found in the books?—Yes, that is it.

Mr. Thurtle.

957. Could you give the Committee even an approximate figure of the aggregate amount of these deficiencies?—The deficiencies as such, over £500, taking no account of any off-set in surpluses?

958. Yes?—£240,000, paper value.

Chairman.

959. Are there any further questions on paragraph 10? We pass to paragraph 11. On that paragraph I have no questions. Has any Member of the Committee any questions on paragraph 11? Paragraph 12 recounts what has taken place in India. Passing to paragraph 13, I think you might tell us what are the two matters referred to here, Sir James "My officers were informed in November, 1946, that of the Middle East Accounts examined by the

Departmental Audit, only one was the subject of an outstanding observation of a major character."?—This refers to two stations in the Persian Gulf, Sharjah and Bahrein, which were under the administrative and accounting control of the Chief Engineer of the Iraq Command at Habbaniya. Throughout the period the works organisation in the Persian Gulf, as in many other places, was handicapped by lack of storage accommodation and capable store-keeping staff. We had to rely to a considerable extent on native store-keepers. Early in 1944 plans were made for extensive works services. Am I right in thinking that you were asking about the accounts of these two units? The observation of a major character relates to the motor transport base depot in Helwan. That was the first one.

960. Yes?—You are taking two items and not two depots?

961. Yes?—The first one was in relation to a motor transport bus depot at Helwan in Egypt. It was a depot which was the main storage and supply unit for motor transport vehicles in the Middle East Command. In 1945 the financial adviser in the Middle East noticed a discrepancy between the vehicles on ledger charge at the depot and the numbers which were being currently reported by the depot to Headquarters, Middle East under types and degree of serviceability, but it was impossible to verify straight away the stock of vehicles at the depot as the small staff available was engaged in preparing for the move of the unit. The site at Helwan was to be vacated in 1945. It was being divided into two separate units in the Canal Zone, one for the repair of motor transport and the other for the storage of serviceable vehicles, and the view was taken that that move would give an opportunity for the exact ascertainment of holdings of vehicles at Helwan and the reconciliation of that stock with the first charge at the two new units.

962. Can you tell the Committee how many vehicles were missing, or unaccounted for?—I do not think we have a record of that because it is still under investigation. It was complicated by the fact that simultaneously with the move of the depot to two new places a number of vehicles were being evacuated from Italy, with the result that the reconciliation of the stock at the new units with the stock record at Helwan is not yet completed. If I may refer to the two other accounts—

963. I do not think you need bother with the other two. We are rather short of time. Are there any questions on paragraph 13? We will turn to Vote 1, on page 4. Subhead FH, "Prisoners of War" is an expenditure of £250,000. I thought all prisoners of war came under the War Office. Why are you providing for pay of prisoners of war here?—These are Italian prisoners. The War Office are normally responsible but for convenience it was decided that payment

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by the R.A.F. to prisoners employed on work for the R.A.F. should be charged to Air Votes.

964. These are Italians?—Yes.

965. Employed on airfields?—*Inter alia* the expenditure will be taken into account in the final settlement with the Italian Government. They are quite small rates.

Chairman.] Are there any questions on Vote 1.

Mr. Benson.

966. With regard to Subhead FG "Post-War Credits"—exactly how does that come to be there? Is that a transfer to the Treasury or is that the Income Tax Post-War Credit?—No, it is a Service post-war credit. It is a rate for each day of paid service between January, 1942, and the 30th June, 1946, to airmen apprentices and airwomen. It varies from 6d. to 4d. a day.

Chairman.

967. Are there any further questions on Vote 1? We pass to Vote 2. Subhead H is "Receipts" and there is a footnote to Subhead H explaining the receipts. It includes £58,000 received from a Canal Company "in consequence of the retrospective application of reductions in the flat rate for bulk goods traffic, and in canal tolls on aviation fuel consignments." Could you explain that to the Committee?—Yes. This was a payment received from the Manchester Ship Canal Company in respect of the retrospective application of a reduction of 25 per cent. on tolls charged on aviation fuel consignments passing through the Stanlow Oil Dock, Wirrall, in Cheshire, and the period covered is August, 1941, to December, 1944.

968. Why did the company agree to the reduction in tolls? Did they get any *quid pro quo* from the Air Ministry for it?—No, I do not think so. I think it is a question of negotiation of charges.

Chairman.] Are there any questions on Vote 2?

Mr. Benson

969. I should like to know further about the receipt of £1,174,000 from the controlled railways. That, again, is in the footnote to Subhead H. What exactly does that mean?—It means the railways which are functioning, which were in fact controlled.

970. In this country?—In this country.

971. How did you come to receive a rebate?—It is a question of alteration of the charges. It was the retrospective application of a reduction in the flat rate for goods traffic—a flat rate per ton—from 36s. 3d. to 33s.

972. Did that apply to all Services, or just to the R.A.F.?—I should imagine to all.

Chairman

973. Are there any further questions on Vote 2? We pass to Vote 3. Here, again, there is an explanation of the receipts under Subhead J. There was a receipt of £1,300,000 from the Petroleum Board as special rebates for oil supplies?—Yes.

974. Could you explain that, please?—By agreement between the Treasury, the Inland Revenue, the Ministry of Fuel and Power and the Petroleum Board, capital works expenditure incurred by the Board would be refunded by the Ministry of Fuel and Power. It was also agreed that the selling prices charged by the Petroleum Board for oil would continue to include an amount sufficient to amortise the cost of these works at the rate originally agreed. Therefore the Petroleum Board had to grant a rebate to the Air Ministry equivalent to the sum of money that it had received from the Ministry of Fuel and Power.

975. The Petroleum Board is not a branch of the Government, is it?—No. It is an amalgamation of the oil companies.

976. Of the big oil companies?—Yes.

977. Under this arrangement it obtained some capital works?—The Petroleum Board obtained the capital works financed from Government funds. There was a previous arrangement and this was a simplification.

978. In return for the capital works received, they made a retrospective reduction in the charges?—Yes.

979. Who got the best of the bargain?—I do not think there was any bargain, really.

980. Would not the Petroleum Board avoid taxation to a very considerable extent by making these reductions in charges, and get their capital works rather on the cheap?—This was mainly an arrangement made between the Treasury and the Inland Revenue. It was not an Air Ministry responsibility to negotiate this agreement.

981. The Treasury approved this, did they?—(Mr. Blunt.) Yes. I am afraid I have not the details here, but the Treasury did approve this. I think it was a perfectly innocent way of settling a rather complicated set of transactions. I do not think the Petroleum Board got any particular advantage out of this. The surpluses of the Petroleum Board of course, although they are not a Government Department, are not distributable by the companies. The companies get only a regulated remuneration and the surplus, if there is any surplus, will accrue to the Government.

982. That is so, is it?—Yes.

983. When the Petroleum Board is wound up?—Yes.

984. Is it going to be wound up one day?—Some day, I expect. The date keeps on being advanced.

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Sir JAMES H. BARNES, K.B.E.

[Continued.]

985. Are there any questions on Vote 3? We pass to Vote 4, on which I have one question and that is in regard to new works under Subhead B, an expenditure of £29 million odd. I suppose a good deal of that is payment for works built earlier than the financial year, 1945-46?—(Sir James Barnes.) That is so.

986. Do you find, in regard to new works, that there is any effective competition between contractors?—At the present day?

987. Yes?—Yes.

988. Can you tell me was a considerable part of this figure of £30 million spent for the construction of airfields for Allied forces or on works done for Allied forces?—We built airfields for the Americans. I cannot say offhand how much of that fell in this year.

989. But we did incur very large sums in that way?—Yes, very large sums, with the Americans, on mutual aid. I think I can say that on the Americans we spent £2 million in this particular year.

990. In the footnote MM on page 9, among the *ex gratia* payments to contractors, there are one or two cases of payments for extra costs incurred as the result of poor quality of labour. Could you say a word to the Committee about that. What is the criterion of poor quality of labour?—Payments under this heading fall into two classes; one, scarcity of labour and, two, low standard of efficiency of labour. This was broadly the result of the general call-up, and more particularly the call-up of foremen and key men in the building trade, the Restriction on Engagement Orders the Restriction on Transfer Orders the application of low priority to the contracts and the employment of craftsmen as labourers.

Chairman.] Are there any questions on Vote 4?

Sir Frank Sanderson.

991. I should like to ask a question on Subhead MM. One can understand a contract having a clause inserted providing for payment of an extra amount in the event of an increase of wages or in the event of an increase in the cost of materials, but I really cannot conceive a contract which included a clause providing that in the event of poor quality of labour there should be a payment. Was there in fact such a clause, or was this a payment made out of pure sympathy for the contractor?—It was as a result of representations made by the contractors, who urged that the excess cost which they had encountered for these reasons were causing them financial embarrassment, with the result that a satisfactory completion of the contracts and in some cases the continuation of the funds was being jeopardised. (Mr. Blunt.) They are purely *ex gratia* payments.

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992. Quite. Could you state upon what terms you would assess the amount which would be paid? I find it very difficult to understand how you can go outside the contract. If you do go outside the contract you must surely have some basis upon which you make your assessment for an allowance?—(Sir James Barnes.) I think each case was reviewed on its merits, subject to an overall ceiling which must not normally be exceeded.

993. Would you suggest that in most of these cases it would be some round sum that would be agreed—say, £5,000 or £10,000, but not based upon any schedule?—No, I think it would be related to the special circumstances of the individual contractor, with an upper limit. For instance there was an upper limit of £5,000 on any contract for inefficient labour.

994. One other point. There are quite a number of contracts here which have received this special form of *ex gratia* payment. Have you any instances at all where the contractor has intimated that the work has proved to be less expensive than anticipated and has therefore suggested he should forego part of the price he has charged?—I think that would be taking a very optimistic view of human nature.

Lieut.-Colonel Hamilton.

995. I should like to ask what the actual procedure is in the case of an application for an *ex gratia* payment? What is the procedure adopted? The contractor no doubt puts in a claim and then that is examined?—It is examined and it is subject to negotiation. It is considered by the Director of Contracts, and the whole circumstances are reviewed.

996. It is the Director of Contracts who has the final say?—Yes in general.

Chairman.

997. Are there any further questions on Vote 4? On Vote 5 I have no questions, or on Vote 6. Has any Member of the Committee any questions on those Votes? We pass to Vote 7. Subhead JJ is "The Air Training Corps." Am I right in thinking that the Air Training Corps has hitherto had a separate board for controlling it and running its financial arrangements?—Yes.

998. Is that going to continue?—It came under Reserve Command at the end of the financial year we are now reviewing.

999. So that the separate financial arrangements will terminate now, will they?—That is so.

1000. Are there any questions on Vote 7? Vote 8 we had better take formally now, because we are coming to the Ministry of Civil Aviation a little later in the afternoon. Vote 9 is: "Meteorological and

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Sir JAMES H. BARNES, K.B.E.

[Continued.]

Miscellaneous Effective Services." This is all money well spent, is it?—I hope so. I hope we shall spend some more.

1001. On page 14, Subhead M is "Payments for Flying Training," an expenditure of £1½ million. Could you tell us what the money goes for?—It is payments to civilian flying schools for preliminary flying training of pilots of the R.A.F., navigational training of observers and training of wireless operators.

1002. Are these civilian schools?—They are civilian-manned schools which are in contractual relationship with the Air Ministry.

1003. Are they people who work for profit?—Yes.

1004. Like people who teach the driving of motor cars?—Broadly, yes.

1005. They are subsidised by the Air Ministry?—If "subsidised" is the right word. They are paid by the Air Ministry under contract.

1006. I imagine the pupils pay a fee as well, for being taught?—The Air Ministry pay for them. These are recruits. It is recruit training.

1007. You hand over your recruits to outside bodies?—We hand over certain recruits to outside bodies, yes.

1008. Is that a good arrangement?—An extremely advantageous arrangement, and it is a matter of consideration at the moment in regard to post-war arrangements as to how far we shall go in that regard.

1009. It is unique to the Air Force. Neither the Army nor the Police hand over their recruits to somebody else to teach. I am a little puzzled as to the purpose of it?—One obvious advantage is that it saves R.A.F. manpower. If we can get something adequately done by an existing organisation that does not require Service sources to provide the facility it is *prima facie* a good thing to do.

1010. The people who go to these schools are not under Service discipline when they are there?—Not wholly.

1011. It is before enlistment, is it?—It is preliminary training after enlistment—a sort of basic instruction.

Chairman.] I was just rather puzzled by the arrangement. It is rather unusual.

Mr. Kirby.] The Army did the same thing during the war, I think. They sent tank drivers to the works of the makers and they got their training in that way.

Chairman.] Are there any questions on Vote 9?

Mr. Thurtle.

1012. I wanted to be clear on this point about the flying training. It does not mean that these people, after they have been in

these civilian schools, are free to do as they please? They are still personnel of the Royal Air Force?—Yes, they are still R.A.F. personnel. I perhaps misunderstood the Chairman's question about discipline while they were under training at the flying school. They would, of course, be under the discipline of the instructors.

Sir Frank Sanderson.

1013. Subhead J "Compensation for Losses, etc." is an expenditure of £500,000. The note to the Subhead states that it includes three payments for personal injuries and damage to property. Could you give us a little information in regard to the £34,000 for personal injuries or damage to property?—It was for damage to property and also injury. It was an accident which occurred in Switzerland in 1943. The Swiss Federal Government assessed the amount. His Majesty's Government was represented by the Legation.

Sir Frank Sanderson.] That is quite satisfactory. If the Swiss Federal Government assessed the damage, I should be quite satisfied.

Lieut.-Colonel Hamilton.

1014. I am not quite clear about Subheads PP. P.R., PS., and PT., which are Commonwealth levies, so to speak. It is not for the maintenance of them? I wondered what those payments were for?—It is pay and allowances.

1015. It is actually for the maintenance of those forces?—Yes.

1016. Complete maintenance?—Complete maintenance. They guard airfields. Again this is a considerable relief on R.A.F. manpower.

Mr. Wadsworth.

1017. I must confess that my curiosity is aroused by this question of the flying training. I feel that we have not had a really adequate reply. This is quite new to me also. I would like to know a little more of the details of the organisation. Who are these people? Who are these civilian trainers, and where do they operate from? How does it come about that we pay over a million pounds to them?—This has been going on for very many years. This dates back to pre-war years, when there were well-established civilian flying schools doing precisely the same kind of work, which gave instruction in basic flying. They were qualified civilian instructors and people received elementary instruction from them.

1018. Why is it that the Air Force themselves do not keep control over the new entrant from the very day he joins the Air Force?—They do. He is under Air Force control but for certain specific purposes they allow the teaching to be done by a civilian school, for a variety of reasons.

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Mr. L. J. BANFORD.

[Continued.]

In certain ways there is a measure of financial economy; and in these days there is a measure of economy in manpower. The question of how far you go in that is a debatable one and is one that is constantly being reviewed by the Air Council. It is being specifically reviewed now as regards our post-war arrangements, as to whether it is desirable to have them completely under the control of the R.A.F. throughout, whether there are not

offsetting disabilities to the two advantages that I have just mentioned.

1019. This only arises where there is a training school in the vicinity of an aerodrome?—Broadly, yes.

1020. There are certain of these training schools throughout the country. How many would there be?—I could not say offhand, but the Director of Contracts is here and could tell you in detail if you would like to pursue it at all.

Mr. L. J. BANFORD called in and examined.

Mr. Wadsworth.

1021. Can you say how many there are?—(Mr. Banford.) There are 17 at the moment. The number is going up to 25. We are doing the reserve training.

1022. There is an actual extension of this policy?—There is.

1023. That is quite different?—That is just taking place at the present time. These schools have Service instructors. The Commanding officer is a serving officer. He is paid by the company.

Mr. Wadsworth.] Thank you. There are lots of other questions I would like to ask—

Chairman.

1024. I hope your curiosity is satisfied?—(Sir James Barnes.) Would it help if I let you have a further statement? It would be quite easy to do that.

Mr. Wadsworth.

1025. You mean later?—Any time you wish.*

(Mr. L. J. Banford withdrew.)

Mr. Cuthbert.

1028. On page 14, Subhead R, is "Miscellaneous Charges", an expenditure of £667,424. Is it possible to have some details of how that is composed, just the bigger amounts? I do not see any note to the Subhead on the next page?—(Sir James Barnes.) This is a variety of charges: publicity for recruitment of aircrews, £5,000; expenditure on welfare and amenities for the R.A.F. about £150,000; a very large payment to the Scottish Aviation Company, who run Prestwick Aerodrome, for managing the aerodrome and servicing the aircraft which came from North America. This contract was terminated at the end of the year we are now considering, March, 1946, and Prestwick is now

the responsibility of the Ministry of Civil Aviation. There are other small items. Those are the two biggest—£340,000, and £150,000 for amenities.

Chairman.] Are there any further questions on Vote 9? Are there any questions on Votes 10 and 11? We pass to Appendix No. I, the Losses Statement. Are there any questions? Are there any questions on Appendix II? Are there any questions on Appendix III? Appendix IV, "Gifts of Stores, &c." Are there any questions on that Appendix? Are there any questions on Appendix V or on Appendix VI? May I take it that the Account is approved? (Agreed.) Thank you, Sir James.

(Sir James Barnes withdrew.)

* See Appendix 3.

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Sir HENRY SELF, K.C.M.G., K.B.E., C.B.

[Continued.]

CIVIL APPROPRIATION ACCOUNTS, 1945-46.
CLASS VI.

VOTE 16A.

MINISTRY OF CIVIL AVIATION.

(British Overseas Airways Corporation Reports and Accounts for the years ended
31st March, 1945 and 1946.)

Sir HENRY SELF, K.C.M.G., K.B.E., C.B., called in and examined.

Chairman.

1029. Sir Henry, you are the Accounting Officer to the Ministry of Civil Aviation?—(Sir Henry Self.) Yes.

1030. You took over responsibility on 1st April, 1946?—That is so.

1031. Will you turn to the Report of the Comptroller and Auditor General on the Civil Appropriation Accounts, to paragraph 59. I have nothing to ask on that paragraph. Has any Member of the Committee any questions on paragraph 59? We pass to paragraph 60. Would you just explain to us the second sub-paragraph of paragraph 60, the Deficiency Grant to British Overseas Airways Corporation?—The position on the Vote out-turn as a whole, as you will see, was that under Subhead E there was a substantial underspending, which was due to the decision that the Ministry of Supply would not charge the cost of research and development of aircraft but that that cost would be spread eventually over the production prices of the aircraft when they were actually delivered. The result was that roughly £2½ million did not accrue to be charged under Subhead E, whereas under Subhead J there was an overspending of roughly £2½ million. That meant that we had a roughly balanced Vote. Although the virement was abnormal the Treasury decided that it was unnecessary to make a special charge against the Vote of Credit for the overspending on Subhead J, but the savings on the Appropriation as a whole could be used to cover the overspending on Subhead J.

1032. Subhead J being the Deficiency Grant to B.O.A.C.?—Yes, and the trouble that arose on Subhead J, if I may briefly give the broad picture, was that in that year it was decided to meet the claim of B.O.A.C. that an accumulated charge for depreciation and obsolescence of aircraft should be reimbursed by the Government. No payment had been made since April 1940, on the plea that their fleet was not being replaced during the war; but they pressed the claim later and it was decided, in March 1946, to reimburse them for their accrued obsolescence during the previous six years, and that brought a special charge of £1,640,000 odd.

1033. We shall see that when we come to the Account, shall we?—Yes. I am just giving you the broad picture of why the Appropriation roughly balanced out.

1034. Are there any questions on paragraph 60? In paragraph 61 the Comptroller and Auditor General states: "The financial arrangements between the Air Ministry and the Corporation, which continued to be operated during the year by the Ministry of Civil Aviation as explained in paragraph 59 above, were outlined in paragraphs 15 and 16 of the Report on the Air Services Appropriation Account, 1940/41. They provide for the payment to the Corporation of the net deficit incurred each year after allowing for revenue received by the transport of passengers, mail and freight." We will come back to that a little later on but can you tell me the degree of control exercised over B.O.A.C. by the Air Ministry?—Yes. The position broadly is that during the war-time control, which was operated under section 32 of the British Overseas Airways Corporation Act, they were placed under Government orders and had to receive prior approval for certain special items of expenditure on capital account, and their accounts were to be subject to special examination. Each year the accounts have been exhaustively examined; a special block of expenditure, large in size, has been taken for detailed examination and review. In 1942/43 the block taken referred to operational expenditure. In 1943/44 it referred to administrative expenditure, and in the account for 1944/45 we took the whole of the regional expenditure. So that, over a period of years a review of the expenditure of the Corporation has been conducted in very great detail. Unfortunately, of course, these accounts run late in being rendered and it is often difficult to overtake the points that ought to be looked into because the accounts are somewhat in arrear.

1035. Are there any questions on paragraph 61? Paragraph 62 we shall meet with again when we come to the figures in the Account. In paragraph 63 the Comptroller and Auditor General tells us that "the audited accounts of the Corporation for the year ended 31st March 1945 have been received by the Ministry and are under examination. It is anticipated that there will be a small surplus for the year and that no Deficiency payment will therefore be required." I am not quite clear about this. Does that mean that there is actually a surplus for that year?—Yes. The position is that we have finally closed the examination of the account and we have reported

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[Continued.]

the result to the Treasury, and the Treasury have given us their formal clearance of the account and authority to carry forward this surplus of roughly £77,000 to the following year in relief of the Deficiency Grant which will accrue then. But if I may anticipate difficulties on that—

1036. I did want to find out what happened to a surplus. If B.O.A.C. earned a surplus, do they keep it? They carry it forward?—So long as this Deficiency Grant system operates, we go forward from year to year and carry the balance over into the following year. The surplus in this case goes forward in relief of the Deficiency Grant which is accruing for the following year.

1037. Supposing we find eventually that B.O.A.C. and these other Corporations which have been established, are consistently earning surpluses, what will happen?—The present position is, of course, that the Deficiency Grant system was authorised by the Civil Aviation Act, 1946, to operate until the end of March, 1947. In 1947-48 we come on a new basis. As from to-day we strike a balance and the whole thing has to balance out even. If there is a surplus it is surrendered to the Exchequer. There will not be, because the Deficiency would be so wound up that the account balances even. So we then start this current year on an entirely new system in which the Corporations present us, as they have already done, with their programmes. We examine the programmes and, as we have done, we put them back for revision on certain lines, and we shall ultimately, I hope soon, strike an agreement on the basis that will operate for 1947-48. The Grants will be paid during the year in accordance with that agreed assessment. The Corporation will either stand the loss or retain the balance of profit that they make as a result of the year's working. Then we shall have a fresh assessment for the following year to determine what Grant shall be made for that year.

Chairman.] Are there any questions on paragraph 63?

Sir Frank Sanderson.

1038. Did I understand you to say that the principle of the Deficiency payments ceased as from yesterday?—Yes, by statutory provision.

Chairman.

1039. Before we pass from paragraph 63 (it may save looking at the other Accounts later) Members have in their hands the draft Accounts of the British Overseas Airways Corporation for the year ended March, 1946, which are referred to here. Have you examined the 1946 Accounts yet?—No, they were only received on March 12th. The first essential was to present them to Parliament. That was done on the 20th, and we are now about to undertake the detailed examination of them.

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1040. Have you any comments which you could usefully make to the Committee on them?—I have quite considerable comments if you wish to have them, because I feel that the fact of a surplus accruing in the previous year and then being faced with a clear revelation of a substantial deficiency in this new Account calls for quite a fair amount of explanation and I do hope to indicate broadly that the surplus in the particular year 1944-45 was largely a matter of book-keeping and not any real indication that there had been a marked change in the prospects of air transport activities. If you took the whole trend of subsidy over a period of time, you would see that it ranged from £383,000 in 1936-37 to £500,000 odd in 1937-38, £1½ million in 1938-39 and then it goes up roughly to £2 million on the average, until you come to 1943-44; when it is one and one-eighth million pounds; and then you have this extraordinary surplus for one year and the next year we go again to a deficiency of £3 million. I am sorry to have to say that in 1946-47 you will have a deficiency appearing probably of the order of £4½ million; and we have presented Estimates for 1947-48 which show a Grant to B.O.A.C. of the order of £5 million, £2¼ million to B.E.A.C. and £¼ million to B.S.A.A. which makes a gross total of £7½ million. I am trying to make the point that we have had a variation from something of the order of £1 million pre-war into a trough of surplus, and we look like going up to £7½ million in the forthcoming year. It would therefore be helpful, I think, if I could indicate briefly at the right stage to the Committee why this notional surplus appears in this form here.

1041. Would you do so now?—Yes, I will gladly do so. The truth is that in the B.O.A.C. statements you have an attempt to go beyond even this picture I have given you and to translate into their accounts what they call notional receipts. During the war there was an arrangement under which the Government supplied a host of items necessary for the operation of the Air Transport services and the Corporation received them free, whilst the Corporation agreed to waive all charge for Government passengers or Government-sponsored passengers; and it was also arranged that the mail revenue should be paid direct to the Air Ministry and there charged against the deficiency that accrued on the B.O.A.C. accounts. So that you have a picture whereby we have to present accounts to Parliament showing the difference between the actual expenditure incurred by B.O.A.C.—which of course is no true measure of their real expenditure—and their actual received revenue, which is, again, no index of their true revenue. Having received that net picture, as a charge to us, we then charge against that the receipts which we have had from the Post Office to cover the mails carried. And you get this astonishing picture in the

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[Continued.]

mails charges: It goes up from £680,000 odd in 1936-37 to a total of £6 million in this particular year, 1944-45, whereas the previous years had been roughly £1¼ million, £1¼ million, £4¼ million rising to £6 million, and, again, in 1945-46 we had quite a big revenue figure, but not the same. There was, in fact, a drop in mail revenue between 1944-45 and 1945-46, because arrangements were introduced whereby the troops overseas were allowed to receive their letters from home at a 1½d. per ounce letter, with a rising charge for extra weight over the ounce; but they were also allowed to send home the first ounce letter for nothing. That replaced the system under which they had been paying, the people who posted these letters, 1s. 3d. per half ounce and 6d. for the mail letter. That had produced an astonishingly high revenue before the change was made, and you get the results emerging in this notional surplus in 1944-45. The following year, when this switch had been made, you have the B.O.A.C. expenditure rising overall from roughly £10 million to £12 million, and the mail revenue dropping, through this switch, by something like £3 million, but a marked increase in B.O.A.C.'s passengers revenue, because they carried considerably more passengers in that year. I am therefore trying to paint you a picture in which you see war operations completely obscuring the true pattern of air transport operations. We were working under those conditions, as in America, to a load factor of 80 or even 90 per cent., which is absolutely abnormal for civil air transport operation in peace. Something of the order of 60 to 65 per cent., or possibly 70 per cent., is the normal achievement. So that revenue on the notional basis, crediting them with all credits for the passengers and freights and mails they carried, was abnormally high. The expenditure was greatly benefited and eased by the availability of Government services and collaboration with the Royal Air Force Air Transport Command. So that you pass out of a period to-day; that period of the past is obscured and in my submission is no true index to what is the true cost of operating air transport services under the conditions that lie ahead.

Sir Frank Sanderson.

1042. May I put one question on that? In regard to the carrying of the air mail letters, I think you said that the first ounce at one time was carried free. Was no charge made to the Post Office for the services which they derived?—The Post Office handed over the revenue that they received through those high postal charges and credited the Air Ministry with the receipts in relief of the bill presented by the B.O.A.C., but of course there was also a certain amount of mail carried by the Royal Air Force Air Transport Command in relief of the system, which also has to be taken into account.

1043. Would it not work in this way, that the B.O.A.C. would lose revenue to the advantage of the Post Office?—Yes, but it did not affect the B.O.A.C. one way or the other during this period because they were guaranteed against loss.

1044. I quite understand that.—You mean it would distort the picture?

1045. Yes.—Definitely. That is my whole point, but it so happens that when we present you with this notional surplus of £77,000 we have credited the Account with an abnormally high mail revenue.

Mr. Wadsworth.] I would like to know how long this method of arranging the Accounts will continue? Quite obviously, from reading the statement of account we have, certain assessments have been made. For instance, the assessment, as, of course, has already been stated, of the value of mail and traffic, an aggregate equal to over £9 million. In the same way—

Chairman.] Which year's accounts are you looking at?

Mr. Wadsworth.

1046. I do not want to confuse the picture. The year's accounts I am looking at now are those for the year ended 31st March, 1946. What I want to know is how long this method of arranging the accounts is to continue?—The actual termination of the waiver arrangements coincided with my assuming office. We terminated the whole scheme on 1st April, 1946, and the Corporation collect and receive mail passenger revenue exactly as ordinarily, but I have to point out that under the Civil Aviation Act, 1946, there is a slight confusion of thought because the Act provides that the so-called Deficiency Grant system shall continue until 31st March, 1947, and this is what is called the Deficiency Grant system. But it is the Deficiency Grant system in 1946-47 purged of the waiver arrangement, if I may put it in that way. Each side pays and receives.

1047. It is improved to a certain extent?—Yes.

1048. But in future years, after 31st March, 1947, I take it there will be accounts presented in such a form as to be readily understandable?—Definitely.

1049. So that we can see what the exact revenue is from the Post Office?—We are back to complete commercial practice as from to-day.

Chairman.

1050. That will satisfy the Committee. We pass to paragraph 64. I think you have already told us about the arrangement in regard to obsolescence, so we need not ask questions on that. Will you turn now to the Account which is at page 318. Subhead A "Salaries, &c." is an expenditure of £505,000. Can you tell me how many industrial staff the Ministry of Civil

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Sir HENRY SELF, K.C.M.G., K.B.E., C.B.

[Continued.]

Aviation employ?—As at the 31st March, 1946, we had 464. The number is substantially higher to-day.

1051. Why?—Because the whole Ministry organisation a year ago was little better than a care and maintenance party emerging from the war. The Air Ministry and the Royal Air Force had assumed the major responsibility for the route organisation, the operation of the controls and the regulation of air transport generally. The Civil Aviation department within the Air Ministry had certain residual work to carry on, but it was in no way commensurate with their pre-war responsibilities or their post-war prospects.

1052. I am not at all clear what the industrial staff do?—The industrial staff are mainly concerned with airports, their maintenance and operation.

1053. The Ministry of Civil Aviation own airports?—Yes.

1054. And manage airports, do they?—Yes, that is right. At this time, if I recall rightly, we were managing some 13 airports. To-day we are managing already some 35 and the number will be 45 very shortly. We have an obligation under Government policy based on the Civil Aviation Act, 1946, again, to take over under State ownership all aerodromes used by scheduled services. That means a big programme of Nationalisation which will mean a substantial increase in industrial employees.

1055. Now you receive substantial charges, do you not, for the use of your airfields?—That is right.

1056. From the users?—Yes. Landing fees have been increased, quite considerably over pre-war.

1057. Are some of these airfields leased to the various Corporations which conduct the services?—No. Our own Corporations are in equal phase with foreign operators who also use these airports; they are all treated on a common basis, and the airports are under State management and control.

1058. You make the same charge to our own Corporations and to foreign operators?—That is an International obligation, that all users of an international airport shall pay the same charges.

1059. One other question, on Subhead K, on page 319. Subhead K is "Subsidies and Grants". There is a footnote which states: "The precise grant payable to the Air Registration Board could not be determined in advance". Could you tell me what the Air Registration Board is, quite shortly?—The Air Registration Board was established about 1936-37 as the result of the Gorell Committee which examined the procedure for granting certificates of airworthiness for aircraft plying for hire and reward. It was felt that it would be better that the Minister

should delegate his powers to an independent board comprising representatives of the operators, the constructors and certain senior interested air authorities with a number of independent people nominated by the Minister.

1060. Does the Board examine the aircraft and give them certificates or the prospective pilots and give them the certificates?—They have certain duties in regard to the pilots which are also shared. Their primary job is to certify an aircraft type as airworthy. They give a type certificate and they then give subsequent individual certificates for each aircraft that comes after that type. They first give a type certificate and then individual certificates for the particular aircraft. They also have duties in regard to the surveying and the maintenance of these aircraft, and with regard to the ground engineers and the people who are responsible for their maintenance.

1061. Are all the expenses of the Board borne by the Ministry?—No. There is a complicated history behind this. When it was first organised, if I remember rightly it was felt that the constructors and the operators should contribute to the cost of the organisation and there was an agreed split of the cost. The Minister's share was limited, if I remember rightly, to £60,000 over a period of 5 years. That was to be four-fifths of the estimated cost of the organisation, and the remaining one-fifth was to be supplied by the operators and the constructors.

1062. Will you look at page 321, which is a detailed statement of expenditure on works, buildings and lands. First of all, it seems that the expenditure was very much less than was anticipated when the Estimate was made?—Yes.

1063. The original Estimate was £670,000 and the expenditure was £270,000. Then there is a large number of footnotes, in fact one to almost every item, saying "Service deferred," or "Programme of works was reduced", "Plans were revised", and so on. It seems as if the developments have not at all gone according to plan?—No, and that is even more true today.

1064. Could you explain that to us?—I do not wish to suggest that there is anything at all in this other than the fact that you cannot get these works services executed according to plan or within the time phased. It was one of the difficulties in the war and is since the war that the available labour and materials hold up progress one way and another, and I can only say that the difficulties obviously underlying this Account are existent today even in stronger force.

1065. But it is mainly shortage of labour and materials?—Yes.

1066. There is one other point that arises on this and that is why does not Heathrow, which is, I think, your *magnum opus*, feature in this schedule?—I am advised that

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SIR HENRY SELF, K.C.M.G., K.B.E., C.B.

[Continued.]

the Air Ministry paid for all work done during 1945-46 there. It was on charge to the Air Ministry until the end of 1945-46 when we took it over.

1067. I think the Committee might like to know, if you have the figures available, how much has been spent on Heathrow?—I have not the figure. I can give you figures for the position as it is today but the position in regard to this Account is another matter. The actual position at the present time is that the total estimate for the work is £26 million and the probable expenditure to today is £2 million. We expect to spend

another £3 million in 1947-48 and there will be a carry over of the balance of £21 million. So that the actual expenditure up to today is £2 million on Heathrow.

1068. It is projected that there will be spent, over a period of years, another £24 million?—Yes.

1069. That is something for the Public Accounts Committee to look at in days to come. Are there any questions on the Account?—May I take it that the Account is approved? (*Agreed*). Thank you Sir Henry.

(*The Witness withdrew.*)

(*Adjourned till Thursday, 17th April, at 3.45 p.m.*)

THURSDAY, 17TH APRIL, 1947.

Members Present:

MR. PEAKE in the Chair.

Mr. Cuthbert.
Lieut.-Colonel Alan Dower.
Lieut.-Colonel Hamilton.

Mr. Thurtle.
Mr. Wadsworth.

Sir FRANK TRIBE, K.C.B., K.B.E., Mr. D. F. C. BLUNT, C.B., and Mr. C. E. I. JONES called in and examined.

Mr. J. G. LANG, C.B., Mr. C. B. COXWELL, C.B., O.B.E., and Mr. E. C. JUBB, C.B., O.B.E., called in and examined.

Chairman.

1070. Mr. Lang, you have succeeded the late Sir Henry Markham as Secretary to the Admiralty?—(Mr. Lang.) That is so.

1071. This, therefore, will be your first appearance in the witness chair here?—It is my first experience of this Committee, yes.

1072. And we are dealing with an accounting year during which you were not the accounting officer?—That is so.

1073. But nevertheless you accept responsibility for the Accounts, do you?—I do.

1074. The first item on our agenda is the Treasury Minute on paragraphs 27 and 28 of the Fourth Report of the Committee of Public Accounts, 1945-46, which deals with arrangements for securing economy in manufacture. I think we had better take those two paragraphs a little later because they overlap with a paragraph in the Report of the Comptroller and Auditor General on the Navy Appropriation Account, 1945-46, which we shall take later. Therefore we will turn to the Treasury Minute on paragraphs 29 and 30 of the Fourth Report of the Committee of Public Accounts, 1946, dealing with the control of sub-contractors' prices.

TREASURY MINUTE ON PARAGRAPHS 29 AND 30 OF THE FOURTH REPORT OF THE COMMITTEE OF PUBLIC ACCOUNTS, 1945-46.

Chairman.

1075. In these two paragraphs, which deal with the control of sub-contractors' prices, we drew attention to some somewhat substantial profits made by sub-contractors. 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 million. We went on to detail the steps taken by the Admiralty, including the appointment of a committee with an outside accountant to examine the question. The Treasury, in their Minute state: "My Lords will pay close regard to the comments of the Committee in the review of the post-war arrangements for the control of sub-contract prices which is now taking place." That review is taking

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Mr. J. G. LANG, C.B.,

[Continued.]

Mr. C. B. COXWELL, C.B., O.B.E., and Mr. E. C. JUBB, C.B., O.B.E.

place in the Admiralty, or in conjunction with the Treasury?—It is really taking place in the Treasury, and we are collaborating with the Treasury. The lead is being taken by the Treasury.

1076. Either you or Mr. Blunt can tell us how far that review is now proceeding?—(Mr. *Blunt*.) There has been a committee sitting on this, and they have reported. That report is to be taken by the Contracts Co-ordinating Committee, which is due to meet, I hope, early next month. We have several items on the agenda. It was not possible to arrange a meeting before then. This matter will be taken then. We shall, no doubt, come to a conclusion, and possibly it might be looked at again later in the Session, when, say, the Ministry of Supply is before the Committee, if that would be convenient.

1077. Have you before you, Mr. Blunt, the Navy Appropriation Account for last year?—Yes.

1078. Will you turn to paragraph 7 of the Report of the Comptroller and Auditor General on that Account. Under "Control of future warship prices" you will see the second part of sub-paragraph 7 says: "After the cessation of hostilities, however, the question was further examined by a new departmental committee, which included an outside professional accountant." Is that the same committee which has been considering the question of sub-contract prices?—No. That committee to which you are referring now was an Admiralty committee. The one of which I am speaking is an inter-Departmental Committee, and their report will be considered by the Contracts Co-ordinating Committee which is, of course, itself an inter-Departmental Committee, with the Treasury in the chair. That is purely on sub-contracts. Paragraph 7 deals in the main with direct contracts.

1079. On the question of the sub-contracts, there has been an inter-Departmental committee sitting?—Yes, and that has reported.

1080. That has reported to the Contracts Co-ordinating Committee?—It has reported really in form to the Treasury, and the Treasury will be bringing it before the Contracts Co-ordinating Committee early next month.

1081. Mr. Lang, we had the figures last year of the investigation of these firms' profits and the average return on capital which they showed. Can you give me any subsequent figures in respect of the present year of account—any later figures than here set out?—(Mr. *Lang*.) You heard last year, if I remember rightly, figures relating to the firms employing a capital of £50,000 or more?

1082. That is right?—The figures you had then were that there were 504 firms with a capital of £291 million, with profit rates of 25 per cent. on capital employed and 13 per cent. on cost of sales. The comparable figures I would give you this year are that up to the 31st December, 1946 (that is one more year) the number of firms that have been handled by the Admiralty—again firms employing a capital of £50,000 or more—is 643. The total capital employed is £567 million, and the profit rates are an average profit on capital employed of 22.5 per cent., giving an average profit on cost of sales of 11.9 per cent. You will notice those figures are lower than the corresponding figures of last year.

1083. Amongst the 643 firms with an average profit of 22 per cent. there must be some with a profit considerably in excess of that figure?—That follows.

1084. Have you sub-divided the 643 firms into any other groups, and, if so, what is the average profit of the highest of the groups?—The 643 would include 109 firms who show a profit of 50 per cent. or more on capital.

1085. That is on capital employed?—Yes. The capital employed in that field is £66 million.

1086. Whilst the general figures show some improvement on the previous year, you would agree that there is still scope for some economies?—I do not think you can draw a very sweeping conclusion from those figures, because those figures include profit on private sales, and it is not really sound to add a number of different firms with entirely different figures together and draw too solid a deduction from the fact that their profit rate comes out high.

1087. None of these firms is working for the Admiralty exclusively?—No. They are sub-contractors working for all Government departments, but principally for the Admiralty.

1088. Are some of them working only for Government departments, or have all of them got ordinary commercial sales as well?—(Mr. *Jubb*.) Some would be working entirely for Government departments, but the bulk of them would have some commercial work as well.

1089. Would any of those working exclusively for Government departments fall into the category of those showing a profit of 50 per cent. or more on the capital employed?—I have not the answer to that, except as regards one firm of which I know, which shows a high return on capital employed, and they actually were employed entirely on direct Government work—only 10 per cent. for the Admiralty and the other 90 per cent. for other Government departments. It just shows that

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these figures do not relate merely to Government sub-contracts but to direct contracts as well and to commercial work.

1090. Have you any figures later than those mentioned in paragraph 30 of our last report on this question of refunds, because where you find high profits being made on capital employed you very often ask for a refund?—(Mr. Lang.) There the picture is that up to the 31st March, 1947, the total refunds we have obtained amount to £4,875,000.

1091. That is inclusive of the figure mentioned in our previous report?—That is so.

1092. We spoke a year ago of offers of a certain amount being under consideration?—There the figure is of course much less this time. It is a matter of £44,000.

Chairman.] Are there any questions on the Treasury Minute on paragraphs 29 and 30 of the Fourth Report of the Committee of Public Accounts, 1945-46?

Lieut.-Colonel Alan Dower.

1093. I am not very conversant with the means by which these sub-contracts are given. Have you in your own mind any figure that you consider as a reasonable profit to be made on capital employed?—(Mr. Jubb.) From $7\frac{1}{2}$ per cent. to 15 per cent. we should aim at in any contract that we ourselves were negotiating.

1094. Do you know whether in any case contracts were refused? I appreciate that you are not yourselves negotiating these contracts. I mean to say that this is really very largely out of your hands, is it not?—The main contractors are primarily responsible.

1095. Yes, exactly. It seems to me that the main contractors have a good deal of money to play with (is that an unfair remark?) if they are prepared to sub-contract their work at such a large profit. You consider the reasonable sub-contract profit, from what you just now said, to be about 10 per cent.— $7\frac{1}{2}$ per cent. to 15 per cent. Here, in many cases there is a profit of 50 per cent.?—But the 50 per cent. on capital employed is partly related to commercial sales, and also these figures that you have for the 643 firms are before any action has been taken to get any rebate.

1096. The long and the short of it is that the previous figures were 25 per cent. and now they are down to $22\frac{1}{2}$ per cent.?—Yes.

1097. Do you think the decline is satisfactory, or do you think it should be possible to reduce it further?—We have reduced it because, as I say, these are gross figures before we have taken any action to get any rebates.

1098. You have had a refund?—Yes.

Lieut.-Colonel Alan Dower.] What proportion of the total is the refund? It is only £4 million.

Chairman.

1099. It is negligible, really. It is rather less than 1 per cent. on the capital employed in the case of the firms you have investigated?—You would have to know how much of the total of the sales related to Government sub-contracts, and we have not that information.

Lieut.-Colonel Alan Dower.

1100. Is the refund of £4,800,000 likely very much to alter the $22\frac{1}{2}$ per cent. profit which is being made on these sub-contracts?—That 22.5 per cent. is a misleading figure in itself, because firms, generally speaking, make a much bigger rate of profit on their commercial work than they make on their Government work. We have had some cases where a firm has made, say, $4\frac{1}{2}$ per cent. on its Government work and, say, 50 per cent. on its commercial work and has finished up with an average of about 14 per cent. The 22.5 per cent. referred to is the average rate of profit for about 600 firms—that 22.5 per cent.

Mr. Cuthbert.

1101. Is it not possible for us to get the percentage actually on Government work? This figure includes commercial work as well as Government work. Is it possible to get a figure of what the actual percentage of profit on Government work would be?—(Mr. Lang.) No. The Government work cannot be isolated from the whole work of the firm. The Committee will appreciate we are attacking this problem not with a right to demand a refund but with a view to persuading a firm to give us a refund voluntarily. We have no rights in the matter. We can only go to them and say: "Your overall profits have been high. Some part of that is on Government sub-contracts. We think you ought to give us something back."

Chairman.

1102. When you say that you have no rights, in your arrangements with the main contractors you would insist upon a right of inspection of the sub-contractors' accounts, would you not?—We have done so, more recently. There are quite a lot of main contractors who do not pass on the right of inspection of accounts to their sub-contractors. (Mr. Jubb.) And it would apply only to substantial sub-contracts. We have found a great difficulty in tackling firms who have had a multitude of small sub-contracts which are not subject to costing.

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Mr. C. B. COXWELL, C.B., O.B.E., and Mr. E. C. JUBB, C.B., O.B.E.]*Mr. Cuthbert.*

1103. Are these sub-contractors' accounts part and parcel of the main contract with the main contractor or do the Admiralty buy from them direct?—(Mr. Lang.) The former is the case.

1104. What Colonel Dower was saying seems to me to be the crux of the matter. The main contract must be pretty heavy as far as the estimate is concerned, and the profit thereon, if they have a good deal of money to play with with the sub-contractor?—Only if you assume that the rate of profit on the sub-contract is in fact at this average high rate. As Mr. Jubb has pointed out, may not be at that high rate.

1105. That is my difficulty. If we could separate the Government business from the other it would be helpful, but we cannot do that?—Unfortunately we cannot do it. (Sir Frank Tribe.) May I draw attention to the last sentence in the second sub-paragraph of paragraph 29 of your Fourth Report of last year, which states that my predecessor drew attention to the fact that commercial work was often indirectly Government work. I understand that these accounts in the main relate to the calendar year 1945. The results are not assessed until 1946 or even early in 1947. So we are dealing mainly with the war period, and it is difficult to believe that during the war period any very large proportion of so-called commercial work was not indirectly on behalf of some Government department. Therefore one cannot help thinking that these profits were in the main made out of some Government department.

Chairman.

1106. Would you agree with that, Mr. Lang?—(Mr. Lang.) To some extent, yes, but while, as the Comptroller and Auditor General says, the majority of firms were employed on work of national importance, I do not think you could call work done for the railways, for instance, Government work, because it was not subject to Government control in the way of costs.

Lieut.-Colonel Hamilton.

1107. Mr. Chairman, when you asked whether Mr. Lang was satisfied or whether he did not think further inquiry ought to be made into this question of the apparently very large profits that were often made, he did not say: "Yes" or "No," but he said that it was impossible to know (which is the point we have just been discussing) how much of these profits were due to Government work and how much to commercial sales. That position does not seem to me to be very satisfactory. It seems to me that Mr. Lang feels himself quite unable to say what degree of profits has been made on Government work as such, and therefore he is not in a position to say whether he thinks further

inquiries ought to be made, or the whole subject should be further investigated. Is the Comptroller and Auditor General quite happy about all that?—Perhaps before Sir Frank Tribe speaks I could make the point that this problem of sub-contractors' prices for future purchases is under examination. We are to some extent dealing entirely with the past and how much we can recover from the past. As far as the future is concerned, the question of the extent to which sub-contractors' prices can be controlled is undergoing examination now. (Mr. Blunt.) That is a matter which is coming up before the Contracts Coordinating Committee, as I said.

Chairman.

1108. Are these cases, where the sub-contractor is working for a number of main contractors who deal themselves with a number of different Government departments, collated in any way by the departments concerned?—(Mr. Lang.) The process is that the Government department to which the sub-contractor is mostly attached undertakes an examination of the whole field, and the recoveries which we have achieved are in respect of the whole measure of Government sub-contracting work for firms for whom the Admiralty are the negotiating authority; we turn over some of the firms who have done sub-contracts for us to the Ministry of Supply, for example, for them to investigate because the firms do more sub-contracting work on Ministry of Supply account than they do for us.

1109. But in considering the picture of an individual sub-contractor, you would obtain from other Government departments particulars of any work which they had sub-contracted out to that man?—The investigating accountant would whenever possible report the percentage of total sales represented by Government sub-contracts.

Mr. Thurtle.

1110. We were told that there were 100 firms which made a profit of 50 per cent. or more on the capital employed. I wonder if, at the end of the scale, there is any considerable group of firms which show losses, or profits below the normal figure?—(Mr. Lang.) I cannot show you a figure for losses, but there is a group that we have taken out of firms whose results show under 15 per cent. on capital. There are 238 reports from 142 such firms. The total capital in the field is £90 million. The average return on capital in that field is 8.2 per cent., and the average profit on cost of sales in that field is 5 per cent.

1111. I suppose those low profits in the case of that group of firms might be attributable to the low profits they had made on private work?—More likely to the fact, I think, that they were doing a very high degree of sub-contracting on Government

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work and the profit rate was on the whole kept down. It might be the converse, of course.

1112. I wonder if you have any idea as to what the proportion of private work to Government work was in the cases of these firms which have made the highest kind of profit, in view of what the Comptroller and Auditor General says about the restricted degree of private enterprise there was during wartime. It would not appear that the proportion of private work would be very considerable?—(Mr. Jubb.) That is a very difficult question to answer because the proportion of private work would be apt to vary with each individual firm.

Mr. Thurtle.] Yes, but of course that argument is an effective check, really, against our getting anything in the nature of a true answer as to whether there has been an excessive profit on Government work or not. If that argument is applied every time we cannot ascertain the facts.

Lieut.-Colonel Hamilton.

1113. That is the point I was trying to make?—I think we need to realise that this is what we call a secondary control of sub-contractors' prices. The Admiralty have adopted primary control over a very large field. For instance, if you take ship-building, when we get the list of sub-contractors a very big lot of them are obtaining their material from steel firms, but steel firms' prices are controlled and there is no necessity to go for a rebate in the case of those steel firms. Similarly, with some of the big auxiliary machinery works. We had discount arrangements with them by which we had primary control of their prices and got satisfactory prices. There is no case for a rebate there. This is a secondary control after the event, when you have the overall profits on the whole of their trading.

Mr. Thurtle.

1114. But you really do not know how that overall profit is made up. It may not be made up on the steel which is used as

material or other things which are used as material, but it comes in somewhere?—You know they have made so much profit over the whole of their business, but you do not know how much of that is related to private business or how much to Government direct or how much to Government indirect. You try to assess the amount of Government indirect business that they have, and you try to bring the profit on that amount of indirect business down to a reasonable level; and that is how we have obtained the rebates.

1115. So, with the best will in the world, you could not tell the Committee in regard to these firms which have made very high profits whether those high profits have been made on Government work or not?—No, and I think it is not right, if I may say so, to draw too general conclusions from the addition of 643 firms and say their total sales were so much total capital employed and the average rate of profit so much. The average rate of profit is quite meaningless in such circumstances, to my mind.

1116. Apart from the cost, do I understand the object of this investigation in which you have been co-operating with the Treasury is to try to find if you can some cast-iron system whereby the profits of these contractors are restricted to a range from 7½ to 15 per cent., the figure you gave just now?—(Mr. Lang.) It is an attempt to try to find a method by which we can control profits. I do not know that we have got as far as suggesting what the standard should be yet.

1117. You did say that 7½ per cent. to 15 per cent. was what you aimed at?—That is what we have aimed at hitherto. (Mr. Blunt.) Of course, the scope of the problem is very much diminished now. These figures are war figures. There is comparatively very little sub-contracting now, and the problem is very much smaller. That is one of the points the Committee has to take into consideration.

Mr. Thurtle.] Yes, I agree.

NAVY APPROPRIATION ACCOUNT, 1945-46.

Chairman.

1118. Will Members turn now to the Navy Appropriation Account, 1945-46, to the Report of the Comptroller and Auditor General. The first three paragraphs are, I think, formal. Paragraph 4 refers to the standard of Departmental Audit, and on that I have one question. Do you hope to revert to the pre-war standard in due course?—(Mr. Lang.) Certainly, in due course. In one or two fields we have now attained the pre-war standard. We hope we shall in fact attain it throughout the whole of this field during the current financial year. That is dependent a

little bit on staff questions, but not quite so much on staff as on some other aspects of the Account later on.

1119. Are there any questions on paragraph 4? We pass to paragraph 5, in the second sub-paragraph of which the Comptroller and Auditor General says: "I have recently been informed that, from the 126 warships covered by the last settlement,"—that is a settlement of price retrospectively, I imagine?—That was the 1944 settlement?

1120. Yes—"four destroyers have been selected for costing and further checks are being arranged which will include certain

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sub-contracts selected after scrutiny of the lists obtained from the main contractors". Can you give us any results of the costing of the four destroyers?—We have got two of those reports in and from them the result is that our accountants' check on the contractors' statement of what the ships cost to build shows absolutely negligible deviations. One shows a deviation of £3. The other shows a deviation of £30, and that is in £200,000.

1121. The practice here, I understand, is that the firm certify the cost and the firm's accountants check it?—No. The firm, in the person of their managing director and their accountant, certify the cost, and our accountants check the cost. That is what we call a spot check.

1122. The check is not merely adding up the figures?—No.

1123. It goes further than that?—It goes further than that.

1124. How far does it go?—It takes the time sheets and the material statements, and so on, of materials stated to have been built into the ship, and it checks those for quantities and rates, and the number of man-hours, and so on, at the rates of pay.

Chairman.] Are there any questions on paragraph 5?

Lieut.-Colonel Alan Dower.

1125. This is really cost plus, is it not?—No.

1126. I am glad to hear it?—It is not cost plus. The cost is based on estimates produced by the contractors before the ship is finished, and the profit settlement is calculated on those estimates of cost.

1127. So that the firm in question know what profit they are going to get when the job is commenced?—No, not when the job is commenced but before it is finished. They put in an estimate some months before the completion date when, admittedly, they know something of what they have spent on the ship.

1128. What I am trying to get at is this. Human nature is fallible. If, the more the job costs, the more is the profit to be added on, there is a rather unsatisfactory state of affairs brought about. That has been tried in building and has been a complete failure and has had to be thrown over. I am merely asking whether the contractors in this case would receive a greater addition of profit corresponding to the higher cost of the actual job, as it went along?—I think the answer is that we settle what the price is going to be on an estimate which is given us part of the way through the construction, some months before the completion date. If the job turns out to cost more than that the

contractor stands the loss. If the job turns out to cost less than the contractor estimated we get a refund.

1129. There is no possibility of the estimate being given before the job is commenced?—No, not under present conditions.

1130. It would be more desirable if you could get it?—We should very much like to get back to fixed price contracts, but certainly in relation to the ships which have been built during the term under review and are building now, it has not been possible to get prices before a job is started.

Mr. Cuthbert.

1131. The difference between the estimated and actual cost is very small, you say?—No, I did not say that. I said the difference between the firm's certificate of what the job ultimately cost them, and our accountants' check on that statement is very small. It is not quite the same thing.

Chairman.

1132. Are there any further questions on paragraph 5? Paragraph 6 deals with the negotiations regarding the settlement for ships launched or completed after 1944?—That is so.

1133. Can you tell the Committee, shortly, what the position is in regard to the negotiations now? Are you dealing with the shipbuilders as a whole?—We are dealing with what is called the Warship Group Shipbuilders initially. That is a representative body formed of the main builders of warships. They are due to see the Admiralty on the subject of the settlement for the post-1944 ships, and we have been waiting for them for some three or four months. They are not yet ready with the whole of the material on which they want to argue their case. The other group (that is the Naval Auxiliary Craft Group of builders, and the Merchant Ship group) are waiting until the negotiations about warships profit rates have been settled.

1134. But you have made some individual settlements with merchant shipbuilders, if I understand the paragraph aright?—Yes.

1135. Could you tell us how many ships are covered by the settlement?—66 ships are covered by those settlements on merchant ships before the profit rate is determined.

Chairman.] Are there any questions on paragraph 6?

Mr. Thurtle.

1136. In this paragraph what does the term "without prejudice" signify in regard to these settlements which have already been made?—We have undertaken not to quote against the shipbuilding

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Mr. J. G. LANG, C.B.,

[Continued.

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groups the fact that some merchant ship-builders have taken 7 per cent. profit or less in respect of ships launched after 1944.

1137. You have undertaken to keep—? —We have undertaken not to quote it against the industry as a prejudice to the discussion on the profits settlement.

Chairman.] Paragraph 7 deals with the control of future warship prices. We might take paragraphs 7 and 8 together, and with them we will consider also the Treasury Minute which I postponed earlier.

TREASURY MINUTE ON PARAGRAPHS 27 AND 28 OF THE FOURTH REPORT OF THE COMMITTEE OF PUBLIC ACCOUNTS, 1945-46.

NAVY APPROPRIATION ACCOUNT, 1945-46 (*continued*).

Chairman.

1138. There has been some change of policy from time to time in regard to this matter, has there not?—(Mr. Lang.) That is true. It might be helpful if I perhaps made a statement explaining the circumstances in which the Admiralty reached the conclusion described in the second sub-paragraph of paragraph 7 of the Report of the Comptroller and Auditor General. That is the decision to abandon the appointment of a Director of Cost Estimates. You will recall that my predecessor announced the Admiralty decision to appoint an officer, whose principal duty would be the preparation at the tender stage of estimates of the cost of warships based on the same detailed calculations as those of the estimates prepared by the builders themselves. This officer was to be an accountant with good business experience. The decision was taken in June, 1945, but, in spite of sustained efforts by the Admiralty, including consultation with other Government departments, it had not been found possible to secure the services of a suitable person before, in August 1945, the war came to an end and the situation was radically changed. Outstanding prices for a large number of ships had been settled by methods of which the Committee is aware, and which did not necessitate or, indeed, warrant the employment of a Director of Cost Estimates. It seemed likely that similar settlements would be made, covering all ships launched or completed up to the end of 1945. Moreover, the expectation was that the shipbuilding programme of the ensuing years would be extremely small. There seemed a likelihood of a return to more stable conditions in regard to costs, and the Admiralty by then knew much more about costs in private yards than it did before the war. In view of the altered situation the Admiralty appointed a new committee in 1945 to review the previous decision, the new committee including an outside chartered accountant. This committee threw doubt upon the earlier proposals to utilise an accountant to prepare independent estimates of shipbuilding costs, from the viewpoint that, while an accountant is competent to advise on what the construction of a ship has actually cost—that is cost

accounting—he would not possess the technical constructional knowledge to enable him to say what a ship ought to cost, which is the function of estimating. The committee, indeed, went further and advised that, in the light of the greatly increased knowledge which the Admiralty now held about cost factors in private shipyards, there would be no justification for such an appointment. The procedure which the Board of Admiralty have in mind for future orders is summarised in the second and third sub-paragraphs of paragraph 7 of the Report of the Comptroller and Auditor General. That procedure will be discussed with the shipbuilding industry in due course. I would like to emphasise that the procedure which the Comptroller and Auditor General has described has not yet been discussed with the shipbuilding industry. It has been notified to them, but they have not yet joined us round the table in talking about it.

1139. So it has not yet been discussed with the warship builders?—Not the procedure outlined substantially in the second and third sub-paragraphs of paragraph 7.

1140. So you are not in a position to tell us whether it is likely to be agreed by them?—No.

1141. It really comes to this, does it not, that at present, until some new procedure is agreed, you depend entirely upon the manufacturers for efficiency?—No, I would not have said that. Our technical departments and our Director of Contracts do know a good deal about costs of various classes of vessels. With all the ships that are being built at present, the orders have been placed on the basis that the Admiralty will pay a reasonable price for the ship. The actual figure to be paid will in all those cases be determined by the settlements which have yet to be negotiated, but they are likely to take something like the same form as the 1944 settlement. We are discussing here the procedure for future orders, and if we found that the warship builders and other shipbuilders were unwilling to fall into line with the suggestions that we made here, we should have to consider whether some more detailed machinery ought to be set up within the department. I do not think it

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would take the form of a Director of Cost Estimates, which was discussed before, but we should not be satisfied to depend wholly on the shipbuilding industry for the quotation of prices. We should want some machinery to ensure that we knew how those prices had been arrived at.

1142. In paragraph 8 the Comptroller and Auditor General tells us that the Admiralty aim at obtaining fixed prices at the earliest practicable stage. That is likely to be delayed for some time, is it not?—I am afraid it is, except possibly for quite small vessels.

1143. Nor is it likely that you will be able to obtain competitive tenders for some time?—That time may not be too far ahead. It depends on the pressure of work in the shipbuilding industry.

1144. Is not shipbuilding likely to be exceedingly busy for—?—Two years.

1145. —for any period we can foresee, for five to ten years?—No. (Mr. Jubb.) Our orders are likely to be very small. We have not placed any warship orders for some time. (Mr. Lang.) My colleague suggests that you spoke in terms of ten years?

1146. I suggested that shipbuilding was likely to be extremely busy for five or ten years?—No, that is very uncertain. Two to three years, but not more.

1147. We will now have a look at the Treasury Minute on paragraphs 27 and 28 of the Fourth Report of the Committee of Public Accounts, 1945-46, which, deals with this matter. It is stated in paragraph 27 of our Report that "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". Would you agree with those statements in our last Report?—Not entirely, I think. We leave a great deal more to the warship builders in the way of efficiency and technique, largely because our overseeing staffs are satisfied that the building methods are proper, and we certainly have not set up an form of efficiency return on Ministry of Supply lines for the warship field. I do not think, frankly, it would be feasible. The Ministry of Supply system was very largely on repetitive work, even if it was quite big repetitive work. In shipbuilding there is a very small amount of repetitive work.

1148. But the Ministry of Supply got a good many poachers in during the war who were rather expert at watching the poachers outside, were they not?—They probably were.

1149. The suggestion in paragraph 27 of our Report is, I think, that the Admiralty

have some rather old-fashioned game-keepers still in this regard?—I would like to suggest to you that strictly your paragraphs 27 and 28 were on a substantially different subject from warship prices. If you remember, the case which gave rise to those paragraphs was the question of a gun forging and its treatment, where naturally the Ministry of Supply and ourselves are on fairly common ground, though our methods for handling it might be different.

1150. I think it is a quotation from something Sir Henry Markham said, or at any rate a paraphrase of something he said, that in the case of warship building the question of efficiency in technique is left to the shipbuilders?—I think he meant it to be qualified in the way I suggest, that it is left largely to them, but our overseeing staffs are able to keep an eye on it because they are working in the actual establishments of the shipbuilders.

1151. In the Treasury Minute (it is true that this does not deal exclusively with shipbuilding) the Treasury tell us: "My Lords trust that Departments will keep the arrangements for securing economy in manufacture under close review and that, so far as practicable, common arrangements will be made for dealing with questions of efficiency in production methods". When you speak of "common arrangements", Mr. Blunt, you mean arrangements common to various contracting departments?—(Mr. Blunt.) Yes; that was the intention.

1152. This type of question—for example the efficiency standards to be applied to manufacturers of gun forgings—would come up at the Contracts Co-ordinating Committee?—No, I do not think so. I do not think that is a problem which they would handle. It is a problem which can really only be handled by production branches. I do not think the Treasury could usefully sit in the chair on a question like that.

1153. But is there some machinery by which contracting departments can get in touch with one another?—That is the hope we express in this Minute. I do not know whether anything has been found possible on that.

Mr. Lang.] We are reading this Minute as an exhortation to us with the other production departments to consider the problem involved in economy in manufacture, to put our heads together and see what can be done. I would make the point that since the particular case mentioned by the Committee last year was brought to light, the size and complication of the problem has been altered by the end of the war, which has meant a great reduction in the Admiralty's demand upon industry. The scope for special measures designed to secure economy in manufacture has in-

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evitably been restricted, though the importance of the subject in some fields is still very great. For our own part we have continued over the last 12 months to make use of the Principal Technical Costs Officer of the Ministry of Supply, and more recently we have decided to appoint a committee to examine the methods at present used for securing economy in manufacture over the whole field of Admiralty production, to recommend any improvements that may seem to be desirable and possible, paying due regard to the view expressed by the Treasury that so far as practicable common arrangements should operate for dealing with questions of efficiency in production matters. That committee will include a prominent industrialist and I hope it will start its work quite shortly.

Chairman.] That is very satisfactory. Are there any questions on paragraphs 7 and 8 of the Report of the Comptroller and Auditor General on the Navy Appropriation Account?

Mr. Thurtle.

1154. We have been told that the warship builders have not yet agreed to the proposed scheme for ascertaining prices. Envisaging the possibility that they will not agree, that they are recalcitrant on that point, is there any method, short of giving way to them, of getting their agreement?—I should not expect real difficulty in securing the agreement of the warship builders to procedure of this kind or something fairly close to it. If they did prove obdurate we should clearly have to look at the problem again, and we should either have to find some other machinery that would give us a corresponding check on construction costs, or we should have to find some method of persuading the warship builders to give us at least adequate information for checking prices. As to exactly what that machinery would be or exactly what pressure we could bring to bear upon them I do not know that I can give you a very satisfactory answer.

Chairman.

1155. Are there any further questions on paragraphs 7 or 8? We pass to paragraph 9 on which I have only one question. It deals with firms who acted as your agents for the management of factories and docks. Did those agency arrangements turn out satisfactorily from a financial viewpoint?—Generally, yes.

1156. Are there any questions on paragraph 9? We pass to paragraph 10 which deals with Admiralty-owned companies. There are two firms, I think, involved in paragraphs 10 and 11. The circumstances under which you acquired the "ownership"—that means the purchase of the shares, I imagine, in these companies?—That is right.

1157. —were referred to in our earlier reports. I think the Committee ought to be told the name of the first firm mentioned in paragraph 10?—(Name given.)

1158. What is their main product?—Gyro compasses and various forms of high precision engineering, including radio work.

1159. Their products are gyro compasses and radio, mainly?—Yes.

1160. The shares in this company were taken over during the war by the Admiralty?—That is so.

1161. I suppose the board of the company was superseded by Admiralty nominees or to some extent was superseded?—Yes. There is one member of the board who was associated with the firm under the old regime.

1162. We are told at the beginning of the second sub-paragraph that "although post-war Government orders were likely to be small, the Admiralty decided, with Treasury approval, that it should be retained as war potential." This company's shares were taken over under the Defence Regulations during the war?—That is so.

1163. It has now been decided that the Admiralty shall retain the ownership of the business?—Yes.

1164. And operate it, although Government orders are small. Where do the bulk of the products go to—ordinary commercial channels?—You realise the statement that the Admiralty orders would be small was looking to the future rather than the past. Perhaps it would help if I made a statement on this case, too. The essential purpose which moved the Admiralty in deciding to continue the operation of this firm in peace was, as the Comptroller and Auditor General has said, the maintenance of war potential. The position which faced us at the end of the war was that this firm had developed into a most important production unit for high precision engineering work. Whilst naval peace-time requirements were likely to be small there would be very substantial requirements for the gear which the company handled in the event of another emergency. Moreover, some of the peace-time work which the company could undertake for the department was of vital importance, though relatively small in quantity. As an example, the research and development contracts which we reckoned to place with the firm in fields such as fire control and electronics, which private firms would often be unwilling to take. It was on these grounds that the Admiralty reached the conclusion that the public interest demanded that we should keep direct control of the company. Since the Admiralty could not expect that their own requirements, together with a certain amount of work which might be placed by other Government departments with us, would absorb more than 20 to 30

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per cent. of the firm's capacity, if it were going to operate as a post-war manufacturing unit, it seemed clear that the company, which was quite well-placed to do so, should launch out into commercial markets to find private orders, and so to utilise the surplus capacity available and replace the expiring Government contracts. Because of the volume of such work—that is, the obtaining of private orders in a competitive commercial market—the company's venture would involve a bold policy of development and the setting up of selling and servicing agents at various points throughout the world to enable it to sell the specialised articles it manufactured in the face of competition. This factor ruled out the possibility of running the establishment as a direct Admiralty establishment, since the Admiralty had not the commercial experience to run a specialised concern of that kind. The Admiralty concluded, therefore, that the company must operate as an ordinary commercial venture. We hope to retain the services of the two present directors whose commercial experience has proved of great value. We have, however, made arrangements with the company to safeguard the Admiralty's interests in it, whilst at the same time leaving the management free to exploit the company to the best advantage. It should be added that the necessary capital reconstruction of the company, which needs much more capital today than it had when the Admiralty first acquired ownership, is at present under consideration. The Treasury are, of course, being consulted on that subject.

1165. The Admiralty own all the shares, or nominees of the Admiralty own all the shares, in the company?—The Treasury Solicitor actually owns all the shares.

1166. As nominee?—Yes.

1167. You say that something from 70 to 80 per cent. of the company's trade will be in the ordinary commercial field?—That is so.

1168. Are there any products which this company makes for which you have no other possible sources of supply in this country?—No.

1169. This, then, must be a very exceptional case, must it not?—Perhaps I might have qualified my "no" by saying there is one product of the company, gyro compasses, for which we have a very limited field of manufacture.

1170. But you have some alternative source of supply?—We have one alternative source of supply.

1171. The general policy where companies were taken over under Defence Regulations has been to return them, has it not, to the original owners?—Or to dispose of them in some other way. (Mr. Blunt.) Mainly the latter.

1172. What is happening, Mr. Blunt, for example, to Short Brothers?—Short Brothers is being retained, in the same way, for the same sort of reason.

1173. Is that being handed over to the Ministry of Civil Aviation?—No. That is being retained by the Ministry of Supply.

1174. Dealing with the other firm, mentioned in paragraph 11, that I think is another case where you acquired the shares, but that company has been used to dispose of certain small craft as Government surplus, I think, and is now being wound up?—(Mr. Lang.) I can hardly say "is now being wound up" but it is to be wound up, as soon as we can get it done. We have not yet disposed of all its assets, and so on.

1175. So far as the first firm are concerned, the Admiralty are embarking on a private commercial venture?—Largely.

1176. And will sell in the export trade, I understand?—Yes.

1177. And the directors will, some of them, be men who have been previously connected with the company?—The present picture is that two of them will be the men who have run the company for us for the last four or five years, and we shall be reckoning to appoint a nominee to the board from our own staff.

Chairman.] Are there any questions on paragraphs 10 and 11?

Mr. Cuthbert.

1178. When you say they acquired the shares of these companies, how did they arrive at a price to be paid for the shares? Was it agreed with the directors, or was there a valuation?—(Mr. Blunt.) This was explained to the Committee at the time, two years ago, and we handed in a memorandum explaining how the price was arrived at.*

Chairman

1179. There would be an arbitration, I take it?—In this case, no. We did explain how the Treasury, who have the responsibility of fixing the price under the Defence Regulations, arrived at it. That was explained to this Committee at the time.

Mr. Wadsworth.

1180. What is the name of the other firm?—(Name given.)

Lieut.-Colonel Hamilton.

1181. The remuneration of the directors who it is hoped to retain will be on the basis of a salary, will it?—It will be on a commercial basis. (Mr. Coxwell.) The gentleman who is acting as chairman of the first firm receives no remuneration, by his own choice. The other one, the managing director of the company, is in receipt of remuneration, the rate of which was approved by the Admiralty. It is a salary.

* Not printed, see Q. 3134 of evidence, 1943.

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Mr. *Thurtle*.] I have no questions, but I take it we may regard this as an interesting experiment in State enterprise.

Chairman.

1182. Well! I was going to ask the witness whether the powers under which this business was acquired still exist?—(Mr. *Lang*.) Having acquired it, the question does not arise, does it? We are under no contract to hand it back.

1183. I was wondering whether you could go on to acquire now all the other radio manufacturing businesses under the same powers?—(Mr. *Coxwell*.) I think that is theoretically true. I am not sure whether it has ever been explained before to this Committee how we came to acquire the first firm. I can state it quite shortly if you would like to know.

1184. I do not want to hear how this firm were acquired. What I want to know is whether the powers under which they were acquired still operate, or whether those powers have been terminated?—(Mr. *Blunt*.) There have to be circumstances of national emergency in order to do it. You could not walk in and acquire because you thought you would like to do so. It had to be demonstrated that there was a national emergency reason for doing it.

1185. There were Defence Regulations which governed these acquisitions?—That is so. There was a national emergency reason for doing it. They were falling down on their administration, or something like that was happening. I believe that regulation still exists, but whether you could make the same demonstration of necessity is another matter.

1186. If you could claim that you were acting in the interests of the Defence of the Realm no doubt you could do it?—I do not think we could.

1187. But you think the regulation still exists?—I am not sure whether in form it exists or not.

1188. I should have thought it had disappeared—It may have done. I am speaking without the book.* (Mr. *Coxwell*.) If I may supplement what Mr. *Blunt* has said, we did not acquire the shares in the first firm because we wanted to do so. We acquired them because we had to do so. Under the Defence Regulations we had appointed an authorised Controller to this company because this company were unco-operative with the Admiralty and were resisting Admiralty demands and Admiralty control. We thereupon appointed an authorised Controller under the Defence Regulations.

* Note by witness: The regulation is still in force under the Supplies and Services Act, 1945, and could only be applied for the purposes of that Act.

1189. Quite frankly, I am not in the least interested in how this firm came to be acquired. I am asking, on a different point, whether the powers still exist?—All I am trying to point out is that we did not acquire the company because we had powers. We acquired the company because we were forced to do so by the then owners.

1190. You could not have acquired the company if you had not powers?—(Mr. *Lang*.) Had we not had powers to appoint an authorised Controller, that is so.

1191. I think we can leave those paragraphs now and go on to paragraph 12, which deals with something on rather similar lines to the last two paragraphs. We are told: "On the ground that it was necessary to preserve war-potential, in conjunction with the wider Government policy of maintaining full employment and of using productive capacity to the maximum whilst shortage of civilian goods persists the Admiralty decided in 1946 to seek commercial orders for Admiralty establishments." Can you tell what the establishments there concerned are?—The dockyards generally, at home, the torpedo factories at Greenock and Alexandria: they are very close to each other—it is Alexandria in Dumbartonshire—and a gauge factory in Sheffield.

1192. The Comptroller and Auditor General goes on to say: "The Admiralty were of opinion, that, whilst all possible use should be made of the organisation and co-ordination machinery of the Ministry of Supply, who have statutory authority to undertake certain classes of civilian production and are operating on a much larger scale, the balance of advantage was in favour of keeping in their own hands the responsibility for civilian production in their own establishments". What puzzles me is what authority you have for using Admiralty establishments for ordinary commerce?—We should have said that there was no need for any special authority, other than Government approval, to do the things which we have been doing. We have in fact repaired merchant ships and undertaken various kinds of repayment work, admittedly on a very, very small scale, in the dockyards, for many years, particularly abroad. A ship calls at Malta and asks "Can you help me to repair something because I cannot go on until it is repaired?" The dockyard does it as a matter of course and then sends the bill to the owner.

1193. You were speaking of dockyards abroad doing repairs to merchant ships?—That was the example I gave you of what we have done in the past, but we have done similar jobs at home. We would have undertaken the repair of a ship that was pulled into Plymouth, damaged, without any hesitation at all.

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1194. What are the torpedo factories going to manufacture for civilian use? Torpedoes are not articles which civilians need very much in the ordinary way?—No. Perhaps it is as well that they do not get hold of them, too. The situation is, of course, a little different there. Again it comes back to this question of war potential. Torpedo factories are an essential unit in our preparedness for war, and we cannot afford to see the organisation and the skilled manpower behind it fall away to nothing through lack of work to do. There is almost no requirement nowadays for the manufacture of torpedoes, and we have got to find some other method of keeping those factories alive. The Admiralty came to the conclusion that the right way to keep this labour force together, the right way to keep the factory going, was to seek commercial work, particularly as, in so doing, we could contribute towards making up for the shortages that had existed in many forms of manufacture, and we are undertaking, at places like the torpedo factory, engineering products generally, of iron castings, machine work, engine parts; we are manufacturing some water taps for the Ministry of Supply; hydraulic pumps and valves for a firm at Glasgow, and oil pumps for another firm up in the North. It is that type of general engineering work, with a preference for high-precision work.

1195. What is the scale of these torpedo factories? What sort of number of men are employed, for example, in the ordinary way?—I do not think I can give you the number of men at the torpedo factories except to say that I think it would be upwards of a thousand and probably nearer 1,500. The number of men in the torpedo factories who are engaged on this repayment work is about 230 at the present time.

1196. Are the other men previously employed there?—They are engaged on Admiralty work which is still requiring to be done—overhauling torpedoes, and that type of thing.

1197. The gauge factory at Sheffield is on a comparatively small scale, is it?—That is a smaller place. The gauge factory is a body of some 400 persons. It is undertaking work as similar as we can get to its natural product of gauges, jigs, and that type of work.

1198. To revert to the dockyards for a moment, the main work there is ship repairing, is it?—That is so.

1199. And that is the largest, so far as annual turnover would be concerned, of the three classes of establishment we are here considering?—Very much so.

1200. We are told that the Admiralty decided in 1946 to seek commercial orders for Admiralty establishments. What value of commercial orders would you need for the dockyards to maintain full employment,

which is one of the grounds of the policy?—That question is not very easy to answer, because to some extent it has taken us a good few months in 1946 to build up the taking of commercial work on any scale in the dockyards, but the probability is that in the current financial year—that is 1947-48—this work will tail off. The reason why we had to get commercial orders in the dockyards was that we had not enough money at our disposal to undertake all the naval ship repairing work that we should have liked to have done. There was plenty of naval work to occupy all the resources of the dockyards without any commercial work at all.

1201. What was there a shortage of?—Of money.

1202. Money?—The Chancellor would not give us enough money in the Navy Estimates.

1203. I have never heard that one before. I thought you were operating on a Vote of Credit?—Not for 1946-47. I should perhaps have explained that none of this work occurred in 1945-46. The policy was decided in the last month or so of 1945-46.

1204. I thought you had a song in your heart, Mr. Blunt, over all this. Is it really so that there was a shortage of money?—(Mr. Blunt.) Mr. Lang found it so. (Mr. Lang.) Certainly the Treasury would not give us all we asked for. (Mr. Blunt.) As Mr. Lang says, this is 1946-47 we are really looking at here, not 1945-46. It was the first year of peace.

1205. What I was coming to was this: Have you secured sufficient commercial orders to keep these places busy?—(Mr. Lang.) We secured commercial orders on a rising scale reaching a peak at about Christmas, 1946, or January, 1947. We did in fact maintain our labour force because we were trying to get these orders, and we persuaded the Chancellor to give us a Supplementary Estimate in February of this year, which has tided over the balance. We certainly did not obtain enough commercial orders during the last financial year to cover the gap between the money that we were originally given for naval work and the money which we needed to keep the dockyards up to their proper standard. What we did was to keep the men, employ them on such commercial work as we could get (and, as I said, it was on a rising scale) and utilise them for the rest on naval work, and then go to the Chancellor afterwards and tell him we had overspent.

1206. This policy of taking commercial orders does not apply to all the naval dockyards in this country. It is certain selected dockyards, is it?—It is certainly the three big ones. There is very little distinction. We were willing to undertake commercial work at any dockyard in this country.

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1207. I thought perhaps there was some element of special areas policy here?—No.

1208. At the Pembroke Dock, for example. Are you doing ship repairs there?—No. Pembroke Dock, for all practical purposes, is not capable of doing ship repairs. It is in process of being utilised at the moment for some auxiliary craft, for maintenance work—small stuff.

1209. Whilst I can understand that, particularly overseas, you have always been willing to undertake urgent repairs to a merchant ship, especially where there is no alternative dockyard for it to put in to, you took the view that no statutory authority was required for these dockyards in England and in Scotland to undertake commercial work on a considerable scale as a matter of routine?—We did.

1210. The Ministry of Supply had to obtain some statutory authority, or at any rate it was thought wise that they should obtain statutory authority, to conduct trading operations?—I think it was rather that they had that statutory authority a long time ago.

1211. The Ministry of Supply did not have it a long time ago. You are talking of the Admiralty having it?—No. The Ministry of Supply had it from the start, I believe.

1212. When you say "a long time ago" you mean from early in the war?—From 1939, when they were set up.

1213. I think that is wrong?—(Mr. *Blunt*.) They got it under the Supplies and Services Act.

1214. I think that is right. I do not think they obtained it until 1945, under the Supplies and Services Act?—That is so.

1215. And I think the Ministry of Works had a Bill at about the same time, to enable them to conduct trading operations in prefabricated houses?—That is so. I think as regards the Admiralty, as Mr. Lang has said, there has always been quite a substantial volume of commercial work going on in the dockyards. It is traditional that there should be. I can remember a Chilean vessel being reconstructed there in the 1930's; quite a lot of work was done. I myself should not have thought the problem was quite the same in the Admiralty as it was in the case of the Ministry of Supply, who were going in for commercial work in a big way on housing equipment and things of that sort—things perhaps quite extraneous to their ordinary activities. Here, for the main part, they are doing work for which dockyards have been constructed; they are there to repair vessels, and they take the work in their stride. All that happened in 1946 was that they went a bit out of their way to attract a bit more work of that kind. I myself should not have thought that the question of statutory authority really arose.

1216. Surely, Mr. Blunt, there is a precise analogy, is there not, between the statutory powers obtained by the Ministry of Supply and by the Ministry of Works and the Admiralty going into the engineering trade at their torpedo works?—If I might say so, it is merely a question of degree more than anything, I think. For instance, the Admiralty obviously would not need to have a statutory power to undertake some small piece of work which happened to come their way. That would be absurd, to throw away work and refuse it and say "We have no power to do it". They have always assumed that they had power to do such work as came their way. I know quite a lot was done between the wars. The question is where you start to say "Here are the Admiralty breaking out into something of quite a new kind, of a large magnitude. We think it might be thought better and more desirable that they should get statutory approval for that". We do not feel that point has been reached or anything like reached. In the case of the Ministry of Supply and the Ministry of Works it was clear that that point had been reached.

1217. But you think there comes a point when statutory authority is desirable, if the trading operations become substantial?—I think so. Supposing the Admiralty themselves wanted to go into the housing field in a big way, I myself should have thought, subject to correction, that they would not be able to do it without some form of statutory authority.

1218. I suppose, no period of time is prescribed for this commercial operation?—(Mr. *Lang*.) You mean in the sense that at the expiration of that period we should cease to undertake the work?

1219. Yes?—Definitely no. As I explained to you, in the dockyards that work will tail off a good deal during the coming year. In the other two establishments it will continue indefinitely.

1220. As regards the Ministry of Supply or the Ministry of Works, I think in both cases (certainly in one) a time limit was prescribed in the statutory instrument. In those cases there is no period of time prescribed at all?—(Mr. *Blunt*.) No.

1221. They may go on indefinitely?—As I say, I do want to emphasise that the amount of work being done is so inconsiderable compared with that being done by the Ministry of Supply or the Ministry of Works. It is, I feel, a question of degree.

Mr. *Wadsworth*.

1222. On that particular point I should think that the Admiralty either have power or have not power. I never heard of any department that had a degree of power

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[Continued.]

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unless that degree was defined in a Bill?—This is a very deep subject. I should not like to get involved in it. You really want to have Parliamentary Counsel to inform you on this.

1223. This procedure has its basis in the very roots of time?—Yes, it has. The Admiralty has for years, one might say for hundreds of years, had commercial work coming their way which they have taken in their stride without any question as to whether they needed statutory authority to do it; and it is a question of degree how casual that work is. In 1946-47 it has been less casual. The Admiralty have rather more attracted it than in normal times. But it is the same class of work as they have been doing all along.

Mr. Wadsworth.] I take it in actual fact if an investigation were made, it would be found that there is no power at all, except by sort of precedent, Mr. Chairman?

Chairman.

1224. I cannot answer that. I think it is probably a question of considerable constitutional difficulty.—I am sure it would be a very lengthy investigation to find out what power the Admiralty have.

1225. In regard to the last sentence of paragraph 13, the Comptroller and Auditor General tells us that his officers will review the actual operation of the arrangements during the current year and he goes on to say: "Preliminary figures indicate that in the case of one establishment sale prices were in many instances considerably under the cost of production." To what establishment does that refer?—(Mr. Lang.) That is the Sheffield factory.

1226. Can you give me any figures for the Sheffield factory relating to the cost of production of its products and the realisations by sales?—The position there is that in respect of orders secured and completed before 31st December, 1946, £5,760 represents the cost of the jobs undertaken; £4,280 represents the price recovered, showing a loss of £1,480. What I would like to say in regard to those figures is that these losses are really teething troubles, due in part to the absence of a planned estimating organisation in the establishment and to unexpected manufacturing difficulties.

1227. Is this factory in Sheffield turning over to a new product for commercial purposes?—It is undertaking on a commercial basis work, some of which is related to its own speciality of gauges, jigs, and so on, but a good deal of which is not so related. It is taking any form of high-precision engineering work which it can get, and, whatever experience it may have had in gauges and jigs, you will realise that they are specialities related to armament production, guns, ammunition, and so on, and

there is quite a difference between gauge work for that purpose and gauge work for engineering products generally. The science is the same in kind, but the actual products are quite different.

1228. But the case for conducting commercial operations at this factory rests entirely on the grounds of war potential?—Entirely on the grounds of war potential.

1229. Does that mean that if production were allowed to diminish the employees would drift away?—That is so.

1230. And their skill would be lost?—They would be lost to us. Their skill might not be lost because they might go to other engineering firms in other districts, but when we wanted to speed up production of gauges, and so on, for shells and ordnance manufacture we should not have the skilled workmen available to do it.

1231. Is this factory of yours in Sheffield the only source of supply for the particular article?—It is the only gauge factory that we have at all.

1232. It is the only gauge factory that you have?—Yes.

1233. Are there no other ordinary commercial people making gauges?—There are, but we have very little of their products for inspection of armaments. We built up our own gauge factory because many of our gauges are very, very complicated indeed.

Chairman.] Are there any questions on paragraphs 12 and 13?

Mr. Cuthbert.

1234. We understand this is purely a war potential and the trading figures are very small. There are losses?—Yes. I was making the point that those losses were due to teething troubles to start with. The more recent results included in those figures show, we hope, that we are getting over our teething troubles, and I should hope when I come before the Committee next year to be able to produce a much better-looking statement in relation to this factory.

Mr. Wadsworth.

1235. Mr. Chairman, there are lots of questions I could ask, but I think perhaps that in view of the fact that the prime need for retaining these factories is war potential there is not much point in many of the questions I would like to ask. Quite obviously, from a costing point of view it must be an extraordinarily difficult position, because you do not obtain the ordinary commercial standards of efficiency from the point of view that—?—Our factories are not laid out for commercial work; that is so.

1236. I would like to know this: How, possibly, can you arrive at a satisfactory costing of anything that you manufacture?

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Do you sort of guess at a figure, or do you estimate it from the general prices in the trade?—No. We endeavour to estimate (it was because we had not a very satisfactory organisation that we fell down at this place) on the basis of taking the product that we are asked to manufacture, putting the men who know about the processes through which it will have to go—the production of a casting and the machining of that casting and the grinding of certain faces, the testing of it, and so on—to assess the amount of time that will be required for the various operations, the amount of working machinery that will be wanted, the amount of material that will be used up, and allowance for wastage through machines, and so on, going wrong; and thus producing a costed article at the end. That is how, in fact, your ordinary commercial firm will quote you a figure. The difficulty with us is that because our machinery and so on is not laid out for this purpose there is bound to be, at the start, a good deal of trial and error.

1237. And your on-cost, I take it, is rather difficult because of the managerial side of it—the cost of management and so on?—The basis of on-costs on which we are working is that we are charging the on-costs which can be attributed to the work going on in the factory. We are excluding those on-costs which relate either to machinery or personnel who are wanted for war organisation purposes.

1238. That is what I mean. You cannot apply the ordinary commercial standard?—(Mr. *Blunt*.) No. That is the general rule. We have exactly the same problem on a larger scale in the Ministry of Supply, where you have to make allowance for the fact that a lot of the machinery and plant there is purely for war potential.

Mr. *Thurtle*.

1239. I take it that this sort of thing, to a lesser degree, has been going on for a long time—the repairing of ships and so forth?—(Mr. *Lang*.) For a very long time.

1240. There is no suggestion that the Admiralty, in doing this, is doing anything illegal, or going outside its powers?—There was not, until the Comptroller and Auditor General called attention to the fact that the Ministry of Supply had powers.

1241. Would you not say that this sort of work is very analogous to the way in which the Army from time to time lends to commercial institutions, such as farming concerns, men for the purpose of harvesting, and that kind of thing?—That is a reasonable analogy, but I would have to admit that they only secured the power to do that under a Defence Regulation.

1242. This is also true, is it not, that if this skilled labour and these materials which were lying idle in the Admiralty dockyard, and so forth, had not been used at that time when they were badly needed in the country, it would have been in the nature of a waste of those materials and that labour?—I ought to make a distinction there between materials and labour. As regards labour, yes, we should have regarded it as completely wasteful. On materials, we are having to get materials which are used for this commercial work under exactly the same schemes as govern the supply of materials to the trade in which we are operating. We are not using Admiralty allocations of materials for commercial work purposes.

1243. From a national point of view, as far as labour is concerned, to have allowed these people to remain idle when there was work of great urgency to be done would have been wasteful?—It would have been wasteful.

1244. Is it true that never is any work allowed in a Government dockyard of this kind when the labour concerned is needed for direct Admiralty work?—Yes, with two qualifications. One is that the very urgent case thrown up in order to help a ship we will take as more or less an act of common decency. The second qualification is that it was because we had not got enough money to spend on naval work that we developed the taking of commercial work in the dockyard. The naval work was there to be done. There are plenty of ships wanting repair but at that time we had not a big enough allocation of money to enable us to do it.

1245. Surely that is a very abnormal situation, not to have money enough to carry out essential Admiralty work?—Normally, if the money were available, this kind of commercial work would always take second place?—That is so.

Chairman.

1246. I have just two further questions to ask. As far as the firm mentioned in paragraph 10 of the Comptroller and Auditor General's report is concerned, that is of course a company?—Yes.

1247. And it is probably a public company, I should think, is it not? Its accounts would therefore be available to its competitors and to any member of the public who wanted to see them?—I think it is a private company now.

1248. At any rate, the accounts would be available to the Public Accounts Committee if they should wish to see them?—That is so.

1249. So far as these commercial operations are concerned, the accounts will not be kept in a commercial form at all, will

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they?—No. We are not keeping a trading account over this field, but we are keeping records of the expenditure and the work done, and that kind of thing, and are making the material available to the Comptroller and Auditor General.

1250. Surely it would be desirable, if you are conducting commercial operations on a considerable scale over an indefinite period, for some accounts to be got out on a commercial basis so that it can be shown, taking into account depreciation and matters of that kind, whether you are trading at a loss or at a profit?—That might be so, but I think the answer is contained in your phrase "on a considerable scale for an indefinite period." There are indications that the scale in the dockyards will be relatively small from, say, six months time onwards, and in the other two establishments the scale is quite small anyhow. (Mr. *Blunt*.) I think I am right in saying that insofar as the work is done in the dockyards it comes into the Admiralty Expense Accounts—their commercial accounts. (Mr. *Lang*.) That is so. (Mr. *Blunt*.) It will be in those. (Mr. *Lang*.) Yes it will, from the 1st April, 1947, onwards. (Mr. *Blunt*.) From the 1st April of this year. They have been suspended during the war, but from the 1st April this sort of work, if it is carried on in the dockyards, will be reflected in the Admiralty Expense Accounts, which are accounts on a commercial basis.

1251. Are there any further questions on paragraphs 12 and 13? We pass to paragraph 14. This paragraph explains the arrangement for the disposal of certain small craft, the disposal of which was entrusted to the chairman of the Admiralty-owned firm referred to in paragraph 11 above. That, you told us, I think, was the (*name quoted*)?—Yes.

1252. "Sales of considerable value have been made under these arrangements, by competitive tender where possible but otherwise by private treaty." In paragraph 15 we are told: "Yacht brokers and other agents introducing purchasers were allowed as commission 5 per cent of the sale price, irrespective of the number and value of craft sold as a single transaction. Early in 1946 the Admiralty came to the conclusion that as much as 5 per cent. commission could hardly be justified when a sale of considerable value was made, and the Director was instructed in such cases to agree a reduced commission, if possible, with the agent concerned. The special appointment of the chairman of the Admiralty-owned firm as Director of Small Craft Disposals has since terminated, and the Director of Navy Contracts has been appointed in his place." You might like to make a short statement to the Committee on this, I think?—The position is quite fairly described there in the Comptroller and Auditor General's Report.

We were faced with the problem, towards the end of the war, that there was a very considerable volume of small craft to be disposed of, and we reached the conclusion that we should need a special organisation to deal with it. The predominant reasons were that there were going to be very large numbers of these non-commercial craft to be disposed of, the original rough estimate being somewhere between 7,000 and 8,000. The second reason was that, to a very large extent, we should be dependent on making sales direct to ultimate purchasers because the boat trade of the country has no organization for arranging bulk sales for re-sale to other people.

1253. I do not think there is any criticism here of the arrangement for disposal of these vessels on a commission basis, as I read the paragraph. What I really wanted to know was, what was it that made the Admiralty come to the conclusion that the commission was too large where a sale of considerable value was made, and how it came about that the appointment of the Director of Small Craft Disposals came to be terminated?—First of all, there is no connection whatever between those two facts. The appointment was not terminated because of any dissatisfaction in the Admiralty about the way in which the chairman of the company was doing disposals work and less still because of any dispute between him and the Admiralty on this 5 per cent. commission basis. The 5 per cent. commission is the normal trade commission in the boat-broking and ship-broking—small craft broking—world, and except to such extent as we could sell small craft by competitive tender to individuals (which is very small) we were largely dependent on the brokers for the introduction of potential purchasers and a good deal of the negotiating work with them. In fact, these vessels are to be found all round the coast, and for convenience we placed them in shipbrokers' yards for custody purposes. It saved us having to set up special organisations in the various ports and creeks to look after our craft while they were being disposed of. We thought that the 5 per cent. was a perfectly reasonable commission to pay, partly because the utilisation of this—

1254. I have already said there is no criticism of the 5 per cent. in the individual cases. It is stated that you came to the conclusion that 5 per cent. could hardly be justified when a sale of considerable value was made. Why did you change your mind about this? Having started on a 5 per cent. basis, what made you come to this conclusion and instruct the director to reduce the commission?—It was rather this: we had looked upon 5 per cent. as reasonable because the majority of the transactions were likely to be on a relatively small scale, not more than a few

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boats at the most being sold to any one purchaser. There were examples, however, in which quite considerable sales were made to purchasers—bulk sales, not for re-sale but for continued use by the man or body who had purchased. We had one example which really made us sit up and take notice, where there was a private treaty sale for a number of boats priced at £160,000. Five per cent. on that is £8,000, and we thought that £8,000 was a lot of commission to pay to a broker. That was the real incident that led us to question the 5 per cent. running as a commission all through. We took up this matter with the chairman of the company, who was our Director of Small Craft Disposals, and he advised against a reduction in the rate of commission. His arguments were that it was not the practice of the trade to change the rate of commission according to the volume of the particular transaction, and he was quite certain that any attempt to do so would have a serious effect on sales. Nevertheless we did say to him: "If you get any more examples of these really big sales we think you should talk to the broker before matters are completed and try to arrange with him that a smaller figure than 5 per cent. is made applicable."

1255. In the case of this one sale you mentioned, of £160,000, how many boats were involved?—I do not know.

1256. What type of boats were they? It would be a considerable number anyway?—Yes. At a rough shot it would be something like 100 boats at the least. (Sir Frank Tribe.) I was told there were 42 trawlers. (Mr. Lang.) They were trawlers, were they?

1257. The commission on those, at 5 per cent., was £8,000. These shipbrokers are not professional men operating as shipbrokers? It is any individual. If any member of this Committee had come forward and had offered to place a boat, he would have got a commission, would he not?—I do not think he would. They are professional men acting as ships' brokers. What might have happened is that some private individual who held a client would go to a shipbroker whose yard held one of these craft, and would try to do a deal with him for a share of his commission. But the shipbrokers with whom we were operating were in fact proper trade representatives.

1258. The fact that really made you sit up and take notice about all this was, was it not, that the man who earned the £8,000 in this case was a former employee of the company, whose chairman was Director of Disposals. Am I not right about that?—I do not think he was.

1259. Was there no connection at all between the man who got the big commission and the company?—Not to the best of my

knowledge. (Sir Frank Tribe.) I understood that this commission of £8,000 for the sale of these 42 trawlers was paid to the late sales manager of this Small Craft Disposals organisation and that he had resigned from the company and shortly afterwards appeared as a broker and claimed this commission.

1260. That comes as news to you, Mr. Lang?—(Mr. Lang.) Yes, complete news to me. I am not going to say it is not correct. It is merely something that I have not known.

1261. Does it come as complete news to your colleagues?—I think it does. (Mr. Coxwell.) I do not remember seeing that ever before, or hearing it.

1262. The Comptroller and Auditor General must have had the report on some authority?—Yes; I am not disputing that at all. (Sir Frank Tribe.) I have not dreamed it. (Mr. Lang.) There is not anything wrong in it, necessarily, even then. He may well have gone into the broking business and been still a broker, and this was merely the first big transaction.

1263. As far as you are concerned, what made you press for a lower rate of commission on the sale of a number of vessels was simply the fact that a commission had been paid of £8,000 on a single sale?—Yes.*

Chairman.] Are there any questions on paragraphs 14 and 15?

Lieut.-Colonel Sir Alan Dower.

1264. I have two questions. You say you did not expect large sales. You expected small sales when you agreed to the commission?—That is so.

1265. So the question of large sales has really arisen since?—That is so.

1266. Was it the first really large sale put through that made you come to that decision, or were there previously large sales of over £8,000 worth of commission that had been carried through?—I think I should be right in saying there was no other sale of anything like that magnitude. There were, however, some other large sales which came to our knowledge at the time, when we looked into this big case.

1267. Large sales which had taken place and large commissions which had been paid?—Yes, but not of the same magnitude.

1268. Not as big?—No.

1269. Is it a fair question to ask about what figure the sales were? I think you said it was a sale of £150,000 upon which £8,000 commission was paid?—That is so.

1270. Had you any sales over, say, £100,000 prior to that upon which the 5 per cent. had been paid?—I could not tell you. I could find out for you but I do not know at the moment.*

* Paper circulated to Members; not printed.

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1271. I think it is rather a point. The other question I wanted to ask is this: Have you in your mind any sale figure at which you consider a less figure than 5 per cent. should be paid for commission?—I would put it in this way, that I would have in my mind, having come into this question more recently, that it would be reasonable to look at the appropriateness of 5 per cent. commission at about the £50,000 mark. (Sir Frank Tribe.) Perhaps on that I could say the rate of commission agreed, with Treasury concurrence, between the Ministry of War Transport and the Institute of Chartered Shipbrokers for sales of merchant ships was, for large craft, 1 per cent. on £2,000 and over; for small craft, applicable to single vessels and blocks of vessels, it was 5 per cent. on £100, reducing to 1 per cent. on £2,000; that is to say, varying between 1 per cent. on £2,000 and 5 per cent. on £100.

1272. That is the commission paid by the Ministry of Transport, is it?—Yes, for merchant vessels. (Mr. Lang.) I think there is a substantial difference between what the shipbroker does in that field and what he does for us. In our case he does in fact keep our craft in his yard. He takes the potential purchasers over the various vessels and gives them facilities to look at them, and many of them of course come and look and it does not produce bargains. I think he is doing a good deal more than a shipbroker in the Ministry of Transport field.

1273. And a good many of these small craft of yours are odd lots, are they?—Very odd lots, yes.

Lieut.-Colonel Alan Dower.] While appreciating that you have only just assumed your heavy responsibilities, I do think the Committee ought to be informed of what large sales took place at the full 5 per cent. rate prior to this decision being made. I do not know whether that information could be made available?

Chairman.

1274. It could, I am sure?—It could, certainly. I will put in a statement if I may.*

1275. Yes; perhaps you will furnish a statement on that point. Are there any further questions on paragraphs 14 and 15? Paragraph 16 deals with two warships given during the war to Dominion Governments. Mr. Blunt, before the war it was the practice, was it not, when we made presents of warships, for a Treasury Minute to be presented to Parliament?—(Mr. Blunt.) That is so.

1276. And that pre-war practice is being resumed, is it not?—Yes.

1277. Will it apply where a loan for an indefinite period is made of a warship, which comes to the same thing, surely, as

a gift?—It depends how indefinite it is. I certainly do not think we ought to put a ship on permanent loan as a subterfuge for not getting Parliamentary authority.

1278. We are told here that a number of surplus warships have been sold or lent?—That is for temporary periods.

Chairman.] Are there any question on paragraph 16?

Mr. Thurtle.

1279. Mr. Blunt, could you tell us the difference between a gift and a permanent loan?—I was saying that I am not sure that there is a really any difference and I think the Treasury would rather frown at an attempt to get away with it by calling it a permanent loan. (Mr. Lang.) There is a difference. In the case of a permanent loan we should retain ownership in the ultimate disposal of the vessel, even if it were only for scrap. With a gift we do not retain that.

Chairman.

1280. But it would be within the spirit of the old practice that, if a ship is permanently lent so that it is going to be used by somebody else for the whole of its effective life, it should be treated as a gift from the point of view of reporting it to Parliament?—I would not dispute that. (Mr. Blunt.) I would agree with that.

Lieut.-Colonel Hamilton.

1281. As a matter of interest, would the expression "various Governments" go outside Dominion Governments?—(Mr. Lang.) Yes. There are several loans and/or sales to foreign Governments.

Chairman.

1282. I have no questions on paragraph 17. Has any Member of the Committee any questions on that paragraph? Paragraphs 18 and 19 I do not think we need bother with at this late hour. Paragraphs 20 and 21 are more or less formal. In paragraph 22 the Comptroller and Auditor General states: "The Admiralty informed the Treasury last year of their intention to resume from 1st April, 1947, the normal peacetime standard of departmental examination of the accounts of naval stores of H.M. ships and shore establishments, which was suspended on the outbreak of war, and of armament and medical stores, for which reduced wartime standards had been approved by the Treasury in 1940. To facilitate the resumption of the normal standard the Treasury agreed that the examination of the large number of these accounts awaiting Admiralty scrutiny should be waived or applied more selectively". How many accounts have been allowed to pass, therefore, without scrutiny?—I could not give you the number, but it would be quite considerable. It is largely in the

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naval store field, and the reason for it is the difference in the procedure between the checking of accounts for naval stores of ships and the checking of armament or victualling store accounts. The Naval Store Department have a system of travelling inspectors who go on board the ship and spend a month or two months on board the ship, checking up the whole of its naval stores and the account transactions that are related to those stores. They have not any facilities for checking naval store accounts of ships in the Headquarter Department and they have been taking these store accounts as they came in during the war and only checking them when discrepancies of one kind or another were shown. On the armament supply and victualling sides of the house, the checking of store accounts has always been carried out in Headquarters and it is there that we are adopting the selective scrutiny of the old accounts in the interests of applying to the current accounts the full measure of the pre-war system.

1283. Does the statement "that the examination of the large number of these accounts awaiting Admiralty scrutiny should be waived" mean that very large numbers of ships have come back to port and somebody has checked their stores?—Yes, it does, but nobody has checked their store accounts. When the ship is de-stored the stores coming off the ship would be checked by the account in the ship of what should be on board. You will have seen from the Losses Statement in the account numerous examples of writing off of stores that have gone astray for one reason or another.

1284. Yes; the Losses Statement is incomplete. If you look at the two last items in it, they are just shown in blank. "Deficiencies of Stores found on checking stocks . . ." and "Discrepancies found on stock-taking . . ." are left completely blank because you are unable to put any figure on them?—Because we think they are not really deficiencies so much as errors in issuing and accounting.

1285. At any rate you told the Treasury last year of your intention to resume the normal peacetime standard from the 1st April this year. Has that been done?—In the naval store and the medical store it has been done. In the Victualling Department we are not yet in a position to do it completely. In the Armament Supply Department we have not yet reached the stage of doing it completely, but we are hoping that we shall during the course of this year.

Chairman.] Are there any questions on paragraph 22?

Lieutenant-Colonel *Alan Dower.*

1286. I am sorry to introduce a discordant note, but if we are honest with ourselves

we recognise that in the Services there is a considerable amount of petty pilfering. I know from my own experience of the number of Courts of Inquiry which I have had to order. Are we going to introduce no better system after the war, do you think, because it seems to me that with all the rather loose tendency towards less morality we are likely to have a greater amount of pilfering to deal with. There are far more articles mislaid today than there were before the war. Therefore it will require a very much closer scrutiny of accounts than was necessary before the war if losses are to be avoided?—I would like to suggest that it depends on the results which come from an examination of store accounts on a pre-war basis. If we find that there is a high proportion of error and deficiency and on investigation there is reason to attribute that to pilfering of one kind or another, then I would accept your suggestion that we should have to improve our procedure. If, on the other hand, we find that the situation in the future is no worse than it was before the war, then we might reasonably say that the situation is acceptable.

1287. You would have the necessary improvements prepared, ready to put into operation if you found it necessary?—Yes, I think so.

Chairman.

1288. Now we turn to the Account. We had better take the whole Account as the hour is very late. I have two or three questions to ask. Would you turn to Vote 2 at the top of page 6. These are the details of receipts under Subhead Q. The first item is: "Receipts from the sale of clothing, soap and tobacco to officers and men of the Fleet, &c." a figure of £74,900. Have you particulars of the receipts from the sales of tobacco?—The answer is that I cannot give it to you.

1289. It perhaps does not matter, but you do still sell tobacco in the Navy free of all duty to the personnel, do you not?—If the ships are seagoing ships or if the establishment is one entitled to duty-free stores. There are certain very involved Customs regulations which define which establishments are sufficiently adequately guarded to be sure that the tobacco does not get into the general public's hands. Within those establishments and those ships we still sell tobacco free of duty.

1290. And the Chancellor's Budget Statement involves no change in that position?—No change at all.

1291. But the higher the tax on tobacco goes, the more will the privilege be worth?—That is so.

1292. It would be possible to make a calculation as to the extent to which naval pay is enhanced through this privilege,

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would it not?—It would, but I would suggest to you that the calculation is relatively valueless. The privilege is nothing more than saying that a force which is liable, in the nature of things, to spend a good deal of its time at sea, where any person, whether civilian, soldier, airman or sailor can get tobacco duty-free, will naturally enjoy in that duty-free tobacco a privilege not open to the general public.

1293. The quantities are limited?—The quantities are limited in the shore establishments. To the best of my knowledge they are not limited in sea-going ships when they are at sea.

1294. But steps are then taken to prevent naval personnel bringing on land large quantities of duty-free cigarettes, are they?—Yes.

1295. This figure of something under £74,000—because that includes clothing and soap as well—must represent the whole of the duty-free tobacco sold to the personnel of the Navy. Is that right?—The whole of the duty-free tobacco sold from Service stocks, which I think I am right in saying is only what we call manufactured tobacco—in other words, pipe tobacco. It does not represent the considerable volume of tobacco in the form of cigarettes, pipe tobacco or cigars, which sea-going ships can order from bonded stores belonging to tobacco suppliers for their use at sea.

1296. That tobacco does not appear in the Appropriation Accounts at all, anywhere?—No, because we do not handle the cost of it.

1297. So there is no way of ascertaining how much tobacco is consumed by the Navy duty-free—or possibly the Board of Customs might be able to tell us?—I think it could be obtained. It would be a fairly laborious process because it means going to four or five different sources for it, and there might be a fair amount of guesswork in the ultimate figure.

1298. Now will you turn to Vote 6 on page 10; again under "Receipts" there is an item "Sale of charts," a figure of £115,000. Am I right in thinking that you still sell charts at pre-war prices and are now losing money on them?—Will you

allow Mr. Coxwell to speak on this? It is one of his subjects? (Mr. Coxwell.) Would you like a general statement, or just an answer to that question?

1299. I do not want a long statement. Are you selling charts at pre-war prices?—I think so.

1300. Are you losing money on them?—That question I cannot answer at present. It is the subject of a special inquiry at the present time. We have long felt that we ought to know more about the cost of our charts, and any profit that we get out of them; and that is the subject of a special accountancy examination at the present time.

1301. Now will you turn to Vote 11, on page 19? There are some interesting figures about Admiralty industrial canteens and Admiralty non-industrial hostels, Subheads S and T. On Subhead S, Admiralty Industrial Canteens, the expenditure was £672,000, and on Subhead T, Admiralty Non-Industrial Hostels, the expenditure was £90,000; those two figures added together make £762,000, and in the details of receipts, Subhead Z, we find item No. 3 is "Admiralty canteens and hostels," a receipt of £768,000, which looks as if you were making a profit?—(Mr. Lang.) We are really breaking even. That is as close as we can, in fact, calculate.

1302. Are you making a considerable profit on the canteens and a loss on the hostels, or are the hostels self-supporting?—As nearly as possible we try to make the canteens self-supporting and the hostels self-supporting. I could not tell you whether, in fact, there is a slight profit on the one which is offsetting the losses on the other.

1303. There are other Government departments which lose a good deal of money on hostels?—Yes. Our hostels are quite small, of course. The canteens are the greater part of that expenditure.

Chairman.] Thank you. Those are all the questions I have to ask on the Account. Has any Member of the Committee any questions on the Account? May I take it that the Account is approved? (Agreed.)

(Mr. Lang, Mr. Coxwell and Mr. Jubb withdrew.)

17 April, 1947.]

[Continued.]

CIVIL APPROPRIATION ACCOUNTS, 1945-46.
CLASS VII.

VOTE II.

PETERHEAD HARBOUR.

(On this Account no questions were asked.)

GREENWICH HOSPITAL AND TRAVERS FOUNDATION ACCOUNTS, 1945-46.

(On this Account no questions were asked.)

CIVIL APPROPRIATION ACCOUNTS, 1945-46.
CLASS VI.

VOTE 3.

DÉPARTMENT OF OVERSEAS TRADE.

VOTE 8.

SURVEYS OF GREAT BRITAIN, ETC.

VOTE 9.

FORESTRY COMMISSION.

(On these Accounts no questions were asked.)

TRADING ACCOUNTS AND BALANCE SHEETS, 1945-46.

FORESTRY COMMISSION.

(On this Account no questions were asked.)

CIVIL APPROPRIATION ACCOUNTS, 1945-46.
CLASS VI.

VOTE 15.

STATE MANAGEMENT DISTRICTS.

(On this Account no questions were asked.)

TRADING ACCOUNTS AND BALANCE SHEETS, 1945-46.

STATE MANAGEMENT DISTRICTS.

(On this Account no questions were asked.)

CIVIL APPROPRIATION ACCOUNTS, 1945-46.
CLASS VI.

VOTE 16.

CLEARING OFFICES.

(On this Account no questions were asked.)

DEBTS CLEARING OFFICES AND IMPORT RESTRICTIONS ACT, 1934:
ACCOUNTS, 1945-46.

(On this Account no questions were asked.)

CIVIL APPROPRIATION ACCOUNTS, 1945-46.
CLASS VI.

VOTE 18.

FISHERIES, SCOTLAND.

CLASS VIII.

VOTE 3.

ROYAL IRISH CONSTABULARY, PENSIONS &c.

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[Continued.]

VOTE 4.

SUPERANNUATION AND RETIRED ALLOWANCES.

CLASS IX.

VOTE 2.

EXCHEQUER CONTRIBUTIONS TO LOCAL REVENUES, SCOTLAND.

*(On these Accounts no questions were asked.)**(The Witnesses withdrew.)**Adjourned till Tuesday next, at 3.45 p.m.*

Tuesday, 22nd April, 1947.

Minutes of Evidence attached to the Second Report.

THURSDAY, 24TH APRIL, 1947

Members Present:

Mr. PEAKE in the Chair.

Mr. Benson
Mr. Cuthbert
Lieut.-Colonel Alan Dower
Lieut.-Colonel Hamilton

Mr. Haworth
Sir John Mellor
Mr. Thurtle

Sir FRANK TRIBE, K.C.B., K.B.E., Mr. D. F. C. BLUNT, C.B., and Mr. C. E. I. JONES called in and examined.

The earlier part of this day's evidence was published with the Committee's second report.

ARMY APPROPRIATION ACCOUNT, 1945-46.

Sir ERIC SPEED, K.C.B., K.B.E., M.C., and Mr. C. E. KEY, C.B.E., again called in and further examined.

Chairman.

1681. We have now to proceed with the Army Appropriation Account, 1945-46. There is a Treasury Minute on our agenda but we will deal with that at our sitting next Tuesday because it relates to some of the later paragraphs in the report of the Comptroller and Auditor General. The first four paragraphs of the report of the Comptroller and Auditor General are, I think, common form are they not?—(Sir Eric Speed.) I think so.

1682. We have dealt with paragraphs 5 to 11. Paragraph 12 deals with the termination of the mutual aid arrangements and towards the foot of the first sub-paragraph the Comptroller and Auditor General tells us: "Substantial charges are included in the Account in respect of these supplies and services." That is supplies and services paid for in money after termination of mutual aid. Could you give the Committee the amount of the charges which were settled in that way?—In France it was £1,630,000 and in Belgium £6,590,000. No payment was made to the Dutch in this year of account because they failed to produce their accounts.

1683. Then we are told that full facilities are afforded to the Comptroller and Auditor General's officers to inspect the records of

the supplying organisations. What are these organisations? Are they agencies of the Belgian and French Governments, or are they merchants or contractors?—Agents of the French, Belgian and Dutch Governments.

1684. I suppose your accountants have access also to the records of these organisations, have they?—Yes, the Financial Adviser and his staff.

1685. We are told in the concluding sub-paragraph: "The arrangements have now ceased except for the provision of labour and accommodation." That is to say, the only things you are paying for now on the Continent are labour and accommodation. Is that right?—No. The only things that the local governments are arranging to provide us with are labour and accommodation. We are still paying for it, but they are arranging for the provision of it.

1686. You are not incurring liability at the present time for goods of any kind? It is only for accommodation and labour, as I read it?—No. We pay for everything we have, whether goods, labour or accommodation. I think that paragraph is intended to say that the governmental agents of the foreign governments are still providing labour and accommodation but

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Sir ERIC SPEED, K.C.B., K.B.E., M.C., and
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[Continued.]

they are no longer providing supplies which we ourselves buy. (Sir Frank Tribe.) That is the intention of that sentence.

1687. I am much obliged. Does that mean that we are getting labour and accommodation without paying for them?—(Sir Eric Speed.) No, we pay for them. We pay for everything we get now. The French Government is still arranging the labour, producing it physically, and arranging our accommodation for us on payment. It is no longer arranging the supply of eatables which we get ourselves on payment.

1688. Thank you. Are there any questions on paragraph 12? Paragraphs 13 and 14 deal with the production of fish by the Army in Egypt. I am not sure if we referred to this last year, did we?—Yes. We had it either last year or the year before.

1689. It is a most interesting experiment in which you obtain fish by merely flooding a low-lying area near the coast, I suppose?—You let the sea in, really.

1690. Is the fishing done by a contractor, or is it done by the Army?—It is done by a firm called the Port Said Salt Association, whose salt works are in the middle of the inundated area.

1691. These are profits made by the Army, are they?—By the Association, and shared with the Army.

1692. They amounted to £3,836 and the capital expenditure unamortised was £30,000. Have you a later figure of the profits?—Yes. There was a loss in 1946 of 8,786 Egyptian pounds. The general picture is that we have paid 36,000 Egyptian pounds in these three years, 1944, 1945 and 1946 for fish produced by this Association at an average price of 10d. a pound. The market price has never been less than twice that amount, sometimes nearly three times. The cost of the fish on the market if we had been able to get it (it is unlikely) would have been £85,000 approximately. We have paid 36,000 Egyptian pounds, but we have also paid a capital sum of 33,000 Egyptian pounds. If you add up the cost of our fish and the net loss over the three years and the unamortised capital, it comes to 75,000 Egyptian pounds. If we had gone into the market for fish over the same period we should have paid £85,000. Looked at in that way, we have done fairly well, but not as well as we expected.

Chairman.] Are there any questions on paragraph 14?

Mr. Thurtle.

1693. Is there any plant which will be realised when this scheme comes to an end?—Yes, we hope to get some small realisation of our original outlay, but nothing very considerable.

Mr. Benson.

1694. You mentioned another item of capital. There is the capital figure of £30,000 mentioned in the paragraph and then there is another £34,000 I think you said?—No, I meant to say that the unamortised capital is 33,000 Egyptian pounds, £34,000 sterling.

Mr. Benson.] What was your total original figure?

Chairman.

1695. That is the outstanding figure?—That is the remaining figure. I am not sure I have the original figure.

Mr. Benson.

1696. You paid another £30,000 for fish?—£36,000 for fish. Then there is a net loss of £5,000. Those three figures together come to about £75,000.

1697. Supposing you had come to the market to buy fish, could you guarantee that the price of fish would have risen?—It would probably have risen against us, but even assuming its current price we should have paid more.

Chairman.

1698. Are there any further questions on that paragraph? We pass to paragraph 15, which deals with the supply of milk for the Army in Egypt. It seems that a sub-contractor made excessive profits out of this arrangement amounting to approximately £86,000, equivalent to 110 per cent. on the estimated capital employed. Has there been any endeavour to get a refund of profits in this case?—Yes. We withheld current bills to that value. We have the money in hand and we are negotiating for recovery which I expect to be considerable. We have power to enforce recovery but we should avoid enforcement as we always do if we can secure agreement, and I should expect it to be a very large proportion of that sum.

1699. Are there any questions on paragraph 15? Paragraphs 16, 17, 18 and 19 deal with questions that have been discussed here before. Paragraph 17 deals with the settlement of the payment for the use of the railways in Iraq. We are told, in the second sub-paragraph: "More recently a final offer has been made to settle for the period to 31st March, 1946, on the basis of payment of 75 per cent. of tariff rates, less the value of the stores supplied and services rendered by the Army." Is there any progress yet towards a complete settlement?—None at all. The negotiations are in the hands of the Embassy and a Treasury representative and have been brought into the general argument about sterling balances, but there is no sign that I know of of a settlement. (Mr. Blunt.) I am afraid there is not, so far.

24 April, 1947.] Sir ERIC SPEED, K.C.B., K.B.E., M.C., and
Mr. C. E. KEY, C.B.E.

[Continued.]

Mr. Benson.

1700. Are these Iraq State railways?—
(Sir Eric Speed.) Yes.

Chairman.

1701. But, Mr. Blunt, if a settlement were achieved, would it involve a payment by us or to us?—(Mr. Blunt.) By us.

1702. So that the delay in the settlement is not doing us any injury?—Not on the railway matter itself, but this is mixed up with other things as well. The Persian railways settlement is also held up. We have been discussing that just lately, and I think there is going to be a fresh opening of negotiations. I cannot forecast at all what the result of them will be. There is a very big gap between what the Persians think they ought to get and what we think they ought to get, and we are going to make another effort to bridge that.

1703. On the question of the Persian railways, I suppose there is no question whatever of getting any contribution from the Russian Government?—They are due to pay. It was a joint arrangement and they are definitely due to pay. They have been advised of what we are doing. We have not waived the claim.

1704. Was it a joint liability by ourselves and the Russian Government?—It was a joint affair.

1705. Or was it a several liability?—I am not quite sure about that.

1706. Did we undertake the primary liability?—No, it was a joint affair. The agreement which was to have been negotiated, but never was, was a joint agreement between the two Governments with the Persians. There is no doubt at all that the Russians are liable to pay. We have not waived the claim. We are, as I told you, going to negotiate again and we are going to inform the Russian Government that we are going to do so; so as to keep them advised of our action.

Mr. Benson.

1707. With regard to the Persian railways, have we paid the joint bill for Russia and ourselves hitherto?—We have been doing the financing.

1708. Is the amount that we have already financed very much larger than the amount that Persia claim against us?—There, again, we owe them money. At least, when I say "we," I mean the Russians—

1709. What I mean is that we have financed it so far?—Yes.

1710. Persia has a further claim against us?—Yes.

1711. Is that further claim more than our share?—That I think would be difficult to say. (Sir Eric Speed.) In any case it is

so astronomic as to be out of court. We have paid them £13 million. They are claiming another £19 million and our maximum offer, in addition to the £13 million, is £3 million.

1712. So that we could not say: "Look to Russia"?—No, I do not think so.

Chairman.

1713. Are there any further questions on paragraphs 16, 17 or 18? We pass to paragraph 19. I would like to ask you in regard to paragraph 19 whether the settlement arrived at in regard to the port of Basra is satisfactory?—Yes. I think we have done very well. The Comptroller and Auditor General allows that something ought to be allowed for depreciation and our own accountants out there put the figure of depreciation properly allowable at £90,000 which, if accepted, would reduce the surplus to £3,000. As regards the present situation we are paying 10s. a ton against a commercial rate of 12s. a ton, and our traffic is very small. We have not really any right to expect any reduction at all.

1714. Are there any questions on paragraph 19? We pass to paragraph 20: "Unvouched expenditure." I am told there is an error of fact in this paragraph, is there not? The vouchers were, I gather, not lost while in transit but disappeared from the Command Paymaster's office or the Command Secretary's office at Cairo. Is that right?—Yes, that is the latest information, though how you can detect that they were lost there rather than on the railway, I do not quite know.

1715. What amount of expenditure do they cover?—The net amount is about a quarter of a million pounds.

1716. The expenditure, on balance, is £1 million. Are the vouchers missing both in respect of the expenditure and the receipts?—Yes, but the transactions were fully supported by vouchers when they were examined by the paymaster and he is the proper departmental officer to pass the charges and credits as being correct, and he has so passed them.

1717. There is no reason to suspect foul play?—No, none at all. This would have been noted in the Account if it had not arrived too late for the Accounts.

1718. Are there any questions on paragraph 20? We pass to paragraph 21 which deals with the procurement of Army supplies in Italy. We are told at the foot of the third sub-paragraph: "After prices have been negotiated they are referred to the local Italian organisation for price control for approval before being finally accepted." That is with a view to combating inflation in Italy, is it not?—That was the original intention, yes.

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Mr. C. E. KEY, C.B.E.

[Continued.]

1719. Is this Italian organisation for price control effective?—I should doubt it; but now we have only 40 contracts current in Italy at all, and they are for supplies, cold storage and labour, and the fresh supplies are bought in the market with ordinary competition, and the Italian intervention has practically disappeared.

1720. Are there any questions on paragraph 21?—Paragraph 22 is: "West Africa." I do not think we need trouble with that. Paragraphs 23 and 24 deal with East Africa. In the last two sub-paragraphs of paragraph 24 we are told: "Prior to 1945 the contracts placed by the Board did not contain the standard costing clause under which the contract price is a maximum subject to reduction if the cost examination shows that the contractor's charges or profits exceed what is fair and reasonable. A modified costing clause included in some contracts made no specific provision for recovery of excessive profits." Then in the last sub-paragraph of all the Comptroller and Auditor General says: "My officers were informed in January, 1945, that it had been found possible to obtain agreement to the inclusion of the standard clause in a number of contracts." Can you answer this generally, as to whether, as a result of the insertion of the costing clause, any refunds have subsequently been obtained?—Yes. Very few of the contracts have been costed in fact, but I think three contracts for preserved meat were settled at a saving of £4,690 on the maximum contract price of £18,400—a saving of £4,690 on a maximum price of £18,400. So it shows that occasionally this costing is profitable, even in the East.

1721. Are there any questions on those two paragraphs? Paragraph 25 is formal. Paragraph 26 deals with matters we discussed last year—schemes for growing vegetables and obtaining food of various kinds for the troops in Assam. I thought it was in Burma also. This seems to relate to Assam. Did you tell us last year that there were schemes in Burma for food production?—Yes, I did.

1722. The only question we can ask on this is: Were the schemes justified? Were they worth while undertaking?—I think they were. We wanted fresh food and we got it at a price which I am quite unable to state.

1723. The primary consideration was the production of food?—Locally.

1724. —under active service conditions?—Yes, and saving imports slightly.

1725. Are there any questions on paragraph 26? Paragraph 27 brings us back to currency again. It sets out the arrangements for the payment of our troops in the Netherlands East Indies. There, I gather,

we used Japanese occupation guilders ourselves to pay the troops with?—The Japanese occupation guilder was current amongst the inhabitants, the Indonesians. We used the Dutch currency for transactions in the canteens. In the ordinary way we should have bought Japanese guilders from the Dutch, paid our troops with them and deducted their sterling equivalent from their London accounts, as we did with the marks, but that would have entailed attaching a value to the Japanese currency which the Dutch Government were quite unwilling to do. The Dutch Government therefore decided to make a present of currency for the use of the British soldier, or rather, mainly Indian soldiers, which they did, and the soldier got it for nothing, which was some compensation for serving in the Netherlands East Indies.

1726. The net effect of the transaction was that the Dutch Government made a present to our soldiers?—Yes.

1727. At no cost to the Exchequer. Was it at any cost to the Dutch Government? These were Japanese occupation guilders?—I should very much doubt it.

Lieut.-Colonel *Hamilton*.

1728. It would cause slight inflation. As a matter of interest, was it rationed out equally or on the basis of rank?—On the basis of rank. We were dealing with the Army! The officers got the equivalent of 28s. a week, lance sergeants and above got 16s. a week, corporals and below got 12s. a week and the Indian other ranks got 8s.

Mr. *Benson*.

1729. There does not seem to be any very high degree of depreciation in the Japanese guilder. It is not so distorted as many other currencies might have been?—I do not know what it bought.

1730. On the basis of the exchange rates fixed?—I still do not know what 28s. a week would buy out there. I have not met anybody who has discussed that with me.

1731. These were not interchangeable? You did not change these back for sterling?—No.

Chairman.] Are there any further questions on this paragraph?

Mr. *Cuthbert*.

1732. Was the soldier debited at home with the equivalent of this in sterling?—No.

1733. It was a gift to him and also a gift to us in a sense because it saved us paying the soldier?—Yes, it was "buckshee."

Chairman.

1734. I think that is as far as we will go to-day, Sir Eric. We are going to see you again next Tuesday and then we can complete the Account?—Thank you very much.

The witnesses withdrew.

Adjourned till Tuesday next at 3.45 p.m.

TUESDAY, 29TH APRIL, 1947.

Members Present:

Mr. PEAKE in the Chair.

Mr. Benson
Mr. Cuthbert
Lieut.-Colonel Hamilton

Mr. Horace Holmes
Sir John Mellor
Mr. Thurtle

Sir FRANK TRIBE, K.C.B., K.B.E., Mr. D. F. C. BLUNT, C.B., and Mr. C. E. I. JONES called in and examined.

ARMY APPROPRIATION ACCOUNT, 1945-46 (*contd.*).

Sir ERIC SPEED, K.C.B., K.B.E., M.C., again called in and further examined.

Chairman.

1735. We begin this afternoon, Sir Eric, at paragraph 28 of the report of the Comptroller and Auditor General on the Army Appropriation Account, 1945-46. All paragraphs up to and including paragraph 37 deal with civil administration by the military authorities in various territories, do they not?—(Sir Eric Speed.) Yes.

1736. The position being that in these territories, occupied or re-occupied, it was necessary to establish governments of some kind?—Yes.

1737. So far as accountancy is concerned, it has been the endeavour of the War Office to separate military expenditure from civil expenditure, with the idea of reclaiming the civil expenditure from the local governments in due course?—That applies to the Colonial administrations, yes.

1738. On paragraph 30, I think we made reference a year ago to these loans to farmers in Somalia. Would you just tell the Committee shortly what was the justification for the loans?—The justification for the loans was to promote the production of agricultural products in Somalia. The sum mentioned in the report is £76,000. The state of affairs is rather more favourable now than it was at the time when this report was written. All those advances have been recovered, except a sum of £3,880, which is secured on farm assets, and, in addition, is guaranteed by the Farmers' Co-operative Societies. So that we fully expect to recover that small balance as well. In addition, in the previous year of account we had written off, with Treasury approval, advances of £16,000, but, on subsequent re-examination, we have recovered, of that assumed bad debt, a sum of £3,649. So that in the year of account which we are now discussing there is practically no loss and we have in fact recovered some of the losses of the previous year.

1739. That seems very satisfactory. I think we will take the whole of the African territories together. On paragraph 31, that, again, is a subject we discussed a year ago?—Yes.

1740. Dealing with the sale of tobacco in Eritrea and Somalia through, I think, the British American Tobacco Company?—Yes.

1741. The Comptroller and Auditor General states: " Paragraph 15 of the report on the Accounts for 1944-45 referred to the apparently high rate of profit made by a company . . ." and in the last sub-paragraph of paragraph 31 the Comptroller and Auditor General says: " I understand that negotiations are at present in progress with a view to revision of the financial arrangement for these territories ". Can you give the Committee any figures for the profit made by the British American Tobacco Company in the year of account, or for any period?—Yes. In the year 1945-46 in Eritrea the gross profit made by the company was £85,000 on sale proceeds of £445,000, which represents 19 per cent. Of course, the taxed profits were very considerably less. The gross profit was 19 per cent. on turnover. In Somalia in the corresponding year—

1742. You were dealing with Eritrea just now?—Yes. In Somalia, where they were also operating, the profit was £20,000 on sales proceeds of £97,000, which is a little over 20 per cent. There, again, the dual taxation at home and in Africa reduced the net profits to an insignificant amount.

1743. These are sales of tobacco to the civilian population of these countries as well as to occupying troops, or only to the occupying troops?—To everybody.

1744. Have the negotiations for a revision of the financial arrangements been carried through?—Yes. The result of the negotiations is to reduce the margin of profit to the company to about 10 per cent. of the sales value in each case.

Chairman.] Are there any questions on paragraphs 28 to 31?

Lieut.-Colonel Hamilton.

1745. This was a British company, was it?—The British American Tobacco Company.

Mr. Benson.

1746. Were your loans to Somali farmers, to white farmers or to native farmers?—I think there must have been a few Italians who were left but mainly they were loans to native farmers.

1747. The purpose of the loans was to enable farmers to provide food for the local

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Sir ERIC SPEED, K.C.B., K.B.E., M.C.

[Continued.]

inhabitants, or for the Army?—Primarily for local inhabitants, although I think we did achieve a small export excess.

1748. You lived on the land at the same time?—Yes.

1749. So that, in effect, the purpose of it was to facilitate food supplies for the Army?—That is so. It was the same policy that we adopted in the whole of the Middle East area, including Tripolitania and Cyrenaica, to keep the agricultural workers on the land and to avoid having to pay maintenance grants which in Tripolitania and Cyrenaica would have been payable to some 20,000 persons if we had not embarked upon these schemes.

1750. Why would you have been involved in the payment of maintenance grants?—They would have been destitute.

1751. With regard to this tobacco, you spoke of dual taxation. Does that include Excess Profits Tax?—Yes, which was less, of course, in 1945-46 than it was in the previous year. I think there was a shortening of the odds in 1945-46.

1752. It was not until 1946 that it dropped, I think?—The lower rate applied to the year 1945-46, did it not? Their year 1945-46 overlaps with 1946-47, does it not? I was talking of the local territories' year, which I think slightly overlaps our later year.

1753. Who are the tax authorities there, and how do they come to tax the tobacco?—The tax authorities are the British Military Authority; that is to say, ourselves.

1754. You run your own system of taxation?—We continued the existing system of taxation as we found it.

1755. The British American Tobacco Company are entirely a wholesale firm, are they not? They do not have any brands in this country?—I believe not.

1756. Were they the main tobacco suppliers? How did you come to make an arrangement with that particular company?—I think I explained in last year's discussion that they were the only persons with local knowledge to whom we could look, and that the alternative was for us to engage tobacco experts and to embark on State tobacco production and marketing.

1757. There was actually tobacco produced there, was there?—Yes. We are talking of the whole of North Africa?

1758. Yes?—There were Italian monopolies in Tripolitania and Cyrenaica before we went there, and the question was whether we should take over and make it a State monopoly, which would mean the War Office embarking on tobacco production, or whether we should employ persons having skill in the occupation.

1759. Was this only supplied to the troops or to the local people?—To both.

Chairman.

1760. Are there any further questions on paragraphs 28 to 31? We turn to paragraphs 32 to 34, which deal with civil administration in Burma. In paragraph 33 the Comptroller and Auditor General states: "The net cash expenditure incurred on the local accounts and charged to Vote 11, Sub-head L, in the present Account, is £7,004,415" compared with figures of less than £1 million in the two preceding years. The Comptroller and Auditor General states that the figure of £7 million "includes very heavy charges for purchases of rice exported to India and Malaya, recovery for which will be effected at the War Office." That is to say the civil administration in Burma purchased rice to a considerable value. Could you tell us approximately what the value would be?—The sale price was something over £3 million, of which we have recovered £1.3 million from India and expect to recover the balance from Malaya and the Netherlands East Indies.

1761. I find this a little confusing. In what currency did you pay for the rice that you purchased in Burma?—In sterling.

1762. That would not be acceptable to the local Burmese producer, would it?—In Burma we used rupees surcharged "British Military Authority," and we paid the Treasury for the supply of rupees; therefore we paid in sterling, and our costs are sterling costs.

1763. Were the rupee notes specially printed?—No. They were specially surcharged.

Chairman.

1764. Did these rupee notes cost the Treasury nothing at all?—(Mr. Jones.) Not at that stage.

1765. Had they been printed here?—(Sir Eric Speed.) No.

1766. How had they been acquired?—(Mr. Jones.) I think they were the original rupee currency notes which had been overprinted "British Military Authority." (Sir Eric Speed.) That is so.

1767. And paid for in sterling?—Yes. (Mr. Jones.) The payment was made by the War Office into a Treasury Deposit Account. This is a subject which will probably come up on the report of the Comptroller and Auditor General on the Vote of Credit. The Treasury is responsible for the control of the Currency Deposit Account in which the War Office payments for British Military Authority Burmese currency were made. The only payment by the War Office was made to this Treasury Deposit Account.

1768. Buying the rice did cost us something?—It certainly represented a charge to the War Office Votes. The rice will cost us something because, on the discontinuance of this British Military Authority

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[Continued.]

currency in Burma, adjustments will have to be made between His Majesty's Government and the Government of Burma for the backing of the currency that was in circulation during the period of the military occupation. So there will be payments out of this Currency Deposit Account to the Government of Burma, in respect of the backing of the new Burmese currency.

1769. Was it necessary for the civil administration to undertake this transaction? As a rule it is the Ministry of Food which undertakes the bulk purchase of commodities, is it not?—(Sir *Eric Speed*.) I think the answer to that is (I am not certain; the Treasury will correct me if I am wrong) that we were on the spot and undertook a large part of the purchases of rice.

1770. This is no longer occurring?—No; we are out of it now.

Chairman.] Are there any questions on paragraphs 32 to 34?

Mr. Benson.

1771. The primary object of this rice purchase was to increase the rice supply to the Indian native population, was it, or was it purely an inter-Army arrangement?—It was nothing to do with the Army requirements.

1772. You bought Burma rice and sold it to India, because India was short of rice?—To India and Malaya, yes.

Chairman.

1773. Are there any further questions on those paragraphs? We turn now to three paragraphs dealing with Malaya, Hong Kong and British Borneo. I think this question applies to all three of them: Did the civil administration re-introduce taxation which had lapsed during the period of occupation by the Japanese?—I should have to have notice of that question. I am sorry, but I do not know the answer to that. May I put in a note on it?

1774. The effect of the paragraphs is that considerable charges fell on Army funds for the provisioning of these parts of the world?—The provisions were paid for by the individual consumer.

1775. Yes, but there is a substantial charge to your Vote here, is there not?—Yes. The ultimate satisfaction of the debt will be settled by the Colonial Office and the Treasury with the Governments of Burma and Malaya.

1776. Some of these advances will be "clawed back," in the phrase of the Chancellor? Is that right?—Yes, I think so.

1777. That is a matter for the Colonial Office and the Treasury, is it?—Yes. It

is our responsibility to say how much was spent. It will rest with the other Departments to decide how to get it back.

1778. Have the accounts been kept sufficiently well, as regards a division between military and civil expenditure, to enable you to say fairly accurately what was spent?—With a fair degree of accuracy, though not precisely.

1779. Are there any questions on those three paragraphs? We turn now to paragraphs 38 to 40. These paragraphs deal with the payment of British prisoners of war in German and Japanese hands?—Yes.

1780. I gather from the paragraphs that neither the Germans nor the Japanese carried out their obligations under the International Convention and paid our officers in their own currency as they should have done, or to the extent that they should have done. Is that right?—I do not think that is quite true of the Germans. They did credit our officers with the pay of their equivalent rank in the German Army, and they did credit other ranks, who got working pay, with their working pay. The fault in the German case lies with the way in which they kept the accounts, which have since been challenged by the individual prisoners. In the case of Japan the payments were, as you say, either not made at all, or made at different rates in different theatres.

1781. The theory, under the International Conventions, is that when an officer is taken prisoner, or a man, for that matter, he ceases to draw pay from his own government and is credited with pay by the capturing government?—That is not quite so. The officer captured is entitled to be credited with the pay of his rank in the German Army, not in his own Army. The other rank is not entitled to any pay at all unless he works, in which case he gets working pay. Those two rules do not cover protected personnel, R.A.M.C. people and others, all of whom, whether officers or other ranks, are entitled to the pay of their rank. The ordinary non-commissioned soldier is not entitled to any pay unless he works, either in Germany or in this country. Of course they were credited with the pay in Germany, either working pay or pay, but they did not necessarily draw it all because there was nothing to spend it on. Therefore they ought to have been building up credits in the German accounts which, when they were released, would fall to be redeemed by us; and the dispute referred to in this paragraph is as to the size of those credits. The prisoners say they have been swindled by inaccurate accounting.

1782. In the long run, you had to take the word of the individual as to the amount of pay he had in fact drawn in

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Germany?—In the long run we did, but only after personal interview with each individual, and by cross-checking with the camp leaders, who knew a great deal about it, and who gave valuable corroborative evidence.

1783. Insofar as pay had been under-drawn the credit balances were transferred at a rate of 15 Reichsmarks to the £?—Yes.

1784. But if an officer had accumulated a credit of marks from other sources—I suppose Crown and Anchor, or selling cigarettes to the guards—?—We gave him a less favourable rate.

1785. You gave him a lower rate there?—That is so.

1786. What is the justification for that?—The 15 Reichsmarks to the £ rate was the rate ruling when the war broke out and was the rate which we agreed with the German Government for this purpose. When, however, the later stages of the war came, officers and men were selling personal belongings to the German guards, and so on, at a time when they could get many more marks than were represented by the 15 to the £ rate for anything—for a watch, a cigarette case or a cigarette. You will recollect from our discussions the other day that 40 marks was at that time the rate of exchange for the British Army in Germany, and we thought it was unreasonable to give them the very favourable rate of 15 marks to the £, so we gave them a less favourable rate of 40, accepting for that purpose all kinds of negotiations, like betting, and so on.

1787. Is there any net loss to the Exchequer as the result of giving credit to these curiously acquired marks here?—They were not very curiously acquired. I think they were honourably acquired. If every story told to us by the prisoners and accepted by us as true was in fact true, then there is no loss.

1788. Then as regards Japan, anything received by way of pay out there has been allowed to the officer in question, and he has been paid his full sterling pay here?—Yes.

1789. What was the reason for the variation in policy between Germany and Japan?—We knew that the Japanese did not issue pay regularly or at all, and that their policy in different theatres varied very considerably. There was no consistent policy. In addition to that, it was the general practice in Japanese camps, if any money was available, for it to be clubbed together for communal purposes to look after those officers and men who were actually starving, whether in that camp or in another camp. Therefore, the individual did not necessarily get the benefit of any pay which may have been credited to him. I think

we acted very generously. There is no doubt about that.

Chairman.] Are there any questions on paragraphs 38 to 40?

Sir John Mellor.

1790. Was working pay ever credited to the accounts of other ranks, or was it always paid to them and spent by them?—It was credited to their account, to the best of my knowledge, and they were entitled to draw on it.

1791. So that would be covered by the underdrawings of pay, would it?—Yes. "Pay" is meant to include pay and working pay.

1792. I see from paragraph 40 that these funds were exchanged at a rate of 15 Reichsmarks to the £. What was the origin of these funds?—Many of the prisoners of war apparently, in many of the camps, got up subscriptions for the Red Cross, or for boys' clubs, or for Prisoners of War Associations, which they hoped to form when they were released, from savings in their pay or working pay, and it was decided as a matter of policy to give them the sterling value of those savings. There is a club now, the Brunswick Boys' Club, which has been founded from one of these funds.

Mr. Thurtle.

1793. I gather that under the International Convention there is a distinction drawn between the treatment of officers and other ranks?—Yes.

Mr. Thurtle.] Could you say when that Convention was agreed to?

Chairman.

1794. I thought it was in 1908?—I am afraid I cannot say. (*Sir Frank Tribe.*) I understand it was in 1929.

Mr. Thurtle.

1795. I was interested in what period in 1929 the Convention was concluded. I do not know whether Sir Eric knows?—(*Sir Eric Speed.*) It is the Prisoner of War Convention that governs the issue of working pay.

1796. We were a party to that Convention?—Yes, we were. (*Sir Frank Tribe.*) It was signed at Geneva on July 27th, 1929.

1797. That was during the period of the Labour Government. Has any attempt been made since then to abolish the distinction? Is it under consideration by the War Office, because this is a somewhat indefensible distinction to be made between officers and men?—(*Sir Eric Speed.*) We made constant efforts at the beginning of the war to reach a reciprocal agreement with the German Government under which other ranks should receive pay, but they would not have it

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and we were not prepared to give it to German prisoners if they would not give it to British prisoners.

1798. Just one other point. Insofar as the Japanese Government is concerned, I gather they did not meet their obligations as far as paying officers was concerned?—They took very little regard to rank anyway.

1799. They did not pay, in fact?—They did pay some and they did not pay others. It was quite irregular and inconsistent in all their various theatres.

1800. Did we turn the other cheek and treat our Japanese prisoners properly?—We did not have any until very late in the war, when we had millions, and all of those were made to work.

Mr. Benson.

1801. You say that on this exchange of marks into sterling you made no loss, assuming that all the tales told you were true. Does that mean that you received from the German Government marks equivalent to the amount of sterling you handed over to our prisoners of war?—No.

1802. You paid out in sterling. How have you reimbursed yourselves for that sterling?—In the ordinary way we would debit the account of the officer who was drawing his pay in German marks with the sterling value of what he was drawing abroad at 15 marks to the £.

1803. You paid out cash to the officer, but debited the account that was running in his favour?—With what the Germans were paying out to him in Germany.

1804. You debited the officer's account with the amount that you handed over to him. You had also a credit against him in his Army pay account. Is that correct?—He did not get it in addition to his Army pay.

1805. No. You debited his Army pay account with the marks that he had received in Germany. Is that correct? If he had received 15 marks you would debit his Army pay account?—Yes, certainly.

1806. So that when you calculated his mark assets and gave him sterling the equivalent amount of sterling was debited against his Army pay account, in effect?—To the extent that it represented pay, but not his other money.

1807. No. Where it represented his gambling winnings you gave him 40 to the £. How did you reimburse yourselves for that?—I think you are right that that may represent a loss. (Sir Frank Tribe.) If it was gambling money he got it from another officer or another man, who in turn had been charged up. (Sir Eric Speed.) Yes; it did not apply to things he sold. I think those are probably sterling losses.

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1808. You got a sterling debit against which your assets are German marks—a residual amount?—I think that part of it is a sterling expense, is it not?

Mr. Cuthbert.

1809. I was just going to suggest that the difference between the amount of sterling that the officer had in his account and the marks he proffered you to get sterling back again, if he sold things out in Germany or made anything extra, must be a loss. It is over and above the sterling with which you had originally credited him at home?—Yes. I misled the Committee. I did not intend to do so.

1810. At the end of paragraph 40 we are told: "Payments of about £106,500 are included in the present account and further sums have been paid in 1946-47." Can we have any information as to how much that was?—I have not that figure, but I can produce it. That last paragraph refers to the charitable and communal collections. I will find out the figure and put it in.

1811. They would not be much in that case?—No, I think not.

1812. What I wanted to get at was this. Was this difference we have just been talking of between the amount of pay at home of the officer or man, as the case may be, and the amount he remitted home very great, so that it would have made this loss?—I think I should have to look at that again and, if I may, put in a note to the Committee, if you wish. I am not clear on that.

Chairman.

1813. Perhaps you would furnish us with a note of the amounts which were converted at these different rates?—Yes.*

1814. We turn to paragraph 41 "Polish Land Forces." In the second sub-paragraph the Comptroller and Auditor General tells us what is generally known, that, from the 6th July, 1945, we recognised the Polish Provisional Government in Warsaw and the London Government was no longer recognised. It has been suggested in another place that there is some illegality about your continuing to maintain and pay the Polish forces after the 6th July, 1945. Could you deal shortly with that?—As regards this year of account? It makes rather a difference.

1815. We are dealing with the year of account 1945-46?—In this year of account we were on the Vote of Credit. If we had not been I have no doubt we should have come with a Supplementary Estimate for this purpose, but, being on the Vote of Credit, we relied upon Treasury authority to continue to pay these men, notwithstanding their change of status, which we did. The legality will arise from the Appropriation Act, if it is passed.

* Paper circulated to Members; not printed.

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1816. But Parliamentary sanction, you would say, for paying and maintaining these forces, was given by virtue of the Vote of Credit in the first instance and confirmed by the Appropriation Act. Is that right?—I suppose you could say that, yes. The existence of the Vote of Credit system made it unusual or unnecessary to come forward with a Supplementary Estimate which in normal circumstances I have no doubt we should have done. But in the following year, of course, the sums required were included in the Estimate presented to Parliament and the numbers were also included in Vote A, as they are now.

1817. That is for the year 1946-47?—And the current year, too.

1818. There was cash expenditure in this year of account, mainly for pay, I gather, amounting to about £18½ million, and for the year 1946-47 original Supplementary Estimates make provision for expenditure of about £21 million. We are told: "The cash accounts, which are maintained in Polish, are examined by the Polish internal military audit staff and subjected to a further review by the Polish Audit Department. They are open to inspection by the Army auditors and by my officers." Is it possible for your officers to make any effective inspection of accounts which are maintained in Polish?—It is not possible for them to make a complete inspection of them, but our general experience from such work as we have done, is that both as regards their internal and their external audits the Polish auditors are not only thorough but extremely good.

1819. But have they been maintained with reasonable economy, comparing a similar number of British troops, let us say, with the number of Polish troops provided for?—They have been maintained as regards the ordinary services, rations, accommodation, and so forth, in the same way as British troops. As regards their pay, they were originally, as the report says, given a credit for the paying of their officers and men. That credit was calculated in such a way by ourselves, the War Office, as to ensure that they would not physically be able to pay their officers and men rates in excess of those paid to British officers and men. That was the main control. It is almost entirely in the field of pay.

1820. There has been a criticism that the Polish forces were greatly over-officered. That is a thing you could hardly avoid, is it?—They had the officers.

1821. They came here as officers, and it was impossible to revert them to the ranks?—Yes.

1822. But the proportion of officers to other ranks was very much higher than in the British Army?—Yes.

1823. You say that, as regards rates of pay, you ensured that the Polish rates were

not higher than the corresponding British rates?—That is so.

1824. I take it also that people were not promoted unduly to higher ranks?—There was control over the progress through the ranks of the existing number of officers they had to start with. The general object was that they should not embarrass the War Office in dealing with British troops.

1825. They were not liable to income tax on their pay?—No, but that was taken into account.

1826. That was taken into account in fixing rates?—Yes.

1827. Were the rates fixed by the War Office?—No, there were no rates fixed by the War Office. The direct cash expenditure on the pay of their land forces was regulated by means of a lump sum, variable according to the monthly strength of the Polish land forces. Within the limits set by the lump sum the Polish authorities were at liberty to regulate the rates of pay of their Army at their discretion, provided that they did not embarrass the War Office in dealing with British troops.

1828. That is to say the Polish authorities were free to apportion the rates of pay as between other ranks and officers and officers of different ranks, and so forth?—Provided that the effect was not to give to any Polish rank more than the corresponding British rank, which was the basis upon which we fixed the lump sum.

1829. And the lump sum was fixed upon the basis of providing sufficient money to enable them to pay the same rates throughout?—That is right.

Chairman.] Are there any questions on paragraph 41?

Lieut.-Colonel Hamilton.

1830. I take it the Polish military authorities gave you the necessary data, the list of ranks, and so on?—Yes.

1831. You based it on that?—Yes.

Chairman.

1832. This, of course, does not cover the Polish Air Force or the Polish Navy?—This is the Polish land forces only, the Army. (Sir Frank Tribe.) The last subparagraph of paragraph 41 mentions the expenditure on the Polish Air Force and Polish Navy.

1833. Thank you, Sir Frank. We pass to paragraph 42 "Control Commissions for Germany and Austria." I gather that the War Office responsibility for the Control Commission expenditure was of brief duration, and sandwiched between a period when Foreign Office control operated and when the Control Commission itself became an accounting department. Is that right?—(Sir Eric Speed.) Yes, that is so.

1834. I think, in that case, we had better leave over this somewhat critical paragraph

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about the Control Commission until the Officers of the Control Commission itself appear before the Committee?—(Sir Frank Tribe.) I shall have a paragraph on the Control Commission in my report on the Vote of Credit Appropriation Account in which I shall deal with much the same matters, in substance, as those with which I deal in this paragraph, and it might be convenient to take it then.

1835. You think it might be the most convenient course to leave it until we have the Accounting Officer for the Control Commission?—Yes.

1836. Is there an Accounting Officer for the Control Commission?—Yes.

1837. Who will himself appear?—Yes.

1838. If the Committee agrees to that we will pass on to paragraph 43: "Expenditure on Special Operations." This paragraph speaks of a special force operating in South East Asia. Would you tell the Committee, Sir Eric, the nature of the force and what it was doing?—(Sir Eric Speed.) This force was the Chindits, who operated behind the Japanese lines. They were supplied largely by air, including their money requirements, or some of them. The report states that we arranged that the normal accounting system should apply. I do not know quite why we arranged that. It was never a possibility, and I submit that we hoped for far too much. If we had been merely satisfied with the Commanding Officers' certificates we should have done much better and we should have got them. As it is, of course, the Commanding Officers have departed from that area, or from this life, and it is impossible to get the certificates.

1839. On reading the paragraph I must say it struck me that it was not at all surprising that normal accounting had proved impossible. I rather wondered why the normal system had ever been aimed at in this case?—I think this might be put down to "red tape."

1840. Are there any questions on paragraph 43? Paragraph 44 and onwards deals with store accounts and stocktaking. At the end of paragraph 44 the Comptroller and Auditor General states that you "have recently issued instructions for the resumption of full formal accounting by all units and establishments at home and abroad from the 1st April, 1947." Has that been achieved? Have you succeeded in instituting full formal accounting?—The order has been issued. It had effect only from the 1st of this month.

1841. It is too early to say yet whether it is operative? The order is operative; but I wondered whether the accounting had been resumed on the pre-war basis?—I have no doubt it has been resumed, but how well it has been resumed remains to be seen.

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1842. In the second sub-paragraph of paragraph 45 at the foot of the page the Comptroller and Auditor General states: "the War Office have informed me that instructions have now been issued that receipts should be returned to consignors by depots and units." That practice had been abandoned during the war, I take it?—Yes, it had been. We issued an instruction in January of this year, saying that the justification that may have existed during operations for relaxation of instructions no longer applies, and receipts procedure will be strictly adhered to by ordnance installations. That is to say, the receipted copy of the issue voucher will be returned to the consignor.

1843. But until that was done a person despatching stores or goods never learned whether they had arrived safely or not?—That is so. I had to give evidence on that point two years ago here, and the point made was that the consignment, although it might have been destined for Port Said, was frequently diverted to Calcutta, or somewhere entirely different, and the whole thing completely misfired and no depots ever knew whether those stores had reached the proper consignee.

1844. From early this year the recipient will advise the consignor of the receipt of the goods?—Yes.

1845. Have you any evidence to show that in sending supplies to the British Army of the Rhine substantial quantities have disappeared in transit?—I have evidence to show that there is a great deal of pilfering.

1846. Pilfering on the way by whom—by the civil population in Germany, or by the civil population at ports?—And, I have no doubt, also by Army personnel. Pilfering goes on the whole time.

1847. Are these stores handled only by Army personnel, or do they get into the charge of dockers and merchant seamen?—Certainly in other countries they are handled by local employees, dockers, stevedores, and so on. I am not sure about Germany. I should think they are handled by Germans. But this paragraph is directed to those stores which had arrived safely but during the war nobody had ever said they had arrived safely.

1848. Are there any questions on paragraphs 44 or 45? We pass to paragraph 46, which deals with Store Accounts and Stocktaking at home. In paragraph 46 the Comptroller and Auditor General tells us: "A few accounts have been lost or waived as unreliable and certain accounts for periods to 31st March, 1946, have not yet been allowed by the Army auditors". It is rather strange that accounts should have been lost in what was a year of peace, is it not?—Yes, very strange. I have not been able to discover whether they were lost in the post or on movement of the

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office, or how they were lost. They were extremely small accounts. Two of them, oddly enough, referred to the accounts of an ophthalmic centre, which must have been very small in value.

1849. But you have not been able to bring anybody to book for them?—So far as I know no one has been found guilty of negligence in the matter. As I say, I do not know quite how they were lost yet.

1850. Paragraph 47 is dealing with ordnance store accounts, and in the third subparagraph the Comptroller and Auditor General says: "The War Office have therefore informed the Treasury that they propose to abandon any attempt at reconciliation of the discrepancies between the balances on the accounts and the findings of previous stocktakings . . ." What is the result of your informing the Treasury about this? Are the Treasury happy about this?—I am not quite sure. (Mr. Blunt.) We have not replied yet. I am afraid we have been rather long in considering it. I think we shall have to agree to what the War Office propose. It is somewhat inevitable in the circumstances. We shall urge them to do whatever they can to hurry up with the new stocktaking, to get things put on a firm basis. That is what they really want. They have their manpower difficulties, of course, but it is important to get a firm stocktaking and start properly.

1851. What sorts of things do you find in ordnance stores—guns, shells, bombs, and things of that sort?—(Sir Eric Speed.) Not only those, but every kind of "store", as we call it, which is used in the ordinary home, such as nuts, bolts, hammers, saws, pots and pans.

1852. You do find some things which the ordinary householder would be very pleased to have.—Yes, a great many.

1853. On paragraph 48, there seems to have been some change of system. The Comptroller and Auditor General tells us: "In previous Reports reference has been made to the institution of centralized accounting for engineer stores in Commands. It was a feature of the new system that the responsibility for stocking at the various stores was transferred to the Chief Engineer of the Command", and lower down he states: "The War Office have recently informed me that owing to reductions of staff it was no longer possible for the Chief Engineer to provide personnel to carry out the stocktaking and that this was now being effected by the officers in charge of the stores". The difference is between a centralized and a decentralized system. Is that right?—Yes, between a stocktaking team, which does nothing else but go round all the depots taking stock and is therefore very skilled at it, and leaving the officer in charge of the individual store to carry out his own stocktaking with his own men. The first system is better, but it is more expensive in staff.

1854. It requires more manpower?—Yes. It is the natural function of any store to do its own stocktaking, but we thought we would try the stocktaking teams, and we found that they were a success, so long as we could afford them.

1855. You would rather have the centralized system? I would prefer to have the independent stocktaking teams which have no loyalty to the depot at all.

1856. You have had to abandon them temporarily. Is that the point?—I do not know how temporary it will be. I may say here that on the ordnance side of the house we are more than two thousand clerks short of what, in our opinion, we ought to have at this moment.

1857. Are you clearing away all those tin erections at the sides of our roads all over the country, which are full of stores?—You have to clear away the stores first. The first things we clear away from are industrial premises which are wanted for industrial purposes. They are in a high order of priority. The last things we clear away from are tin shacks which are not of a high order of priority.

Chairman.] Are there any questions on paragraphs 46 to 49?

Sir John Mellor.

1858. Is it ever done to have, we will say, an independent team carrying out a test check, where the stocktaking is being done by the officers in charge of the stores, that being the general method, and then the independent team going round to see it has been properly done by taking a test check here and there?—The Army auditors take test checks from time to time. These travelling teams were employed to carry out the complete stocktaking of the whole of the depot. I think your point is that you could still use them in smaller numbers to take test checks.

1859. Yes?—I am merely saying it is one of the functions of the Army auditors to take such test checks already.

Mr. Thurtle.

1860. In regard to ordnance stores, I gather it is your hope that by March, 1948, you will know the definite balances at these stores and will thereafter be able to check any discrepancies which may arise?—There are two points there. First, shall we have finished stocktaking by the 31st March, 1948? I think the answer is that it is extremely doubtful whether we shall have done. I hope so, but it is very doubtful. Secondly, supposing we do, will our records then be perfect? Will the subsequent stock records remain in harmony with the physical stocks? The answer is certainly not, unless the personnel employed are good personnel, sufficiently well-trained. There is no reason why, on 31st March, 1948, the efficiency of

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a great many clerks and storekeepers should suddenly improve—none whatever, I am afraid. But we hope that it will improve.

1861. That is what you are aiming at?—Yes.

1862. The other point is this. You say that priority is given to clearance of engineering premises. I take it those stores of ammunition which you see up and down the country enjoy about the lowest priority of all?—No, that is not so. There is a large number of men engaged solely on collecting ammunition and either putting it into store for future use (we hope not) or dumping it in the sea off Scotland. That latter operation has been interrupted by various industrial disturbances at ports, necessitating the use of soldiers for other purposes.

Mr. *Horace Holmes*.

1863. I suppose these stores are very wide in range—shells, barrows and tools of every kind?—Yes.

1864. And they are all useful in civil life?—Some of them are.

Chairman.

1865. We pass now to paragraph 50 onwards, which deals with the same thing overseas. The Comptroller and Auditor General tells us in paragraph 51 that large quantities of stores were issued to you to meet the needs of the civilian populations of various European countries. "In certain countries, responsibility for relief and rehabilitation was later assumed by U.N.R.R.A., but the bulk of the stores supplied were distributed in the liberated countries of North-West Europe, where U.N.R.R.A. did not operate." Where U.N.R.R.A. took over stores from you, did we get some credit for them?—Yes.

1866. Against our contribution to U.N.R.R.A. I suppose?—Yes. We are getting about £18 million from U.N.R.R.A.

1867. Will that come into the War Office Accounts?—(Mr. *Jones*.) No. It will merely be set off against our contribution.

1868. I see from the second sub-paragraph of paragraph 51 that in the other cases the receiving Governments—those I take it are the Governments in North West Europe, Norway, Denmark, Holland, and so on, are they?—(Sir *Eric Speed*.) Yes.

1869. They have a liability for civilian stores which they have received from you?—Yes.

1870. The question of the settlement of that liability is, we are told, under present consideration. Has anything been settled?—Yes, a good deal has been settled. I could give you the full details.

1871. Just shortly, please.—Our claim against Holland is for £25 million, and it has been agreed as between the two

Governments that no payment should be made by the Dutch until after the 1st April 1948. In the case of France, the War Office claim is £22 million. It has been agreed that the French debt should be dealt with under the Anglo-French Financial Agreement of December 1946. The effect is that the amount due is payable in two equal instalments, on the 1st December 1950 and the 1st December 1951. With Belgium we have not yet reached a conclusion, but we expect agreement shortly for a payment of £14 million gross, against which will be set off £4 million which we owe to them. In Norway we have received a payment on account of £1½ million against a total claim of £2½ million. The balance will be asked for as soon as the accounts are completed. The Danes will not be required to pay a claim of £1 million until 1948. We have not yet come to any agreement with Luxembourg in respect of a claim of £1 million.

Chairman.] I am much obliged. Are there any questions on these four paragraphs?

Mr. *Thurtle*.

1872. I have one question which applies not only to these stores abroad but, really goes back to the home stores. I take it it is sort of common knowledge amongst these storekeepers that nobody knows how much there is of a given article in a given store—an article like field glasses, and that sort of thing?—It is less true, of course, of the more valuable stores. It is less true of field glasses, watches and things which are easily saleable, because the check on them is very much closer than on the other articles. But there may be a danger of what you say being true.

1873. If there is that general knowledge abroad amongst these storekeepers it must have a very demoralising influence on them, and I wondered whether anything could be done in the meantime to arrest what must be the general leakage going on?—A great deal is done in the way of stopping parcels going out of ordnance stores when the men leave, and that sort of thing. I should not like it to be thought that there was a general "illegal mark transaction" spirit abroad in the home depots. I do not think it would be true.

Mr. *Horace Holmes*.

1874. I used to be a quartermaster, and I think it is safe to say that there is a system of keeping a check—a definite system?—Yes.

1875. If it is carried out properly it is not a loose system, if you do the job right?—I think there is no doubt that the ordnance system is probably the best system of store-keeping in the world, not excluding the United States of America. It is not the system. It is the people who are operating it where the weakness comes in.

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Chairman.

1876. Are there any further questions? Now we turn to the Account. On the Abstract of Appropriation Account, at the foot of page 2, I see "Balances Irrecoverable and Claims Abandoned". Those are the mark losses which we have spent some time in discussing, are they not?—It is not only those. They are included.

1877. Marks, schillings and guilders in the year of account?—Yes.

1878. When the Secretary of State told the House that £38 million had been written off in the Estimates, which was an unusual thing to do, he meant it had been written off in these Accounts?—Yes. He misrepresented, by mistake, what was in fact the case.

1879. Are there any questions on pages 2 and 3? We turn to Vote 1 "Pay, &c. of the Army". I should like to ask a question on two items on page 4, PW "Prisoners of War" and PW "Appropriations in Aid". One is expenditure and the other is an Appropriation in Aid. The Appropriation in Aid is about £2 million less than the expenditure. I should have thought you would have made a profit out of the prisoners of war because you pay them at very low rates and charge the farmer and other people very high rates for their services?—The proceeds from the farmers through the Ministry of Agriculture and Fisheries and the Department of Agriculture for Scotland do not come to the Army Vote. All the other proceeds come to us.

1880. Do not the Agricultural Departments pay you at current rates of wages?—Yes, they pay at current rates of wages, but not to the Army Vote. The Ministry of Agriculture takes the receipts, not the War Office.

1881. They make a profit?—They make a clear profit because they have had no charges. (Mr. Jones.) That is true only for the Vote of Credit period. From 1946-47 the Agricultural Departments are paying the War Office. (Sir Eric Speed.) I beg your pardon. I was speaking of the year of account only.

1882. Yes—quite right. It seemed to me a little unfair that in this year of account the Agricultural Departments will make a substantial sum whilst you show a loss on prisoners of war?—Yes, it is a little unfair. The Exchequer result is the same, of course. But in point of fact there is no profit because the charge side of £7 million is only the pay. There is all the food and everything else.

1883. On the details of receipts, footnote K on the opposite page, Contributions from Colonies, &c., how are these amounts arrived at?—In this year of account we were paying for all the local troops in all those colonies and the colonies made a contribution representing their pre-war defence expenditure plus 25 per cent.

1884. Have those sums all been paid?—Those are all actual receipts, yes.

1885. What is Item 3a under the Details of Receipts: "Allied military marks; Reichsmarks and other local currencies drawn from enemy Governments (other than Italy)"?—It is not as bad as it looks. Under the various Armistice terms the Bulgarian, Roumanian and Hungarian Governments and the Governments of Finland and Siam had to hand over currency to us with which we paid the expenses of our Commissions in those countries, and in Siam also the expenses of our troops in that country. It is therefore shown as a receipt on the receipts side of the Account. It was in fact in local currency.

1886. Are there any questions on Vote 1? I have no questions on Vote 2, Vote 3, Vote 4 or Vote 5. Has any Member of the Committee any questions on those Votes? On Vote 6, Subhead A is "Provisions", a figure of £205 million and the footnote to Subhead A states: "Includes payments to N.A.A.F.I. of £13,499,231, being the cost in 1945-46 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". Would you explain how it arises that the sale of duty-free cigarettes involves a payment by the Army to somebody—to N.A.A.F.I., I presume?—N.A.A.F.I. buy the cigarettes at the post-Budget wholesale prices. They sell them to the soldiers at the pre-Budget retail prices. This was first introduced in 1942, and at that time the soldier was allowed, in the year of introduction, to continue to buy his cigarettes at the old price, so that N.A.A.F.I. buy their stocks at whatever the reigning wholesale price is—that is the post-Budget wholesale price—and they sell them to the soldier at the pre-Budget retail price, and we reimburse the difference between the pre-Budget and the post-Budget wholesale prices.

1887. I understand the process. This is a privilege which has now been withdrawn. Am I right in that?—Yes.

Chairman.] Are there any questions on Vote 6?

Mr. Benson.

1888. On Subhead D, in regard to petrol, do you purchase your petrol subject to the hydro-carbon oil tax?—I do not know.

1889. Do you pay for it like the private consumer?—I suppose we do, but I do not know. Perhaps the Comptroller and Auditor General can answer that.

Chairman.

1890. Are there any further questions on Vote 6? We pass to Vote 7, on which I have no questions. Has any Member of

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[Continued.]

the Committee any questions on that Vote? Has any Member of the Committee any questions on Vote 8 or Vote 9? On Vote 10 I have a question on page 15, on the details of Subhead H, Receipts. No. 4 is: "Receipts under the Army Agricultural Scheme," a figure of £255,000. Is that profit you made on the sale of produce, or something of that sort?—No, that is the gross sum received. You will see in the note to that item that of that sum, £44,000 represents the War Office share of the net profits. The net profits are shared equally between the War Office—that is the Exchequer—and the units, so that the units made £44,000 and we made £44,000. That means to say that the costs of the scheme which are spread out over the Army Vote were about £211,000 and the profit was about £88,000, of which the War Office got half.

1891. The Army Agricultural Scheme being a scheme by which units grow vegetables?—Yes.

1892. And supply them to the Army—not to civilians?—To themselves.

1893. Are there any questions on Vote 10? On Vote 11, what is Subhead N: "Rebate in respect of Military Stores of Lend-Lease origin issued to certain Governments," a figure of nearly £16 million?—When we sell military stores to other Governments it is impossible to say how many of them were originally of Lend-Lease origin, which means to say that we should not have paid anything for them ourselves, so we sell them as though they were all of non Lend-Lease origin and then give a rebate recognising the fact that some of them were undoubtedly of Lend-Lease origin.

1894. Is it an ascertained figure because the goods turn out to be of Lend-Lease origin, or is it just an average figure?—It is a figure agreed with the United States of America.

1895. On Subhead PW: "Payments to Dominion and Colonial Governments in respect of the Maintenance of Prisoners of War, &c." a figure of nearly £6 million, those are payments made to Dominions and Colonies because they have taken care of and provided for prisoners of war? Is that right?—Yes.

1896. Do we get any receipts to set against that figure?—No.

1897. From their labour, or anything of that sort?—No, the Dominions take that. These are prisoners whom we captured and who are our responsibility, and whom the Dominions are looking after because we have not got room or time for them. Their own prisoners, that they themselves captured, they pay all charges for.

1898. Do these payments cover not only the provisioning of the prisoners of war but also their accommodation? Do we pay for the camps in which they are housed?—(Mr. Blunt.) It would include the capital

expenditure. (Sir Eric Speed.) Yes, I think it would. It is the whole maintenance of them.

1899. I should have thought it would be not unreasonable for us to ask for something back for the earnings of the prisoners of war and the work they carry out, if any?—(Mr. Blunt.) We ourselves took that view, but we were not successful in getting anything. (Sir Eric Speed.) I suppose in the last resort they could have refused to have them. That was our weakness. Is not that so?—(Mr. Blunt.) Yes, I think so.

Chairman.] Are there any questions on Vote 11? Are there any questions on Vote 12, Vote 13, Vote 14 or Vote 15? Are there any questions on Appendix I, Appendix II or Appendix III?

Sir John Mellor.

1900. On Appendix III, I would not press for answer to this question, because I do not suppose it is very important, but Items 12 and 13 respectively are: "A Humber touring car to Messrs. Rootes, Ltd., for exhibition purposes: approximate value £50" and "A Ford motor car to Henry Ford, Esq., for exhibition purposes: approximate value £50". I was trying to visualise what sorts of cars they were which were given to Messrs. Rootes and Mr. Ford respectively for exhibition purposes. What sort of car would be exhibited at a value of £50?—(Sir Eric Speed.) No. 12 was a Humber car. It was used by General Montgomery (as he then was) during the Western Desert, Tripolitania, Tunisia and Italian campaigns. It was practically broken down. It was given to Rootes.

1901. They were derelict cars?—Yes. It is purely to put in a shop window, I think. The other car was the one used by Field Marshal Alexander in the Egyptian campaign.

Chairman.

1902. What about Item No. 3: "Two Humber scout cars to a foreign prince; approximate value £3,696"?—That was the Crown Prince of Norway, for escort purposes. They were surplus to our requirements, and it was thought to be a politic act.

1903. Are there any questions on Appendix III? Appendix IV is the Losses Statement. I should like to ask a question about Item No. 37, on page 31. "Excessive cash issues resulted in a debtor balance of £921 17s. 8d. on the account of a warrant officer serving abroad. His duties enabled him to make cash payments to himself and to intercept notifications of debt from the paymaster which considerably delayed discovery of the over issues". You know something about this sort of case, Mr. Holmes, I dare say. You told us you have been a warrant officer. I should like to know whether steps have been taken to prevent a reoccurrence of this sort of fraud.

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[Continued.]

or whether it is possible to take steps. It seems curious that a man can himself intercept the communications which are intended to bring the matter to light?—I think it is extremely difficult in an orderly room to stop the sergeant major from getting hold of the mail, if he wants to. I cannot say what precise steps have been taken. My own recollection of orderly room is that the orderly room clerk would pen the correspondence and that the sergeant major would come and take exactly what he wanted. I am afraid I cannot answer off-hand as to what steps were taken.

1904. It seems that there was more than one person in the fraud?—Which makes it all the more difficult to stop, of course.

Chairman.] Yes.

Lieut.-Colonel Hamilton.

1905. There is a rule about correspondence being opened by an officer?—I had forgotten that. There is.

Chairman.

1906. On page 38 there are two rather curious items, 83 and 85. Item 83 is, "Loss of purses containing currency amounting to £10,816 held for operational purposes," and Item 85 is: "Loss of purses containing Army funds, &c." Could you explain that to the Committee?—They were purses made for the pilots of aircraft flying over enemy country, the purses containing currency of that country, and sometimes sterling currency as well, in case they were forced down in enemy country, in the hopes that they would escape by having some of the local currency.

1907. On Item 83 it was not possible to recover these sums from the individuals to whom they had been issued?—That is the case, yes.

1908. Had the money been properly expended by the individuals on endeavouring to effect their escape, it would not have come in as a loss, I take it?—No, it would not.

Mr. Thurtle.

1909. These might have been soldiers dropped behind the enemy lines, I take it? These are not Air Force personnel?—I see from my note that these are Navy and Air Force personnel. Soldiers dropped behind the enemy lines would not, I fancy, be provided with local currency by the War Office, but by other agencies.

Chairman.

1910. At the foot of the same page, Item 89 is: "Balance remaining in French banks on the evacuation of the British Expeditionary Force in 1940 written off consequent on the Anglo-French Agreement". That was the agreement to which you have already referred, I take it?—I think we had that in another context.

1911. This is the amount of money belonging to the Army which was in French banks at the time of Dunkirk, or at the evacuation?—That is so.

1912. At the top of page 40, Item No. 99 is: "705 cases of theft of vehicles, ranging in value from £201 to £2,338, and involving a total loss of £263,070 9s. 11d." It seems an awful lot of vehicles to lose over the period of a year?—Yes.

1913. Can you explain that?—I am afraid the explanation I have in my notes deals with each of the losses. It is rather difficult to analyse.

1914. Have they occurred in this country or in foreign theatres?—Normandy, Brussels, Italy, France, Belgium. They seem to be entirely in Europe.

1915. It seems a strange lot of vehicles to lose in a year of peace. This was a year of peace with which we are dealing, March 1945 to March 1946?—Part of it was in peace.

1916. Have your officers investigated this, Sir Frank?—(Sir *Frank Tribe*.) My information is that these were mainly vehicles which were left temporarily by officers or other ranks who were in charge, and when the officers or other ranks came back, it may be after only a minute or two, the vehicles had disappeared; the local inhabitants had made them disappear. I am told that certain fines were imposed. There was a regular scale of penalties laid down. If a Lieutenant lost a vehicle he was fined £10, a Captain £15, a Major £20 and a Lieutenant-Colonel £25. It was recognised that there was such a shortage of vehicles on the Continent during this time that it was dangerous to leave an Army vehicle even for a minute or two unguarded, because they had a way of disappearing.

Sir John Mellor.

1917. May I ask whether the payment of the fine was considered as in full consideration—sort of honour being satisfied—because, if so, they may have made a considerable profit by selling a car?—(Sir *Eric Speed*.) You will see that some went to prison as well. (Sir *Frank Tribe*.) I am told that there were generally extenuating circumstances. Occasions may arise when you are driving a car along when you have to leave it for a few minutes. It is not always the fault of the driver.

Chairman.

1918. There is one other loss that I should like to inquire about. That is Item 120, on page 42: "A water installation, surplus to military requirements, was acquired by a municipality abroad but, owing to a misunderstanding with the local authorities, the handing over of the installation was regarded by them as a gift and recovery of the disposal value was impracticable".

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[Continued.]

There seems to have been some misunderstanding about this water installation which the Army thought they were selling and the municipality overseas thought they were being given. Can you tell us what sort of a water installation it was?—(Sir Eric Speed.) This was in Syria. The War Department water installation was going to be dismantled in 1943 because it was no use to us any more, but the municipality said that if we removed it it would cause considerable hardship to the civilian community. So we agreed to hand it over. There was no other source of water in this municipality because the local system had been bombed in the Syrian fighting. It was arranged that the War Department pumping plant should be sold where it was to the municipality and that five miles of pipeline would be handed over as it lay, provided that the War Department were paid back in kind with similar piping to the same value. The municipality paid 13,000 Syrian pounds in respect of the plant

but were unable, at the time, to obtain any piping to hand over in exchange for that included in the installation. On the 30th July 1943 there was a ceremonial inauguration of the water supply, at which Major General Sir Edward Spears and many local notables were present. The mayor referred to the British in somewhat effusive terms, and also thanked the French Ambassador who, as far as we know, took no part in the transaction except to receive without demur this expression of gratitude. When, after several months, the municipality had still not provided the alternative piping the military authorities asked them to pay cash. This request was received with amazement by the municipality, who maintained that the installation had been handed over as a gift, a view which was upheld by the Syrian Minister for Foreign Affairs. It was thought tactful in the end, not to press the charge.

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

TREASURY MINUTE ON THE THIRD REPORT OF THE COMMITTEE OF PUBLIC ACCOUNTS, 1945-46.

Chairman.] The Treasury Minute on this report simply says: "My Lords note the comments of the Committee". It is with regard to the Excess Vote. The Excess Vote

was explained to us very fully. It is rather a formal and technical matter, and I think we might leave the Treasury Minute there.

ROYAL HOSPITAL, CHELSEA ACCOUNT, 1945-46.

(On this Account no questions were asked.)

The witnesses withdrew.

Adjourned till Thursday next at 3.45 p.m.

THURSDAY, 1ST MAY, 1947.

Members present:

Mr. PEAKE in the Chair.

Mr. Cuthbert.
Mr. Horace Holmes.

Sir Frank Sanderson.
Mr. Thurtle.

Sir FRANK TRIBE, K.C.B., K.B.E., Sir ERIC BAMFORD, K.B.E., C.B., C.M.G., and Mr. C. E. I. JONES called in and examined:

CIVIL APPROPRIATION ACCOUNTS, 1945-46.

CLASS VI

VOTE 7

MINISTRY OF AGRICULTURE AND FISHERIES

Sir DONALD VANDEPEER, K.C.B., K.B.E., called in and examined:

Chairman.

1919. Sir Donald, will you turn to the Civil Appropriation Accounts, Class VI, Vote 7. There are no paragraphs in the Report of the Comptroller and Auditor General on this Account. I have a few questions to ask on the Account itself. Will you look at page 285. Under the heading

"Agricultural Education and Research" there is a number of Subheads. G.2. is "Agricultural Education: Grants"; G.3. is "Agricultural Education: Grants in Aid"; G.4. is "Agricultural Research: Expenses"; G.5. is "Agricultural Research: Grants" and G.6. is "Agricultural Research: Grants in Aid". I believe that

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[Continued.]

the details of the objects on which the money is spent here are set out much more fully in the Estimates, and I would like to ask whether there is any overlapping so far as research is concerned with the separate voted money on the Treasury Vote, I think £300,000, for the Agricultural Research Council?—(Sir Donald Vandeppeer.) I think not. The work which we do is closely co-ordinated with the work done by the Agricultural Research Council and, as far as I am aware, there is no overlapping.

1920. Take these three Subheads, G.4., G.5., and G.6.: Why is one Subhead for expenses, another for Grants and a third for Grants in Aid?—Subhead G.4. relates to expenses which are directly incurred by the Ministry in regard to foot-and-mouth disease research and work of that character; the expenses of the Special Research Committee on foot-and-mouth disease at Pirbright; the research in animal pathology and animal diseases at the Ministry's veterinary laboratory; the maintenance of the Ministry's Plant Pathology laboratory and, to a certain extent, on research scholarships, studentships and fellowships.

1921. Then Subhead G.5.?—The Agricultural Research Grants under Subhead G.5. comprise Grants to colleges, institutions, and so on, in respect partly of their capital expenditure, partly of their advisory and local administration work and a certain amount on special investigation and research work.

1922. Then Subhead G.6. "Agricultural Research: Grants in Aid"?—These are Grants in Aid of the annual expenditure on colleges, institutions and organisations of that sort. In the one case it is capital expenditure and advisory work and in the other it is Grants in Aid of their normal annual expenditure.

1923. These are not Grants in Aid in the ordinary sense that the money is retained if it is unspent?—In the case of Subhead G.6. the money is retained by the colleges, etc., if it is unspent, but we should naturally take account of any such money which had been retained in making the Grant for the subsequent year.

1924. On the main question, you say that there is no overlapping between the work done under those three Subheads and that done by the Agricultural Research Council?—Generally speaking, that is so. Any danger of overlap is avoided to the fullest possible extent by the closest consultation between ourselves and the Agricultural Research Council before Grants are made for any specific piece of research.

1925. Would it not be worth while considering the grouping of the agricultural education and research in rather a simpler form so as to get it all together?—It would be worth a further examination, perhaps. There is, I agree, a *prima facie* danger of overlap although in practice, I think, it is avoided by inter-Departmental arrangements.

1926. I take it as regards agricultural education, Subheads, G.1., G.2., and G.3., somewhat similar distinctions apply as in the case of research, do they, to the three Subheads?—Exactly the same type of distinction.

1927. Will you turn to page 286, to Subhead J.4 "Land Drainage: Grants." The expenditure was £802,000. These are not Grants to individual farmers and landlords? These are Grants to public authorities?—They are Grants, in the main, to catchment boards and other drainage authorities for schemes approved by us and Grant-aided.

1928. Do the rates of Grant vary?—Yes, as regards catchment boards. They vary very widely according to the resources of the authority concerned and the nature of the scheme. I think I am right in saying they vary between 10 per cent. and 75 per cent.

1929. Whilst it is quite proper that the rate of Grant should vary in respect of different classes of work undertaken, is it not a little bit wrong that a wealthy authority should get granted a smaller percentage rate than a poor one?—When I said they varied according to their resources, I had in mind that catchment boards, for example, can precept on county councils up to, I believe, 2d. in the £. If a catchment board put in a scheme to us and we found they were precepting only at the rate of 1d. or 1½d. we should not be disposed to give them such a high percentage Grant on the assumption that they could obtain further revenue from other sources.

1930. You think this sort of means test as between different catchment boards is justified?—Yes. We have not had, that I am aware, any strong protests. I think it is administered equitably and without any serious protest from the authorities concerned.

1931. Does one catchment board get to know when somebody else is getting a much better Grant?—Certainly; the rate of Grant becomes generally known.

1932. Does not that lead to a lot of argument?—I have not heard of it personally. It may have taken place. It has not reached me, and I am not aware of any trouble on the subject reaching the Minister.

1933. I should have thought that this question of equalisation of burdens could have been left to the general Block Grant formula on which the Ministry of Health subsidises local authorities, and that there was hardly any necessity for the Ministry of Agriculture to apply a means test to the drainage boards?—The practice of varying the Grant has its advantages. For example, you no doubt saw that my Minister quite recently has announced that in view of the exceptional nature of the recent disasters he was proposing to raise the rate of Grant to 90 per cent. in some

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[Continued.]

cases. It does enable the Department to adjust the Grant from the Exchequer to the varying circumstances, and they do vary widely both in areas and as regards the type of scheme.

1934. Now I want to ask you a question on page 287. I think we discussed the Agricultural Mortgage Corporation Limited, which is Subhead L.1, last year. The footnote to Subhead L.1 tells us: "Contrary to expectation when the Estimate was framed, it was necessary to pay to the Corporation the maximum contribution authorized by statute." That is why the expenditure here exceeds the Grant by £20,000. I think I am right in saying that the Agricultural Mortgage Corporation, Limited has a reserve fund which is growing year by year and stands at a substantial figure. I wondered therefore why it was necessary to pay the maximum contribution authorised by statute?—I think Parliament's intention in giving authority for this sum to be paid was to avoid recourse to the guarantee fund, the assumption being, no doubt, that such recourse would injure the credit and prestige of the Corporation. We are authorised—and indeed required—to make a contribution to the Agricultural Mortgage Corporation of such amount as we estimate will be necessary to meet the likely deficiency on their year's working and so avoid recourse to this guarantee fund. When the Estimates were framed for this year we thought that £130,000 would be necessary. In fact, a later estimate of the turn-out of their business during the year justified the payment of the full amount. The general principle is that the sum paid should be such, with a maximum of £150,000, as should avoid any risk of their having to fall back on their guarantee fund.

1935. The purpose of the Corporation is to lend money to farmers?—That is so. They do that on first mortgage security.

1936. As farming, in the year of account at any rate, was a prosperous undertaking, I do not quite understand why it was necessary to pay the full sum which the statute authorises to the Corporation?—They do it at a prescribed rate of interest in any circumstances, whatever the state of prosperity in the industry. The rate is now $3\frac{1}{2}$ per cent. It was $4\frac{1}{4}$ per cent. and it was reduced, by the 1944 Act I think it was, to $3\frac{1}{2}$ per cent. They lend at the same amount of interest, whatever the state of the industry. It is a standard rate. So that it is just the out-turn of their year's business, having regard to other expenses, and so on, which determines the rate at which we make this payment.

1937. Have the Agricultural Mortgage Corporation borrowed at high rates of interest, then, on long-term obligations?—They have issued debentures at 5 per cent. and $4\frac{1}{2}$ per cent. Under the 1944 Act they are now lending at $3\frac{1}{2}$ per cent.

1938. Hence they incur an annual loss?—Yes.

1939. Is there no prospect of their being able to redeem these debentures?—Not until 1959. Parliament recognised this inevitable discrepancy between their income and commitments, and it was for that reason that provision was made for this annual payment.

1940. Who prescribes the rate of interest to the farmers?—It is prescribed by statute, I think.

1941. It must have been reduced latterly?—I am not sure at the moment whether it is in the statute, but the whole purpose of the 1944 Act was to enable them to reduce their rate of interest charged to the borrowers, and so increase their business—to reduce that from $4\frac{1}{4}$ per cent. to $3\frac{1}{2}$ per cent. If it was not in the Act it was certainly explained fully in the House as a justification for the statutory provision which was sought.

1942. Now will you turn to page 288, to Subheads N.1, N.2, and N.3. This is the Royal Botanic Gardens at Kew. There was quite a considerable sum of expenditure, and on page 290 we see the receipts from admission fees, about three-quarters of the way down the table headed "Agricultural and General Services." The receipts were £7,000. My recollection is that the entrance fee to Kew Gardens went up from 1d. to 2d. some time before the war?—Yes. I think it has been brought down again to 1d.

1943. That is what I was going to ask you about. Why, if Kew Gardens is an expensive establishment to maintain, is it considered desirable to bring down the admission fee when the country is, so far as money is concerned, at any rate, not very prosperous?—Kew Gardens is a sort of compromise between a public park and a national research and educational institution. The justification for it is the scientific work which is done there. In doing this it produces some very beautiful gardens to which the public are admitted. But the justification for the expenditure is the scientific work. I think that Ministers probably felt that it was not the sort of institution which should be made self-supporting by charging a sufficient entrance fee to pay for the scientific expenses. The entrance fee does, in fact, pay for the police, the wardens and the watchmen.

1944. Does it? It does not appear to do so on these figures. Subhead N.2 "Police and Patrols" is an expenditure of £10,600 and receipts from admissions are £7,006?—Perhaps I should have said it pays a considerable proportion.

1945. Can you tell me when the admission fee was reduced?—I think it has been a penny since the 3rd September, 1939.

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[Continued.]

1946. It was reduced on the outbreak of war, was it?—I think so. I am afraid all the information I have at the moment is that the charge since the 3rd September 1939 has been 1d.

1947. Is my memory serving me right when I say it was 2d. before that date?—I believe it was. It has varied from time to time. I remember Ministers putting it up and other Ministers putting it down.

1948. There is a small point on page 291, in the details of receipts. You will see about ten lines from the top of the page "Chequers Estate—Agreed annual instalment in respect of capital improvements effected by the Ministry during its occupation of the estate". This is the official residence of the Prime Minister, is it not?—This relates only to the actual estate—the farm. When the estate and the house were given to the nation for some time the Ministry managed the farm and effected certain improvements. That arrangement was terminated, but it was agreed that in respect of those improvements we should receive an annual payment in order to reimburse the Ministry for the expense. That payment has been going on for some years. I think this is the last or the last but one occasion on which it will appear in these Accounts.

1949. You have ceased looking after the farm a good many years ago?—Yes. This is merely an annual winding up payment. We have had nothing to do with the farm for a good many years now.

Chairman.] Has any Member of the Committee any questions on the Account?

Sir Frank Sanderson.

1950. On page 286, Subhead H.4, is "Improvement of Live Stock" an expenditure of £50,000. Could you give the Committee a little information in regard to that Subhead? Other sub-heads appear to deal with all matters relevant to the improvement of live stock, such as Subhead H.5, "Importation of Animals" and Subhead H.6, "Exportation of Pedigree Stock". In what way does it refer to the improvement of live stock?—This comprises the Grants which we make to societies, the livestock societies, bull societies, boar societies, and that sort of thing. When they are approved, they qualify for an annual Grant from the Department, in order to enable them to meet their expenses.

1951. In other words you make grants to societies to enable them to purchase pedigree stock?—Yes.

1952. One further point. Subhead H.7 refers to artificial insemination. Could you tell the Committee whether that work is progressing satisfactorily?—Yes. I think one can say it is progressing very satisfactorily. The general arrangement is that

the work should be developed under the auspices of the Milk Marketing Board, and they have now erected quite a number of stations and sub-stations throughout the country supervised by the National Artificial Insemination Committee, and although there is still a great deal of work to be done and there has been some delay necessarily in regard to buildings, owing to difficulties of material and labour, I think, taking those difficulties into account, one can say that the work has been progressing extremely satisfactorily and there is a fair area of the country now served by artificial insemination services.

1953. Do I take it that whilst it is regarded as being eminently satisfactory it has not yet been put into common practice?—It is being recognised by the small farmer that it is an immense help to him in securing the services of a good-class bull for a comparatively small fee. The fee is only 25s. That is, of course, far less than would be the cost of keeping a bull to a small man, and the quality of the service is very high-grade.

1954. Is it proposed, in due course, to make the advantages of artificial insemination generally more known? My own experience is that the smaller farmers at any rate (and I am speaking now myself as a small farmer) do not know how to go about it to take advantage of artificial insemination?—Commercial people always tell me it is very unwise to advertise goods until you can supply them and I think you will find that in the areas where the service is available there is quite intense propaganda and the services of the station are used to the fullest possible extent. It is a question of getting new premises. As the facilities extend, so we and the Milk Marketing Board will extend the propaganda.

Mr. Thurtle.

1955. I have one question on page 287, Subhead L.1, where the contribution to the Agricultural Mortgage Corporation Limited is shown. I gather the reason why this contribution has to be made is because the Corporation is lending money at a lower rate of interest than that at which it borrowed?—Yes.

1956. You say that it issued debentures at 5 per cent. When were those debentures issued? In what year?—I think in the early stages of its history. In 1932.

1957. I suppose 5 per cent. was then about the current rate?—Yes.

Chairman.

1958. There are two or three Supplementary Accounts, on page 293 onwards. I have no questions on Account (A). Account (B) on page 295 is the Diseases of Animals Account. The biggest item on the

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SIR DONALD VANDEPEER, K.C.B., K.B.E.

[Continued.]

payments side is "Staff paid by fees" a figure of £280,000. These are fees paid to veterinary surgeons I suppose, are they?—The work which needs to be done by the State Veterinary Service is far more than it can cope with, and so we farm out a certain amount to non-State veterinary inspectors. We have to do so. This class of work is very largely done by local veterinary inspectors on a fee basis.

1959. Is this the only way to do it? It seems such a large sum that one would have thought that it might have paid you better and have been more economic to have had a number of whole-time officers?—We wish we could get them. We have been trying to recruit veterinary surgeons for years past. We are below establishment. The calls on the State Veterinary Service have for years past been far greater than can be met by them, and of course during recent years, and particularly now, there is a great shortage of qualified veterinary students coming out of the colleges. Ever since the State Veterinary Service was established we have had this difficulty. There are quite a considerable number of services, for example, the assumption of the work of inspecting the equipment and methods in dairies which was imposed on this Ministry or at least which this Ministry was authorised to do under the Food and Drugs (Milk and Dairies) Act, 1944, from an Appointed Day that we are only too anxious to take over when we have the staff.

1960. Would you be inclined to agree that you might get this work done much more efficiently and more cheaply if you could spend the money on whole time staff of your own rather than in paying fees to veterinary practitioners?—Certainly we should prefer that if we could get the staff.

Chairman.

1961. Turning to the next Account, Account (C) "Smallholdings and Allotments Account," at the foot of the page is a Statement of receipts and payments in connection with farm settlements established under the Smallholding Colonies Acts, 1916 and 1918. The results are rather disappointing, are they not? The total revenue in the year from all these various settlements is £35,000 and the receipts are £33,300. On Sutton Bridge Estate, for example, there is quite a substantial loss?—I think the relevant totals are those in the last line.

1962. The figures at the bottom include the capital expenditure at the top, do they not?—Yes.

1963. I was dealing with current revenue and expenditure?—Of course, in some cases (for example at Sutton Bridge and Amesbury) there are perpetual rent charges

which have to be met of a fairly substantial amount.

1964. These are smallholding schemes established for ex-Servicemen of the 1914-18 war, are they?—Yes, after the 1914-18 war. They are all run by tenants. They are very largely self-supporting; and none of the land is in hand. It is not farmed by us. It is a question of just administering the estate and taking the receipts.

1965. You mean really that you do not aim at making a profit out of these establishments?—No, I do not think that was the intention. They were established very largely as a social experiment and I do not think it has ever been the intention to make a profit out of the rents charged to the tenants which was the only way it could be done.

1966. But you would aim at making both ends meet, presumably?—Yes.

1967. And under prosperous conditions for agriculture might you increase the rents to the tenants if they had been reduced in bad times before the war?—I think that would be done. That could be done. It would depend on the policy of the Government and the Minister at the time whether he considered from the social point of view it was equitable to raise the rents in relation to the current level of rents elsewhere.

1968. Do you get to know whether the tenants are prospering or not?—Yes, we have reports from our Land Commissioners, who are generally responsible for the supervision of the estates.

1969. Have they done pretty well under war conditions?—Some of them have done quite well.

Chairman.] Are there any questions on Accounts (A) (B) and (C)?

Sir Frank Sanderson.

1970. I should like to ask one question in respect of compensation paid to owners of slaughtered animals. Am I right in assuming that compensation is only paid where you direct that the animals in question should be slaughtered, and that no compensation is paid because the owner of the animal, the farmer, is of the opinion that the animals in question should be slaughtered?—That is correctly the position. We buy the animal, in short, and pay the farmer a sum based on the market value at the time. We buy it for the purpose of slaughtering it. But he does not get compensation merely because his animal has contracted a disease. We buy it in the national interest because it is essential to slaughter it. Having bought it we make a payment based on the market value.

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

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Sir DONALD VANDEPEER, K.C.B., K.B.E.

[Continued.]

TRADING ACCOUNTS AND BALANCE SHEETS, 1945-46.
NATIONAL STUD, GILLINGHAM, DORSET.

Chairman.

1971. We turn now to the Trading Accounts and Balance Sheets, 1945-46, the National Stud. The Account is at pages 6 to 11. This Account deals with the calendar year ended 1945, I think?—(Sir Donald Vandeppeer.) Yes.

1972. And, again, shows that the National Stud had a profitable year?—Yes.

1973. On page 7 I think there are tabulated the results for a number of years past. The National Stud seems to have made £25,000 as against £31,000 in the previous year?—That is the position.

1974. I think you told us last year that the famous stallion Big Game had not yet been moved from Newmarket down to the establishment in Dorset. Is that right?—That is so. I am afraid the position is exactly the same this year. We are very anxious to get the stallion moved down to Gillingham in Dorset, but it involves a certain amount of new building and adaptation, not only for the stallion himself but for the mares which would come to visit him, and so far the building difficulties have been such that we have not been able to have these improvements made at Gillingham, and the stallion at the moment is still at Newmarket.

1975. Is he the only stallion in the stud?—Yes, he is the stud stallion. Of course, the Stud buys services from other stallions when required, but he is the only stallion owned by the Stud.

1976. There is only one other question I have, and that is on the Accounts. I do not know whether you can tell us the answer to this one. Horses owned by the National Stud are leased, are they not, for purposes of racing, to private individuals?—That is so.

1977. Including His Majesty the King?—That is so.

1978. If a National Stud horse wins a race, does the National Stud take a rake-off on the prize money?—Yes.

1979. How is that arranged?—I cannot tell you how it is arranged, but I know there is an item in the Accounts. If you will look at page 9, the third item, you will see that we have a blank entry against the Ministry's share of stakes won, for the reason given in footnote (g), that no horses raced in that year; but had there been any, and had they won, there would have been an entry there.

1980. So that although a horse is leased at, I suppose, a fixed rental for the season, the National Stud retains a speculative interest in its achievements?—Undoubtedly.

1981. Supposing it turns out a "dud" and never gets anywhere near being in the

first three, do you make a contribution?—I hope not. I should imagine the person who leased it would take that risk.

Chairman.] Are there any questions on the Account?

Sir Frank Sanderson.

1982. In regard to the Account, I find it very difficult to ascertain what is the amount of capital involved, in other words the amount of capital invested in the National Stud. It is not shown in the figures. Is there a figure given?—I think you will get it broadly from page 11. You will see the first item represents capital value, net nearly £32,000. There are shares in Stallion Syndicates, the second item, and the third is household furniture and blood-stock and farm stock. The total of those three is, broadly speaking, the capital represented by the undertaking.

1983. If those are the only figures the amount of capital involved is extremely small?—Yes. You must bear in mind the rather artificial method of valuation, which is explained on page 7. You will see that the animals bred at the Stud are valued only at a figure equal to the service fee plus £300 and even so are then depreciated on the same lines as purchased stock, so that in fact that is quite a conservative, an almost exaggeratedly conservative, form of valuation, and you will see in the last sentence of that paragraph that the last time when we had an independent outside valuer on the 31st December, 1943, his value was £154,700 on 30 animals whose book value was £14,771.

1984. But even so it does make the total amount of capital invested a comparatively small amount. What I have in mind is that on page 7 it is shown that between the years 1916 and 1942, the last ten years of which show a loss, there was a net profit of £145,000. Do you feel a sense of shame at all, at making such a large profit on such a small amount of capital?—We have a sense of satisfaction, I think.

1985. You regard it with satisfaction?—That one State enterprise of some long history now has shown this very satisfactory out-turn.

Mr. Thurtle.

1986. I take it when you describe the valuation of stock as at a conservative value, on the basis of the figures you have given us it might be described as a misleading value?—Unless you had this explanation it might be misleading.

Mr. Thurtle.] "Conservative" is equivalent to "misleading" in that sense.

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

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Sir DONALD VANDEPEER, K.C.B., K.B.E.

[Continued.]

SUGAR INDUSTRY (RESEARCH AND EDUCATION) FUND ACCOUNT, 1945-46.

LAND FERTILITY (RESEARCH) FUND ACCOUNT, 1945-46.

Chairman.

1987. Can you tell me why, in the case of the Sugar Industry (Research and Education) Fund Account, there is an Income and Expenditure Account on pages 2 and 3, followed by a balance sheet on the last page, whereas in the case of the Land Fertility (Research) Fund Account there is simply an account of receipts and payments?—(Sir Donald Vandeppeer.) The explanation is that we are complying with the statutory requirements. I think in each case we were told by the statute what form of Account we should render.

1988. In the case of the Land Fertility (Research) Fund Account, that shows that your balance brought forward was £33,000 odd and it fell to £28,000 at the end of the year. Is that balance invested in any way?—Yes, it is invested in Treasury bills.

Chairman.] I have no further questions on those two Accounts, which we will take together. Has any Member of the Committee any questions on them? May I take it that those Accounts are approved? (Agreed.)

CIVIL APPROPRIATION ACCOUNTS (WAR SERVICES), 1945-46.

CLASS X

VOTE 1

MINISTRY OF AGRICULTURE AND FISHERIES (WAR SERVICES)

Chairman.

1989. Will Members turn now to the Civil Appropriation Accounts (War Services), 1945-46, to paragraph 8 of the Report of the Comptroller and Auditor General, which deals with County War Agricultural Executive Committees. In your Account, which we will come to in a minute, Sir Donald, on page 5 we are given, at the foot of the page, the gross expenditure of the County War Agricultural Executive Committees, at £21 million odd, which is the figure given here, and amongst the details of receipts on page 6 we find County War Agricultural Executive Committees, £16½ million. Those are the only figures which the Accounts give us. Under the new Agriculture Bill this organisation is becoming permanent, is it not?—(Sir Donald Vandeppeer.) Yes.

1990. Or something of this kind is becoming permanent?—Yes.

1991. Are the staffs of these committees Civil Servants?—Not at the moment. When the County Committees become permanent they will be.

1992. They will be employed on Civil Service conditions then?—Yes.

1993. At present, of course, they are appointed by the individual committees, are they?—By the individual committees. The Minister appoints the committees. The Minister appoints the executive officer of the committee. The committee then engage their own staff with the approval of the Department and in such numbers and at such rates as we decide; but the staff themselves are not regarded as Civil Servants.

1994. Will Parliament, when this system becomes permanent, get some fuller information in the Accounts than they get

in the Accounts here before us today, which simply show gross total of receipts and expenditure by the committees?—When the Agriculture Bill becomes law—that is if and when the Agriculture Bill becomes law as at present drafted—the functions of the committees will then become permanent statutory functions of the Minister and will then be included in our permanent Accounts and Appropriation Accounts as part of the Ministry's general statutory functions and not war services at all. They will then be dealt with under appropriate Subheads as is the case in the Accounts we have just been considering.

1995. The Comptroller and Auditor General tells us that of the expenditure of £21 million, a little over £3 million was accounted for by administrative expenses. Can you tell me on that approximately how many whole time officers there are in the service of the committees?—Yes, approximately 10,000.

1996. At present they are not paid upon any prescribed scale, or are scales laid down by the Ministry?—Yes.

1997. Scales are prescribed?—Yes. We approve scales, but they are not necessarily the Civil Service scales. Generally speaking, we would consider that a committee engaging clerical staff should pay the rates current in that particular area for that type of staff. It is related more to the current conditions in the county town or the county area than to a national scale.

1998. The Comptroller and Auditor General goes on to say that £4,900,000 was expended on machinery operations. Are the machinery operations supposed to be self-supporting? Do you charge the farmers for the services rendered?—Certainly. You will find an Appropriation in Aid against that.

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Sir DONALD VANDEPEER, K.C.B., K.B.E.

[Continued.]

1999. Can you give me a figure, because the only figure I have found is this global figure for the receipts of £16 million on Holman—56444 Public Accounts Authors page 6?—No, I am sorry, there is no figure in the Account. But the intention certainly is to make the service as nearly self-supporting as possible, bearing in mind that in the nature of things the work which the committee has to do is the sort of work which neither the farmer nor the local contractor finds it possible to do. The whole purpose of this machinery is to act as a reserve to ensure that no land is left uncultivated for want of services of this kind, and so it inevitably happens that the County Committee's services are called upon for the less attractive and less profitable classes of work. The charge made to the farmer is one comparable with the normal contract charges in the area and seeing that the committee usually get the most difficult and expensive type of work there is bound to be some sort of deficit although, as I say, the farmer is actually charged a reasonable rate for the job.

2000. Do the farmers pay up the sums due from them to the County Committees?—Generally speaking very well. They can get credit under the Agricultural Goods and Services Scheme. The amounts that have had to be written off under that scheme form a very, very small percentage of the amounts advanced.

2001. If a farmer is indebted to the County Committee for services rendered, can the County Committee or any other authority withhold from him payments due under the various subsidy schemes?—Certainly. That is one of the most frequently used methods of recovery.

2002. There is a good big element of subsidy here, is there not, in the fact that you charge the farmers and include in the receipts of £16 million the work done by prisoners of war on the farms and you do not pay the War Office or any other authority the full amounts which you receive in that way?—That is quite true. The farmers are charged the rate for the job and for the period which this Account covers the Department did not have to reimburse the War Office for the cost of the prisoner of war labour.

2003. Can you give the Committee any idea of the amount of money involved here in that respect? You have received £12½ million apparently in respect of goods and services. That includes payment for the prisoner of war labour. Can you tell us what proportion of that is represented by payment for prisoner of war labour?—Something of the order of £10 million.

2004. So that had you handed over to the War Office, let us say, the amount you received from farmers, the deficit on these figures, which is about £5 million, would have swollen to £15 million?—Yes, but that is also in part accounted for by the very

high expense of transporting prisoners of war backwards and forwards. You have to take that into account, too. It is a very expensive form of labour. They are kept in camps and hostels and transported daily to and from their work.

2005. You have received, according to the last few lines of the paragraph, £3,371,000 in respect of lands in possession. Those are farms that the County Committees have taken over. Those are the sales of produce off the farms, I suppose?—Yes.

2006. The expenditure in relation to those farms was £3,053,000, shown a little higher up?—That is so.

2007. How many farms were in the possession of the County Committees at the time of this Account?—About 400,000 acres. I could look up the number of farms.

2008. Something like 8,000 farms, was it not?—It varies from small patches of holdings up to rather large farms. The total acreage in possession on 31st March, 1946, was 380,000 acres, of which 201,000 acres were farmed by committees, the rest being let to tenants.

2009. Do you know if the committees keep a separate account in respect of each farm taken over, or do they lump all their farms together into one account?—In the early days I rather think they lumped them together. There were no detailed accounts kept in the rush of war-time operations but we are now tightening up the accounting arrangements in the County Committees and we shall certainly expect them to keep a more detailed account of separate holdings as far as possible.

2010. Do they distinguish at all between capital expenditure and current expenditure in their accounts?—They will do.

2011. They will do in future?—Yes.

2012. You no doubt get accounts from each separate county and they are lumped together in these figures which we have here?—Yes.

2013. So that there may be some counties where considerable losses are being made and other counties where farming is profitable?—That may be the case, although I should be surprised if there are any considerable losses for this particular year.

2014. You would agree with my general thesis, I hope, that if State trading on this scale is going to continue, Parliament should have some proper accounts of it?—Certainly.

2015. Which could be scrutinised and criticised. I think we will take the Account together with the paragraph, which will shorten matters. Will you turn to the Account at page 5. In the details of expenditure, at the foot of the page, is there any provision under Subhead A "Purchase,

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Sir DONALD VANDEPEER, K.C.B., K.B.E.

[Continued.]

Storage, &c., of Tractors and other Agricultural Machinery" for machinery provided for U.N.R.R.A.?—We have purchased machinery for U.N.R.R.A. and I think some of it is included in this year's Accounts.

2016. If machinery was supplied to U.N.R.R.A. would there be any receipt on the other side?—Yes.

2017. It would be paid for, would it?—(Mr. Jones.) Not in this year of account. This was when the Vote of Credit was still operating. Deliveries to U.N.R.R.A. after 1st April, 1946, were paid for to the supplying Departments.

2018. I am much obliged. Then we come to Subhead D "Women's Land Army" an expenditure of £1,340,000. The receipts shown in the details of receipts on the next page, page 6, are £504,000. I take it that the difference is mainly administrative expenses, is it?—(Sir Donald Vandeppeer.) General administrative expenses, and the receipts would be from money received by hostels for accommodation.

2019. Does this figure of expenditure include the provision of clothing?—Yes. (Sir Frank Tribe.) I understood that the clothing was supplied by the Ministry of Supply and during this year was borne on the Ministry of Supply Vote. (Sir Donald Vandeppeer.) There is an item of £89,000 included in this for uniforms, including carriage.

2020. Have you some information on this point, Sir Frank, that the Ministry of Supply have borne part of the charge for clothing?—(Sir Frank Tribe.) My information is that with the exception of a few articles such as oilskins, which are obtained through the Admiralty, the uniform clothing is ordered through the Ministry of Supply and deliveries off contracts placed since 1st January, 1944, have been paid for by the Ministry of Supply and not by the Ministry of Agriculture. (Sir Donald Vandeppeer): May I add a note? My information quite confirms that of Sir Frank Tribe. The main cost of the uniforms in this year was borne on the Ministry of Supply Vote, and is additional to the item of £89,000 that I mentioned just now.

2021. You cannot indicate (perhaps Sir Frank may have the figure with him) what was the value of the clothing supplied by the Ministry of Supply in the year of account?—(Sir Frank Tribe.) I am afraid I cannot say.

Chairman.] Those are all the questions I have on the Account. Has any Member of the Committee any questions either on paragraph 8 of the Report of the Comptroller and Auditor General or on the Account?

Mr. Cuthbert.] We have arrived at a figure of approximate loss for 1945-46 of

£15 million, because we take £5 million plus the £10 million salaries of prisoners of war that you really saved, which you did not pay the War Office. We have now to add the value of clothing which was supplied by the Ministry of Supply for which we have not a figure. Will this loss be reduced at all in the next year?

Chairman.] The clothing is not involved with the County Committees at all. It is a separate item.

Mr. Cuthbert.

2022. What hope have we of reducing that loss?—It has rather knocked out the National Stud profit of which we have heard. What about the future? Is this loss caused by a lot of initial expenses this year which will not recur next year?—Are you speaking of the prisoner of war loss?

2023. No, not necessarily, but that is a big factor?—The Accounts will show clearly the expenses of prisoners of war as from this Account onwards, because this inter-Departmental waiver of accounts ceased on 31st March, 1946, which is the end of this Vote, and this item of £10 million or whatever it is—I think it is £12 million in the following year—will appear on my Account.

2024. What I am trying to get at is this. Will this large loss continue next year, or is it possible that a lot of expenses in these Accounts are initial expenses that will not recur again? Are we going on trading in this agricultural business, shall we say, at this tremendous loss?—There is bound to be a deficit on services of this character supplied to farmers, and so long as it is necessary to supplement the ordinary workers' labour by a relatively expensive form of labour, like prisoners of war, there is bound to be a fairly serious deficit between the amount paid by the farmer and the cost to the State.

Mr. Cuthbert.] What I am really trying to get at is that that will really be an additional subsidy as far as food is concerned?

Chairman.

2025. This organisation of the County War Agricultural Executive Committees which is continuing is always bound to cost something?—Undoubtedly.

2026. On account of the administration?—It is an extension of the agricultural services which, for years past, the Government has considered necessary for agricultural interests and which are covered by the permanent statutory arrangements dealt with in the Account we have just been considering.

2027. I take it that the aim is surely to charge up against farmers, drainage bodies, and so on, the full cost of the services rendered to them?—May I put it like this: commercial rates are charged for

1 May, 1947.]

Sir DONALD VANDEPEER, K.C.B., K.B.E.

[Continued.]

the commercial services rendered. It is, however, deliberate Government policy to provide farmers free with an advisory service. The National Agricultural Advisory Service is a charge on the State and their advice, their work and service, are available freely to farmers. That is Government policy, approved by Parliament in the Agriculture (Miscellaneous Provisions) Act of two years ago.

Chairman.] Your point, Mr. Cuthbert, was this: was this form of concealed subsidy a permanent thing, and intended to be a permanent thing?

Mr. Cuthbert.

2028. Yes. First of all, I wondered if the loss was going on. You tell me that it must, in which case it does become a permanent food subsidy, which is not in the normal subsidies we hear about?—I said it must in so far as these rather artificial methods of supplementing the labour available have to continue.

Sir Frank Sanderson.

2029. With regard to the grants paid to farmers for ploughing up grass land, is it the responsibility of the Ministry of Agriculture to determine what land shall in fact be ploughed up or is it left to the farmer to determine what land shall be ploughed up?—I do not think the question is capable of a direct answer. The Agricultural Committee decides that a farmer shall be required to provide a certain amount of tillage in a certain year under crops. He may decide to provide that tillage by ploughing up field A. The County Committee so far, up to this year, may very well say, "We do not agree that field A is the best field on your farm to be ploughed up. It should be

(Sir DONALD VANDEPEER *withdrew.*)

CIVIL APPROPRIATION ACCOUNTS, 1945-46.

CLASS VI

VOTE 17

DEPARTMENT OF AGRICULTURE FOR SCOTLAND

Sir PATRICK LAIRD, C.B., F.R.S.E., called in and examined.

Chairman.

2032. Will Members turn to the Civil Appropriation Accounts, 1945-46, Class VI, Vote 17, Department of Agriculture for Scotland? Sir Patrick, will you turn to page 322. Subhead H on page 322 is "Public Works and Miscellaneous Services in the Congested Districts". What are the congested districts?—(Sir Patrick Laird.) Broadly speaking, the Highlands. There were a few parishes which were not regarded as being congested districts in the technical sense, but broadly speaking the congested districts are the Highland counties. It seems a curious word, I know, but at one time they were congested.

field B." Generally speaking, of course, they would agree that the old permanent pasture, which would in fact qualify for the ploughing subsidy, would be the most appropriate field to plough up. They themselves being practical farmers would not require the farmer to plough up a temporary ley which perhaps had been put down only two years ago. So while I think it is the case that the County Committee has the final word, generally speaking the farmer and the Committee would agree that if the farmer is to provide the acreage of land required from him by the Committee that would involve ploughing up a certain field which would qualify for the acreage subsidy. Alternatively the farmer might of his own initiative decide to plough up, in which case he would certainly qualify for the acreage payment.

2030. The main point I really have in mind is this: What check have you that a farmer does not determine to plough up the same land every year or every other year, whereas in point of fact for field A he would only be able to claim for ploughing up once?—The check is that these grants, like most of the work done by these Committees, are administered by District Officers and District Committees, who are local people with an intimate knowledge not only of every farm but almost of every field on every farm and the local member of the District Committee will certainly know the history of every field on the farms in his area.

2031. They would check that over before they passed the account?—Certainly.

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

2033. At one time they were congested?—Yes, and to some extent they are still congested if you relate the number of people on the land to the number of people whom the land can really carry in some areas.

2034. It is a curious phrase. What are the public works and miscellaneous services therein carried on by your Department?—Roads and piers are the two main items; there are one or two minor things, like maintenance of minor lights. We make grants for that. It is mainly roads and piers.

2035. These are grants to local authorities are they, or public authorities, anyway?—Yes. County Councils.

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Sir PATRICK LAIRD, C.B., F.R.S.E.

[Continued.]

2036. County Councils?—Yes, mostly. There are one or two steamer services we run and we make grants to private people, but mostly it is County Councils.

2037. But are not some of these authorities in receipt of grants in respect of the same work from the Ministry of Transport?—In regard to some of the roads, that is so, yes. What very often happens in regard to roads is that the Ministry of Transport and the Department share out the amount of grant. The Ministry of Transport give grant in accordance with their usual scales and we give some more because these areas are particularly difficult from the point of view of communications.

2038. As a matter of administrative principle it is rather a bad thing to have two authorities both giving subsidies, in respect of the same work, is it not?—That system applies only to roads of the class which the Ministry of Transport recognise. We have to give a great many grants also for unclassified roads—the township roads, as we call them.

2039. You mean to say that the area where there is an overlapping or dual grant is rather small?—Very small, yes.

2040. On page 324, Subhead R is "Operations under the Forestry Act, 1945", a grant of £20,000 and an expenditure of £11,000. Would you briefly explain to the Committee what is the nature of the operations under the Forestry Act which you are called upon to perform?—Management of land which the Forestry Commission do not want, or are not ready to take for their purposes, but land that has been acquired by them.

2041. Under the Forestry Act you have taken over land which was previously owned by the Forestry Commission. Is that right?—Yes, that is so. Under the Forestry Act, 1945, the property all became property of the Secretary of State. He allocates to the Forestry Commission what they required for their purposes.

2042. And future purchases will all be made by Ministers?—Yes, but there is always a residue of farming land that the Forestry Commission do not want at all or are not ready to plant, and that comes under our management.

2043. When the Department have acquired land with the idea of letting the Forestry Commission have it, or have part of it later on, what will the financial arrangements be between the Department and the Forestry Commission? Will there be an arbitrated price?—I have a little forgotten what the details are. In fact I am not sure that all the details with regard to the financial transactions have really yet been settled. (Mr. Jones.) Perhaps I could say that the cost of the land remains charged to the Forestry Fund, and the Department of Agriculture for Scotland will pay to the Forestry Fund an annual sum

determined by the Treasury which I think it is tentatively agreed shall be two-thirds of the assessed rental, in respect of the land which is used for the time being by the Agricultural Departments.

2044. So that the Accounts of the Forestry Commission and the Department will give a true picture of the operations?—The Accounts will show a payment from the Agricultural Votes of this sum in respect of rental which will be paid into the Forestry Fund, the reason being that the capital cost of the land remains a final charge against the Forestry Fund and is not transferred to the Votes of the Agricultural Departments.

Chairman.] I have no further questions on this Account. Has any Member of the Committee any questions?

Sir Frank Sanderson.

2045. I have one question to ask on page 326. In the statement of amount of loans outstanding at 31st March, 1946, item (ii) is "Loan from the Consolidated Fund: Scottish Agricultural Securities Corporation Limited," a figure of £100,000. Do I take it that this is money which is to provide loans to farmers?—(Sir Patrick Laird.) This sum of £100,000 is the equivalent of the share capital which was put up when the Corporation was set up, and the Act of 1929 under which it was set up provided for the making of advances to the Company, and this is the advance which was made to the Company corresponding to the share capital.

Mr. Thurtle.

2046. You get as much out of this as England does, do you not? It is the same sum of £100,000?—No, I think they have much more. (Sir Eric Bamford.) The figure is £650,000 in the guarantee fund in England. This is the sum which stands behind the debentures.

2047. But the annual payment is the same, I believe?—The annual payment in England is now a maximum of £150,000. It is less in Scotland.

Chairman.

2048. On page 326 onwards there is a number of Supplementary Accounts. I have no questions on Account (A). On page 328 is the Account of Receipts and Payments of the Agriculture (Scotland) Fund. I see amongst the receipts a Grant in Aid, at the top of the left hand page, of £25,000. Then, at the foot of the right hand page I see the stupendous sum of £653,000 as the balance in hand. I ask myself why a Grant in Aid is necessary?—This is a question which has been discussed many times between us and the Treasury, I think I might say, and we have, of course, outstanding commitments always against the fund. Admittedly one would not expect that we were going to run any risk of exceeding our

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SIR PATRICK LAIRD, C.B., F.R.S.E.

[Continued.]

balance in any one year. The Grants in Aid at the present time have been brought down to a very low figure in comparison with what the normal pre-war rate was and the feeling which we have always had, and which the Treasury have accepted, is that it is desirable to keep the fund in a fairly prosperous condition. We might at any time, of course have to start land settlement again—it has been in suspense during the war period—and then we might have quite big capital payments to make out of that. (Sir Frank Tribe.) Perhaps I should point out that the balance has increased during the war from £468,000 to £653,000.

2049. And it has increased during this current year of account by about £30,000?—(Sir Patrick Laird.) We have treated the £25,000 there as being almost in the nature of a nominal sum, because the maximum which can be voted every year under statute is £185,000. I may perhaps add that £15,000 of that £25,000 is an absolutely fixed amount which is paid under an

old Act; so that really the amount that is voted by Parliament is only £10,000.

2050. What is the balance invested in?—It is held, I think, by the Kings and Lord Treasurer's Remembrancer. I do not think it is invested, except for some small part of it. That is under Treasury instruction, of course. I cannot answer for that reason.

Chairman.] Are there any questions on those Accounts (A), (B) and (C)?

Mr. Thurtle.

2051. Do not you think this is carrying caution rather to an extreme, to have such a large balance as this in hand?—It may be so, but all we could do would be to drop the £10,000 that is annually voted at the moment. That is the only difference that we could make at the present time.

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

CIVIL APPROPRIATION ACCOUNTS (WAR SERVICES), 1945-46.

CLASS X

VOTE 17

DEPARTMENT OF AGRICULTURE FOR SCOTLAND

Chairman.

2052. Will Members turn to the Civil Appropriation Accounts (War Services), 1945-46? The Account is at pages 59 and 60. You do not have the system of County Committees for agricultural purposes in Scotland, Sir Patrick?—(Sir Patrick Laird.) Yes.

2053. You do?—Yes. You will see Subhead D in this Account on page 59 is "Agricultural Executive Committees."

2054. They do not perform at all the same functions as the County Committees do in England, of taking over farms?—Yes.

2055. Gang labour, and so on?—Yes. There are two things that they do not do that they do do in England. One is the machinery service, which we run centrally; and the other is the feeding stuffs rationing scheme, which we run centrally. (Sir Frank Tribe.) The items of expenditure are shown rather differently in the two Accounts. In this Account I think they are shown under different Subheads, whereas in the English Account they are all grouped under one Subhead, the County Committees Subhead.

2056. Yes; there is a great deal more information here than we get in the Accounts for England and Wales. Subhead J is "Contributions towards cost of erection of Cottages for Agricultural Workers." That must have been something rather unusual, I suppose, was it?—(Sir Patrick Laird.) It was a special scheme that was passed in 1943-44 corresponding to one in England,

under which we subsidised a scheme for 200 new houses for agricultural workers. There was a similar scheme in England.

2057. Those schemes will be concluded now?—Yes, they are concluded. What is left of them has been mopped up in more recent housing legislation.

2058. Does the new Agriculture Bill apply to Scotland?—In parts. Part I, dealing with prices, and the Part dealing with statistics cover Scotland as well as England, but for all the rest we shall have a separate Bill.

2059. Have you taken over farms in Scotland on behalf of either the Department or the Committees?—Yes. You mean requisitioned, and that sort of thing? Not only purchased, but you mean requisitioned?

2060. Yes. The results of their operation are included in these figures amongst the expenditure and receipts?—Yes. That is under Subhead A "Land Cultivation" and the corresponding entry in the details of receipts.

2061. You would agree that something much fuller in the way of Accounts will be necessary if this is going to be a permanent feature of our economy?—Yes, I think so. We do keep a certain amount of informal accounts ourselves for our own purposes to see how things are going. It is a different matter to formalise them. It means a great deal more work and trouble if you have to produce them in a very formal way (Mr. Jones.) Perhaps I might

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[Continued.]

say that it is our intention when these bodies become permanent by legislation now before Parliament to direct the Departments to prepare trading accounts of the activities of these Committees.

2062. There will be trading accounts?—That was our intention—not necessarily a trading account of each farm, but of the general activities of the Committees.

2063. I mean trading accounts generally, separating capital expenditure from current expenditure?—That is certainly intended.

Chairman.] Thank you, Mr. Jones. Has any Member any questions on the Account?

Mr. Cuthbert.

2064. On page 59, in the details of expenditure, Subhead F and Subhead I are two very large sums, the first "Grants in respect of Breeding Ewes on Hill Farms",

(*Sir Patrick Laird withdrew.*)

CIVIL APPROPRIATION ACCOUNTS, 1945-46.

CLASS VI

VOTE 19

HERRING INDUSTRY.

Sir NORMAN DUKE, K.B.E., C.B., D.S.O., M.C., called in and examined.

Chairman.

2065. Will Members turn to the Civil Appropriation Accounts, 1945-46, to paragraphs 65 to 68 of the Report of the Comptroller and Auditor General? Sir Norman, you are Accounting Officer for the Scottish Home Department, are you not?—(*Sir Norman Duke.*) For the Scottish Home Department and for the Herring Industry Vote, which of course covers herring industry activities in England and Northern Ireland as well as in Scotland.

2066. This is the only case that has ever occurred as far as we know where a Scottish Accounting Officer has accounted for expenditure in England and Wales and Northern Ireland as well, I think?—And Northern Ireland as well. It is the only case I can recall—so far.

2067. Paragraph 66 deals with Grants to fishermen under the Act of 1944, and the Comptroller and Auditor General tells us that no Grant was made in the year of account. Paragraph 67 deals with Grants to the Herring Industry Board. At the top of the following page, page xxvi, we are told "Grants under this section in 1945-46 amounting to £5,415 for general administration and to £15,340 for other expenses of the Board are charged to Subheads A and B respectively in the present account," and then there is a reference to experiments in freezing herrings on a semi-commercial scale. Who carried out these freezing experiments?—These experiments were

a figure of £885,000 odd, and the other "Grants in respect of Cattle on Hill and Upland Farms", a figure of £619,000. What do they represent exactly?—(*Sir Patrick Laird.*) Subhead F is the Hill Sheep Subsidy. It has been part of Government policy to pay a subsidy during the last few years because of the depressed condition of the hill sheep farming industry. Subhead I is a special scheme with two objects: one to improve the character of hill grazing and secondly to encourage the rearing of home stock. It has been done by giving grants for cattle, in our case mostly breeding cattle kept on hill lands which otherwise would not be done, without such a scheme.

Chairman.] Are there any further questions on the Account? May I take it that the Account is approved? (*Agreed.*) That concludes your evidence, Sir Patrick, thank you.

carried out in Fraserburgh by MacFisheries Limited, who used one method, and they were also carried out by the Herring Industry Board themselves, using another method and employing another firm to manage the experiment for a management fee. The Herring Industry Board met the expenses and paid a small management fee to a firm to run the experiment. After these two Fraserburgh experiments, similar experiments were continued in East Anglia when the East Anglia fishing came on.

2068. Have the experiments proved successful?—Yes, I would say they have. What they did do was to demonstrate that it was commercially possible to quick-freeze herrings, to produce a very good article and an article for which the consumer was prepared to pay the full controlled price for a fresh herring. They were not, of course, economically entirely successful for various reasons, but the economy issue is a fairly small margin. I think we can say the experiments were successful for this reason, that MacFisheries and other firms are now, this year, developing resources of their own at their own cost for the quick-freezing of herrings. I think that has been largely the result of the demonstration afforded by these Fraserburgh and East Anglian experiments in the year under review.

2069. When the Comptroller and Auditor General says in his Report "The loss, which has not yet been finally determined, is estimated at £5,500" that does not indicate

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Sir NORMAN DUKE, K.B.E., C.B., D.S.O., M.C.

[Continued.]

that the experiment was a failure in any way?—No, I do not think so. The loss has now been finally determined at £5,430. That represents a loss of about 23s. per cran on the herring handled in the experiments. The price at which fresh herrings were being bought was about 91s. per cran, so you have a loss of perhaps about 25 per cent. In fact it ought to be possible to bridge that gap by arrangements of one kind or another, and it is quite clear that MacFisheries and other firms are now satisfied that they can do that, because they are now operating on their own at their own cost.

2070. What are the advantages of freezing herrings?—The main advantage is that you can provide a new outlet for herrings and you can give the people of this country herrings in good condition in the off-season, when herring are not ordinarily available.

2071. You have every hope that it will prove a commercial success?—I think it is very promising just now.

2072. Are there any questions on paragraphs 65 to 68 of the Report of the Comptroller and Auditor General? We will pass to the Account, which is at pages 335 and 336. The only comment I have to make on the Account is that the expenditure is only about one-tenth of the Grant throughout. Why is that?—I think there were three reasons. First of all, of course, the Herring Industry Board has a statutory duty to reorganise and develop and regulate the

herring industry. It is obvious, of course, that a Board of that kind, charged with a statutory duty of that nature, must display vision and take a broad view of possibilities in the future. They have got to set themselves a fairly high target. It is quite natural that they should tend to aim high.

2073. You mean to say you aim high and yet proceed slow?—You do, and I am going to explain why we proceeded slow. There was a delay in getting the Herring Industry Board fully back into the saddle. The Herring Industry Act was passed in August, 1944. The Board was appointed in November of that year. It had most of its pre-war powers restored to it in January, 1945. It very quickly found that it required more powers, and at that stage the question arose as to whether it would be consistent with the general Government trade policy to give the Herring Industry Board the full powers. When that question was resolved the Board were given full powers, but that was not until 1st May, 1946. There was a period of delay over that. Finally, the third reason, and the most important reason, I think, is this, that the Board found themselves hindered by lack of plant, materials and accommodation to such an extent that they were compelled to abandon altogether, for the time being, many of the projects of research and development which they had in view.

2074. Are there any questions on the Account? May I take it that the Account is approved? (*Agreed.*)

HERRING INDUSTRY ACT, 1935-1944, ACCOUNT, 1945-46.

Chairman.

2075. We turn now to the Herring Industry Act, 1935-44 Account, 1945-46. In the Report of the Comptroller and Auditor General at the foot of page 2 we are told that "the Account for the year ended 31st March, 1945, was the final account in respect of the Herring Fund Advances Account established under the Herring Industry Act, 1935. A new fund called the Herring Marketing Fund was established under the Herring Industry Act, 1944." Can you tell me whether all loans made under the old scheme were repaid, or whether some had to be written off?—The Herring Industry Board repaid the Department the full balance of the loans then outstanding, which was £5,115.

2076. The account of the Herring Industry Board is a little lacking in detail at present. It is a blank page. I believe there are some figures on the next page. I gather this Account is in the form prescribed by the Treasury. Is that right?—(*Mr. Jones.*) We did not think our pre-

scription would be followed quite so literally!

Chairman.] There is so little to it that I have no questions to ask. Are there any questions on the Account?

Sir Frank Sanderson.

2077. With regard to page 3 of the Herring Industry Board Account, is there any significance in setting it forth in that form in the manner in which it is, giving no information whatever? Is there any reason why that page should not be left just blank?—(*Sir Norman Duke.*) We hope to be able to do better in future years and fill up some of the gaps.

2078. There is really no information you could give?—In the heading you will see it says: "Section 10 of the Herring Industry Act, 1935." That requires the production of this form.

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

(*Sir Norman Duke withdrew.*)

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[Continued.]

WHEAT FUND ACCOUNTS, 1945-46.

(On this Account no questions were asked.)

CIVIL APPROPRIATION ACCOUNTS (WAR SERVICES), 1945-46.

CLASS X

VOTE 3

MINISTRY OF ECONOMIC WARFARE

VOTE 10

POSTAL AND TELEGRAPH CENSORSHIP DEPARTMENT

VOTE 11

MINISTRY OF PRODUCTION

*(On these Accounts no questions were asked.)**(The witnesses withdrew.)**(Adjourned till Tuesday next, at 3.45 p.m.)*

TUESDAY, 6TH MAY, 1947.

Members present:

Mr. PEAKE in the Chair.

Mr. Benson.
Mr. Cuthbert.
Lieut.-Colonel Hamilton.
Mr. Haworth.

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

Sir FRANK TRIBE, K.C.B., K.B.E., Sir ERIC BAMFORD, K.B.E., C.B., C.M.G., and Mr. C. E. I. JONES called in and examined.

TREASURY MINUTE ON PARAGRAPHS 6 TO 8 OF THE FOURTH REPORT OF THE COMMITTEE OF PUBLIC ACCOUNTS, 1945-46.

Sir WILLIAM DOUGLAS, K.C.B., K.B.E., Mr. G. H. HENDERSON, C.B., and Mr. H. H. GEORGE, C.B., M.C., called in and examined.

Chairman.

2079. I think it will be most convenient, as we are dealing with the Department of Health for Scotland as well as the Ministry of Health and as much of the ground to be covered is the same in both cases, if we hear both Departments together. Mr. Henderson is accompanying you, Sir William?—(Sir William Douglas.) Yes.

Chairman.

2080. We turn first to the Treasury Minute on paragraphs 6 to 8 of the Fourth Report of the Committee of Public Accounts, 1945-46. This relates to the clearance of claims for war services by local authorities. I see the Treasury in their minute in paragraph 2 state: "Their Lordships share the hope expressed by the Committee that all possible steps will continue to be taken to

expedite the clearance of these claims. Their Lordships would be glad to be furnished with a report showing the progress made as at 31st March, 1947, as soon as possible thereafter." Mr. Jones, have you received that report?—(Mr. Jones.) Yes, we have received that report. It shows that the satisfactory progress which had been started last year has been maintained, and it displays a generally satisfactory position in overtaking the arrears that had accumulated. The Ministry of Health have also told us that last year they brought to the attention of all local authorities by circular the comments made by this Committee about the desirability of getting claims submitted and cleared as soon as possible, and that, no doubt, has been of value in getting an earlier clearance of these outstanding claims.

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[Continued.]

2081. Can you give the Committee any figures as to the number of claims which have been submitted and approved, so that we have the up-to-date position on the record?—The figures notified to us by the Ministry of Health show that by the 31st March, 1947, the number of claims due for the period to 31st March, 1946, was just under 20,000 of which 17,000 had been received from local authorities, and, of that number received, just under 15,000 had been audited by the district auditors and 14,200 of that number of audited claims had been finally settled by the Department.

2082. Have you comparable figures for the Home Office and the War Damage Commission, who are concerned with this?—Yes, I have, but not quite in the same form. The War Damage Commission is in rather a special case because they had a very large number of new claims arising in the financial year 1945-46 in respect of the damage that took place towards the end of the war, so that their intake of new business was on a heavier scale than in the previous year. The position there—

2083. Perhaps, on second thoughts, it might be better to take those when those

Votes are before the Committee. In the third paragraph of the Treasury Minute there is a reference to new arrangements which will avoid the Comptroller and Auditor General having to examine all the Departmental files. Perhaps you can tell us, Sir Frank, whether these new arrangements have been made, and whether they are satisfactory?—(Sir *Frank Tribe*.) Arrangements have been made with the Accounts Branches of the various Departments concerned for us to see all reports on claims before they are filed for action to be taken on them. A scrutiny of these is easily carried out, which enables us to select those claims which give rise to comments of particular interest. The arrangements should ensure that we are aware, with the minimum of labour, both of the outstanding matters looked into by the district auditors and of the points raised by them; and I think I can give this Committee the necessary assurance that the new arrangements should be satisfactory.

Chairman.] The whole position seems quite satisfactory. Has any Member of the Committee any questions on the Treasury Minute on paragraph 6 to 8 of our Fourth Report of last year?

CIVIL APPROPRIATION ACCOUNTS, 1945-46.

CLASS V.

VOTE 1.

MINISTRY OF HEALTH.

Chairman.

2084. Will Members turn to the Civil Appropriation Accounts, 1945-46, Class V, Vote 1, the Ministry of Health. We take first paragraphs 42 and 43 of the Report of the Comptroller and Auditor General, on page xviii. These paragraphs deal both with the Ministry of Health and the Department of Health for Scotland: "Temporary Housing Accommodation" is what is vulgarly known as "pre-fabs", is it not?—(Sir *William Douglas*.) "Temporary pre-fabs".

2085. Are those the things one sees going along the roads nowadays in half-sections?—That is right. It is the aluminium house that you see about the road; it is made in that particular way.

2086. What Department decides who gets them and where they go to?—The Ministry of Health.

2087. You have some well-formed principles upon which you allocate them, have you?—We have a regional organisation which is in touch with all the local authorities in a particular region, and we know the needs of those authorities and we endeavour to come to an arrangement with them for the appropriate share out according to the types and numbers that they want.

2088. As far as I understand the financial arrangements—which have been the subject, have they not, of some comment in the House of Commons recently?—Yes.

2089. —there are advances from the Consolidated Fund to the Ministry of Works. Those advances are to enable the Ministry of Works to pay the contractors who supply the houses?—That is so.

2090. Those advances from the Consolidated Fund are repaid by instalments over 10 years with interest at 2½ per cent. out of the Votes of the Ministry of Health and the Department of Health for Scotland?—That is so.

2091. What you obtain, I suppose, as against that, is some payment from the local authorities?—Yes.

2092. Which I think is set out in paragraph 43 of the Report of the Comptroller and Auditor General?—That is so.

2093. In the case of urban authorities you get £23 ros. a year for each temporary house. That is the gross sum, is it? £23 ros. is what you in fact receive?—That is what we receive per house in the case of the urban authority.

2094. The result is that you will have more to pay back to the Consolidated Fund than you will receive from the local authorities, over a period?—That is so.

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Mr. G. H. HENDERSON, C.B., and Mr. H. H. GEORGE, C.B., M.C.

2095. This in fact, so far as your Department is concerned, is expenditure over which you have no control? You are bound to pay every year one-tenth of whatever sum is expended by the Ministry of Works on providing the houses. Is that right?—The Treasury tell us, in effect, what to pay over, but I would not deduce from that that we have no control over the amount, because we are in very close touch indeed with the Ministry of Works and know more or less the scope and extent of their programme. In the case of the temporary house there are two types of meetings at which this sort of thing is looked at. There is a meeting under the Chairmanship of the Minister of Health, with other associated Housing Ministers, which looks at all aspects of the housing problem and performance, and part of the scope of that Committee would be to examine the expenditure in connection with the temporary house. If, for example, it appeared that a particular house was getting very expensive the Minister of Works would at once have to disclose that, and Ministers would discuss what action should be taken, as to whether to step them down a bit, or modify them.

2096. But as far as financial accountability is concerned, if I remember the position aright, this question was raised in the House on a Supplementary Estimate and the Minister of Health announced that he had no control over the expenditure of the money and repudiated responsibility for its expenditure and, so far as the Ministry of Works is concerned, of course there is no Vote because the money comes out of the Consolidated Fund. Is not that right?—I think, to be strictly accurate the question arose, if I remember rightly, not in connection with temporary houses, but on the allied subject of the permanent prefabricated house which cost more than a corresponding brick house, and in those cases Parliament provided that a supplementary payment may be made to the local authority which takes those houses. It was in connection with the moneys for them, I think, that the question arose in the House of Commons.

2097. But exactly the same principles apply to both cases, that it was found in the House of Commons that no Minister was answerable for the expenditure of this money, or was prepared to answer for the expenditure of this money?—On that particular occasion.

2098. On that particular occasion, and the Home Secretary (who was then acting as Leader of the House) promised that the matter would be further looked into to see what could be done about this. Can you tell us at all whether there has been any development since that time?—I think it is rather difficult for me to reply to that question. There are various ways in which

I think the matter could come up before the House of Commons. It could come up, for example, in connection with Estimates. But the formal position is as you have stated it. On that particular occasion it seemed difficult to bring the matter before the House of Commons.

2099. It certainly seems, if no Minister can be found who is prepared to answer for the expenditure, that the Public Accounts Committee ought to scrutinise it with all the greater care. Do you agree?—I accept that. (Sir Frank Tribe.) We shall have an opportunity of doing that on Thursday of this week, when both these Accounts will be before the Committee, with the Accounting Officer of the Ministry of Works as witness.

2100. There are one or two specific questions which arise on paragraph 43. About half way down the first sub-paragraph, the Comptroller and Auditor General tells us: "The authority's annual payment to the Department is, however, subject to reduction where site costs appreciably exceed £4 per annum, or where working-costs prove excessive, and under Section 3 (1) of the Act it may be waived altogether or even converted into a payment by the Department." This annual payment, which is fixed in relation to each prefabricated house, may be reduced, as I understand it, where the site cost is heavy or where what are called the working-costs (I take those to be the costs of sewers, roads, and so forth) are exceptional? Is that right?—(Sir William Douglas.) High costs of site as well are included there.

2101. Can you tell me what the rate of reduction is—how it is calculated?—A case has not arisen yet. I think we should have to take account of the facts that the local authority put to us. The site charges would have to be pretty high, and no case has actually arisen yet. We think there will be some coming along.

2102. There is not any scale worked out?—There is no scale worked out.

2103. As regards Scotland, I see that the annual payments by the local authority are on a slightly higher level; that is to say, about £2 a house higher than they are in England?—(Mr. Henderson.) Yes.

2104. Could you explain that?—I think the explanation of that is that one has to consider what is to be the final effect on the local authorities' finance, and the calculation which leads to that figure of £25 10s. in Scotland produces a net payment out of the local rates of £6, which is rather higher than the net payment, I understand, out of the rates in England and Wales. That, I think, is historical. The payment out of the rates in Scotland always tends to be higher than the payment out of the rates in England for the simple reason that

6 May, 1947.] Sir WILLIAM DOUGLAS, K.C.B., K.B.E., [Continued.
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the Exchequer subsidy is higher in Scotland, and there is normally a relationship between the Exchequer subsidy and the rate contribution.

2105. At any rate, Scotland are quite satisfied that there should be this differentiation?—I think so.

[Sir William Douglas.] I wonder if I might go back to a reply I gave in which I said there was no scale. There is not quite a scale, but there is an arrangement that, if the necessary annual charges in respect of the sites as developed are appreciably in excess of the £4 mentioned in this paragraph, the payment, by the authority of the Minister, will be reduced by 80 per cent. of the excess.

2106. Thank you. Are the rents at which these houses are to be let to tenants settled by the Ministry?—They are settled by the local authority.

2107. But in fixing charges we are told it has been assumed that the authority will receive a rent of 10s. a week?—That is probably how the rents will average out, but it is customary in all questions of rents of local authority houses for the local authority to have the responsibility of settling them.

2108. So that some local authorities may be charging a higher rent for these houses than others?—That is so.

Chairman.] Are there any questions on paragraphs 42 and 43?

Sir John Mellor.

2109. In the second part of paragraph 42 the Comptroller and Auditor General states that these temporary structures remain the property of the Crown, but that the local authorities provide the sites. Is there some form of agreement which secures that the temporary structures remain the property of the Crown, because in the ordinary way, if a structure of this kind were erected upon a site belonging to somebody else, it would become, presumably, attached to the freehold and belong to that person. I was wondering how that is avoided in this case, and the property in these structures remains in the Crown?—I think it is one of the provisions of the Housing (Temporary Accommodation) Act, 1944, that that will be the position. I think it is determined by that Act.

2110. That does cover this case?—Yes.

Mr. Thurtle.

2111. I have one question on paragraph 43, in which there is a phrase "or where working-costs prove excessive." What is the criterion of excessive costs?—It is again rather difficult to answer that in general terms. I think one would have to see the particular case put up by the local authority. No such case has yet come

before us. It would be where a local authority claims that its working costs were excessive for reasons which were outside its control.

2112. It depends upon the facts of the individual case?—It depends upon the facts of the individual case.

Sir Frank Sanderson.

2113. In paragraph 42 the Comptroller and Auditor General states that "the local authorities provide the sites and necessary services (roads, sewers, etc.)". Who is responsible for providing gas, electricity and water? Is that also the responsibility of the local authorities?—Yes.

2114. One other point. Shall we at some time receive a balance sheet? Will a balance sheet be provided, with a capital account showing the amount expended by the Crown on temporary houses and, on the other side, the total income received in the form of interest upon the loans?—I imagine that must be so. This, of course, would probably appear on the Account of another Department, probably in this case the Ministry of Works. (Sir Frank Tribe.) There is a Housing (Temporary Accommodation) Act Account, which we shall be taking on Thursday of this week, which the Accounting Officer of the Ministry of Works signs. We shall be examining that, with my Report on it, on Thursday.

Mr. Benson.

2115. With regard to the constitutional position, does the fact that the Ministry of Health cannot answer for the expenditure of the £200 million and the Ministry of Works do not need to answer for it really mean that no discussion on the Allotted Days can arise on the work of the Ministry of Works in this connection?—(Sir William Douglas.) It is rather a point of Parliamentary procedure than a question for me to answer.

2116. Perhaps the Treasury might know?—(Mr. Jones.) I think opportunities would present themselves because some of the administrative expenditure of the Ministry of Works in administering this service is recovered from the Housing (Temporary Accommodation) Account. It is repaid to the Ministry of Works Vote from that account. Therefore, one would have thought that expenditure which is borne on the Ministry of Works Vote in that way in respect of the administration by the Ministry of Works of this service could be a subject for debate when the Ministry of Works Estimates were taken on the floor of the House.

2117. You said only some of the expenditure was recovered from that Account?—The administrative expenses. The expenses on the purchase and erection of these structures is not borne on the Ministry of Works Votes because it is a Consolidated Fund charge.

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2118. The expenditure is borne on this £200 million fund and the expenditure out of that has now passed out of the control of the House of Commons?—The Act says it shall be issued from the Consolidated Fund, and the expenditure is accounted for in the Account which will come before this Committee on Thursday.

2119. But that is really, surely, a disadvantage from the point of view of the House? All expenditure comes before us, but all except this expenditure is also borne on the Estimates?—I think, perhaps, we had thought we had met that point to some extent by providing annuities on the Ministry of Health Vote to repay this capital sum in 10 years.

2120. The Ministry of Health have wriggled out of it?—I do not think they did on this particular topic. As Sir William Douglas said initially, I do not think it was on this particular point that this argument arose. It was in connection with the Howard House, which is a permanent house not charged to the Temporary Housing Account at all. It is charged to the Building Materials and Housing Act Account, another statutory fund. I think the circumstances were not quite parallel in the two cases. There was some suggestion of administrative responsibility for excess costs, which does not arise in this particular connection at all.

2121. How much of that £20 million is expendable without the House of Commons being able to criticise it—surely a very large proportion?—A large proportion of the Ministry of Works expenditure is not borne on Votes of Parliament.

2122. In fact, whether by design or by accident, we have really got back to the position of the Vote of Credit that we had during the war. If one wanted to discuss anything on the Vote of Credit one had to adopt all kinds of various and devious methods to get round the Chair. I know, because I did it! Surely that is an unsatisfactory position, is it not? The Treasury ought to take some steps to see that the thing is brought more into consonance with Parliamentary procedure, ought they not?—These arrangements are of course embodied by statute. This is not, I think, in the view of the Government of the time, the sort of expenditure which ought to be charged to Annual Votes. It is capital expenditure and not ordinary revenue expenditure. It was for that reason that it was provided for as a capital charge below the line in the Budget.

2123. But capital expenditure in the Post Office, for example, can always be charged on the Post Office Vote?—I think, if I may say so, that is borne on the Telephone Capital Account as a capital charge. Although there are arrangements for the provision of telephone capital expenditure

to be shown in the Post Office Estimates, I do not think it is provided directly on the Post Office Vote.

2124. But it is discussible surely? Now with regard to the question of the control that the Ministry of Health exercise over the Ministry of Works, you suggested, Sir William, that you could control their expenditure because you saw the cost of the individual houses, of the types of house, and that if one type of house became far more expensive than another you would be aware of it and could raise the matter with the Ministry of Works?—(Sir William Douglas.) Yes.

2125. But that does not give you any real insight into the matter, and therefore any real control into the day to day efficiency of the work, does it?—No. There are two particular things. We really are, if not the actual customers, the agents for the actual customers and, therefore, we are entitled to say "We shall have this" or "We shall have that" or "That is too much for us to pay" or "That is not good enough" or "not big enough"; but as I understand the general position, it is that as far as the day to day expenditure is concerned there is only one Department responsible and that is the Ministry of Works. It would be rather chaotic, possibly, if there were two Departments trying to do the same thing at the same time.

2126. So that really, apart from this Committee, there is no control whatever over the day to day work of the Ministry of Works in this matter?—There is the Ministry of Works itself. The Ministry of Health does not control the Ministry of Works day to day expenditure, I agree.

2127. One form of control of Ministry of Works expenditure is by this Committee. But the Ministry of Works escapes control in respect of this expenditure?—That is not quite the way I understood the remarks of the Treasury Officer of Accounts.

Chairman.

2128. I suppose the Treasury exercise some supervision over the expenditure of this money by the Ministry of Works?—(Mr. Jones.) Yes. We would approve their programmes in the ordinary way.

Chairman.] Contracts of a certain amount would have to be submitted, I take it?

Mr. Benson.

2129. The main objection to the position that the House has got itself into seems to be that the expenditure cannot be challenged on the floor of the House. I think it is a very bad situation that Government expenditure cannot be challenged on the floor of the House. A sum of £200 million may not be very large in wartime, but it is a very considerable sum in peacetime; and I think the position is quite

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unsatisfactory?—(Sir *Eric Bamford*.) Is it not the case that it can be questioned on the floor of the House when the Ministry of Works Vote is taken? Though this is capital expenditure borne from the Consolidated Fund, surely it would be in order to discuss any problem in relation to the provision of these houses by the Ministry of Works when the Ministry of Works Vote was discussed?

Chairman.] I think the position that was found to arise was that it was not out of order for Members to discuss it but there was no Minister prepared to answer on it.

Mr. Benson.] That is the same thing.

Chairman.

2130. That is the point which the Home Secretary promised should be investigated.—I understood, with respect, that that was a different question. I should have thought, quite clearly, the Minister of Works would answer for this particular expenditure. He spends the money. He gets it from the Consolidated Fund, but he is still answerable for it, and, of course, he is in close touch with the Treasury about the control of it in the ordinary administrative way. He is equally answerable in Parliament when his Estimate is discussed.

Chairman.] We can look further into it.

Mr. Benson.] We can look further into it next year to see what does happen.

Chairman.] Are there any further questions on paragraphs 42 and 43?

Mr. Haworth.] In the second sub-paragraph of paragraph 43 the Comptroller and Auditor General states: "The Ministry of Works supply and erect the temporary structures, which remain the property of the Crown, while the local authorities provide the sites," etc. Would you tell us what the amount against Subhead E "Temporary Housing Accommodation" in the Account on page 211 represents? I can understand Subhead F "Housing Grants" but what does Subhead E, a Grant of £550,000 represent?

Chairman.] That is the same thing as we are here discussing, Sir William. It is the same figure as is mentioned in the first sub-paragraph of paragraph 42.

Mr. Haworth.

2131. What is it?—(Sir *William Douglas*.) That is the amount we pay over to the Ministry of Works.

2132. The amount the Ministry of Health pay over to the Ministry of Works?—Yes.

Mr. Haworth.

2133. On this analysis given in paragraph 43?—Yes.

Mr. Haworth.] The amount for sites?

Chairman.

2134. It is a payment of 10 per cent. on the advances from the Consolidated Fund, plus interest. Is that right?—Yes, that is it. It is not specifically related to the cost of particular houses. This is an overall payment which the Ministry of Health makes to the Ministry of Works in accordance with the arrangement we have been describing.

Mr. Haworth.

2135. On Subhead E1 on page 212, "Contributions to Local Authorities" the Grant of £250,000, none of which has been expended, is for excessive site payments, is it?—That is a reference down to the sentence which has already been referred to in paragraph 43 of the Report of the Comptroller and Auditor General.

2136. I understood you to say that you expect that you will have an application for some Grants out of that money?—We may get some applications later on.

2137. Am I right in supposing that the Ministry closed down on the approved temporary houses some time ago, and that their policy is now to erect permanent houses exclusively?—With the exception of the aluminium house, contracts for which are still running on, the policy of the Government has been to close down on the further erection of temporary houses.

2138. That makes me wonder why it is that you expect applications to come in for extra site payment?—We are dealing here with the year 1945-46, on the Account. No doubt in the following year, when we are giving the Account for this present calendar year, it will be shown that temporary housing was still being erected in this period.

2139. It is something that has probably already happened?—Yes, but we have not taken notice of it here.

Chairman.] Are there any further questions on paragraphs 42 and 43? Now we pass to the Account, into which Mr. Haworth has already lapsed a little.

Mr. Haworth.] It is linked up with the paragraphs.

Chairman.

2140. Yes. The Account commences at page 211. On page 212, Subhead D is "Incidental Expenses" the Grant for which was £28,700 and the expenditure £24,344. What are the main items in incidental expenses?—The main items are publication of information relating to public health—that is various publications—law charges, Government Lymph Establishment, and incidental expenses of inspectors and auditors, inspectors of alkali works, and that sort of thing.

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[Continued.]

2141. Is there any item here for your advertisements in connection with diphtheria, V.D., and things of that nature, or is that done by some other Department?—That is not on this Account.

2142. It is not included here?—It is not included here. I think most of the general advertising of the Ministry is borne on the Account of the Central Office of Information.

2143. I thought that was probably the case. We have been discussing Subhead E2. You paid £100,000 odd for interest on advances from the Consolidated Fund. It was anticipated that the figure to be repaid would be £300,000, and there is a considerable amount of under-expenditure. But when I turn on to page 216 and look at the details of receipts, I see at the top of that page that the receipts from local authorities under the same Act were estimated to be £500,000 and in fact you realised only £65,000. The puzzling thing to me about these figures is that you should have estimated that you were likely to receive half a million by way of rent of these temporary houses from local authorities, whilst you estimated on the other side that you would have to pay by way of interest and repayment of the loans to the Consolidated Fund only the sum of £300,000?—I think part of the answer to that is that we get the rents in at once but some of the other expenditure is rather late in coming in.

2144. You mean the local authorities start paying straight away, as soon as the prefab is delivered, but that is before you have paid the interest and instalments to redeem the loan from the Consolidated Fund?—(Mr. Jones.) The explanation may be that a mean date is taken for the annuities—one date in the year. It may be the accident when that date falls that determines the amount to be paid to the Exchequer in respect of any one year.

2145. Yes. It just struck me as curious that the one sum was smaller than the other. As regards the main subhead under "Housing Grants," Subhead F1, these are Grants to local authorities. These are the housing subsidies, are they not?—(Sir William Douglas.) These are the housing subsidies.

2146. What is the period over which the subsidy is payable now, generally?—It varies according to the Act under which the houses are being constructed or have been constructed in the past.

2147. Is it not in the ordinary case now 60 years?—That is the latest period. In some earlier periods it was different. The latest is 60 years.

2148. Will the houses they are putting up nowadays last as long as that?—I think the modern houses will stand up as well as the older houses.

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2149. I want to ask a question on page 213. Subhead G6, "Grant in Aid of the Civil Service Sports Council," an expenditure of £1,500. Could you explain that shortly to the Committee?—It has been customary in the past for the Government, as a good employer, to contribute a very modest or generous sum, according to the point of view, to the Civil Service Sports Council, and the Ministry of Health have had the responsibility for it for many years. But as from the 1st April, 1940, the Grant was reduced from the original amount of £20,000 to a token sum of £2,000 per annum during the war period. The Civil Service Sports Council applied to the Treasury in 1945 for renewal of the full Grant, and it was decided in December, 1945, that payment should be made from one of the Treasury Votes, I think, and in view of this decision the payment of Grant for the last quarter of 1945-46 was not made by the Ministry of Health.

2150. This item has been transferred from your Vote to the Treasury?—Yes.

2151. Which is where it always ought to have been?—I think so, too.

2152. Subhead G9 is "Grant in Aid of the National Radium Trust under the Cancer Act, 1939." These Grants in Aid are really in the form of loans, are they not?—We make loans to the National Radium Trust for the acquisition of radium and radio-active substances.

2153. The idea being that the loans would either bear interest or be redeemed gradually through the hiring out of the radium to hospitals, and so on?—That is so.

2154. First of all, I should like to know whether you can tell me the amount outstanding? What is the full extent of the advances made to the National Radium Trust now?—The total loans already made amounted to £154,696 at the 31st March, 1946.

2155. What will the position be as regards those loans under the new National Health Service?—I should like notice of that question.*

2156. Perhaps you will send us in a note on that?—Yes.

2157. One question on page 216. Amongst the details of the receipts, about two-thirds of the way down there is an item "Audit fee stamps, under the Audit Stamp Duty Order, 1938." Are these fees payable by local authorities for the audit of their accounts by the district auditors?—Yes; it is the way in which they pay their auditors for the audit of their accounts.

2158. Can you tell me whether this receipt covers the full cost of the audit? That is to say, are they paying an economic charge for the services rendered?—As far as we can estimate it, yes.

*Paper circulated to Members; not printed.

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2159. On page 217, under "Receipts of other classes" there is a statement of repayment of principal and interest on a number of loans, loans to the National Camps Corporation, Limited, and so on. Would it not be convenient if your Account contained, as so many other Accounts do, at the end a summary of the loans outstanding? Is there some reason why there is no statement here of loans outstanding?—There are not very many of them. The loans to the National Camps Corporation Limited have been taken over by the Ministry of Education. If it is considered desirable, that could be done. There are very few.

2160. I think it is a little unsatisfactory to have items of repayment of loans and for the Committee not to know how much is still outstanding?—Very well; we will bear that in mind for the next Account.

Chairman.] Are there any questions on the Account?

Mr. Benson.

2161. You raised the question of the audit fee, Mr. Chairman, which is a receipt. Under what subhead does the cost of paying the auditors fall on the Department? Could you tell us that?—Subhead A, "Salaries, etc.," on page 212.

2162. They are Ministry of Health servants, are they?—Yes, for this purpose. For the purpose of pay they are borne on the Ministry of Health Vote, but they have an independent statutory position as auditors.

2163. Are they all fully employed by you? Are they in your full-time employment?—They are full-time employees of the State, yes.

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

CLASS IX.

VOTE 1.

EXCHEQUER CONTRIBUTIONS TO LOCAL REVENUES, ENGLAND AND WALES.

Chairman.

2164. Will Members turn to the Account at page 388. These are the Block Grants paid to local authorities?—(Sir *William Douglas.*) Yes.

2165. A question came up at this Committee the other day in connection with the Ministry of Agriculture who were making Grants to certain local authorities (I think they were) at rates which varied according to what they estimated to be the financial needs of the local authorities, and I should like to know whether other Departments who have the duty of administering Grants of that character consult the Ministry of Health as to the rates of Grant

they should pay?—Yes, they are in touch with the Ministry of Health.

2166. You are the Department which conducts the examination into the means of these authorities?—Yes.

2167. It would be unsatisfactory to have different Departments making a separate assessment of means, would it not?—Yes. Mr. George, who is the Accountant General of the Ministry of Health, tells me that he is in very close touch with the other Departments.

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

CIVIL APPROPRIATION ACCOUNT (WAR SERVICES), 1945-46.

CLASS X.

VOTE 6.

MINISTRY OF HEALTH.

Chairman.

2168. Will Members turn to the Civil Appropriation Account (War Services), 1945-46, to paragraphs 35 to 38 of the Report of the Comptroller and Auditor General on page xiii. Paragraph 35 deals with the Government evacuation scheme. Did you pay (I think we had better have this on the record in order to keep our position clear) local authorities 100 per cent. of the expenses they incurred under the evacuation scheme?—Yes.

2169. But there was some endeavour was there not, to recover from parents part of the cost in respect of children?—Yes.

2170. "by 31st March, 1946" the Comptroller and Auditor General tells us "the number of persons billeted or otherwise accommodated under the scheme in England and Wales had been reduced from 438,000 in March, 1945, to 37,823. This figure includes 1,853 aged evacuees and 5,223 unaccompanied evacuated children left unprovided for in reception areas. Transitional arrangements have been made for the continuance of Exchequer assistance in the case of these two classes to cover the period until new legislation comes into operation replacing the Poor Law." Are you still incurring some expenditure on account of evacuees?—Yes. That figure of 37,823 at March, 1946,

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has dropped to 5,200 at March, 1947, and we are incurring expenditure in connection with that reduced number.

2171. Why are there still any evacuees?—Of that 5,200, 700 are aged persons and 2,500 are unaccompanied children who have probably no homes left. The balance are some 300 blind persons and 1,700 mothers with children whose housing in their original evacuation area is hopelessly inadequate.

Chairman.] Are there any questions on paragraph 35?

Sir Frank Sanderson.

2172. In regard to the evacuation, do you receive any payment from those who are evacuated? Do they make any contribution towards the cost, or do they receive the facilities free of charge?—We try to recover, except in cases of extreme hardship, the cost of the billeting.

2173. Generally speaking, you do not get any payment, do you?—I should think, on the whole, we do recover.

Mr. Benson.

2174. Have you any idea how many children are likely to be left permanently on your hands? Have you any idea what your responsibilities as a "step-father" are?—At the moment there are some 2,500 of these children and I should think that is getting to about the hard core.

Chairman.

2175. They will grow up one day?—They will grow up—in spite of State care!

Mr. Benson.

2176. There are 2,500 who will be on your hands until they grow up?—Under the recent decision they will be handed over to the care of the Home Office as deprived children, under the new arrangement.

2177. I meant on the hands of the State, really?—Yes.

Chairman.

2178. We turn now to paragraph 36 "Rehousing in Requisitioned and Rented Premises." The Comptroller and Auditor General tells us that at 31st January, 1947, there were 96,000 requisitioned and rented premises used by local authorities for residential purposes. That figure is on the increase, is it not?—Yes.

2179. Then he tells us: "Subheads B and E include considerable sums expended by local authorities on these properties and included in their bulk claims against the Ministry." That is by way of conversion or repair, is it?—Yes, repair, conversion and adaptation of those houses to suit small families.

2180. The Comptroller and Auditor General tells us that sums expended by local

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authorities on this service are included in their bulk claims against the Ministry. Is there a 100 per cent Grant here?—Yes.

2181. No charge falls on the local authority in respect of requisitioned premises?—That is so.

2182. Then we are told that quarterly returns are now being received from local authorities giving details of this expenditure under the heads of adaptations, repairs and redecorations, and administration and management. Are you getting returns which cover a large proportion of the requisitioned and rented premises in respect of which you are making Grants?—Yes, we are getting quite a fair number of returns from the local authorities. To be quite fair, I think we are finding it difficult to get complete returns from local authorities. They find it an onerous matter, but we are fairly satisfied about the general position of the returns.

2183. Do they get their Grants even where they are not making a return?—Yes. The returns which we are not getting quite fully are the returns of details of adaptations, decorations, and so on. We know when they have requisitioned property; but that information we get not so much by way of return.

2184. May we be told what sums under Subheads B and E were included in the Account for this service?—Subhead B includes £5,100,000 for requisitioning and repairing of properties for homeless and transferred workers. Subhead E includes £602,524 for payments in England and Wales in respect of the cost of providing accommodation for the inadequately housed. Recoveries from persons in requisitioned premises dealt with under Subheads B and E amounted to £1,721,503.

2185. Where the local authority are spending the money and you are making a Grant of 100 per cent., it is surely vital that the expenditure should be checked and scrutinised carefully?—It is not so much a Grant as a claim for the money. They have got to claim for the expenditure which they have made and then that claim is scrutinised and the amount paid if it is found to be right.

2186. Unless there is some proper check and control money may be very easily wasted in this way?—That is one of the functions of the district auditors who audit the accounts very carefully of local authorities. There is a constant audit going on all the time of local authority expenditure.

2187. Supposing it was found that they had taken over a house and wasted a lot of money in adapting it for the housing of the working classes, would they get their money, or would somebody certify that the money was not due?—I imagine that in a

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case of gross extravagance such as you envisage the auditor would query this expenditure. We have the advantage that there is sometimes a good time lag between the actual doing of the work and the submission of the account, and in that time there is room for the auditors to have examined the claims.

2188. It is one thing to be satisfied that the money has been spent and quite another thing to be satisfied that the money has been well spent, is it not?—I agree.

2189. I wondered what check the Ministry of Health put on to ensure that the money was being well spent?—We have Regional Officers who are generally aware of what the local authorities are doing, but I do not think that one can say to the Committee that every piece of work which is done by a local authority is very strictly controlled by some State officer.

2190. There comes a period, or there will come a time in all probability, when some of these requisitioned houses are released and handed back to the owners. Is there any provision for recovering payment from the owner where money has been spent for improving the property?—Yes. I think that we have rather satisfactory arrangements about that. We are in this difficulty, that there is no legal obligation upon the owner of the property to pay for anything which has been done by the local authority to his property. Therefore we have no legal case. On the other hand, the officers either of the Ministry of Works or of the Ministry of Health who do those things are able to say to the owner of the property: "Here are considerable improvements" and those in turn are set against the dilapidations which may have been caused; and so a balance is arrived at as between the owner and the local authority.

2191. You say if it turned out that there was a balance due from the owner on account of improvements there would be no legal method of enforcing payment?—That is so. The owner, as I understand the legal position, can say: "You please put my property back into the condition in which it was when you took it over."

2192. The Comptroller and Auditor General says that in reply to his inquiry he has "been informed that the Government's interest is safeguarded as far as possible by the Requisitioned Land and War Works Act, 1945"?—We think on the whole those arrangements, in so far as cases have arisen already, do work satisfactorily, because in the ordinary way our officers are able to persuade the owner that his property has been considerably improved—additional lavatory accommodation has been put in, and that sort of thing. If there were some particularly bad case where we felt that the owner was being unreasonable and we might be compelled otherwise to pay out large

sums, then there is a residual power to acquire the property on behalf of the Department.

2193. Has the Department power of requisition under the Requisitioned Land and War Works Act, 1945?—Yes, it has powers under that Act. No such case has arisen; but it has a residual power.

2194. It is a point which will have to be watched when you reach the stage of large scale de-requisitioning, will it not?—Yes.

Chairman.] Are there any questions on paragraph 36?

Mr. Thurtle.

2195. Could you say, Sir William, when you expect to reach the point of large-scale de-requisitioning?—No.

2196. On this question of possibly handing back at some time to people property which is in a much better condition at the time of handing back than it was at the time when you requisitioned it, you have no power, I take it, of getting anything out of such owners?—No strict legal power, but in fact we find that we are meeting with a substantial measure of agreement on these matters.

2197. It is a fact, is it not, that now, in some of the very crowded areas, the local authorities are being driven to return buildings which, strictly speaking, are uneconomic from the point of view of repairs; they are putting slum property, as it were, into a habitable condition because the pressure of overcrowding is so great?—Yes. I think in many cases houses are being repaired and adapted which, in the ordinary way, if there were plenty of new houses, the local authorities would not be looking at.

2198. I suppose the judgment of your officer as to whether or not you would agree to a certain property being done up in that way is influenced by the prevailing overcrowded conditions?—Yes, on the one hand by the absolute cost of the repairs or adaptations and, on the other hand, by the necessity of the overcrowded position.

2199. Even in those conditions, if they were to repair a very, very slummy property because of the necessity for dealing urgently with overcrowding—even then, later on there is no legal means of recovering it from the owner?—No. The legal position is as I have stated. If you take somebody else's property and do things to it, as I understand the position the owner of that property can say: "Now put it back in the condition in which you found it." In practice it very seldom arises that one gets to that extreme point.

Sir Frank Sanderson.

2200. On that point, assuming there is a property upon which it is determined it is necessary to spend, let us say, £10,000, would any approach be made to the owner

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of that property to see whether any agreement could be come to whereby the cost might be distributed between yourselves and the owner?—Undoubtedly, yes.

2201. That does take place?—Yes.

Mr. *Horace Holmes*.

2202. On the other hand, where houses have been requisitioned and the local authority have been compelled to make adaptations (the property did not suit all their requirements so they started straight away making adaptations) they could not then claim on the owner for those adaptations, could they?—No, but if at the end of the day the officer of the local authority is able to persuade the owner that his property has benefited, then a reasonable owner usually takes that on one side of the account as against the dilapidations which have occurred.

Mr. *Haworth*.

2203. I am interested in the point the Chairman raised. Have you any idea, Sir William, of the proportion of cost-plus jobs as against tender jobs? Is a local authority solely responsible for deciding the method by which the adaptations will be carried out?—This is left to the local authority. I am afraid I could not tell you how much is done under cost-plus and how much is done on a contract basis.

2204. The Ministry would not use any influence at all in the direction of tenders as against cost-plus?—Our general views, of course, are in favour of doing away with cost-plus arrangements. In the ordinary way, for adaptations and repairs, I think the usual thing is that the local authority would get an estimate of what it is likely to cost and be advised by their technical officers as to the reasonableness of that estimate. If it was reasonable, then it would be all right. If it was not reasonable they would endeavour to bring it down a bit.

2205. One reads, hears and even sees cases of a very long time being taken over a job and very little work being done, and demoralisation generally of the workers in the building industry due to this vicious system, and the Ministry and the country are suffering from it, I think. I am wondering whether the Ministry ought not to use their influence against the cost-plus method altogether?—In connection with war damage repairs, which were a permanent feature of life in London some time ago, the Ministry did say quite clearly that it did not agree with the system of cost-plus contracts.

Mr. *Cuthbert*.

2206. There is no scale at all as to the amount of money that a local authority can spend on any specific building in altering it for, say, the use of the working people,

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and so on? Is there any scale laid down, or is it left to the discretion of that local authority as to how much money it can spend on a particular building—governed, I presume, by the Regional Inspector. Is there no scale as to value—10 per cent. or 20 per cent. of the value of the building, or anything like that?—No, there is no particular scale. It depends so much on the circumstances of the particular case. This is mainly a London problem, as you will understand, and our housing officers in the region are in very close touch with the local authorities who are doing this work. I think they have daily contacts, and if there is any question of doubt the local authority generally refers the matter at least informally to our officers.

2207. Of course it is impossible, if they spend a lot of money on altering a house, for the local authority to charge a rent to whoever is going to be the tenant that would be comparable with the expenditure on it?—That is so.

2208. So very often you have a dead loss between the rent charged and the amount of money spent on that particular building which has been altered?—Yes.

2209. Who bears that loss?—The State bears that loss.

Mr. *Thurle*.

2210. May I put one supplementary question on that point? Subject to the tenant being able to pay it, is it the practice of the Department to insist that the rent charged by the local authority is a full economic rent?—It is difficult to say what the economic rent is in those circumstances. We have rather regard to the circumstances of the tenant. We try to get the rent which would be charged if the property came under the Rent Restriction Acts provisions. Failing that, if the tenant who is being rehoused had been formerly the tenant of a Council house the new authority, or the same authority, will try to get from the tenant the rent he paid before for the Council house. Circumstances vary so much.

2211. I was assuming that there was no lack of capacity to pay. I wondered what you did?—We find that they pay up very well in accordance with the general policy which the Government has laid down.

Chairman.

2212. We will pass now to paragraph 37. This deals with the advances made to local authorities who lost income owing to war conditions. The Comptroller and Auditor General states: "75 per cent. of the advance was regarded as grant and the remainder as an interest-free loan, the ultimate liability for repayment being left to be settled after the war in the light of the circumstances then prevailing." Then we are told that the Minister of Health

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[Continued.]

announced in November, 1945; that the war-time scheme would come to an end on 31st March, 1946, but assistance would be continued where necessary in the form of lump-sum grants, and £3½ million is provided for such grants in the 1946-47 Estimates of the Ministry of Health. "The Minister also announced that, subject to recovery of expenditure not strictly justified, local authorities would not be required to repay the 25 per cent. of advances hitherto provisionally treated as a loan." That is to say that subject to those words about the recovery of expenditure not strictly justified "these grants to local authorities became at the rate of 100 per cent."—Yes.

2213. I suppose the most considerable grants were paid to seaside resorts, were they?—Mostly to seaside towns, and the London boroughs which were heavily blitzed.

2214. The Comptroller and Auditor General goes on to say: "Advances related to deficiencies on public utility undertakings were excepted from the waiver." I imagine that to imply that where a local authority owned its own gas or electricity undertaking, and that undertaking was in need of finance owing to war circumstances, the authority was originally left to bear that loss itself?—Yes.

2215. But we are now told that "the Treasury have since agreed that these also may be written off. The cost of these concessions is estimated by the Department at about £5,500,000." I do not know whether that £5½ million refers only to the public utilities?—(Sir Frank Tribe.) It refers to both matters. The last sentence relates to the whole of the 25 per cent. converted from a loan into a grant.

2216. But some part of that £5½ million represents the payments made in respect of public utility undertakings?—(Sir William Douglas.) Probably £1 million, I think, represents the deficiencies on the public utility undertakings.

2217. This would not be in respect of war damage to the undertakings, would it?—No.

2218. It would be in respect of loss of revenue to the undertaking through the population being dispersed?—Yes, exactly, and we felt in the end it was difficult to differentiate between the two types of cases.

2219. Perhaps somebody can answer this question. You pay a grant to the Corporation of Southend which, let us say, owns its own gas works (it may do or it may not; I do not know) because there has been a deficiency on its gas undertaking through war circumstances. Does a commercial gas undertaking, which is not a local authority undertaking, placed in similar circumstances receive a grant from anywhere?—Not from the Ministry of Health.

Lieut.-Colonel Hamilton.] Would they not be insured in some way?

Chairman.

2220. I am wondering. Are the Treasury aware of any scheme for assisting necessary public utility undertakings which are run on a commercial basis?—(Mr. Jones.) I do not think it is a question of assisting them. The question of advances made on repayable terms to certain commercial gas undertakings in London has been the subject of consultation between the Ministry of Fuel and Power and the Treasury. I do not think any final decision has yet been given, but we recognise that the relief given to local authorities does seem to carry with it certain obligations towards the gas undertakings that were in a somewhat similar position.

2221. It would seem, on the face of it, a little odd that the taxpayers' money should go to help out the gas undertaking of a local authority, but that a commercial undertaking should be left to bear its own loss resulting from war circumstances?—Yes. That is under consideration between us and the Ministry of Fuel and Power.

Chairman.

2222. Are there any questions on paragraph 37? We pass now to paragraph 38, which deals with the position of the London County Council. The advances which we have been talking about were made, in the case of London, to the Metropolitan boroughs and not to the County Council?—Yes.

2223. We are told by the Comptroller and Auditor General: "The general revenue of the London County Council is obtained by precepts on metropolitan boroughs and it would therefore appear that if unnecessarily large sums were demanded by the County Council the amount of the grants made by the Ministry of Health to the boroughs concerned would be affected. In this connection" says the Comptroller and Auditor General "I observe that in a recent report on the London County Council's accounts for 1942-43 the District Auditor has drawn attention to the fact that the surplus on the Council's General County Account increased from £3,325,592 in 1939 to £13,954,578 in 1943 and was shown at £14,455,834 in the latest printed accounts for the year ended 31st March, 1944." Would you like to make a short statement on this, Sir William, or shall I ask you the very obvious questions which spring to my mind?—(Sir William Douglas.) The facts as disclosed in the Comptroller and Auditor General's report are absolutely correct. The position, as we see it is however, capable of a very clear and straightforward explanation. We have to remember that those years to which reference is made here were war years, and they were

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years when there was a good deal of bombing and general confusion in London. If we take, for example, the period between 1st April, 1941, and 31st March, 1944, the revenue balance of the London County Council increased by rather more than £5 million; but during this period the surplus for which the Council's annual Estimates budgetted remained at about £1,800,000, or £1,900,000. In other words the officers of the London County Council during this period were estimating in what they thought was the ordinary way for their year's provisions. The surpluses which were realised afterwards were due to over-estimates of expenditure, which was very common in the war years, authorities being very anxious to see that there would be plenty of money for all the unforeseen contingencies of war and never realising fully the extent to which payment for their normal peace time services was dropping off. Notwithstanding that, the officers of the County Council thought they were going along budgetting in quite a smooth way for their ordinary increases and I think they were really rather at sea as to what the actual position was.

2224. Were their accounts greatly in arrear then? Did they not know for the years 1940, 1941 and 1942 what they were doing within a reasonable period afterwards?—No. I think that they did not maintain during that war period very normal standards of accountancy, owing to the fact that a lot of their officers were away. The ordinary safeguards which could have been applied were not applied.

2225. Did they go on precepting on the metropolitan boroughs at pre-war rates?—They did not put up the rates.

2226. They stabilised at the 1939 figure?—They stabilised at the 1939 position. In fact, they actually dropped it at one point; the rate actually fell at one point.

2227. Then the metropolitan boroughs were coming to the Ministry of Health for assistance on account of evacuation and loss of rate income, and so on. You told me this in answer to an earlier question, that the main claimants were the seaside resorts and the metropolitan boroughs?—Yes.

2228. Can you tell me how much the metropolitan boroughs have had by way of special grants?—Up to the 31st March, 1946, the net amount which the metropolitan boroughs had was just over £5 million.

2229. By March, 1944, the London County Council had increased its balance from just over £3 million before the war to nearly £14½ million, had it not, if these figures here are accurate?—Yes.

2230. And I think you agreed that they were?—Yes, they are accurate.

2231. Does it not seem to you a little difficult to justify that the London County Council was increasing its bank account by

£11 million whilst you were handing over £5 million of the taxpayers' money to the metropolitan boroughs who put forward a claim based on need?—I think if the position had been otherwise the London County Council would have had to put up its rates and therefore the amount of the precepts upon the boroughs.

2232. Should not the County Council have reduced its rate of precept as it did not need the money to spend?—There is the double point. We do not think the London County Council knew accurately where they stood as regards the balance. They imagined it was very much lower. But even so, they were meeting a vastly increased expenditure on all sorts of things. There was a very great expansion of social services of all kinds and they were acting really as an additional Government Department during the war in many ways. In spite of all that expansion they were able to carry on without raising their rates.

2233. Not only that, but they seem to have put something like £11 million by?—That is so. (Sir Frank Tribe.) Perhaps I may add that the increasing volume of cash had become so apparent that on the 14th December, 1942, the Chairman of the Finance Committee of the London County Council decided to invest £3 million of the cash balance on revenue account in 5 per cent. Conversion Stock. This is brought out in the District Auditor's Report. It clearly indicates that at the end of 1942 the Chairman of the Finance Committee at least realised that he had got a very considerable surplus.

Lieut.-Colonel Hamilton.] May we know, Mr. Chairman, what proportion the amount of money precepted on the metropolitan boroughs by the London County Council the £5 million that was given as a grant would represent?

Chairman.] You mean what was their precept income, so to speak?

Lieut.-Colonel Hamilton.

2234. Yes?—(Sir William Douglas.) I have not got that. I think perhaps the most illuminating figures I could give are as follows: in 1941-2 the increase in the revenue balance was £3,656,000. The amount of that attributable to non-assisted boroughs (some of the metropolitan boroughs were not assisted; others were assisted) was £2,044,000, or 56 per cent. In 1942-43 the increase was £928,265. The amount attributable to non-assisted boroughs was £550,346; that is 59 per cent. In 1943-44 the increase was £501,256. The amount attributable to non-assisted boroughs was £386,738, or 77 per cent.; giving a total position during the whole of that period from 1941 to the end of the financial year 1944 of an increase of £5,085,925 and the amount attributable to non-assisted boroughs was

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[Continued.]

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£2,981,589, or 59 per cent. You have to look at the position between 1941 and 1944 rather than in 1939, because it was only in 1941 that we took this special action that we did because of the war position. (Sir *Frank Tribe*.) On Lieut.-Colonel Hamilton's question, I think that the precept income was at the rate of about £18½ million per year. It was of that order, anyway.

Chairman.] Surely we are bound to regard the London County Council as war profiteers on these figures, Sir William? If we had found any body of contractors who got away with a sum like this in the war the Public Accounts Committee would have had something rather strong to say about it.

Mr. *Thurtle*.] To whom was that question addressed?

Chairman.] It was addressed to the witness. Have you an answer to it, Mr. *Thurtle*?

Mr. *Thurtle*.

2235. I think there may be an answer?—(Sir *William Douglas*.) The word "profiteer" has a certain connotation which implies a moral judgment which an Accounting officer can hardly subscribe to as such.

Chairman.

2236. Supposing you were to ask these metropolitan boroughs who have received the taxpayers' money to repay some of the grants would you be likely to meet with any success?—If in fact the position had been that the London County Council had been demanding a higher precept during those war years from the metropolitan boroughs they would have come to us for an additional measure of assistance which we should have had to give them, because the policy behind our grants was that whereas we would not give grants directly to the London County Council we would give them to the metropolitan boroughs, but at the same time we asked the metropolitan boroughs to keep up their payments to the London County Council. That was just the method by which we kept the finances of London running.

2237. But in the case of a seaside resort, if you had been making it grants in these difficult war years and had then subsequently ascertained that its carry-forward had increased by a very substantial amount you would ask for a repayment of part of the grant, would you not?—Yes. In some cases where we have advanced money to local authorities and found that they did not need it we have asked for it back.

2238. But you say you cannot do that in this case because the metropolitan boroughs who received the money have passed it on to the London County Council?—Exactly.

2239. Who are sitting tight on it?—They must have regard to their now ascertained balance when they come to look at the level of their present precept. If they had not that balance, with the increasing expenditure which there is going on they would have had to put up the rates, the general rate and the precept rate. It is not, as it were, being tucked away as a nest-egg which will not come out into any use, and in fact rates, as you know, are rising, and have risen considerably over the last period.

2240. Are there any later printed accounts available for the London County Council, Sir Frank, than March, 1944?—(Sir *Frank Tribe*.) We have not seen them. I do not know whether Sir William Douglas has. I gather there are not any.

2241. Is there any evidence that this balance of £14½ million is diminishing?—(Mr. *George*.) Yes. Last year the rate in London was kept constant, I think, by using a large amount of this balance; so that while most of the country's rates went up rather substantially last year they did not in London, because they used a large part of this balance to keep them down. That saved Exchequer money, because we are still assisting these poor boroughs and the more rates they have to pay the more we have to assist them, so some of this money automatically came back to the Exchequer. I do not know whether it is really appreciated that during this period, when we were assisting the boroughs and the London County Council balances were rising, the balance rose by £5 million but that £5 million was contributed as to £3 million by the ratepayers of the non-assisted boroughs and as to £2 million by the ratepayers of the assisted boroughs, so that £2 million is the extent of the Exchequer assistance which you could say might have been diminished if the balances had not been made. I just wanted to get that position straight.

2242. I think Lord Latham in a speech claimed that he had got £3 million of the taxpayers' money. You are saying he got only £2 million?—Yes. Some of it has come back, as I said. (Sir *Frank Tribe*.) I do not think Lord Latham, according to the report we have of his statement, referred to the actual figure. I gather there is no official record of the proceedings in the London County Council, but on the 4th December last "The Times" contained an article which purported to report the proceedings when the Finance Committee considered the District Auditor's Report. Would it interest the Committee if I read out a short extract from that?

2243. If you please?—This is what "The Times" said: "They" (that is the London County Council) "were accused of deliberate manipulation of the balances. He submitted that the people of London had suffered in no way at all. In 1940 arrangements were made for the Government to

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give assistance to local authorities whose revenue was diminished or whose expenditure was increased as the result of war circumstances. Seventy-five per cent. was to be a grant and 25 per cent. a loan. The Ministry of Health had forgiven the balances of the loans not yet repaid. That was a nice gift to the local authorities. The people of London had benefited directly and indirectly from the policy the Council had pursued." There is no record there as to whether they were discussing £2 million or £3 million. At any rate, it is somewhere between the two figures, somewhere in the range of £2 million or £3 million. (Mr. George.) I think £2 million is the outside figure, and some of that has been recovered since.

Chairman.] Are there any questions on paragraph 38?

Mr. Thurtle.

2244. I gather that these payments, which are precepts which are collected from the boroughs by the London County Council, are in respect of certain services which the London County Council render to the metropolitan boroughs?—(Sir William Douglas.) Yes.

2245. The payments which have been made by the Ministry of Health to the boroughs are not payments in respect of those services at all, but are in respect of special burdens imposed upon the metropolitan boroughs by the war?—That is so.

2246. So really there does not appear to be any obligation on the part of the London County Council to come to their rescue in respect of these special war burdens when they are recognised as a national obligation?—That is so.

2247. You said that in your view an error may have been made by the London County Council in the amount of its precepts, but at that time it was very difficult to estimate them accurately?—Yes.

2248. Would it not be true to say that such sum as they may have levied from the metropolitan boroughs in respect of these services which will go on is a matter as between the metropolitan boroughs and the London County Council and is really nothing to do with your Department?—I think probably it is a domestic matter in a sense between the metropolitan boroughs and the London County Council, but the Ministry of Health, recognising the services which were being rendered during the war by the London County Council, in fact said to the metropolitan boroughs that they expected them to pay their precepts. To that extent we were interested.

2249. Yes, and your Department does not feel that the London County Council, even if it has made a miscalculation in the amount it has levied upon the boroughs,

has done anything to cause you to have an undue burden placed upon you?—No, that is so. We do not think so.

2250. Is it not true also that if there is this balance in the London County Council Accounts, as the London County Council from time to time has got to incur further expenses in services rendered to the boroughs, this is in effect merely a nest-egg which they may have ready for future emergencies?—And present expenditure as well. It is being used now.

Mr. Thurtle.] So they really have not robbed either you or the metropolitan boroughs?

Mr. Cuthbert.] May I add one word on that? I do not think they have robbed the Ministry of Health or the metropolitan boroughs. The only people they have actually robbed are the ratepayers who at that time paid that continuous rate. It is a different set of ratepayers now in these different parts of London who are getting the benefit. The people who lost were the ratepayers who kept paying to pile up this money. The ratepayers now in London are getting the benefit.

Chairman.

2251. Are there any further questions on paragraph 38? We turn now to the Account, which is at page 21. Subhead B is: "Expenses connected with Evacuation (England, Wales and Northern Ireland)". Are you receiving any sums at all from foreign Governments in respect of their civilian population housed here during the war?—I think the answer is "No". They mostly look after themselves. During the war the Belgian Government, I think, gave us a small sum of £8,000 in respect of the maintenance and accommodation of their nationals, under official arrangements. Apart from that there is nothing.

2252. You have not any claims outstanding, for example, against Gibraltar for the Gibraltarian refugees?—No.

2253. On Subhead A: "Measures to deal with Casualties and Disease" those are grants to local authorities, are they?—And to voluntary hospitals as well.

2254. Are all the claims audited?—Yes.

2255. Including those of the London County Council?—Yes. (Sir Frank Tribe.) My information is that the London County Council hospital claims, amounting to £1,700,000 for 1943-44 and to £2 million for the following year, have been settled without any certification by the District Auditor.

2256. Have you any information on that, Sir William?—(Mr. George.) Well, that was a special arrangement. They must be audited. It was simply a question of arranging all the various items

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on which you could claim. This was in order to avoid trouble and agree a reasonable settlement. That is all.

2257. We will pass from that. Sub-head D is: "Wartime Nurseries". In the details of receipts below there is a figure which corresponds. It is only about one-tenth of the expenditure. There was an endeavour, was there, to charge the parents something for the maintenance of the children in these nurseries?—(Sir William Douglas.) Yes. During the war, of course, the circumstances were unusual, and the amounts charged were considerably less than the costs.

2258. On the next page there is a losses statement. In statements of losses we usually find considerable items in respect of stores which have been lost or mislaid. There is no statement of store losses here. Mr. Jones, you look as if you were bursting to give the Committee some information?

(Sir William Douglas and Mr. George withdrew.)

CIVIL APPROPRIATION ACCOUNTS (WAR SERVICES), 1945-46.

CLASS X.

VOTE 18.

DEPARTMENT OF HEALTH FOR SCOTLAND.

Chairman.

2260. The Account is at pages 61 and 62. In your case, Mr. Henderson, you have an item for wartime nurseries, Subhead C, under details of expenditure, but you have no receipts. Are the receipts included in one of the other items there mentioned?—(Mr. Henderson.) I am not sure about that. The actual position is that the gross average running cost per child at day nurseries was 5s. 1½d. and the average receipt from mothers was 10½d. There were receipts.

2261. The receipts are perhaps included in "Other Services"?—I imagine the figure is a net figure.

2262. What is Subhead D "Emergency Housing"?—That is a miscellaneous collection of items, including the conversion of a number of Ministry of Works standard huts into housing accommodation, into 600 houses, which was carried out by the Scottish Special Housing Association. That represents the bulk of that expenditure, nearly £300,000.

2263. Was there much unused emergency hospital accommodation provided in Scotland during the war?—Yes, in certain districts, but the shortage of patients was very often due not to the fact that the beds were not required but to the fact that nurses could not be obtained.

2264. Have you now released most of the temporary accommodation?—We have released most of the auxiliary hospitals. We

—(Mr. Jones.) That is an overstatement. I think the position is that the Ministry of Health sought our dispensation to authorise the local authorities in 1944-45 to discontinue the investigation of some of their store accounts because, with the shortage of staff, it was proving too much for them.

2259. That is in connection with emergency hospitals, and that sort of thing?—I think it was in connection with emergency hospitals. Certain central records have been kept by the Ministry of Health up to a certain stage in the war, but those were later discontinued because the staff was not available to maintain them.

Chairman.] Those are all the questions I have on the Account. Has any Member of the Committee any questions on the Account? May I take it that the Account is approved? (*Agreed.*) I think that concludes your evidence, Sir William, thank you. We have a few questions relating to Scotland which we will ask Mr. Henderson.

had about 62, I think, and we have now about 6.

2265. Will you turn to page 62. There you have a statement of stores losses?—Yes.

2266. You seem to have managed these things rather better in Scotland?—I am not sure that it is a compliment to have stores losses.

2267. At any rate, we do know what you have lost in Scotland. Is this the total of stores losses, or have some been waived?—No, I do not think any have been waived in the sense Mr. Jones spoke about in the case of the Ministry of Health. This discloses the whole story.

2268. Who takes these stocks in Scotland?—They are taken partly by the resident storekeeper and partly by a special staff which investigates the whole store position and makes a periodical test check.

2269. There is some central check, is there?—I am speaking about the central checks, yes. There are, of course, also local authority stores and the local authority will have the same system.

2270. In the notes we are told: "Sub-head D includes expenditure amounting to £10,000 on rent rebates and compensation for damage to household effects to tenants of certain emergency houses in which structural defects emerged". Will you tell the Committee what these houses

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[Continued.]

were?—That was the same scheme as that to which I referred a moment ago, the adaptation of 300 Ministry of Works standard huts into 600 houses by the Scottish Special Housing Association. It was unfortunate in this respect, that it was discovered after the houses were occupied that in some cases they were leaking, pretty badly, and we had to spend about £300 per house in remedying these defects. We had to spend another £30 per house in excusing tenants from payment of rent at a time when the house was not really fit to be occupied, and also in paying compensation for damage to furniture, carpets, and so on.

2271. What kind of huts were these?—Ministry of Works huts; what they call

the Ministry of Works standard hut. It is quite a simple hut.

2272. Built of concrete, or something?—These were built of Maycrete.

2273. That is a form of concrete?—It is a form of concrete, mixed with sawdust, I think.

2274. Are there any questions on the Account?—(Sir Frank Tribe.) Perhaps, for record, I might point out that this is the same scheme that was considered by this Committee in 1945. Mr. Henderson put in a memorandum on it then, which is printed as Appendix 6 to the Minutes of Evidence of 1945.

Chairman.] Thank you, Sir Frank. May I take it that the Account is approved? (Agreed.)

HOUSING ACT, 1914, ACCOUNT, 1945-46.

Chairman.

2275. The third Account, on page 3, is the only one which concerns you, I think, Mr. Henderson. On the right-hand side, in the year of account I see that you expended 10s. 9d. on the erection of buildings and 9s. 3d. on roads and sewers.—(Mr. Henderson.) I am told those were final adjustments.

2276. The net expenditure in the year was £1. There seems to have been a grant of 18s. from somewhere. I do not think the Committee need trouble much further with this Account unless any Member wants to ask any questions on it. May I take it that the Account is approved? (Agreed.)

CIVIL APPROPRIATION ACCOUNTS, 1945-46.

CLASS V.

VOTE 16.

DEPARTMENT OF HEALTH FOR SCOTLAND.

Chairman.

2277. We have dealt already with paragraphs 42 and 43 in the Report of the Comptroller and Auditor General which deal with temporary housing accommodation, so we will turn to the Account, which begins at page 248. On page 249 Subhead F. 4 is "Rosyth Housing Scheme". Is that a scheme operated by one of the two companies to which you entrust public housing?—(Mr. Henderson.) Yes. It was the scheme which was operated by the First Scottish National Housing Company. It is really an old scheme, the transactions of which are described in the White Paper.

2278. There is a footnote on page 251. It is simply called the Scottish National Housing Company Limited, is it?—Yes.

2279. Who are the shareholders in the company?—About two-thirds of the shares are held by the Department itself, about one-fifth by the Dunfermline Town Council and a small number, 27,000 out of 171,000, are held by private individuals.

2280. Is the dividend guaranteed by the Department?—The 5 per cent. dividend is one of the charges on the revenues of the Scottish National Housing Company, so in effect it is guaranteed.

2281. If there were not sufficient balance available to pay the 5 per cent. dividend it would have to be made up out of Voted moneys?—That is in fact what happens. The revenues of the company are not sufficient to enable them to meet their commitments, and Subhead F.4 is the payment by the Exchequer to the company in order to balance their accounts, which includes the 5 per cent.

2282. When was this guarantee of a rate of 5 per cent. dividend given, do you know?—It is all the operation of the Housing Act, 1914, and the financial adjustments consequent on that Act. The financial arrangements with the housing company require them to pay certain things, included in which is the 5 per cent. on share capital.

2283. As the Department owns two-thirds of the shares the Department has complete control over this Corporation?—Yes.

2284. The footnote on page 251 tells us that advances were made from Subhead F.1 to both these housing companies "on account of contributions and premiums under the War Damage Act, 1943, which that Act decrees must be treated as capital expenditure". In effect, the Chancellor

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Mr. G. H. HENDERSON, C.B.

[Continued.]

of the Exchequer has paid the war damage contribution on behalf of these two companies. That is what it comes to?—Certainly on behalf of one of them, on behalf of the Scottish National Housing Company, in the sense that the Company cannot meet its commitments out of its revenues, and the Exchequer is paying a balancing contribution under Subhead F.4. In the case of the other company, the Second Scottish National Housing Company, whether the Exchequer is paying that or not still depends ultimately on whether the Second Scottish National Housing Company pays off its debt.

2285. But there has been no question of these companies raising rents in order to meet the additional charge for war damage contribution?—No.

2286. Could they do so if they so desired? Are they free to do so?—No. The Rent Restriction Acts apply to these companies.

Chairman.] Has any Member of the Committee any questions on the Account? May I take it that the Account is approved? (*Agreed.*) Thank you, Mr. Henderson.

(*The Witness withdrew.*)

(*Adjourned till Thursday next, at 3.45 p.m.*)

THURSDAY, 8TH MAY, 1947

Members present:

Mr. PEAKE in the Chair.

Mr. Benson
Mr. Cuthbert
Lieut.-Colonel Hamilton

Mr. Thurtle
Mr. Wadsworth

Sir FRANK TRIBE, K.C.B., K.B.E., Sir ERIC BAMFORD, K.B.E., C.B., C.M.G., and Mr. C. E. I. JONES called in and examined:

HOUSING (TEMPORARY ACCOMMODATION) ACT, 1944, ACCOUNT, 1945-46

Sir HAROLD C. EMMERSON, K.C.B., and Mr. E. L. PICKLES, C.B., O.B.E., called in and examined:

Chairman.

2287. Sir Harold, this is your first appearance as Accounting Officer before this Committee?—(Sir Harold Emmerson.) That is so, for the Ministry of Works.

2288. Mr. Pickles is with you from the Ministry of Supply in regard to the aluminium houses?—(Mr. Pickles.) That is so.

2289. We take first the Housing (Temporary Accommodation) Act, 1944, Account 1945/46. This Account is fed by advances from the Consolidated Fund, is it not?—(Sir Harold Emmerson.) Yes. The money is supplied to the Ministry of Works under the Act, and of course we have to present an account of the way in which the money is spent.

2290. The maximum advance at any one time is fixed by the Act? Is that so?—Yes. It was fixed in the original Act as £150 million. Then the total amount was extended to £200 million, by an amendment in the Building Materials Act, when it appeared that the £150 million would not be adequate to cover the programme.

2291. We are told in the Report of the Comptroller and Auditor General that: "The approved programme provides for the erection of approximately 157,000 temporary houses." The policy of erecting

temporary houses is being brought to an end, is it not?—It always was the policy that this should be an emergency programme following the end of the war, the idea being that this type of house, which is largely prefabricated, could be erected quickly while the building industry was being reorganised and getting back to its pre-war strength. The Act itself of course runs out. It provides that there shall be no further expenditure after the end of this year, I think. The point is that it was always the policy that this should be an emergency provision of housing. It is not a case of changing the policy. It is simply that the programme under that policy will be completed, we hope, this year in England and Wales, although in Scotland it will probably run into 1948.

2292. Are the 157,000 houses mentioned in paragraph 1 the full extent of the programme?—That is the full extent of the present commitments. I hesitate, because there is at present under consideration a proposal for a small extension to meet the needs of miners and one or two other special classes of workers, but, speaking broadly, that is the full extent of the programme.

2293. The advances from the Consolidated Fund will be discharged, will they not, over a period of 10 years, by voted money charged against the Ministry of Health?—

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On the Ministry of Health Vote, yes. In this matter we are, in a sense, the agents or purveyors. We have been asked, as the Government Building Department, to make provision for these houses required under the Government housing programme for which the two Health Departments are responsible. The same of course applies to the Ministry of Supply, who, with us, are responsible for the supply of certain fittings in respect of the ordinary temporary houses, and have a special responsibility for the aluminium houses.

2294. Looking at paragraph 3, we are told that: "The contract arrangements for the three principal types of temporary houses were explained in evidence to the Public Accounts Committee in 1946." Would you remind the Committee very shortly of what are the three principal types and tell us what their expected useful life is?—The three principal types to which the Comptroller and Auditor General evidently refers are the Tarran, the Uni-Seco and the Arcon. Those actually represent, taken together, about 93,000 houses out of this total of 157,000. The Report states that at that time final prices had not been settled. In the case of the Tarran House, for which orders were placed for 19,000, there were two contractors. The price has been settled with one of the contractors. In the other case we have had to say quite definitely, following negotiations, what is to be the fixed price and that that decision is final. It cannot be said to be an agreed price, but we have had to tell the contractor that we are not prepared to negotiate further, and that is our final decision.

2295. Could you tell us the price of the Tarran House, which has been fixed?—Yes. Of course when I am speaking about the price as regards these contractors, it is the price for what we call the hull. It is not the total cost of the house, which of course includes the cost of erection, the cost of land, transport, and so on. In the case of the Tarran House the cost is in one case £310—that is the settled price with one of the contractors—and in the other case it is £330.* The second type of house I mentioned is the Uni-Seco, of which 29,000 were ordered. There the position is a little different because the firm concerned is not itself the manufacturer of the house, but is the managing contractor and is responsible for placing contracts with the manufacturer and generally for managing the organisation. There we have settled the basic prices for the contracts; in other words, what are in effect the sub-contracts placed by the firm have been settled as regards basic prices. As regards the remuneration to the firm as a managing contractor the position is that we pay them a fixed fee plus reimbursement of certain agreed costs. They include costs

**Note by Witness:* The figure of £330 was the price paid for the first 120 houses. The price fixed for the remainder was £327 10s.

of distribution and costs of their full-time staff. There again, the fee was settled up to March of this year, but we are still negotiating with them for an extension of the period in respect of which the fee will be paid. As regards the third type, that is the Arcon (that is the largest programme, where 41,000 houses have been ordered) there the position is, again, a little different from the position with the others. The house was designed by a group of firms, and another firm has been appointed to manage the scheme. Most of the main contracts were let on the basis of competitive tender and it can be said that firm prices have been settled over most of the programme.

Mr. Benson.

2296. Might we have the prices in the case of the Uni-Seco and Arcon?—The corresponding prices to the figures I gave for the Tarran—£310 and £330*—are £299 for the Uni-Seco and £410 for the Arcon. I should perhaps say that these figures are not strictly comparable because of the different degree of pre-fabrication and assembly; in the one case pre-fabrication at the works and the other assembly at the site. It is very difficult indeed to say one is more expensive than the other without looking at the detailed figures, although in fact the Arcon House is more expensive. The total expenditure is higher than for the others.

Chairman.

2297. The point is that you have now arrived, I gather, at fixed prices for the hulls of these three types of house?—Broadly, yes. As I said, in the case of the Tarran, we have had to take the line that we have said our last word, that this is the price and the decision is final. In the case of the Uni-Seco we have firm basic prices for the contracts placed by the firm, although there again there are certain items which are outstanding and we have still to negotiate a fee with the managing contractors who are responsible to us for the management of the scheme. In the case of the Arcon, we have settled firm prices over most of the programme but there were in the case of the Arcon House a few contracts which were let at maximum prices subject to post costing and, of course, in those cases we have still to clear the matter up with the firm.

2298. In the cases where you have arrived at fixed prices, can you tell the Committee how those fixed prices compare with the original estimates?—An estimate was given for various types of house in the Government White Paper which was issued in October, 1945. I think the best way I can help the Committee is to give the total estimate for the house, which includes site preparation; that is excluding land, roads, and sewers, but including the cost of actual preparation of the site on

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which the house is to be built and the supply of the structure—what are called the hulls—the cost of erection and the provision of components and fittings. In the White Paper issued in October, 1945 (Command 6686), the revised estimate which was given, which was itself in excess of the previous estimate, was, in the case of the Arcon, £1,085. The latest estimate which we have for the Arcon is £1,217. In the case of the Uni-Seco the estimate given in the White Paper (again it was a revised estimate), was £1,020, and our present estimate is £1,109. In the case of the Tarran, the revised estimate in the White Paper was £1,000. Our present estimate varies from a price of £993, which was fixed for the first group of houses, up to £1,094. It is £1,094 as compared with £1,000 as the maximum price. But I ought to say that, owing to the dislocation of the whole programme caused fundamentally by the fuel crisis and by shortages, dislocation of transport, and so on, we do expect to have claims from contractors who are concerned with erection, and we have already of course found that there will be an increase in distribution costs because the distribution centres which are referred to in the Report have had to be kept going for a longer time. I think it must be recognised that if allowance is made for these extra costs it will probably mean anything between £30 and £50 extra per house according to the type of house, according to whether the house goes through the distribution centre or goes direct to the site, and considerations of that kind. But this increase, due to recent events, will be of that order.

Lieut.-Colonel *Hamilton*.] May I ask what exactly does that figure include in regard to the house?

Chairman.

2299. Everything except the sewers and roads, does it not?—Yes, it includes the actual work on the site—that is within the curtilage of the house. It includes the cost of the structure: that is, as it were, the box. It includes the cost of the fittings that go in the box. There is an allowance for transport and distribution, an allowance for breakages and there is an allowance of 2 per cent. for departmental expenses which are charged to this Account.

Lieut.-Colonel *Hamilton*.

2300. So really it is an all-inclusive charge, except for external services?—Yes. The external services are, of course, the responsibility of the local authority—the provision of the roads, sewers, and so on.

Chairman.

2301. I do not quite understand: if the programme is 157,000 houses, and the overall price ranges at about £1,000, or a little more, which would make £157 million altogether, and if you are going to get the advances repaid by these ten-yearly instal-

ments, why is it necessary to have powers of advance running up to £200 million? You will not ever attain anything like that figure, surely, because you will be discharging some of the advances before you have spent all the money?—(Mr. *Jones*.) The payments from the Health Votes do not go into this Housing (Temporary Accommodation) Act Account at all. They are paid directly into the Exchequer. The Ministry of Works' responsibility is finished when they have spent £200 million on the purchase of these houses, and on their erection. They are not concerned with the receipt of the annuities from Health Votes.

2302. So that £200 million is the global figure of what may be expended?—Yes.

2303. I am obliged. That makes the matter quite clear. I had better ask Mr. Pickles a few questions on the aluminium houses. That is your responsibility, Mr. Pickles?—(Mr. *Pickles*.) That is the responsibility of the Ministry of Supply, which started with the Ministry of Aircraft Production.

2304. I wanted to get an estimate of the life of all these houses, actually. You did not quite answer my question on that point, Sir Harold. I asked what was the estimated useful life of the three types of house?—(Sir *Harold Emmerson*.) The provision contemplated by the Act was a period of 10 years, but it may be that in the light of experience from the practical point of view—as to how long the houses will withstand conditions, and so on—the life may be considerably longer. But it is contemplated, and the programme is based on the assumption, that the house will last 10 years and after that time the Ministry of Works may be called upon by the Minister of Health to remove the house. That presumably will be on representations from the local authority.

2305. I knew that was the theory of the thing, but I wanted your opinion as a practical man as to whether the houses would in fact have a useful life in excess of the 10 years' period?—I should say as regards the properties of the house that quite definitely in some cases (in the case of the aluminium house, for instance) there is no reason at all why the house should not last very much longer than 10 years. The same is true of some of the other houses, but in one or two cases I think we should want a little more experience of the physical properties of the house. In general I see no reason why they should not last considerably longer than 10 years as a structure.

2306. Now, Mr. Pickles, with regard to the aluminium houses, the original estimate, according to paragraph 4, was £900 each. In September, 1945, the estimate was raised to £1,365. What is the latest

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figure?—(Mr. Pickles.) The latest figure is £1,630. That is an over-all average of the cost of the house completely erected and serviceable, but it does not include the cost of the land or the local authority's services which are joined up to the house.

2307. Does the £1,630 include contractors' profit?—Yes.

2308. These houses are constructed, we are told over the page "at a number of ex-aircraft factories wholly or partly owned by the Ministry, by contractors to whom the factories have been allocated for this purpose free of rent". Are those contractors there mentioned, towards the top of page 4, the same people who are mentioned earlier in paragraph 4, when we are told about seven members of an association and two non-members?—No, those are not the same. Those seven members are the firms which fabricate the aluminium content of the house. The parts which they make—sheet, strip, extrusions, castings, and so on—are supplied to the five firms for them to use in the building of the house.

2309. Are the quotations by the fabricating firms made to the Ministry?—Yes, most certainly.

2310. Having brought the material from them you hand it over to these other contractors to put together?—Perhaps I might explain that. We placed an over-riding order with these aluminium fabricating firms and under that order the various firms who are requiring the materials draw stocks against their own orders.

2311. We are told that the revised quotations of these various fabricating firms were considerably below their original tenders. That was after they had been chased about a bit by the Ministry?—Yes. There was considerable discussion with the seven firms referred to. Secondly, there was a new specification of materials required sent to them, and generally on both these counts the quotations came down considerably.

2312. Could you tell us the approximate reduction in the quotations from the original estimate?—It is made up of two parts—reduction in quantity as well as reduction in unit cost. It would be difficult to distinguish between the two parts.

2313. At the foot of the page we are told that the Ministry recently paid these fabricating firms the sum of "£140,000 above the total maximum prices for materials delivered between July, 1945, and August, 1946". Could you give any indication as to what sum per house that £140,000 represents?—The quantity of expenditure in fabricated parts was approximately £4.6 million. I do not think I could equate that to house sets very easily. It may be that I could do it on the basis that the aluminium content is now £450 per house and

that would be approximately 10,000 houses. That is the nearest I could give you in answer to your question. That is the number of houses which are represented by that £140,000. 10,000 houses at £14 per house.

Mr. Benson.] Just for clarification, I find it rather difficult to understand the Comptroller and Auditor General's paragraph. I understand you to say that the £140,000 related to the contractors, to the people who erected?

Chairman.

2314. The £140,000 was paid to the fabricators?—The fabricators.

Mr. Benson.

2315. The fabricators of the aluminium?—Yes.

2316. I misunderstood, I am sorry?—(Sir Frank Tribe.) The whole of the second paragraph refers to the fabricators.

2317. The fabricators only?—Yes.

Chairman.

2318. At the end of the first subparagraph on page 4, we are told: "The balance appears to have been arrived at on the basis that the average of profits actually obtained from the maximum prices, viz., 5 per cent. on capital, should be increased to 7½ per cent. and I have asked the Ministry whether this is a sum legally due under the contract terms." Have you had an answer to that question, Sir Frank?—I have had an answer in the last two or three days. I would rather like to examine it and discuss it if necessary with the Treasury. I have no criticism of it at the moment.

2319. A little lower down we are told: "The houses are erected by selected firms on sites provided by local authorities". Do we know what the price of the site is per house? It varies with different local authorities, I suppose, but is it included in your £1,630?—(Mr. Pickles.) It is included. That is not the land on which the house is built but the platform on which the house is erected.

2320. So that the cost of the site is an addition?—It is an addition.

2321. It must be added on in order to arrive at the total cost?—It is not the responsibility of the Ministry of Supply. (Sir Harold Emmerson.) May I say that that applies to the figures I gave. These figures did not include the actual cost of the land; they represented the cost of the work done on the land, the land being provided by the local authority.

Mr. Wadsworth.

2322. Including, if I may interpose, the excavations, drainage, and so on?—The local authority are responsible for providing the services up to the site of the house. The work on the site, including the excavations,

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is not done by the local authority. It is done generally by the Ministry of Works, who then link up the drainage and sanitation and other services in the house with the main services provided by the local authority.

2323. That is quite clear.—The local authority are responsible up to the house.

Mr. Wadsworth.] Thank you.

Chairman.

2324. Now, Mr. Pickles, I see from the last sub-paragraph of paragraph 4 that payments were made to the Air Ministry for vehicles for transporting the houses. These are the things one sees going along the road, are they?—(Mr. Pickles.) Some of the things which you see going along the roads were bought from the Air Ministry, others were bought specially for this job. We bought as many as were available from the Air Ministry of suitable vehicles, but the transport job is much bigger than those vehicles could handle and other vehicles had to be provided.

2325. The Ministry of Supply have purchased a large number of vehicles for transport?—That is so.

2326. Can you give the Committee the figure involved in purchase of vehicles?—I think the total amount is £1,077,000, of which £285,000 was paid to the Air Ministry for their vehicles.

2327. In regard to these aluminium houses, you have not yet arrived at a fixed price, have you, with the constructors?—No. We are going in stages on pricing. We have priced the aluminium content which is approximately £446 per house. That is a fixed price. We have fixed the prices for some other materials which are priced by us on an overriding order and bought against that overriding order by the users, the house contractors. We have priced that. Then there is a number of other matters which we have fixed but when you come down to the labour and the overheads in the erecting factories—that is the five firms who are building the houses—we have not yet come to finality on all. We have done some, but not the major part. We were hoping to do it in three stages, starting with the initial stage, where they were getting into flow production which we intended to pay on a cost basis. Then a second stage, going up to about 5,000 houses, which would have another price fixed. Then as a result of our experience of those two items we would fix the price for the balance which would be another 5,000 or so houses.

2328. Then paragraph 5 deals with fittings. Here again we are told "In general, the prices of these fittings, which are subject to costings, remain unsettled." That is so, is it?—A number have been settled, but not the major part.

2329. Then distribution centres are places where you store these houses locally, pending erection?—That is a matter for the Ministry of Works, entirely.

2330. Sir Harold, can you tell us about that?—(Sir Harold Emerson.) This is entirely a Ministry of Works service. In the case of the aluminium house which you have just been considering a centre is not needed because the house is made at the factory and is transported direct from the factory to the site, but in the case of houses other than aluminium houses, distribution centres were found to be necessary primarily as assembly points for the large number of separate items which go into the making of a temporary house. There are over 2,000 separate bits and pieces that go into a house. They are ordered from different firms, sub-contractors and so on and the centres serve both as buffer depots, as places from which the contractor can get stores and places from which the flow of these parts to the site can be regulated, and also as far as possible as places where the different parts get assembled before they leave the distribution centre for the site. As far as possible the parts go from the centre as a house set. Some of the parts, of course, will be stored in the open and others under cover, but they will leave the centre usually by road in present circumstances as house sets. So that they are definitely more than storage centres. It is in a sense a builder's yard where the various contractors and sub-contractors send their supplies and where this work of assembly is done as far as it can be done away from the site itself.

2331. Thank you. Just look at the Account, will you. You will see the item "Departmental expenses" for the year ended 31st March, 1946, £1,088,000. Could you tell us how that is broken up and how it is arrived at. These are the overhead charges of the services of your Department and the Ministry of Health, I take it?—It is mainly the Ministry of Works, with an item for the Ministry of Supply in respect of their expenses. In the case of the Ministry of Works their share of this £1,088,000 odd is £938,261.

2332. How is that arrived at?—More than half of that is the salaries of staff wholly engaged on the temporary house services. There is a Director of Temporary Housing. That is fairly easy to separate out. On that salary charge, which is roughly £500,000, there is an addition representing the cost of services of common divisions—Accounts Division, the Establishments Division and so on. That addition is 19 per cent., making a total of £594,000. There are other items here. I have them here if the Committee would like to have them. There is an item covering over-time payments, National Insurance contributions, an item for allied services such as Stationery Office, Postal services, telephones and so on

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and there is an addition for fees paid to outside architects and quantity surveyors which brings the total up as I say to £938,000.

2333. I think that is all I want to know on that.—It represents an attempt in the Ministry of Works to charge to this Vote the expenditure in the Department incurred on this Account.

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

Mr. Cuthbert.

2334. We have been hearing about various costs of different parts of this house. Is it possible at this stage to get a total cost of the house including the hulls, the transport and the Departmental expenses and so on, so as to give us some idea as to what the house really has cost *in toto*?—Are you speaking of the aluminium house?

2335. Yes.—(*Mr. Pickles.*) If you are speaking of the aluminium house, £1,630 is an all-in cost.

2336. That includes the Departmental charge, and so on?—It includes the Departmental charge both of the Ministry of Supply and of the Ministry of Works.

Mr. Wadsworth.

2337. Dealing with the cost of the other houses, and the figures that have been given, are you quite clear that they are the over-all cost, including the distribution points? We have figures here of Tarran and Uni-Seco?—(*Sir Harold Emmerson.*) Yes, those figures are inclusive and they are comparable with the figures which Mr. Pickles has given for the aluminium house.

Mr. Benson.

2338. You said that the fuel crisis caused some delay in your transit and would add between £30 and £50 per house owing to the increased costs of your distribution centres?—Yes. It is not merely the fuel crisis. It is the general prolongation of the programme due to shortages. The shortages existed before the fuel crisis, but the fuel crisis of course has made matters very much worse. Also, the wintry conditions held up transport and for those and possibly other reasons the distribution centres have to be kept going longer than we had hoped when the scheme was prepared.

2339. That represents between 3 and 5 per cent. of the total cost of the house. It seems rather a big percentage unless the functions of your distribution centres are a very important item in the assembly and erection of the house. Are they merely distribution centres, or to what extent are they assembly centres for the dispatch of completed units from parts that you have collected from a number of manufacturers?—I should say first of all, on the figure I gave, of £30 to £50, that that includes

not only the distribution costs but also possible claims from erection contractors who have been held up waiting on the site, and have had to keep their labour there. That is our estimate of the possible charge per house for those two items—the claims by the contractors and the extra distribution costs.

2340. How many houses will that affect, though? That can only affect such houses as were, as it were, in flow at the time of the fuel crisis, surely?—Obviously the immediate effect of the fuel crisis in that limited period will affect only that flow. But this hold up of supplies, the difficulty of shortages, having to change their supplies of one kind of product to another—

2341. You mean substitution?—Substitution—all that does mean that contractors will have claims and it does mean that the distribution centres, broadly speaking, have got to be kept open. In reply to your question about how much work is done at the distribution centres—not a great deal of work is done on assembly. There is some work, particularly where one fitting is made by one contractor (possibly a metal fitting) and has to be fitted in with a wood fitting which comes from an entirely different trade. Also, at each centre there is a small repair shop where any breakages which do occur in transport are made good and that kind of thing is done. Mainly, the centre is a place where the various bits and pieces are collected and are then sent out as a set for a particular house.

2342. For instance, are your kitchen units assembled there, or are they assembled by the manufacturer and passed through the distribution centre, or do they go direct?—In the case of the non-aluminium house?

2343. I am not talking about the aluminium house?—In considering the kitchen unit you have to think of the plumbing part of it and then the various fittings that go on, as it were, on either side in the kitchen or bathroom. The engineering part of it, the hot water system and pipes and so on, will come from one manufacturer to the centre and the sections that fit on to the plumbing unit come from another. In that case they go out from the distribution centre usually in the same way, that is to say, they go out in separate pieces and are fitted when the house is being built. Certain repairs or adjustments or inspection—that kind of work is done in the distribution centre.

2344. £30 to £50 really means a charge over and above your latest estimates owing to the general cut in supplies which has been made worse by the fuel crisis?—Yes.

2345. The fuel crisis is merely an exaggeration?—It has really made it worse.

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2346. Now with regard to the aluminium house, there has been an increase there in the price from £900 to £1,630; and your aluminium content cost £446. Is that aluminium content equivalent to the hull that we had prices for in the Tarran, Uni-Seco and Arcon houses, or is that merely the cost of the raw aluminium?—(Mr. Pickles.) It is the cost of the aluminium when fabricated, but not assembled into a house.

2347. What was the cost of the raw aluminium when you got your contract of £900?—Our estimate was £914 and that was for the cost of production at the factory and transport to the site. In that estimate there was £265 for aluminium parts.

2348. £265 was the estimated cost of your aluminium in the £914 figure?—Yes. Now it is £446.

2349. What is that due to?—Perhaps I ought to explain that the original estimate of the content of aluminium was made before any house had been erected or even the design was completed. The content of the aluminium house was thought to be 1.4 tons. Now it is 2.35 tons, which makes a very considerable addition.

2350. Who made that estimate?—It was made at the end of 1944 by a body called Aircraft Industries Research Organisation on Housing.

2351. 2.35 is what it actually turns out to be?—It turns out to be 2.35. Of course that is a fundamental difference.

2352. That certainly accounts for the increased cost in your aluminium.—Yes.

2353. Deducting the increased cost of the aluminium, it still leaves you £550 to account for in your fabrication. Can you break that down for us?—I can break it down quite readily. I have done so. We will take first the £1,365 figure.

2354. No, I would rather take the £1,630. How many houses have been delivered on the £1,365, or is that only an estimate?—That is only an estimate; the number of houses delivered to date is 22,000 odd. I can give you the exact figure.

2355. No, 22,000 is near enough. May we have the breakdown of your estimates?—Firstly, there are in the £1,630 items omitted from the 1944 estimate of £242. They were supplies on the site, the erection costs.

2356. £242?—A total of £242. These are the items which were omitted: supplies on the site, erection costs, amortisation of provided plant, contingencies and profit, departmental expenses and the rent of the premises. Those, with other minor items, come to £242.

2357. Yes, and now there is another £300?—The aluminium content of the house increases the price £181.

2358. I have got that. £181, £242. It still leaves us £300 to account for?—In the first estimate of £914 other materials, which include timber, doors and windows, plaster-board ceiling, paints, foam cement and electrical fittings, they were £115.

2359. Under-estimated?—They were £115 in the £914 estimate and they are now £221.

Mr. Benson.] There is another £100?

Chairman.] You are getting there, Mr. Benson!

Mr. Benson.

2360. Slowly!—The labour cost in the factory—that is, in the five factories which are building houses—

2361. Assembly?—Assembly factories—went up from an estimate of £68 to £109. That was largely due to an under-estimate in the first instance, due to the design not being completed and then there have been various engineering wages awards since that date which have brought our new estimate up to £109.

2362. You have still £90 to account for?—Then there is £36 increase on overheads of the factory per house, which goes up *pro rata* with the labour costs.

2363. Why should overheads go up *pro rata* with labour costs?—Most overhead expenses are labour.

Mr. Wadsworth.] No, surely not.

Mr. Benson.

2364. That is a new definition of overheads?—There are non-productive labour and clerks.

Mr. Wadsworth.

2365. Administrative?—Administrative—which are all going up in price and generally—

Mr. Benson.

2366. Your overheads you said had gone up *pro rata*. Have clerks' wages risen at the same rate as constructors' wages—and what about your capital charges, which are frequently a very important item in overheads?—There are no capital charges here because the factories firstly belong to the Ministry of Supply, and secondly the machinery for making the houses was supplied by the Ministry of Supply. We have amortised our provided plant—in our latest estimate, and we are charging into the Account a rent for the premises although we do not charge the rent of the premises to the contractors.

2367. As an accounting item?—As an accounting item, but that item is included in the £1,630.

2368. Have you agreed £1,630 yet, with anybody, or is it still an estimate?—That is still an estimate, but I think it will be found that it will be a proper estimate.

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[Continued.]

2369. Have you attempted to estimate why they cost so much more than the other types of houses?—My short answer is, unfortunately no.

2370. Even if you had your aluminium given free you would still be above the Tarran House?—That may be the case, but the houses are built entirely differently and I do not think it would be useful to compare in detail.

Chairman.

2371. Would they be of a more permanent character?—That is probable, but speculative. (Sir *Harold Emmerson.*) I should like to say on that, if I might, that the aluminium house is a very much better type of house than the others from the point of view of finish and that apart from one or two items in it I should have said that there was no reason why it should not be a permanent house subject to those one or two items, and possibly slight changes in design, but from the point of view of finish it is a very much better article than the others.

Mr. Benson.

2372. What do you mean exactly by finish?—The fittings and the general feeling of the house. It looks a better house, I think, from the point of view, certainly, of the kitchen bathroom unit, fittings and so on.

2373. Are not the kitchen bathroom fittings standard with the Tarran House? Are not they exactly the same?—There is a great deal in common between them as regards design, but the fittings are not made exactly the same.

2374. That is another point I want to raise on the question of standardisation of fittings. Am I to understand that the kitchen bathroom arrangement in your aluminium house is something fundamentally different from the Tarran House?—No. I should say, if I may, that the design is very much the same, but of course some of the houses have had to be supplied with wooden units and fittings instead of the steel units which have gone into the aluminium house. We had to extend our contract, for instance, for the wooden unit because of difficulties in supply and many of the other houses have a wooden unit which, of course, will not have so long a life and obviously would not be suitable, certainly, for a permanent house.

2375. What do you mean by a wooden unit?—In the kitchen, instead of the cupboards being of steel or metal, they are made of wood.

2376. But in the aluminium house they are metal?—Yes.

2377. Surely in mass production metal ought to be a good deal cheaper than wood? A car manufacturer when he is

producing cars on approximately the same scale as you are producing houses, cuts out every inch of wood he can and uses metal because it is very much cheaper to fabricate?—I could not say what the comparison is.

2378. Why have you not, seeing that you are going to build one million houses, got down to mass production of all these units and standardised them to the last degree and built the houses round them? The fittings are a very important element in the house. Why different types of unit for different types of house? Variation means cost?—It does, and that, of course, is in a sense a criticism of the programme. To a large extent the fittings are standardised but there are differences between the houses, some of them quite small differences, which of course have had a very bad effect on the programme. They have made it very much more difficult to get through the programme in the time because if there has been a shortage of one thing in one type of house it has not always been possible to switch over to another type.

2379. Surely that is fantastic, that there should be a small difference in a house ("a small difference" were your own words)?—Yes.

2380. —which prevents you standardising your fittings, not only adds considerably to your cost, but upsets your programme?—That has been the case in respect of certain items and certain houses. By and large, the fittings have been (I am speaking now of the non-aluminium house, of course) standardised, but as between certain houses there have been differences in design which have not made it possible to interchange the fittings between one type of house and another.

2381. Why did not you compel the designers to make them so that they were interchangeable?—This goes back, of course, a very long way, to earlier than, I think, the year of this Account, and I could not say why.

2382. What are you doing now, which is perhaps a more fruitful question?—The position is that we are working out the programme as it is. It reached a point where it was obviously best to press ahead with the programme as it was, rather than to attempt any new design. It was a bit too late to make that sort of change.

2383. We have got the break down of the £730. To whom was the estimate of £914 submitted—to the Treasury?—(Mr. *Pickles.*) It was prepared in the Ministry of Aircraft Production, and I think it was submitted to the Reconstruction Committee.

2384. They underestimated the amount of aluminium by 50 per cent., they omitted to charge erection costs in the house?—Perhaps I ought to say that the house was

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[Continued.]

considerably altered from what it was thought to be in December, 1944. It was made more substantial and that increased the cost.

2385. Even a substantial house has to have erection costs?—That may be so, but the cost was brought out then in order to compare with other types of houses and I think it omitted the provision of the items which were common to the other types of houses and the estimates for the other types prepared on the same basis.

2386. I do not quite follow that, unless they both omitted erection costs?—That is so.

2387. With regard to management costs, I see on page 3 there is a sum of £1,400,000 in for expenses and remuneration and then there are the departmental expenses of £1 million. That is £2½ million (on a £46 million expenditure) for management costs either by contractors or by the Department. That strikes me as extremely high?—(Sir Harold Emmerson.) Perhaps I may say a word about the first item "Expenses and remuneration of management contractors," the £1,388,000. That represents the expenses of the five firms who are managing the system of distribution and the distribution centres. There are certain other small items included, but by and large that is what that figure covers. At the peak of the activity there were about 63 of these distribution centres; we are now down to 33.

2388. Does that include handling costs?—Yes. It does not include transport or freight. It is simply the cost of the management—the operational costs and fees paid to the contractors who are managing these centres. The other item of departmental expenses is the one which was mentioned earlier.

2389. That goes, I notice, as an Appropriation in Aid into your Accounts, but how do you manage your departmental expenses? What does that involve—looking after the gentlemen who spent £1,300,000 who look after someone else?—I think it is a little more than that. It does cover the manufacture, the conveyance, transport, erection and in fact the administration of the whole scheme. The expenses and remuneration of the management contractors are as I say, largely the expenses of looking after the distribution centres and of course the staff employed there, which is now about 3,000.

2390. I understood you to say that it did not include any fabrication or erection or assembly, that it was purely administration?—I would like to confirm that. There

* Circulated to members; not printed.

are some repairs carried out, as you say, at the distribution centres*.

2391. Included in that?—Yes. May I read my brief for a moment?

2392. I have taken a rather long time. If there is anything you have to add, perhaps you will let us have a note?

Lieut.-Colonel Hamilton.

2393. I notice so far as the contracts for supply of the aluminium parts is concerned, there are maximum prices, subject to reduction to actual cost plus profit of 10 per cent., so presumably costing is carried out with regard to that part of the expenses. Is costing also carried out for other parts of the expenditure, both on the aluminium houses and the other houses, so that all profits are subject to a ceiling? Is that so?—(Mr. Pickles.) As regards the manufacture of the houses, in the first stage they will be paid on costs and with a limited profit. The second stage is on estimates of cost with a profit.

2394. Estimates, but not actuals?—Not actuals. The third stage which we hope to get for the last 5,000 houses, will again be estimates and a profit on it, but we shall have had very considerable costing over the earlier houses to make it possible to arrive at close estimates for the last quantity.

2395. You think you will be able to allow for differences in rates for materials that might occur? You are satisfied that there will be no undue profits made. I ask this question, Sir, because in my experience in the past, when costs have been involved, contractors tender high, not particularly because they were greedy for profits, but because they had no idea, really, what the costs would be, and therefore it was rather importing to have a costings clause. It is on that principle that I am asking what check you have on the actual profits that are made, if any, in the case of the first stage?—We have in the first stage.

2396. But not in the case of the other two?—Not in the case of the other two.

Chairman.

2397. I do not quite follow the reason for that. I should have thought it was rather dangerous to have taken the cost of the erection stage and adopted that as a guide. The efficiency of the operation is surely likely to improve as the process develops?—Certainly. That is taken into account in the estimate of the cost which we use for the next stages of pricing and in fact the costs are very much reduced from the first to the production quantities.

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

Mr. PICKLES withdrew.

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Sir HAROLD C. EMMERSON, K.C.B.

[Continued.]

BUILDING MATERIALS AND HOUSING ACT, 1945, ACCOUNT, 1945-46

Chairman.

2398. This is another Fund under another Act of Parliament operated by your Ministry, Sir Harold?—(Sir Harold Emmerson.) That is so.

2399. There are some rather peculiar differences comparing these Accounts with the Housing (Temporary Accommodation) Account. The first point of difference I notice (perhaps the Treasury can answer this one more easily than you can) is that the rate of interest fixed for the repayments in the case of the Building Materials Accounts is 2 per cent., whereas, so far as the Housing (Temporary Accommodation) Accounts are concerned the rate of interest is 2½ per cent.?—(Sir Eric Bamford.) These are short-term advances in this case of 10 years. 2 per cent. seemed appropriate.

2400. They were short-term advances. Were they not in the case of the Housing (Temporary Accommodation) Account?—(Mr. Jones.) These are really only banking advances into a revolving fund, which is due to be repaid to the Exchequer after 1950.

2401. These are in the nature of short-term overdrafts? That is the point, is it?—Yes.

2402. These accounts contain a trading and profit and loss account on a commercial basis?—(Sir Harold Emmerson.) Those have been prescribed by the Treasury as the form which the Treasury think the Accounts should be presented in.

2403. Can the Treasury tell me why they have prescribed this form in the case of this Fund and not prescribed a similar form in the case of the last Fund?—(Mr. Jones.) It would be very difficult to prescribe a form of trading account in the last case, because there is no income. It is all expenditure. In this case the Fund is intended to be a revolving Fund, and any ultimate deficiency is to be repaid to the Exchequer from Votes. The intention of the trading account was so that it could be seen from year to year whether there was likely to be a deficiency or how the Fund was working out.

2404. In the case of the last Fund the Exchequer "snaffles" the income direct from the Ministry of Health. It does not ever pass through the Accounts. Sir Harold, the expenditure during the year of account is mainly on two types of house—the Swedish Timber House and a house called the Howard House?—(Sir Harold Emmerson.) That is so.

2405. The Howard House being a term of art in the Ministry of Works, as it is in the Home Office for a rather different type of structure! Paragraph 2 deals with the Swedish Timber Houses. Are these of

a more permanent type than the ones we have just been discussing?—Yes. These are permanent houses, and there is nothing in this Account relating to temporary housing. The Swedish House is largely a timber house which was brought from Sweden—imported—and sold to local authorities in agreement with the two Health Departments. The Howard House is again a permanent house, but largely prefabricated.

2406. What is it made of?—It is made of a framework of tubular steel. It is clad on the outside with asbestos sheeting— asbestos cement—and on the inside with plywood. There have had to be certain changes owing to shortages, particularly of plywood, but that was the principle.

2407. We will come to the details of the house in a minute. I want to deal with the Swedish houses first of all. We are told: "The estimated total cost of the houses, as supplied to local authorities ready for erection, including the cost of fittings and an addition for the Ministry's administrative expenses ranges from £679 to £932 each according to type". That is the total figure, excluding the site, and the drains and sewers to be provided by the local authority?—Yes. That is a figure comparable with the other figures the Committee have had.

Mr. Benson.

2408. Does that include erection costs?—I beg your pardon. I think you gave a figure of £1,272, Sir?

Chairman.

2409. No, I gave the figure quoted in the paragraph of the Comptroller and Auditor General's Report, which is the estimated total cost of the houses as supplied to local authorities ready for erection?—I am so sorry. That does not include the erection costs.

2410. Do these figures include something for Customs Duty on these imported houses and, if so, how much? What is the rate?—Customs Duty is charged at 20 per cent. on the c.i.f. cost. There are four types of Swedish House, which makes the thing more complicated, but included in the £679 figure, which is quoted in the Report, the Customs charge is £68 14s. 8d., or roughly £69. On the highest figure, that is the £932, the Customs charge is just over £98.

2411. There it is. It is a matter of opinion as to whether that should be charged or not. Can you give us what the all-in cost is by the time the house has been erected?—I am not sure that we have that, because of the different basis on which the houses are supplied.

2412. I thought you were just going to mention a figure, when I interrupted you,

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[Continued.]

of something over £1,200?—I am sorry. That was the Howard House. In the case of the Swedish House, the house is erected by the local authority. We could no doubt get an estimate of the cost of erection quite easily, but we have not got it ourselves and it is not a charge on this Account.

2413. At the figures given in the Report will these houses come out as more expensive than the temporary houses we have been discussing previously, or at about the same figure?—I should say they would be much more expensive than the temporary houses. They are permanent houses of course; they are two-storied houses in the case of three of the four types. There is one type (a rural type) which is a bungalow type.

2414. We are told in the last sentence: "The prices to be charged to the local authorities will be based upon the cost of constructing houses of a similar size by traditional methods, and the difference between this sum and the actual cost will under Section 3 of the Act be reimbursed to the Fund from the Votes of the Health Departments". It will obviously be necessary at some stage to ascertain what is the all-in cost of putting the house up, because insofar as it exceeds the cost of putting up a similar house by traditional methods the Ministry of Health is to find the money?—What we are proposing to do—and this is the suggestion of the Ministry of Health—is to fix the charge to the local authority, so that they will know exactly where they stand, by taking a notional cost for a traditional house at £1,225 and deducting from it the average cost of site preparation and erection, which is estimated at £800 for the type of house costing £932 for the hull and the fittings; and that leaves a charge to the local authority of £425. That is taking this notional cost of a traditional house at £1,225, and deducting the cost of site preparation and erection, £800. That leaves £425 as a local authority contribution. Then the Ministry of Health contribution, which will of course be paid into this Fund, will be the balance. In the case of this type of house it will be about £507.

2415. What surprises me about these figures is that you should put £800 as the cost of erection, plus the site, because the site, as a rule, of a house only works out at £15 or £17?—I said the site preparation.

2416. The site preparation?—The preparation of the site.

2417. These are not prefabricated houses in any sense. They have all got to be put together piece by piece when they arrive?—It is not prefabricated in the same sense as the aluminium house, but it is a prefabricated timber house.

2418. It arrives in sections?—There are panels of timber, and there is a standard design, of course; and then the thing is

fitted together. As regards the internal fittings it does have ordinary fittings. It is left to the local authority to supply them, and they are treated as a separate item.

2419. This Howard House mentioned in paragraph 3 seems to have been rather a failure, to put it mildly?—I do not think it is true to say the house is a failure. The house is regarded, I gather, as a good house by the experts. What I think has been a failure has been the firm responsible in the first place for the organisation of the scheme.

2420. The number of houses to be erected has been gradually curtailed, has it not?—Yes. The firm asked to manage this organisation I may say were not themselves manufacturers; the work was placed out with sub-contractors. When it was found that the firm were bad organisers for a big scheme of mass production, and it was also found that the production costs were working out to a higher figure than was expected, it was decided to curtail the contract and to limit the production to the figure mentioned in the Report at 1,380 houses.

2421. The houses have come to be much more expensive than was originally anticipated?—Yes; definitely that is so.

2422. We are told at the foot of page 5: "The main contractor will receive his direct costs up to 31st March, 1946, plus overheads on development and experimental work, as certified as reasonable by the Department's cost accountants, subject to a contribution by him of £30,000 towards the extra expense incurred by the Ministry in taking over the contracts, and to his agreeing to waive all claims for royalty or profit." Does that mean that the contractor is involved in a loss of £30,000?—Yes, that was the agreement made with him to put an end to the obligation to him, and his obligation to the Department.

2423. The Treasury, I see, have expressed some slightly unfavourable views about these arrangements which you made.—That was a criticism of the failure to refer to the Treasury again the proposed change from the order to manufacture the 2,400 houses to the order to manufacture, deliver and erect the smaller number of houses. The reasons for that, I think, are two. One was the general sense of urgency at the time. The other was the reason that the new arrangement of the smaller number of houses did not cost more than the original arrangement, but I am bound to say that I think that is a weak argument and I think, looking back on it, that it would have been better at least to have reported this change, although it did not mean, in effect, any increase in the total charge on the Fund.

2424. Just explain this point to me: we are told at the beginning of paragraph 3: "The charge for Purchase of Structures

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[Continued.]

and Fittings includes £424,774 in respect of payments on account of a contract for 2,400 " of these Howard houses. Then, lower down the page: " the Ministry decided to cancel the original contract and to enter into direct contracts with the three sub-contractors for the manufacture of only 1,380 houses." Is it the fact that what you have in fact secured is 1,380 houses?—Yes.

2425. For a price of £424,000?—We shall have obtained 1,380 houses. The reference, I think, at the beginning of paragraph 3 is, in effect, to advances which have been made from time to time to the firm as they made progress with the manufacture and supply of the prefabricated parts. (Sir Frank Tribe.) That sum mentioned was a payment on account. I mention it in this Report as forming part of the first item on the Receipts and Payments Account, on page 2. It is a payment on account coming in that total figure to which I thought it necessary to draw the Committee's attention. But it is not by any means the total expenditure on these houses.

Chairman.] What puzzles me, Sir Frank, is, if these figures are accurate and there are only 1,380 houses at the end of the job, they seem to come out at more than £3,000 apiece, if £425,000 represents payments to contractors, unless there is some very big refund to be made?

Mr. Benson.] It is £300, Sir. 1,300 into £400,000 is £300 per unit.

Chairman.

2426. I think you are right. I am very much obliged to you. I have no further questions on that paragraph. With regard to the prisoners of war referred to in paragraph 4, the ordinary practice in charging for labour undertaken by prisoners of war is to charge the person who gets the benefit of the work with the price of their labour at Trade Union rates, is it not?—(Sir Harold Emmerson.) That is so.

2427. That has not been done in the case of preparation of sites for local authorities here. We are told: " the charge to local authorities where prisoners of war are employed shall be the measured value of the completed work "—" Calculated at rates based on normal conditions," which means of course that the cost of British labour at Trade Union rates is less than the cost of prisoners of war labour at Trade Union rates.

2428. That is to say the prisoners of war labour is more expensive.

2429. Is less efficient?—Probably it needs more supervision. It means costs of transport, and so on.

2430. Half-way down paragraph 5 we are told: " It is the intention that the Fund shall, as far as possible, show neither a loss nor a profit on its transactions as a whole "—Yes. That was stated when the Bill was introduced as the intention.

2431. Is it likely to be achieved?—It will be achieved by the kind of arrangement which has been mentioned in the case of the Swedish House, whereby the Ministry of Health make this contribution to the Fund, representing the difference between what the local authority pay for the house and the actual cost of the house.

2432. If the Ministry of Health make up out of the Voted Moneys any loss incurred the Fund will come out all right?—It will be made to come out all right. Of course, the contribution will be shown on the Ministry of Health Vote, but as regards other activities under the Fund, we are trying to see that there is some form of repayment.

Chairman.] Are there any questions on paragraph 5 of the Report of the Comptroller and Auditor General?

Mr. Wadsworth.

2433. I have one question in connection with this Swedish House: it states in the Report of the Comptroller and Auditor General that the contractor is receiving " overheads on development and experimental work ". What exactly does that mean? It does not mean that he will get any repayment for the amount of capital he has sunk in developing the house, I take it?—I have not found the reference.

2434. It is on page 5, the third line from the bottom. I did not quite understand that?—May I perhaps just explain what happens with these houses? It is relevant to a question that may arise on the Class VII Account. A committee known as the Burt Committee, under the chairmanship of Sir George Burt, was set up to consider proposals for prefabricated houses. Anyone with a bright idea could put his proposals forward and they would be considered by the Committee, which might recommend, out of the many ideas it received, a certain selected number which merited further attention. The Howard House was one of those; and from that point onwards—that is to say, if it has been recommended and accepted as worthy of development from the point of view of possible adoption—certain costs undertaken by the contractor at the request of the Housing Department (it may be acting through the Ministry of Works) are accepted as a reasonable charge, in this case on this Fund. But the earlier costs—the development of the idea for the proposal—are not of course borne. They are not accepted. It is only where the proposal has been taken up and the sponsor of the scheme wishes to develop it and the Government Department concerned is anxious to see it developed—from that point onwards it is regarded as reasonable that these additional costs to test it and meet the requirements of the Government Departments should be repaid or accepted as a reasonable claim, and in this case they are charged, of course, to this Fund.

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[Continued.]

Mr. Benson.

2435. Did I understand you to say that the bulk of the expenditure from this Fund so far has been on the Swedish House, and on the Howard House?—The bulk of the expenditure in this year that we are considering—1945-46—is on those two items.

2436. How far have you got on with the organisation of supply of components for the major building programme that is ahead of us?—We have used the Fund since the year 1945-46 for quite a number of things where there has been difficulty in supplies. The purchase of bricks from Belgium is a case in point, where the Department undertook bulk purchase of bricks and the cost was discharged by the Fund, and we hope in that case to cover the cost from prices which are charged. I am not sure whether it will be necessary to have a subsidy. I would like to add that another house, the Airey House, which is approved by the housing authorities as being an especially suitable house for rural areas, again is being purchased by the Ministry of Works and supplied to local authorities with the approval of the Health Ministries and the cost is being borne out of this Fund. As regards internal fittings and fittings, the Fund has not been used to any great extent for fittings. I do not think the case has really arisen as it did in the case of, say, Belgian bricks. The supplies are coming forward. There has not been the same need to resort to this rather exceptional method. (Sir Frank Tribe.) May I mention on that that the Ministry of Supply is of course the production authority for certain housing requisites, mainly in the engineering field, and has ordered bulk supplies under production agreements in very large quantities. This Account, as will be seen from the second note on page 4, incurs contingent liabilities under these production agreements which are issued by the Ministry of Supply.

2437. So that it is the Ministry of Supply rather than the Ministry of Works that are responsible for the fundamental production of your components?—(Sir Harold Emmerson.) The internal fittings.

2438. Internal fittings—baths, taps, castings, window frames?—The Ministry of Supply is what is known as the production authority for the engineering industry—iron and steel, and so on, and they have been and still are responsible for those items.

2439. If you require them you buy them, in effect, from the Ministry of Supply or the Ministry of Supply contractors?—If we had to buy them we should go direct to the suppliers, but if we needed help from a Government Department we should go to the Ministry of Supply for it.

2440. Does the Ministry of Supply work to your specification? Who is responsible for standardisation—you, the Ministry of

Supply, or nobody?—I do not know whether I am entitled to speak on this, but I should have said there is first of all no compulsory provision for standards.

2441. I know there is not.—There is a standard set on a voluntary basis by the British Standards Institute, and very strong recommendations have been made (if you are thinking of houses) to local authorities to adopt these standards, both as regards those recommended by the British Institute and those recommended by the Codes of Practice Committees.

2442. Some Government Department sooner or later will have to face up to their share of the cost of a supply of, say, five million baths, probably 15 million taps, perhaps 20 million window frames. Who is looking after the standardisation of the mass production and the economic production of these components—any Department, or none? Are they depending on moral suasion?—I should say, broadly speaking, that we are depending on moral suasion, coupled with the requirements of the local authorities who are the housing authorities and are responsible for the specifications. The local authorities could perfectly well see that certain standards were quoted in the specifications, but as regards—

2443. There are 1,000 local authorities. Is there nobody who can say: "We are making five million baths and they are going to be made by mass production at a minimum cost"? Is there nobody anywhere in the housing programme who is in a position to say that and see it is carried out?—As things are I should say it was rather a theoretical question, for this reason, that five million baths are not in fact being ordered as one order.

2444. I know they are not. They will have to be provided over, say, the next five years, or the next 10 years?—Yes, but they will be ordered in small batches. They will come through the distributor, through the builders' merchant, and so on, and eventually reach the building contractor who is putting up the house. There is nobody who is passing a bulk order for, say, five million baths or any other type of fitting.

2445. I know. Obviously not?—And therefore, so far the question of standardisation has been left to, as it were, the consumer, the local authority placing the order or drawing up the specification for the house.

2446. Apparently there is no Government Department striving towards standardisation as a means of economy?—I think the Ministry of Health are definitely adopting that as their policy, but it has to be carried out through the agency of local authorities and their architects, and so on, in drawing up their specifications.

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[Continued.]

Chairman.] I do not think you can carry this much further with the Ministry of Works, Mr. Benson. Time is passing on.

Mr. Benson.] I quite agree. I was only trying to find out whether the Ministry of

Works was or whether anybody was. Apparently nobody is.

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

TREASURY MINUTE ON PARAGRAPH 6 OF THE FOURTH REPORT OF THE COMMITTEE OF PUBLIC ACCOUNTS, 1945-46

Chairman.] Paragraph 6 of the Treasury Minute, is a formal matter which has

already been dealt with on the Service Accounts.

TREASURY MINUTE ON PARAGRAPHS 38-40 OF THE FOURTH REPORT OF THE COMMITTEE OF PUBLIC ACCOUNTS, 1945-46

Chairman.

2447. Will Members turn to the Treasury Minute on paragraphs 38 to 40. This is with regard to the question we raised last year about the expenditure on the buildings in which school meals are served. In the final sentence of paragraph 40 the Committee said: "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". The Treasury in their Minute said, in the second paragraph: "My Lords recognise that normal accounting procedure would have required the work to be performed by the Ministry of Works as agents of the local education authorities on a repayment basis, with provision on the Ministry of Education Vote for 100 per cent. grant on the payments made to the Ministry of Works by local education authorities. They consider, however, that they would not have been justified in imposing this additional accounting burden on local education authorities and Government Departments at a time when accounting resources were strained to the utmost". Then, in the final paragraph the Treasury tell us that: "The Memoranda on the Ministry of Education Estimates for 1945-46 and 1946-47 published as Command Papers refer to these arrangements in general terms, but, in deference to the Committee's views, My Lords will also cause a suitable note to be made on future Estimates for the Ministry of Education and Public Buildings". It is true, I think, that there was a note in the Estimates for 1945-46 and 1946-47 regarding this matter, but there is no similar note in the Estimates for 1947-48, is there?—(*Sir Frank Tribe.*) I think it was in the Ministry of Education's memorandum. Each year, besides presenting their Estimates, the Ministry of Education present a memorandum on their Estimates. That is where it was referred to. I think the memorandum on the Estimates for 1947-48 does not mention this. It is certainly mentioned in the Ministry of Works Estimate.

2448. I should have thought, Sir Eric, that this was not a very happy arrangement, in that this is really Education expenditure, is it not?—(*Sir Eric Bamford.*) It is properly educational expenditure, but we still feel that in the circumstances of this time this was a sensible arrangement. It has been brought to the attention of Parliament by the note which is on the Estimates for the current year.

2449. But, Sir Frank, I understand that there is no note on the Estimates?—(*Sir Frank Tribe.*) There is a note in the Subhead to the Ministry of Works Estimates. In the memorandum which the Ministry of Education supply each year they have in the previous two years mentioned this, but this year, as far as I can see, they omit any reference to it, but they include a paragraph, paragraph 8, headed "Capital Expenditure," in which they summarise the capital expenditure on Education during previous years and give no indication whatever as far as I can see that their figures of capital expenditure exclude very considerable sums borne by the Ministry of Works on the provision of facilities for school meals. (*Sir Harold Emmerson.*) May I say on Class VII 1947-48 Estimates for the Ministry of Works there is a footnote to the provision. Having given the total estimate of £16 million for school meals, for works services, and £200,000 for furniture: "Provision for this item relieves the Votes of the Education Departments of corresponding amounts of grants (at the rate of 100 per cent.) which would have been payable if the Works Services had been undertaken by the local Education authorities. Additional provision in connection with this service is made under Subhead K" and so on. So there is a statement on the face of the Ministry of Works Estimates in respect of the inclusion in those Estimates of expenditure for this service. (*Sir Eric Bamford.*) There is a similar note on the Education Estimates, I understand.

2450. I do not quite understand what is the objection to this expenditure being taken out of the Ministry of Works Accounts and placed in the Ministry of Education Accounts?—It is expenditure by the Ministry of Works

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[Continued.]

2451. As agents?—As agents. (Sir *Frank Tribe*.) In the Ministry of Works Estimates this provision of school meals is followed by another provision No. 14: "Provision of temporary additional accommodation in maintained schools . . . in preparation for raising the school leaving age to 15." That is another very substantial expenditure borne by the Ministry of Works, but reimbursed from the Ministry of Education Vote. One expenditure is reimbursed from the Ministry of Education Votes, but this one, for the provision of meals, is not reimbursed from the Education Votes. (Sir *Eric Bamford*.) There is a difference between those two cases, because in the one case it was purely a wartime arrangement and it was purely accounting, because there was a 100 per cent. Grant. In the case of the school buildings the amount paid by the Ministry of Education is not 100 per cent. Grant but 50 to 60 per cent. Grant; so the arrangement was that the Ministry of Works provided the buildings, the local authority pay rentals for them, and the Ministry of Education pay over the full cost to the Ministry of Works from their Vote, and we thought that that arrangement really gave the full picture. It is of course rather

similar in character to the arrangement in regard to school meals, but it has to be done in a slightly different way. I admit the principle is the same. We do not want to override the Statute by the Appropriation Account, but in the case of these school buildings, the school leaving age was raised by the Education Act and there was no other way, in fact, of housing the scholars except by a mass operation undertaken by the Central Government. Therefore the local authorities could only meet their obligation under the Education Act if we performed the operation in this way.

2452. Sir Frank, have you any further comment?—(Sir *Frank Tribe*.) No, I do not think so. My criticism really was that the 1947-48 memorandum presented by the Ministry of Education I think is misleading. (Mr. *Jones*.) The Treasury is not consulted about the form of the Ministry of Education memorandum.

Chairman.] We can perhaps raise that with the Ministry of Education. Has anybody any questions on this matter?

CIVIL APPROPRIATION ACCOUNTS, 1945-46

CLASS VII

VOTE I

HOUSES OF PARLIAMENT BUILDINGS

Chairman.

2453. Will Members turn now to the Civil Appropriation Accounts, 1945-46. Paragraph 69 deals with rebuilding the House of Commons. The total estimate, we are told at the foot of the paragraph, is £1½ million. Is that the latest figure, or has there been an increase here, as in so many other estimates?—(Sir *Harold Emmerson*.) In the Estimates for the current year the figure is £1,753,400 for the works services.

2454. Is that because things keep on getting added which have not been thought of before, or is it because the cost has gone up?—Generally because of the increase in cost of labour and materials and the extra time that has been taken over the contract.

Chairman.] Are there any questions on paragraph 69? Are there any questions on the Account, which is on page 340? 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.

2455. Will Members turn to page 343, the Account in respect of Osborne? This has been rather a failure as a convalescent home, has it not, Sir Harold?—(Sir *Harold Emmerson*.) No, I do not think it has.

2456. It is hardly ever occupied, is it?—It is regarded as very successful for the purpose for which it is intended, that is, the treatment and convalescence of the men, mainly from the Services.

2457. Can you tell me the net cost per bed occupied?—I am afraid I have not

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Sir HAROLD C. EMMERSON, K.C.B.

[Continued.]

worked it out in that way. The average number in residence in this period 1945-46 was 35 persons and 44 staff.

2458. If the average number of persons is 35 and the outgoings are about £24,000 it will come to about £600 per patient?—I think the figure to take would be that given in the note, which is £18,644 for the convalescent home, which would give a little over £500 per head. That is net expenditure. The payments by the patients are deliberately kept low.

2459. At any rate, you have not formulated any balance for changing the use of this establishment, so far—No. Nor, I think, should we. I think the intention, when it was handed over for use by the State, was that it should be used in this way, and I rather think we are obliged to carry on with that use. It was handed over as a gift for this use. I am told that the only change which we have in mind is

the possible extension of its use as a convalescent home for women from the Women's Services. At present it is for Men's Services only.

2460. It looks as if some steps should be taken to try to put it on a more economical footing, does it not?—My impression is that as regards the charges and the costs it compares very favourably with the cost of a similar provision by the Services. I am not saying this by way of criticism of the Services, but I understand that before the war the costs of some R.A.F. hospitals were of the order of £12 per head per week. What the present comparison is I do not know, but that is my impression, that it is not uneconomical in relation to the Service Hospitals. That is not by way of defence of any excessive expenditure.

Chairman.] Has any Member any questions on the Account? May I take it that the Account is approved? (*Agreed.*)

VOTE 4

MINISTRY OF WORKS

(On this Account no questions were asked)

VOTE 5

MISCELLANEOUS WORKS SERVICES

Chairman.

2461. Will Members turn to page xxvii of the Comptroller and Auditor General's Report. Paragraph 70 deals with the Experimental and Demonstration Building. "The estimated total cost of schemes approved up to January, 1946, was £1,263,200, the largest being one for the erection of 258 houses". It seems rather a large expenditure for what is described as experimental and demonstration buildings. Could you explain why the expenditure is so large if it is purely experimental?—(Sir Harold Emmerson.) The expenditure under this heading is certainly in the main on the building of houses for experiment and demonstration purposes. The procedure is the one I described earlier, when we were discussing the Howard House. At the request of the Ministry of Health, the Ministry of Works may undertake to examine the costs and methods of building some prefabricated permanent house which has been approved, at any rate provisionally by a committee under the chairmanship of Sir George Burt. Generally, of course, there is a prototype for which the originator of the scheme is responsible, but in order to make a proper assessment of the cost of the house, the uses of labour and so on, it has been proved, I think, by experience that a group of houses must be built, that a group of houses is more likely to show up defects and certainly to give a

better basis for assessing the real cost of building and organisation, and so on, for this unorthodox system, than just one or two houses. So that this so-called experiment covers a considerable number of development groups of houses.

2462. Are the 158 houses in the one scheme all of the same type?—In the scheme that is referred to, yes, certainly. That was the largest, as stated in the Report. In that case the total number of houses being built of that particular type was 258. 258 was divided between several sites. The reason for the reduction was simply that one local authority which had offered a site to accommodate 100 houses subsequently withdrew the site.

2463. I was not complaining at the reduction in the number, but rather of the size of the number, 258.—The number was reduced first because the site was not available and, secondly, because it was agreed that the 158 houses had given sufficient information on which to take a decision.

2464. It does seem to me to be a very large experiment, to build 158 houses as an experiment. I should have thought a dozen or 20 should have satisfied the requirements of research?—The normal development group is 50 or 60. That has been taken as a reasonable unit in order to see to the best advantage what saving in time and what problems of site organisation are thrown up by adopting this

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[Continued.]

unorthodox system. Although this represents the full cost of the houses the houses are lived in and taken over by the local authority.

2465. Can you tell me whether there is any co-operation between your experimental and demonstration building Department and the Department of Scientific and Industrial Research, which, I think, deals with this sort of thing? I think they have a building research department, have they not?—Yes. In answer to the first question, there is very close co-operation indeed, and in fact our Chief Scientific Adviser was previously at the building research station. But the building research station of the Department of Scientific and Industrial Research is engaged primarily on what one might call laboratory research into the use of particular materials, the durability of substitutes, and so on. The research section in the Ministry of Works is concerned much more with the development side and with field work.

2466. Your experiments are to try to ascertain costs, and things of that sort?—This particular experiment is directed primarily to costs and to methods—how to save labour, and, particularly with these unorthodox methods, how to improve the methods.

2467. Do you carry out this work yourselves or do you do it through contractors? Are you employing your own direct labour?

—The actual work of building is put out to contractors. It is all subject to inspection and so on.

2468. Are there any questions on paragraph 70? Will Members turn now to the Account, at pages 346 to 348? At page 347, Subhead F is "Clothing". Do the Ministry of Works purchase clothing?—We have certain uniformed services of our own but we are of course big suppliers to other Departments, including the supplies for the building trade training centres and other training centres of the Ministry of Labour. They have to be supplied with overalls, and so on.

2469. Would it not be better, on the whole, if the Ministry of Supply supplied the clothing?—We always have, I think. It has always been the case by arrangement with the Ministry of Labour in the case of the training centres that we supplied not only tools and equipment but clothing. I do not know whether there is any special reason why they should favour us as the suppliers rather than the Ministry of Supply.

2470. The point might be worth looking into, I think?—Certainly.

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

VOTE 6

PUBLIC BUILDINGS OVERSEAS

Chairman.

2471. Will Members turn now to the Public Buildings Overseas Account, which is on pages 349 and 350? I see on page 350, Note C is "Silver plate, valued at £750 written-off, missing from an Embassy in ex-enemy territory". Will you tell the Committee how the silver plate came to be lost?—(*Sir Harold Emmerson.*) Yes. This was the Embassy in Rome. It is rather an involved story. The strong room in which the plate was kept was locked and sealed by the Ambassador's butler in June, 1940, and the key was handed over in a sealed box to the lady who had been Private Secretary to several Ambassadors for a number of years and she, an Italian, was appointed as Principal caretaker for the Embassy when Italy entered the war. The same day that the silver plate was put in the strong box the strong room was again opened by a member of the American Embassy in order to store valuable articles, and the room was again sealed and the keys deposited again in the sealed box with the Private Secretary, this lady. The room was

opened again later that month, when the Americans fitted an additional lock to the door. During that operation this same lady was not present. Then, I understand, according to the report, the room was opened and re-sealed by the Americans in July and August, 1941. The lady was present on both occasions and she took possession of the keys. The Private Secretary was interned by the Italians at the end of 1941, on the 31st December. The keys were handed over to the Swiss, who say they did not open the strong room at all during the period that they were looking after this country's interest. The room was not entered again officially until July, 1944, when two Foreign Office officials made an inspection of the property, and it was not until August, 1944, that this loss was discovered. It is just one of those things that happen.

Chairman.] It is just one of those sad stories. Has any Member any questions on the Account? May I take it the Account is approved? (*Agreed.*)

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[Continued.]

VOTE 7

ROYAL PALACES

VOTE 8

ROYAL PARKS AND PLEASURE GARDENS

VOTE 12

WORKS AND BUILDINGS IN IRELAND

(On these Accounts no questions were asked)

CIVIL APPROPRIATION ACCOUNTS (WAR SERVICES), 1945-46

CLASS X

VOTE 16

MINISTRY OF WORKS (WAR SERVICES)

*(On these Accounts no questions were asked)**The witnesses withdrew.**Adjourned till Tuesday next, at 3.45 p.m.*

TUESDAY, 13TH MAY, 1947.

Members Present:

Mr. PEAKE in the Chair.

Mr. Cuthbert.
Lieut.-Colonel Hamilton.
Mr. Horace Holmes.Sir John Mellor.
Sir Frank Sanderson.
Mr. Thurtle.

Sir FRANK TRIBE, K.C.B., K.B.E., Sir ERIC BAMFORD, K.B.E., C.B., C.M.G., and Mr. C. E. I. JONES called in and examined.

CIVIL APPROPRIATION ACCOUNTS, 1945-46.

CLASS V.

VOTE 9.

MINISTRY OF NATIONAL INSURANCE.

Sir THOMAS PHILLIPS, G.B.E., K.C.B., and Mr. O. M. SMITH called in and examined.

Chairman.

2472. Will Members turn to the Civil Appropriation Accounts, 1945-46, to paragraph 51 of the Report of the Comptroller and Auditor General. This tells us about the establishment of the Ministry of National Insurance and the transfer of functions. Sir Thomas, would you tell the Committee, please, how many local offices you have established?—(Sir Thomas Phillips.) None during the period to which this Account relates, but we have recently set up 43 local offices in various towns of the country as a preliminary towards the larger operation to follow.

2473. What is the ultimate number anticipated?—The sort of number we have in mind for the start is round about 1,000. Whether we shall be able to get that number, in view of the present difficulties of building and accommodation, I am not sure; and one must not take that number as being the ultimate figure. We shall have to be guided by experience.

2474. What duties will be performed at those offices?—They will take the claims from the beneficiaries and, to a large extent, decide them; they will not pay, for instance, pensions which are paid by means of books extending over a long period; they

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Sir THOMAS PHILLIPS, G.B.E., K.C.B., and
Mr. O. M. SMITH.

[Continued.]

will pay sickness benefit, industrial injury benefit during the first period after a man is injured, and payments of that sort. In general the machinery for deciding claims will be centred on the local office.

2475. They will not pay out unemployment benefit?—Unemployment benefit will continue to be paid through the employment exchanges as at present.

2476. Can you tell the Committee whether any economy of staff or otherwise has been effected through the transfer of functions to your Department from the Ministry of Health, the Ministry of Labour and the Home Office?—I could not specify any particular economy up to date, because what we have done in the main is to take over existing operations and run them on much the same basis as before. What the position will be when the new scheme is started is another matter, of course, but that will be a comparison between what that would have cost had it been done under the existing system and what it actually costs.

2477. At the time of the Beveridge Report it was recommended, I think, that there should be a single, what was called Social Security Office, to administer all benefits?—I think I am right in saying that the Beveridge Report recommended that the functions of the exchanges in paying unemployment benefit should be transferred to the offices of the new Department and by that means all these payments should be localised in one office. It was decided that the payment of unemployment benefit could not be divorced from the function of the exchange in finding people jobs and therefore had to stay at the exchange. Therefore, unless you suppose that the other functions of the exchange could be amalgamated with health insurance, industrial injury insurance, pensions work, and so on, it is necessary to have a separate office for the new scheme apart from unemployment benefit.

2478. Has there been any proposal to amalgamate or merge offices between your Department and the Assistance Board?—We are working now on the basis that wherever possible we ought to be housed in one building. That does not mean one unified office, but one building. Unfortunately the circumstances are such that at present in only a very few cases shall we be able to do that even as regards the Assistance Board. The same principle would apply to the employment exchange. If it was possible to get one building which would accommodate them as well that would be the ideal.

2479. Are there any questions on paragraph 51? We turn now to the Account, which is at pages 234 to 237. I have a few questions on page 237, on which is set out the details of receipts. You received in the

year of account a repayment of cost of services in connection with the administration of the Widows', Orphans' and Old Age Contributory Pensions, a sum of £753,000?—Yes.

2480. That comes out of the Accounts of the Pensions Scheme, does it not?—Yes.

2481. How is it assessed? How do you decide what amount should be paid over on account of administrative charges?—It is a matter which has to be discussed and settled as between us and the particular Department concerned. I think in this case the principal one is the Post Office. It is their charge for cashing the pension orders. They let us know the amount which they consider we should pay and, after any necessary discussion, we settle on that amount.

2482. I was wondering if this sum was related to the amount of the contributions to the Pensions Fund?—I am so sorry, this particular item, the first one, is our own charge.

2483. Yes. What I was trying to arrive at was how it was assessed. Is it related to the amount of the contributions or to the amount of the payments?—It is the actual cost of the staff we employ on this work, with other expenses which we incur.

2484. It is an ascertained figure?—It is an ascertained figure, certainly.

2485. The next item of receipts is a figure of £133,000, repayment in respect of expenses of administration of the National Health Insurance Acts?—Yes.

2486. Why is that so much smaller than the previous figure, and is that also an ascertained amount?—This relates only to certain relatively small parts of the administration of the National Health Insurance. There is first of all the Deposit Contributors' Fund, which is the largest item, and the Navy, Army and Air Force Insurance Fund. Those are two separate organisations rather in the nature of approved societies, which are run by the Department, and these charges here are our ascertained costs of doing that work.

2487. I am much obliged. Then the next large item is a similar figure in respect of the cost of services in connection with the administration of the Unemployment Insurance Acts, a figure of £526,000. What services does your Department render in connection with the administration of the Unemployment Insurance Acts?—The services carried out by our Ministry are principally the office at Acton, which is the central register of unemployment records.

2488. The Ministry of Labour receives something under £3 million?—Yes, in the neighbourhood of £3 million.

2489. From this Fund, for expenses of administration?—Yes.

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Mr. O. M. SMITH.

[Continued.]

2490. I wondered how it came about that there was half a million or rather more than half a million of expenses incurred by your Department?—The largest item, which accounts for most of it, is the staff of the Claims and Record Office, formerly housed at Kew, now at Acton, which keeps all the ledger accounts of persons insured against unemployment.

2491. Is the branch at Acton under your control?—It was transferred to us on the 1st April, 1945.

2492. This £556,000 is also an ascertained figure?—Yes.

2493. In the notes at the foot of the page we are told: "Expenditure of at least £2,119,016 (Subhead F), for which provision was not made in the estimates, has been identified as directly arising out of the existence of a state of war." Could you tell the Committee what that £2 million is?—That relates to the contributions from the Exchequer to the Unemployment Fund. When the estimate was prepared no item was included for the payment of contributions in respect of persons discharged from the Forces. Such a payment was due but it had been suspended since the outbreak of war owing to the impossibility of assessing it.

2494. Members of the Forces are credited with contributions and the Exchequer pays in something also?—They are credited as if they had paid contributions during the whole of their service. The Service Department pays the value of 30 contributions in respect of each of them and the Treasury pay one half of that amount.

2495. What occurred to me on reading it was that this expenditure of just over £2 million arose directly out of the existence of a state of peace and not out of the existence of a state of war?—We were able to persuade the Treasury that this fell

properly within the conditions of the Vote of Credit. The circumstances were that, owing to the state of war, payment of this amount by the Treasury had been suspended, although it was known that ultimately it would have to be made. When the estimates were prepared, as it was quite uncertain at that time when the war would come to an end, following the precedent of previous years, no item was included in this estimate for that purpose. During the course of the year hostilities came to an end, the money became payable and it was included in the Accounts.

2496. The money became payable on the demobilisation of these men?—In respect of persons demobilised, yes.

2497. Sir Eric, were the Treasury satisfied that this was not a case where a Supplementary Estimate was required?—(Sir Eric Bamford.) The Treasury were consulted and were satisfied that this reasonably might be classed as arising out of a state of war.

2498. The theory being: if there had not been a state of war those men would not have been conscripted and therefore they would not have been discharged?—That is the basis of it.

Chairman.] Are there any questions on the Account?

Sir John Mellor.

2499. I take it, Sir Thomas, that none of the increased cost as the result of more work arising from the increase in the rate of old age pensions last autumn would fall into this accounting period?—(Sir Thomas Phillips.) That is so.

2500. It is all subsequent to this accounting period?—Yes.

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

NATIONAL HEALTH INSURANCE FUND ACCOUNTS, 1945.

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, 1945.)

Chairman.

2501. We take the National Health Insurance Fund Accounts for the year ended 31st December 1945 and with those Accounts the roneo-ed document which has been circulated. These Accounts are very complicated, and I think it would help the Committee, Sir Thomas, if you would tell us shortly why there are two separate

Accounts which do not tally?—(Sir Thomas Phillips.) I think the reason is, as is usual in these cases, an historical one. I understand that in the past the Ministry of Health, who were then the administrators of the scheme, included in their annual report figures of the kind which are given in this roneo-ed series of tables. They were figures which were prepared shortly

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Sir THOMAS PHILLIPS, G.B.E., K.C.B., and
Mr. O. M. SMITH.

[Continued.]

after the end of the calendar year, mainly on an estimated basis, for the purpose of the Annual Report. Separately, of course, the figures contained in the printed report had to be compiled for accounting purposes. I think one may broadly say that it is the printed figures which are the more accurate and authentic, because the others are much more on an estimated basis. When the Ministry of Health discontinued the publication of their Annual Report naturally these figures in the roneo-ed document no longer appeared, but we were asked by this Committee to continue to supply them, and that is why we have done so.

2502. So that the figures in the roneo-ed document are earlier and less accurate than the figures in the White Paper?—So far as they purport to relate to the same things they are less accurate. There is one item where they deal with different things, and that is the figure for interest.

2503. On page 1 of the roneo-ed document, in the National Health Insurance Fund (England) under the heading "Receipts" there is a figure of £6 million for interest on investments?—If you look at what is called Part V, England, the reconciliation statement, No. 3—

2504. Are you on the White Paper?—No the roneo-ed document. Perhaps you have not that part of my document?

2505. I do not think I have. I see, amongst the receipts, a figure of £6 million odd for interest in the National Health Insurance Fund (England)?—Whereas the roneo-ed document gives a figure of £6 million odd for interest received during the year, the printed document contains a figure for England of only £1 million. The reason for that is that the Accounts to which the printed document relates do not include the interest other than that £1 million. The balance of roughly £5 million is received by the National Debt Commissioners and reinvested by them, but it does not pass through the printed accounts. The result is that if you look merely at the printed document you are apparently £5 million worse off than you really are.

2506. Would it not be possible to get that rectified in some way?—It may perhaps not be worth while now, seeing that the new system is to come into operation quite soon, when the whole of this will be swept away and everything will be put into one fund.

2507. In future you mean there will be one account for Health Insurance and Unemployment Insurance. Industrial injuries is going to be separate?—Yes, but there will be one fund for the others, which no doubt will have to be distinguished in certain ways.

2508. Will you turn to page 11 of the printed account, which is a statement of

balances? I am not sure that my question is relevant to the entry; it says, "Medical, &c. Funds" a figure of £2½ million odd. Can you tell the Committee what the position is now about the remuneration of doctors under this scheme and whether it involves a loss to the fund?—At the present time?

2509. Yes?—The total is 15s. 6d., 3s. of which is paid by the Ministry of Health without reference to this scheme. That leaves 12s. 6d., and I think 2s. 6d. of that is a deficit. (Mr. Smith.) About 2s. 6d. of that. We cannot make that good out of the 14s. 6d. which, under Section 118 of the Act, is devoted to medical purposes, so we have had to make a regulation both in 1945 and 1946 providing for the transfer of the deficit which amounts in 1945 probably to about £1 million from the Central Fund; which is a subsidiary account of the National Health Insurance Fund.

2510. You are empowered to do that by regulation?—Yes, we have done that by regulation.

2511. What was the extent of the loss, did you say?—Approximately £1 million in 1945.

Chairman.] Are there any questions on the Account?

Sir Frank Sanderson.

2512. On the first page of the roneo-ed statement, under "Receipts," there is an item "Contributions of Employers, Employed Persons and Voluntary Contributors" a figure of £31,698,000. Does that represent approximately one year's contributions?—(Sir Thomas Phillips.) Yes, it is one year's contributions.

2513. A little lower down there is an item "Interest on Investments and sundry receipts" a figure of £6 million. Is that gross or net?—That is the total amount received by the National Debt Commissioners on the whole of their investments.

2514. You recover income tax, do you? In other words, you retain the gross amount?—It is not less income tax.

2515. Are there any arrears of payments due under the National Health Insurance Fund because there does not appear to be any item shown here of arrears of payments due to the fund?—If I may ask, what payments have you in mind?

2516. Arrears due; amounts which have been collected and not paid into the Central Fund. I imagine there would probably be some item showing the amount of arrears, if any?—No doubt there would be certain items which were in process of settlement and had not been completely settled. No doubt there would be contributions due from employers which had not been paid, but not in general.

2517. You do not show the total amount of arrears due?—No. This is a statement of receipts, not of amounts due.

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Sir THOMAS PHILLIPS, G.B.E., K.C.B., and
Mr. O. M. SMITH.

[Continued.]

2518. One other point. Over the page the administration expenses of Insurance Committees are shown as £522,000. Could you just inform the Committee what exactly the Insurance Committees are?—The Insurance Committees are local organisations dealing with medical benefit.

2519. Those local organisations are paid from the Central Fund, are they?—They are paid out of the insurance funds.

2520. This amount represents the aggregate amount paid?—That is right. This relates to England, you will understand. There are separate documents for Wales and Scotland.

2521. A little lower down, the second item under the heading "Accumulated funds at the end of the year" is "Invested by or on behalf of Approved Societies." Does that mean the accumulated funds are divided into two, one part of which is invested by the National Debt Commissioners and the other part is invested by or on behalf of approved societies? Are not the National Debt Commissioners responsible for the investment of the whole of the funds?—It used to be the practice that the approved societies could invest a proportion of their funds direct if they so wished. That has been suspended now, and the whole of the current amounts which accrue have to be invested through the National Debt Commissioners.

2522. I take it that this arrangement is entirely satisfactory to the National Debt Commissioners?—It was the legal position. Of this 52 million, roughly half is invested by the Minister on behalf of the societies and the other half was, before the change, invested by the societies on their own account.

2523. My final point arises on the second note at the foot of the page, in which it states: "In addition to the sums shown

(National Health Insurance Funds: National Debt Office Investments Statement for the year ended 31st December, 1945.)

Chairman.

2526. We have before us a White Paper showing the nature and amount of the securities held by the National Debt Commissioners at the 31st December, 1945. Can you tell me (if not, perhaps Sir Eric Bamford can) who decides the investment policy, what type of securities to invest in?—(Sir Eric Bamford.) It is the responsibility of the National Debt Commissioners.

2527. Do they act under Treasury guidance in this matter?—The Treasury is consulted on the general policy of the National Debt Commissioners. I think there are two clear points the National Debt Commissioners have in mind here, one is liquidity and the other is yield. They buy securities which appear to them at the time, on the advice of the Government Broker, to be those which will give

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as invested with the National Debt Commissioners, sums amounting to approximately £14,778,000 at 31st December, 1945, being undistributed interest and net profits on realisations, have been invested by the Commissioners and held as a reserve against depreciation." Depreciation of what—investments?—Depreciation of securities, yes.

2524. The amount is very important, is it not—£14 million as an offset against the total amount of investment—in view of the fact that all gilt-edged securities have appreciated, not depreciated? Is there any special significance in setting this large amount aside as a reserve against depreciation, and can you inform the Committee whether at some future time, when it is ascertained, as surely it will be, that the amount is not required, it will be transferred to the Central Fund?—It belongs at present to the main funds of the scheme. I may perhaps explain how it arose. When money is invested by the Commissioners on behalf of the society, the society do not get the interest which is actually paid on that security. They get a fixed amount. It used to be 5 per cent. and is now 3 per cent. Consequently, the position is that if the interest received by the Commissioners exceeds the amount necessary for paying these flat rates of interest, then there is an excess amount which is not due to the particular society. Over a period of years those amounts have accumulated up to this figure of nearly £15 million. It has been kept in the fund. It is invested. It is drawing interest. When the new scheme starts, this amount, in common with the rest, will go into the new pool.

2525. It will be transferred?—Yes.

Chairman.] Are there any further questions on the reneo-ed statement or on the National Health Insurance Fund Accounts? May I take it that those Accounts are approved? (*Agreed.*)

the best yield at the time, which are not, of course, always those which suit the market, because the National Debt Commissioners do not pay income tax and some securities therefore give a good yield to them which the market does not like. They have been buying rather the long-dated securities.

2528. I wondered why the National Health Insurance Funds were invested in long-dated securities whereas the Unemployment Insurance Funds are invested in short-dated securities?—Because the risk of sudden large withdrawals may be greater in the case of the Unemployment Insurance Fund.

2529. But the National Debt Commissioners operate on general instructions given by the Treasury?—I think in consultation with the Departments concerned.

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[Continued.]

The Treasury and the Departments consult and reach agreement as to the general lines.

Chairman.] Are there any questions on this White Paper?

Sir Frank Sanderson.] On that one point, it is rather conspicuous that the National Health Insurance Funds are invested in dated securities. They do not seem to accept the view that an undated security is the best security for all.

Chairman.] What about the local loans stocks?

Sir Frank Sanderson.] They have been paid off. They are very short-dated securi-

ties. The only point in my mind is that, whilst I am fully in accord with the principle which has been enacted here, it does seem to me a little strange that the policy for investing funds of Government Departments should be short-term and the policy which they ask the country to accept is an undated security on a 2½ per cent. basis. That is all.

Chairman.] I do not think that question is capable of an answer.

Sir Frank Sanderson.] No; I do not ask for an answer. I just want it on the record.

WIDOWS', ORPHANS' AND OLD AGE CONTRIBUTORY PENSIONS ACTS
ACCOUNTS, 1945-46.

TREASURY PENSIONS ACCOUNT.

THE PENSIONS ACCOUNT.

PENSIONS (SCOTLAND) ACCOUNT.

TREASURY SPECIAL PENSIONS ACCOUNT.

SPECIAL PENSIONS ACCOUNT.

SPECIAL PENSIONS (SCOTLAND) ACCOUNT.

Chairman.

2530. Will Members turn to the Widows' Orphans' and Old Age Contributory Pensions Acts Accounts, 1945-46. We will take first the Report of the Comptroller and Auditor General on page 8. The deficiency referred to in the second sub-paragraph is in fact an Exchequer contribution, is it not? We are told that the expenditure on pensions amounted to £62 million odd and the income from contributions was £48 million, leaving a deficiency of nearly £15 million?—(*Sir Thomas Phillips.*) It is met by the Treasury contribution.

2531. That forms the Exchequer contribution, does it not, to the Pensions Fund?—I think you will see from the Treasury Pensions Account that it is £21 million in total.

2532. Is that £15 million not the full extent of the Exchequer contribution?—The £21 million is a statutory amount; the £15 million is the ascertained deficit, and the difference is, in fact, an addition to the resources of the Pensions Fund.

Chairman.] Are there any questions on these Accounts? May I take it that the Accounts are approved? (*Agreed.*)

UNEMPLOYMENT FUND ACCOUNTS, 1945-46.

Chairman.

2533. Will Members turn to the Unemployment Fund Accounts, 1945-6. The Comptroller and Auditor General's Report is on page 8. He tells us that the contribution income was just under £80 million, nearly £10 million in excess of the previous year, due to the receipt of contributions from the Defence Departments under section 96 of the Act of 1935 and the related Exchequer contribution. He goes on to say that the expenditure on Unemployment benefit rose from £3½ million to £12,645,000, and the cost of administration chargeable to this account was £3,855,000. How are the administration costs decided? Are they an ascertained figure?—(*Sir Thomas Phillips.*) Not entirely. At the bottom of page 3 you will see the distribution of the payments as between the various Government Departments. The main item is the Ministry of Labour and National Service, £2,750,000. That is in the main calculated by estimating the proportion of the work at the exchanges which is properly chargeable to the administration of unemploy-

ment benefit, which is not, in itself, an ascertained amount.

2534. The administrative charge, the total of which is just over £4 million, seems high in relation to the amount of benefit disbursed, which is £12½ million odd?—Yes, but it is 5 per cent. of the revenue.

2535. It is 5 per cent. of the contributions?—Five per cent. of the contribution revenue; and of course, the machinery of the exchanges and of our office at Acton has to be kept in being whether the amount of benefit paid is small or large. While an increase in the number of unemployed puts the cost up, of course it does not do so proportionately. The overheads are heavy.

2536. But was this amount of money, about £4 million, actually spent in the year of account upon administration?—Yes, subject to the point I have made, that in a good many cases it has to be a split of total expenses. For instance, a particular employment exchange has a staff of so many, and various other expenses—

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[Continued.]

2537. I thought you told me that the charge of £4 million represented 5 per cent. of the contributions?—Yes; it happens to be that.

2538. It cannot always happen that 5 per cent. of the contributions exactly equals the amount of money disbursed?—No, the year before it was 4 per cent. I merely mean that it happens to turn out to be 5 per cent. The maximum is 12½ per cent.

2539. But this £4 million was actually spent in the administration of unemployment insurance benefits?—Yes.

2540. Totalling £12½ million?—That is right.

2541. It does seem excessively high, does it not, or are you keeping a large machine working in case of large scale unemployment?—There are certain items which in any event have to be carried out, such as, the collection of the contributions and the recording of them at the office at Kew, which itself is a pretty considerable operation. It would not be possible, would it, to have a set of offices throughout the country which would proceed to close down when unemployment was not high? That would not in any event be practicable, because you would have some people in the area unemployed even when unemployment was low. In fact the system is that the employment exchanges are there to do this job. They cost a certain amount. A calculation is made as to the proportion of their work which is attributable to unemployment benefit, and that is the amount charged.

2542. But when it comes to the administration much more expense is involved in disbursing benefits than in collecting contributions, is it not?—For a given sum, yes.

2543. Are the officials who are there and the offices which are there employed on any other duties besides this duty?—The staff of the exchanges are employed in a good many other duties. Their primary function, as you know, is to find employment for the persons on the register. That is regarded as chargeable to this Fund if the person is insured.

2544. In paragraph 2 the Comptroller and Auditor General tells us of the arrangements in regard to the contributions of personnel discharged from the Forces. Instead of making some complicated calculation, as I understand it a proposal was adopted that each person discharged or demobilised should be credited with the value of 30 contributions. Is that right?—Not quite so. The persons concerned are credited with contributions for all their service in the Forces, but the payment made is the value of 30 contributions.

2545. Is that in accordance with Section 96 of the statute?—It is merely a convenient way of expressing a particular

figure. The actuary has to advise what, on the average, will be the amount of unemployment benefit drawn in a certain period by men discharged from the Forces, and the contribution is to be such as will cover that amount. He has said that the figure represented by the value of 30 contributions is the right figure.

Chairman.] I have no further questions. Has any Member of the Committee any questions on the Report of the Comptroller and Auditor General or on the Account?

Mr. Thurtle.

2546. May I put one question? You defend this somewhat disproportionate amount spent upon administration on the ground that you have to have a large reserve of personnel to deal with exceptional unemployment. Is that the point?—In fact there is the employment exchange organization, whose primary job is to place work-people in contact with employment. So far as the persons concerned are insured that is regarded as chargeable to this Fund, just as the services of a doctor are chargeable to the Health Fund. It would not be practicable, I think, to demobilise the staffs of the employment exchanges during periods when unemployment is low. There has to be a certain minimum staff. When unemployment increases the staff has to be added to it, it may be. But it cannot be reduced below a certain figure, if the insured persons are to have not only the service of getting benefit but the service of being put in contact with a job when they fall out of work.

2547. You would say that the minimum figure is 4d. out of every rs. collected?—No, it is 5 per cent., which is rs. in the £.

Mr. Thurtle.] £4 million expenditure in respect of £12½ million collected—

Chairman.

2548. No, disbursed in benefit?—It so happens that the amount of benefit being paid is extraordinarily low in comparison with the total contributions, which are in fact between £50 million and £60 million.

Mr. Thurtle.

2549. The point of my question is this. I wondered whether your administration plans were based on the possibility of sharp fluctuations in unemployment, as between very low unemployment and very extensive unemployment, and I wondered whether circumstances had not so changed that there is likely to be much more stability over a considerable period of years, anyhow in the degree of unemployment which exists?—Perhaps I might put it in this way: We are carrying on the system that has operated in the past, and it may be that if, over a period of years, the rate of unemployment is as low as it has been for the last few years we should have to reconsider

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[Continued.]

the charge that ought to be made to the Unemployment Fund for the services of the employment exchanges. For quite other reasons it might be thought essential to have employment exchanges staffed as they are now, in order that the workpeople should have the service of being put into a job. But it might be thought that if unemployment is quite low it is not reasonable to charge that to the Unemployment Fund. In fact, a very large part of the cost of the employment exchanges is charged to the Unemployment Fund.

2550. All I want to know is that you have that consideration in mind?—We have that in mind as a future operation to be considered, certainly.

Sir Frank Sanderson.

2551. Is the administration of the Unemployment Fund centralised or decentralised? I take it it is decentralised. Am I right?—It is decentralised to the extent that the claims are made at the local office and are decided there.

2552. Payments are made at the employment exchanges?—At the exchanges. There has to be centralisation to this extent, that

(Sir Thomas Phillips and Mr. Smith withdrew.)

CIVIL APPROPRIATION ACCOUNTS, 1945-46.

CLASS V.

VOTE 4.

MINISTRY OF LABOUR AND NATIONAL SERVICE.

Sir GODFREY INCE, K.C.B., K.B.E. and Mr. T. W. F. DALTON, C.B.,
called in and examined.

Chairman.

2556. Sir Godfrey, will you turn to paragraph 45 onwards of the Report of the Comptroller and Auditor General on the Civil Appropriation Accounts, 1945-46? In paragraph 45 the Comptroller and Auditor General tells us that the Vote for 1945-46 "included a provision of £12,500,000 for training, rehabilitation and resettlement schemes. Owing to various causes, as stated in the explanation to Subhead H, the introduction of the schemes was deferred and actual expenditure during the year amounted to only £2,603,447." The note in the Accounts, on page 224, explains the underspending as follows: "The end of hostilities with Germany did not take place until some months after the date assumed for the purpose of the Estimate." My recollection, from when I was a junior Member of the Government, is that we were expecting the war to end rather sooner than it did, but in the Ministry of Labour you apparently took another view?—(Sir Godfrey Ince.) This estimate is based on the assumption that it ended at the end of 1944 instead of in May 1945, when in fact it did end.

there is kept a ledger account of the contributions and benefit of each person at one place, namely, at Acton.

2553. Quite, but surely if an amount is credited to the Fund at the local exchanges that would convey the impression that there are men at every employment exchange whose sole business is the administration of the Unemployment Fund, whereas I assume that is not so? They have other activities besides dealing merely with the Unemployment Fund?—I have said that not only the payment of benefits but the offering of a job is regarded as a proper charge on the Unemployment Fund.

2554. Would you say it is regarded as a proper charge whereas in fact they had other duties as well?—They certainly have other duties and that is why the cost is apportioned.

2555. The cost would appear to be somewhat excessive?—That would be a matter of argument. It is apportioned.

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

2557. You were preparing for an earlier termination of the war?—Yes.

2558. The Comptroller and Auditor General states: "In November 1946" (that is a much more recent date) "some 70 Government Training Centres were open, providing 27,000 training places, of which 25,000 were filled." Is there a programme of construction of Government Training Centres, or have you been using existing premises?—We have been doing both. We have had very great difficulty in obtaining premises. Some of the premises are new ones which are being built to a programme, but many of them are either factories or other places which have become available and which we have adapted.

2559. Do the Ministry of Works do the building where building is necessary?—Yes.

2560. Have they constructed some Training Centres for you already?—Yes.

2561. Are there any others in progress of erection?—Yes.

2562. Can you give the Committee any figure of what the cost of training is per

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[Continued.]

man in course of training, so to speak?—I cannot give you the complete cost, but I can give you part of the cost. I can give you trainees' wages and allowances and the staff costs at the centres per trainee week, but not the overhead costs and costs in respect of the buildings. They, of course, are borne on the Ministry of Works Vote. For 1945-46 the average weekly wages or allowances of trainees were 66s. 10d. in the ordinary Government Training Centres, and the staff cost at the centres per trainee week was 48s. 4d., making a total of £5 15s. 2d. Those are the Government Training Centres.

2563. You cannot, of course, give us any figure of the capital cost of the buildings?—No, I am afraid I cannot. The capital cost is borne on the Ministry of Works Vote.

2564. Yes. These are allowances, are they not, paid to trainees, of 60s. to 75s. per week, mentioned in this paragraph?—Part of the time they were wages, but we changed over from paying wages during that particular financial year, 1945-46, to paying allowances; so that they are partly wages, for the first part of the financial year and for the second part they were allowances.

2565. Is there some difference as regards income tax?—Yes. Wages are subject to income tax. The allowances were fixed on the basis, for men at any rate, of a gross wage of about £4 a week. Then the equivalent of income tax was deducted in order to obtain the allowance to be paid. On top of that, a man, if he had dependants, got an additional allowance.

2566. The men would pay for their own board out of these allowances, would they? They would pay for their actual meals consumed on the premises?—The way in which that is done is rather complicated.

2567. What I am trying to arrive at is whether the allowance includes any payments in kind?—No, it does not include any payments in kind.

2568. Are there any payments in kind over and above the allowance? Are there any meals provided free?—Might I ask the Accountant-General to explain this? It differs in various cases. (Mr. Dalton.) In some cases, where the trainees have to be boarded out we actually pay the cost of board, and then we adjust the allowances so that they are left with some reasonable cash sum in their pockets.

2569. In the ordinary way a man is expected to provide his board out of his allowance?—Yes. (Sir Godfrey Ince.) In the ordinary way, yes.

2570. The Comptroller and Auditor-General tells us: "In some instances, where training is carried out by employers, the cost of the allowances to the Ministry

is reduced by contributions from the employers"?—Yes.

2571. In other cases, he says, the employers pay wages during training and receive contributions from the Ministry. When I read that last sentence it reminded me of something known as the Speenhamland System, of which you have no doubt heard. Does it not operate as a direct subsidy in aid of wages?—It is only in apprenticeship cases where they pay wages. Normally we reimburse the employer, not the whole amount, but something towards the amount of the allowance which he pays to the trainee. He is in fact training the man. As the man becomes more valuable to the employer the amount which we pay to the employer goes down until the man has completed his training and then the whole cost falls on the employer.

2572. At any rate the system works satisfactorily?—Yes.

2573. And does not involve an element of subsidy to the employers?—No, because that is adjusted by the amount of the allowance which is in fact paid to him. What the employer pays to the trainee is really what a trainee is worth to him under training.

2574. I think we had better take paragraphs 45 and 46 together. Paragraph 46 tells us that Subhead H deals with the cost of training disabled persons under the Disabled Persons (Employment) Act, 1944. The Comptroller and Auditor General goes on to say: "In addition, the Ministry assists in the provision of special courses at three training establishments conducted by voluntary institutions, and makes grants to some other bodies which provide training and employment for the severely disabled." How are those grants calculated and to what sort of bodies are they made?—The three institutions referred to there are St. Loyes College at Exeter, Queen Elizabeth's College at Leatherhead and the Sir John Priestman Hospital at Finchale Abbey, Durham.

2575. Those are voluntary institutions which receive a grant?—Yes, for training the rather more severely disabled persons, the type of person for whom we have not facilities for training in our own Government Training Centres.

2576. How is the grant calculated? Is it supposed to cover the actual cost?—We pay allowances to the trainees and also we pay to the college a fee for the training.

2577. The last part of paragraph 46 deals with a residential industrial rehabilitation centre. Where is that?—At Egham, in Surrey.

2578. Is that the large red-brick building you see as you go up the hill on the far side of Egham?—No, that is the college belonging to London University. It is about one mile beyond that on the left hand side.

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[Continued.]

2579. This is run with the object of assisting the return to work of men who are not fit to take up employment. It provides a course lasting up to eight weeks. The amount included in the present Account is £49,000. How many men does this centre house?—The complete capacity of it is about 250.

2580. Is it usually full?—No, it is not full. The numbers have ranged from 150 to about 225 or 230 during the last two years.

2581. How many staff are there there?—About 50. That includes the medical staff as well as the managerial staff, the domestic staff and some instructors.

2582. Can you tell the Committee what the cost works out at per man trained?—The average cost per resident week in 1946-47 (I have not the figures for 1945-46 because they are not available) exclusive of the capital expenditure, which again is borne on the Ministry of Works Vote, was £6 3s. 11d.

Chairman.] Are there any questions on paragraphs 45 and 46 of the Report of the Comptroller and Auditor General?

Mr. Thurtle.

2583. I take it that in the case of these men who are being trained in factories in private employment, you do that usually because you have not the facilities for giving them training otherwise?—That is so.

Lieut.-Colonel Hamilton.

2584. I see from the third sub-paragraph of paragraph 45 that there were 27,000 training places, of which only 25,000 were filled. I thought there was always a long waiting list of people who wanted training. Why is there that gap of 2,000?—We have got a waiting list and have had for some considerable time, but it is really a question of getting the trainees into these training places exactly at the right moment that a vacancy occurs. That is not always possible. We have always got some places available for a few days at any one time. When you come to average it out you get so many people in at any given moment. One of the great difficulties which causes this is the fact that lodgings are so extremely difficult to find, and this quite often holds up getting people into a centre.

Chairman.

2585. Are there any further questions on those two paragraphs? We pass to paragraph 47 which deals with resettlement grants. These are grants to men who want to start business in a small way on their own account, I take it?—They are grants to disabled persons who want to start business, but in respect of fit men the grant is

only made to those who had a business before they were called up and they want to resume their business.

2586. We are told, in the fourth line on page xx: "Recipients undertake that they will not dispose of the business within two years except with the prior consent of the Ministry, and refund of the whole or part of the grant may be required from the proceeds of disposal." Do you get any cases where men want to dispose of the business?—Occasionally, yes.

2587. Can you in fact recover, or do you ever recover part of the grant?—Yes, we do recover. We do not succeed in recovering in every case.

2588. What legal sanction would there be for recovery if the man defied you and sold the business?—The man gives an undertaking when he obtains his grant, which in effect is an agreement between the man and the Ministry.

2589. You think you could sue him on that?—Yes, we can sue him on it.

2590. Are there any questions on paragraph 47? We pass to paragraph 48, which deals with agricultural training and resettlement. Your only responsibility here is for the recruitment of persons, is it not, for agricultural training?—Yes.

2591. I do not think we need bother with that paragraph. Are there any questions on paragraph 48? We pass to paragraph 49 which deals with Disabled Persons Employment Corporation, Limited. The main purpose of forming this company, I understand, was in order to erect special factories, was it not, for the employment of these people?—Yes, because they are unable to take their place in ordinary industry by reason of their severe disability.

2592. The Comptroller and Auditor General at the end of the first sub-paragraph states: "All the Directors, including at least one Financial Director appointed in agreement with the Treasury, are appointed by the Minister, who also determines their remuneration." How many paid Directors are there?—Two. There is the Executive Director, who gets £1,500 and the Financial Director, who gets £500.

2593. He gets only £500? I suppose he is a Civil Servant as well?—He is a retired Civil Servant. He originally got £250 a year. He then got £500.

2594. He has not got a full-time job, then?—No.

2595. We are told, a little lower down: "The Corporation undertake, *inter alia*, to submit programmes to the Minister." Can you tell me whether all expenditure by the Ministry of Works on the provision of these factories is to be repaid by the Corporation?—It will be paid for by the Corpora-

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[Continued.]

tion and they would get the money from us.

2596. It would be paid for by the Corporation and the Corporation would get Voted Money from the Ministry of Labour?—Yes.

2597. As regards the men employed in these special factories, do they receive wages or allowances?—They receive wages at three different rates, according to their disability. They receive wages at the full trade rate, or else at a rate which is at about 80 per cent. of the full trade rate, or at the third rate, which is about 70 per cent. of the full trade rate.

2598. These men are, in part, ex-Service men who have been disabled in the Services?—Yes.

2599. And, in part, industrially-disabled men, are they?—Yes.

2600. Do you have those two categories of men working in the same factory?—Yes. There is no distinction made between ex-Service men and other disabled men.

2601. Do you not get a difficulty arising from the fact that the ex-Service man enjoys his Service pension in addition to his wages, whereas the industrially-disabled man loses his Workmen's Compensation as his earnings improve?—We have not had any difficulty of that nature; and of course, that is exactly the position in industry. The position is no different in our training centres from the position in industry.

Chairman.] Are there any questions on paragraph 49?

Mr. Thurtle.

2602. I take it you would say, Sir Godfrey, that this attempt to train these people who are so severely handicapped is really not regarded as a business proposition, but as an act of compassion towards people who are in a very difficult position?—An act of humanitarianism, yes.

2603. Is this Corporation a non-profit-making Corporation?—Yes.

2604. Is it also a fact that you have been rather disappointed in the degree to which you have been able to get these factories started? I have had one or two constituents who have wanted to get into them, but I have been told you have not got forward as quickly as you wanted to?—That is so, entirely due to the difficulty of getting premises.

2605. You are still doing your best, I take it?—Yes. There is a big programme.

Sir Frank Sanderson.

2606. I want to put one question, which I think has been partially answered. Speaking generally in regard to these paragraphs, are the training and resettlement schemes under the Ministry of Labour and National

Service for Service men and women only?—For men from the Services, for women from the Services and for men from the Merchant Navy and for both sexes from other war work.

Chairman.

2607. Are there any further questions on paragraph 49? We turn to the Account, which starts at page 222. My first question, on Subheads A-E for Administration, is: Has there been any saving in administrative expenses at the Ministry of Labour due to the transfer of some of your functions to the Ministry of National Insurance?—I think the answer to that is "No" because we are still doing the bulk of the work of unemployment insurance on an agency basis.

2608. You are, in fact, still doing practically the whole of the work?—May I add to that? There has been a saving at our headquarters because we have not an Unemployment Insurance Department at headquarters; but at the employment exchanges the work is still done by us.

2609. That is to say, any saving is of a very small character?—Yes, and of course the cost is recovered from the Unemployment Insurance Fund.

2610. How many local offices has the Ministry of Labour in the sense of employment exchanges?—Approximately 1,200.

2611. On page 224, Subhead G.2 is "Courses of Instruction and Occupation for Unemployed Juveniles." The Grant was £20,000 and the expenditure only £7,590. The footnote tells us: "Included under this subhead are grants to local authorities amounting to (a) approximately £4,850 in respect of continuing liabilities for rent and loan charges relating to closed centres"?—Yes.

2612. It occurred to me that it might not be really necessary, seeing that the school-leaving age was being raised and that there is an immense demand for juvenile labour, to maintain closed premises for giving young persons instruction if they became unemployed?—Insofar as they have been of use these centres which we have been maintaining have been let out to other people, for which we get rent.

2613. They have been let out to the Youth Movement, or something of that sort?—(Mr. Dalton.) In the main they have been used by the local authority for other purposes. Quite a number of them are not really suitable for school purposes. But they have been used for other purposes. In one particular class of case they were used for civil defence services. In that case we did not recover anything from the local authority in respect of rent, merely because that was already a 100 per cent. Grant-aided Exchequer service, so it just was not worth while making the transfer. But where they use them for their own pur-

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[Continued.]

poses, then we get rent from the local authority.

2614. Subhead K.1, on page 225 is "Contribution towards the Expenses of the International Labour Organization (League of Nations)" an expenditure of £134,000. Can you give me the proportion of the total expenses of the I.L.O. which we used to pay before the war, which is represented by this payment here?—(Sir Godfrey Ince.) I can give you from 1940 onwards. I have not the figure for 1939. In 1940 we paid 13.2 per cent. That has been going up. In 1941 it was 20.7 per cent.; in 1942 it was 22.8 per cent.; in 1943 it was 24.9 per cent.; in 1944 it was 25.7 per cent.; in 1945 it was the same, 25.7 per cent. Then it starts to come down. In 1946 it was 23.2 per cent., and in 1947, estimated, 15.7 per cent.

2615. The last figure is a more hopeful one?—Yes.

2616. To what is this variation due?—I suppose it is due to non-payment of contributions by other nations, is it?—Very largely.

2617. Have we any hope of getting back to the pre-war proportion of the charge which we bore?—(Sir Frank Tribe.) I am, told that in 1939, to complete that table, it was 11.8 per cent.

2618. At any rate, it is coming down now, to 15 per cent.?—(Sir Godfrey Ince.) Yes.

2619. On page 226 amongst the receipts I see, at the top of the page, that £2½ million which you received from the Unemployment Insurance Fund. Is that related to the contributions paid in the year, or is it an ascertained figure?—It is an ascertained figure of cost.

2620. It is the actual ascertained figure of administration costs which you have incurred?—Yes.

2621. Number (6) in the details of receipts is "Sales of products and other receipts in connection with training, &c., schemes," a figure of £22,000. Are those sales of products from the training centres?—Yes. We do jobs for industry with materials provided by them, for which, of course, employers are charged, and then, also, some of the training exercises are sold.

2622. Do you get ordinary wholesale prices for those goods which are sold?—No, we do not do that. (Mr. Dalton.) We really have to agree a price according to the standard of work.

2623. Is there some organisation or recognised channel for disposing of the products of the training centres?—So far as jobs for employers are concerned, the charge is agreed with the manager of the training centre on general standards laid down. For the rest they are sold to trainees and other people just as and when opportunity arises. There is no organisation.

2624. You mean to say that the manager of a training centre has authority to sell the products?—Yes.

2625. Is the arrangement satisfactory?—The general standards that he has to observe are laid down from headquarters.

2626. Sir Godfrey, will you look at the losses at the foot of this page. The first item is "Theft, misappropriation, fraud, &c." a figure of £109 and then there is a reference, I take it, to a file; but there is no description of this particular theft, misappropriation or fraud, and I should like to know why there is no description?—(Mr. Dalton.) This was a mixed burglary. I think the real intention was to steal clothing coupons. The burglars found £100 in the safe and they took that. They did take a very large number of clothing coupons.

2627. Should there not have been a description, in accordance with the usual practice, of the misdemeanour, in the losses statement?—This has always been our practice, to quote the Treasury authority, as it clearly is theft. There is the general heading there "Theft, misappropriation, fraud, &c." and it has been our practice just to leave it at that.

2628. A little lower down we get quite detailed statements. A blind telephone operator got £11 7s. 1d. more than he should have done, and so on?—Yes. But, as I say, that did not come under the generic title "Theft, misappropriation, fraud." That is the difference between the two.

2629. I should have thought that in the case of theft, misappropriation or fraud it was perhaps all the more important to describe in the losses statement the nature of the fraud?—(Mr. Jones.) That is the more general practice, to give a brief description of the nature of the loss.

2630. At any rate, there is not any explanation of the absence of any descriptive matter?—(Sir Godfrey Ince.) No. This is what we have always done. (Mr. Dalton.) Yes. This was just straight burglary.

Chairman.] I thought perhaps you were afraid of burglars reading the Civil Appropriation Accounts and picking up a few hints from them. I have no further questions on the Account. Has any Member any questions on the Account?

Mr. Thurtle.

2631. With regard to the cost of unemployment insurance administration, I think the Committee is a bit puzzled by this. The Ministry of National Insurance has taken over certain administrative functions from the Ministry of Labour?—(Sir Godfrey Ince.) Yes.

2632. And it incurs a certain considerable amount of expenditure as a result of that. You, on your part, say that although the

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[Continued.]

Ministry of National Insurance has taken over these functions, it has made practically no difference to your expenditure. It seems a little puzzling?—I think I did qualify that by saying that it had made a difference to headquarters because we had no longer a Headquarters Department for unemployment insurance. It has made no difference to the local expenditure because we are doing the whole job locally—the whole job of unemployment insurance, taking claims and paying benefit, rating the claims, computing the claims: that is still being done by us.

2633. You would not say that part of the explanation is that the volume of work, as a whole, has increased?—It has increased since the war because of the increase in the numbers of unemployed. We had 102,000 unemployed at the end of the war. To-day we have over 400,000. (Sir Frank Tribe.) Sir Thomas Phillips explained to the Committee that the Ministry of National Insurance had taken over from the Ministry

of Labour the Claims and Record Office at Acton, and he claimed that the half million pounds or so which is paid out of the Unemployment Fund to his Ministry was mainly in respect of the recording of the insurance contributions at Acton, which was presumably done before by the Ministry of Labour. (Sir Godfrey Ince.) That is quite right.

Chairman.

2634. In theory, there should have been a saving by the Ministry of Labour of a half million pounds odd, which is borne on the Ministry of National Insurance Vote?—So far as the Claims and Record Office is concerned, that is being run by the Ministry of National Insurance and not by us now and, therefore, as far as we are concerned, there is shown an equivalent saving.

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

VOTE 5.

GRANTS IN RESPECT OF EMPLOYMENT SCHEMES.

Chairman.

2635. The Account is at page 228. This is an Account of sums expended on Grants to local authorities. I should like to have it on record whether these Grants are repayable. Will they be recovered from the local authorities?—(Sir Godfrey Ince.) Might I ask the Accountant-General to answer that question?—(Mr. Dalton.) They are not repayable. This is the winding up of the scheme under the Unemployment Grants Committee of 1926-1930. The Grants in those days were given towards

loan charges in respect of loans raised for carrying out public works. Many of those loans are still extant and, insofar as loan charges continue, we continue to Grant-Aid. But the loans are being extinguished gradually.

2636. There will come a time when this Grant no longer has to be made?—It is somewhere about 1965 when it finishes, I think.

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

CIVIL APPROPRIATION ACCOUNTS (WAR SERVICES), 1945-46.

CLASS X.

VOTE 9.

MINISTRY OF LABOUR AND NATIONAL SERVICE (WAR SERVICES).

(Report and Accounts of the National Service Hostels Corporation, Ltd., 1945.)

Chairman.

2637. Will Members turn to paragraphs 49 to 51 of the Report of the Comptroller and Auditor General on the Civil Appropriation Accounts (War Services) 1945-46? These paragraphs deal with the National Service Hostels Corporations Ltd. At the top of page xvii the Comptroller and Auditor General says: "The audited accounts of the Corporation for the year ended 31st March, 1946, showed an excess of expenditure over income of £726,145"?—(Sir Godfrey Ince.) Yes.

2638. That is nothing like the whole of the actual loss, is it, on the hostels?—No.

2639. Because if we look at the foot of paragraph 51 we see "If payment had been made on this basis" (which is there described) "in 1945-46, the cost would have been approximately £1,500,000"?—Yes.

2640. That is on the basis of including the cost of buildings, equipment, maintenance and fuel. Those are the services rendered by the Ministry of Works?—Yes.

2641. There are several classes of hostel, I gather. There is the industrial hostel. There are the hostels for the London repair workers. There are miners' hostels, and there are a few subsidiary classes?—Yes; there is the running of canteens.

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[Continued.]

2642. We are told here what were the losses on each of the main types. I gather that the £149,000 was the loss on the industrial hostels. That is at the top of the page?—Yes.

2643. £212,000 was the loss on London repair workers' hostels, and £210,000 was the loss on the miners' hostels?—Yes.

2644. That comes to about £571,000. What were the losses on the other types of hostel not here set out? Members have the Accounts of the National Service Hostels Corporation Ltd. before them. I think the losses are not set out in detail?—Merchant Navy houses and clubs, £17,659. The G.T.C. canteens made a profit of £9,000. The total losses come to about £377,000 and then, on top of that, the head office and the regional office administration costs are £129,000, which makes up the total of £506,000. (Sir *Frank Tribe*.) The difference between that and the amount lost of £726,000 is mainly accounted for by losses on the miners' hostels, which, as you will see from the Account, are made good by a Grant from the Ministry of Fuel and Power of £210,000.

2645. Thank you. In paragraph 50 the Comptroller and Auditor General says: "The main purpose for which the Corporation was set up in 1941 was to provide accommodation for transferred war workers. In 1945 the Government decided to continue the existence of the Corporation for five years, primarily to provide accommodation during the reconstruction period for workers employed away from their homes, but also as a measure to meet the needs of any other categories of persons for whom such provision might be desired as a matter of current Government policy. The necessary legal steps were taken to amend the Memorandum of Association of the Corporation, which previously limited its scope to catering for needs arising out of employment during the war. Specific statutory authority for financing these extended activities from public funds was not regarded as essential, the authority for expenditure obtained by means of the annual Appropriation Acts being deemed sufficient for purposes expected not to be permanent." We are perhaps trespassing a little on matters of policy here, but could you shortly explain to the Committee the reason for continuing these hostels which are losing money so heavily and costing the taxpayer so much in peace time?—(Sir *Godfrey Ince*.) The main reason is because it is impossible to find either houses or lodging accommodation for workers in areas where those work people are most urgently needed. If the hostels were closed those work people would go home. They are living some distance away. A number of vital industries would therefore lose these workers, with very serious effect on the national economy. Another purpose for which not necessarily hostels but camps are being used, which

are being managed by the Hostels Corporation, is for the Poles, and for the European volunteer workers who are coming over at the moment at the rate of 2,000 a week. But the main reason, when this extension was made was because of the acute shortage of workers in some areas with the acute shortage of both housing and lodging accommodation.

2646. Can you give us any figure of the cost to the Exchequer per resident in the hostels—per hostel resident?—The great difficulty in working out any reliable figure is owing to the changes in the population of the hostels.

2647. The population of the hostels varies a great deal, does it?—Yes. I am afraid I have not a figure here that I can give you.

2648. Granting the case for continuing the hostels, surely the aim must be, or should be, to make both ends meet at the hostels and charge residents something equivalent to the cost of the services?—Apart from the capital charges, we are nearly doing that now. We did raise the charge by 5s. to 30s. for men and 25s. for women last July.

2649. You are nearly making ends meet disregarding cost of equipment, maintenance and fuel. Is that right?—Yes.

2650. These charges to the residents include meals, do they not?—Yes, they get 15 meals a week, two on each week day and three on Sundays.

2651. We are told the standard charge to residents in industrial hostels was increased from 20th July, 1946. What is the position about the other hostels?—The London repair workers are on a different basis. They pay 5s. for accommodation and then they pay for their meals *a la carte*. There are only three of those left now.

2652. They pay only 5s. a week out of their wages for accommodation?—Yes, and they pay for their meals.

2653. What is the position about miners' hostels? Were the charges increased there?—They come under the Ministry of Fuel and Power.

2654. We had better question them about that. What is the answer to the criticism that might be made that this is an unfair competition with the ordinary person who lets out lodgings? There are subsidised lodgings being had with all sorts of amenities provided for the taxpayers?—This is only a small part of the population who have been transferred. The great bulk of the people are in lodgings.

Lieut.-Colonel *Hamilton*.

2655. If I might butt in, I think they generally prefer lodgings if they can get them?—Undoubtedly, most of them do.

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[Continued

Chairman.

2656. I was going to put that point. Did increasing the charges have any effect upon the population of the hostels?—No. It caused an awful row, and a strike at two of them. It has not made any substantial difference to the population of the hostels.

2657. Do you think any further increase might also provoke rows?—It would undoubtedly provoke a row, yes.

Chairman.] Are there any questions on paragraphs 49 to 51?

Sir Frank Sanderson.

2658. In industry it is a common practice to provide hostels where they are necessary?—Yes.

2659. It is not expected that those hostels will make a profit?—No.

2660. On the contrary, it is generally expected that they will show a loss?—Yes.

2661. But they are provided because there is no other means of securing the workers for that particular factory?—Yes.

2662. Am I right in assuming that with regard to the hostels which we are now discussing, they are provided for precisely the same purpose?—Yes.

2663. Because you must have the workers and to get them you must provide a hostel at a rent which is not necessarily economic but which the workers are prepared to pay. Is that so?—Yes.

Mr. Horace Holmes.] There is also the economic question. I have in mind, for instance, certain people who were paying 35s. a week and could not stand up to it, so they went to a hostel for 25s. instead.

Mr. Cuthbert.

2664. Was the strike which occurred when the charge was raised by 5s. due to the fact that the residents of the hostels did not feel that they were getting their maximum worth in food? Was it due to that?—It was due to the fact that they first of all did not feel that they ought to pay any more and, secondly, they alleged that it was putting up the price of the hostels above the price which the landladies charged in the district.

Mr. Cuthbert.] That is what I want to get at.

Mr. Horace Holmes.

2665. How do you distinguish in accounting when there is a change over of user? I have in mind a big mining hostel which was closed down and taken over for evacuee Dutch children. It was used as a miners' hostel for a period and then closed down. Then it was used by the local authority for Dutch evacuees. How do you distinguish in your accounting there? Do you transfer it to a different Department?—(*Mr. Dalton.*) As far as the industrial hostels are concerned, as soon as

we get rid of an industrial hostel for another purpose we get rid of all our liabilities, and whatever service takes it over has to accept those liabilities. The reverse applies, that when we take over, as we have done, certain miners' hostels, and adapt them to industrial purposes, from that moment we have taken over all the liabilities.

Chairman.

2666. Are there any further questions on paragraphs 49 to 51? We turn to the Account, which is at pages 32 and 33. Could you give me some of the principal details. *Sir Godfrey*, in Subhead C "Expenses in connexion with the Transfer of Workers" an expenditure of £4,157,000?—(*Sir Godfrey Ince.*) Lodging and travelling allowances, £3,333,000. Settling-in Grants, £48,000. Household removals and continuing liability allowances, £92,000. Fares and other expenses, £188,500.

2667. I think that is sufficient for my purpose. Those are expenses in connection with compulsory transfer?—With the transfer of workers, yes.

2668. Compulsory transfer?—Not all of them are necessarily compulsorily transferred.

2669. They are not persons directed to go into work?—Many of them will be persons who have been directed, but others will be people who went quite voluntarily—who were asked to go and said they were prepared to go.

2670. People who are asked "Are you prepared to work up in London and repair blitzed buildings?" and who, if they put their hand up, get a grant?—They get lodging allowances, provided they are maintaining two homes. They get their fares paid to the place.

2671. Now that everybody is, I believe, free to choose his own employment, is this type of expenditure still continuing?—To a limited extent. Certain allowances of this kind are paid to workers who are asked to transfer from their own areas, where there is not sufficient employment for everybody, to areas where the workers are most urgently wanted. It is also paid to certain key workers who are wanted in the Development Areas for new factories, to get those going; then, also, it is paid to workers in the Development Areas for whom there is no work at the moment, such as, for example, in South Wales. They may be asked to go to the Midlands temporarily until work becomes available in Wales and their names are kept on the local register for the time being.

2672. What statutory authority is there for this expenditure at the present time?—It is under the Unemployment Insurance Act, 1935, Section 102.

2673. In the notes on page 33 I see, in number (2) you gave £600 worth of surplus

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[Continued.]

gramophone records away to the Arts Council?—Yes, we did.

2674. Could the Arts Council make use of those records? I should have thought they would be rather worn out after they had been handled in your hostels?—That is why they got them cheap.

Chairman.] Are there any questions on the Account?

Sir *Frank Sanderson.*] Does the £600 refer to the cost of the records or to the value of the records when they were disposed of?

Chairman.

2675. It says: "of a residual value of approximately £600"?—Yes.

Chairman.] That means their value for boiling down.

Mr. Cuthbert.

2676. On page 32, under the details of expenditure, item (ii) of Subhead B is "Entertainment provided by the N.A.A.F.I. Department of National Services Entertainment" a figure of £440,000 odd. What is that? Is that the workers' music business, that we hear so much about?—Yes. It is the concert parties and cinema shows which were given by E.N.S.A. in the factories for the war workers and for the Women's Land Army and other people throughout the country during the war. It stopped last year. I think it completely stopped by August, 1946.

Chairman.] Are there any further questions on the Account? May I take it that the Account is approved? (*Agreed.*) Thank you very much, Sir Godfrey.

(*Sir Godfrey Ince and Mr. Dalton withdrew.*)

CIVIL APPROPRIATION ACCOUNTS, 1945-46.

CLASS I.

VOTE 23.

MINISTRY OF TOWN AND COUNTRY PLANNING.

(*On this Account no questions were asked.*)

(*The witnesses withdrew.*)

Adjourned till Thursday next, at 3.45 p.m.

THURSDAY, 15TH MAY, 1947.

Members present:

MR. PEAKE in the Chair.

Mr. Benson.
Mr. Cuthbert.
Lieut.-Colonel Hamilton.

Mr. Horace Holmes.
Mr. Thurtle.

Sir FRANK TRIBE, K.C.B., K.B.E., Sir ERIC BAMFORD, K.B.E., C.B., C.M.G., and Mr. C. E. I. JONES called in and examined.

CIVIL APPROPRIATION ACCOUNTS, 1945-46.

CLASS VI.

VOTE 2.

MERCANTILE MARINE SERVICES.

Sir CYRIL HURCOMB, G.C.B., K.B.E., called in and examined.

(*On this Account no questions were asked.*)

VOTE X.

ROADS, ETC.

Chairman.

2677. Will Members turn to the Civil Appropriation Accounts, 1945-46, Class VI, Vote 10, Roads, etc.? We take first paragraph 56 of the Report of the Comptroller and Auditor General. This paragraph deals with the collection of motor taxation. Sir Cyril, the duties on motor vehicles are collected either by the local authorities or

by the Post Office, are they not?—(*Sir Cyril Hurcomb.*) Yes.

2678. When we come to the Account we shall see a sum entered for the expenses of the local authorities in collecting the duties, shall we not?—Yes.

2679. Can you tell the Committee whether you think the system of collection

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[Continued.]

by the local authorities is satisfactory?— Yes. We have examined that often during the past 20 or 25 years and we have always come to the conclusion that that was the most economical and satisfactory way of collecting these duties, with the concurrent arrangements for registration. The cost of collection, of course, tends to vary with the amount of the revenue collected, but it works out at just under 2 per cent. for every £100 of revenue collected in the year of account before you. That is a decrease on the previous year when, of course, the total revenue was very substantially less.

Chairman.] Are there any questions on paragraph 56?

Mr. Benson.

2680. You say the system of collection is satisfactory. Have you ever consulted the motorists, Sir Cyril? It is arranged by area and in the small areas, unless the motorist wishes to send up to the County Town, it is extremely inconvenient. Is there any reason why one should not be able to renew one's licence at any main post office instead of having to go to some tiny post office which may be miles away?—I should have thought to attempt to allow the sub-post offices—

2681. I said the main post offices?—He can do that if he goes to a head office.

2682. Not if it is outside the particular area in which he lives. He is limited to one main post office?—We have always thought that the area in which he resides is the most convenient for the vast majority of people to go to take out their licences.

2683. It may be in many cases, but in some places, particularly in the country areas just outside the area surrounding a large town, it may be very inconvenient?—I myself can remember no representations from the motoring associations on that point.

2684. Perhaps I have suffered more than anybody else?—You may be unfortunate. It certainly would not reduce the cost of collection if one complicated the system by enabling anyone to take a licence out anywhere.

Chairman.

2685. You can take a game licence out at any post office. I wondered if there was some objection to taking out a motor licence, anywhere?—You do not have to register your gun or produce a certificate

ROAD FUND ACCOUNTS, 1945-46.

Chairman.

2692. We turn now to the Road Fund Accounts, 1945-46. Your Report, Sir Frank, on page 6, is purely formal, is it not?—(Sir Frank Tribe.) Yes.

2693. Sir Cyril, would you turn to the Account, on pages 2 and 3. The first

of insurance in case you injure anybody, and so on.

Mr. Benson.

2686. They are both lethal weapons?— The procedure is somewhat different. No doubt this could be looked at if there were any public demand for it, but we have had no evidence of that, as far as I know.

Chairman.

2687. Are there any further questions on paragraph 56? We turn to the Account, on pages 302 and 303. Could you tell us why the Menai Bridge is given the importance of a separate Subhead for a Grant of only £400?—It was a quite separate activity and the expenditure upon it was of a somewhat special nature. I think your question is best answered by saying that from the 1st April, 1946, the Menai Bridge does form part of the trunk road system, and the expenditure will therefore, from that date, be met from the Road Fund as part of the expenditure on trunk roads.

2688. Subhead F is "Road Expenditure of an abnormal character or outside the scope of the Road Fund." The expenditure was nearly £5 million. I think you told us last year something about this. I think it was mainly in connection with roads built for the Service Departments?—Yes. The work done, which is carried out by the highway authorities on a repayment basis, was mainly in connection with the traffic of the Services and other Departments.

2689. Does the expenditure include the purchase of any bridging materials supplied to foreign countries or outside bodies, like U.N.R.R.A.?—There is about £146,000 in this sum representing the cost of emergency bridge material which was acquired from the local authorities and put at the disposal of the French and Dutch Governments. The material sent to France was brought into account in a general settlement with the French and that sent to Holland is being paid for by the Dutch in cash and the amount received from them is credited to the item of extra Exchequer receipts.

2690. Does it include any similar material supplied to U.N.R.R.A.?—I do not think so.

2691. Are there any questions on the Account? May I take it that the Account is approved? (*Agreed.*)

item on the payments side is "Grants to Highway Authorities, etc." Could you tell me whether, in making Grants to highway authorities, any account is taken of the financial position of the local authorities and whether the Grants vary at all in accordance with the poverty or otherwise of the local authority?—(Sir Cyril

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[Continued.]

Hurcomb.) That element was present in the old scheme of Grants, though I do not think it had much effect, if any, in this year of Account. But as from the beginning of 1946 we have introduced a revised scheme of Grants which gets rid of a great many of these differentials and anomalies in the old scheme, and puts the Grants upon a more uniform and logical basis.

2694. The amount of the Grant will vary in the future only in accordance with the nature of the roads. Is that right?—With the volume of work and its nature.

2695. There is an item a little lower down, on the payments side: "Salaries and Establishment Charges of Surveyors to Local Authorities." These are surveyors in the employment of local authorities, are they?—Yes. They are the county surveyors and the borough surveyors. Under an old standing statutory authority the Minister is entitled to make a Grant towards their salaries, and to their establishments, and he has always exercised that in favour of any authority which was prepared to accept the Grant. In such cases, of course, the appointment or the dismissal of the officer concerned has been subject to his approval. I think everybody would agree that that was a means of raising the professional standards of the men who are in charge of these very large expenditures.

2696. What percentage of the salary is represented by the Grant, where it is made?—Half.

2697. Are there cases where the local authority do not accept the Grant?—There were some, and I think there may still be a few, but the normal practice is to accept the Grant.

2698. Where a Grant is made, if you were not satisfied with the surveyor you would withhold the Grant?—Yes.

2699. A little lower down there is an item: "Research and Experiments," a figure of £14,000. Is that the whole of the expenditure on road research?—That is the expenditure by the Ministry which is in respect of experimental work on roads, amounting to about £11,000 in this figure, and the balance is a payment made to the Department of Scientific and Industrial Research for special investigation which they carried out on steel girder bridges. The rest of the cost of the fundamental research which is carried out by the Department of Scientific and Industrial Research is borne on their Vote.

2700. You have your own research station on the Great West Road, have you not?—That is now theirs and under their control, but we do a certain amount of work in the field in conjunction with them and bear the cost of that ourselves. That is mainly on road surfacing—the kind of experiment which can only be tested under

actual traffic conditions, and not in the laboratory.

2701. There is close liaison between your Research Department and the Department of Scientific and Industrial Research?—Yes, very close.

2702. I want to ask a question on page 4. There is a number of items relating to the Dartford-Purfleet Tunnel. That tunnel was begun before the war, was it not?—Yes.

2703. It has never been completed?—The pilot tunnel was driven before the war, but the actual tunnel itself was not begun. We shall be very glad, I need hardly say, to clear all these suspense accounts by getting on with the work and then these preliminary expenses would be charged off.

2704. What is approximately the annual cost of maintaining the works in their incomplete condition?—I am afraid I have not that figure in my mind.

2705. It does not appear on this Account, I think, does it?—It is a small sum on consulting engineers' fees, and that kind of thing. I do not think the physical maintenance has been costing anything during the war.

Chairman.] Are there any questions on the Road Fund Accounts, 1945-46?

Mr. Benson.

2706. On page 3 there is an item: "Traffic Signs, etc.," a figure of £100,000 odd. That seems a rather large figure. Is that due to the replacement of notices and the like in the post-war period?—In part the restoration of signs, and the provision of new signs.

2707. You make a 50 per cent. Grant towards the salaries and establishment charges of the surveyors to local authorities. Does the balance that is borne by the local authority rank for Grant under the Ministry of Health?—Not for any special or percentage Grant.

2708. Not for the normal percentage Grant of approximately 50 per cent. that the Exchequer bears for local authority expenses?—No, I think not.

2709. That is the sole Grant that goes towards surveyors?—I think so.

Mr. Horace Holmes.

2710. I think you said a few moments ago that in making Grants consideration was given to the question of the volume of traffic and the classification of the road?—The volume of work. The Grant depends on the amount of work done and the classification of the road.

2711. I had in mind two or three roads of which I know that have been badly ploughed up, in areas where there has been open-cast coal mining, and I wondered if

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Sir CYRIL HURCOMB, G.C.B., K.B.E.

[Continued.]

special consideration had been given to questions of that sort?—I do not think they would get a special Grant. That would have to come out of their general Grant for maintenance.

Mr. Thurtle.

2712. With regard to this item: "Traffic Signs, etc." is that concerned with Belisha beacons?—Signs of all sorts.

2713. I wondered if you had considered the present utility of Belisha beacons, and whether you had under consideration the desirability of getting rid of them?—That has often been considered and the decision has always been taken that some special marking of those crossings, not merely by studs but also by beacons, was necessary. That is still the general view. Indeed, at the moment the question is whether they should not be lighted at night; but we have not committed ourselves to that.

2714. There is no early prospect of their disappearing, then?—No. I think those who consider questions of road safety are

of the view that if the public is to be expected to cross roads at these places they must have some plain indication as to where the crossing is.

2715. The other question that I want to ask you is in connection with these Grants towards the salaries of surveyors. Could you tell me if it is the general practice of metropolitan boroughs to accept these Grants?—I do not recall that they have been especially disposed to refuse them.

2716. They more or less fall in with the general practice, you think?—Yes, I think so. One or two of the counties refused them in the old days.

2717. I was more interested in the metropolitan boroughs. So far as you are aware they do not refuse these Grants?—Not to my recollection.*

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

**Note by Witness:* 15 Borough Councils accept grants, and 12 do not.

CIVIL APPROPRIATION ACCOUNTS, 1945-46.

CLASS VI.

VOTE II.

MISCELLANEOUS TRANSPORT SERVICES.

Chairman.

2718. Would Members turn again to the Civil Appropriation Accounts, 1945-46, Class VI, Vote II, Miscellaneous Transport Services. The Account is at pages 304 to 309. Sir Cyril, would you look at Sub-head DD., page 304 "Reimbursement to railway companies of payments to temporary railway employees in respect of overlapping Income Tax payments"? A Supplementary Estimate was taken for £100,000, but the expenditure turned out to be nil. The footnote says: "Saving due to non-receipt of applications from railway companies for reimbursement." Can you explain this to the Committee?—(Sir Cyril Hurcomb.) It was thought here that certain temporary railway employees, whose position was like that of temporary Civil Servants, would get deprived of the benefit of the tax holiday which other people got on the introduction of Pay-As-You-Earn. The railway accountants expected that they would be faced with a substantial number of claims under this head, and the Treasury agreed that the railway companies could not be expected to bear the cost, and, therefore, agreed to reimburse the cost, if it arose, from the Exchequer. Strictly, perhaps, it could be said that the cost of any such refund should have been borne by the Inland Revenue, but as a matter of administrative convenience it was decided that the railway companies should be reimbursed by the Ministry. As things turned out the liabilities which the railway accountants thought they would

have to meet just did not accrue, and therefore the provision was found to be unwanted.

2719. Do you think that was because the railway servants concerned were not aware of their rights to make a claim, or was it just because they did not feel inclined to do so?—I do not think at that time the position was clearly enough understood to see just where a claim might arise. A few claims have, I believe, now been received and any such claims that lead to refunds will fall into the current year and we have provided, as a matter of fact, in our current Estimates, for a token figure so that they can be dealt with and, in due course, brought to the attention of the Committee.

Mr. Thurtle.] Might I put a question on that particular point, Mr. Chairman?

Chairman.] Yes.

Mr. Thurtle.

2720. Is it not a fact that the Inland Revenue adopted the alternative method of meeting these claims by cancelling the post-war credits of those particular individuals for that particular period?—That is not, I am afraid, within my knowledge.

Chairman.

2721. I believe we did have some information on this, Sir Frank, from another Department, did we not?—(Sir Frank Tribe.) There is a separate Vote dealing

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[Continued.]

with the main class of people who were affected, but the temporary railway employees were dealt with on this particular Vote. (Sir Cyril Hurcomb.) I may say that though we again voted a sum last year, no expenditure was incurred, but we expect there will be some small expenditure in the current year and that will be duly brought to notice.

2722. I thought perhaps the railway companies had been making the repayments to the railway servants, but they might have rather less interest in securing reimbursements from the Ministry of Transport in view of what is happening?—No, I do not think so.

Chairman.] Are there any questions on the Account?

Mr. Benson.

2723. There was one phrase you used, Sir Cyril, which I could not understand. I understood you to say that the Treasury felt that the railway companies should not be expected to make the reimbursement. Obviously no railway company is liable for the repayment of Income Tax to the taxpayer. Did I understand you correctly?—I understand that primarily the duty of reimbursement would have fallen on the railway companies, and the question was how they were to get back any money they had refunded. As I say, strictly it should have been borne by the Inland Revenue, but the Treasury directed that the Ministry should bear the cost of the refund on its Vote and that is why the provision was made.

2724. Obviously the railway companies were not liable to do anything except repay the tax on behalf of the Board of Inland Revenue?—(Mr. Jones.) I believe the Chancellor of the Exchequer, in announcing the concession for the benefit of temporary Civil Servants, also said that a similar concession would be extended to railway employees. The reason why the claims are made against the railway companies was, as the Accounting Officer has said, for administrative convenience. The payment has to be determined according to the knowledge of the employer of his employment of the railway official, which was not within the direct knowledge of the Revenue Department. It is purely on grounds of administrative and accounting convenience that the claims have to be submitted to the railway companies by the employees.

2725. The railway companies always had a form of Pay-As-You-Earn, had they not? That was the real reason, was it not?—They were in the same position as Civil Servants. Tax was deducted currently.

Chairman.

2726. There is a number of Supplementary Accounts which we have had before

us previously; in relation to Holyhead Harbour, the Caledonian Canal, the Crinan Canal and the Mersey Conservancy. Do these undertakings pass to the Transport Commissioners under the Transport Bill?—(Sir Cyril Hurcomb.) Yes. Not the Mersey Conservancy; but Holyhead Harbour and the two canals do.

2727. These canals and Holyhead Harbour lose money fairly steadily every year, do they not?—I am afraid so.

2728. I wondered whether there was any particular reason for the losses and whether Government traffic paid any fees or dues?—No. Government traffic does not ordinarily pay dues, but a note is made in the Account as to the value of the passages which they are given free. I am afraid the position of both of the canals is that though they are useful for the limited and local tonnage which uses them there is simply not the volume of traffic sufficient to make them pay.

Chairman.] Are there any questions on the Account, or on these Supplementary Accounts?

Mr. Benson.

2729. With regard to the Caledonian Canal, the local traffic pays approximately one-seventh of the costs. Is there any adequate reason for giving a subsidy which is between five-sixths and six-sevenths of the cost of running the canal? Can the payment of five-sixths of the cost of local transport really be justified?—The alternative would be to close the canal.

2730. Exactly.—I do not think you could pile all those costs on to the tonnage, and there are occasions and have been occasions, during the war for example, when it has been a useful line of communication. I think one of the reasons why the finances of the canal have decayed is that the herring fleet no longer uses it in the way in which it did some years ago. When the herring fleet shifted from east to west and went through the canal at least twice a year there was a very substantial revenue obtained from those boats, but with the increase in the size of tonnage and alterations in the fishing grounds, the boats do not go through the canal. They go north-about and avoid the dues.

2731. Is it not time the Ministry seriously considered closing it down?—I think there would be great opposition from those parts of Scotland if it were done. This is by no means the only service in the area which has to be subsidised.

Mr. Benson.] There is always opposition when you have a service at somebody else's expense, if the service is discontinued.

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

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[Continued.]

CLASS VIII.

VOTE I.

MERCHANT SEAMEN'S WAR PENSIONS.

Chairman.

2732. This Account is at page 368. This Account deals with pensions arising out of the 1914-18 War, does it not?—(Sir Cyril Hurcomb.) Yes.

2733. It is a diminishing amount?—It will gradually liquidate, yes.

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

CIVIL APPROPRIATION ACCOUNTS (WAR SERVICES), 1945-46.

CLASS X.

VOTE 15.

MINISTRY OF WAR TRANSPORT.

WAR RISKS (MARINE) INSURANCE FUND.

Chairman.

2734. Will Members turn to paragraph 84 of the Report of the Comptroller and Auditor General on the Civil Appropriation Accounts (War Services), 1945-46. Paragraphs 84 to 105 are more for the purpose of record, most of them, than by way of criticism of the work of the Ministry, are they not, Sir Frank?—(Sir Frank Tribe.) Yes. As the war had come to an end I thought the Committee might be interested to have a fairly full account of these transactions, which involve a large expenditure, but there is nothing in the paragraphs which is intended to be really critical.

2735. Paragraph 84 deals with "Control of Freight Rates". Sir Frank states: "The Government's decision to keep freight rates generally at the levels in force in October, 1940, and to bear the resultant loss . . . was referred to in paragraph 42 of the Report for 1940-41". That went on until fairly recently, I think. Was there not a period in the year of account when a body called the United Maritime Authority controlled or was supposed to control freight rates?—(Sir Cyril Hurcomb.) They did not actually control freight rates, but it was understood that the countries which were parties to that agreement would, in the main trades in which they were concerned, adopt uniform rates.

2736. Was it part of the United Nations Organisation?—No. It was a separate maritime organisation.

2737. Did all the principal maritime nations join?—All the principal allied nations were members and certain neutral countries, including Sweden, came into it later.

2738. Where were its headquarters?—It had a dual organisation. It ran in parallel in Washington and London.

2739. Did it function effectively?—Yes, it functioned—I think I may say—both effectively and smoothly.

2740. What was its object—to prevent competition in freight rates?—No. Its main object was to ensure that all the maritime countries used their shipping resources in the first instance in the discharge of the agreed common needs, military and other, and that no one country should try to release its tonnage in order to get back on to lucrative trade routes in advance of others. Those two objects were satisfactorily achieved and a level of rates was adopted which paved the way for moving into a rather less directly controlled state of affairs.

2741. Does the organisation still exist?—Not in that form. The requirement for maintaining tonnage under requisition has ceased and most countries have freed their tonnage from requisition and adopted more elastic systems of control, as we ourselves have done. But there is a provisional organisation of the chief maritime nations which will be a consultative body for discussing any especial problems but will no longer allocate the tonnage resources of the pool.

2742. Has the world now gone back to a state of competition where freight rates are concerned?—Yes, but there are qualifications to that statement. We ourselves control the rates for British shipping. A large volume of the American tonnage is in fact still owned by the United States Administration and they therefore are able to control that. But there is a gradual movement back to market conditions, in a market which is still of course very far from normal.

2743. There is still a shortage of ships, is there?—Yes, under the actual conditions there is a shortage of ships outside America; but there is even in the world a shortage of many types of ship. There is a shortage of the specialised ships, such as refrigerated vessels, and the smaller and medium sized vessels are absolutely short.

Chairman.] Are there any questions on paragraph 84?

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[Continued.]

Mr. Cuthbert

2744. With regard to the shortage of shipping, are our freight charges less than the American charges now that we have entered into competition again?—In general our controlled or directed rates are below the American rates, but from time to time and day to day the American rate may fall a little.

Chairman.

2745. We pass to paragraph 85. I was a little puzzled by the phrase in this paragraph "Coastal Liners." I always thought a liner was an ocean-going ship?—No. The coasting trade is divided partly into tonnage of regular liner services which carry general cargo and into a group of tramp ships which carry coal and other bulk cargoes.

2746. When the Comptroller and Auditor General states in the last two lines: "that the foregoing arrangements . . . may involve a cost of £500,000 per annum," those are the arrangements to keep down freight rates, as I understand it, below what is estimated now to be the economic figure. Does that operate as a subsidy, for example, on the carriage of coal?—No, this is the liner scheme that is referred to here.

2747. This does not include colliers?—No. There is a separate arrangement through the Ministry of Fuel and Power for equalising coal freight rates.

2748. This relates to general cargo, does it?—Yes.

2749. The purpose of the arrangement is to divert traffic from the overcrowded railways into coastal ships. Is that right?—That is so.

2750. Are there any questions on paragraph 85? Paragraph 86 deals with receipts in respect of freights and passages. This relates to the ships which were under Ministry control during the year of account, does it?—Yes.

2751. In the last two lines the Comptroller and Auditor General states: "The Ministry records indicate, however, increased arrears at 31st December, 1946, when approximately 400 accounts relating to the two years ended 31st March, 1945, and 1,800 relating to 1945-46 were still awaiting certification." Can you tell us the number of uncertified accounts at the end of the year of account, March, 1946, or, alternatively, at a later date, at the end of the calendar year 1946, to compare with these figures here?—In all there were uncertified and outstanding at the end of December, 1946, about 2,200. At the end of March that number had fallen by nearly 800, apart from accounts received in 1947 itself.

2752. So that on the accountancy side you are just about holding your own. That is what it comes to, does it not?—Yes. These accounts are certified by approved accountants who are accountants of the

shipping companies. Of course, they have been very much handicapped by lack of staff. In spite of a very great deal of pressure from us they have undoubtedly been very slow. Many of them are some of the largest firms of chartered accountants in the country. They have pleaded difficulties which it is very difficult to dispute. In one or two cases where we were not satisfied we changed the accountants. It is only fair to say that they also have made very substantial progress. If you take the year ended 31st March, 1946, these approved accountants certified about 2,800 accounts, but in the next year, the one that has just ended, March, 1947, they certified 5,000 accounts. So that they are accelerating their rate of output. But we are not satisfied with this. It is just a piece of war liquidation. We push it along as fast as we can and I hope that before very long we shall be able to present a state of affairs that will be more satisfactory to the Committee.

Chairman.] Are there any questions on paragraph 86?

Mr. Benson.

2753. I should like to ask a question on these two figures of £336,500,000 and £339 million mentioned in the first sub-paragraphs. Do those represent approximately the total cost of our ocean-going freight charges nationally?—These figures are what we did in fact receive in those years.

2754. How much ocean-going freight and passage charges were paid by nationals inside this country?—Of course the great majority of this amount is payments by the Government to itself. They represent the freight on the various commodities carried for the Ministry of Food and the Ministry of Supply. That is by far the largest item. Out of the total sum, £264 million is represented by freight, about £7 million by passage money; another £7½ million represents the contributions from Dominion Governments for the carriage of troops. One then comes down to a small item like £1¼ million from the Postmaster-General for carrying mails and then a very substantial figure of £52 million for Lend-Lease freights.

2755. Those are purely Government costs. They do not represent the costs of private carriage?—It is not a commercial trading account. Anything that was carried on behalf of private traders is in the figures. The volume of commodities imported into the country which in fact was paid for otherwise than by some Government Department was not very great. It has begun to be much greater.

2756. That is what I want to get at. This roughly represents the national bill for ocean-going freights and passages?—Yes.

2757. If you put another £20 million on top of that it would cover everything?—The Lend-Lease freights are more substantial than that.

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[Continued.]

2758. There are various accounts outstanding. What exactly does an account comprise? Is it the costs over a period of time with an individual shipowner?—No, they are voyage accounts. They are the voyage of a particular ship.

2759. You say there are 1,800 outstanding. That means 1,800 ships' voyages have not been accounted for?—That was so, at 31st December, 1946.

Chairman.

2760. The next six paragraphs deal with the disposal of ships—ships, I take it, which were either bought for or built by the Government during the war?—Yes.

2761. We are told in paragraph 88: "Most of the larger ships had been built during the war on Government account and the basic sale prices had regard to the average cost of building, abated by a substantial percentage to take account, *inter alia*, of high war time building costs and other matters. Could you tell the Committee what is the percentage by which the basic sale price is abated? It varies with the type of ship, I suppose—or is it a general percentage?—I think, roughly, the discount was about 25 per cent. That would be a fair average figure.

2762. That is to say, if a ship had been built during the war at a cost of £100,000 its basic sale price would be £75,000. Is that right?—Yes; less also the accrued depreciation depending on the number of years it had been in commission.

2763. If you will turn to paragraph 92 at the top of next page, you will see the Comptroller and Auditor General states: "The foregoing arrangements have resulted in the disposal of a substantial part of the tonnage at sale prices or charter rates appreciably in excess of the basic figures stipulated by the Ministry." I do not see the point of fixing a basic sale price if you do not adhere to it or make use of it in some way?—What we did was to put the basic price in and say that no tender below that would be considered.

2764. That was the floor, so to speak?—That was the floor, but there was a certain amount of competition between owners and that raised the price above the floor, and of that the Exchequer has had the advantage. The ships were not, of course, all alike; some were better than others; some of them owners had themselves managed and knew about and liked; others they did not like so much. There was quite a spread in what owners were prepared to offer in order to get the ships, and we thought it only fair to have the advantage of that.

2765. Were tenders confined to British owners, or could anybody tender?—Originally, I ought to say, even during the war, the Government agreed to sell a certain number of vessels at cost both to British owners and to certain of the allies who had lost their tonnage in the war effort. A certain number of ships was disposed of

on that basis. Afterwards it was decided to put out a list of available ships to tender, and limitations were imposed on the sales of the really useful ships in the list, and unless the purchaser was buying in order to replace a loss within the British Commonwealth, the stipulation was made that the ship would not be allowed to go off the United Kingdom register for at least three years.

2766. It is like the condition imposed when buying a new motor car nowadays, is it?—Something of the sort. That did restrict the market, but that was a deliberate decision of policy. It was thought that British owners who had lost ships for war reasons ought to have first preference and be given this amount of advantage. When we came to the second tenders there were some relaxations. We did not limit the right to bid to owners who had actually lost ships. Apart from that, we still confined the sales to those who were ready to keep them on the United Kingdom register or the British Commonwealth register if in that case there had been a loss. There was, of course, a large number of small craft of various kinds where these considerations really did not matter and were not enforced. In the final list, which included a number of German prizes, we again limited the bids to the United Kingdom register and some of the ships that we did not get rid of by these public offers were put in the hands of brokers who have been able to negotiate a limited number of sales through the ordinary channels. The result is that a very large number of ships has been disposed of, as summarised by the Comptroller and Auditor General, and the process of disposal has still gone on.

2767. Apart from certain special cases which you mentioned, of ships which were promised to allies or to other persons who suffered the loss of a ship, in the ordinary disposal there was an element of competition, was there, between a number of potential purchasers?—Between potential British owners, yes.

2768. In paragraph 91, we are told that a residue of ships are being sold under an arrangement made with the Institute of Chartered Shipbrokers and they are remunerated, or the pool is remunerated, by way of commission on sales effected?—Yes.

2769. Could you tell me what the rates of commission are?—Yes. The pool gets one per cent. on all the United Kingdom and British Commonwealth sales of the large ships, and a scale of commission beginning at five per cent. on the first £100 and decreasing so that it drops to one per cent. when they get to £2,000, on the small craft. They say they cannot earn very much on selling these small craft and they are troublesome and involve a good deal of work. Insofar as we do approve of sales abroad, then the commission is at the rate of 5 per cent.

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[Continued.]

2770. You said "if" you approved a sale abroad?—To a foreigner, yes, the rate of commission would be higher.

2771. Why is that?—The foreigner will pay it, and there, again, there is probably a certain amount of additional work. I ought to add that as regards the small craft we have increased the commission quite recently, about a month ago, so as to give rather more inducement to the brokers to bestir themselves to get rid of these miscellaneous small craft which otherwise are on our hands and are troublesome to maintain.

2772. Have you gone above the basic figure of 5 per cent. on the first £100?—We have gone to 10 per cent. on the first £100.

2773. On the sale of a boat at £500 or £1,000, what would the commission be? Can you give me a figure?—My note says that the commission reduces to £20 in respect of sales at £2,000. It comes down to one per cent. at £2,000. I think that is so—because that was the old scale. It came down to one per cent. at £2,000.

2774. You have increased that scale?—We have increased it on the very small ships.

Chairman.] Are there any questions on paragraphs 87 to 92?

Mr. Cuthbert.

2775. You were speaking just now about the sale of ships at a basic price of 25 per cent. reduction on cost. Were there many sold at that price?—I am sorry; I may have misheard the hon. Member. It was a reduction of 25 per cent.

2776. Yes. Were many sold at that?—On the first invitation to tender we sold 154 ships of 300 gross tons and upwards for a total amount of over £20 million.

2777. I was wondering if afterwards, when you sold them more or less at competitive prices, the value of sales at that time made up for the loss, shall we say, of the 25 per cent. to which you reduced it to arrive at your basic price when you sold the first lot?—I am afraid I have not worked that out, but it is the fact that the ships recently sold through the pool have realised a good deal more than the basic price. Of course the cost of building tonnage has not come down unfortunately. It has tended to rise and that has influenced what owners were willing to pay.

2778. You cannot tell us if that 25 per cent. that you originally cut off the value has been made up by the subsequent sales at the higher competitive rates. That is what I am getting at?—I cannot but I could very quickly work that out if I had a few minutes to do so. I could let the hon. Member know.

Chairman.

2779. We should like to have that information. Perhaps one of your assistants could dig into it?—I should say roughly it looks as though it did, but there is also the element of depreciation. One would have to see what the age of the ship was. If three or four years depreciation had run on the ship it makes quite a difference.*

2780. I am only interested in seeing that the 25 per cent. which was a loss of Government money was probably got back by the sale at competitive prices later on?—In those particular cases, but I do not think it would be fair, if I may say so, to call it a "loss." The Government did quite deliberately take the view that in the case of those who had lost their ships during the war and took these Government vessels in replacement, not because they are what they themselves would have ordered or chosen but because they were all they had to fill the gap in their fleet, it was reasonable that they should be assisted to that very limited extent.

2781. It would be a very happy proposition if you also got your money back at the same time?—I have omitted to remind the Committee that we also have chartered a large number of ships which we failed to sell. In certain cases we gave an option to owners to charter for varying terms of years, and a substantial amount of tonnage which remains in Government ownership has been chartered.

Mr. Benson.

2782. You referred to high war-time costs, and then you said the costs of steel had gone up. You should really have referred to the low war-time costs of building?—The war-time costs were inflated necessarily by conditions in the shipyards—heavy overtime and Sunday work. At the time when those decisions were taken there was a hope that the prices would not rise so high as they now have.

2783. Are prices now higher than they were at the time when these ships were built?—No one is building this kind of ship, of course, now. The ships that are built now are ships not to Government instructions as a war instrument, but the kind of more expensive tonnage which they need for their particular trades. There was an element of making-do with these particular ships which had to be taken into account.

2784. You said also that you thought this 25 per cent. reduction was partly compensation for their having lost their ships during the war?—I would put it rather in this way, that it was not thought right to ask owners who had lost their ships and had to replace them to pay the full price which it had cost the Government to build under war conditions.

2785. Was there not a very elaborate, complicated and extensive compensation

*See Appendix 5.

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[Continued.]

scheme for ships lost? Did not any ship-owner who lost his ship during the war by enemy action get compensation far above what the ship had actually cost?—He may have got compensation above what it cost him to build it many years before the war, but what he got under the War Risk Insurance Scheme was its pre-war value as entered with the insurance clubs, plus approximately 25 per cent.

2786. So that all he got in addition was 25 per cent. on the 1939 price?—Yes, broadly on the 1939 insured values, The Committee will remember that he only got in cash the pre-war insured value and the other 25 per cent. was put into a fund on which he could only draw when he actually came to replace his tonnage.

2787. I thought it was more than 25 per cent?—It rose, perhaps, to somewhere about 30 per cent., but it was of that order.

2788. With regard to the commission on ships sold, what is the largest purchase price of a single ship that carried that percentage?—Approximately, I should say from £200,000 to £250,000.

2789. £250,000?—The average would be £200,000.

2790. The average?—The average of the large ships sold through the pool.

2791. They also bore one per cent?—They got one per cent.

2792. That is rather heavy, is it not?—I do not know; it is always said that the good broker is worthy of his hire.

2793. Brokers always say that.—It is not a bad maxim, I feel. I do not know that it is relevant, but certainly the brokers would regard it so, that they have had a very, very small volume of business out of which to support their overheads. But I do not justify the one per cent. on that basis. It seems to me a very fair rate of commission and well-earned.

Mr. Thurtle.] I have one or two small points. One is a matter of terminology. If, instead of using this word "basic" you had used the word "minimum," both the Chairman and every other Member of the Committee would have understood what you meant, I wondered why you used the word "basic" instead of "minimum"?

Chairman.

2794. It is the Comptroller and Auditor General who is using the word in these paragraphs.—He has copied the technical language of the tenders, I think.

Mr. Thurtle.

2795. Am I to take that all these sales, right from the very beginning, were on a competitive basis?—They were only competitive within the limits I have mentioned. In response to the first tender the owner had to have lost a ship through enemy causes and he had to be a British owner.

2796. After all those buyers had been satisfied, what happened then?—Among the people who fulfilled those qualifications for bidding there was competition.

2797. There was a free market?—The man who bid most got the ship.

2798. That is what I wanted to be satisfied about. In paragraph 90 the Comptroller and Auditor General states that "a large number of miscellaneous craft were sold by private treaty". What was the process of the sale by private treaty? How did you get into contact with the buyers?—We had advice, and of course we knew the sort of people who were in these trades and from whom we had in the past requisitioned ships and many of them had approached us to find out what was going and we were able to make satisfactory disposal arrangements.

2799. You did not make known to the public that these ships were available for purchase?—We did with a very large number of them. In the first invitation to tender we actually disposed of 30 miscellaneous small ships and small craft. We had a special invitation to tender for tugs which disposed of a substantial number, and in the second invitation to tender we put in a very large number of these miscellaneous vessels amounting to over 270 ships and craft.

2800. These invitations were sent to approved persons, I take it?—They were published.

2801. With regard to the commission, I think you said that a higher commission was paid to brokers who sold ships to foreign owners. Was not that in a sense an incentive to the brokers to try to find foreign owners rather than British owners?—We protected that position because those sales could not take place without our approval. We should not be influenced in that in deciding whether to allow the flag to be transferred or not. There were very few cases of that sort.

Chairman.

2802. The next three paragraphs deal with the Government control of railways. Paragraph 94 deals with the Net Revenue Accounts. The Comptroller and Auditor General states: "As a result of further negotiations, the questions at issue have with one exception been resolved and the final net revenue for this initial period" (that is up to the 31st December, 1939) "has been agreed subject to settlement of the one question outstanding". Can you tell us what the outstanding question is?—That is a dispute about the charge to maintenance of certain insurance contributions. Of course, if the Transport Bill were law, this question would never fall to be decided.

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[Continued.]

2803. I think the Committee might be interested to hear your views generally on whether this war-time system has worked satisfactorily?—It would be generally agreed that there was no alternative but to take the railways into control in time of war, as was done in 1914-18. On the executive side it has worked efficiently. I think it would be generally agreed the railways have carried a tremendous burden with very great efficiency. On the financial side it has in fact turned our favourably for the Government, as the war surpluses show. Those surpluses were earned through very exceptional traffic conditions, overcrowding of the passenger trains, the shutting down of road transport through lack of petrol, interference with the normal competition of the coastwise shipping and a great many other factors. The actual financial administration of the control agreements has given rise to very little difficulty and far less in the way of dispute or delay than arose in 1914-18.

2804. In 1914-18 the financial arrangements were different, were they not?—There was a guarantee of net receipts. Of course there were a great deal many more companies to deal with and the accountancy arrangements were certainly much less well-defined and left a much bigger area of dispute than has occurred this time. Apart from the deficiency of skilled staff to deal with these matters, which has delayed clearing up some of the old arrears upon which the Committee has commented previously, we have certainly no complaint as to the mechanism for working the control on its financial side. We have secured a good many adjustments which we thought right and proper, and if it becomes necessary completely to liquidate these accounts I think I can say that most of the spadework has now been done.

2805. When you say "if it becomes necessary", you mean if the Transport Bill becomes law all this accountancy will fall by the way, will it?—Yes.

Chairman.] Are there any questions on paragraphs 93 to 95?

Mr. Thurtle.

2806. I take it, Sir Cyril, the effective answer to any criticism of the railways during the war is that there was no alternative. They must have come under Government control?—Yes. The Government in war must have its control of a vital means of transport like the railways and be able to direct them at any moment what to do.

Chairman.

2807. Paragraph 96 deals with the Government control of canals. I am rather ignorant about the Transport Bill, but I take it that the canals also will pass to the State, will they not?—That is the proposal, yes.

2808. The Government control did not extend during the war to all the canals, did it?—It extended to all the important traffic-carrying canals, some of which, of course, were already under control because they were owned by the railway companies, and the agreements with the canals, though not identical with those with the railways, are very similar.

2809. In the case of the canals, unlike the railways, there will be, or would have been, let us say, claims for deferred repairs, would there not?—Yes. That has been dealt with on a slightly different basis from the railways, but that has been noted and recorded currently so that we shall know where we are.

2810. That accountancy also will become unnecessary on the passage of the Transport Bill, will it not?—Yes.

2811. Are there any questions on paragraph 96? Paragraph 97 deals with railway works. This was expenditure by the Ministry of Transport on works required during the war to supplement existing facilities. The total expenditure amounts to approximately £16 million. The Comptroller and Auditor General tells us that the railway companies agreed to pay a rental for the use of the facilities. Was the rental related to the cost of the works?—Yes. They pay 5 per cent. on the outlay, representing both interest and depreciation.

2812. Five per cent. was the standard figure, was it?—Yes.

2813. To include depreciation and interest. On paragraph 98, "Under the Requisitioned Land and War Works Act, 1945, the Minister is empowered to acquire land on which Government war works had been constructed, but provision was made by section 51 whereby the compulsory powers of acquisition were not exercisable in cases where an agreement was made between the Minister and any person having an interest in the land. Proposals for an agreement to cover also land on which other Government works had been constructed were submitted by the railways in March, 1945". What does that last sentence refer to?—That refers to land on which the War Office, for example, or other Departments, have put up buildings.

2814. We are told that the negotiations have not yet been completed. This is for the purchase by the railways of war works erected by the Service Departments, and so on?—Yes.

2815. This will become rather an academic question, too, will it not?—It will still be necessary to settle that, but the settlement would have to be between the British Transport Commission and the other interests concerned, instead of with the railways.

Chairman.] Are there any questions on paragraphs 97 and 98?

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[Continued.]

Mr. T. W. F. DALTON, C.B., called in and examined.

Chairman.

2816. We pass to paragraph 99, which deals with dock labour schemes and on this matter we have Mr. Dalton, as an additional witness, from the Ministry of Labour. As I understand it these were schemes for paying guaranteed weekly wages in the docks and in the Merseyside and Clydeside areas the operation of the schemes was undertaken by your Ministry, Sir Cyril, and in the other areas I think, Mr. Dalton, the Ministry of Labour controlled the schemes, did they not?—(Mr. Dalton.) Through the National Dock Labour Corporation.

2817. Perhaps, Sir Cyril, either you or Mr. Dalton could tell me why the operation of these schemes was divided between two Ministries?—(Sir Cyril Hurcomb.) The Ministry of Transport felt that under war conditions, with the enormous diversions of traffic that were necessary into the Mersey and the Clyde, some quite special action would have to be taken and we should have to have good control over those ports. We had a Regional Port Director at each of them, and this scheme was instituted direct. When the idea spread to other ports it was thought that it might be left more to the employers of labour engaged in the industry itself, and the National Dock Labour Corporation was set up under the aegis of the Ministry of Labour. In the case of the Clyde and the Mersey the Minister of Transport was responsible of course for seeing that the income of the fund was sustained by the necessary percentage levy on the wages earned. It was never easy to estimate exactly what the financial position of the fund would be because one could not tell at all what the volume of shipping using the ports was going to be, and we varied the percentage levy from time to time. It was in fact increased in the course of 1946 no less than three times.

2818. Before we come on to the question of the levy I want to ask a question or two about the guaranteed weekly wage. Was the guaranteed weekly wage varied from time to time, or was it fixed?—That was an integral part of the scheme in the original agreement.

2819. Can you tell the Committee what the guaranteed weekly wage was for the ordinary docker?—The dockers were guaranteed 11 turns a week at 7s. 6d. a turn, provided they reported for duty.

2820. That is 11 times 7s. 6d.: that is 82s. 6d. Mr. Dalton, what was the guaranteed weekly wage under the National Dock Labour Corporation?—(Mr. Dalton.) It varied from the Ministry of Transport's scheme. It had started originally at 5s. a turn, but the turns were not worked quite on the same basis. In the case of the Ministry of War Transport I think I am

right in saying that turns during the week-end counted. In the case of the National Dock Labour Corporation ports the 11 turns were from Monday morning until Saturday midday and what the men did on Saturday afternoon and Sunday did not count. Later the 5s. was increased to 6s. and it now stands at 6s., but the arrangement of turns is still the same.

2821. You also guarantee 11 turns?—Yes.

2822. Originally at 5s.?—That is so.

2823. And subsequently the figure was increased to 6s.?—Yes.

2824. What are the factors which made the guaranteed weekly wage so much higher in Merseyside and Clydeside than in the other dockyards?—I think I am right in saying that under the two schemes there is not actually very much difference when it is all worked out, but I ought to say at once that these arrangements were agreed within the industry.

2825. Now we come on to paragraph 100 which deals with the contributions. This is the Ministry of War Transport scheme, Sir Cyril. The contribution was originally 25 per cent.; the scheme prospered and the contribution was reduced by stages to 7½ per cent. when the combined balance of the Merseyside and the Clydeside management funds amounted to £566,000. Then, with the cessation of hostilities the scheme began to be more costly and the contributions had to be increased again?—(Sir Cyril Hurcomb.) Yes. They were reduced in June, 1945, and were increased again in February, 1946.

2826. And again in April, 1946, to 12½ per cent.?—Again in April and again in September. As I said just now, they were increased three times in the course of that year.

2827. Now there has been a further increase in October, 1946, to 15 per cent.?—The 2nd September, I think it was.

2828. I am much obliged. The Comptroller and Auditor General goes on to say: "the Ministry informed the Treasury that, as a result of a further increase in the contribution to 15 per cent. in September, 1946, . . . it was hoped that repayment of advances could be effected by March, 1948." But it is stated that the 15 per cent. is regarded as the maximum possible in present circumstances. Why, if there have been times when the contribution was 25 per cent., is 15 per cent. now regarded as the maximum?—25 per cent. was, I think, designed in the early days before anyone had any experience, in order to enable some sort of reserve to be built up. When we expressed this opinion to the Treasury we were hoping for a more normal condition

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[Continued.]

of shipping through the winter, and of course we were assuming that the register would be brought more into conformity with the needs of the ports. I should be out of order if I embarked on that aspect of the matter which, after all, is a long way away from the particular year of account before the Committee, but, as you know, efforts were made to reduce the register.

2829. It was hoped, in accordance with the last sentence but one, that repayment of the advances could be effected by March next year?—These schemes will get absorbed under the new arrangements which will come into effect in the course of this summer if the scheme which has been promulgated by the Minister of Labour is approved.

2830. Under the Dockworkers (Regulation of Employment) Act?—Yes.

2831. Mr. Dalton, on paragraph 101, here again you have had to increase the employers' contributions. I believe in the National Dock Labour Corporation you have built up what is called a welfare reserve, have you not?—(Mr. Dalton.) Yes. It was not built up in just that way. In the early days the standard levy was 20 per cent. and for any losses that could not be met by a 20 per cent. levy the Exchequer undertook a percentage liability. The maximum levy that could be made on employers was 25 per cent., which was the levy in the Ministry of Transport ports. It was thought prudent at the outset to collect an extra 5 per cent. from the employers and create a reserve against possible future loss.

2832. What is going to happen (this is my concern) to the considerable sum of nearly £½ million that you have in reserve?—Later on pressure was brought to bear on the Ministry to approve, in Dock Corporation ports, some of the welfare work which actually had been done out of the Management Fund in the Ministry of War Transport ports, and ultimately it was agreed with the Treasury that £500,000 of the reserve that had been built up should be devoted to that purpose if the Corporation could produce schemes that would justify it. Actually, at that time the reserve was

(Mr. Dalton withdrew.)

Chairman.

2839. We pass to paragraph 103 which deals with road haulage. I do not think we need trouble much with that now. In the last sentence of paragraph 104, dealing with road haulage rates, the Comptroller and Auditor General states "The Ministry are responsible for ensuring that the rates paid are fair and reasonable." Sir Cyril, how is your responsibility discharged? What control have you got?—(Sir Cyril Hurcomb.) Where adjustments in rates are required, or asked for by the industry, we

in the neighbourhood of £800,000 and one of the conditions of the agreement was that there should be an immediate transfer of the excess of £300,000 into the Management Fund. That was done, so the £800,000 was divided as to £300,000 straight into the Management Fund and £500,000 as reserve for future welfare schemes.

2833. That £½ million will be retained and eventually spent by the Corporation, will it?—Yes.

2834. What happens to the balance in the other fund, in the Management Fund?—The Management Fund actually is now in somewhat better shape. As paragraph 101 says, it fell to £180,000 by June and by the end of September it had gone down to about £100,000. But at the present time it has gone back again to about £226,000. That is partly due to the increase in the levy and partly due to improved trade conditions.

2835. Does the Corporation continue when the new arrangements come into force this year?—No.

2836. The Corporation will come to an end, will it?—I say that with this reservation, that the scheme has actually been published and is now under consideration with reference to objections that have been raised, so it is not finally determined what the new body shall be, but the new scheme proposes a new body, not the present Dock Corporation.

2837. What, in that event, will happen to the £227,000 that you have got to the credit of the Management Fund?—Under the Memorandum of Association of the Dock Corporation it is provided that in the event of liquidation their assets must be transferred to a body having similar objects, and the new body is declared in the future scheme as being such a body. So there will be an automatic transfer.

2838. You will find somebody to whom to hand over this money?—Yes.

Chairman.] Are there any questions on these paragraphs?

are entitled to have evidence of their costs, and they cannot raise their rates to these Departments without our agreement.

2840. Are there any questions on paragraphs 103 and 104? Paragraph 105 deals with the War Risks (Marine) Insurance Fund. You have handed over to the Exchequer the tidy little round sum of £100 million, have you not?—That is so. It may look a large underwriting margin, but as the Comptroller and Auditor General points out the greater part of the premium income of the fund was paid by the

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[Continued.]

Government to itself and of course, apart from that, on any sound underwriting arrangement of this sort against war risk there is bound to be a big profit when the war at last comes to an end. As you never know when that is going to be you cannot drop your rates in advance but when the enemy's fleet disappears you are in the happy position of having collected substantial premiums while your risk is very materially reduced.

2841. Are there any questions on paragraph 105? We pass to the Account at page 47. On page 48, amongst the details of receipts, under "(ii) Receipts of other classes", we have "Repayments of loans to harbour authorities, including interest", a figure of £608,000 odd.—They were grants to various harbour authorities for special works necessary to keep them in a condition to handle the traffic they were required to take during the war.

2842. I was going to suggest that it might have been a convenience to have had a statement of outstanding loans somewhere?—The largest item in that was a loan to the Port of London which has in fact been repaid. I think I can give you the details in a moment.

2843. There are a number of items of loan here.—"Repayments of loans for shipbuilding", "Repayment of loans to Shipwrights and Engineers". I was just suggesting that from the point of view of the form of the Account, if these loans are going to be continuing features, we should be provided with a statement of loans outstanding.—They would, I think, be noted in next year's Accounts, but I gather that you would like to have the current notation?

Chairman.

2844. What do you think about this, Sir Frank?—(Sir Frank Tribe.) I think it is sufficient if they are noted in next year's Accounts. Most Appropriation Accounts do give a list of outstanding loans due to the Departments, but some do not. This Committee, I think, thinks it is a good

thing that every Account should contain in itself a statement of loans outstanding.

2845. There is no uniform practice about it?—I think the majority of Departments do include such a list. (Mr. Jones.) It is supposed to be the rule. Some of the war-time loans have not been picked up in the ordinary routine yet.

2846. Perhaps you would note the point, Sir Cyril?—(Sir Cyril Hurcomb.) We should be very glad to do it. It seems to me it would be useful also to the Department; but there is no difficulty at all in giving you these figures.

2847. I was not asking for the figures now.—One or two of the important ones, like the loans for shipbuilding, have almost disappeared. The amounts outstanding at the end of March last was only £131,000.

Chairman.

2848. Has any Member of the Committee any questions? We turn to pages 52 and 53 which is the Account of the War Risks (Marine) Insurance Fund. Half way down the page there are some entries relating to re-insurance against marine risks—Belgian vessels and so on.—When Belgium was occupied, there was some doubt about the actual status of certain Belgian ships, which we persuaded or pressed into our service, and about their ownership, or their Government's right to requisition, we solved those difficulties by giving them cover against marine as well as against ordinary war risks.

2849. You think that point will be covered by the War Risks Insurance Act, 1939?—Yes, I think so. The powers under that Act are wide. Section 2 allowed us to insure and re-insure allied and neutral vessels. I do not think we are in any technical difficulty about it, but there was a very real difficulty about the technical status of those ships at that moment and it had to be solved in this way.

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

BRITISH SHIPPING ACT, 1935 ACCOUNT, 1945-46.

(On this Account no Questions were asked.)

CUNARD INSURANCE ACCOUNT, 1945-46.

Chairman.

2850. This Account is to enable the insurance of the "Queen Mary" and the "Queen Elizabeth" to be taken?—(Sir Cyril Hurcomb.) Under the authority of Parliament arrangements were made when these ships were built, empowering the Board of Trade to insure the risks of these vessels in excess of what the market was able to absorb. That has been done. The amount which the market takes varies from

time to time but the premiums earned are carried to this Account and out of it are met any claims that may arise.

2851. Can you explain why the agreed values of these ships for marine insurance are different, I believe, from their values for war risks insurance?—The arrangements for the two types of insurance were rather different. It is in the Minister's discretion as to what value he will accept for the purpose of this Account. That has been

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[Continued.]

looked at from time to time. The Company pressed very strongly at one time for these values to be raised, but the Minister was unable to meet the whole of the Company's request and we have fixed a figure which seemed to us a reasonable one.

2852. Looking at the Account, I see there were claims in the year in respect of both ships. We are told in paragraph 3 that sums were paid during the year on account of claims for damage incurred mainly through heavy weather. If one of these ships ran on to a sandbank and got stranded would the insurance pay for the additional cost of provisioning the passengers during the period they were detained?—I have not had to consider that point. I may say we have had no claims yet in respect of the recent occurrence.

2853. I was wondering if the insurance covered delay through accidents—losses which you may call consequential losses?—I doubt whether that would fall on this type of insurance. That would be covered by separate insurance with their club.

Chairman.] Are there any questions on the Account?

Lieut.-Colonel Hamilton.] This is the last Account which we are taking today, Mr. Chairman, is it not?

Chairman.] Yes.

Lieut.-Colonel Hamilton.] There is perhaps one point I might be allowed to ask. The road safety campaign, I take it, comes in next year's Account. does it? We do not seem to have met road safety anywhere through the Accounts today.

Chairman.

2854. Is there a road safety campaign, Sir Cyril? You can tell us?—There will be somewhere in this year's Accounts payments to the Road Safety Association—grants for propaganda and educational work.

Lieut.-Colonel Hamilton.] It does appear in the Accounts somewhere?

Chairman.] We cannot go back to the roads now.

Lieut.-Colonel Hamilton.] I do not think it was included in the Road Fund Accounts. I wondered where it came in.

Chairman.

2855. We can bring it up next year?—If I may, without contravening the Chairman's ruling, point that out, it is in Miscellaneous and Incidental Expenses in the Road Fund.

Chairman.] Thank you, Sir Cyril. You have been very informative in your evidence.

(The Witnesses withdrew.)

(Adjourned till Tuesday next at 3.45 p.m.)

TUESDAY, 20TH MAY, 1947.

Members present:

Mr. PEAKE in the Chair.

Mr. Benson.
Mr. Cuthbert.
Lieut.-Colonel Hamilton.
Mr. Haworth.
Mr. Horace Holmes.

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

Sir FRANK TRIBE, K.C.B., K.B.E., Sir ERIC BAMFORD, K.B.E., C.B., C.M.G., and Mr. C. E. I. JONES, called in and examined.

CIVIL APPROPRIATION ACCOUNTS, 1945-46.

CLASS III.

VOTE 1.

HOME OFFICE.

Sir ALEXANDER MAXWELL, G.C.B., K.B.E., and Mr. F. C. JOHNSON, C.B., called in and examined.

Chairman.

2856. Sir Alexander, we turn to page 108 of the Civil Appropriation Accounts, Class III, Vote 1. Would you tell the Committee what Subhead A.3 is, "Special

Services"?—(Sir Alexander Maxwell.) There are a number of those special services. There are some analyst fees, costs of medical inquiries in capital cases, short-hand notes for various services, expenses of

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[Continued.]

various committees; and there is also some emergency expenditure in connection with aliens' reception centres and persons arriving from enemy or foreign territory who had to be detained or escorted or temporarily maintained in reception camps.

2857. The footnote tells us: "This subhead includes an *ex gratia* payment of £750 towards losses sustained by a firm of catering contractors at a reception centre." Would you tell us how this *ex gratia* payment came to be made?—We arranged with a catering firm to provide meals for a large number of British subjects who were expected to flood into England as soon as the troops got into Germany and released the British subjects who had been interned as civilians in German internment camps. As a matter of fact, owing to the difficulties of transport very few people came and we had to make an arrangement to recoup the catering firm to a certain degree for the loss they incurred in providing food which was never required.

2858. This had Treasury approval, I suppose?—Yes.

2859. On the next page, page 109, Subhead E is "Contributions towards the Expenses of Probation." Those are grants to probation authorities?—Yes. The Exchequer pays a 50 per cent. grant towards the cost of the probation service.

2860. It is a 50 per cent. flat rate grant, quite irrespective of the poverty or wealth of the authority?—Yes.

2861. I have a question on Subhead K on page 110. That is a Grant in Aid to the Central Committee for Refugees, a figure of £256,000. Could you tell the Committee how that is broken up. There are certain grants for maintenance and certain Grants in Aid of Emigration, and so on?—Yes, there are certain grants for maintenance of those elderly and sick people who are incapable of earning their own living. The arrangement is that the grants shall be comparable with the grants that would be paid by the Assistance Board. Then there are certain grants in respect of the maintenance and education of children who were brought over here as refugees by the Refugee Children's Movement and there is a contribution towards the expense of emigration. At the present time that is less than was expected owing to the difficulty of finding transport. There is a contribution towards the overhead administrative expenses of the Committee which administers this grant for us.

2862. In whose hands is the financial control of the expenditure?—There is a Central Committee which supervises the expenditure of the various bodies concerned with the care of refugees and they are responsible to us for seeing that the money is expended in accordance with the conditions which the Home Office has laid down and the Accounts are audited and

looked at by our people from time to time to see that there is compliance with the Home Office rules.

2863. They are audited by professional auditors?—Yes.

Chairman.] Are there any questions on this Account?

Sir Frank Sanderson.

2864. I have one point. Could you inform the Committee what is disinfected against anthrax? I always thought anthrax was a disease among cattle?—It is hides, skins and furs and certain kinds of wool which contain the anthrax germ.

Mr. Benson.

2865. With regard to the Aliens restriction Act, what actually are the functions under Subhead D.1?—The immigration officers, whose business it is to examine all foreigners coming into this country and to give them permission to land in suitable cases, subject in certain cases to various conditions, to exclude the undesirables and people who for one reason or another are not admitted to this country. Do you mean the other Home Office functions?

2866. No. I was thinking rather of what that included. Actually, in other words you have to have your officers at every port?—At every seaport and every airport.

2867. With regard to probation of offenders, subhead E, I see there is an increase there. Is that due to an increased number of probation officers or to variations in salary?—There has been an increase in the number of probation officers. I could not tell you whether in this year in question salaries were increased. I doubt if they were in this year. There was certainly an increase in the number of officers.

2868. On page 110, Subhead K, is the Central Committee for Refugees the committee that sits at Bloomsbury House?—Yes.

2869. The reduction is due to a continued employment of able-bodied refugees. Have you any ideas as to how this Subhead will go in future years?—At some point in the comparatively near future, we certainly shall have to discuss with these Committees that have been doing this good work whether the time has come to wind up their services. Obviously we cannot go on with this special arrangement indefinitely, but it has been very advantageous to have the help of these committees who are willing to befriend these aliens during the period when it would have been difficult for them otherwise to settle down in this country.

2870. If you assume that, say, in round figures every alien gets £3 a week, that means that there are approximately

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[Continued.]

20,000 aliens for which you are responsible. Are there a large proportion of children amongst those and what type is it that has to be maintained now? During the war, obviously, there was a number who had to be maintained because they could not be fitted in, but what about now, when any able-bodied alien should be able to get work?—These are only the people who are too old or too feeble to work and the children, so far as maintenance is concerned.

2871. Too old or too feeble? You cannot very well get rid of them. So long as they live you will have to maintain them, or else they will have to be maintained by public assistance?—Exactly, but there comes a time when we shall have to consider their falling into the ordinary machinery.

2872. The ordinary machinery of Public Assistance? "Fees under the British Nationality and Status of Aliens Acts": Those, I take it, are naturalisation fees?—Yes.

2873. They are up just six times. That means, apparently, that you are getting through your naturalisation problems more

rapidly than you anticipated?—Yes. Since the year to which this relates very great progress has been made and the machinery by which naturalisation certificates are granted has been speeded up.

2874. I do not know whether you can answer this: approximately what percentage of applications do you grant and what percentage do you have to turn down?—It is a very small percentage turned down.

2875. So that your aliens applying for naturalisation, who I take it are mainly refugees of war-time and pre-war, are of a good standard?—Yes. The cases that we are dealing with at present are, first, those who applied before the war for naturalisation and would have been qualified for naturalisation if we had not suspended the process during the war; secondly, those who served in the armed forces, and, thirdly, those who have rendered or who are rendering useful services in industry, science, technology and so on.

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

VOTE 3.

POLICE, ENGLAND AND WALES.

Chairman.

2876. Will Members turn to page 114? This is the Police Vote. On Subhead C "Salaries, &c." of Inspectors of Constabulary, I think there was a new Act in 1945 enabling you to increase the number of Inspectors, was there not? Can you tell me how many Inspectors there now are?—(*Sir Alexander Maxwell.*) Four.

2877. Is there a Chief Inspector, or are they all equal?—No, there is not a Chief Inspector at the moment.

2878. Subhead E, "Special Services," is an expenditure of £173,000. What is that?—Again there are a number of items there.

2879. What is the main item?—The Forensic Science Laboratories which have been set up to serve the combined forces in various parts of the country, and there are expenses in connection with the regional wireless stations.

2880. Stopping there, what is a Forensic Science Laboratory?—For a great many police investigations scientific and technical methods are required in examining clues, and analysing substances that are found in connection with suspects and criminals, and it has been found very advantageous to enable the police forces to co-operate together, and establish, for a region, a laboratory at which there will be a scientific man, with some assistants, who can do the various kinds of highly

technical work that is required to enable examinations, microscopic and otherwise, to be made.

2881. Is that a new development?—It has been in existence now for a good number of years, but it has been developed in recent years. It was started about 10 years ago.

2882. Then Subhead F: "Grants in respect of Police Expenditure." The grant is at a flat rate of 50 per cent., is it not?—Yes.

2883. It is made without any statutory authority, other than the Appropriation Act, if I am not mistaken?—That is so. It is one of the points that the Home Office has in mind to deal with when an appropriate occasion for legislation can be found.

2884. I was going to suggest on that that the appropriate occasion arose when the recent Police Bill was before Parliament?—It was, I understand, considered, but in view of the urgency of the matters that were dealt with in the Bill, it was felt that on the whole it would not be a convenient opportunity for dealing with this rather different subject from the amalgamation schemes which had to be dealt with with great urgency.

2885. This is a case in which England and Wales are lagging behind Scotland?—It is, yes.

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[Continued.]

2886. As these grants have an element of permanency, it is recognised as a desirable subject for statutory authority?—Certainly. It is a matter of regret that we have not been able to deal with it earlier.

Chairman.] Are there any questions on the Account?

Lieut.-Colonel Hamilton.] In the details of receipts, "Miscellaneous receipts" were £18,000 as compared with £600 estimated. As a matter of interest, what did they mainly consist of?

Chairman.] I am not quite clear which item you are on.

Lieut.-Colonel Hamilton.

2887. It is on page 115. "Details of receipts." Item 5 is "Miscellaneous receipts." Apparently they got something like thirty times as much as they expected. I wondered what accounted for that?—I think that was mainly in connection with certain training courses which we started to set up. They were originally intended

for recruits but it was not possible to develop, in the course of this year, the training for recruits for which the Home Office would have paid, and considerable use was made of these training establishments to give refresher courses to older officers. For those courses the police authorities paid, and, consequently, we received a quite unexpected appropriation.

Mr. Benson.

2888. Subheads G and I are two token figures of £5. Are those suspended services or services that have not yet begun?—G is for services that have not yet begun.

2889. Subhead G is: "Higher Training of Police Officers." What steps are you taking about that? Is that matter in train?—Yes. There are a number of discussions going on, and we are hoping that we may be able at an early date to get courses into operation.

Chairman.] Are there any further questions on the Account?

METROPOLITAN POLICE FUND.

Chairman.

2890. Paragraph 34 in the Report of the Comptroller and Auditor General deals with the Metropolitan Police Fund. This is a matter we have considered before on this Committee; the cost of the canteen services of the Metropolitan Police. The cost of the service to the fund is diminishing, I understand from this paragraph? Is there a prospect of the canteens becoming self-supporting?—(*Mr. Johnson.*) The Committee considered this a year ago. The figure then was £100,000. It went up in the year now under consideration, to £112,000; because conditions generally remained the same, except that the force was getting less and less in strength. The trade done at canteens was getting less and less. The takings were down for this year by £50,000 and that meant that there was, taking 30 per cent. of it as profit, another £12,000 which had to be found, and that put the figure up to £112,000. In the year following we got that down to £60,000, and for the current year we have got it down to £35,000 by various measures in pursuance of the policy that the Committee wanted followed. That £35,000 would, in fact, have been £25,000 had there not been a Catering Wages Board award which came along, to which we gave effect, and which put another £10,000 on the cost.

2891. How has this saving been effected? Has it been done by increasing charges for food and so on in the canteens, or has the canteen service itself been diminished?—In two main ways. Both the points mentioned have applied. At this time, when the figure was £112,000 (that is for the canteen year ended September, 1945, which

is the figure that comes into these Accounts for 1945-46) we were still under war conditions, with a 24-hour service in many canteens. In order to get the figure down we cut down very substantially (from about 60 or 70 to about 15 or 20) the number of canteens at which there is a 24-hour service. Those are the places where expenses are high, and that is where the money goes, on the three shifts to cover the 24 hours. We have cut down the number of canteens substantially till there are only slightly over a dozen on a 24-hour service. We have also recently looked at the prices again, in the light of British Restaurant prices, and so on, and have made slight increases which were considered reasonable, which bring in quite a substantial amount. Those two measures together have got the figure down to £35,000. I should perhaps say, for the Committee's information, that with regard to the future position, while we are continuing in this way to keep the figure down, I understand that the Home Secretary is expecting to receive a report on police post-war measures generally, which I gather is to deal, among other things, with this sort of amenity. No doubt he will proceed to consult the local police authorities on its recommendations, but it is going to make recommendations regarding canteens which we may have to give effect to. Of course, in these days, as the Committee will realise, there is a movement towards spending money on amenities rather more than there used to be.

2892. What body is this, that is going to make a recommendation?—This is a sub-committee of the Police Post War Committee.

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2893. If you would look at the Account which deals with this expenditure, on page 119, this item is Subhead G. (5). The expenditure in the year of account was £112,000 which was £62,000 in excess of the estimate; and the footnote states: "It now appears that this expenditure will continue much longer than was anticipated." Does that mean that the canteens will continue running at a loss much longer than was anticipated?—This estimate, as the Committee will appreciate, was drawn in October, 1944. At that time one was rather thinking that the war was coming to an end not exactly by Christmas but not very long after, and we were hoping at that time to get canteens off our hands and back to the Canteen Board at what we then thought was going to be quite an early date. Therefore we only put this £50,000 in. That is why the estimate was so much less than the expenditure actually turned out to be.

2894. Is the position that you cannot hand the canteens back to the Canteen Board until they are solvent?—That is what we have been aiming at.

2895. Before the war the Canteen Board used to make ends meet, I take it?—Yes.

2896. Of course, the justification for subsidising the running of canteens in the war was wartime difficulties, evacuation, and so on, the policemen's wives having gone away?—Yes, and under bombing conditions they were open for 24 hours.

2897. When this footnote says that "The expenditure will continue much longer than was anticipated" that seems to suggest that the canteens are likely to be a charge on public funds permanently?—It was not intended to suggest that. That is not, perhaps, a very well-worded footnote, but it was trying to recall the position as it was when that £50,000 was put in. We then thought that we were not going to have to carry it for very long, but in fact we are still carrying it now, which is 2½ years after.

2898. It is still your objective to make the canteen service solvent and then hand it back to the Canteen Board?—Entirely. We shall continue to take all practicable steps to cut out wasteful expenditure if there is any, and generally to that end.

Chairman.] We will take the paragraph in the Report of the Comptroller and Auditor General and the Account together. Are there any questions?

Mr. Thurtle.

2899. You say that you have to keep control of these canteens until they become self-supporting?—That is the policy we have been following so far.

2900. That may mean a very long time?—I hope not.

2901. On the facts it rather looks like it, does it not?—The facts are that we have got the figure down in three successive years from £112,000 to £60,000 to £35,000. The canteens, as the Chairman said just now, were self-supporting in peace-time but in peace-time they were able to do trade of various sorts which is not open to them now because they cannot get the goods.

2902. Would it not be better (I do not know by what accounting device) if you could cut the costs, as it were, this year, and let the Canteen Board take over next year so that the responsibility would be on them to make it self-supporting? Otherwise you may run on for a number of years making this loss.—One means of cutting the costs would be to shut the smaller, unremunerative canteens, which in present circumstances, with rationing and food difficulties as they are, the Commissioner does not want to do. The other means would be to put the prices up above the British Restaurant level, which level we have generally aimed at.

2903. This expenditure was first incurred anyhow because it was a war-time situation?—Yes, entirely.

2904. Now the war-time situation has gone?—Yes, but the difficulties in getting policemen's food have not gone entirely and they weigh with the Commissioner a good deal in wanting to keep the canteen service at places where otherwise it is not quite remunerative.

Sir Frank Sanderson.

2905. Can you inform the Committee approximately what number of meals are served per day in these canteens?—I do not think I have any figure for that. There are about 150 canteens. Some are larger than others. I am sorry I have not with me a figure of the total number of meals.

2906. You have no idea? You could not say whether it is 10,000 or 50,000?—It might be 20,000; but that is counting as a meal a sort of snack and a cup of tea.

2907. Assuming that the figure were 20,000, it would mean, would it not, that you would have to increase the price by only 1½d. per average meal to eliminate your loss entirely? Surely that would be a practicable suggestion?—If the cost of a main meal were put up by 2d. or 3d. it might, as you say, make ends meet.

2908. It would be in fact an average of 1½d., based upon your 20,000 meals a day?—Yes, but, as I said earlier, we have tried to maintain the British Restaurant level and not to go above it.

Sir Frank Sanderson.] I should have thought it was well worth while making a close investigation to see whether it was not possible to increase the average price of a meal by a penny. A penny would appear to be a sufficient increase because,

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judging by these figures, the loss is likely to be not £60,000 but £35,000. If that is the case, an increase of a fraction over three farthings per meal would eliminate the loss entirely, which would be a source of great satisfaction to this Committee.

Mr. Benson.

2909. Of the 150 canteens, how many are remunerative and how many are unremunerative?—About half of them make a net profit.

2910. And the other half make a considerable loss?—They vary substantially in size, of course.

Mr. Benson]. As Sir Frank says, you lose roughly a penny a meal all the way round.

Mr. Cuthbert.

2911. Might I follow that up? What is the cost of these meals which results in the making of this loss? What sort of price do you charge?—It is more or less the British Restaurant level: joint, vegetables and sweet, about 1/4d.

(Mr. Johnson withdrew.)

VOTE 5.

APPROVED SCHOOLS, ETC., ENGLAND AND WALES.

Chairman.

2915. Will Members turn to the Account, which is at page 129? Sir Alexander, here again the grant under Subhead A is at a flat rate, is it not?—(Sir Alexander Maxwell.)—Yes, 50 per cent.

2916. The grants set out here are on a peace-time basis, more or less, are they not, and the excess expenditure is met from the Vote of Credit?—That is so.

2917. The footnotes give various explanations of the causes of variation between the expenditure and the grant, and the footnote to Subhead A says: "The excess is due to expenditure identified as attributable to the war." It is hardly possible to say with mathematical precision that your approved schools would have cost half a million pounds in peace-time, but £443,000 is due to the bad behaviour of children under war conditions?—No, but I suppose it is generally true that the great increase in the number of children committed to these schools can only be accounted for by war conditions.

2918. Do you attribute the increase to economic conditions, or to moral conditions, or to family circumstances?—There were a number of unsettling causes: the evacuation scheme and the break-up of the ordinary school arrangements was one. Interference with the ordinary life of the home was no doubt another: the mother going out to work, and the father being away. There are numerous indirect causes, no doubt: the excitement of war, and the

2912. It is the British Restaurant level?—More or less. That is about British Restaurant level.

2913. You find that at British Restaurant prices the canteen are uneconomic, and involve you in a loss?—We have not liked to put the prices higher. It may be that we give slightly larger portions, our clients being policemen.

Mr. Cuthbert.] I think that must be it, because normally the British Restaurants make a profit. That is why I asked what was the price of a meal.

Chairman.

2914. Is not one of the causes of the loss that the police canteens have to be open at hours of the night at which British Restaurants are not?—Yes. We have a 24-hours service. The British Restaurant trade is concentrated, of course.

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

unusual conditions when there are large numbers of troops in a neighbourhood; that had a special effect on the girls, and most of that increase in the number of girls committed to approved schools was due to that. I think, too, that if one looks at the figures of offences of all types there can be no doubt that the influence of the war has been to relax moral restraints in various directions, and I have no doubt that influence affected the children as well as the adults.

2919. We are told in the notes, on page 30, that the number of children under detention in approved schools on September 30th 1945, was just under 12,000. How does that compare with the normal pre-war figure?—I have not the population figure, but I can give the committal figure. In 1939, for example, the total number of children committed to approved schools was 3,000, and by 1944 it had risen to 3,800, in the course of a year; and that, of course, had an effect on the average population.

Chairman] Are there any questions on the Account?

Mr. Thurtle.

2920. Even with this expenditure you really have not now enough approved schools to meet the demand, have you?—Yes. Fortunately there has been a decline in the last year and we now are in a very much better position than we have been for a long time.

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[Continued.]

2921. I thought the magistrates had frequently to send these children to remand homes because they had not suitable schools for them?—That was so a year or more ago, but I am glad to say that the position now is very much better, and it is very seldom that a place cannot be found for a child within a comparatively short space of time.

Sir Frank Sanderson.

2922. The expenditure of £127,000 in excess of the Grant, which was £52,000 in respect of remand homes, does appear on the face of it to be a very excessive increase of expenditure compared with the amount estimated at the time. Is there any special reason why the excess is so abnormally great, some 250 per cent?—In this year a number of new remand homes was opened and there was, of course, a rise in the cost of all the items of a remand home.

2923. Would not the increased cost, at any rate up to a certain point, be anticipated at the time the amount of the Grant was called for?—You mean we ought to have put a larger sum in this Vote?

2924. It would appear so, on the face of it. It would certainly appear that the amount of Grant claimed should have been considerably in excess of the amount in fact claimed.—But I think the arrangement was, at that date, that the further expenditure that was attributable to war conditions should be borne on the Vote of Credit. (Mr. Jones.) May I say that it was made clear on the Estimates for 1945-46, that the excess over the pre-war provision for these services would be met from the Vote of Credit.

Lieut.-Colonel Hamilton.

2925. Could you give us the approximate number of children under detention now in approved schools? You said it had gone down quite a lot since September, 1945, when it was almost 12,000?—In September, 1946, the number was 10,964.

Mr. Benson.

2926. In regard to your approved schools, it is not merely a question of finding a place in an approved school but, rather, a place in a suitable approved school, is it not?—Yes, there may be occasional holds-up because the type to which you want to send a particular child may be full, but that is, as I say, comparatively rare nowadays.

2927. You have special allocation schools, have you not?—Yes, we have.

2928. That means, inevitably, that if you are going to allocate your children to the proper schools, you must have a global surplus of places?—Yes.

2929. Have you an adequate global surplus now of places to enable you to use

your allocation school to its maximum efficiency?—Yes, I think we have. The conditions fluctuate from month to month and year to year, but recent experience has shown that there is very little difficulty in fitting a child into the right type of school or, indeed, in transferring a child from one school to another if it is found that the change is desirable.

2930. I believe in order to establish approved schools you have made loans on capital account?—Yes, we have.

2931. Are those loans included in the £943,000 under Subhead A, or is there a separate fund, the expenditure under Subhead A being merely in respect of annual contributions?—I am told that the capital which we advance is spread over approximately 15 years.

2932. Approximately one-fifteenth of your capital expenditure is included in your expenditure each year?—For new schools. (Sir Frank Tribe.) I understand that Subhead A includes a figure of £88,674 in respect of capital grants.

2933. That has to be multiplied by 15 in order to get the global capital which has been loaned in order to establish the schools. With regard to the remand homes, I believe remand homes are the responsibility of County Councils and county borough councils. You have no power to compel them to shoulder their responsibility. Have you any power to curb an outburst of enthusiasm?—(Sir Alexander Maxwell.) We should not pay a Grant for an unnecessary remand home.

2934. I understand that there has been a very big extension in the number of remand homes and that at the moment there is a dearth of clients. You have rather more remand homes now than the number of children who are remanded warrant. Is that due to the fact that your approved schools have drawn off a number of children who, 12 or 18 months ago, would have gone to remand homes?—I have no doubt it is also due to a rapid decline in the number of children who are committed to these remand homes because, as I say, in the last year there has been decrease in juvenile delinquency generally, and a decrease in the number of children committed to approved schools and remand homes.

2935. Two or three years ago your remand homes were very crowded?—Yes, very crowded.

2936. In other words, the local authorities increased the number of their remand homes rather too late?—Yes, that may be so.

Mr. Thurtle.

2937. Are you happier now about the number of remand homes you have? Do you find the number adequate?—Yes. I think, as I said in reply to Mr. Benson, the number of places is adequate. We are

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[Continued.]

constantly trying to improve the standards of accommodation and treatment in remand homes and to make better arrangements for the examination of children, and so on.

Chairman.

2938. Before we pass from this Account there is one question I should like to put. I cannot understand the footnote to Subhead E. Subhead E is: "Local Authorities: Parental Contributions;" and the footnote states: "The excess is due mainly to payments based on allowances normally payable to a parent or guardian, but withheld by the Service departments and the Ministry of Pensions, and covers the period from 1st April, 1940, to 31st March, 1945"—That arose in this way. In order to share the cost of these schools between the Exchequer and the local authorities, we have to take account of the payments made by parents for the maintenance of their children. In the normal way, when the

parent pays so much a week towards the maintenance of the child, that is shared between the Exchequer and the local authorities. But it was pointed out to us that the Exchequer was gaining in an indirect way because the Service departments were withholding the allowances (that would otherwise have been payable) in respect of children who were no longer in the custody of their parents but had been committed to approved schools. Consequently, the Exchequer was in effect getting a contribution from the parents in respect of those children. We then made an arrangement with the Service departments and the Treasury by which a calculation was made as to the amount that, during war years, had accrued to the Exchequer from that source and paid over half of the estimated sum to the local authorities.

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

CIVIL APPROPRIATION ACCOUNTS (WAR SERVICES), 1945-46.

CLASS X.

VOTE 7.

MINISTRY OF HOME SECURITY.

Chairman.

2939. Will Members turn to the Civil Appropriation Accounts (War Services) 1945-46. On the agenda we have down: "Class X, Vote 7a, Home Office." But Vote 7 is also one for which you are the

accounting officer. It is merely a token Vote, is it not, of the Ministry of Home Security which is now defunct?—(Sir Alexander Maxwell.) That is so.

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

VOTE 7A.

HOME OFFICE.

Sir FRANK NEWSAM, K.B.E., C.V.O., M.C., called in and examined.

Chairman.

2940. Will Members turn to paragraphs 39 to 41 of the Report of the Comptroller and Auditor General? These paragraphs are dealing with financial assistance to the Channel Islands. In the second sentence of paragraph 39 the Comptroller and Auditor General states: "The islands' liabilities, including prospective expenditure on economic reconstruction on an "austerity" basis were estimated at £7,613,000 in the case of Jersey and £5,982,000 in that of Guernsey." Then we are told lower down that debts to the clearing banks had been incurred to meet the cost of maintenance of enemy-occupying forces, requisitions of funds by the enemy, budgetary deficiencies due to losses on state trading, etc., and the cost of converting foreign currency into sterling. I am not at all sure that I understand whether the debts are the same thing as the liabilities. Did ordinary banking go on in the Islands throughout the war?—(Sir Frank Newsam.) Yes. When we

abandoned the Islands the branches of the joint stock banks continued to function and they gave advances to the states, both for the states' own purposes because the states continued to act, and also the Germans demanded money from the states and the states used to go and borrow the money from the banks. So at the time of the liberation the situation was that there was a debt owing to the five joint stock banks of the order of £10 million.

2941. Each of the five big banks here has its branch in the Islands?—That is so. Between the five they had lent something like £10 million to the states. Over and above that there was the liability for reconstructing the economic structure of the Islands and that was estimated to be of the order of £3½ million. The whole of the states' actual indebtedness and their potential liabilities were put before us, and it was decided it would be a right thing, having regard to all the circumstances, to relieve them of part of their total indebtedness.

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[Continued.]

2942. Did they have a debt before the war?—Yes. They had what they called a public debt which was of the order, in Jersey, in 1939, of £1,339,000 and in Guernsey it was of the order of £1,675,000.

2943. As a result of these Grants of £7½ million, will they be left with a larger or smaller public debt than they had before the war?—A larger one. The present public debt of Jersey is £3,849,000 and that of Guernsey is £3,400,000. We did not wipe off all the debt. They owed £10 million. We paid only £7½ million.

2944. Can you tell the Committee the present rates of direct taxation in the Islands?—It would be fairer if I may tell you what the rates were before the war. Before the war in Jersey it was 6d. in the £. It is now 4s. in the £. In Guernsey before the war it was 10½d. in the £. It is now 5s. in the £. Plus a surtax which is of the order of 6d. in the £ up to an income of £1,500, rising to 5s. in the £ at an income of £10,000.

2945. Is there any indirect taxation?—There is very heavy indirect taxation on imports, beer, spirits, wines, tobacco and so on.

2946. Can you tell us what a packet of twenty Players' would cost in the Islands to-day?—I ought to know, but I do not know that. I could tell you what the tax on tobacco is. In 1939 in Jersey it was 1s. 7d. per lb. In 1947 it is 7s. 9d. per lb. In Guernsey before the war it was 3s. 11d. per lb., and it is now 7s. 10d. per lb. How that works out on packets of twenty, I do not know.

2947. Can you tell us, Sir Eric, what the rates of duty on tobacco per lb. under the new Budget are?—(Sir Eric Bamford.) 5s. at a guess.

2948. We are told at the top of page 15 that—I do not know whether this deals only with Alderney, Sir Frank?—(Sir Frank Tribe.) The whole of paragraph 40 deals only with Alderney.

2949. When, in paragraph 40, we are told: "supplies and services have been furnished by other Departments, the cost of which has been borne up to 31st March, 1946, by the providing Departments" does that apply only to Alderney?—Yes.

2950. In paragraph 41 the Comptroller and Auditor General states: "Financial aid has also been afforded to the Channel Islands by the write-off, with Treasury approval, of sums totalling £1,047,291 which had been expended by various United Kingdom Departments on the maintenance &c., of refugees and on other services." What was the position about food supplies to the Channel Islands on liberation?—(Sir Frank Newsam.) Before the liberation we sent a lot of parcels to them through the Red Cross. Those were given to them free of cost. At liberation, t

the liberating forces took a considerable quantity of foodstuffs into the Islands. Shops were empty and stocks were exhausted. Those foodstuffs were given free of cost. There was a certain amount of supplies thereafter which we did not charge the states for, but they sold them to the retailers and the stuff which was sold by the retailers was credited to us. I am talking about Alderney. Are you talking about Jersey and Guernsey, or generally?

2951. I am talking about the Islands generally at that moment?—I think the position is that before liberation the stuff sent in by the Red Cross was given free of cost, and stuff sent in afterwards they were supposed to sell to the Islanders and credit us with the proceeds.

2952. Can you tell me whether the Channel Islanders today are getting the benefit of what are called the cost of living subsidies on food sold in this country?—I would not like to be positive about this. I think they are expected to pay us that back. They are doing ordinary trading now. They are themselves buying. We are not supplying to them. They are buying here in the open market so I suppose they are already paying the subsidy when they buy the stuff.

2953. They purchase their food here in the open market through ordinary trade channels?—Yes. (Sir Frank Tribe.) That has been so since March, 1946.

2954. In that case surely they are bound to be getting the benefit of our cost of living subsidies, are they not?—No, not since March, 1946; but before then I understand they were getting the benefit of the subsidies.

2955. Surely, Sir Frank, if they are purchasing here at ordinary commercial prices, which are subsidised prices, they will be getting the benefit of the subsidies?—I am not certain about that.*

2956. If they were buying from the Ministry of Food they might well be charged a higher price than the price to British traders. We can follow that point up with the Ministry of Food?—Yes, I think it would be more appropriately dealt with by the Ministry of Food.

Chairman.] Are there any questions on paragraphs 39 to 41?

Mr. Benson.

2957. I should like an explanation of these banking transactions. The banks lent to the states £10 million?—(Sir Frank Newsam.) Yes.

2958. And the states spent that money in paying the Islanders for the produce that was taken by the occupying forces?—The advances by the banks to the states took different forms. Sometimes the Germans said: "We want so much money

* Since 1st April, 1946, steps have been taken to ensure that the Channel Islands pay the full cost of the food supplied.

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[Continued.]

to pay our troops" and the states went to the banks and said: "Please give us so many marks," and the states handed it over to the Germans.

2959. Marks?—Whatever it was. The currency in those days was Reichsmarks. There was no sterling in those days.

2960. How did the banks get their supply of marks?—I suppose they printed them locally.

2961. The banks printed their supply of marks. The marks were handed over by the states to the German troops, and the German troops spent the marks with the Islanders. Those marks must have flowed back to the banks?—As credits.

2962. As deposits?—As deposits or credits.

2963. When we re-occupied what was the holding by the banks of mark deposits owing to the Islanders?—There was no sterling at all; but the banks had on their books Reichsmarks which were credited to the Islanders in the form of sterling. The result was that when we liberated the Islands there were certain credits in the banks' books in favour of the depositors and debits against the states who had borrowed them originally.

2964. The bank printed the marks and when the marks were paid back by the Islanders into the banks, those marks were credited to the Islanders as a sterling balance?—I think it was kept in sterling, yes.

2965. So that the Islanders must have accumulated £10 million?—I should like to be excused from answering that. It is high finance. I do not know how that works out.

2966. The whole transaction is very extraordinary. Unless the marks that were printed by the banks (it is rather astonishing to learn that they had printing machinery) were taken abroad on to the Continent, they must still be in the Islands?—Could I put it in this way: we were satisfied and the Treasury were satisfied that at liberation the states owed to the banks £10 million. We were satisfied that that happened. What happened to the Reichsmarks is a mystery of high finance which I do not pretend to be able to fathom.

2967. May I turn to the Treasury? What was the history of this rather queer transaction?—(Sir Eric Bamford.) I have no information which suggests that the banks in the Islands printed these Reichsmarks. One would assume that they obtained them by parting with assets of their own for them.

2968. You are suggesting that they bought the Reichsmarks from the German Reich and they paid for them with assets?—That is what I would have assumed.

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Mr. Benson.] I think we might have a memorandum on this matter, Mr. Chairman. As it is stated in the Report of the Comptroller and Auditor General the thing does not hang together. Might we have a memorandum from the Treasury stating exactly what these banking transactions were and what the result was of the increased balances in the banks of the Islanders themselves?

Chairman.

2969. It surprises me a little to hear that the local currency was Reichsmarks. I should have thought that the Germans would have paid their troops locally in sterling, which is the local currency?—(Sir Frank Newsam.) As I understand, sterling disappeared pretty quickly after the Islands were occupied, and the normal currency was Reichsmarks. When I said they were printed in the Islands I am afraid that might be a rash guess. It may be that they brought them from Germany, for all I know.

Mr. Benson.

2970. There again, might we have a Treasury memorandum stating how they got hold of the Reichsmarks and what happened to the Reichsmarks when they were issued to the German troops?—(Sir Eric Bamford.) We will put in a note.*

Chairman.

2971. Could you put in a note giving the rate of exchange, also, at which the banks have credited these marks?—(Mr. Jones.) The rate of exchange was 9.36 Reichsmarks to the £.

Chairman.

2972. Perhaps you would put in a short note to explain these banking transactions and currency transactions?—Yes.*

Chairman.] Are there any further questions on those paragraphs?

Mr. McAdam.

2973. In the last sentence of paragraph 41 the Comptroller and Auditor General states: "Further sums remain to be written off". Could we have an indication of what those sums are, and what items they represent?—(Sir Frank Newsam.) It only means we have not got particulars from all the Departments who spent money. We expect some more sums will have to be written off. We think we have not a full bill yet from all the Departments who have spent money. We do not think it will be of any substantial order.

Mr. Cuthbert.] I do not want to say much more now, as you have asked for a report on this marks question. My own supposition is that the marks were brought over by the Germans because you notice, in the second part of paragraph 39, the Comptroller and Auditor General speaks of

* See Appendix 10.

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"the cost of converting foreign currency in circulation at the time of liberation into sterling". I think that those marks were brought over by the Germans and used during the period of the occupation and

they eventually must have been changed into sterling through the banks. I think it would be very interesting indeed to have the memorandum which has been called for.

(Sir Frank Newsam withdrew.)

Mr. A. S. HUTCHINSON, C.B., C.V.O., called in and examined.

Chairman.

2974. We turn to the Account, which is at page 25. In the details of expenditure, Subhead G is: "Respirator Factories." Can you tell me, Sir Alexander, what respirator factories were doing in the year of account 1945/46?—(Sir Alexander Maxwell.) There were certain special forms of apparatus on which expenditure was still being incurred. They were still manufacturing certain special types of respirator and they were also doing repairs and alterations on other types. I can get you fuller information about that. I am afraid I have not the full details here.

2975. I do not think it is of much importance. Subhead I is "Grants to Local Authorities . . ." These grants are not on a flat rate basis, are they? They are of varying percentages?—Yes, varying percentages.

2976. Will you tell us the formula on which the Grants are made?—The Grants to local authorities?

2977. Yes.—There were certain cases in which there was a 100 per cent. Treasury Grant. In other cases it was 70 per cent. or 75 per cent.

2978. It varied according to the needs of the local authority?—No, according to the type of service.

2979. You mean so far as a particular service is concerned every local authority got the same rate of grant?—Yes.

2980. Then Subhead X is "Fire Appliances, Equipment and Stores," a figure of £569,000. Does that include the provision of petrol, amongst other matters?—(Mr. Hutchinson.) Yes, that would be under Subhead X.

2981. Have you a figure for the amount of money expended on petrol in the year of account?—Yes, petrol was £278,283.

2982. Can you tell me whether the arrangements for preventing the illicit sale of petrol were satisfactory?—Yes, I think entirely so. I do not remember hearing of any difficulty under that head at all.

2983. Turning to the losses statement at the foot of page 26, the largest item is £36,000 "Compensation in connection with the Bethnal Green shelter disaster." This was the case that went to the High Court and the Court of Appeal, and judgment was given against the local authority, was it not?—That is so.

2984. Is this payment giving the local authority 100 per cent. of their liability?—Yes.

2985. And their costs?—I think we paid the costs but I cannot remember that.

2986. Were you justified in paying the whole of the damages which were awarded against the local authority? What was the basis on which the decision was come to to pay the whole of this sum?—I know very careful consideration was given to the problem at the time. All the points that were considered are not present to my mind but the general impression that I got was that after examining the various possible ways of dealing with it the conclusion was come to that it would be very unfair to the local authority not to pay the full amount.

2987. The disaster itself, of course, arose from enemy action?—Indirectly it may be said to have arisen from enemy action; that is to say that the sound of enemy activities caused a rush of people down a stairway which was found to be dangerous.

2988. At any rate, it was considered fairer that the loss should fall on the Exchequer than that it should fall on the rates?—Yes.

2989. On page 28 the second note is "Deficiencies and losses of stores at National Fire Service stores, &c, amounting to £37,998 10s. 11d." As a rule this Committee, when store-taking is before it, finds that in some instances there are surpluses and in other cases there are deficiencies. Were there any surpluses at National Fire Service stores?—(Mr. Hutchinson.) Yes. The surpluses, as a matter of fact, more or less balanced the deficiencies. The explanation very largely is that the more expensive items which caused deficiencies result from attendances of fire appliances from more than one station at a fire, and sometimes one engine will go back to its station with somebody else's hose. So it is really a case of a book-keeping loss rather than an actual loss. Although there have been some losses, broadly speaking they very nearly balance.

2990. That is an accident which would not have occurred when fire engines were horse-drawn, I suppose?—No, I think you are right in that.

Chairman.] Are there any questions on the Account?

20 May, 1947.] Sir ALEXANDER MAXWELL, G.C.B., K.B.E., and
Mr. A. S. HUTCHINSON, C.B., C.V.O.

[Continued.]

Sir John Mellor.

2991. Are these respirator factories owned by the Home Office?—(Sir Alexander Maxwell.) Yes.

2992. Are the types of respirator made the same as the Service respirators?—There are various types of respirator that were made for civilians. I cannot say whether any of those types are the same as Service types.

2993. Are they still making the same types as they made during the war?—They are not, at the moment, making respirators.

2994. I am speaking of the period in question. Were they then still making the same type as they made during the war?—They were still then making certain types of respirators and that is the point on which I cannot give you details at the moment. I am sorry. I can find out exactly what were the types being made then.

Mr. Thurtle.

2995. On that matter of the Bethnal Green payment, the High Court found that the local authority had been negligent and it was on that ground they ordered the damages, I think?—Yes.

2996. I think the position of the local authority was that they were under the supervision of the London Region, and therefore if the London Region had approved of their arrangements the liability really rested with the Ministry of Home Security?—Yes. No one had realised that there was any danger until the accident had occurred.

2997. That was the justification for inviting the Ministry of Home Security to meet the cost?—That is so.

Lieut.-Colonel Hamilton.

2998. On page 25, Subhead F is: "Equipment and Materials," a figure of £1½ million. Can you give me any idea what that refers to?—A large part of that expenditure was due to the decision to repurchase from the local authorities various surplus items of uniform and clothing which were no longer necessary at that time, and they were ultimately handed over to the Ministry of Supply and used for other purposes. That is a large part of that expenditure.

2999. They were handed over, you say, to the Ministry of Supply?—Yes.

3000. Were they handed over as a free gift?—They were purchased back by the Exchequer from the local authorities and we then handed them to the Ministry of Supply from the Home Office.

3001. There was no book transaction over it?—No.

Mr. McAdam.

3002. On page 27, in the notes it states: "Subhead U.1 includes (a) £4,374 5s. 4d.

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in respect of which supporting vouchers were lost. There is sufficient evidence that the sum was paid." Could you give us an idea as to what exactly those vouchers covered?—(Mr. Hutchinson.) The explanation of that item is this. For a period after the National Fire Service was set up local authorities continued to pay the wages of the Fire Service on an agency basis until some date about the spring of 1942, I think it was. At any rate, whatever the material date was, in one case the Gosport Borough Council claimed upon the National Fire Service repayment of certain sums in respect of the month preceding the date when the National Fire Service took over the actual payment, and, for some reason which has never been completely cleared up, the wage sheets to support those payments which were alleged to have been handed over by the borough council together with their claim were never found, but a check was made to see whether the amounts were right and theoretical calculations were made on the basis of payments which had been made for the preceding month. It was quite clear that the men concerned had been in fact paid and the theoretical payments checked up to within £20 of what the amount claimed was. Therefore it was considered that the borough council claim was a valid one and the amount was paid. That is the explanation of that item.

3003. The borough council itself had lost the vouchers in respect of the amount of money it had already paid out?—I think it is much more likely, quite frankly, that the wage sheets were lost by the National Fire Service. I think it is almost certain that they were handed over to the appropriate finance officer of the National Fire Service, and, although the previous wage sheets were found with the records, the wage sheets for that particular month were mislaid or at any rate were not traced.

3004. Surely the borough council itself, even supposing it handed over copies of wage sheets to the National Fire Service, should have retained its own copies? Surely it is a pretty slack way of doing business so far as a borough council is concerned?—I am afraid I do not know the answer to that one.

Chairman.

3005. There is one question I ought to ask you, to have it on record, as the National Fire Service is now in process of dissolution, and that is on the details of receipts. There is an item: "Contributions by local authorities, etc., towards cost of Fire Service." Upon what basis did the local authorities contribute to the cost during the war?—The normal basis was 75 per cent. of the cost of a standard year's fire service, that is to say the year 1939-40.

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20 *Māy*, 1947.] Sir ALEXANDER MAXWELL, G.C.B., K.B.E., and [Continued.
Mr. A. S. HUTCHINSON, C.B., C.V.O.

3006. The local authority paid 75 per cent. of a normal pre-war year?—That is right.

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

(*Sir Alexander Maxwell and Mr. Hutchinson withdrew.*)

CIVIL APPROPRIATION ACCOUNTS, 1945-46.

CLASS III.

VOTE 6.

SUPREME COURT OF JUDICATURE, ETC.

The Hon. Sir ALBERT NAPIER, K.C.B., K.C., called in and examined.

Chairman.

3007. Sir Albert, will you turn to paragraph 35 in the Report of the Comptroller and Auditor General on your Account, "Grant in Aid of the Expenses of administering the Poor Persons' Rules"? This is a Grant in Aid to the Law Society, is it not?—(*Sir Albert Napier.*) Yes.

3008. It is stated to be "towards administrative expenses incurred in connection with the provision of free legal assistance to poor persons"?—Yes. That has been going on for many years.

3009. In what class of case is this free legal aid mainly given?—In all sorts of cases in the High Court. It is given only in the High Court, with a very small exception that it is given in the County Court when a case is started in the High Court and afterwards gets to the County Court.

3010. They are all civil cases, are they?—Yes, they are all civil cases.

3011. And they are all High Court cases, except those that are remitted to the County Court?—Yes. The great majority happen to be divorce cases, and always have been.

3012. A poor person might get legal aid, you mean, for bringing or defending a libel action, or in other causes of that nature?—Yes; and in accident cases.

3013. In the second sub-paragraph the Comptroller and Auditor General states: "On 1st January, 1942, the Law Society . . . set up a Services Divorce Section to deal with the large number of cases involving members of the forces who were entitled to plead as poor persons"?—Yes.

3014. What is the ordinary criterion of being a poor person for the purpose of getting assistance?—The ordinary criterion is having an income of £2 a week or, in special cases, £4 a week (in practice it is usually £4) and a very small capital sum.

3015. There is a personal means test?—Yes.

3016. In the case of members of the forces, what was the criterion of being a poor person?—It was thought that a means test could not practicably be applied to the

forces and it was done by ranks. It was up to the rank of Sergeant.

3017. Including Sergeants or excluding Sergeants?—Including Sergeants.

3018. A Sergeant could obtain assistance but a Sergeant Major could not—That is so.

3019. Has that rather arbitrary line worked satisfactorily in practice?—As far as we know. It certainly produced a large crop of results. It had to be done really for this reason. It was not only a question of rank; but all the solicitors and their clerks subject to personal hardship cases were allowed to go to the war. The work had been done before voluntarily by the solicitors and their clerks and "voluntarily" meant, in practice, at a loss. They simply were not there, and it would have been in a sense a good answer to all the poor persons who were then in the forces to say: "Well, you have a right to apply, but you cannot get a divorce because the volunteers are not there." But that would have been very bad for morale and a denial of justice, and something had to be done; so we expanded this system.

3020. We are told, in the following sub-paragraph: "In 1943 the arrangements relating to Services divorces were extended during the war period to civilians concerned in matrimonial causes provided a conducting solicitor was not otherwise obtainable." Could you shortly explain what that means?—Yes. Before the war the provincial law societies each had their own committee to which a poor person could apply for assistance and then, if passed, a conducting solicitor, probably a local man, was appointed voluntarily to do the work. For the reason I have mentioned of course that system broke down, and if a poor person in the Provinces wanted a case tried and he passed the test but there was no conducting solicitor we made arrangements by which it came up to London and was dealt with by the Law Society who have salaried solicitors to conduct the cases.

3021. At the present time are there any solicitors giving their services free to poor persons?—Yes, in the Provinces, to some extent.

20 May, 1947.]

The Hon. Sir ALBERT NAPIER, K.C.B., K.C.

[Continued.]

3022. But to a much more limited extent than was the case before the war?—Yes. They have not come back to their pre-war capacity. They are struggling along to cope with their own clients, waiting to get their clerks back.

3023. Does the figure of £210,000 to which the original Grant in Aid was increased by means of the Supplementary Estimate include anything or provide anything for payment of counsel's fees?—Yes. It provides one guinea for counsel in an undefended case. It was thought not quite right that the solicitor, though paid a modest salary, should nevertheless be a paid person and counsel should do it absolutely for nothing.

3024. So the position is that whereas before the war there were plenty of completely briefless barristers who would do a case, I suppose, under these arrangements, for nothing, now a nominal fee of one guinea is paid?—They were not all briefless barristers. It was thought to be a public service which the solicitors were undertaking at great cost to themselves and counsel came in, too.

3025. Have we got to the day of full employment when there are no briefless barristers?—No. I think there must be some who are having difficulty in picking up their practice.

3026. There were a good many when I was at the Bar. How does your Department control the expenditure of the Grant in Aid?—As regards this £210,000, from elaborate estimates by the Law Society we know all the salaries they pay and we submit the estimate to the Treasury, who study it before they agree to the Grant in Aid. In fact, we are in very close touch with the Law Society over that.

3027. The main cause of the growth in the amount of money granted is the increase in divorce, is it?—Yes, entirely.

Chairman.] Are there any questions on paragraph 35 of the Report of the Comptroller and Auditor General?

109.

SUPREME COURT OF JUDICATURE ACCOUNT, 1945-46.

(Account of receipts and expenditure of the High Court of Appeal, 1945-46.)

(On this Account no questions were asked.)

SUPREME COURT: PRIZE, ETC., DEPOSIT ACCOUNT, 1945-46.

*(On this Account no questions were asked.)**Chairman.*] Thank you, Sir Albert. That concludes your evidence.*(Sir Albert Napier withdrew.)*

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[Continued.]

CIVIL APPROPRIATION ACCOUNTS, 1945-46.

CLASS III.

VOTE 10.

LAW CHARGES.

Sir THOMAS BARNES, K.C.B., C.B.E., called in and examined.

Chairman.

3035. Will Members turn to the Civil Appropriation Accounts, 1945-46, to paragraph 37 of the Report of the Comptroller and Auditor General, dealing with the subject of law charges. "Expenditure in connection with the Trials of major War Criminals". The Comptroller and Auditor General states: "Subheads B.1 and E include expenditure of £28,638 on the trials of major war criminals at Nuremberg and Tokyo." Is that the whole of the cost to this country of these trials?—(Sir Thomas Barnes.) No. That £28,638 was for the years in question, and subsequently there was much greater expenditure in the following year. The trials started, I think, in November, 1944, and finished in August, 1945. (Sir Frank Tribe.) The Judges' salaries are, of course, borne on the Consolidated Fund. (Sir Thomas Barnes.) Yes, the salaries. The expenditure in the next year was £65,000 for Nuremberg. It was £28,000 for the year in question.

3036. There will be no expenditure in the current year of account, presumably, or will there be some in Japan?—In Japan possibly. We had not finished there then. That did not start, of course, until May, 1946.

3037. Is it hoped that the cost of these trials will be recovered in whole or in part from either Germany or Japan?—From Germany. There was a provision in the Charter to that effect, and I think £63,000 has already been paid back from the Control Commission, or credited back.

3038. That at present will be a charge on this country, will it not?—(Sir Frank Tribe.) Yes.

3039. It is simply a transferred payment from the Control Commission Account to your Account?—(Sir Thomas Barnes.) Quite.

3040. Has any Member of the Committee any questions on paragraph 37? We turn now to the Account at page 139. Subhead E is a Grant in respect of civil proceedings of £22,000. The expenditure was £145,000 and the explanation of the difference is: "Due to increase in the references from Departments resulting from war conditions. Provision was based on normal expenditure in pre-war years." Could you tell the Committee what this Subhead covers?—It covers all civil proceedings which are conducted in my Office. That means by the Service Departments, the Treasury, the Ministry of Works, the Ministry of Food,

the Ministry of Pensions and the Ministry of War Transport (as it then was) and it covers—

3041. It is the cost both of bringing proceedings and defending them where Ministers are sued?—Exactly.

3042. It includes counsel's fees, I suppose?—It includes counsel's fees.

3043. And any local solicitor whom you employ?—Yes, any local agent. Of course, the increase was due to the armed forces: we had an enormous amount of mechanical traffic on the road. We also acted for the American Government, who had a lot of troops here. It included the Fleet: collision accidents at sea, and things of that sort.

3044. Is it the case that if any Department is involved in litigation the expense falls on this Account?—No. Certain Departments have their own Solicitors' Department. For instance, the Board of Inland Revenue. All the Revenue litigation (and there is a good deal of it) is borne on the Board of Inland Revenue Vote.

3045. I suppose the Ministry of Food have their own Solicitors' Department?—No. That is borne on this Vote. I do the legal work for the Ministry of Food and therefore it is borne on this Vote.

3046. The Minister of Fuel and Power has his solicitor, has he not?—Yes. He comes under the Board of Trade. There is a separate solicitor to the Board of Trade.

3047. Can you tell us from memory which Departments have their own solicitors?—Yes, I think I can. The Board of Inland Revenue, as I mentioned just now, the Customs and Excise, the Ministry of Agriculture and Fisheries, the Board of Trade, the Ministry of Health, the Ministry of Labour and the Ministry of National Insurance. All other Departments are served by my Office.

3048. It is quite an arbitrary distinction, or is there some reason for it?—The logical reason was (it has been departed from to some extent) that Departments like the Board of Inland Revenue and the Ministry of Health have to deal with special codes of law in which they want specialists. If you take the Customs, and Excise, it is quite a special branch of the law. Whereas Service Departments and the Ministry of Food have no real special code. There is no special code which they administer. That was the original arrangement and it is broken into a little, but I think it persists.

20 May, 1947.]

Sir THOMAS BARNES, K.C.B., C.B.E.

[Continued.]

3049. Looking at the details of receipts at the foot of page 140, the first item is "Civil proceedings, costs recovered" and the estimated sum was £13,000 and the amount realised £22,000?—Yes.

3050. There seems to be rather a disproportionate difference here. The expenditure on Subhead E was six times the Grant, whereas when it came to recovering costs you got hardly double what you anticipated?—As you see from the footnote to Subhead E, the provision was on a pre-war basis, and we were so instructed to estimate.

3051. When it came to recovering costs you realised £22,000?—We realised £22,000 from civil proceedings. That was as a result of proceedings in which we were successful. We recovered costs from the other side.

3052. Is an expenditure of £144,000 compared with costs recovered of about £22,000 the sort of normal experience which the professional litigant might anticipate if he went in for litigation as a career?—Yes, because that is not his only source of income. He gets his income from his clients. This is recovered from the opposite side. The ordinary solicitor has his bill against his client, which would include the £144,000 and more. I do not think it is really comparable.

Chairman.] I have no further questions on the Account. Has any Member of the Committee any questions?

Sir John Mellor.

3053. Although there was no expenditure in the accounting period there was a Grant of £200 for Parliamentary Agency. That is Subhead D. Was that for the employment of Parliamentary Agents and for what sort of purpose?—Hybrid Bills. Private Bills. We have had a lot of them in the last two years, of course. There was the Roosevelt Memorial Bill. We have one going on in the next room now dealing with Government Office sites in Great George Street. There is a Parliamentary

(*Sir Thomas Barnes withdrew.*)

CIVIL APPROPRIATION ACCOUNTS (WAR SERVICES), 1945-46.

CLASS X.

VOTE 19.

SCOTTISH HOME DEPARTMENT.

(*On this Account no questions were asked.*)

(*The Witnesses withdrew.*)

Adjourned till Thursday next at 3.45 p.m.

Agent appointed every year by the Treasury. At the moment it is Sir Charles Browne of the firm of Dyson, Bell and Company. He sends in his account for fees which are charged to this Vote.

3054. There is no fixed fee?—There is no fixed fee. He sends in his professional bill and it is paid, if it is agreed, and charged to this Vote.

Mr. Thurtle.

3055. There was an amount of £66,625 spent on the Nuremberg trials up to the 30th September, 1946?—Yes.

3056. I take it that is only part of the cost of those trials. There will be more to be paid subsequently?—I think the total cost of the trials is something like £88,000.

3057. Of this amount of £66,000 odd, I see there was £36,485 spent on payment to counsel?—Yes.

3058. Could you give us any idea as to the number of counsel involved in this amount?—Yes. There were the Attorney-General, Sir David Maxwell Fyfe and Mr. G. D. Roberts. They were the leading counsel; and there were four junior counsel.

3059. Could you say what period of the trials this particular payment would cover? It goes up to the 30th September, 1946?—Yes. The trials were over in August, 1946. Accounts came in afterwards and the total sum was £88,000. That is including expenditure in this country and in Germany.

3060. There would be subsequent payments to counsel after this amount, then?—Yes. The total payments to counsel (I have the figures here) were £52,000.

3061. There were four leaders?—The Attorney-General, Sir David Maxwell Fyfe and Mr. G. D. Roberts were the leaders and there were four junior counsel.

Chairman.] Are there any further questions on the Account? May I take it that the Account is approved? (*Agreed.*) That concludes your evidence, Sir Thomas. Thank you very much.

THURSDAY, 22ND MAY, 1947.

Members Present:

Mr. Benson.
Mr. Cuthbert.
Lieut.-Colonel Hamilton.
Mr. Haworth.

Mr. Horace Holmes.
Mr. McAdam.
Sir Frank Sanderson.
Mr. Thurtle.

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

Sir FRANK TRIBE, K.C.B., K.B.E., Sir ERIC BAMFORD, K.B.E., C.B., C.M.G., and Mr. C. E. I. JONES called in and examined.

CIVIL APPROPRIATION ACCOUNTS, 1945-46.

CLASS II.

VOTE 8.

COLONIAL OFFICE.

Sir THOMAS I. LLOYD, K.C.M.G., called in and examined.

Mr. Benson.

3062. Our first witness is Sir Thomas Lloyd. I think it is the first time you have appeared before us, Sir Thomas?—(Sir Thomas Lloyd.) Yes.

3063. I offer you a welcome on behalf of the Committee. I see the Accounts are not signed by you but by Sir George Gater. I assume you take full responsibility for them?—Yes.

3064. Will Members turn to the Civil Appropriation Accounts, 1945-46, Class II, Vote 8, the Colonial Office? The Account is at pages 76 and 77. I have only one question on the account, and that is with regard to the first item in the details of receipts. That item is: "Contributions from Colonies towards the cost of the British Colonies Supply Mission." I believe that that receipt arises from a commission of 1½ per cent. on the cost of the purchases?—That is so.

3065. Could you tell us how far that commission has met the actual costs?—The amount received so far from 1943 up to the present date is £145,000.

3066. What have been your expenses?—I am sorry, but we do not know. We can give you a note on that. We have not a note of the actual expenses to date.

3067. Is it a big matter to disentangle it from other expenses?—No. We can get at it quite easily.

3068. Perhaps you will let us have a short note on that?—Yes.*

Mr. Benson.] Has any Member of the Committee any questions on this Account?

Sir Frank Sanderson.

3069. One minor point with regard to Subhead A: "Salaries, &c." The expenditure was £14,500 less than the Grant. Was the saving due to a reduction in bonuses or salaries or to a reduction in staff?—There was a saving on staff abroad, the British Colonies Supply Mission at Washington, and there was a saving on pay of staff serving with the forces. Those were offset by increased costs of war bonuses. The net saving was £14,000.

3070. Was the saving due to reduction in staff or due to a reduction in bonuses and salaries?—There was a reduction in the staff of the British Colonies Supply Mission which was beginning to wind up at that time and has now disappeared.

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

* Paper circulated to Members; not printed.

TREASURY MINUTE ON PARAGRAPHS 20 AND 21 OF THE FOURTH REPORT OF THE COMMITTEE OF PUBLIC ACCOUNTS, 1946.

Mr. Benson.

3071. This refers to the Colonial Food Yeast Company. The Treasury, I see, rather agree with the views put forward by the Committee last year that this company should be wound up as soon as possible. Have any steps been taken to that end?—(Sir Thomas Lloyd.) No. We have since been in Departmental correspondence with the Treasury and they have now

agreed that it is not practicable to wind up the company and they are content to leave the arrangements on their present footing, subject to review at the end of this year. The principal reason which persuaded the Treasury to that view is that it is very unlikely that the West Indies Sugar Company, the link body, would in fact be prepared to enter into direct arrangements of the kind mentioned with

22 May, 1947.]

Sir THOMAS I. LLOYD, K.C.M.G.

[Continued.]

us just at this stage. The Treasury, persuaded by that, have agreed that the present arrangement should continue, subject to review at the end of this year.

3072. What is the total amount of money that has been found for this company? It started off with a nominal capital of £100, and it has been fed by loans?—£168,000 has been issued so far. That is to meet capital costs. Another scheme has been made to enable a loan not exceeding £75,000 to be made available as and when required by the company for working expenses during the period up to the 31st March last. £66,500 out of that £75,000 was actually issued.

3073. The working capital was due for repayment in March last, was it not?—That has now been revised by agreement with the company, and the question of repayment is standing over until the 31st August.

3074. Why is it standing over? Is there any reason to assume that they will be in a position to repay by August?—That all depends on the company's^p future, whether they carry on as they are at present or whether there is to be any variation in that.

3075. That loan was at 3 per cent, as against an interest-free loan of £150,000?—Yes.

3076. Have they paid the interest?—Yes, up to September, 1946, so far.

3077. There was a promise of an additional £30,000 interest-free loan, was there not? You mentioned that £168,000 had been issued. Was the additional £18,000 out of the promised loan of £30,000?—A supplementary scheme for a further £30,000 was approved to provide working capital to liquidate the overdraft and to provide working capital to finance operations up to 31st March, 1947. The company has not got into production so quickly as was hoped. The rated capacity of the factory is 12 tons a day. They have now reached 9 ton a week, and it is hoped within the next three or four months that production will be raised from 20 to 25 tons a week. That goes far beyond the output of about 10 tons which is estimated to be the minimum at which the company could cover its expenses.

3078. Was that overdraft of £17,000 incurred purely on their own responsibility without permission from anybody, or was the Colonial Office consulted?—It was a decision taken by the Board on which the Colonial Office has one representative.

3079. What is the present position? Are they entitled now again to overdraw?—No, not now.

3080. So that the present position is that this company is still on probation. Is that what it really comes to?—Yes, on

trial anyway, if not probation. It is a very novel experiment, which we hope will (and I think we have good reason for hoping) prove to be financially successful as well as of great benefit to other parts of the Empire. The yeast will find us an assured Colonial market. Already Malaya, I think it is, is willing to place a contract that would cover the whole of the possible production for some time to come.

3081. There is a very large capital involved. Are they losing heavily at the moment on this small production?—The net expenses are £5,000 a month. Now that the production is getting up from 9 tons a week they should, as I said a moment ago, be able very shortly to pay their way.

Mr. Benson.] I have no further questions on the Treasury Minute on paragraphs 20 and 21 of our Fourth Report of last year. Has any Member of the Committee any questions?

Sir Frank Sanderson.

3082. Am I right in assuming that this company, for all practical purposes, is a Government company? It is a company which has a director appointed by the Colonial Office?—We have one Colonial Office director out of six directors and one other person who is an official, in a sense, a representative of the Medical Research Council, but the three directors—

3083. When I say "for all practical purposes it is a Government company" what I really mean to infer is that the capital is found by the Treasury and that any loss sustained will have to be borne by the Treasury. Is that right?—Yes, but we are hoping we are very near the end of making losses.

3084. To make it sound sweeter I will say "and any profit will also accrue to the Treasury." Is that right?—Yes.

Mr. Benson.

3085. Have the Treasury anything to say on this matter?—(Sir Eric Bamford.) We have been consulted about this extension of the operation of this company. As you know, we were not convinced, as the Committee was not, that it was really necessary to have this body interposed. But when we discussed the matter with the Colonial Office we were satisfied that the best thing to do was to run on until the end of this year and then review the matter, partly because the whole project is still in the experimental stage and partly, as has been said, because the sugar company were just not prepared to make different arrangements at this stage.

Mr. Benson. Thank you. Are there any further questions on the Treasury Minute on paragraphs 20 and 21 of our Fourth Report of last year?

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[Continued.]

TREASURY MINUTE ON PARAGRAPHS 22 AND 23 OF THE FOURTH REPORT OF THE COMMITTEE OF PUBLIC ACCOUNTS, 1945-46.

Mr. Benson.

3086. This deals with the approval of Colonial development and welfare schemes. I think the point there was that the Colonial Governments were being committed by their Governors to schemes that had not received sanction. Have instructions been issued?—(Sir Thomas Lloyd.) Yes. In November last we sent detailed instructions, in which the Treasury agreed, to all Governments which take part in development and welfare schemes.

3087. Are these rules now being applied rigidly?—Yes. Occasionally one finds a Government wanting to jump a fence in particular circumstances, but the issue of the instructions has made it easy to hold them back from that.

3088. You feel it is under control now?—Yes.

Mr. Benson.] Has any Member of the Committee any questions on the Treasury Minute on paragraphs 22 and 23 of our Fourth Report of 1946?

Sir Frank Sanderson.

3089. I should like to have it quite clear that this assistance which is to be given is really retrospective legislation, is it not? In other words, approval of the development and welfare schemes and the costs thereof are being asked for after, in fact, the expenditure has been incurred?—That is what was happening, and it is to prevent a recurrence of that that these instructions have been issued.

3090. It is now finally stopped?—Yes.

Mr. Benson.] Are there any further questions on the Treasury Minute on paragraphs 22 and 23?

CIVIL APPROPRIATION ACCOUNTS, 1945-46.

CLASS II.

VOTE 9.

COLONIAL AND MIDDLE EASTERN SERVICES.

Mr. Benson.

3091. Will Members turn to the Civil Appropriation Accounts, 1945-46, Class II, Vote 9, Colonial and Middle Eastern Services? We take first paragraphs 21 to 28 of the Report of the Comptroller and Auditor General. Paragraph 21 appears to be purely narrativel. Paragraph 22 relates to Malta. I believe we made Grants during the war to Malta to help Malta carry on. Then, after the war there was a Grant of £10 million. The £10 million Grant was primarily for the purpose of making good war damage, was it not?—(Sir Thomas Lloyd.) Yes.

3092. I gather, from paragraph 22 of the Report of the Comptroller and Auditor General, that, out of that £10 million for war damage, they have spent some £800,000, but that there is a further sum of £915,000 which has been spent on war damage which has fallen on the Exchequer in that we are having to subsidise Malta's day-to-day expenses?—Yes.

3093. What steps are you taking to collect that £915,000 out of the £10 million?—There is a long history to this, but the main point was that under the ordinance first enacted to create the war damage fund, no provision was made whereby the Government could claim reimbursement from the fund in respect of certain classes of repairs, one of which was repairs to Government property. The view of the Malta Government always has been that repairs to Government property should not count against the £10 million which, they argued, was

intended for other purposes. We have maintained the other view, and we have told the Governor within the last two months or so that the balance which is outstanding on that Account must be refunded, and that there can be no question of increasing the total Grant which the Government over here have made, amounting to £30 million in all, with the new £20 million, in order to take on, over and above that £30 million expenditure on repairs to Government property.

3094. The point is that it should fall on the £30 million and instead it has fallen on the subventions?—It was met from subventions in the first place because of the inability to recover under the initial legislation out of the War Damage Fund. Malta have got now to enact further legislation to enable that to be done.

3095. The Comptroller and Auditor General states at the beginning of paragraph 22: "I have received the accounts of the Government of Malta for 1944/45, together with the report of the Auditor of Malta, who states that the examination of these accounts was conducted in accordance with a programme of work submitted to and approved by the Governor." Apparently the Malta Accounts and the money found by the Treasury for Malta are not audited or checked by the Comptroller and Auditor General of the United Kingdom?—It is checked by the Auditor General of Malta.

3096. Exactly. Treasury expenditure is checked by the Comptroller and Auditor

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[Continued.]

General in the frame of reference of our Appropriation Accounts, but there are apparently no Appropriation Accounts for Malta and it depends simply and solely on the *ipse dixit* of the Governor?—We are authorised by Parliament to accept that, subject to submission to the Auditor of the Malta accounts.

3097. Have you anything to say on that, Sir Frank?—(Sir Frank Tribe.) The point rather was that the Auditor of Malta who is, I understand, appointed in Malta by the Maltese Government, conducts his audit in accordance with a programme of work which has been submitted to, and approved by, the Governor. We do not know very much about that programme. We do ultimately see the audited accounts, but we do not really know anything about the programme of work which the Auditor of Malta has carried out.

Mr. Benson.] Thank you. Are there any questions on paragraph 22?

Sir Frank Sanderson,

3098. Can you state whether the original debt of £10 million has now been exhausted?—(Sir Thomas Lloyd.) No, nowhere near it.

3099. So the second gift of £20 million is still completely intact?—Yes.

3100. Am I to take it that the £20 million, whilst it is a gift, will not in fact yet have been transferred to Malta? In other words, it is held here until it is required?—It is only issued as and when required.

3101. So that none of the £20 million will yet have been issued?—No. The £10 million is nowhere near exhausted yet.

Mr. Benson.

3102. The £10 million is issued as required, but it carries along with it interest on the unissued balance, does it not?—The £10 million was all issued. It was issued, but it has not been used. A trust deed was drawn up. It is a trust fund. Until they have used it and the accumulated interest on it there can be no question of the Malta Government asking for any of the £20 million.

3103. What rate of interest does it carry?—According to the investments.

3104. It is in Government securities?—Yes. We have a statement here of what it is invested in. It is invested in 2½ per cent. National War Bonds and 3 per cent. Savings Bonds, the bulk of it. There was still, at the 31st March, £7 million in those two.

Sir Frank Sanderson.

3105. On that point (I think it is rather important), surely the Maltese Government are not paying interest upon this loan, because it is not a loan? It is in fact a gift, and it is the Maltese Government who are receiving interest upon the gift which has been invested?—Yes. I am sorry: I thought that is what I explained.

Mr. Benson.

3106. In effect the Government is paying interest to Malta on the unexpended portion of the loan. Are there any further questions on paragraph 22? We pass to paragraph 23 "Mauritius: Grant in Aid of Assistance to Sugar Industry". Mauritius seems to have received half a million pounds as a direct Grant to make loans to the Mauritius agricultural community to make good cyclone damage, and a further £800,000 loan free of interest. Is that correct?—Yes, that is right—£500,000 free Grant and £100,000 interest-free loan in 1945/46 and the remaining £700,000 of the loan in 1946/47.

3107. In addition, Mauritius received a special price on her sugar during the war, which gave, in effect, a bonus of £1½ million?—Yes, in the two years just over.

3108. So that Mauritius has had either a gift or a bonus of £2 million and a loan of £800,000. What is the population of Mauritius?—About 400,000. May I just explain that there were quite exceptional circumstances. There were four cyclones during 1944 and 1945. That was unknown in the Colony's history, and there was a complete loss of one year's production of sugar, worth approximately £5 million. Secondly, during the war, owing to inability to feed the island from the usual outside sources, the sugar producers had to be compelled by law to turn over 27½ per cent. (it was finally) of their land to food production. That, when the time came, 18 months or so ago, to resume sugar production, set them back a lot for several reasons, one of which was that whereas sugar growing keeps the land very clean, the food production had allowed weeds to grow there. Also a great deal of new expenditure was required on fertilisers to put the land in good heart again for growing sugar.

3109. That is in addition to the figures I have already mentioned, is it not?—(Sir Frank Tribe.) I think that is covered by the first sub-paragraph of paragraph 23. (Sir Thomas Lloyd.) That is the £110,000 mentioned at the beginning of paragraph 23.

3110. The figures I mentioned, £500,000, £100,000 and £700,000, are mentioned in the following sub-paragraphs?—Yes. I was building up the whole picture of what were the causes which had led to financial assistance on this very generous, heavy scale to Mauritius.

3111. I believe it is the intention of the Mauritius Government to build up an insurance fund, the aim of which is to provide compensation for damage caused by future cyclones?—Yes. It has been agreed that £500,000 out of the £1,300,000 (all of which will be re-issued to the industry as a loan) should be in the form of a free grant. When recovered, that will be the basis of a reserve fund. In

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[Continued.]

fact, that assistance was made conditional by the Government here on the establishment of a cyclone and drought insurance fund. An ordinance has been drafted which provides for the compulsory insurance of the sugar cane crop to be paid by means of annual premium subventions from the sugar factories, the millers and the planters. An annual premium of $4\frac{1}{2}$ per cent. of the value of the average quantity of sugar grown during the preceding three years of normal production is to be paid to the fund.

3112. Is it assumed that these premiums are reasonably adequate to meet any damage?—Yes. The Governor has got power to reduce the rates if the assets of the fund at any time exceed the amount which, in his opinion, is required for the payment of compensation. I do not know that one could put them up, though one might have to do so if a series of cyclones occurred. Some of these places go for years without a hurricane or a cyclone and then, perhaps, get several in a year.

3113. What arrangements, if any, have been made for the repayment of the £800,000?—It is to be paid by 20 equal instalments, commencing in 1948.

Mr. Benson.] Are there any questions on paragraph 23?

Mr. McAdam.] As I understand the position it is that a Grant of £500,000 has already been made and, in addition to that, there is a further Grant of £800,000 free of interest. That £1,300,000 has been granted to the growers in Mauritius and it has got to be repaid to the Mauritius Government at a rate of interest of 3 per cent. Have I understood the position correctly?

Mr. Benson.] No, the £800,000 is free of interest. £500,000 is a Grant.

Mr. McAdam.

3114. £800,000 is free of interest and £500,000 is a Grant. That has been lent by the Mauritius Government to the growers and is to be repaid at 3 per cent. interest?—Yes, that is right.

Mr. McAdam.] There is this further point in the last sub-paragraph, that, in addition, bonuses of £500,000 and £1,000,000 have been paid, as I understand it, by the Ministry of Food. Are those sums accounted for on the Ministry of Food Vote?

Mr. Benson.

3115. That is a trading transaction, is it not?—Yes.

3116. I do not think we can ask Sir Thomas specifically on that. That was a Ministry of Food transaction.—I can tell you this, that we did inquire about it from the Ministry of Food. It was, of course, from the beginning agreed between us and that Ministry that the whole of those extra payments would probably be recovered as part of their trading transactions in selling this sugar in the Middle East. We asked the other day whether that had, in fact,

happened, and the Sugar Controller told us that they had recovered the whole of it. The total payments actually made were £1,509,382, and the whole has been fully recovered in the course of trading, so that no charge on public funds has resulted.

3117. Are there any further questions on paragraph 23? We pass to paragraph 24, "British Council." What exactly were the British Council doing in the Colonies? I thought the British Council was mainly for the education of foreigners?—I think Lord Lloyd, when Secretary of State in 1941—he had always, of course, been interested in the British Council—felt that there were many activities that that body was equipped to undertake and which could, in fact, be more usefully carried on by a semi-official body than by Government. They were activities such as the distribution of books, periodicals, films, press material, gramophone records—in fact, regional activities of a cultural kind generally. He started in the Middle East area, Cyprus and Palestine, and gradually the British Council, during the later years of the war, extended its activities to West Africa and certain other parts of the Colonies, confining itself always to those forms of activities which I have just mentioned, which were thought more suitable for a body of that kind than for Government.

3118. How far is there any overlapping with your own educational scheme which is being developed in the Colonies?—By and large, I think it is avoided pretty well. The British Council representative in those Colonies, at any rate which I know of, is working very closely in touch with us. I was reading only this afternoon a report from Gibraltar, and that showed how well the British Council man there was actually working in with the Director of Education, and they were seeing to it that anyway all avoidable overlap was, in fact, avoided. One does not pretend that there may not be rare instances where they trench a little on each other's ground, but I think, by and large, it is fair to say that they run in the same direction but on parallel lines.

3119. You may avoid overlap of activity, but what about duplication of organisation? Is there any possibility of that?—I should not have thought there was as much risk of that as there was of overlap of functions.

3120. Who audits the accounts of the British Council in the Colonies?—Generally I think they would employ commercial auditors in the Colonies.

3121. What about the Colonial Auditor? Why should he not do it?—We considered that, as to whether it should be brought under the Colonial audit in each place, under the Local Audit Department of Government.

3122. Perhaps you would look into that?—Yes, we will.

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[Continued.]

Mr. Benson.] Are there any questions on paragraph 24?

Mr. Haworth.

3123. On the last sub-paragraph of paragraph 24, the headquarters expenditure of the British Council is divided between the Colonial Office and the Foreign Office, presumably, is it?—Yes.

3124. Can you give me the percentage which falls on the Colonial Office?—45 per cent. It is arrived at by a formula. It sounds a little complicated. It is a proportion of the total of the Council's headquarters and unregionalised functional services and the total of the Council's field expenditure and regionalised functional services. It is an attempt to ensure that we bear that share of headquarters expenditure which is reasonable and fair in proportion to the Council's activities in the Colonies. (Sir Frank Tribe.) The position is further explained in paragraph 11 of my Report, which was considered when the Committee took the Foreign Office Vote.

Mr. Horace Holmes.

3125. If I understand it aright, according to the third sub-paragraph, the British Council act, more or less, as agents for the Colonial Office, and they deal with all the cultural activities, as distinct from educational activities, local government, and so forth?—(Sir Thomas Lloyd.) I would not say all the cultural activities, but a large number of them, certainly.

Mr. Benson.] Are there any further questions on paragraph 24? We pass to paragraph 25: "Trans-Jordan: Grant in Aid of Local Revenues." I have no questions on this paragraph. Has any Member of the Committee any questions?

Sir Frank Sanderson.

3126. In the last sentence of paragraph 25 the Comptroller and Auditor General states: "In his report on these accounts the Director of Colonial Audit again records that the control and supervision of the Legion was inadequate but explains that much is being done to improve the financial control." Can you assure the Committee that you are satisfied that there is a considerable improvement and that everything is, in fact, being done to improve the financial control?—We took that up again last year and we were assured that great improvements had been effected and that the unsatisfactory conditions to which attention had been drawn before were due almost entirely to war exigencies, which had prevented the strict adherence to instructions. In view of the treaty with Trans-jordan during the last year, it becomes, if anybody's business, the business of the Foreign Office and the War Office. That is to say, if Trans-Jordan wants financial assistance of this kind towards the cost of its internal forces it would have to approach His Majesty's Government

through the Foreign Office. We have finished with them.

Mr. Thurtle.

3127. From whom did you get the assurance that things had been much improved?—From the High Commissioner for Palestine, who is also the High Commissioner for Trans-Jordan.

Mr. Benson.

3128. In paragraph 26 the Comptroller and Auditor General states: "The sub-head also includes a charge of £50,000 . . . for a loan, free of interest, to enable the Government of Trans-Jordan to acquire the port installations at Aqaba from the War Office". Those port installations were sold on deferred payment to the Government of Trans-Jordan. Has there been any valuation of the assets transferred?—Yes, wharf and port buildings, etc., were originally constructed at a cost of £395,000.

3129. That was the total cost to us during the war?—That was the cost. The scrap value of them to the War Office was estimated at £20,000 and it was decided that in the circumstances the transfer of them as a going concern to the Trans-Jordan Government for £50,000 mentioned in this paragraph 26 was reasonable.

3130. Who decided that, the War Office or the Colonial Office?—We, the War Office and the Treasury; the three Departments, agreed on that.

3131. The Treasury are satisfied with that?—(Sir Eric Bamford.) Yes. (Sir Frank Tribe.) The War Office, I understand, valued the port for commercial working at £162,000 exclusive of roads. It may have been worth only £20,000 for scrap but as a commercial undertaking they thought it was worth much more.

3132. Had the Treasury that information in front of them when they agreed to the £50,000?—(Mr. Jones.) Yes, we had, but the information we received made it very doubtful whether there was any likelihood of the port being used for some time, at any rate for commercial purposes. Our present information is that it has not so been used up to date.

Mr. Benson.] Are there any questions on paragraph 26?

Sir Frank Sanderson.

3133. Did I understand you to say that the cost of the port installations at Aqaba was £395,000?—(Sir Thomas Lloyd.) Yes, the buildings and port installations together.

3134. Were worth £395,000?—That was the cost of them.

3135. The Comptroller and Auditor General goes on to say: "This loan is to be repaid out of revenue accruing from the operation of the port". Who is operating the port?—The Trans-Jordan Government will operate it. I am afraid

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[Continued.]

I could not say whether they have actually started yet to work it.

3135A. You say that they will operate it. Am I to assume from that that the port is not yet in operation?—I am afraid I could not answer that. I will find out from the Foreign Office for you.

3136. Was not the port built specifically for war purposes?—Yes.

3137. Was it in operation during the war?—Yes, it was used during the war and then, when the wartime need for it ceased, other ports being again freely available, it was sold to the Trans-Jordan Government for the sum of £50,000. It was extremely unlikely, in my view, that any alternative buyer could have been found anywhere. You will remember where it is—at the top of that narrow neck?

3138. I remember very well.—It would not be attractive to anybody else. Whether the Trans-Jordan Government are operating it, and, if so, on what scale, I can only find out by asking the Foreign Office.

3139. You do not, in fact, know whether it is being operated to-day?—I do not know. (Mr. Jones.) Our information from the Foreign Office fairly recently is that it is not being operated.

Mr. Thurtle.

3140. This last sentence in paragraph 26 "This loan is to be repaid out of revenue accruing from the operation of the port" is really in the nature of a pious hope rather than an expression of fact?—(Sir Thomas Lloyd.) Yes. It may be that somebody hopes that in years to come it will be an effective operating port. (Sir Frank Tribe.) It was also intended to point out the fact that it is not a charge on the general revenues of the State, but only on the revenues accruing from the operation of the port.

Mr. Benson.

3141. There is a good deal of hope scattered through the Accounts of the Colonial Office, is there not?—(Sir Thomas Lloyd.) It is sometimes realised.

Mr. Benson.] I have no questions on paragraphs 27 or 28. Has any Member of the Committee any questions on those paragraphs?

Mr. Haworth.

3142. On paragraph 28: "Colonial War Risks Insurance Funds" I would like some clarification of this insurance scheme. As I read it the Secretary of State was authorised to make good any deficiencies. Then we are told that there was a surplus which is divided equally between His Majesty's Government and the Colonies. I am unable to understand how there can be a surplus arising from making good any deficiencies.—It was a scheme for a certain number of Colonies, in fact any Colony which liked

to accept His Majesty's Government's guarantee. It was based on the War Risks Insurance Act of this country. It also provided powers for enforcing provisions similar to those made by the compulsory Insurance Order in accordance with the United Kingdom Act. Where a Colony decided (and eight of them did) to establish these schemes, there were payments into them along the lines of those made under the War Risks Insurance Act in this country. The only obligation on the Government here was the one stated at the beginning of paragraph 28; that is, if there had been a large loss falling on the fund in relation to some particular Colony we should have had to step in and make good that loss. In point of fact that situation never arose in any of the territories and when the funds were closed down there was this total of £2½ million in hand; that is to say that the payments in hand exceeded the comparatively small payments out by that amount. It could have been argued, of course, that the whole of it should go back to the Colonial people, since they had made the contributions. On the other hand, the counter argument was that His Majesty's Government had borne the risk and, moreover, they had carried the cost of fighting the war and it was not unreasonable that they should split the resulting balance from the fund in equal shares with the Colonial Governments. The Colonial Governments have also been required, as part of this repayment to them, to use their allocations for definite developmental works or for other schemes approved by the Secretary of State.

3143. It seems an unusually good piece of business on somebody's part?—It was lucky it turned out that way. Rather than astuteness, it was good fortune. (Sir Frank Tribe.) There were some Colonies which were not insured under this scheme, where very great damage occurred, the cost of which may fall on the British taxpayer. (Sir Thomas Lloyd.) It was unfortunate that some of them did not come in. It was left to the Colonial Governments in the beginning to decide whether or not they, as a voluntary act, would adopt this scheme, and only some eight of them did.

Mr. Benson.

3144. And all of them were amongst those that were not damaged?—Not badly damaged. There were some damaged. Ceylon was one. There was bombing in Ceylon. Palestine was another, and there was a certain amount of damage there. Several of them lay, as it happened, completely outside the war area, such as Kenya, Uganda and Tanganyika. (Sir Eric Bamford.) We have not admitted liability for war damage outside these particular areas. Sir Frank Tribe referred to other areas which had not come into the scheme. We have not admitted any liability. We may have to consider suggestions. (Sir Thomas Lloyd.) Except in Malta, of course. There

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[Continued.]

are other badly-damaged places who are now preferring their claims and will be asking His Majesty's Government to help in certain ways, particularly Hong Kong.

Sir *Frank Sanderson*.

3145. I want to be assured that I understand the position correctly, namely, that the Colonial War Risks Insurance (Guarantees) Act, 1941, has proved a very remunerative business. That is so, is it not?—Remunerative to His Majesty's Government?

3146. Yes.—Yes.

Mr. *Benson*.

3147. You may take that question and answer out if you think fit, Sir Thomas. If you are having claims made against you I do not think you ought to admit that.—I thought it was limited to the actual operations of the fund. They have undoubtedly benefited His Majesty's Government.

Sir *Frank Sanderson*.

3148. They made £1¼ million profit, did they not?—His Majesty's Government have got £1¼ million and the Colonies share the rest between them, according to their receipts.

Mr. *Benson*.

3149. Are there any further questions on paragraph 28? We pass to the Account, which is at pages 78 to 83. My first question is on Subhead C.13: "Seamen's Hospital Society (Grant in Aid)" on page 80. What were the terms on which a Grant in Aid was made? Have they been carried out?—It was intended that the Society should repay the loan, but without interest, at the end of last year, from the proceeds of the sale of its former hospital premises, but the negotiations for the disposal of the property had not, in fact, been completed by then, and they are not completed even now. We are at present in correspondence with the Society and with the Treasury in the hope of being able to arrange for a short further postponement of that repayment date.

3150. You assume that you will get full repayment?—I think so. It is a valuable site which the University of London are prepared to purchase. It is a matter of coming to terms.

3151. On page 83 there is a statement of expenditure on account of passages, etc., of Governors and other Colonial officers charged to the Vote for 1945-46, and the last item is an allowance to Sir W. L. Murphy to meet additional expenditure as Governor of the Bahamas. That is rather unusual, is it not?—Yes. It is perhaps not quite additional expenditure. It does not mean it was something out of the ordinary. It simply is that the cost of being Governor of that island has gone up, partly through the cost of living and partly

through increased entertainment and that sort of thing. Normally, all Governors' salaries in the Colonies are met out of Colonial funds. They are not a charge on His Majesty's Government in the ordinary way. Normally, when a Governor can say he is out of pocket, he cannot make ends meet on his pay, the legislature provides the extra money, but the Bahamas Government was not willing to do that. It is a legislature that is apt to go its own way at times and if Sir William Murphy was not to be badly out of pocket we could only help him in this way, and provision is now being made out of what are known as Crown Funds. Those are certain funds in the Bahamas not under the control of the local government but subject to expenditure by direction of the Secretary of State.

3152. Are Crown Funds special to the Bahamas, or are they in all Crown Colonies?—I think there are one or two other Colonies. There used to be some in Jamaica and I think there still are. I think there is some other Colony, but I cannot remember for sure which it is now, that has limited Crown Funds.

Mr. *Benson*.] Are there any questions on the Account?

Mr. *Cuthbert*.

3153. On page 82 we see a fairly large difference between the amount of receipts estimated and the amount realised. It is obvious from the Account that £1 million of the amount realised came from the Insurance Fund. Perhaps this is not a question for Sir Thomas but for the Treasury: do these surpluses form part of the amounts that appear in the Budget that we were told were "clawed back" to the Treasury? Are those surpluses taken into account?—(Sir *Eric Bamford*.) They are taken into account in miscellaneous revenue.

Mr. *Benson*.

3154. They are paid separately into the Exchequer. Does that mean that anything that is paid separately to the Exchequer is taken into account in the following year?—In the year it is received.

Mr. *Benson*.] So that it does not in any way go into this fund that the Chancellor showed as casual receipts, the £270 million to which you are referring?

Mr. *Cuthbert*.

3155. No, general revenue?—The rabbits.

Mr. *Benson*.

3156. This is not a rabbit?—Rabbits will be coming in during the current financial year and they have occurred in past financial years, too.

Mr. *Cuthbert*.] This is a rabbit, in other words—a bit of a rabbit anyway?

Mr. *Benson*.] A current rabbit.

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[Continued.]

Mr. McAdam.

3157. On page 83 the passage allowance on transfer, Malta to Palestine, was £340. Then, lower down, the amount in respect of an official visit to the United Kingdom from Mauritius was £60. There seems to be a big difference between the two. Can you give any explanation as to the additional expense involved in going from Malta to Palestine as compared with going from Mauritius to the United Kingdom?—(Sir Thomas Lloyd.) Those are two quite different things. In the case of the passage allowances, those large sums in the case of Uganda, Tanganyika, etc., the Governor is appointed on the basis that he bears all his passage expenses throughout his five years of office, including going there at the beginning and coming back at the end, both for himself and for his staff, and the Home Government make him a lump-sum payment at the beginning and at the end. Those are the actual lump-sum payments for those Governors.

3158. My question referred to a passage from Malta to Palestine. It appears to be

the only passage allowance on transfer, from Malta to Palestine, £340?—That has to include the whole of his staff as well. He has to pay all his personal staff, two aides-de-camps, a secretary—possibly four or five people.

3159. And coming across from Mauritius to this side it is only a personal allowance?—That is not the full passage allowance of the kind I have mentioned. That is only the small amount that came into account in the course of this year. It was largely by way of a payment of 30s. a night which is made to any Governors when they come home for discussion at the specific request of a Secretary of State, and are detained here. I suppose Sir Donald Mackenzie-Kennedy was here for forty nights or whatever it was, and was paid £60 for that.

Mr. Benson.] Are there any further questions on the Account, or on the Account on page 84 of the Bureau of Hygiene and Tropical Diseases? May I take it that the Account is approved?—(Agreed.)

VOTE 10.

WEST AFRICAN COCOA CONTROL: DISPOSAL OF PROFITS.

Mr. BLOOMFIELD called in and examined.

Mr. Benson.

3160. Will Members turn to paragraphs 29 and 30 of the Report of the Comptroller and Auditor General? Could you tell us, Sir Thomas, what exactly the arrangement is with regard to the Cameroons and the purchase of their cocoa?—(Sir Thomas Lloyd.) The French Cameroons?

3161. Yes.—That was a temporary arrangement made during the war when there was no government in France and when the French were quite unable to take care of that sort of thing for themselves. They were given their proportionate share of the proceeds. The underlying cause was, of course, that they had got very little in the way of machinery out in the French Cameroons for local purchases, and owing to there being no French Government, other than General de Gaulle who was over here, they had not really any means of establishing such machinery. So we stepped in to help them in this way until such time as the French Government got re-established, and the French took it over for themselves in 1945.

3162. There is not a very great amount of cocoa production in the French Cameroons, is there?—Nothing to compare with Nigeria, or, particularly, with the Gold Coast.

3163. I see you have rather overpaid, by some £68,000, the profit that was made. Instead of paying the actual profit you have paid the amount of the estimate.

The result is that you have overpaid nearly £68,000?—It was not quite an estimate. It was the amount of the trading profit shown by the company which, being a company, keeps its accounts on a different basis from ours and therefore shows a slightly different figure. The reason why we stuck to that was that it had been published, and it would be a little difficult to convince the producers in the Gold Coast and Nigeria, if we paid out on some lower basis, that His Majesty's Government had not, in fact, kept something back for themselves. But it is, of course, adjusted in the next account. The fact that the company is keeping its accounts on one basis and we keep ours on another does not, in the long run, make any difference between the final out-turn of the two accounts.

3164. Do you propose to pay out on the company's accounts rather than on your own?—We have adjusted later payments to actual profits and intend to go on that way.

3165. You reversed your decision as to the question of its effect on the natives?—Yes, in view of this, and we shall have then, at the time, to make it plain to people on the Gold Coast and Nigeria, as we did not on this first occasion, that the purely trading basis profit is not necessarily the one on which we pay out.

3166. The £3,600,000 has been very largely swollen recently?—Yes, it is £20 million odd, now.

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[Continued.]

3167. Is that due to a temporary or permanent shortage of supplies?—There certainly is a shortage now. Whether it is going to continue or not it is beyond me to guess. The shortage is sufficiently acute to have pushed prices up very rapidly. Whether they are going to remain at anything approaching their present level is a matter of speculation.

3168. Is your production lower than it was pre-war, or is the demand higher than it was pre-war?—May I ask Mr. Bloomfield if he can answer that? He tells me production is lower at the moment.

3169. What steps are you taking to increase it?—One major plan of policy is this research, to which we are already devoting £1½ million out of the first £3 million. I think production is probably lower largely because of new disease. Swollen shoot has got a very bad hold in parts of the Gold Coast. As I have myself seen, in other cocoa-producing colonies, diseases can cut production by anything up to 50 per cent. in the course of two years.

3170. So that you are directing your attention to the need to increase production?—Very much so.

3171. What is the attitude of the native producers to your stepping in and stabilising the price of the local crops?—When it is introduced, as it was, on a rapidly-rising market, they naturally do not like it. They hear that whereas they are getting, to take an illustration, £20 a ton, cocoa is being sold in a crudish form for £50 a ton in New York. That does not go down very well. To be candid about it, we had some doubts, away back in February, as to whether the Gold Coast legislature would in fact pass the legislation in March, but it did go through and it went through without any trouble. I think it was a considerable achievement on the part of the Governor of the Gold Coast that it went through so smoothly. Nigeria have not yet enacted it, but they are the lesser partner in this business and I myself should not expect any trouble there.

3172. Are you proposing to allow any increase in the cocoa prices to the natives?—Last year the price being paid out there was between £26 and £27 a ton. It is now a flat rate for both the main and new crop of £51 a ton, so that it is almost double in 1946-47, as compared with what it was in 1945-46. Whether it will be pushed up again this year I would not like to say. Of course, the main purpose of building up this fund is to act as a cushion against violent price fluctuation and it may be the Board will feel that having doubled between these last two they have done enough for the time being.

3173. Is that the price paid the native?—Yes.

3174. You are paying £51 at the moment. What are you selling at?—We could sell at £120 at the moment.

3175. You have doubled the price to the native, whereas the market has gone up four times?—Last year, when it was £26 to £27, I think it was selling at £40. (Mr. Bloomfield.) When this price was fixed the £51 to the native was equivalent to about £60 free on board at the Gold Coast and the selling price was about £70. (Sir Thomas Lloyd.) Even so, I do not think it would be wise policy (in fact it would run very counter to one main purpose of the fund) if you chased prices too quickly.

3176. Do you buy through local merchants or have you your own buying organisation? Do you buy direct from the producer?—Through local merchants.

3177. Have you control of their margins?—(Mr. Bloomfield.) Yes.

3178. They buy on a definite margin?—Yes.

3179. You have no long-term contracts, I believe, with anybody?—That is correct.

3180. Is that because you feel that, having the control of the prices, you will not need a long-term contract?—No, the main reason was that it was considered that His Majesty's Government could not enter into a long-term contract while it was going to hand over the control of cocoa to new Boards within a year.

3181. The other main cocoa producer is Brazil, is it not?—Yes.

3182. In the past Brazilian cocoa has gone to the United States and African cocoa to this country?—No. More African cocoa goes to the United States than comes to this country.

3183. Brazilian cocoa has always fetched a higher price, has it not? No, about the same. There are other grades of cocoa from the West Indies, from Trinidad, which get higher prices, but Brazilian cocoa gets round about the same price as the West African.

3184. Brazil is getting the same price now?—Yes.

Mr. Benson.] Are there any questions on paragraphs 29 and 30?

Mr. Cuthbert.

3185. Is there any reason why some other country should not, perhaps, get into that market and purchase the cocoa, considering the great difference between what you are paying to the producer of the cocoa and the market price?—No other country can do that at the moment, because the export of cocoa is controlled at present under the Defence Regulations and will, when the new Boards are set up, be controlled under their ordinance.

3186. My second question is this: if the actual producer of the cocoa realises the

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[Continued.]

worth of this cocoa (and he must realise its worth) which is very much lower than you are giving, has not that some effect on production? Is not that the real reason for production being smaller? If he got more money he would develop more land, and so on?—(Sir *Thomas Lloyd*.) This wide margin between the price that is being paid to the producer and the world price is a development of these last few months. Even supposing that there were grounds for thinking that it would have an effect on production, it could only be a long term effect. Cocoa is a thing of slow growth. You do not feel, in a few months, the effect of what you do to-day. Over and above that, I believe that if you get the goodwill, as the Governor of the Gold Coast has got, of the leading native producers, the chiefs and the people under them are persuaded that this is for their ultimate benefit. They have seen catastrophic changes in the prices of some of their commodities—ground nuts, for example, years ago—and they know what happened. There was a tendency on the part of the native producer to chase a good price. If the particular crop did well in one year they turned over to it. The result was that that market was glutted and was the bad market, and the one they had left was the good one. They are sensible enough and they can see that this

will in the end benefit them. I admit the position would be hard to hold if for several successive years the selling price in the United States was vastly above the buying price in the Gold Coast, but given one's experience of that price coming down and their price running up close to it, and perhaps for a little time being above it, by the use of this fund as a cushion they will be persuaded for a long time to come that it is beneficial.

Sir *Frank Sanderson*.

3187. With regard to the profit realised up to the end of the 1942-43 season, amounting to £3,676,000, can you state what is the amount of turnover upon which that profit has been realised?—(Mr. *Bloomfield*.) About £35 million.

3188. That being so, of course it does put in rather better perspective what otherwise would appear to be a very exorbitant profit. It shows roughly a profit of about 10 per cent. on the amount sold?—Yes.

Mr. *Benson*.] Are there any further questions on paragraphs 29 and 30? We turn to the Account, which is at page 85. I have no questions on the Account. Has any Member of the Committee any questions on the Account? May I take it that the Account is approved?—(Agreed.)

(Mr. *Bloomfield* withdrew.)

VOTE II.

DEVELOPMENT AND WELFARE (COLONIES ETC.).

Mr. *Benson*.

3189. The Account is at pages 86 to 91. First of all, might I ask which of your Accounts are audited by the Director of Colonial Audit and which are not?—(Sir *Thomas Lloyd*.) Practically all. There are just a few Colonies which have shown their independence by refusing to accept the central administration of the D.C.A. and have kept their own audit departments. Malta, Jamaica and Ceylon are all I can think of. I am not sure about Bermuda. The D.C.A. is here, if I might ask him?

3190. Yes, please.—I am told that Bermuda, the Bahamas, Barbados, Jamaica, Malta and Ceylon are not under the D.C.A. The others are.

3191. They refuse to accept the audit, although they receive part of the Grant?—They have a local audit. They have a Comptroller General. They would say that they are only doing what the Government in this country do. The Government here appoint Sir *Frank Tribe* as Comptroller and Auditor General. So the Jamaica Government, the Ceylon Government and some others appoint their Auditors General. The nearer a colony gets to independence the

more likely it is to take that line. Malta, Ceylon, Jamaica, Bermuda, the Bahamas and Barbados are the colonies which have the widest measure of independence in internal affairs, and they regard this freedom, this relief from the centralised audit, as one mark of their independence.

3192. What have you to say to that, Sir *Frank*?—(Sir *Frank Tribe*.) I do not think I have any comment on that—except to say that technically I am not appointed by the Government.

3193. They are in effect saying "We want the grants to do what we like with". Is that it?—(Sir *Thomas Lloyd*.) There is an audit, which one has no reason to doubt or disbelieve. There is still an audit through the Governmental audit machine at that end and it would be one of the prime businesses of the local legislature to put its house in order if there was anything wrong with its local audits.

3194. Subhead A is "Salaries, etc., and expenses". The note to subhead A states "The amount charged to this subhead were as follows—(a) West Indian Controller of Staff". What are the powers and functions of the West Indian Con-

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[Continued.]

troller and who controls him?—He is answerable direct to the Colonial Office. It is an appointment created as the result of one recommendation of the West India Royal Commission, Lord Moyne's Commission, of 1938-39. It has two purposes really: first of all, to supply a body of technical advisers of a quality which very few of these West Indian Governments could themselves pay for; in other words, you can put in a much better man, a man who requires a much higher salary than any independent colony can pay, when you have an organisation of this sort covering a lot of colonies. The second purpose is that they do not vet the development and welfare schemes of the colonial government but they advise upon them, and they have an over-all view of what is happening throughout the West Indian area and they can see to it that experience which is learned in one place affecting development and welfare is passed on to others.

Mr. Benson.] I have no further questions on this account. Has any Member of the Committee any questions on the account?

Mr. McAdam.

3195. Does the welfare and development scheme include the establishment of initiating machinery to operate between organised trade unions and the Government?—No. That would be a normal charge on the Colonial Vote. I think almost every colony now of any size has a labour department and very often a labour adviser imported from this country. Unless a colony can prove that it was quite beyond its ability to pay for that part of the machine it would not be regarded as a proper charge on the development and welfare fund which is not intended to cover the ordinary business of administration. We do pay for training schemes, both for training people in labour duties in this country as in others, but not for the actual salaries of the day to day business of the department.

3196. Not for the establishment of Whitley negotiating machinery?—We look to the Colonial Government to establish that and pay for it out of its own funds rather than out of funds provided out of the 1945 Act for these particular purposes.

Lt.-Col. Hamilton.

3197. How is the administration of the loans from the Development and Welfare Vote carried out? Do you actually decide which colonies are to get the loans and for what, the terms of interest, and so on? They are all tabulated in the Vote?—The Secretary of State 15 months ago now did a partial division of the £120 million which Parliament provided under the 1945 Act, and I think he did actually publish his despatch as a Command Paper. He allocated £23 million to Nigeria, £6 million to the Gold Coast, and so on. I think it came in the aggregate to about £85 million to £86 million allocated in that way. He

then set aside something like £20 million for central purposes administered from this country. Higher education, meteorological services, training schemes for the Colonial Service, and the like, came to £20½ million, and something like £11 million has been held in reserve out of the £20 million. Then as to the overall figure for colonies, taking Nigeria's £23 million, the Governors submit a ten-year plan covering the expenditure of that sum plus any sums which the Colony can contribute towards their internal development and welfare, and plus any funds which they see themselves able to raise by loan, particularly on the development side. So that the sum to be covered by the ten-years plan will often be two to three times as much as the development and welfare allocation. Speaking from memory I think the Nigerian ten-year plan is either £55 million or £65 million; I cannot remember which. I know that Jamaica which was given £6½ million on allocation put in an overall plan of £21 million. Within that the approval of the general plan is not regarded as approval for the execution of particular projects; those, again, have to come home and be approved by the Secretary of State and by the Treasury. I do not mean that we approve every detail, but they might put in a ten-year plan for building schools or building new hospitals or dispensaries, and they are not allowed to proceed with any particular item of that sort within the general umbrella without getting particular approval.

3198. Normally I suppose that would be formal? The Governor has a scheme which would normally be accepted?—There is now available to the Secretary of State a very large body of expert advice through the medical, educational, labour and other advisory committees which he has set up, and no scheme of any importance would be approved without letting that body of experts have a look at it. We have some very distinguished scientists now either on our Research, Advisory or General Development Advisory Councils. It is slow. The complaint from the Governors is that it is a matter of months between the time they frame their schemes and they get final approval. On the whole I believe the value of the advice we get is such that the delay is justifiable.

3199. I suppose they put it in in advance?—Yes. It was to get them to see the value of doing that, or partly for that purpose that we went into some detail in the instruction we issued last November as the result of the Treasury Minute mentioned earlier this afternoon. We impressed on them the need for getting in in good time.

Mr. Thurtle.

3200. With regard to this tabular statement of development and welfare I take it these advances made in the year 1945-46 actually represent expenditure on these

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[Continued.]

particular schemes? Take Jamaica, for instance, in the statement.—They very often would be advances on account, but only on account of expenditure foreseeable in the very near future.

3201. The work is actually proceeding?

VOTE OF CREDIT APPROPRIATION ACCOUNT, 1945-46.

COLONIAL OFFICE.

Mr. Benson.

3202. Will Members turn to the Vote of Credit Appropriation Account 1945-46, page 11. I have no questions on the first three Services administered by the Colonial Office, Services 42, 43 and 44. Has any Member of the Committee any questions on those services? On Services 45 and 46 there are two paragraphs in the report of the Comptroller and Auditor General, paragraphs 16 and 17 on pages vii and viii. There was what is in effect a loan to Borneo amounting to some £2½ million. What prospects are there of recovering that?—(Sir Thomas Lloyd.) The £2½ million mentioned in the first part of paragraph 16 is the War Office expenditure. I have the figures here of what we have so far got back. There are two, Sarawak and Borneo. 6½ million dollars, or roughly £650,000 has so far been repaid. Not the whole of that would be repayment in respect £2½ million of military expenditure. Some it might be in respect of the following civil expenditure.

3203. They have already commenced to repay, so the probability is that you will get the whole of it back?—We should get a lot of it but I do not know about the whole of it. A lot of the goods were on resale, and in reselling them the Governments were expected to add enough to the purchase price to cover intermediate costs; but whether they will get everything sold and get every penny in I do not know; but I think they will go a long way towards repaying these sums. —

3204. Passing to paragraph 17, there was another £2½ million advanced to Hong Kong. What is the position with regard to repayment by Hong Kong?—Hong Kong has so far repaid nothing. As I mentioned indirectly a few minutes back there is a claim from Hong Kong which neither we nor the Treasury have yet accepted in fact we have not examined it) for assistance on a very considerable scale because, after Malta, I suppose Hong Kong was just about the most concentrated area of damage of any British overseas territory. We have asked the Governor for a general appreciation. He is heading us off on requests for repayment of something towards the £2½ million on the ground that he has this heavy bill against us. We are saying that we cannot consider that bill in isolation. We want a general financial appreciation. Hong Kong is recovering very well, I am

—Yes. Because we say "There will be £23 million allocated to you," we do not issue that until they are on the point of spending.

Mr. Benson.] Are there any further questions on the account? May I take it that the account is approved?—(Agreed.)

told by informed people in that part of the world. She has made much more rapid progress than Rangoon or Singapore, or any other part that was in Japanese occupation, towards a complete recovery. We must have a general appreciation from the Governor before we can, in fairness, go to the Treasury for a balancing up of what Hong Kong owes us, which is a strictly factual amount, against their claims which they have preferred against His Majesty's Government.

3205. Did Hong Kong have an opportunity of coming into the Insurance Scheme?—I am sure that it would have been a sort of general communication to all Colonies. How far it would have helped them, I do not know. They had been collecting for eighteen months or so from the time the Scheme got going until the Japanese occupation at the end of 1941.

3206. They would have paid for only a time. Did they definitely refuse to come in?—I could have that looked up, and tell you. I am pretty certain that it would have been a general invitation. We should not limit that kind of invitation to a group of Colonies; we should send it to all of them.*

3207. You say Hong Kong is recovering rapidly. Hong Kong has always been an extremely wealthy Colony.—It is recovering rapidly, particularly from the trade standpoint, and it is benefiting very much at this moment from Chinese capital flowing in because of uncertainty in China.

3208. What is the rate of income tax in Hong Kong?—There is not one yet. The Governor has just (it was his last act before coming home) got legislation through.

3209. To impose income tax?—Yes. He had to compromise. I cannot tell you the figure exactly. He would have liked to get it through at a certain figure, but, in order to get it through at all, he had to step the figure down, because he thought it was important to get it on the Statute book: once he had got it there and the principle established it would be easier to step it up later—as one knows from experience.

3210. With regard to the constitution of Hong Kong—the Governor's Council, or whatever it is—is it a body composed entirely of Europeans?—No, there are a great many Chinese on it. It is to be, as the

* Paper circulated to Members; not printed.

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[Continued.]

Secretary of State announced, I think last month, in the House, further liberalised quite soon.

3211. I take it that when you review their claims for war damage you will also review the level of their taxation in relation to their capacity?—Yes, the Treasury would certainly watch us on that very carefully.

3212. Has any Member any questions on paragraphs 16 and 17? We turn again to page 11, Services 45 and 46, on which I have no questions. Has any Member any questions on those Services? We turn next to paragraph 18 of the Report of the Comptroller and Auditor General. I have no questions on that paragraph. Has any Member any questions? Services 47 and 48 are, again, on page 11. Are there any questions on those Services. We pass to Services 49-52, on which there is a paragraph in the Report of the Comptroller and Auditor General, paragraph 19. In the second sub-paragraph Sir Frank states: "Instructions were given to carry out an annual stocktaking of stocks held under the scheme, but I understand that complete stocktaking has now been deemed impracticable". Can you tell the Committee why that is?—In some cases goods belonging to the Food Controller are found to be stacked at the wharves with goods of private traders, the reason being, of course, the extraordinary limitations on wharfage space there. What they are proposing to do now in those cases in place of the stocktaking is to substitute a check of the stores from the record of the Customs Department. The Collector-General of Customs will prepare statements of stocks held at the wharves on behalf of the Food Controller and these, together with the figures relating to the physical check which is made whenever possible, will be submitted to the auditors for comparison with the stock ledgers of the Food Control Distribution Department. It is not ideal, but it is the best that they can do in those circumstances.

3213. These food stocks are in relation to the price control scheme, are they not?—Yes.

3214. What was the total amount of the subsidy that had been paid to stabilise Jamaica prices?—Just in Jamaica?

3215. Yes.—Up to September, 1945, it was £1,000,314.

3216. You had no rationing scheme in Jamaica, had you?—We had rations of some sort. I was in Jamaica myself in 1945. There was certainly rationing of some things. Flour was rationed at one time there.

3217. What prices were stabilised? Were they the prices of all foods?—They varied

it from time to time. The purpose was to keep the cost-of-living index figure stable; I think they were stabilising it at 160; I was told so when I was there. That was their purpose up till quite recent times. At one time they would be pegging down this commodity and at another time that for the purpose of keeping the Governmental cost-of-living figure at the level.

3218. Is there any particular reason why the cost of this fell on the Exchequer?—Jamaica was so very much dependent on bananas. We were not prepared to import bananas during the war, so the whole economy of the place went awry to an extent which was not the case, I think, in any other territory. At all events, that was accepted by the Government as a ground for giving Jamaica assistance in this way to a degree to which assistance was not extended to any other territory. A few others were helped. British Guiana had to be helped for a time. There may be one or two others, but Jamaica assistance was the big one.

3219. What is the present position of Jamaica's finances?—They had a surplus last year. They are going just to balance their Budget this year. They are going in for rather a lot of social improvements. The present Leader of the House wants to introduce old age pensions which, in conditions in Jamaica, will be a very expensive item. I do not know whether he will manage it. They did finish with a surplus last year. They are budgeting for a balance this year, and are hoping to balance.

3220. Have they direct taxation there?—Yes, the income tax in Jamaica is about 7s. 6d.

3221. That is the standard rate?—It is not quite the standard rate, as one understands that expression here. It is the company rate. It is a rate which does not become fully operative for individuals until their income is, say, round about £1,000.

3222. It is a fairly heavy tax?—It is anyhow for the wealthier people. You would not pay anything like so much income tax in Jamaica on £500 as you would in this country, but when you get into the higher income ranges there is an approximation.

Are there any questions on paragraph 19 of the Report of the Comptroller and Auditor General? We revert to page 11, Services 49-52. On those I have no questions. Has any Member of the Committee any questions on Services 49-52? That I think concludes your evidence, Sir Thomas. Thank you very much.

(Sir Thomas Lloyd withdraws.)

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SIR HAROLD PARKER, K.B.E., C.B., M.C.

[Continued.]

CIVIL APPROPRIATION ACCOUNTS, 1945-46.

CLASS VIII.

VOTE 2.

MINISTRY OF PENSIONS.

SIR HAROLD PARKER, K.B.E., C.B., M.C., called in and examined.

Mr. Benson.

3223. Will Members turn to paragraph 72 of the Report of the Comptroller and Auditor on the Civil Appropriation Accounts, 1945-46. Apparently in order to economise in staff, Sir Harold, you have been taking biennial life certificates instead of annual life certificates in the case of pensioners of the 1914-18 war? Has there been, as the result of so doing, any great saving, as you hoped?—(Sir Harold Parker.) Yes. I have certain figures. So far we have got the scheme fully operative only for the pensioners of the 1914-18 war. In those cases the staff saving is about 19 clerks. When we get the scheme fully into operation for the 1939-45 war, which will be by about the end of this year, we shall nearly double that saving. So that in all we shall probably save about 35 clerks by the arrangement.

3224. Are you aware as a result of the constant check you make, of any abuses which have taken place?—I have some figures. We have picked up in all so far seven cases which we might have picked up a little sooner had we had the annual certificates. The total amount involved is £70. Of that £12 is no loss to the State because the pensioner claimed an allowance for his wife longer than he should have done, and we got back from him by instalments the amount overpaid. In three cases where the sum involved is nearly £30 the pensioner continued to claim for his wife although she was separated from him; he got the money instead of her really in those cases so the State was no worse off. There were two cases, involving a total overpayment of just under £30, which we probably should have picked up sooner had we had the annual certificate. But that is a trifling sum compared with the staff savings alone.

3225. So that you propose to continue this biennial certificate?—Quite definitely. I think it shows a very substantial saving in money, and it is a saving in manpower. There is one other consideration which I think one ought to bear in mind. It is a saving to the individual pensioner and the person before whom he has to go to get this certificate witnessed.

3226. In that case I take it you propose to seek statutory powers for the change? You are compelled to get an annual certificate, are you not?—(Mr. Jones.) I do not think that is so. I think we have statutory powers already under the annual Appropriation Acts. The Treasury have power

to require certificates to be at less frequent intervals than once a year. That change was made when the biennial certificate was applied to the Ministry of Pensions in 1943, with the approval of this Committee.

Mr. Benson.] Has any Member of the Committee any questions on paragraph 72 of the Report of the Comptroller and Auditor General?

Mr. McAdam.

3227. With regard to the saving of staff, I do not suppose that they will be permanently appointed civil servants? It will be on temporary staffs that there will be the saving?—(Sir Harold Parker.) Yes, that is unquestionably so.

3228. Are any of them likely to be disabled ex-soldiers?—What happens is that you do not necessarily save the people who are actually on that work. Because a particular job has no longer to be done you do not discharge the man who is on that job. You have constant fluctuations in your staff. For example, we have a very heavy wastage of staff. During this period for the work as a whole far from discharging staff we were recruiting staff. Therefore, the effect of this was really to reduce what otherwise would have been our necessary recruitment.

3229. Do I understand that the position is that you pass on your redundant staff in the particular department to a department that is requiring extra staff?—At the moment as far as we are concerned any redundant staff of that kind would have been absorbed elsewhere within the Department itself, because this happened at a time when we were expanding very considerably because it was just about the end of the war, which is our busy period.

3230. In other words, although you may save on a specific department within the Department, nevertheless that staff is absorbed in another department within the Department?—If you have the position in which your staff elsewhere is less than your needs. We have at Blackpool, where this work is being done, a steady wastage. Every week we get 10 or 12 staff resigning. If you work that out, over the whole year, that gives you a big wastage, and, therefore, anything of this kind reduces what would otherwise be the recruitment necessary to replace your steady constant wastage.

Lt.-Col. Hamilton.

3231. This is not a question for Sir Harold. I do not know whether I am in order in asking the Treasury whether such an excellent saving as this, which is made

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[Continued.]

by simplifying the procedure, might not be made in other cases? No doubt they do consider that. Here, apparently, by a change in procedure the actual loss incurred was a minute proportion of the saving in staff. I suppose that might easily be done in other Departments?—(Mr. Jones.) Not quite so easily. Some of the Departments have need for annual certificates for purposes other than merely to show the continued existence of the pensioner. They require further information. In the case of the army, for example, they want information about their Reservists, to know where they are. A purpose is served by the life certificate other than a purely accounting purpose.

Mr. Benson.

3232. But there have been very great savings by an analogous reduction in the frequency of the accounting checks. We have continually had reports that, instead of having full accounting you are doing check accounting?—Yes, undoubtedly. (Sir Harold Parker.) This change arose partly out of suggestions that came round from the Treasury during the war period asking everybody to consider to what extent they could do things of this kind, so you may say that this was, perhaps, a joint project by ourselves and the Treasury.

Lt.-Col. Hamilton.] A combined brain-wave?

Mr. Benson.

3233. Are there any further questions on paragraph 72? Will Members turn to the Account, which is at pages 369-378. I have one question on page 369, on sub-head A-B, "Administration." Could you tell me what proportion your cost of administration bears to the cost of pensions paid in the year of account of the previous year?—The cost of administration in the year 1945-46 to the total cost of pensions and other benefits was about 8½d. per £1 of benefit.

3234. And the previous year?—In the previous year it was about 7½d.

3235. Can you give any explanation as to why it should have gone up by 1½d.?—I think one of the reasons that caused it to go up considerably was that this coincided with a period when it was necessary for us to re-board the pensioners who had been coming out and who had had provisional pensions. There is an increase under that head. It also coincided with the period when the work in connection with the appeal tribunals was developing. The work in connection with the appeal tribunals involves quite considerable staff as far as we are concerned, but it has a small effect on the amount of benefits and the like in payment.

3236. I take it you expect a fall when you have got the majority of your pensions fixed?—Quite definitely.

3237. On page 378 there is an abstract account for the year ended 31st March,

1946, of the King's Fund. What is the origin of this Fund?—I am speaking from what I have been told, because I had nothing to do with the Ministry in those days. During the 1914-18 war there was, as I understand, an appeal, with the full authority of King George V, as a result of which a very large sum of money was raised which was placed in the hands of trustees, one of whom was the Minister of Pensions for the time being, to be expended on a large number of miscellaneous matters connected with the welfare of disabled men. I think it is fair to say that over the last 25 or 30 years there has been a great development in the things which are nowadays regarded as State responsibility, which, 30 years ago, were regarded as more properly left to some form of voluntary or charitable fund. After the 1914-18 war this Fund did spend a very large sum of money on all sorts of things. For the Present King's Fund (1940) no particular public appeal was made. On the other hand, money does come along from time to time. Occasionally we get a substantial bequest from someone.*

3238. Is there any reason why the King's Fund (1940), the previous King's Fund and the Royal Patriotic Fund should not all be amalgamated? Perhaps you might like to think that over rather than give me an answer now.—I would say this, that I can see no particular advantage in that. It would not save any staff, and it would mean, so far as we are concerned at any rate, that when a case cropped up our regional officer or one of our headquarters people, instead of being able, if the case comes to the notice of someone at headquarters, to walk round to someone in more or less the next room would have to write to some separate body.

Mr. Benson.] Has any Member of the Committee any questions on the Account?

Mr. McAdam.

3239. On page 369, on subhead F "Pensions, etc. (Non-Commissioned Officers and Other Ranks)" the expenditure was £1,068,128 15s. 2d. above the actual amount granted. How much of that excess expenditure was due to the revision of pensions under the new pensions tribunals, could you tell me?—You are talking about subhead F.I, are you?

3240. Yes.—That would have nothing to do with the tribunals at all. Subhead F.I relates to the 1914-18 war. That increase is due largely to the improved rates which were introduced as from 1st February, 1946, when the standard rate of pension was put up for the 100 per cent. man from 40s. to 45s., and when various other concessions were made, and those concessions were applied as from that date not only to men of the 1939-45 war but also to men of the 1914-18 war. Of course that could

* Paper circulated to Members; not printed.

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Sir HAROLD PARKER, K.B.E., C.B., M.C.

[Continued.]

not have been anticipated or forecast when we prepared the estimate.

3241. Passing to page 378, the King's Fund, I recollect that there was an agitation some time ago that veterans of the South African war should also be included in the King's Fund. Could you tell me if they have been included, or whether any grants have been made to ex-South African

veterans?—I am afraid I cannot answer that. It is the first I have heard of the point, but perhaps I could look into it and let you have a note.

Mr. Benson.] Yes, please, if you will. Are there any further questions on the Account? May I take it that the Account is approved? (*Agreed.*)

VOTE OF CREDIT APPROPRIATION ACCOUNT, 1945-46.

MINISTRY OF PENSIONS.

Mr. Benson.

3242. Will Members turn now to the Vote of Credit Appropriation Account, 1945-46, to page 14, Service 66. The Ministry of Pensions administers the war service grants?—(*Sir Harold Parker.*) That is right.

3243. Is there any particular reason why it falls to your lot to do that?—It was decided just before the outbreak of war that the Ministry of Pensions should administer the war service grants. When Militia service was introduced originally these grants were, I think, to have been administered by the three Service Departments, but it was felt that there was some advantage in having the whole thing administered by one Department, and we

were given the job of doing it, which we continued to do. This, of course, as you realise, is very much a dying concern these days.

3244. When do you expect to wind it up? Will it continue under the new Conscription Bill, for example?—I think I can say this that, if it does, then it will not be our concern. In other words, we are anticipating that our responsibility in this matter will come to an end on the 31st December, 1948.

Mr. Benson.] Has any Member any questions on Service 66? I think that concludes our examination of you, Sir Harold, thank you.

(*Sir Harold Parker withdrew.*)

CIVIL APPROPRIATION ACCOUNTS (WAR SERVICES), 1945-46.

CLASS X.

VOTE 8.

MINISTRY OF INFORMATION.

Mr. ROBERT FRASER, O.B.E., called in and examined.

Mr. Benson.

3245. Mr. Fraser, this is, I believe, your first appearance before this Committee?—(*Mr. Fraser.*) Yes.

3246. It is not often we have two newcomers on one day. The Central Office of Information is the offspring of the Ministry of Information?—Yes.

3247. We have certain Ministry of Information Accounts in front of us. You are taking responsibility for them?—Yes.

3248. Which Minister is responsible for your activities?—On administrative matters we report directly, as a common service department, to Treasury Ministers. The Lord President exercises a general surveillance of the whole of the information services, and particularly of the Central Office of Information.

3249. Has your function as well as your name changed? Do you initiate activities now, or do you merely serve other Departments?—It will, perhaps, most simply answer the question if I may go back to

the functions of the Ministry of Information. The Ministry of Information itself had three quite separate functions. It censored the Press. That function is dead. It was responsible for the policy and the content and the execution of the whole overseas publicity operation. That responsibility passed when the Ministry was dissolved to the Overseas Departments—that is to say the Foreign, Colonial, Dominion and India Offices, with the Board of Trade holding a general sort of watching brief for commercial publicity. Thirdly (and on this type of work the greater part of the Ministry staff at home was engaged) the Ministry was the place in which the great mass of publicity material required both for use at home by Departments and for use overseas was produced. It was, that is to say, a very large factory for the production of certain brands of publicity material. That last function remains with the Central Office of Information both for home and for overseas. The Central Office produces most of its output to the requirements of Ministerial Departments, but it has reserved to

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Mr. ROBERT FRASER, O.B.E.

[Continued.]

it a power of initiating some information service activity on some theme which is of an inter-departmental character, and that is the type of case in which the Lord President's relationship with the Central Office would become of significance.

3250. I believe the Ministry of Information produced a film on education which the Ministry of Education turned down flat when they saw it. I take it if you do anything at all you would tend to consult the Department for whom you are doing it before you start?—Yes. There would be a significant practical difference now. In those days the Ministry initiated in its own right a very large number of films.

In the case to which you refer it is claimed that the liaison or understanding with the Ministerial department responsible for the subject matter of the film was not as close as it might have been. I should be surprised (indeed I should be rather annoyed) if, under the new machinery, we could repeat a case of that kind.

3251. I have no further questions on paragraphs 42-45. Has any Member of the Committee any questions on those paragraphs? I have no questions on paragraph 46. On paragraph 47, I believe you had a very large amount of plant and equipment scattered over very large areas of the globe and you have been marking it with the Government's imprimatur. Can you tell me what progress has been made?—I am afraid our stocks and stores and equipment which we held overseas have been transferred to the Departments which now manage the information services overseas and the marking process therefore has only been applied to the equipment stocks and stores held by the Central Office in this country. Some progress has been made.

3252. In paragraph 48 the Comptroller and Auditor General refers to special difficulties in certain Colonial and foreign posts. Could you tell me what those particular posts are? There are five mentioned?—There are four Foreign Office posts or territories: China, the Soviet Union, Iran and Egypt; and the Aden Protectorate.

3253. What is the Colonial one?—Aden.

Mr. Benson.] I anticipated a certain amount of difficulty there. I have no further questions on those paragraphs. Has any Member of the Committee any questions?

Mr. Thurle.

3254. Are the people overseas seeing what they can do in the way of identifying this material which belonged to the Ministry? You say you are only concerned with marking the stock and plant which is at home?—Yes. That is, of course, the only equipment which the Central Office can now mark. Inventories of all the equipment in the hands of the Central Office have been

drawn up as far as possible. They have been accepted as an accurate record of the stores and stocks proper to be held at the time, but of course it has been impossible to check through the records of all the early years.

3255. It is no concern of yours now about the material which has been handed over to the Foreign Office or the Colonial Office abroad?—We could only hand it over with as good a record as we had available of what it amounted to. It is no longer Central Office of Information property.

Chairman.

3256. Are there any further questions on those paragraphs? We turn to the Account which is at pages 29 to 31. I have only one question and that is on subhead A on page 29: "Salaries, etc." Could you split that up, as to what represents salaries for work done in this country and work done overseas?—I am sorry, but I have not understood the question.

3257. On page 29 under "Details of Expenditure" subhead A is: "Salaries, etc." What salaries are paid here and what salaries are for persons abroad?—The Central Office has no staff abroad, or virtually no staff abroad. We have perhaps one or two officers seconded to other Departments abroad.

3258. These are Ministry of Information figures. This is a *post mortem* of course?—Abroad was just under £1,400,000.

3259. Your salaries abroad were rather larger than your salaries at home?—They were slightly the larger part.

3260. Does that indicate that the activities of the Ministry abroad were greater than at home?—They were indeed.

Mr. Benson.] I have no further questions on the Account. Has any Member of the Committee any questions?

Mr. McAdam.

3261. Could I have an indication as to the number of staff who are employed abroad and the number who are employed at home?—The figure overseas was 2,850 and the remainder, approximately 1,800, in this country.

Mr. McAdam.] It is a pretty heavy expenditure for the size of staff employed.

Lt.-Col. Hamilton.

3262. I see that £17,000 was spent on a film which was abandoned at the instance of another Department. Could we be told what it was and why it had to be abandoned?—It was a film which had never come to fruition. It had never received a title. Its working title was "The New Teacher." It was an attempt to represent new teaching methods and trends in schools. When the Ministry of Education finally saw the film they took the view somewhat violently that its general effect would be not to attract but to deter entrants to the teaching profession. We

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Mr. ROBERT FRASER, O.B.E.

[Continued.]

had some exchange of correspondence with the Ministry of Education about it. They were not at all disposed to modify their view. They agreed that perhaps a second opinion might be sought by showing the film to a representative group of teachers. They reached no unanimous conclusion, but I am afraid that on balance the film did

not appeal to them very much either. There was really therefore no alternative I am afraid but to put it on the shelf.

Mr. Benson.] Are there any further questions on the Account? May I take it that the Account is approved? (*Agreed.*) Thank you very much Mr. Fraser.

(The witnesses withdrew.)

Adjourned till Thursday the 5th of June at 3.45 p.m.

THURSDAY, 5TH JUNE, 1947.

Members present:

Mr. PEAKE in the Chair.

Mr. Benson.

Sir John Mellor.

Mr. Cuthbert.

Sir Frank Sanderson.

Lieut.-Colonel Hamilton.

Mr. Wadsworth.

Mr. McAdam.

Sir FRANK TRIBE, K.C.B., K.B.E., Mr. C. E. I. JONES and Mr. W. H. FISHER called in and examined.

CIVIL APPROPRIATION ACCOUNTS (WAR SERVICES) 1945-46.

CLASS X.

VOTE 4.

MINISTRY OF FOOD.

(Accounts of the British Sugar Corporation for the year ended 31st March, 1946.)

Sir PERCIVALE LIESCHING, K.C.M.G., and Mr. E. E. BAILEY, C.B.E., called in and examined.

Chairman.

3263. Sir Percivale, this is the first occasion on which you have appeared before the Committee as Accounting Officer?—(Sir Percivale Liesching.) Yes. It is the first time I have appeared before the Committee in any capacity.

3264. I extend a welcome to you on behalf of the Committee. Will Members turn to the Civil Appropriation Accounts (War Services) 1945-46, to paragraph 23 of the report of the Comptroller and Auditor General? This deals with payments to the British Sugar Corporation Limited. The Comptroller and Auditor General states: "The wartime arrangements for assistance to the British Sugar Corporation, Limited, referred to in paragraph 11 of the Report on Unclassified Votes, 1940-41, continued during the year under review, the provisions of the Sugar Industry Act,

1942, having been extended until 31st December, 1947, by section 6 of the Emergency Laws (Transitional Provisions) Act, 1946". Before the war I think the assistance to the British Sugar Corporation was borne on the Vote of the Ministry of Agriculture, was it not?—Yes.

3265. And the present arrangements will come to an end at the end of the present calendar year. Can you tell the Committee whether the provision of assistance is going to remain a function of the Ministry of Food?—The position is, I think, this, that Ministers have reached a decision to extend the operation of the Sugar Industry Act for one further year (that would be till March 1949) owing to the number of problems with regard to the future treatment of various commodities which are pressing on us at the moment, and a desire to have time to consider the future of sugar as a whole.

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Mr. E. E. BAILEY, C.B.E.

[Continued.]

3266. So that legislation will be introduced to extend the present provisions?—Yes. I understand that to be so.

3267. No decision has been taken as to whether it will remain a function of the Ministry of Food or whether the function will be re-transferred to the Ministry of Agriculture?—No. There is no final decision on that point.

3268. In the second sub-paragraph the Comptroller and Auditor General tells us that the subsidy for 1945-46 amounted to £3,972,000. I take it that the price which the Corporation pays for sugar beet to farmers is fixed, is it not?—It is fixed at the annual review which is conducted by the Ministry of Agriculture with the assistance of the Ministry of Food. I think I am right in saying that in the year in question the price of beet was advanced 5s., which had an effect upon the trading account.

3269. Then I take it that the price received by the Corporation for its product, which is sugar, is determined by the Ministry of Food, who buy all the sugar, do they?—Yes, they buy the whole output.

3270. So that the scope for efficiency and economy left to the Corporation is in the direction only of economy in manufacture, and so on?—Yes. The through-put, for example, in the year in question was very much greater than in the previous year, which I suppose would have a favourable effect on the operating costs.

3271. The amount of the annual subsidy payment is fixed by the Treasury, is it not, or is fixed by the Ministry of Food with the concurrence of the Treasury?—Yes.

3272. And it is a figure calculated to give the Corporation $3\frac{1}{2}$ per cent. on its issued capital?—Yes, $3\frac{1}{2}$ per cent. is the rate of interest allowed on the ordinary share capital, with the assent of the Treasury.

3273. Then the Comptroller and Auditor General tells us: "The Corporation has paid a $4\frac{1}{2}$ per cent. dividend for each of the last seven years"?—Yes.

3274. Can you briefly explain to the Committee how, if the amount of the subsidy payment is calculated to give a return of $3\frac{1}{2}$ per cent. to the shareholders, the Corporation has been in a position to pay $4\frac{1}{2}$ per cent. dividends?—There is an arrangement in the terms of the relationship between the Government and the Corporation which allows the Corporation to receive revenue in respect of economies effected from year to year. These have varied very considerably.

3275. Those are the payments which appear in the confidential part of the British Sugar Corporation Accounts, which we have before us, on the right-hand side of the last

page, are they not? They appear in the deficiency payment account under the heading "Incentive"?—That is so. I might perhaps say, in explanation of this year's figure for the economy, that whereas hitherto the payments have been made always one year in arrear, the receipts in the preceding year (that is 1944-45) were in fact a net loss on economy account owing to a very poor crop and other factors, and on this occasion the economy payments are brought up to date, and in fact two years' economy payments appear in one year (in future years they are to be paid, as it were, on the nail, at the end of each year) which may explain the figure which is shown here being larger than usual.

3276. What is called the economy payment forms part of the larger sum of £3,972,000, does it?—Yes, it does.

3277. It is part of the larger sum?—Yes.

3278. It is through the operation of this incentive payment that the Corporation is enabled to pay a larger dividend than the interest calculated by the Treasury?—That is the major factor, I think.

3279. Perhaps I might ask Mr. Jones whether consideration has been given to the question of reducing the amount allowed for interest in accordance with the cheap money policy which has been progressing?—(Mr. Jones.) Sir Herbert Brittain gave the Committee some evidence on that subject last year. Since then, as the Committee has heard, it has been decided to extend the wartime arrangements for a further year, subject to legislation being passed. In view of that decision, the Treasury will think it necessary to take under review the rate of interest to be allowed on the share capital. So far nothing has been approved for the year 1946-47.

3280. Nothing has yet been approved?—No. The usual arrangement is for the Ministry of Food to ask for our approval for the rate to be taken into account for the past financial year of the Corporation some time in the summer. In August, 1947, we shall be asked to approve the rate for the Corporation for the year 1946-47. So far no Treasury decision has been given for the rate to be taken for 1946-47.

3281. Sir Percivale, can you tell us how the price paid by the Ministry for the Corporation's sugar is determined? We are told it was higher in the year of account than in the preceding year?—(Sir Percivale Liesching.) It is based on a relationship with the price we have to pay for imported sugar, but I am sorry to say that I am not familiar with the exact basis of calculation on which that is carried out. If the Committee wish to have it I naturally would be only too glad to supply it. It is a formula of a rather complicated character. The price, of course, of imported sugar has been rising slightly recently.

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Sir PERCIVALE LIESCHING, K.C.M.G., and
Mr. E. E. BAILEY, C.B.E.

[Continued.]

3282. I think the point that occurs to one's mind is whether, if the subsidy payment is of the order of £4 million, there is any element of subsidy over and above that due to the price paid to the Corporation for its sugar products. If you could buy the sugar more cheaply from overseas there would be an element of subsidy in the fixed price payable to the Corporation, would there not?—Did I understand you to say, Sir, that if we could have imported this amount of sugar we should not be paying the subsidy?

3283. I said if you are paying the Corporation a higher price than you are paying for imported sugar delivered in this country there would then be an element of subsidy over and above the subsidy payment described in this paragraph?—(Sir Frank Tribe.) I understand the price paid by the Ministry corresponds to the weighted average cost c.i.f. the United Kingdom of imported raw sugar, adjusted for certain differences in analyses. It is really the same as the world price.

3284. It does correspond with the price of imported sugar?—Yes.

3285. I am obliged, Sir Frank. At the top of page ix, at the conclusion of paragraph 23, we are told that the Ministry continued the procedure of charging the Vote of Credit Account with the cost, £38,000, of carrying surplus sugar stocks maintained at the request of the Ministry. Is it still necessary to carry these surplus stocks of sugar and to make a payment to the Corporation in respect of them?—(Sir Percivale Liesching.) If I may speak generally of the sugar situation, we are, of course, far from being free from difficulties in maintaining sugar for the ration or for any desirable increase, and we are also, of course, faced with the desire to avoid heavy dollar liabilities on sudden recourse to the market outside the sterling area, where we should probably have to buy in such circumstances, in Cuba, for example, where the price is exceptionally high.

3286. This £38,000 is a payment to the British Sugar Corporation, is it not, for carrying sugar stocks?—Yes.

3287. It is a reimbursement of actual costs they incur, I take it?—Yes.

3288. I was wondering whether the stocks of sugar could not be carried by the trade in the ordinary way without any charge to the taxpayer?—We do keep the distributive pipeline pretty full on sugar all the time. Whether or not storage considerations enter into this, I know the pipeline has been kept very well filled during these years, in addition to the reserves.

3289. Will that figure diminish in the financial year following the one we are now

discussing?—Not if we can help it, I think. The prospects of de-rationing depend so much upon ability to meet the first release of demands when one de-rations that unless you have your pipeline absolutely full, and good reserves, you can never face the de-rationing point—not that we are, unfortunately, very near it yet.

3290. I do not think I have any questions on the Account, which we will take with this paragraph. You have already dealt with the point that the incentive payments cover two years in this Account?—Yes.

3291. In one year there was a deficit and in the subsequent year there was a considerable payment made?—Yes.

Chairman.] Has any Member of the Committee any questions on paragraphs 23 of the report of the Comptroller and Auditor General, on the Account which is at pages 12 and 13, or on the accounts of the British Sugar Corporation for the year ended 31st March, 1946?

Sir Frank Sanderson.

3292. In the balance sheet of the British Sugar Corporation Limited the figure for debenture redemption is £222,000. Are the debentures redeemed on any specific basis, or is their redemption based upon what you can afford to retire?—May I ask the exact point in the Accounts?

3293. In the balance sheet there is an item "Reserves", and the debenture redemption in 1946 was £222,000, as compared with £195,438 in the previous year. It shows that a number of debentures were redeemed during the course of the year. What I am asking is whether there is any specific arrangement by which debentures are retired? Is any specific percentage of the debentures retired each year?—I do not know whether it is entirely within the Corporation's discretion, or whether they are bound by any particular arrangement with the Government. If it were a matter for the Corporation I should have no cognisance of it, even as Accounting Officer for the Ministry.

3294. On the second sheet, in the profit and loss account, there is shown £208,000 which is written off for depreciation, compared with £196,000 in the previous year. Can you state, again, whether the amount of depreciation written against the profit and loss account is some scheduled or specific amount, or is it based upon the depreciation allowances which are permitted under the Income Tax Acts? In other words, how do you get at the figure of £208,000? It is an increase of £12,000 as compared with the previous year?—Yes. The Corporation have complied with the directions of the Minister as regards the placing of an amount of £208,000 to depreciation reserve in 1945-46. That is a matter on which they are subject to direction.

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Sir PERCIVALE LIESCHING, K.C.M.G., and
Mr. E. E. BAILEY, C.B.E.

[Continued.]

3295. Is it calculated in accordance with the depreciation allowances permitted under the Income Tax Acts?—You probably do not know?—I am afraid I do not. (Sir *Frank Tribe*.) I understand it is. It is on the same basis as that allowed by the Inland Revenue, and the figure has been approved by the Treasury. It is on the income tax basis.

3296. In the profit and loss account there is an item "Directors' Fees", a figure of £9,500?—(Sir *Percivale Liesching*.) Yes.

3297. Could you inform the Committee who the directors are?—Would you like their full names?

3298. I am not so particularly interested in the names, although no doubt you could give that information. What I am really trying to get at is whether directors' fees are being paid to what I would call outside bodies and not to servants of the Government, because I take it that the British Sugar Corporation for all practical purposes now is a public concern?—The directors' fees of £9,500 are made up as follows: Remuneration of the chairman, Sir Francis Humphreys, who is Government-appointed, whose salary is £3,000, with £500 fees. There are two other Government-appointed directors and ten other directors with fees of £500 each.

3299. Could you answer just this one question? I do not know who they are and I am not calling for the information, but can you tell the Committee whether the chairman or any of the directors are Civil Servants?—No, none of them.

3300. That is the only point I wanted to get at. The Chairman has dealt to some extent with the item in the general trading of £3,972,000 deficiency payment. That figure, I think, compares with £4,058,000 for the previous year. I am assuming that the figures on the left-hand side are the figures for last year. Am I right?—Yes.

3301. The figure this year is slightly less than last year?—Yes.

3302. How is the difference between this year and last year accounted for?—There was a difference in through-put. It was a very big year of through-put in this year, and the sugar content was very high. The extraction rate of sugar increased from 77.88 per cent. to 80.12 per cent. There was a reduction of approximately 1s. 2d. a ton in operating costs, and increased yields of sugar. Against that was offset what I have already mentioned, the increase in the price of beet of 5s. The net result was a better year.

3303. In other words, the deficiency is really due to better conditions prevailing in the sugar industry?—Yes.

Mr. *Benson*.] On the left-hand side of Sheet A (B), the deficiency payment

account, there is a heading "Loss on beet campaign" and there are then set out a number of districts. The figure of loss for each district varies considerably. Is that due to the difference in acreage? I take it there was a loss on all your beet?—I am sorry but I cannot answer your question in detail. There must, of course, be differences in acreage. There are differences in yield, and there are differences in transport costs to factories, I take it.

3304. How far can these figures be made to indicate better yields in some districts, than in others, and how far is that due to farming conditions and farming efficiency?—I am afraid I have not been into that. I regard it, whether rightly or wrongly, as the operating responsibility of the Corporation.*

3305. With regard to the incentive payment, the fact that because the year 1944-45 was a bad year, that there was a very poor crop, it involves the incentive payment in a loss surely means that the incentive payment is calculated on a very theoretical basis and there is no real relationship between the efficiency and the payment?—The economy payments are based on actual performances of one year compared with the preceding year, under the present system.

3306. Purely on performance? They are paid on a minimisation of the loss. Is that it?—Yes.

3307. If the loss is less then the incentive payment is increased. If the loss is increased the incentive payment decreases. Is that correct?—Yes.

3308. Has Sir Frank anything to say on that?—(Sir *Frank Tribe*.) The agreement, I understand, provides for payment to the Corporation of the amount of the actual economies of that year and a sliding scale percentage of the accumulated economies in the preceding years. It is economy on working costs during the year, and sometimes, if one has a bad year, the economies work out to a negative figure. That is what happened in 1944-45.

3309. It was the difficulty of understanding exactly what Sir Frank's paragraph meant, and squaring the figures, that made me ask the question. Obviously the efficiency of the firm is not likely to be £330,000 better one year than the next. You have a loss on economies of £130,000 in one year and in the next year you get a positive figure of £200,000. That is a difference of £330,000?—(Sir *Percivale Liesching*.) That is the position. I think that is an actual reflection of the position between a very bad year and a good year.

3310. Yes, but not a reflection of the efficiency of the firm?—Its efficiency, as you rightly say, is assessed by whether it is a larger or a smaller loss.

* Paper circulated to Members; not printed

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Sir PERCIVALE LIESCHING, K.C.M.G., and
Mr. E. E. BAILEY, C.B.E.

[Continued.]

Chairman.

3311. The fact is, is it not, that these incentive payments reflect good and bad luck as well as good and bad management?—Yes.

Mr. *Benson.*] The question is how far do they reflect good and bad management and not merely good and bad luck? That is what I wanted to get at.

Chairman.

3312. Perhaps Sir Percivale could provide us with a note on this. It is a very complicated formula, is it not?—It is a complicated formula. I should be very glad to provide a note on that.*

Mr. Benson.

3313. If it is comprehensible we might have it; but, if it is not, I do not see that it will be much use to us?—We will do our best.

Mr. *McAdam.*] At the top of page ix. at the end of paragraph 23 of the report of the Comptroller and Auditor General on the Civil Appropriation Accounts (War Services) there is a figure of £1,188,020 for, among other things, the carrying of surplus sugar stocks. I have been trying to trace where that is accounted for in the balance sheet of the British Sugar Corporation.

Chairman.

3314. That item does not relate to the British Sugar Corporation at all, does it?—It is borne on the Vote of Credit Account, in the Sugar Divisions Accounts.

Chairman.] Yes. I do not think that item will appear in the British Sugar Corporation's accounts anywhere, will it?

Mr. *McAdam.*] Should it not appear in the Corporation's accounts, seeing that it is a payment to the Corporation for storage of stocks?

Chairman.] I thought you were speaking of the figure of £1,188,000 which includes the cost of carrying surplus sugar stocks, £38,000, and supplements to the prices received by the Corporation for pulp, £639,000, and molasses, £509,000.

Mr. *McAdam.*] That is right.

Chairman.] Do those figures appear anywhere in the Corporation's accounts.

Mr. McAdam.

3315. A payment by the Government to the Corporation, I should have thought, should appear in the balance sheet?—I think the item in which it is probably shown is "Income from Products" at the top of Sheet A (A), the general trading account.

3316. It is included in the figure of £17,900,342?—That is what I would understand. It is not separately shown. I think that would be the logical place for it to be shown.

* Paper circulated to Members; not printed.

Mr. *McAdam.*] It is a bit misleading if it appears there. One would have thought that a payment for the carrying of surplus sugar stocks was not income from products. It is a payment for the storage of products.

Chairman.] I think, Mr. McAdam, those items must be included in the £17 million odd at the top of Sheet A (A).

Mr. *McAdam.*] Could we have that definite information?

Chairman.] The accounts of the Corporation are audited by commercial auditors, Messrs. Deloitte, Plender, Griffiths & Co.; they are not audited by Sir Frank Tribe's department. Therefore I think we must assume that those payments made are included in the £17 million.

Mr. *McAdam.*] In the item "Income from Products"?

Chairman.] Yes.

Mr. Cuthbert.

3317. Reverting to the deficiency payment of £3,972,226 in the general trading account, I see that is brought forward to your deficiency payment account on the last sheet. "Loss on beet campaign": there was a loss in all those various districts set out. To whom were these losses paid?—Losses on what?

3318. The losses on the beet campaign enumerated here in various places and districts. The losses add up to £3,944,000. To whom were the losses actually paid? Were they paid to the growers?—No. They are the Corporation's losses after they have paid for the beet and processed it.

Chairman.] It is a division of the total loss between the various factories.

Mr. Cuthbert.

3319. That is what I am getting at. These factories belong to the Corporation?—Yes.

3320. These losses of their factories are actually paid to the Corporation themselves?—Yes.

3321. We see in the balance sheet that the Corporation of course raised capital, and they paid 4½ per cent. interest to the shareholders. The shares are owned by the public, I take it, not by the State?—They are owned by the firms which amalgamated to form the Corporation.

3322. So that this large sum of £3,944,000 for losses which has gone into their balance sheet really has assisted them to pay the 4½ per cent. interest on their shares? If they did not get these losses put back as they are here there would have been no money for the interest?—That is so. 3½ per cent. is the reasonable rate of interest which was partly—

3323. I am not quarrelling about the rate of interest. I am asking where the money to pay the interest comes from. Am I

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right in saying that they are able to pay the interest because of these losses which have been repaid to the Corporation? After all, interest is only paid by private firms when they make a profit on their running. With the help of this £4 million they are enabled to pay interest on their shares. That is really the position?—Certainly.

Mr. *Cuthbert*.] One further question. May I have an explanation of the summary at the foot of the right-hand side of the deficiency payment account? You have a heading "Summary", and, under it, the second item is: "Service payments" a figure of £747,861. May I ask what those service payments are? Are those payments from our Forces for sugar, or something like that?

Lieut.-Colonel *Hamilton*.] It is a summary of what is just above.

Chairman.] Those are in fact overhead charges which are additional to the actual loss at the factories set out on the other side.

Mr. *Cuthbert*.] Thank you. I am sorry.

Chairman.

3324. I think the position is quite clear, Sir Percivale. The Account is at pages 12 and 13 of the Civil Appropriation Accounts (War Services). There are one or two points I have on your Account, Sir Percivale. Subhead A is "Salaries, etc." a figure of just over £10½ million. Is that figure the total cost of salaries of the staff of the Ministry of Food?—Yes, that is the total.

3325. Does that include all the staff of the local offices up and down the country?—Yes, it includes the headquarters staff, divisional staff, local food offices and area offices staff.

3326. There are no figures relating to salaries charged in trading accounts over and above this figure?—I beg your pardon. There is a small element there of area staff which were charged to the trading divisions. I think the answer is, as I have given you, that all the staff are included in that £10 million.

3327. Do your investigations confirm that, Sir Frank?—(Sir *Frank Tribe*.) I understood that Subhead A did not include the pay of the technical and local staffs of the commodity organisations numbering several thousand persons, whose salaries are charged to the Vote of Credit Account as part of the trading organisation and are excluded from the general salary subhead on this Vote. (Sir *Percivale Liesching*.) I beg your pardon. I gave you the wrong information. The Comptroller and Auditor General is perfectly correct of course. There is this element of area staff who are direct employees of the commodity divisions concerned, whose salaries find their way into the trading account.

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3328. Can you give us any estimate of the total figure?—At the 1st July, 1946, they amounted to 2,700 in number at an annual cost of £920,000.

3329. There is something approaching another £1 million to be added on to get the total cost of all the salaries paid by the Ministry?—Yes.

3330. Can you tell me whether you have ever got out or made any estimate of the amount of salary cost in which you are involved through carrying out work on behalf of the National Register?—(Mr. *Jones*.) Perhaps I may say that in the Estimates for 1947-48 for the General Register Office the allied services statement shows services by the Ministry of Food of £225,000. That is the estimate for the current financial year.

3331. That is the estimated figure of the value of the work done by the Ministry of Food for the National Registration authorities, is it?—Yes. (Sir *Percivale Liesching*.) The entry for the cost of local food office administrative expenses applicable to National Registration and similar work, assessed value, was £500,000 in this year.

3332. That is in the year of account?—Yes.

3333. Subhead H is "Contribution to the Food and Agriculture Organisation of the United Nations," a figure of £85,000. Can you tell the Committee what the British contribution is as a proportion of all the contributions payable to this organisation?—It is 15 per cent.

3334. Are you satisfied that the F.A.O. (as it is called) exercises adequate financial control, that our money is well-spent?—We see their accounts, which are made available to all members, and its budget is also referred to us.

Chairman.] Are there any questions on the Account?

Sir *Frank Sanderson*.

3335. I have one question in regard to Subhead A "Salaries, etc.", the figure for which is £10,280,000. Assuming, as a rough estimate, that the average salary was £500 a year, it would represent a staff of approximately 20,000. Is it approximately that number of staff who are engaged?—In the year in question the figure was much more like 40,000.

Lieut.-Colonel *Hamilton*.

3336. Subhead F is: "Capital cost of factories, including loans in connection therewith." I would like to know what those factories are?—These were certain dehydration plants which were set up during the time when shipping was so exceedingly difficult and bulk was all-important. There were three main schemes. The original scheme was for 30 plants in all—that is,

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actual operating units—but actually only 17 were erected in the end, the capital cost being approximately £850,000. The expenditure to 31st March was £841,640.

3337. These are Government-owned dehydration plants?—Yes.

3338. For stocks of various commodities?—Potatoes and vegetables of all kinds. There were some also in Northern Ireland, which was a special feature of dealing with the potato crop there.

Mr. Benson.

3339. I want to ask a question on these Northern Ireland plants. They were not a success, were they? I have some recollection that they did not function satisfactorily, or could not get adequate supplies?—It was undertaken as an insurance scheme in the main at this time of acute stringency on shipping. We had at the time actually to envisage putting some potato flour in the loaf as well as animal feeding stuffs, so I do not think it was ever regarded as a very highly promising enterprise on a purely commercial basis.

3340. Subhead F in this Account is "Capital cost of factories" and then below in the Appropriations in Aid you have "Proceeds of sale of Dehydrating Plant"?—Yes. Of the Northern Ireland scheme the Ministry of Agriculture have decided that 8 of these should be retained for the purposes of handling future potato surpluses. Those will be retained by the Ministry of Agriculture of Northern Ireland.

3341. Who runs them, you or the Ministry of Agriculture?—We shall probably not run them any more. The Ministry of Agriculture will be responsible, I believe. Two factory sites have been disposed of to private companies at a figure which is to be assessed by the Ministry of Finance in Northern Ireland, and one remains, but we have some reason to think that we shall find a willing buyer for it.

3342. Were these plants set up abroad for saving shipping space?—And also because the products handled were so very perishable. There would have been big wastage otherwise.

3343. They were set up abroad, were they?—You mean overseas?

3344. Yes.—We have not set up any other dehydrating plants beyond those in Northern Ireland, to my knowledge.

3345. How many dehydrating plants did you set up in Northern Ireland? Was it 18?—In Northern Ireland there were 11 factories.

3346. How many have you sold? What do these proceeds represent—the bulk of them?—It brings to account, I understand, the valuation for the Ministry of Agriculture of the eight they took, the two sold, and the remaining factory is not yet brought to account.

3347. They cost something like £800,000 and you are going to collect a very small proportion of that on the sale of them. Is that so?—My information is that the factory sites and buildings will realise their cost but that the plant, which was worked very hard, for 24 hours a day on wet processed products (it is a very wet process) will fetch practically nothing at all. So the loss will be on the plant; but we do not expect to lose much, if anything, on the actual sites and the buildings.

3348. Subhead D is "Advertising and publicity." A good deal of that expenditure is accounted for by those recipes that you put in the paper, is it not?—Yes, part of it is newspaper advertising.

3349. Have you any method of checking up whether those recipes are used by the public, or do you just live in hopes?—The consumers' surveys which we undertake do throw light on that. We have a survey service.

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

Chairman.] The next item on our agenda is the Treasury Minute on paragraphs 14 to 16 of the Fourth Report of the Committee of Public Account, 1946. That is more a matter for the Treasury than for the Accounting Officer of the Ministry of Food, and I think we had better take it on a Treasury day and pass on to item (c) on the agenda, the Vote of Credit Appropriation Account, 1945-46.

VOTE OF CREDIT APPROPRIATION ACCOUNT, 1945-46.

MINISTRY OF FOOD.

Chairman.

3350. We turn to the report of the Comptroller and Auditor General on the Vote of Credit Appropriation Account, paragraph 31 onwards. Paragraph 31 sets out the scope of the trading operations of the Ministry in the year of account, but the Account is very brief indeed, and I should like to ask Sir Percivale whether proper trading accounts will be forthcoming in the

future and will be available to the Committee?—(Sir Percivale Liesching.) We have, of course, always kept them and they are in fact kept in the Ministry for this year in question. We use them more largely than any other form of account for watching the results of our operations.

3351. The published account on page 14 of this volume gives us nothing except a figure of £920 million as receipts from sales,

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and a figure of £916,000 odd for purchases?
—Yes.

3352. So that on these Accounts there is very little information available to the Committee. I was going to ask whether in future years we shall receive, or Parliament will receive, some form of trading accounts?—There will be, I suppose, more details when it comes under the more ordinary procedure since it passes from the Vote of Credit from now onwards; but even so it would not give you all the detail that would be in a trading account as we keep it.

3353. You mean that the appropriation accounts in future will be in more detail than we have here?—Yes.

3354. But you are not prepared to commit yourself to the fact that there will be any trading accounts made available?—(Mr. Jones.) May I say we have had some semi-official discussions with the Ministry of Food on this and we are in agreement in principle that they should publish some sort of trading accounts for the year which has just closed. How much information those accounts will disclose is a matter which we have still to consider in greater detail with them. In principle I think it has been agreed between us that some form of trading account shall be published for 1946-47 and for future years.

3355. I am much obliged, Mr. Jones, because it does seem of some importance when the State is trading, in a year such as this, with a turnover of twice £920 million, that future Parliaments should get some details. On paragraph 21, could you tell me what is the amount involved in the Ministry's operations under subparagraph (ii) "During a part of the year supplies and services were received without payment under lend-lease and mutual aid arrangements, or were given without repayment as reciprocal aid, or by way of relief to liberated territories"? What was the amount of expenditure by way of relief to liberated territories? I think we find it actually on the following page in the table: "Relief", a figure of £44 million odd?—(Sir Percivale Liesching.) Yes. The cost of supplies to Germany and Austria and other territories under the control of SHAEF was £15,526,000 odd. The cost of supplies to the Control Commission for Germany and Austria was £17 million. The cost of supplies to Italy was £2½ million, to South-East Asia £6 million, to the Channel Islands during the military occupation, £273,000, to UNRRA £2,884,000 and to certain Allied Governments, £167,000.

3356. Have we to regard that £44 million by way of relief to liberated territories as lost, or is there some chance of recovering some portion of it?—As far as the Ministry of Food is concerned, we have

to treat it as a trading loss. I know of no provision for any recovery under those various heads. We act as the agents, naturally, for the Government as a whole in supplying the commodities we control.

3357. What happened when a country was liberated was that you passed food stores over to the Service Departments, who distributed them amongst the civilian population?—Yes.

3358. I was wondering whether there was going to be any claim made against any of the Governments of liberated countries in respect of these supplies?—(Mr. Jones.) There will be claims rendered by the War Office in respect of certain supplies to the liberated territories in North-Western Europe. I think the Committee was told that when the Army Accounting Officer was before them.

3359. So that part of this money may be recovered?—Yes.

3360. I think we had better take the whole of this set of paragraphs, up to and including paragraph 33, together. They are dealing with the subsidies. We get tabulated form in paragraph 32 the net cost of the subsidies during the year of account. There is a figure given there of £235 million. That is the cost of the subsidies on food to consumers in this country in the year, is it not?—(Sir Percivale Liesching.) Yes. That is the net cost of the subsidies on food.

3361. Does that compare more or less accurately with the figure given by the Chancellor in his recent Budget of £392 million for the cost in 1947-48?—Yes.

3362. I see one item in the gross cost of the subsidies is "Interest on Exchequer advances", £10 million?—Yes.

3363. Could you just explain that to the Committee?—On Treasury instructions interest is calculated at the rate of 3 per cent. on accumulated net advances from the successive Votes of Credit. No actual cash is paid over by the Ministry, but it is naturally shown in the trading operations and accounts.

3364. We are told, just below the tabulated part of the paragraph, that in addition crop acreage payments amounted to £22 million and other payments to producers by way of aids to agricultural practice were estimated at about £9 million. Then there was a subsidy on fertilisers of £6½ million. In order to arrive at the total cost of the food subsidies one really ought to add those items on?—Yes, that is the point. When you said £392 million was the Chancellor's figure, if these had been deducted from it it would be £365 million, so you could take either the higher or the lower figure.

3365. The Chancellor's figure included acreage payments to farmers?—Yes.

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3366. So that in order to arrive at a figure comparable with the Chancellor's £392 million we should have to add the £39 million here to the £235 million mentioned above, and get a figure of £275 million?—Yes.

3367. In paragraph 33 there are set out the principal subsidies and their cost. Could you tell me under the heading "Milk" £45 million, what is the so-called National Milk Scheme, £16 million odd?—That is the scheme for milk at specially low prices for expectant mothers, and children under 5.

3368. Then the Milk in Schools Scheme is for schoolchildren attending school?—Yes.

3369. Those two services are surely in the nature of social services rather than general food subsidies, are they not?—Yes, they have that aspect, certainly.

3370. Might it not be a good plan to draw some distinction in the Accounts in future between those subsidies which are limited to a particular class of the population and therefore have some specific social purpose behind them and the general food subsidies, the benefit of which accrues to everybody?—Were you thinking of their transfer to another Department's Vote, or a separate arrangement in the Accounts?

3371. I was thinking of some distinction in your accounts between what I call the social services element of expenditure and the food subsidy element?—I think it could be done, but I take it that even the ordinary milk, which is at a subsidised rate, is in a sense a social service, for the adolescents and all those who drink it.

Chairman.] I should have thought anything which you subsidised and which the whole population could consume could hardly be regarded as a social service?

Lieut.-Colonel Hamilton.] I should have thought, Mr. Chairman, that that is the only way one could regard it.

Chairman.

3372. I think you might consider the point, Sir Percivale.—(Mr. Jones.) In the Estimates for the current year there is shown in a footnote the approximate expenditure included in the Trading Services Subhead on these two schemes; that is, a note, with the Estimates, but the expenditure will not be shown as a separate item in the Appropriation Account when it comes to be prepared.

3373. We are told, at the top of page 14, what the rates of subsidies were in the year of account—3½d. on a 4-lb. loaf, 1s. 7d. a dozen on eggs, and so on. Could you tell the Committee what the present rates of subsidy are compared with those in the accounting year?—(Sir Percivale Liesching.) Yes. On the loaf it is now

5½d.; on eggs it is 1s. 11d.; on butter it is 11½d.; on cheese it is 11½d.; on milk it is 1d. and on sugar it is 1½d. That is estimated to the 31st March, 1948; that is the year I was taking in those figures.

3374. The 1½d. per lb. subsidy on sugar is arrived at after sugar has paid Customs duty?—Yes.

3375. So that it is really two countervailing items, is it not, on either side of the sheet?—Yes.

3376. Can you tell me whether there are items bought by the Ministry of Food and sold again on which you make a profit?—There are. There certainly were in the year in question and there probably may still be some. Cocoa has been a source of profit at certain times.

3377. Generally speaking, apart from the subsidised items, you try to make the proceeds from sales balance with the amount you have to pay for the product?—Yes, that is the objective.

3378. If you make a profit on an item it is accidental?—Usually, yes.

3379. It is not deliberate?—No. The coinage, of course, has a very profound effect on whether you make a profit or not, if you are playing in halfpennies in large quantities.

Chairman.] We will take paragraphs 31 to 33 together. Has any Member of the Committee any questions on those paragraphs?

Sir Frank Sanderson.] In paragraph 31 on page 12 the Comptroller and Auditor General states that the total payments for purchases were £916 million and that the receipts from sales were £920 million, which receipts from sales exceeded the purchases by £3,406,000. That statement, to the lay mind, to the uninitiated, would certainly convey the impression that a profit had been made of £3,406,000, namely, the difference between the payments for purchases and the receipts from sales. But that is not so. What I would like to know is this: Is it not possible to give a really comparative figure; that is to say, to give the value of the foodstuffs which are brought into the account, and also the value of the stocks of food which in fact had not been sold at the end of the financial period? Is it not possible to give that information, because as it stands here it is, as I say, to the uninitiated, very misleading?—The figure is, of course, in the trading account, and can be provided if you wish.

3380. One point which is perfectly obvious, I take it, is that the difference between the receipts from sales and the payments for purchases of £3,400,000 as shown in this paragraph, does not constitute profit?—No, that is quite correct.

3381. Therefore, the information given in the paragraph is of no practical value

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at all, but is misleading to the lay mind?—Of course, the Account is presented in accordance with the cash system of accounting, which is the Government form of accounting. It bears, as you rightly say, little relationship to a trading account which we keep in detail.

3382. I am right in suggesting, am I not, that it is just a pure accident that it happens that the total receipts from sales during the period under review were £3,400,000 in excess of the payments for purchases?—In other words, it might just as conceivably have been £50 million in the opposite direction?—Yes. It is a figure which is not very significant.

3383. It is not only misleading, Mr. Chairman, but as set out here it is of no value at all, either to this Committee or to the general public. It is misleading.—I agree. The reconciliation is carried out in broad terms, of course, in the succeeding paragraph. There is no attempt to conceal the true position by stating it in a misleading form.—(Sir Frank Tribe.) It is because the account itself, on page 14, was so difficult for the layman to understand that I did, in this report in paragraph 31 onwards, somewhat amplify what has been contained in previous reports and try to explain the true position.

3384. I have studied Service 69, on page 14, but it does not enlighten me at all in regard to the figures to which I have made reference. I have no hesitation in saying any layman, the average Member of Parliament, who read that paragraph would go away under the impression that a profit of some £3,406,000 had in fact been made. It has no relationship at all to the real state of the account. If that figure is to be given, showing the difference between payments for purchases and receipts from sales, one should show the amount of stock which was brought in the beginning of the financial year and the amount of stock and its value at the end of the financial year?—In setting out those figures I did show, in paragraph 32, the reduction in stocks during the year, of about £36,500,000.

Sir Frank Sanderson.] I appreciate I am probably asking for a complete revision of the method of drawing up the accounts, which I think should be considered. Whether or not it comes within the purview of this Committee I do not know.

Chairman.

3385. I understood from what Mr. Jones said that we should get at any rate a more ample form of accounts next year. (Mr. Jones.) Yes. Perhaps I may add that this Committee did agree in the early part of the war that they would not demand the publication of trading accounts for the

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trading Departments, such as the Ministry of Food and the Raw Materials Department of the Ministry of Supply. It was by agreement with this Committee that the trading accounts were not prepared or published, in order to save accounting labour.

Sir Frank Sanderson.] I am not suggesting that they should be prepared for the public. I am suggesting that the information should be available for this Committee. I think it is vital that we should have this information and that it should not be drawn up in the form shown here. This is a document which can be purchased by any man in the street, and I say that as it is shown here the paragraph is grossly misleading. I fully appreciate that it is not intended to be misleading. It is given in a form which happens to be misleading.

Chairman.

3386. But the purpose of the succeeding two paragraphs is to make the position clear. That is the purpose of paragraphs 32 and 33, is it not, Sir Frank?—(Sir Frank Tribe.) Yes.

Sir Frank Sanderson.] Those paragraphs do not clarify the point that I am making at all. It may be that next year we shall find (I sincerely trust we shall find) that there is more information available to the Committee.

Mr. Wadsworth.] The circumstances now are entirely different from what they were when the Public Accounts Committee made its previous decision. It was wartime then.

Sir Frank Sanderson.] We are not at war now.

Chairman.

3387. I understood your fellow-witness to indicate, Sir Percivale, that trading accounts were available?—(Sir Percivale Liesching.) He has them here. (Mr. Bailey.) They have been prepared right throughout the war. As Mr. Jones said, we are in discussion with the Treasury at this moment, and have been for some time past, as to the form in which they should be published. That is the only issue as far as the Ministry of Food is concerned.

3388. I think it is obvious, Sir Frank, that we should gain nothing at all by looking at the trading accounts today for the first time. What I was suggesting earlier in my questions to Sir Percivale was that for the future something in the nature of trading accounts might be made available before the Committee meets?—We should be very willing to do that.

Chairman. It is a point that ought to be considered, I think.

Sir Frank Sanderson. One further point. Would you agree with me, Sir Percivale, that in the circumstances, which I fully appreciate, it would perhaps have been better if paragraph 31 had not been printed?

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[Continued.]

Chairman.] That is not really for the Accounting Officer to answer. This is the Comptroller and Auditor General's report.

Sir Frank Sanderson.

3389. Then may I ask Sir Frank that question?—(Sir Frank Tribe.) I am responsible for the report, as apart from the Account. The Account, of course, is the responsibility of the Accounting Officer, and the Account, for reasons which have been explained, is very uninformative. It was in order to try to explain the position more fully to the Committee that I did endeavour in this report to give some short account, in paragraph 31, of the scope of the Account, followed by three paragraphs on subsidies. I had hoped that those four paragraphs, if read together, would give the Committee the necessary summary of the position to enable them to appreciate what the real facts are. I am sorry if I have failed to do so. I will try again another year.

Mr. Bailey.] If I may put in a word, the accounts of the Ministry, prepared on ordinary commercial lines, arrive at a net balance in debit of £235 million, as shown in paragraph 32. Those are accounts prepared exactly as Sir Frank Sanderson would suggest they should be prepared, with opening stocks, closing stocks, and all the rest of it, in exactly the same form as that in which any company prepares its accounts.

Lieut.-Colonel Hamilton.

3390. Could we be told how much of that net cost of subsidies, £235 million, was for imported food, and how much was for home-produced. The two figures are given in the case of the estimate for 1946-47 on the next page. I wondered if that information could be given for the year actually under review. In the details, in paragraph 33, in some cases the distinction is made but not in others. With regard to cereals, for instance, one cannot tell how much of the flour was foreign and how much was home-produced?—(Sir Frank Tribe.) In the last three lines of paragraph 32 in referring to the net figure of subsidies, I state "rather more than half of which related to home produce".

3391. The home-produced was nearly 50 per cent. more than the imported in this year?—(Sir Percivale Liesching.) Yes.

3392. In the following year they came much more nearly equal, did they not?—Yes. It is very much closer the following year. There is only £7 million difference.

Mr. Benson.

3393. I take it these figures really show that the bulk of the cost of the subsidy during the year under review was borne by lend-lease and mutual aid, and did not fall on the taxpayer?—Yes, it was not in fact paid for, but was brought to account as a debit in our trading account.

3394. In effect, you wiped out rather more than half you received in lend-lease and mutual aid by charging lower prices than you paid for what you had to buy. In other words you used lend-lease and mutual aid to subsidise the English home prices?—The lease-end and mutual aid supplies were taken on a costed basis into our account and sold to processors and consumers here. It is true of course that not having paid for them we had, as it were, cash still to meet the subsidies on the home produce. Is that the point you had in mind?

3395. In effect the bulk of the cost of the subsidy was really borne by lend-lease and mutual aid?—It could be so interpreted. £67 million was the value of the lend-lease.

3396. And the mutual aid?—Those are the Canadian supplies.

3397. That was also free, was it not?—Yes.

3398. That is £190 million, less what we gave away in relief. Roughly £150 million of it was borne by lend-lease and mutual aid. Is not that correct?—That is about right. Mutual aid was about £119 million.

3399. Yes; mutual aid was £120 million and lend-lease approximately £70 million. That is £190 million, out of which we parted, by way of gifts in relief, with £45 million, leaving about £150 million, which was sold to the British public, out of which you paid subsidies on the rest of the food?—Yes, it went into our expenditure.

Chairman.

3400. Are there any further questions on paragraphs 31 to 33? We turn to the next series of paragraphs, dealing with purchasing procedure. We are told in paragraph 34 that the purchasing procedure continued on the lines previously described subject to the developments referred to in paragraph 49 of the report for 1943-44 with regard to the co-ordination of purchasing among the United Nations and the allocation of supplies through the Combined Food Board. Are there included in the gross figures of the Account here purchases made for other countries?—Yes. In the case of those where we accept the responsibility for supply we make the purchase and pass it on. They would be shown as a receipt when they had been paid for.

3401. So that there may be purchases of rice, let us say, from Malay or somewhere, for transport to India, which are included in your purchases and sales?—Yes. Tea would be another example, and sugar and flour.

3402. We are told that the Combined Food Board was superseded as from 1st July, 1946, by the International Emergency Food Council. Can you tell me what nations form the Combined Food Board?—

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[Continued.]

They were, at any rate originally, the United States, Canada and ourselves. It was enlarged into a larger body as the International Emergency Food Council.

3403. The International Emergency Food Council is a United Nations organisation, is it, or something much bigger than the original organisation?—It is a larger body, but I do not think it is an integral part of the United Nations.

3404. Is the International Emergency Food Council functioning all right?—I dare say different nations form different views of its activities. From our point of view we think it has saved a great deal of trouble which would otherwise have arisen for us and for others on certain commodities.

3405. It endeavours to allocate different supplies between different countries, does it?—It makes recommendations as to the allocation of supplies after obtaining statements on requirements and sifting them very carefully and then trying to make the available supplies go round in a fair way.

3406. Is there a great deal of argument at this International Emergency Food Council as to who should have how much of each product?—A very great deal.

3407. To whom does it make recommendations—to the Member Governments?—Yes, to the Member Governments.

3408. Are the recommendations in fact carried out after they have been made, or accepted generally?—In general they are, yes.

3409. In paragraph 35 the Comptroller and Auditor General tells us that by September, 1946, 60 per cent. of the tonnage of all imports by the Ministry was covered by such contracts: that is to say, long-term contracts?—Yes.

3410. We were told, I think last year, at this Committee, that the statutory authority for entering into these long-term commitments was the Supplies and Services Act. I do not know if you are familiar with the evidence given here a year ago, but that was, I think, the effect of what we were told?—The Minister of Food originally came into existence under the Act of 1939, the Ministers of the Crown (Emergency Appointments) Act. It was applied to the Minister of Food by an Order in Council made under it. In 1946 the Ministers of the Crown (Transfer of Functions) Act applied certain functions to the Minister permanently. That was the change in status of the Ministry of Food to a permanent basis. I understand the position on the question of authority to undertake such commitments is that, the Minister having been so appointed, he does not require statutory authority to buy or sell, but where statutes exist they are looked at to see if they limit his powers to buy or sell,

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or in any other respect. I think it is fully intended there should soon be a Food Policy Bill on some such lines, in its own sphere, as the Agricultural Policy Bill, and there the statutory provisions which this Committee has drawn attention to in past reports as being a proper basis within which a Minister exercises his functions will be written in, one assumes; but in the meantime there is no statutory provision. Although the Minister can, therefore, engage in such operations as he is not prevented from doing (and there is nothing to prevent him from doing it) he cannot of course necessarily pay for them until he acquires his Vote annually. That is a description of the present position.

3411. These long-term contracts are made between the British Government and other governments, are they not?—Yes. In general they are government-to-government contracts.

3412. They are all inter-governmental contracts?—Yes.

3413. There is, therefore, if I am not mistaken, no method of enforcing them. There is no court in which you could proceed for breach of contract?—I think not.

3414. It frequently happens, does it not, that the sellers come and ask for something more on the contract price?—There is generally a clause providing for a review at stated intervals. I do not recall, easily, a case where people came between such periods of review.

3415. Was there not a case where Ceylon demanded increased prices for tea?—There was an export duty put on, which of course had a powerful effect on the prices originally negotiated.

3416. To return to this point about the statutory authority, you say that the Minister could enter into a long-term contract committing this country to pay for the exportable surplus of a commodity from another country for a long period of years ahead, without any express statutory authority?—Unless there is something in the statute barring it, I understand the constitutional position to be that he can so do.

3417. Parliament might refuse to vote the money later, of course?—Exactly.

3418. Do you share that view, Sir Frank?—(Sir *Frank Tribe*.) It is rather new to me, especially in view of what Sir Herbert Brittain said last year to the Public Accounts Committee, when we were discussing this very question. Then he said, at Question 5051 "This all hangs" ("this" being the long-term contracts) "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

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[Continued.]

relying on those powers to make these long-term contracts." That Act has the official title, as you know, of the Supplies and Services (Transitional Powers) Act, 1945, and is due to expire on 10th December, 1950, though it has in it a provision that it may be continued annually by Order in Council if so approved. As at present passed, that Act on which Sir Herbert Brittain said these powers depended expires in the middle of December, 1950.

3419. Sir Percivale, as matter of factual accuracy, have the Ministry of Food entered into any long-term contracts which do not expire until some date after December, 1950?—(Sir Percivale Liesching.) I believe coffee is the only instance, which runs to 1952.

3420. You say you anticipate there will be a Bill in which statutory authority may be taken for these long-term contracts?—Yes, indeed. Work is proceeding on a draft in readiness now.

3421. Are there any questions on paragraphs 34 to 36? We pass to paragraph 37, which deals with the bulk purchase of foodstuffs from the United States of America. I think I am right in saying, am I not, that President Truman announced that central selling of foodstuffs from the United States would cease in the autumn of last year? Is the Commodity Credit Corporation still functioning?—Yes.

3422. Is it likely to continue functioning?—We have no evidence of it ending early, though there are constant rumours as to legislation on the subject.

3423. I rather thought that the Minister of Food announced in the autumn of last year that we should have to go into the open market of the United States of America if we wanted to purchase foodstuffs?—There are different categories. These are those in particularly short supply, where an unrestricted export from the United States of America would cause a shortage locally, or upset their price structures. Those are in a rather different category from others. In some we are allowed, and can, and do buy without the intervention of the C.C.C. In others we have to use the appointed Government agent of the United States.

3424. Some of your purchases are in the open market?—Yes.

3425. We are told that "where the Ministry enter into agreements with the Commodity Credit Corporation, they are required to pay within 10 days of the signing of the agreements advances representing the estimated total value of the contracts." That might be described as "cash with order"?—Yes. The C.C.C. are strictly bound by their statutes over there not to enter into such a contract without the cash payment, or unless they

have an appropriation from their own government.

3426. We are told that "advances amounting to £22 million paid up to March 31st, 1946, are, with Treasury approval, charged in the present account, while the value of deliveries taken into Ministry stocks up to that date amounted to £9,300,696 only." What would be the biggest items for which you were paying in advance of any deliveries—what class of foodstuffs?—These are cash balances currently outstanding in respect of cheese, evaporated milk, lard, frozen eggs, dried eggs, pulses, wheat and canned fish.

3427. Are there any questions on paragraph 37? We pass to paragraph 38 "Selling Prices". This paragraph deals with your policy regarding selling prices. The Comptroller and Auditor General states: "The general policy of the Ministry has been to fix selling prices at rates which, after providing a fair margin of remuneration to traders for necessary services, will regulate the cost of foodstuffs in accordance with the Government policy of stabilising the cost of living index at about 31 per cent. above the level of 1939". Then a little lower down he states: "Until recently many non-index foodstuffs were subsidised in sympathy with the cost of living index, but this policy has recently been reversed and subsidies are now applied almost exclusively to cost of living index items". Would it be true to say that at the present time only items in the index are subsidised?—That is substantially true. There are the animal feeding stuffs which fall outside, which are an important one, and some welfare foods.

3428. Can you tell us the financial effect of cutting out the subsidies on non-index items? Can you give us any idea of what the resultant saving to the taxpayer has been?—Mr. Bailey reminds me it is about £57 million to £60 million in a full year.

3429. That, of course has been more than absorbed by the increased subsidies on the index items?—Yes.

Chairman.] Are there any questions on paragraph 38?

Mr. Benson.

3430. Are the selling prices fixed to give the retail margins?—Yes. The procedure for fixing a food price is that the desired retail price, in accordance with the stabilisation policy, is determined after discussion with the Treasury, and distributive margins, in order to get it into action, are then deducted from it and the first-hand sale price is the result of that sum.

3431. You fix retail prices for a large number of foods which are not on the subsidy list, do you not?—Yes, we do and in

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[Continued.]

those cases it is the costs of production which are taken largely into account.

3432. I think there has been a considerable increase in turnover—in gross turnover, at any rate. I see, according to paragraph 40, that you have cut butchers' margins. Has there been any cut in retail grocery margins?—No major cuts, I think, no.

3433. Are you sure they are as narrow as is reasonable?—If we are discussing the distributive margins, it is of course a constant question as to whether or not we are both treating the trader reasonably and protecting the public. It becomes exceedingly difficult where you get a trader who is handling a very large number of items. If you think that you are making a mistake in undue liberality of margins or undue stinginess of margins you do try to check also against his overall trading result (which after all is a very valuable check) as to whether you have been right in your judgment on a great number of individual items. We do that. In general we have been fairly well encouraged by the results.

3434. What exactly does that mean? Does that mean that the overall results are not too high?—Yes.

3435. There must be a very great variation in efficiency among the different retailers?—Yes, there is, indeed.

3436. Do you fix your margin so that the least efficient retailer can make a living?—It was the policy, while we were relying on traders for distribution during the war, to fix a margin which would keep less efficient traders in action who might otherwise have gone out.

3437. In view of the Government policy of restricting entry into distribution as much as possible, is it not time that you revised that policy?—Since this year of account of which we are speaking, when the war had ended, we have already moved in that direction. The general policy now given to us by the Minister is that if there are classes of inefficient traders who cannot live with a reasonable margin, they must find other occupations.

3438. Are you trying to squeeze out the inefficient trader?—We are prepared to see this happen to the extent that we can still keep the distributive supply going on the scale required in order to keep the population supplied.

Chairman.

3439. We will take the remaining paragraphs together, I think, as the time is getting rather late. On paragraph 39 I want to ask you a question about these trade associations. The Comptroller and Auditor General tells us: "Each trade association of brokers, importers and whole-

salers which acts as agent for the Ministry for the handling and distribution of food-stuffs receives a global remuneration which is paid either as a lump sum fixed annually or at rates per unit handled." What is the largest single payment you make to a trade association?—About £1 million to the grain trade I think is almost undoubtedly the largest.

3440. About £1 million a year?—Yes.

3441. What services do you obtain of what value do you get in exchange for that £1 million?—It enables us to get this grain handled for us from the time it arrives in the country or is taken off the farms here until the time when it finds itself in the loaf, in the case of wheat and flour.

3442. This is a kind of management fee to the grain trade, is it?—Yes, I think that is a fair description of it, and of course they are carrying their employees and we are not bringing them in as civil servants. They are providing the manpower from the resources of their own organisations.

3443. I think the original purpose of this payment was to keep the grain trade together to enable an organisation to exist for an ultimate return to free markets after the war. I think that was the purpose?—I think that undoubtedly was one of the factors that led us not to disband the grain trade and turn them all into civil servants and throw them about the country, but in the meantime while they are so preserved they perform these functions for the Ministry and the Government.

3444. At the foot of paragraph 39 the Comptroller and Auditor General tells us that the Minister of Food set up a Committee in June, 1946, to inquire into and report upon margins policy generally. Has that Committee reported yet?—Its report is now being drafted. It is not yet finished.

3445. Will this report be published?—Not in the normal course. It is a departmental report in the first instance. I do not know whether it would be published or not until the Minister has seen what it contains. I myself have not yet seen it.

3446. I have no questions on paragraph 40. Paragraph 41 deals with the control of cold stores. Can you tell me whether the control of cold stores is being retained by the Government?—For the time being it is. No long term policy decision has yet been taken on that.

3447. What is the position in regard to the cold stores erected by the Government during the war?—Some of them are on a care and maintenance basis and I think some of them are in a position where they can still be used.

3448. But they are surplus to peacetime requirements are they not? They were put up as an emergency provision, were they

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not?—Yes, they were additional to all facilities that existed at the outbreak of war. How far it is necessary to maintain them for purely peace purposes remains to be seen in relation to whether they are more modern or badly placed for peacetime purposes. There is as you say a security angle.

3449. Can they be put to any other useful purposes than the storage of food? Would they have any value as factories?—No, I do not think so. It would be an uneconomical thing to do, I am informed.

3450. So far as no use is able to be made of them they will simply be put on a care and maintenance basis?—The Minister asked for a report from a Committee which has just reported to him—and he has not yet considered the report or at least decided upon it—upon this whole question of the future of cold storage in this country both in relation to Government cold stores and the future policy with regard to stores now controlled, and in relation of course to general security considerations for the future.

3451. Have you any information you can give us with regard to the matter referred to in the last sentence of paragraph 41? The Comptroller and Auditor General states: "the Public Accounts Committee of 1945 were informed that it was proposed to carry out a cost investigation of the industry for the year ended February, 1946 (the first complete year under these revised arrangements) and I have recently asked the Ministry as to the outcome of the investigation"?—Yes. The Costing Report reached me actually two days ago. I have some information from it which I could give to the Committee if they wish it on the result of these last measures taken to try to restrain any excessive rate of profit.

3452. Does the report tell us what was the remuneration on capital employed?—Yes. The effect of the scheme has been to reduce the percentage return, which the Committee criticised, of the first two control years by about 2 per cent., and there is such a reduction in the level of stock in 1946-47 that it will almost certainly have caused a still further reduction. The 1946-47 figure would on its present running suggest that the total profit retained will not reach much more than about £700,000 as against £748,000.

3453. I have a question on paragraph 44. Paragraph 44 deals with stock records and stock taking. Do not great losses of foodstuffs take place through pilferage on the railways and at the docks?—Mr. Bailey confirms my impression that the amount of pilferage that has affected us on the transport system is really surprisingly small.

3454. Do you not have some arrangement with the railways whereby they pay

you some compounded figure to cover losses by pilferage for which they might otherwise be responsible?—No, I have not heard of it. Our normal practice is to get repayment from anybody, whether it be store or a transporter, where a shortage is found.

3455. For losses of food in transit you would claim against the owners of the docks or against the hauliers?—So far as I know. I have not heard of the arrangement to which you refer.

3456. Sir Frank, can you help us over this?—(Sir Frank Tribe.) I understood that losses in transit by rail were covered by an arrangement in which a percentage abatement was made from the transport charges, though losses in transit by road were pursued against the hauliers. I was not quite clear what happened if the actual losses by rail exceeded the losses which were covered by this agreed percentage abatement and whether they were reflected in the accounts.

3457. You have no knowledge about that?—(Sir Percivale Liesching.) I am sorry, but I am afraid my knowledge about that is incomplete.

3458. Perhaps you could furnish us with a note on it?—Yes, I will let you have a note on that point. It is on the railways where this arrangement exists, and it is a question of any loss in excess of the amount for which we are covered.

3459. What I think I should be concerned to be informed about would be that you and the railways both had an interest in preventing the pilferage of foodstuffs to the largest possible extent.—(Mr. Jones.) Perhaps I may say that that was a general arrangement made with Treasury approval by a number of Government departments during the war to save work both in the railways and in Government departments in pursuing individual claims. It was made a condition of the agreement with the railways that the railways should concentrate on policing these pilferage cases, not through the submission of detailed claims, but by watching the points over their transport system where the losses were found most frequently to occur.

3460. I think it has been said in the House that losses on a considerable scale through pilferage have occurred on the railways, and that, of course, may be the principal source and origin of the "black market" in foodstuffs, may it not?—Yes, it could indeed be, if it is not too bulky. It depends on how bulky it is, of course.

3461. Perhaps you would look into that point and furnish the Committee with a note on it?—Yes, I will. I am sorry I have not the information.*

Chairman.] Are there any questions on this paragraph?

* See Appendix 9.

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[Continued.]

Mr. Wadsworth.

3462. There is a system, I understand, whereby certain butchers who stopped their own butchering at the beginning of the war were paid an income by the Ministry of Food at a time when the whole policy changed and the Ministry took the responsibility for all abattoirs and butchering departments. I understand that this is quite a large amount. I wonder if you could give me any information about it?—I am afraid I shall have to ask for notice of that and send the answer in. It is perfectly true that the Ministry took control of slaughterhouses and slaughtering and reduced the numbers by a staggering amount, to concentrate the points of slaughtering, but I myself have not seen any information on this continued remuneration to butchers who previously did their own slaughtering. I will certainly look into it and provide the information.

3463. My information is that a butcher not in any considerable way of business is now drawing £1,000 a year because he has given up his own slaughtering?—I have not heard of it, and I should be extremely surprised if it is true. But I will certainly get the facts for you.*

3464. There will of course be a trade association of butchers who are responsible for the distribution of meat?—Yes.

3465. They receive a remuneration and they engage somebody to carry out the activities of distribution from the slaughterhouse to the retailers? It is done—I take it through trade associations?—Yes, there is a Wholesale Meat Supply Association which performs that service for us at controlled remuneration.

3466. How much was this remuneration in the case of the butchers?—Of the butchers?

3467. The trade association covering butchering for the distribution of meat?—I do not know that I could separate it. We have the imported meat also coming through, apart from what is slaughtered in this country and it is, therefore, an extremely tangled arrangement. I am afraid I could not give you at short notice the detailed terms of remuneration fixed for this particular service in the meat trade.

3468. What interested me chiefly was this. I am again informed, rightly or wrongly (I do not know until I obtain your reply) that the amount given to the trade association in the case of the distribution

of meat is extremely high. If you could furnish some information which would enable the Committee to decide whether the remuneration was high or not I should be grateful.—I should be glad to try to throw light on that point.

Chairman.] Are you speaking of the retail or wholesale distribution?

Mr. Wadsworth.] The wholesale distribution—the distribution from the abattoir to the retailer which is done I understand through one of these associations.

Chairman.

3469. I am quite sure Sir Percivale could put in a short note on that point also.—I will. I find the Committee on Margins has been looking into this very fact amongst the numerous other details they have been assembling.—(Sir Frank Tribe.) My predecessor reported on this subject to this Committee in 1941, when he said that the Wholesale Meat Associations' remuneration had been reduced, that a reduction had been effected in the light of experience of the various economies which were found to be necessary as the result of an investigation made on the part of the Ministry. So this Committee discussed the question in 1941 and at that time some reduction had been made.

Mr. Wadsworth.

3470. That is six years ago.—That was a report in relation to 1941. It was discussed in 1943; but still even that is four years ago.—(Mr. Bailey.) The rate of remuneration has been very carefully examined quite recently by this Committee on Margins of which Sir Percivale has spoken. The remuneration has been analysed and found to be not excessive. It has been found to be justified in relation to the services performed, the turnover and every other factor that might have been introduced. That examination took place only in this current year.

* 3471. If we could have some information on that I should be glad.—(Sir Percivale Liesching.) Yes.*

Chairman.] Are there any further questions on this paragraph? We turn to page 14, Service 69. Sir Frank Sanderson, I think, has said all there is to be said about this Account. I do not propose to ask any questions on it. Has any other Member of the Committee any questions on Service 69? Thank you, Sir Percivale, that concludes your evidence.

* Paper circulated to Members; not printed.

The Witnesses withdrew.

Adjourned till Tuesday next at 3.45 p.m.

TUESDAY, 10TH JUNE, 1947.

Members present:

Mr. Benson.
Mr. Cuthbert.
Lieut.-Colonel Alan Dower.
Mr. Haworth.

Mr. Horace 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 ERIC BAMFORD, K.B.E., C.B., C.M.G., and
Mr. C. E. I. JONES called in and examined.

TREASURY MINUTE ON PARAGRAPHS 33-35 OF THE FOURTH REPORT OF THE
COMMITTEE OF PUBLIC ACCOUNTS, 1945-46.

Sir ERNEST GOWERS, G.B.E., K.C.B., called in and examined.

Mr. Benson.

3472. Will Members turn first to the Treasury Minute on paragraphs 33-35 of the Fourth Report of the Committee of Public Accounts 1945-46. Sir Ernest, has the staff of the Coal Commission been transferred *en*

bloc to the Coal Board?—(Sir Ernest Gowers.) Yes.

I will reserve any comments or questions on the Treasury Minute itself. I think we had better take that on Treasury Day. Has any Member any questions?

COAL COMMISSION ACCOUNTS, 1945-46.

Mr. Benson.

3473. Next we take the Coal Commission Accounts. Will Members turn to the Report of the Comptroller and Auditor General? I see at March last year only £75,000 was outstanding. What is the present position?—(Sir Ernest Gowers.) It was about £750 when we handed over. It consists entirely of cheques which the people to whom we sent them refused to clear.

3475. There is a deficiency on your Superannuation Fund of £33,000. Will that £33,000 fall on the Exchequer?—No. We made it good by paying the £33,000 out of our own money into the Fund before we handed it over.

I have no further questions on the report. Has any member of the Committee any questions? I have no questions on the Accounts on pages 3-11. Has any member any questions on the accounts? May I take it that the accounts are approved? (Agreed.)

3474. Refused to clear?—I cannot explain it. I can only tell you the fact.

Sir Ernest Gowers withdrew.

CIVIL APPROPRIATION ACCOUNTS, 1945-46.

CLASS VI.

VOTE 5.

MINISTRY OF FUEL AND POWER.

Sir DONALD FERGUSON, G.C.B., called in and examined.

Mr. Benson.

3476. Will Members turn now to the Civil Appropriation Accounts, Class VI, Vote 5, Ministry of Fuel and Power. The Account is on pages 280 and 281. Sir Donald, on Subhead A "Salaries" could you tell us how much of that is accounted for by the European Coal Organisation?—It does not come under Subhead A "Salaries".

3478. What is the basis of our contribution? How is it calculated?—I am afraid I cannot answer off hand the basis of the contribution. The position was that £62,000 was contributed by 11 nations in 1946 of which the United Kingdom's share was £12,000. I could not, I am afraid, give offhand the basis on which the contribution from each country was calculated. I could send in a note to the Committee if they wish it.*

3477. Which Subhead does it come under?—It comes under Subhead C and we made a contribution of £7,691 for the current year, 1946, to the European Coal Organisation.

3479. If you would please. Who controls the expenditure of that body?—It is an international organisation and the expenditure which is mainly on staff and enquiries

* See Appendix 8.

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SIR DONALD FERGUSSON, G.C.B.

[Continued.]

is controlled by the Council itself. The Council considers and approves a budget each year covering the necessary administrative expenditure of the organisation, so it controls its own expenditure.

3480. Subhead G is "Fuel Efficiency Measures". Can you explain why you budgeted for £25,000 and spent only £1,500?—The saving was due to absence of expenditure on the following services: the furtherance of fuel efficiency schemes in industrial premises: for that £15,000 was provided but was not spent. We had been proposing to incur certain expenditure which was of a wartime character to give capital assistance for fuel economy and by the end of the war this particular form of assistance ceased.

3481. Did that £25,000 include any of the cost of the advertisements that appeared in the papers? Was it intended to do so?—No, I think any advertisements would have fallen on the Ministry of Information Vote in this year. There was another item on which we saved money. £3,000 was provided for a contribution to certain research activities to the British Coal Utilisation Research Association but was not required.

3482. In view of the very great shortage of coal was it wise, do you feel, to have cut down your activities?—Since this date a great deal has been spent and a great deal of activity does go on in regard to fuel efficiency measures, but in this particular year the expenditure under this heading which was of a special kind, for the reasons I have mentioned, was not actually incurred. The expenditure on fuel efficiency measures generally, which includes the staff and fuel engineers all over the country, would not appear under this particular heading.

3483. With regard to Subhead I "Expenses in Connection with Metalliferous Mining," what have the results of that been? What actually were these activities?—This expenditure related to the Eastpool Tin Mine in Cornwall. During the war it was necessary to work this mine and maintain the output of tin under war conditions and when the end of the war came production costs had risen very considerably and it was very expensive tin to mine. The

contracts which had been placed by the Ministry of Supply were terminated. The owners at that time were without resources and it was feared that if the operations ceased—apart from causing unemployment to some 400 or 500 tin miners—it might lead to the flooding of adjoining tin mines, and therefore a technical committee was appointed to examine and report upon the position of flooding and future prospects of the mine. In the meantime the pumping operations at the mine were maintained as a Government charge pending the report of the technical committee and it is that charge which appears here. We received the report of the technical committee, and that report was such that we decided to discontinue operations there in October, 1945.

Mr. Benson.] Are there any questions on the Account?

Mr. Thurtle.

3484. For how long did these pumping operations continue?—I think they continued for a period of some 4 or 5 months.

3485. It took that time to get the report, did it?—Arrangements were made to set up a technical committee to go into the matter. Meanwhile we went on with pumping and it took some time for the committee to report.

Mr. Haworth.

3486. One small point. In "Other losses" at the foot of page 281, there is an outstanding balance in respect of private telephone calls, £15 4s. od. For one individual it seems rather a large amount?—I can give the details of that. We had an investigation at the Cardiff Regional Office into an abnormal number of trunk telephone calls to Cheltenham which revealed that they were private calls made by a temporary woman clerk employed on the switchboard. She repaid £9 10s. od. by weekly instalments of 10s. but then died and there was no estate from which recovery could be made, but I may say that 7s. 6d. due as wages was withheld making the net loss £14 16s. 8d. Those were the circumstances.

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

CIVIL APPROPRIATION ACCOUNTS (WAR SERVICES), 1945-46.

CLASS X.

VOTE 5.

MINISTRY OF FUEL AND POWER.

Mr. Benson.

3487. We turn now to paragraphs 24-28 of the Report of the Comptroller and Auditor General on the Civil Appropriation Accounts (War Services). We will take paragraphs 24 and 25 together. I see that you mined 8,000,000 tons of open-cast coal

at a cost of £20,000,000 as compared with 9,100,000 tons the previous year at a cost of £16,000,000. What was the reason for the increased cost particularly in view of the fact that with your more recent contracts you hoped to show a saving of about 4s. a ton?—(Sir Donald Fergusson.) The main reason

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Sir DONALD FERGUSSON, G.C.B.

[Continued.]

I think is that when open-cast coal mining was first started the easier seams were of course worked—the more accessible and easier seams. As the process has been continued it has been necessary to work more difficult sites and also to go a good deal deeper. Larger machinery is required and the operation is more expensive.

3488. On the other hand your estimated revenue on new contracts has gone to a ceiling of 4s. 5d. a ton and you are having to go deeper still, are you not?—What are you referring to?

3489. The second sub-paragraph of paragraph 25, the new form of contract gives an average saving of 4s. 5d. a ton.—Yes. The new type of contract which is on a tonnage basis has given us certain savings over the old type of contract which was made up of separate items. The reason for the increase in costs in the year in question was I think the greater difficulty of working the new sites compared with the original sites which outweighed any saving on the contract.

3490. You are now getting competitive tenders for a very high proportion of sites. What is the proportion?—To-day all tenders are competitive.

3491. They are 100 per cent. competitive?—I think we have only three of the old type left.

Mr. Benson.] Has any Member any questions on paragraphs 24 and 25?

Mr. Thurtle.

3492. In the last sentence of paragraph 25 the Comptroller and Auditor General refer to the prospect of your obtaining competitive tenders for a very high proportion of sites. I suppose the suggestion there is that because you are getting competitive tenders there is going to be economy. I wondered whether it would have been possible for you to get competitive tenders earlier when the costs were higher, and whether you could have effected economy in that way?—I think the Committee knows we took over this service from the Ministry of Works. The open-cast operations were transferred from the Ministry of Works to ourselves in April, 1945. In the early days of open-cast competitive tendering would I think not have been very easy to work because it was a new thing and contractors did not know how costs and so on would work out. But when we took over responsibility from the Ministry of Works they had already come to the conclusion that competitive tendering would be desirable. By that time there was of course more plant in the country so that there were more contractors who had plant and therefore you could put out the thing to competitive tendering. That was why it developed in that way.

3493. They had to acquire a fund of information first?—Yes, and the contractors had to get the plant which we were getting from America, very largely.

Mr. Benson.

3494. We pass now to paragraph 26. The Comptroller and Auditor General states the loss is estimated at 17s. 8d. a ton on the results of operations during 1945-46. Do you agree, Sir Donald?—Yes, the loss per ton produced was 17s. 8d. per ton in the year 1945-46. It is reduced in the year 1946-47 to 12s. 6d. per ton.

3495. The estimate from 1947 onwards is 7s. 6d. a ton—a still lower figure?—Yes. That is of course an estimate and contains a certain element of doubt, because as the Comptroller and Auditor General points out it is based on the assumption that we shall be able to get 15,000,000 tons a year of open-cast coal. If we do not get production on that scale 7s. 6d. will not be a very sound figure. It depends partly on that. It depends also partly on several other factors but it was an estimate that was made of what might be possible in the way of reducing the loss on this open-cast coal.

3496. I see that the estimated figure is approximately double your present rate of output, despite the fact that you have worked all your surface seams?—The figure is not quite double. We are producing at a rate of about 10 million tons a year, to-day.

3497. In the year 1945-46 you produced just under 8 million tons. How deeply are you proposing to go to get this 45 million tons aggregate in three years?—There are various estimates made by engineers of what they think it would be useful to go down to. The modern machines go down pretty deep—to about 100 feet.

3498. It pays you to strip the surface of 100 feet deep rather than sink?—We have had American experts over to advise on the strip-mining methods which we have followed. They do a lot of this strip mining in America and they use these very big excavators.

3499. You are going as deep as 100 feet?—Yes, I believe it goes down as deep as 100 feet.

Mr. Benson.] Has any Member of the Committee any questions on paragraph 26?

Mr. Haworth.

3500. We are losing money on coal by open-cast methods. I presume we have to sell it at a price competitive with, or possibly cheaper than, deep mining coal, have we?—We sell it at prices corresponding, according to quality and grade, to the prices fetched by deep mined coal. That is why the loss occurs.

3501. Deep mined coal is supposed to be making a profit for the undertakers, is it not?—I am wondering, arising from Mr. Benson's question, about the 100 feet deep coal obtained by open-cast methods on which you are going to lose 7s. 6d. a ton. What is the advantage of obtaining it in that way as against the deep mined method?—There are perhaps three things which could be said. One is that this coal could not, in fact, be worked by deep mined methods. Secondly, of course, you are not employing miners to produce this coal. You are employing excavator drivers, tractor drivers, and the like. It is an addition to the labour force engaged on producing coal in the country. Thirdly, this scheme was started because we were not getting sufficient deep mined coal. It was deliberately undertaken, though it was known that it would involve a loss, to provide the additional coal which the country required.

Mr. *Horace Holmes*.

3502. There is no comparison in quality between deep mined coal and open-cast coal?—I would not like to say that that was universally true. There is some open-cast coal which is of a very good quality. The Wentworth site, for example, is very good quality coal, I believe. But it is varied.

Mr. *Benson*.

3503. The deeper you go the better the quality of coal, on the average?—I would not like to say whether that is so or not.

Mr. *Horace Holmes*.] I am speaking with about 35 years' experience as a miner, so I know the quality.

Mr. *Cuthbert*.

3504. One question I was going to ask has been answered up to a point, but I still have not got one point clear yet. You have a loss on open-cast coal, and you have to sell it at the price of deep mined coal. Is there any reason why you should operate at 7s. 6d. a ton loss, because that is a further cost to the taxpayer, is it not?—I can only say, in answer to that, that it was decided as a matter of policy that it was necessary to get this open-cast coal worked as an addition to the country's supply, so to speak, even if it did mean that it involved the taxpayer in a loss. I should perhaps explain that the loss in the past has appeared larger than it really is because it is calculated on a basis by which the rather expensive machinery is written off in three years. That was because it was not contemplated that open-cast working would go on for more than three years, whereas the life of the machine might be considerably more, so there is an element there inflating the apparent loss.

3505. In other words, if you had spread the cost of this machinery over a longer period of, say, 10 years, you would not

show this loss?—You would show a loss, but not such a large loss.

3506. You would show a loss not as large as this. Is it not a fact that the cost of excavating this coal in the open cast way on the surface is really greater than deep mining costs? It must be if we are showing a loss like this and selling it at the same price as the deep mined coal?—Of course, a considerable amount of the expenses arise in connection with boring and prospecting. The actual production costs incurred by the contractors amount to about 29s. a ton. As to the other costs which we are incurring, there are heavy costs for plant, which we are buying and hiring or selling to the contractors. In the past there has been a large expenditure on plant which has added to the items of cost. I suppose it is true to say that it is more expensive, anyhow, than the average deep mined coal.

3507. Yes. That is what I am getting at. May I ask this question, Mr. Chairman? Is this estimate of 45 million tons part and parcel of the 200 million tons that we are supposed to be aiming at this year?—The 200 million tons target including 10 million tons of opencast.

Mr. *Thurtle*.

3508. May I ask one further question? I take it, from the point of view of the taxpayer, even if this open cast coal is produced at a loss it is more economical than buying coal from America at about £6 a ton?—Yes. It might be £8 a ton.

Mr. *Haworth*.

3509. May I put another point? Could you tell us what is the cost per ton of the replacement? I understand where we mine open cast coal we have to put back the land in the condition in which it was before we entered on it. Have you any figure of the cost for replacement?—It is probably about 1s. a ton.

3510. Only that amount?—Yes.

Mr. *Benson*.

3511. For replacement?—The replacement of the surface soil. All the contracts we let provide for the replacement of the site. The top soil is taken off before they start, and after the site has been worked out it is restored, as far as possible; that is to say, it is levelled and the top soil is put back. I am reminded that the compensation for any damage done is the figure I gave, of about 1s. a ton. That is after replacement has taken place.

Mr. *Haworth*.

3512. Have you a figure for replacement itself? I should imagine that it is quite a considerable figure, and that would have a good deal to do with the loss shown, I should have thought.—I could not give a

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[Continued.]

figure at once, because the figure for restoring the land is included in the production costs I gave, of 29s. a ton. When we let our contracts the contracts provide that the contractor shall do the necessary replacement. It will, of course, vary according to the different sites. I could, if the Committee wishes, get out some estimate.

Mr. Benson.

3513. Could Mr. Harby tell us: did we not have detailed figures of this a year or two ago before the Committee?—(Mr. Harby.) Yes, in 1945.*

3514. Do you happen to have those figures?—(Sir Donald Fergusson.) That was a different type of contract from the present contract. It might give some indication.

Mr. Haworth.] If it were possible it would be advisable to get the figure.

Mr. Benson.

3515. We had it on the old contract in considerable detail. I do not know whether, in view of the fact that you now give a price per ton of coal produced, you can break it down as you did?—No. We could not break it down. That is the difficulty. I could not give you a definite figure on this particular point because we are not able to break down, today, the various items that go into the tonnage rates of the contract.

3516. The best you can give us are the figures we have already had?—Probably, or perhaps a rough estimate.

Mr. Haworth.

3517. If we could have even an estimate I would like to have it.—It will be an indication.

Mr. Benson.

3518. There are the 1945 figures in the Minutes of the Public Accounts Committee. If Sir Donald can give us anything later than that perhaps he might submit a memorandum?—Very good.†

Mr. Cuthbert.

3519. The 1s. a ton for replacement is included in this 7s. 6d. estimate of the loss?—Yes.

3520. It is included. It is not over and above the 7s. 6d.?—No. It is included.

Mr. Benson.

3521. Are there any further questions on paragraphs 25 and 26 of the report of the Comptroller and Auditor General? We pass to paragraph 27. I think you had some trouble with regard to the checking of your stores?—Yes. When we received most of these stores they were lend-lease and they arrived in this country without any documentation at all; so to speak, the stuff just arrived without any indication as to what

* Appendix 4 to Evidence 1945.

† Paper circulated to Members; not printed.

it was and there were no particulars about it. There were the further complications of losses at sea during the war, before it arrived, and so, broadly speaking, one may say that we never received a full list, so it was very difficult to identify what we received originally. Many of these stores are very complicated. For example, one main store for plant spares has some 30,000 different types of spare parts. When my Department became responsible in 1945 we did begin to take steps to regularise the position and the steps we have taken are that we have issued instructions to the responsible officers to see that the existing stock records are reviewed and altered if necessary, and where none existed they were brought into being. We therefore got a record and steps to evaluate stocks and to simplify classification were initiated and are proceeding now. A continuous stock-taking has been instituted, and we have made provision for independent stock checks by Regional Cost Accountants, who are officers of our Accountant General's Department in the Ministry, and by visiting officers from headquarters of the Ministry. I think we can say that we have now got adequate records of all major items of plant, machinery and equipment.

3522. You are satisfied with your present record?—We are satisfied with the present record in this sense, that we now have a record of what we have got. What we never shall have is a complete record of what originally was sent under the lend-lease agreements because it was not documented when it arrived.

Mr. Benson.] Are there any questions on paragraph 27?

Mr. Thurtle.

3523. On that one point, although you have not a complete record of what was sent, I imagine that when you took it in you made a record of what you received?—If it could be exactly identified, but a great deal of the machinery and spare parts were not easily identifiable. The staff concerned was not familiar with a lot of this machinery when it came in and they could not easily identify it.

Mr. Benson.

3524. I hope you did not ship it abroad as machine guns?—I hope not.

Mr. Horace Holmes.

3525. When you talk of stores, there are included not only the stores at open-cast sites but the dumps that have been created where all the coal is placed for screening, and elevation, and the sidings. Does all that come into the Stores Department? It has vast ramifications?—Yes.

Mr. Benson.

3526. Are there any further questions on paragraph 27? We pass to paragraph 28: "Petroleum Pipelines in the United Kingdom". I see you have put the major

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[Continued.]

portion of your pipelines now on care and maintenance. What type of oil was moved through the pipelines during wartime?—How much oil?

3527. What type of oil? Was it heavy oil or petrol?—It was mainly petrol, and aviation spirit.

3528. Has there been a decline in the consumption of petrol in the country?—A decline in consumption since when?

3529. Since the end of the war, since you were using your pipelines?—I assume there has been a very heavy decline in consumption because of the enormous amount that was used by the Services during the war.

3530. I understand that oil is being moved by road, and in answer to a Question in the House on May 5th it was stated that in one week 73 special trains were run involving $3\frac{1}{2}$ million ton-miles of petrol moved. Is it more economical to use transport than it is to use your pipelines?—I think it is more economical. Pipelines are not an economical way of moving petrol. Moreover, of course these particular pipelines were designed largely for strategic purposes, D-Day operations, or to serve airfields, and therefore they do not necessarily follow the lines on which, for commercial purposes, you would want to move petrol, or not all of them do.

3531. What is the relative cost of using the pipelines as compared with using transport?—I am afraid I have not that comparison. I should have to try to get an estimate.

3532. In deciding to put your pipelines on care and maintenance, have you taken into consideration the very heavy pressure on rail transport at the moment?—A committee of the Defence Services went into the whole of this matter with the Petroleum Board and came to the conclusion that, while the pipelines would not be an economic method (this was in 1946) of moving oil generally, it was necessary to maintain them for strategic purposes, for defence purposes. I have not the details, I am afraid, of the relative costs, or of the considerations which led to that decision being taken at the time, on the economic side.

3533. Did they go into this matter with the Ministry of Transport, who now have to bear the brunt of moving petrol?—I should think the Ministry of Transport were represented on the committee which considered this matter, but I would not like to say for certain.

3534. Could you let us have a memorandum on this point of the relative costs and the general situation?—Yes.*

3535. Does the £15,000 estimate for keeping the pipelines under care and maintenance include anything for depreciation

* See Appendix 13.

of the pipelines?—I think it takes into account the fact that we shall have to do certain replacement of pipes that get corroded, but I do not think that it allows for depreciation generally.

Mr. Benson.] Has any Member of the Committee any questions on paragraph 28?

Mr. Thurtle.

3536. I have one question on the pipelines. I take it there is no secrecy reason or any other reason why we should not know the nature of this pipeline system?—Is it from the points at which the petrol is received to the main points of consumption that these pipelines run?—I could give the Committee the places from which the pipelines went. There was a pipeline from Avonmouth to the Thames, at Walton. There was a pipeline from Aldermaston to Fawley. There was one from the Mersey to Avonmouth.

3537. I do not want you to tell me the whole system. I just wanted to know that the pipelines run from the point at which the oil is received to the point at which it is going to be consumed?—They do not necessarily do so, because, to take the pipeline from Avonmouth to the Thames, for example, I imagine in peace time you would not want to send oil overland at all on that route. It would go by sea. I am not going to express a definite opinion, but that is an illustration of what I meant when I said just now that they were not laid with reference to economic needs at all.

Mr. Thurtle.] It is on that point that you are going to let us have a memorandum?

Mr. Benson.

3538. There is a map of these pipelines. Is it secret?—It was during the war. It is not now I think. (Mr. Harby.) It has been published in the "Petroleum Times".

3539. Perhaps you would include copies of the map with your memorandum if they are available?—(Sir Donald Fergusson.) Yes.*

Mr. Cuthbert.] We are getting a memorandum on this. Perhaps it will give some data on which to base a view as to whether the pipelines might be used commercially in order to save other transport.

Mr. Haworth.] When we get the memorandum shall we have an opportunity of examining Sir Donald again?

Mr. Benson.

3540. No, not until next year—if you can remember it. There is one further point, Sir Donald. I understand that pipes deteriorate very considerably when not in use. Have you taken that into consideration?—Yes. The whole of this matter has

* One copy made available for inspection by Members.

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[Continued.]

been dealt with by the people who are the best experts in the world on these matters, about pipes for petrol, because of course a pipe is used from refineries to the sea or from oilfields to the sea in foreign countries, and the same men who are familiar with those problems have been dealing with the matter. The two things we have chiefly to do here are to keep the pumps free from water, and we shall have to replace certain pipes if they get corroded; but I did not know that they deteriorated very rapidly.

3541. Are there any further questions on paragraph 28? Will Members turn to the Account, which is on pages 14 and 15. Subhead B in the details of expenditure is: "Expenditure in connection with the maintenance of supplies of coal", a figure of £5½ million. Will you tell me the largest item there?—Those expenses were in connection with Government coal reserves which were maintained during the war, transport subsidies which were paid because the coal had to be moved on different routes from those on which it would normally have been moved, and payments to merchants to stock up in the summer for winter needs. Then there is the gas oil subsidy scheme, which is the next item, which accounts for £2,600,000 out of that figure of £5½ million. That was the scheme by which the gas industry was encouraged to use oil instead of coal for the production of gas.

3542. Are you still encouraging them to use oil?—Until quite recently we have been, but quite recently the shortage of coke resulting from the use of oil instead of the gas coal has led us to think that it may be desirable to reduce somewhat the amount of water gas production.

3543. Subhead F "Purchases of oil" and Subhead G "Expenses in connection with the supply and storage of oil" are remanets are they not? They are just winding up?—Yes, they are just winding up.

3544. Subhead I is: "Fuel control—Grants to local authorities and other expenses". I take it that you are still continuing that work?—Yes.

3545. Are the Grants to local authorities for fuel control likely to be on a permanent basis, or to continue for some period?—They will have to be continued so long as there is a shortage of coal, for domestic purposes in particular. They are the expenses connected with the local Fuel Overseers.

3546. I take it the item will appear in the Estimates?—Yes.

3547. On page 15 in the notes, No. 4 gives the loans outstanding at the 31st March, 1946, on the Coal Charges Account, to gas undertakings and colliery undertakings. What prospects are there of repayment of the loans made to the gas undertakings and the colliery undertakings?—I think there is very little chance of repayment of those loans which are, perhaps, rather similar to loans to local authorities in respect of similar war time losses on municipal undertakings, which, I think, have been written off by the Ministry of Health. The losses were incurred in the same sorts of circumstances, owing to special war conditions.

Mr. Benson.] Has any Member of the Committee any questions on pages 14 and 15?

TREASURY MINUTE ON PARAGRAPHS 36 AND 37 OF THE FOURTH REPORT OF THE COMMITTEE OF PUBLIC ACCOUNTS, 1945-46.

CIVIL APPROPRIATION ACCOUNTS (WAR SERVICES), 1945-46.

CLASS X.

VOTE 5.

MINISTRY OF FUEL AND POWER

Mr. Benson.

3548. We will take the Treasury Minute together with paragraph 29 of the report of the Comptroller and Auditor General on the Civil Appropriation Accounts (War Services). This deals with the Coal Charges Account. In the second sub-paragraph the Comptroller and Auditor General states. "The levy from which the Coal Charges Account derives its revenue was raised from 12s. to 15s. a ton on the 1st May, 1945, the increase being designed to wipe out the indebtedness of the Account by the summer of 1946 if the level of coal production were maintained." So far it has succeeded in making only a net repayment of £1 million, despite the increase of 3s. a ton. Can you

explain why that is?—(Sir Donald Fergusson.) After the levy was increased from 12s. to 15s. we expected that there would be a rapid diminution of the debt. At that date, in January, 1946, we were beginning to pay off the debt at the rate of £1 million a month. But at that stage the loss on the timber was reported to us, which is referred to in the report of the Comptroller and Auditor General, and we have had to pay off £13½ million since then to the Ministry of Supply in respect of the losses on timber, so that the increase in the levy from 12s. to 15s. has been largely absorbed since January, 1946, in making good the losses on the timber, in paying the bill we had from the Ministry of Supply for the losses on the timber.

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[Continued.]

3549. The decision of the Treasury referred to in the third sub-paragraph, that the debt shall no longer be borne by the National Coal Board is in fact the granting of a retrospective subsidy on coal produced?—Yes, I think that is what it amounts to. It really amounts to a subsidy of about 8d. a ton on 780 million tons of coal produced during the war under war conditions, since the Account was formed. The reason for the loss on the Account, or the debt, was that the price of coal was not advanced during the war as quickly as the extra costs arose. There was a delay always in putting up the price of coal to meet extra costs, for example, wages awards, and that delay was due to the Government policy of keeping the cost of living figure at a particular level. In the case of food, of course, there was a food subsidy. In the case of coal there was not, but there was—

3550. A loss?—There was a loss and, as you say, the Treasury action amounted, in fact, to giving a subsidy which does amount to 8d. a ton on the 780 million tons of coal produced.

Mr. Benson.

3551. Are there any questions on paragraph 29? We pass to paragraph 30, on which I have no questions. Has any Member of the Committee any questions on that paragraph? We pass to paragraph 31. This is one of the explanations as to why you did not reduce your deficit?—Yes.

3552. You estimated that timber would cost half a million pounds a year, and in the period of two years and nine months, up to December, 1946, during which, on that estimate, it ought to have cost you about £1,400,000, it actually cost you £12 million. How came it that you made such a wild miss in your estimate? Did you obtain the necessary information from anybody?—The question of the prices and costs of timber was a matter for the Ministry of Supply. When we discussed with them the position in March, 1944, the situation then was that there was a small credit balance on the timber levy account. Consequently it appeared that a provision of something like £500,000 per annum (which would mean ½d. to 1d. a ton on coal) would be sufficient and, as the Comptroller and Auditor General says in his report, that would have some correspondence to the timber levy which had been superseded. That was ½d. a ton. That was superseded under the new arrangement under which the thing was going to be charged to the Coal Charges Account, and it seems, I think, not unfair to say that as the old timber fund was in credit at the time, it looked as if it was reasonable to make the same sort of provision as had been made before. That was the origin of that £500,000. We were, of course, in touch up to March, 1944, and after that we were

fairly frequently in touch by telephone with the Ministry of Supply, but I think they were as uncertain as we were as to what the real position of the timber account was. They were, I think, very much in arrears with the accounting work on the Account, as indeed many other Services were during the war, as you know, because other more urgent matters had to be attended to. It was only in January, 1946, that we got any indication that there was any substantial difference between what we had been providing for and what the actual loss was going to be.

3553. Surely with so substantial an increase in price it ought to have struck somebody, either you or the Ministry of Supply, that your estimates were going badly astray?—I think the Ministry of Supply just were very much in arrears with their accounts on this matter. I do not think we had anything to guide us. We knew that the old timber levy was about ½d. a ton and that when it was transferred to the Coal Charges Account there was a small credit balance. We increased the provision but we had no indication of the magnitude of the loss until, as I say, January, 1946.

3554. Now the position is that with the Coal Board in charge, you have increased prices, I take it there will be no loss to the Exchequer on account of timber?—That is right. We paid off from the Coal Charges Account £13½ million to the Ministry of Supply, and on the 1st January, 1947, or the beginning of January, 1947, just when the Coal Board took over, prices were increased to an economic basis, and there is now no question of any further loss being borne by the Exchequer.

3555. Are there any questions on paragraph 31? We pass to paragraph 32, which deals with the Special Purposes Section of the Coal Charges Account. I see that certain interest here was waived. Were the Treasury consulted about that?—I do not think they were. About the rate of interest, do you mean?

3556. The Comptroller and Auditor General states: "In order that demands for this equipment should continue, despite the further scheme of financial assistance operating from 1st August, 1945, and referred to in paragraph 33 below, the Minister decided to waive rental charges (which were normally at the rate of 15 per cent. per annum) in respect of new projects, and of equipment delivered under existing projects, after that date"?—We regarded these rentals for machinery put into the pits after the beginning of August, 1945, as on a par with, and really the same sort of thing as, the capital outlay referred to in the subsequent paragraph, which was provided for in the Coal Industry Nationalisation Act. It would indeed have been very difficult to separate them. In August, 1945, when it was desired that the mines

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[Continued.]

should carry on with programmes of mechanisation and the introduction of machinery and all the other developments that normally occur in the pits without any break after the announcement of nationalisation it would, I think, have been very difficult to have distinguished between the two types of development, and we applied the general principle for the capital outlay scheme, where there would be no rentals, in the case of the introduction of the machinery.

3557. My question was whether Treasury consent had been obtained to this waiver before the decision was taken?—I do not think Treasury consent was sought, though the Treasury were aware of the capital outlay scheme which is referred to in paragraph 33. (Sir *Eric Bamford*.) The Treasury were not informed beforehand, though we did not dissent from the decision when we were so informed. It seemed to us to follow from the capital outlay scheme.

3558. When decisions to make waivers of this kind are taken, surely the Treasury expects to be informed before the matter is finally announced, does it not?—I think we should have liked to be informed beforehand, although, as I say, we should not have objected to the decision.

3559. How much was the amount waived without Treasury consent?—(Sir *Donald Fergusson*.) It would be difficult, I think, to estimate, because this particular form of development, that is to say the introduction of machinery into the pits, it would be impossible to disentangle from the general development work referred to in paragraph 33, which had the capital outlay assistance.

3560. I think we had better take paragraphs 32, 33 and 34 together. In the

last sentence of paragraph 33 the Comptroller and Auditor General states: "The advances of £987,340 to cover these reimbursements, together with a further £5,856,634 advanced after 31st March, 1946, have since been repaid to the account, without interest, by issues from the Consolidated Fund". Do those items become part and parcel of the Capital Account of the Coal Board?—In so far as they come under section 18 of the Coal Industry Nationalisation Act they do, yes.

3561. There are further assets referred to in paragraph 34, which apparently cost somewhere in the neighbourhood of £2½ million. Has the value for vesting in the National Coal Board been assigned yet?—No.

3562. When will it be?—Discussions on this and other matters are pending now with the National Coal Board.

3563. Will the Special Purposes Section as a whole balance itself, or show a profit or a loss? It was intended to balance.—It is not likely to balance now.

3564. Why?—We had a certain amount of experimental plant of one kind and another which we got during the war for various things, which the National Coal Board may not wish to buy at the price which we paid for it.

Mr. *Benson*.] Has any Member of the Committee any questions on paragraphs 32, 33 or 34? The Coal Charges Account is on pages 16 to 19. I have no questions on that Account. Has any Member any questions? On pages 18 to 20 there is the Miners' Welfare Fund Account. Has any Member any questions on that Account? On page 20 is the Miners' Welfare General Endowment Fund Account. I have no questions on that Account. May I take it that the Account is approved? (Agreed.)

VOTE OF CREDIT APPROPRIATION ACCOUNT, 1945-46.
MINISTRY OF FUEL AND POWER.

(On this Account no questions were asked.)

Mr. *Benson*.] That concludes your examination, Sir Donald, thank you very much.
Sir Donald Fergusson withdrew.

TREASURY MINUTE ON PARAGRAPHS 6-8 OF THE FOURTH REPORT OF THE
COMMITTEE OF PUBLIC ACCOUNTS, 1945-46.

Sir ROBERT FRASER, K.B.E., C.B., called in and examined.

Mr. *Benson*.

3565. Will members turn to the Treasury Minute on paragraphs 6-8 of the Fourth Report of the Committee of Public Accounts, 1945-46. This is dealing with payments to local authorities for war services. I have only one question on the Treasury Minute. What progress has been made in clearing claims now?—(Sir *Robert Fraser*.) A certain amount of progress; not possibly perfect progress, but the overall

position is better than it was a year ago. At the 31st March, 1946, the position in regard to advances to the end of the previous financial year was that 1,221 were outstanding. The similar position at 31st March, 1947 as regards the numbers to the 31st March, 1946 was that 855 were outstanding. It is true that the money outstanding was not less but more than before, but I think the proper criterion is the number of claims rather than the amount of

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[Continued.]

money, because the amount of money had been very greatly added to in that particular year by a very big activity in the repair of flying bomb and rocket damage in the London boroughs. I cannot say that we are satisfied with the position, but it is, I think, better than it was.

3566. You feel that you are going ahead?—Yes.

Mr. Benson.] As a matter of fact, we have already been through this Treasury Minute with the Ministry of Health, who are mainly concerned with it. I have no further questions to ask. Has any Member any questions on the Treasury Minute on paragraphs 6-8 of our Fourth Report of last year?

CIVIL APPROPRIATION ACCOUNTS (WAR SERVICES), 1945-46.

CLASS X.

VOTE 14.

WAR DAMAGE COMMISSION.

Mr. Benson.

3567. Will members turn to the Civil Appropriation Accounts (War Services) 1945-46, to paragraph 79 of the Report of the Comptroller and Auditor General. This is dealing with the reclassification of old dwelling houses. Could you tell us what has been the effect of the reclassification of old dwelling houses?—(Sir Robert Fraser.) The effect is that a considerable number of houses that originally were classified as not a total loss—that is to say cases in which the Commission would pay a cost of works payment—have been reclassified as total losses and therefore cases in which we will pay a value payment.

3568. That, I presume, leads to a considerable saving?—Yes, it results in less expenditure to the Commission. The value payment is, as the Committee are aware, the capital depreciation as at March, 1939, plus a 45 per cent. increase, which was authorised by the House of Commons.

3569. Even with the 45 per cent. increase you still save money on the reclassification?—Yes: The value payment plus the 45 per cent. increase is not as much as a cost of works payment which is, of course, at present prices.

3579. Have you anything to say on this, Mr. Harby?—(Mr. Harby.) No. We are satisfied that the Commission have been aiming to do some reclassification, which should be very helpful.

Mr. Benson.] Are there any questions on paragraph 79?

Mr. Thrutle.

3571. I do not know whether it is a proper question to ask, but I wondered if you are going to be in a position to carry out the promise of the Chancellor of the Exchequer and meet these claims by the end of 1947?—(Sir Robert Fraser.) We certainly will meet as many claims as are ready to be met. The position does not entirely rest with us. There are a good many cases where, for instance, a value payment has to be divided between different owners of proprietary interests in a property. That has to be agreed between

the owners. We have nothing whatever to do with it. If the owners cannot agree then they have to appeal to the Valuation Appeals Tribunal. Of course, till they have settled their shares we cannot pay. In so far as the cases are settled we certainly hope to pay before the end of this year, and we hope that a very substantial proportion will be cleared. We shall not be able to pay the whole lot in this calendar year. Whether we shall be able to pay the whole lot in the financial year depends on circumstances largely out of our control.

3572. You are quite confident that you can pay all the agreed claims?—Yes.

Mr. Benson.

3573. What percentage of actual valuation of damage has been agreed?—A very large proportion has been agreed. We have issued determinations in about 135,000 cases out of about 150,000. We cannot say that all those have been agreed because very often when we think that a case is agreed nevertheless at the last moment the parties exercise their right of appeal to the Valuation Appeals Tribunal which lies for 60 days and of course can be extended with the permission of the President if he thinks that there is a valid reason. But a very large proportion have been agreed and very few go to appeal, and I am glad to say that on the whole the results of the appeals show that the Commission and their staff and the District Valuers on their behalf have done the cases very fairly.

Mr. Benson.] Are there any further questions on paragraph 79?

Lieut.-Colonel Alan Dower.

3574. My question really is closely connected with the particular paragraph but probably does not quite strictly arise out of it. The activities of the Ministry of Health bear a direct relationship to your Department, the War Damage Commission?—Yes. Very much so because as the licensing policy and the application of it varies so the amount we pay varies.

3575. Am I right in saying that at one time the general public wanted a cost of works payment and not a value payment

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[Continued.]

but now in many cases they want a value payment and not a cost of works payment?—I have not heard that. I have a very large postbag of correspondence, some of it from Members of Parliament, and practically everyone that raises this question of reclassification says: "Please may we have a cost of works payment and not a value payment?" I do not think I recall any in which people are saying: "Please may I have a value payment and not a cost of works payment."

3576. I can bring several to your notice. But this is the point I am trying to make. It is not in any way criticising the Commission. When a long period of delay in being permitted to carry out a cost of works job is likely, the person who has been awarded the cost of works payment is in a very unfortunate position, is he not?—It may be that in the future the balance will be tipped in favour of the value payment although personally I myself do not see it happening for some time. The point that we have to answer is that a person says: "I wish I could have a cost of works because I am not interested in the money and, anyhow, it is not enough if it is only a value payment. What I want is enough money to rebuild this property." But there is a provision under the Act, Section 13 of the Act, whereby the Commission has power to change a cost of works into a value payment at the request of the owners. The Commission have power to consider that and if they think that the view of the owner or the owner whose interest ought to prevail is right they have power to convert the cost of works into a value payment on request.

3577. Two definite things have occurred to me. One is that people who were awarded cost of works payments are finding that they cannot carry out the work over a very long period and; secondly, the value payments have been increased by 45 per cent. which is a very substantial increase.—Yes. It is a very interesting point that you have raised and I may say that at the next meeting of the Commission they are going to consider their policy under Section 13 which is the Section which allows them to convert on request.

3578. I was not stating the case. I was only drawing your attention to the actual effect of the various legislation which has been passed by the House and the practice of the Ministry of Health. The question I wanted to put to you was this. A large number of houses which attracted a cost of works payment are, owing to the delay of the Ministry of Health in granting a licence, deteriorating very considerably. I am wondering what view the Commission will take from the point of view of saving wastage because if thousands of houses start dry rot, for example, as they are, the loss will be a very considerable one. I was wondering what the Commission were

doing in the way of drawing the attention of the Ministry of Health, which is quite rightly focussed upon housing the people, to saving the taxpayers' money. An enormous amount of damage is being done as the result of delay in repairing repairable houses at the present time, which, by the time the licences are granted, will in fact be ruins?—The Commission has always, to the best of its power, pressed the desirability of giving preference to the repair and rebuilding of war damaged houses which attract a cost of works payment. We have found the licensing authorities on the whole sympathetic to that point of view, but if, by any mischance, or by reasons of high policy, it is impossible for those repairs to be done then, if the owner can prove that he did his best to protect the property but failed, we do not normally penalise him for not taking steps.

3579. I am sure you do not.—I quite agree that from the point of view of saving public funds it would be desirable that as much of this repair should be done as possible and that if it is never going to be done we should be told and the property should be pulled down and finished with.

3580. Exactly. I have had brought to my attention many cases where many thousands of pounds have been spent on repairs which are really entirely wasted, which seems regrettable. My next question is this. Again I am afraid it is criticising the Ministry of Health, who may have a very good answer to it. I expect these are your fights with the Ministry as much as anything. The Ministry will not let the work be completed; in other words they will allow only the war damage repairs to be done bit by bit?—I am afraid that is so.

[Lt.-Col. Alan Dower.] That leads to great wastage because the claimant is able still to write to the War Damage Commission and say "Our claims are not satisfied; we have been allowed only to prop up three of the walls and not the fourth." or "We have been allowed only to distemper the walls and not to paint them," or one could give a thousand and one other instances. Is it not possible in some way to stop this appalling wastage? I am thinking of one thing alone. Take the replacement of . . .

Mr. Benson.

3581. I do not think we can pursue this very far because it is strictly a matter for the Ministry of Health and not for Sir Robert Fraser?—It is licensing policy really. There is no doubt that the exigencies of the licensing policy, without criticising that policy at all, have made the repair of war damage more expensive, because it is more expensive to do things in bits than to do them all at once. But I do not think anybody (perhaps I am not in order in saying anything about it at all)

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[Continued.]

could say it was unreasonable that if your war damage consists of the destruction of some luxury you should wait for that. One of the features of the rebuilding of war damaged property is that garages are not allowed to be done; they have to wait. It obviously is going to cost more in the long run when the garage is done than if it is done now, but it is, I should have thought, a reasonable exercise of licensing policy to make a garage wait while somebody is waiting for a roof over his head.

3582. We cannot pursue it because Sir Robert Fraser is not responsible for the repair of the damage. He is responsible only for the financial side, for finding the money. He cannot answer for the Ministry of Health?—We have to explain to people that we are really a paying department. We pay when the work is done and we have not the responsibility for seeing that it is done. Naturally we do our best and we have some influence on it.

Mr. Benson.] Are there any further questions on paragraph 79?

Mr. Thurle.

3583. May I put this one point by way of trying to have a balanced picture? Is it not a fact that, while landlords do suffer to some extent by the delay in licences being issued for the repair of their properties, owing now to the great pressure for housing accommodation, especially in the East end of London, landlords' properties are being put into a habitable condition at the expense of the War Damage Commission although they were in such a condition even before the war that no money would have been justified in being spent upon them?—That arises on another paragraph in the report, I think. It is a question how far, in the repair of war damage, something is being repaired that is not war damage.

Mr. Benson.

3584. That arises on paragraph 83. We pass now to paragraph 80. What is the total sum for which you are liable for value payments?—About £170 million, including the supplement of 45 per cent. and the interest.

3585. Could you give us any idea of the difference between the original valuations as set out by the Valuation Department and the actual finally-agreed figures between the Department and the owner?—In some cases the thing is agreed on the original figure of the Valuation Office.

3586. I meant the global sum—how far negotiations have increased the total value?—I should say about 18 per cent. on the average.

3587. It is a rather large discrepancy?—I should not call it a discrepancy. It was the deliberate policy of the Commission that the first estimate sent out to the other side by the Commission and provided by the District Valuers should be purely provisional, and should be the best that the Valuation Office could produce

without getting in contact with the other side. Of course, the District Valuer has to value the thing long after it has ceased to exist and throw his mind back to March 1939. It is not a very easy thing to do. He does not know what was there. He can only use the best of his knowledge and belief as to what was there. He cannot know of any improvements, and so on, which were put in by the claimant.

Mr. Benson.] Has any Member of the Committee any questions on paragraph 80?

Lieut.-Colonel Alan Dower.

3588. Again, I may be slightly out of Order, but no doubt I shall be brought to order by our efficient Chairman. I want to ask a question about the enormous waste of money. Is it possible, Sir Robert, to save the taxpayers' money spent in carrying out repairs, under value payments, to properties which, before final completion, are compulsorily acquired under one Act or another? I know of many instances where the War Damage Commission have paid large sums of money for war damage repairs to be carried out, on value payments and so on, when in fact the properties are going to be acquired compulsorily later on?—I do not see how I can cope with that one.

3589. It is a waste of money, is it not?—We are not the Ministry of Town and Country Planning. It has just been explained that we are not the Ministry of Health.

Mr. Benson.] I am not sure that he is not in an analogous position to the Gas Company cutting up the road which the local council have just paved.

Lieut.-Colonel Alan Dower.

3590. There is an enormous amount of money wasted and the taxpayer has to pay for it.—To put yourself in the position of the claimant, who is the man we have to worry about, who has sustained bomb damage, it would be tough if he had no windows and had to have a draught through his house for five years because at the end of five years his house was going to be compulsorily acquired.

3591. The cases I am mentioning are where entire buildings have been nearly completed and then the site is to be acquired, and all the work and the war damage payments have been thrown down the drain. I can give many instances of that in London.—I should have hoped that in that case somebody would have stopped the acquisition.

Mr. Benson.

3592. Are there any further questions on paragraph 80 or 81? Passing to paragraph 82, that deals with local authorities' contracts for repair of war damage. Have you now brought to an end cost-plus contracts for the repair of houses?—So far as local authority work is concerned we have, but I am afraid we have not brought it to an

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[Continued.]

end completely by any means. We have made very great progress in bringing it to an end, and the proportion of jobs which are now done on fixed prices is very much greater than it was and it is continuing to grow. But I should mislead the Committee if I were to suggest that we should ever bring it completely to an end because a lot of these jobs cannot really be done on any other basis.

Mr. Benson.] Are there any questions on paragraph 82?

Lieut.-Colonel Alan Dower.

3593. What Mr. Benson has just said is very important. The bringing of the cost-plus system to an end will unquestionably save a great deal of money. I was wondering whether there was no possible other system? I do not know of one.—We do adopt other systems wherever possible, and I think we can claim that the War Damage Commission has been a pioneer in getting rid of cost-plus, but so long as it exists in very large other directions in national building life we cannot completely get rid of it. After all we have to follow the best custom. We cannot create building custom. The normal way of getting a small job done is usually cost-plus, it is not?

3594. A licence is granted for the repair of a job. There is a system known as supplementary licences which is gone in for on a rather extensive scale. I am sure most of them are reasonable but it really means the Commission have not an adequate check on the work.—No, we can never have a complete check on the work because the number of cases is so enormous that we could not possibly check every case completely. We are paying 8,000 bills a week. In all the larger cases we do hope to be consulted beforehand. We cannot be in the small cases because it would mean a complete hold up. Although cost-plus is very objectionable there are a number of cases where you cannot really get a decent, honest fixed price. A fixed price is produced and it looks so bad to our people that they say: "I am afraid the only thing for you to do is to cost it", and then you often find it comes out at very much less. If a man has to fix a price he loads it with this, that and the other. Until you get back to real competition the fixed price is sometimes a snare and a delusion.

Mr. Benson.

3595. As a matter of fact it is almost the general practice for repairs to be done on a cost-plus system?—It used to be called time and lime.

3596. Yes, time and lime, which is, in effect, cost-plus?—Yes.

3597. Are there any further questions on paragraph 82? We pass to paragraph 83 which deals with dilapidations. To what extent have you succeeded in recovering on dilapidations?—We have not recovered a very great amount on dilapidations, but,

on the other hand, of course, it must be remembered that in a great many cases these dilapidations may be repaired by the local authority in the course of repairing war damage but they do not appear in the accounts at all. There was a case, for instance, to which I might draw the attention of the Committee. I have it noted here. At a meeting of Battersea Council in February, 1946, a Councillor openly alleged (at least the local Press reported him as saying so) that about one-third of the war damage bill of £3 million was in fact repair of dilapidations. Our Liaison Officer made inquiry and found that maintenance work was differentiated, was priced separately, and recovered from owners. The district auditor reported in August, 1946, that during 1944-45 it was not the practice to carry out repairs not attributable to war damage and that in the following year the authorised procedure as to apportionment was followed. He stated that the sums to be paid by the owners are arrived at by mutual agreement and the money is paid before the works are commenced. The point I wanted to draw attention to was that the accounts that we get for Battersea are quite blank on the matter, so the money for the dilapidations is dealt with outside the accounts. Therefore we should not know how much. We merely have the statement from the local authorities supported by the district auditor that dilapidations are not, in fact, charged against us.

3598. Have you taken steps to see that this dilapidation work, which really ought not to fall on you but which, on occasion does, is adequately excluded now?—Yes. We have recently been having discussions with the Ministry of Health on this subject and we are hoping that the thing is now tightened up. But as regards past cases I must admit that there must have been quite a lot of work done in the past which is dilapidations. We did get special Treasury cover during the currency of the special arrangements for the repair of war damage in London, by which we did not look too strictly at this. It is part of the price one pays for having the local authorities on the work and doing it as a mass-production job. It was quite impossible, while the work was being done as a mass-production job, to single out in every case dilapidations from repair of war damage.

3599. I assume even in the best of circumstances it is difficult to decide whether it was a fly-bomb or little Tommy who broke a window?—Very difficult, indeed.

Mr. Benson.] Are there any questions on paragraph 83?

Mr. Thurtle.

3600. I have one question. Perhaps it is unfair to put it to you, Sir Robert. Supposing a local council in its anxiety to get a dwelling house into a habitable condition does differentiate between the

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[Continued.]

dilapidations and war damage and has both done, it is not then in a position to recover from the landlord the cost of the dilapidations?—It should be, now.

3601. I understood they were in that difficulty.—It is quite true that if, without the consent of the landlord they enter on the property and do this, that and the other, unless they have an arrangement with him beforehand I believe it is right that they have no power to recover from him. They must have prior agreement.

Mr. Benson.

3602. What is the total liability that the Treasury have incurred for war damage of all kinds, excluding chattels?—I do not think I can give an absolute answer to that. We have spent under Part I of the Act, which is our concern, about £450 million so far, practically all on cost of works. We have £170 million to go out on value payments. What there is left, I always say, is anybody's guess. We really have not the material to make a very accurate guess, but I should say that the total liability might be something like £900 million.

3603. What has been the income of the fund?—£200 million. It is a question for the Treasury, really, but I think it is about £200 million.

3604. Yes, 10 per cent. on Schedule A?—There has been nothing in the "kitty" for a very long time.

Lieutenant-Colonel Alan Dower.

3605. I have for long wondered why the War Damage Commission, in computing value payments, occasionally bases them upon the income of the building. I should have thought it should be on the bricks and mortar?—The income?

3606. You will find that valuers in London very often base them upon the capital rental value of a particular property. That seems to me to bear no relation whatever to the value payment which surely should be for the actual bricks and mortar?—The value payment is the cash depreciation in the value of the hereditament due to the war damage. There

"Statement under Part I of the War Damage Act, 1943, for the year ended 31st March, 1946."

Mr. Benson.] Next we have a White Paper,

I have no questions on this. Has any Member of the Committee any questions?

Mr. Cuthbert.

3611. Did you tell us, with regard to all these war damage payments that are going out now, that there was nothing in the "kitty"? It has all gone?—(Sir Robert Fraser.) Yes, it has all gone.

3612. So that any subsequent payments (there is, as you stated before, quite a

(The witnesses withdrew.)

Adjourned till Thursday next at 3.45 p.m.

is a long set of rules as to how you calculate it. As to how the valuer does it, in terms of his art, I should hate to be cross-examined. I think it is quite common for the capital value to be taken by finding out what it would be let at and then capitalising it.

3607. That is what they do?—That is quite frequent in the valuation profession on both sides. I think Mr. Benson would bear me out.

3608. Should not the value payment represent an amount of money to replace that particular building?—No. It is not a replacement value. It is what the thing would have sold at—what the interest in the building would have sold at.

3609. That has a relationship to the rental value, very definitely?—I should have thought so. It has a relationship to the rental. The valuer would say: "This building was worth in March, 1939, 25 years purchase" or "20 years purchase".

Mr. Benson.] The value is calculated for a value payment in exactly the same way as the value for probate. It is the value at March, 1939, as between a willing buyer and a willing seller.

Lieut.-Colonel Alan Dower.

3610. That is based not so much upon the value of the bricks and mortar but very largely upon the site value which bears a very big relationship to what the value of the building is in a particular case?—We do not take the site value. We take the value before the damage and the value of the site with the damage not made good, and the difference is the value payment.

Mr. Benson.] Are there any further questions on paragraph 83? We turn to the Account, which is at pages 45 and 46. I have no questions on the Account. Has any Member of the Committee any questions? May I take it that the Account is approved?—(Agreed.)

(Statement under Part I of the War Damage Act, 1943, for the year ended 31st March, 1946.)

"Statement under Part I of the War Damage Act, 1943, for the year ended 31st March, 1946."

large sum to be paid yet) will come direct from the Exchequer?—Yes.

Mr. Benson.] According to Sir Robert's estimate there will be something like £700 million which will have to come from the Exchequer.

Mr. Cuthbert.] That is what I wanted.

Mr. Benson.] Are there any further questions on the White Paper? That concludes our examination. Thank you very much, Sir Robert.

THURSDAY, 12TH JUNE, 1947.

Members present:

Mr. PEAKE in the Chair.

Mr. Benson.
Mr. Cuthbert.
Lieut.-Colonel Hamilton.
Mr. Horace Holmes.

Mr. McAdam.
Sir Frank Sanderson.
Mr. Thurtle.
Mr. Wadsworth.

Sir FRANK TRIBE, K.C.B., K.B.E., Sir ERIC BAMFORD, K.B.E., C.B., C.M.G., and Mr. C. E. I. JONES called in and examined.

CIVIL APPROPRIATION ACCOUNTS, 1945-46.

CLASS VI.

VOTE 1.

BOARD OF TRADE.

(Account of the Council of Industrial Design, 1945-46.)

(Bankruptcy and Companies (Winding-up) Proceedings Account, 1945-46.)

Sir JOHN WOODS, K.C.B., M.V.O., and Mr. S. C. LESLIE called in and examined.

Chairman.

3613. Sir John, you are accompanied by Mr. Leslie, the Director of the Council of Industrial Design?—(Sir John Woods.) He was until recently. He is answering for these Accounts.

3614. Will Members turn to Class VI, Vote 1, in the Civil Appropriation Accounts, 1945-46, pages 263 to 268. Subhead A.4 on page 264 is: "Council of Industrial Design (Grant in Aid)", a figure of £55,000. Subhead A.5 is: "Contributions to Expenses of Design Centres," on which there was no expenditure in the year of account?—That is so.

3615. Was it intended that the Design Centres should be managed and operated by the Council of Industrial Design?—No. The Design Centres are supposed to be, I think, industry bodies. They will be centres really run by the industries concerned, but, of course, with the active help and co-operation of the Council of Industrial Design and the Board of Trade. Those Grants would be made to Design Centres when constituted by the Board of Trade on the advice of the Council. Perhaps Mr. Leslie would like to add to that?—(Mr. Leslie.) No, there is nothing I want to add.

3616. I want to ask the Treasury this question: Mr. Leslie was Accounting Officer for the Council of Industrial Design. Can you tell me, Sir Eric, why there is a separate Accounting Officer? Is it because there is a Grant in Aid?—(Sir Eric Bamford.) I understand Mr. Leslie was not appointed officially as Accounting Officer. (Sir John Woods.) Perhaps I could add to that. I was not myself there when this was decided, but I notice the Treasury letter on the subject notes that Mr. Leslie will be

Accounting Officer for the accounts of the Council. That is different in form from the ordinary Accounting Officer, who is very formally appointed by the Treasury.

3617. I see that the account of the Council of Industrial Design, which has been supplied to us for information (it is not presented to Parliament with the Appropriation Accounts) is signed by Mr. Leslie as Director and Accounting Officer?—Yes. (Sir Eric Bamford.) I take it he was accounting for these accounts, but as it is a Grant in Aid he will be accounting to the Board of Trade, and he would not be formally appointed by the Treasury in the sense that a Permanent Secretary is appointed as Accounting Officer.

3618. Mr. Leslie has not been formally appointed Accounting Officer?—He has not been formally appointed by the Treasury.

3619. Where there are Grants in Aid there are sometimes, are there not, formal appointments of Accounting Officers, as in the case of the museums, for example; and in other cases, like the British Council, there is no formal appointment of an Accounting Officer?—I think in the case of the museums, the Accounting Officer is the same as the Accounting Officer for the Vote.

3620. Is that so, Sir Frank?—(Sir Frank Tribe.) Yes. He is Accounting Officer for the Vote, and the Vote contains a Grant in Aid, but the Grant in Aid is not the sum total of the Vote. For instance, I think salaries are not subject to the Grant in Aid in the case of museums. The Grant in Aid to a museum is generally for the purchase of exhibits.

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Sir JOHN WOODS, K.C.B., M.V.O., and
Mr. S. C. LESLIE.

[Continued.]

3621. I want to ask one or two questions about this Council of Industrial Design. Possibly Mr. Leslie can answer them, Sir John?—(Sir John Woods.) As you wish.

3622. We were told, I think, last year that it was hoped that after the "Britain Can Make It" Exhibition was over some contributions from industry would be obtained for the expenses of the Council. Can you tell me the position, Mr. Leslie?—(Mr. Leslie.) I think the view was taken last year that to go to industry for contributions to the expenses of the Council would interfere with the Council's attempts to persuade industry to set up Design Centres, which calls, of course, for substantial contributions from industry. I do not think it was so much the "Britain Can Make It" Exhibition that was the stop as the setting up of Design Centres. The Council considered this matter not very long ago and reaffirmed its view that it would seriously interfere with the attempt to persuade industry, which is going on quite well, that Design Centres are worth while if, at the same time, an attempt were being made to obtain contributions to the central funds of the Council. There have been discussions with the Board of Trade and the Treasury on the matter and I understand that they concur in the view that for the time being it should be left.

3623. The proposal is, then, to try to get industry to contribute towards the expenses of the Design Centres rather than to the expenses of the Council?—Yes. (Sir John Woods.) Before an attempt is made to try to get them to contribute to the expenses of the Council itself. That is still an open question, but we would prefer it to be deferred for the time being until the Design Centres are more fully-established; and the Treasury are prepared to concur in that view.

3624. I want to ask about the Council of Industrial Design. It has a director and Accounting Officer, or a director and *soi-disant* Accounting Officer. Has it a board of directors? What is its constitution?—(Mr. Leslie.) The Council itself is a body of persons nominated by the President of the Board of Trade with a Government Grant in Aid and an executive staff, of which the director is the head.

3625. Is there a chairman of the board?—The chairman is Sir Thomas Barlow.

3626. Are some of the representatives industrialists?—The great majority are industrialists.

3627. Do they meet from time to time?—They meet regularly, monthly, and there is a good deal of committee work, too. The members of the Council are very active.

3628. So far, no actual designing work has been undertaken?—No. That was not intended to be part of the functions of the Council. The Council was a body to con-

vince industry and the public and the retail trade and the educational authorities in their various spheres of the importance of design and the importance of doing certain things about it.

3629. The Council is more concerned to sell an idea than to carry out design itself?—That is so.

3630. I have one question on the Accounts. This does not concern the Council of Industrial Design, but I had better put the question now. On page 266, Sir John, Subhead G.G. is: "Assistance to the Watch Manufacturing Industry" and, by means of a Supplementary Estimate, £200,000 was granted but apparently none of it was expended in the year of account. Could you explain to the Committee the nature of the assistance given to the watch-making industry, and how it operates?—(Sir John Woods.) I can explain what the intention was at the beginning. The intention was to try to establish a prosperous watch-making industry in this country, partly I think for the reason that it would perhaps be as well to have an industry running here so that we should not be too dependent upon imports, but partly also for war potential reasons, in that the watch-making industry, being a highly-skilled precision industry, is an industry which is very important for war production. The intention was to acquire a good deal of machinery and plant, mostly from overseas; it would, of course, come largely from Switzerland. The Government would acquire it and, having done so, it would lease this plant to certain undertakings which were willing to expand and develop the watch-making industry in this country. The total amount of plant which was in contemplation was about £1 million, and £200,000 was, so to speak, the first instalment of that figure. The Supplementary Estimate was taken (I have not the exact date, but it was fairly soon after the end of the German war) but the arrangements, which were fairly complicated, for getting the undertakings who were going to operate the scheme geared up to do it (they had nothing of their own, and arrangements had to be made to try to get back their own workmen from the Forces, and so on) took rather longer than anybody expected, and we were not in fact ready to import any of the machinery during the year of account.

3631. Has nothing happened since the year of account?—Yes. The project then ceased to be a Board of Trade responsibility, when the Ministry of Supply took responsibility for the engineering industry as a whole.

3632. Perhaps I had better ask the Ministry of Supply about this?—It has been handed over to the Ministry of Supply. I know that they, in the succeeding year, took an estimate provision of, I think, £600,000 for the purpose.

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Sir JOHN WOODS, K.C.B., M.V.O., and
Mr. S. C. LESLIE.

[Continued.]

Chairman.] We shall have a witness next week from the Ministry of Supply and I will put questions to him about it. Has any Member any questions on the Account?

Sir Frank Sanderson.

3633. On page 263 there is a Supplementary Grant of £200,000. I was wondering whether that £200,000 was in respect of the matter about which the Chairman has just been asking?—It is the watch-making industry Grant.

3634. On page 264, Subhead A1 is: "Salaries, etc." on which the amount expended was £311,000 more than the Grant. The Note to Subhead A.1 says: "Due to transfer of staff and work of the Ministry of Production." Am I to understand from that that this excess of expenditure over the Grant of some £311,000 means that the work was transferred from the Ministry of Production to the President of the Board of Trade? If it was not, to whom was it transferred?—What happened was this: in June, 1945, it was decided that the Ministry of Production as such should cease to exist. Its functions (a good many of its functions, at any rate) were to be transferred to the Board of Trade and in effect the two Departments were to be merged; and they were merged. The result was that a considerable block of staff which was in the Ministry of Production

went over and became on, I think it was, the 1st June, 1945, members of the Board of Trade staff. I myself did.

3635. There is just one small point. On page 268 with regard to the Essential Commodities Reserves Fund, the note states: "The balance of this Fund, amounting to £973,041 14s. 6d. as shown in the account to 31st March, 1940, . . . remains with the Paymaster General, pending legislation as to its disposal." Have any steps yet been taken in regard to its final appropriation or disposal?—(*Sir Eric Bamford.*) Perhaps I can answer that. Provision has been taken in the Finance Bill this year.

Mr. Wadsworth.] It is one of the items "clawed" back.

Mr. Thurtle.

3636. I have one question about the Council of Industrial Design. Could we be told when this Council was created, and who created it?—(*Mr. Leslie.*) It was created by the Board of Trade in December, 1944, and it had its formal inaugural meeting in January, 1945. The President of the Board of Trade was then Dr. Dalton.

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

(*Mr. Leslie withdrew.*)

VOTE 1A.

SERVICES IN DEVELOPMENT AREAS.

Mr. S. J. CAMPLING, O.B.E., called in and examined.

Chairman.

3637. We pass to Vote 1A, Services in Development Areas. The Account is at page 269. Does this Account include sums expended under the Distribution of Industry Act as well as under the old Acts dealing with the Special Areas?—(*Sir John Woods.*) Yes. In fact, as you know, the Special Area Fund has been wound up and the functions which previously belonged to the Commissioners are now vested in the Board of Trade. So that the Board of Trade has two responsibilities. It has the new Development Area policy to implement and it has also to implement its inheritance, so to speak, from the old Fund; and both of those activities are covered in this Account.

3638. Subhead E is: "Grants to Industrial Undertakings," a figure of £16,000 odd expended?—(*Sir Frank Tribe.*) Perhaps I might say that there is a paragraph in my report dealing with this.

3639. I am much obliged. It is paragraph 54. We had better take that with

the Account. I was going to ask you, Sir John, what form the Grants to industrial undertakings took under Subhead E?—(*Sir John Woods.*) Those, I think, are inheritances from old arrangements dating from the time of the Commissioners. They refer to special Grants which could be made in order to induce industrialists to go to areas where they did not much want to go. They were Grants towards taxes, rates and so on. They are all non-recoverable Grants, and these will be rather the fag-end of agreements made with undertakings in the old days. I think they are very nearly finished by now.

3640. Paragraph 54 describes the position. Can you tell me whether any areas have been added to the Schedule of the Distribution of Industry Act, 1945? Under that Act there is power, by Order in Council, to add areas?—One new area has been added, which includes Wigan and St. Helens. Another new area is Wrexham in North Wales.

3641. No areas have been withdrawn from the Schedule?—No.

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[Continued.]

3642. Although there is power to do so, is there not?—Yes, I think so.

3643. When we come to disposal of factories, in the third sub-paragraph the Comptroller and Auditor General tells us: "The programme of works so far developed by the Board and agreed in principle by the Treasury involves expenditure of approximately £23,500,000, mainly for land and buildings for the development of new trading estates and group and individual factory sites, including the conversion for trading estate purposes of certain redundant ordnance factories transferred to the Board by the Ministry of Supply." With whom does the responsibility rest for allocating the factories? Is that under the Board of Trade?—Yes, that is also the Board of Trade.

3644. Is there an advisory committee or some body which considers applications?—No. We have not an advisory committee. There is a good deal of inter-Departmental discussion which goes on about it, of course. If, for example, it is an engineering factory that is in question or an engineering firm that is in question, we should, of course, consult with the Ministry of Supply.

3645. Do you invite applications publicly?—I do not think it is right to say that we invite them publicly, no. We ourselves have a pretty good knowledge, with the other Departments, of the sort of people who are likely to want to go to an area, who are looking out for a new factory and want to extend, or something of that kind. We have not so far found any particular lack of applicants.

3646. There is no advertisement made that a factory is available for suitable applicants in a certain area?—Not that I know of, no. I would not like to be quite sure as to all the means that are adopted for finding out suitable people and for letting people know that a factory is available, but, of course, all the local people will know very well that a factory is going up in this place or a trading estate is being developed there, and there is a good deal of publicity about it through Questions in the House, and so on.

3647. Do you, as a rule, try to get the highest rent for the factory that is obtainable?—No. For the present the arrangement about rents is that factories will be leased for the opening period of 3 to 5 years at 1939 rents. After that the intention would be to charge the commercial rent from then on. The lease usually is a 21 years' lease with a break at 7 years. If any particular undertaking would prefer to have its rent fixed for the whole of the 21 years or for, say, 14 years and then break, in order to know where it is, it can, if it likes, have a commercial rent fixed, from the word "go."

3648. The allocation of a factory at a 1939 rental for a period of three to five years confers a considerable benefit upon the successful applicant, does it not?—Yes. He is getting a modern, up-to-date factory, with all services laid on, and so on, at a very low rental.

3649. Why is it necessary to charge only the 1939 appropriate rentals?—It is part of the inducement to get people to go to the Development Areas.

3650. With the present shortage of factory accommodation and with the present rationing of all raw materials I should not have thought any inducement was required. I should have thought it would be the other way round, rather; I should have thought anybody who could secure a factory to-day would be prepared to pay a handsome premium for the allocation?—It may be so, but it was deliberately decided by the Government, some time ago, to adopt the other policy. I dare say it might not have been so clear then that there would be many applicants for Development Area sites. It is very desirable to get a good many people who are already established elsewhere to move to Development Areas. It is not only a question of new undertakings. I think some inducement is still needed because it is an expensive business to move, sometimes. They may be going to an area which they really do not think is the most economic area for them; it is away from their customary market, or something of that kind. Transport may be more difficult and more expensive. So the pull is not all one way, I think.

Chairman.] Are there any questions on paragraph 54 of the report of the Comptroller and Auditor General, or on the Account at page 269?

Mr. Wadsworth.

3651. I take it there are actually no factories now available? If a person requires a factory it is built to his specification?—There are both.

3652. There are actually factories available now?—There are. Some of the factories available now have been made to measure, so to speak, but we have also what is called the Advance Factory Scheme, by which standard factories are put in hand in advance of there being an applicant for the factory.

Mr. Benson.

3653. Sir John, I have been informed that in some areas (I have not been able to verify it) you have a number of factories which are practically finished but which are not completed, and they are standing there for want of, perhaps, five or ten per cent. of the material that is required to finish them. Is that true?—I would like to look into that, to give you an exact answer. I do not think there is any very long delay.

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[Continued.]

Everything has been rather held up, including, no doubt, some completion recently, largely because of difficulties about steel.

3654. I was told that the trouble was steel. I was told that the private factories in the neighbourhood had adequate allowances of steel and that you were not getting your fair share?—We have been taking great pains recently to make sure that we do get a fair share of steel for the trading estate factories and we have been in communication with the Ministry of Supply about it.

3655. So you did have some complaint?—Yes.

3656. Not as to your supplies, but as to your fair supplies?—Yes. The suggestion was made that the steel suppliers would supply their old customers and that trading estate requirements might go some way down the queue.

3657. With regard to the rent, I take it that the 1939 rent basis was fixed some time ago and that if you find your demand outruns your possibility to supply factories you will reconsider the matter and adjust your rentals to the demand; in other words you will get an economic rent in so far as you can, even now?—Yes, I think we should if there were a change in circumstances. It might then be a little difficult to explain to the new man why he was paying a higher rent, but, given the circumstances you suggest, that there are more applicants than there are factories, we could overcome that. We are not, of course, trying to make a profit out of this.

3658. No, but you are trying to avoid a loss on your capital involved?—Yes.

3659. What, roughly, is the position: are you behindhand in your building of factories compared with the demand, or are you keeping fairly steady level-pegging?—(Mr. *Campling*.) I should say that we are somewhat behind in this sense, that the factories which we are putting up were expected to be completed earlier than they will be as the result of these delays in getting materials, and so on.

3660. Roughly, what is the future prospect? By that I mean have you applications in for factories which are not yet started, or are you in negotiation with regard to factories which are not yet started?—There is a continuous flow.

3661. There is a continuous flow of demand?—Of demand. There is always a necessary interval between the first application and the time you can start the building. Subject to the necessary negotiations being completed a start is made. It is then that the delays begin to grow through materials not coming forward.

3662. What I want to get at is: Is the margin between the demands you get and what you can actually supply (I do not

mean in time but in quantity of building) increasing or decreasing? Will you have steadily to increase your building or are you building now at a rate at which you are likely to continue?—It is largely a matter of striking a balance between the advance building programme and the building to order. What we do is to build to order as rapidly as we can and either slow up or speed up the advance building programme accordingly.

3663. You use your advance programme as a balancing factor?—Yes. (Sir *John Woods*.) I have not any exact figures, or, indeed, any inexact figures in my mind, but I should say that as far as we have gone so far we are pretty well in balance between supply and demand.

Sir *Frank Sanderson*.

3664. Would you agree that during the course of the discussion we have got the issue slightly confused inasmuch as (if I am wrong I am sure you will correct me) we are considering two classes of factories. We are considering factories which are already in existence and for which you have no longer any use and those are being converted into factories for industrial purposes. For those factories the rent is being based upon the 1939 valuation. That, I think you will agree, is correct?—Yes.

3665. But the last sub-paragraph of paragraph 54 of the report of the Comptroller and Auditor General refers to the programme of works so far developed by the Board and agreed in principle by the Treasury, involving an expenditure of approximately £23,500,000 which, the Comptroller and Auditor General goes on to say, is mainly for land and buildings. Those buildings are being erected at the express wish of industrialists who have approached the Board of Trade to ask them to erect factories on their account, and for which the industrialists have agreed to pay an economic rent, both for the lease of the building and for the heating and lighting of the building. Therefore, when we are considering this paragraph, is it not true to say that the rents are not based upon any 1939 values but upon the actual capital value expended by the Department?—No. It is the case that the rents of all of these factories, whether they are converted Royal Ordnance factories being allocated to industrialists, or whether they are factories on trading estates for which we have prospective tenants and the factories are being built to measure for them, so to speak, or whether they are advance factories, which are being built in advance of specific demand, will be on the basis I described; that is, on the 1939 basis.

3666. I do not want to bring in any personal case, but perhaps it would rather assist the Committee. I know a case myself in which I am considerably interested

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[Continued.]

where a factory has been built by the Board of Trade in Scotland; it is at Uppington, near Glasgow. Certainly, as I understand it, the rent which is payable on a long lease, also with a clause which permits purchase in certain events, is based upon the cost and is not based in any way upon the 1939 values?—I said that any industrialist or undertaking taking over one of these factories, if he would like to have a long lease and have the rental fixed for that period so that he knows what it is, can elect to have that, and, if so, it will be a commercial rent. The general rule in relation to all these factories in trading estates in Development Areas is that the rental for a period of three to five years will be at 1939 values.

Sir *Frank Sanderson*.] The point I am very anxious to make clear in order that the Committee should understand the position and in order that they should not go away with the wrong impression is that the Board of Trade is not spending tens of millions of pounds in the building and development of new areas which are not to be economic, as is being suggested, because the rents are being in fact based upon the 1939 values. My point is that, as I understand it from my own experience of a very large place in Scotland which is being built at present, the rent to be paid is an economic rent and it is not based on 1939 values.

Chairman.

3667. As I understand the witness' answer there are two alternatives. There is the short lease of three to five years at the 1939 value or there is the longer lease of 21 years at a commercial rent. Is that right?—There is a long lease anyway, in the normal way, but the general intention is that for the first three to five years of a long lease the rental will be on the 1939 basis and then you would fix a commercial rent afterwards, in the light of all the circumstances. But if any undertaking prefers to have its rental fixed right away from the start for a longer period than three to five years it can have it and the rental will, I believe, be on the present commercial basis.

Chairman.] That is quite clear, Sir Frank, is it not?

Sir *Frank Sanderson*.] No. I am very sorry, but it is a very important point.

Chairman.] It does not accord with your experience?

Sir *Frank Sanderson*.

3668. With my knowledge I must press this one point in reply to what you have just said. Will you agree that where a new factory is built the prospective tenant has no option to take it for three or five years? I am not able to say whether there are some special low terms for the first five years, but he must take it for 15 or 21 years?—Yes.

3669. He cannot lease it for three or five years, even if he desires so to do?—I have said they are long leases, but in the usual case the opening rental charge is for a period of three to five years and is on the 1939 basis, which is confessedly an un-economic rent.

3670. I will leave it at that. There is one other question I want to ask. In the Account, on page 269, in the explanation of the causes of variation between the expenditure and the Grant, it states: "A, B, C and D—Owing to unforeseen circumstances the extent to which the cost of these services fell to be met in the financial year proved to be over estimated." Am I right in suggesting that the reason why the cost proved to be over estimated was because you were unable to spend the amount of money during the period under review? In other words, you are in arrears in the building programme?—That is so. We did not in this year, nor I fear in the next year, get going as fast as we had expected. The Supplementary Estimate, this Class VI, Vote 1A, was brought in in the autumn of 1945. Everybody was in the throes of reconversion. The people who wanted to have factories were very busily trying to re-collect their men from the Forces. The building materials industries were in the same state, and we just over estimated the speed at which the operation could be launched.

3671. Let me clarify the position. I used the expression of your being "in arrears." I would like to make it perfectly clear that I am fully cognisant of the fact that in so far as the Board of Trade are concerned they have done and are doing everything they possibly can in order to expedite the completion of the factories which are at the present time being built. Therefore, in saying "in arrears" I did not of course mean to cast any reflection on the Department, or suggest it was responsible for these arrears.—Thank you very much.

Mr. Thurtle.

3672. I wanted to be clear on this point about the leasing of newly-built factories at the 1939 rental instead of an economic rental. Is the point of doing that to provide these firms with a sort of bonus irrespective of whether they are able to pay an economic rent or not?—I was not myself actually concerned in this decision. Mr. Campling tells me that one element in it anyway was that it was decided, as a matter of Government policy when allocating surplus Government factories, to charge rentals based on 1939 values. It was thought to follow from that that the rental to be charged for new factories built on trading estates in Development Areas should also be on the same basis. I think also there is some force in the point that, as I tried to indicate just now, some attractive power is needed from the Development

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[Continued.]

Areas, and a rather low rent to begin with is quite a useful sort of magnet.

3673. It would depend, would it not, on whether the demand for the factory was greater than the present supply?—Yes.

3674. Otherwise this granting of the lease at the 1939 rate, especially in the case of new factories is, in fact, a payment of the taxpayers' money—an unnecessary payment of the taxpayers' money to the particular firm?—Certainly. If we build factories at present very high costs, and if we then proceed to charge less than the present commercial rental we are not going to get as high a return on the capital as we might otherwise get. It does not follow that we shall not get a return on the capital. It does mean, I agree, that the State is not getting as much back on its capital as it might get.

3675. In fact it does mean the State is losing money which it might otherwise get?—Yes.

3676. You do that irrespective of the financial standing of the firm taking over the lease?—Yes. I think we must have a uniform basis for the rentals as between one applicant and another.

3677. There is one other point. You said in the course of your evidence that, in the allocation of factories, you were in consultation with other Departments, including the Ministry of Supply. Suppose there is a divergence of view as between your Department and the Ministry of Supply as to which firm should be allocated the factory, is it the Board of Trade which has the determining voice?—I do not think we could say either has the determining voice. If it really came to push of pike it would simply have to be a matter between Ministers.

3678. Between Ministers?—Yes.

3679. Could you tell me, as a matter of experience, whether you do have such divergencies of view?—Very rarely.

Chairman.

3680. There is one further question I should like to put and that is on the third sub-paragraph of paragraph 54 the report of the Comptroller and Auditor General in which he speaks of a programme of £23½ million and of provision in the Estimates for 1946-47 of £11½ million. Under the Distribution of Industry Act there are various ways in which you can give financial assistance in these areas. Under Section 2 you can give financial assistance to trading or industrial estate companies. Under Section 3 you can give financial assistance for the improvement of basic services in the areas, and under Section 4 you can give financial assistance to industrial undertakings. As regards assistance to industrial undertakings you can do that either by annual grants to the person concerned or else by means of loans. I wondered if you could tell me whether any part of this programme or any

part of this provision in the Estimates is for assistance under Section 4 of the Distribution of Industry Act, 1945?—No. That assistance is given by the Treasury and would not come under this Vote.

3681. It would not come under this Vote?—No.

3682. In the Account we see that the amount of loans outstanding in the Development Areas was £5,655,000. That is the statement on page 269. You sent us, quite recently, a sheet which gives details of those loans. Would you look at that sheet? On the left-hand side there is a number of Subheads, 1, 2 and 3. If you will look at Subhead 2 that is: "Loans subject to a fixed interest charge after an agreed period but not repayable within a defined period." You will see that the North-Eastern Trading Estates Limited has outstanding an amount of just over £2 million?—Yes.

3683. Is interest due on that loan, and has interest been paid on that loan?—Yes. If you will look at the Account you will see that the receipts payable to the Exchequer were £115,000. Included in that is interest on loans and in the period of this Account the North-Eastern Development Area paid £28,000 in respect of these loans.

3684. What would the rate of interest be?—(Sir Frank Tribe.) Perhaps I could help. I understand that £28,000 represents 2½ per cent. (Sir John Woods.) Yes.

3685. Was that the agreed rate of interest? Are they paying the full interest?—(Mr. Campling.) Not the full 4 per cent. The 4 per cent. is a ceiling rate only. (Sir John Woods.) Perhaps I should explain that a little more fully. The original arrangements before the war were that in respect of these loans the trading estate company should aim at paying 4 per cent. It was, however, provided that if they could not pay 4 per cent. they could pay such less sum as it was agreed they could afford to pay. In effect, I think what it means is that out of their receipts the trading estate companies are supposed to cover their management expenses and their overheads and retain a small balance for working expenses, and the net receipts should be paid over to the Exchequer. But as they do not set out to make large profits it may turn out, as in the case of the North-Eastern Trading Estate Company, that they cannot pay the 4 per cent. If so, they pay a less sum, and I think I am right in saying that they are forgiven the arrears. (Mr. Campling.) Yes.

3686. The position is, in regard to each of these estate companies, that they pay in fact what they can afford by way of interest. Is that right?—(Sir John Woods.) Yes. (Sir Frank Tribe.) Perhaps I should add, to make it clear, that I gather that the 2½ per cent. is 2½ per cent. for the half year. I believe for the second half of that

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year the interest was waived altogether. So it has really paid $1\frac{1}{4}$ per cent. interest in the year.

3687. Have you any criticism to make, Sir Frank, of the fact that these companies only pay interest if and when they can afford it?—I happened to be in at the birth of these companies, in another capacity. We certainly hoped then that after the initial five or six years they would be able to pay their full 4 per cent., and in point of fact I understand that the estates in South Wales and Cumberland have been able to pay their full 4 per cent. (Sir John Woods.) Yes. (Sir Frank Tribe.) The North-Eastern Trading Estate Company, which is mainly based at Team Valley encountered certain difficulties when the war came because many of the light industries which it

had been seeking to establish I understand disappeared. That may be the reason why in this particular year they were unable to pay their 4 per cent., but I should hope that inasmuch as this capital was expended for the most part at pre-war prices, from 1936 onwards, it should be possible before very long for that company, like the others, to pay the full 4 per cent.

3688. If they pay, or offer to pay, less than the full rent, do you have to get Treasury agreement to the diminution of the interest?—(Mr. Campling.) No.

Chairman.] Are there any further questions on this Sheet? Has any Member of the Committee any further questions on the Account? May I take it that the Account is approved? (Agreed.)

CIVIL APPROPRIATION ACCOUNTS (WAR SERVICES), 1945-46.

CLASS X.

VOTE 13.

WAR DAMAGE (BUSINESS AND PRIVATE CHATTELS).

WAR RISKS (COMMODITIES) INSURANCE FUND.

(War Damage (Private Chattels Scheme)—Statement of Receipts and Payments in the year ended 31st March, 1946.)

(War Damage (Business Scheme)—Statement of Receipts and Payments in the year ended 31st March, 1946.)

Chairman.

3689. Will Members turn to the Civil Appropriation Accounts (War Services), 1945-46, to paragraphs 75 to 78 of the report of the Comptroller and Auditor General? These three paragraphs deal with the War Damage Insurance Schemes. The figures at the foot of page xxiv show the excess of payments and liabilities over receipts in the Business Scheme. That is the insurance of stock in trade?—(Sir John Woods.) No. The Business Scheme is the insurance of capital equipment, in effect, under the War Damage Act.

3690. And the Private Chattels Scheme is ordinary furniture and household goods?—Yes.

3691. The excess of payments over liabilities at that date was £13 million in the case of the Business Scheme and £75 million in the case of the Private Chattels Scheme. There is mentioned, I believe, at the foot of paragraph 78 a very large profit made on the War Risks (Commodities) Insurance Fund?—Yes.

3692. Can you give us the net result, just putting the three schemes together?—Yes. If you take them together, the Commodities Scheme, under the War Risks Insurance Act, shows a profit of about £81 million, all of which has been paid over. That scheme can be regarded as practically finished. Under the Business Scheme there is an estimated deficit of £20 million. If we take into account belated claims that are coming in still, and so on, our guess is that the

ultimate deficit is likely to be in the neighbourhood of £20 million.

3693. And what is the position with regard to the Private Chattels Scheme?—On the Private Chattels Scheme the figure of £75 million here might go up. We still have claims coming in, and there are also supplementary payments to be made in accordance with the decision of the Government, announced last October. That may bring the total apparent deficit to something in the neighbourhood of £85 million.* Of course, it is necessary to say, in regard to the Private Chattels Scheme, that when one talks of this deficit, we are including payments out under what was known as the free insurance cover. You will remember that a householder was allowed £200 free, a married couple £300, every child under 16 another £25 and for every other adult person in the house £50. That amount of cover was given completely free. We did not, so to speak, set out to cover that by premium. If that were excluded, our guess would be that we should just about be in balance between premiums and payments.

3694. Taking all three schemes together?—No, on the Private Chattels Scheme alone. If you take the three schemes together, and if you take the guess of

* Note by witness: This figure (which appears also in the Answers to Questions 3694 and 3702) does not take into account the supplementary payments. The over-all apparent deficit, so far as it can at present be estimated, is expected to be in the neighbourhood of £104 million.

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[Continued.]

£85 million for the apparent loss on the Private Chattels Scheme and £20 million on the Business Scheme, it looks as though, taking the whole lot together, the total loss would be about £25 million.*

3695. Turning to paragraph 76, "It is intended" we are told "that all amounts in respect of private chattels claims, payment of which has been deferred, shall be paid together with accrued interest in July, 1947." When you pay out on loss of chattels do you take the value of them as at the date of destruction, or as at the 1939 value, or as at the post-war replacement value?—It is the value at the date of loss. That is where the supplementary payments question comes in. There was announced by the President of the Board of Trade last October a scheme under which supplementary payments would be made in respect of private chattels claims arising from incidents which occurred before the end of 1941 where the claim was not completely paid up by the end of that year. The point of making a supplementary payment was precisely the point that values have changed very greatly since that time.

3696. Does the supplementary payment cover the whole amount of each loss, or is it under a sliding scale under which you get a bigger supplement on the first £100?—It is on a sliding scale which I can give the Committee. The intention was to make it rather easier for people of modest means, who have to replace at these times of high prices. In order to deal with the situation administratively, we adopted this scheme: we start by taking a figure of £350, which is the amount of free cover which the scheme would give to a married man with two children. In cases up to £25 there is no supplementary payment. Between £25 and £350 the supplementary payment would be 50 per cent., raising the assessment of £350 by £175. For assessments above £350 the percentage increase is gradually reduced. For example, we allow a flat rate supplement of £175 on assessments between £350 and £762 10s. Thereafter the supplement gradually decreases until there is no supplement after £1,200 loss.

3697. Those supplements apply to losses which occurred before a certain date which I think you mentioned?—Before the end of 1941. The principle of that is that after that the prices rise had really taken place and therefore should have been reflected in the policies.

3698. Do you not get cases of gross hardship between the person whose bomb fell on the 31st December in that year and the person who was bombed on 1st January in the next year?—(Mr. Campling.) I understand that one of the reasons for using that date was that after the end of 1941 there was a lull in bombing, and the subsequent losses were at a period when

prices had already risen and people would be assessed on the increased prices.

3699. You had to wait another two or three years for your bomb?—I would not say as long as that, but it was a very considerable period. (Sir John Woods.) It was very nearly that. It was February 1943 before we got the next lot.

3700. I have one other question on paragraph 77: "Hardship Grants to Repatriated Ex-Internees from the Far East." These, I understand from the paragraph, were extra-statutory grants to people who lost their belongings in the Far East. Is there any prospect of recovering the comparatively small amount of these grants from Japan? Will they be included in some claim you have put forward?—I am afraid I cannot answer you. May we look at that and let you know?†

Chairman.] Thank you. Has any Member of the Committee any questions on paragraphs 75-78?

Sir Frank Sanderson.

3701. I have one question on paragraph 75. The figures show that the loss on the war damage business and private chattels scheme was approximately £89 million. That is to the 31st March, 1946. Do you calculate that the net loss before the Account is closed is likely to be materially different from the figures shown to 31st March, 1946?—Materially different from the £75 million here?

3702. Yes. The figures show a total of £13 million excess of payments and liabilities over receipts for the business scheme and £75 million for the private chattels scheme?—I thought I said in reply to the Chairman that making a guess at it (because some claims are still coming in) we would put the ultimate out-turn of the business scheme at a deficit of £20 million instead of £13 million and on the private chattels scheme say £85 million as against the figure here of £75 million.

Mr. Benson.

3703. On paragraph 80, with regard to that £80 million surplus, have you any approximate idea of the total risk you carry? If you cannot tell me it does not matter?—I have the premium income, which is £202 million. I am afraid you have got us trying to do sums.

Mr. Benson.] It does not matter then.

Chairman.

3704. Please do not bother, Sir John. We have a certain amount of ground still to cover?—We know the premium receipts were £200 million approximately. It looks to me as though the average premium was about 3 per cent. It varied.

* On the basis of the over-all figure given in the Note to Question 3693, this figure would rise from £25 million to £44 million.

† Circulated to Members, not printed.

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Sir JOHN WOODS, K.C.B., M.V.O., and
Mr. S. J. CAMPLING, O.B.E.

[Continued.]

3705. We turn now to the Account at page 42. Subhead D shows that the actual payments during the year of account under the private chattels scheme were £16 million. I understand that part of that is paid out on your behalf by the Board of Customs and part by the Assistance Board. That is so, is it not?—Yes.

3706. Are you satisfied that they check the claims adequately?—I would like Mr. Campling to answer that. I am not familiar with the details of it. (Mr. Campling.) The claims paid by the Assistance Board and the Board of Customs, of course, are claims to hardship grants as a rule. Their job is just to see that the total of a man's claim is sufficient to meet the amount he is requiring for his immediate needs—his hardship grant—rather than to assess the actual damage claim.

3707. They are not concerned with the value of the furniture lost?—If a man comes along and asks for £50, if the Board of Customs or the Assistance Board are satisfied that the man has suffered a loss of not less than £50 they are happy. The claim is then assessed; it may be £60, £70, £100, or £150, or any figure. (Sir John Woods.) They are really making advances on hardship grounds and they judge the hardship.

3708. They do not do the actual assessment of the claim?—No.

Chairman.] Has any Member of the Committee any questions on the Account or on the two White Papers which I do not think add much to our knowledge of this subject? May I take it that the Account is approved? (Agreed.)

VOTE OF CREDIT APPROPRIATION ACCOUNT, 1945-46.

BOARD OF TRADE.

Chairman.

3709. Will Members turn to the Vote of Credit Appropriation Account, 1945-46. We take first paragraphs 26 and 27 of the Report of the Comptroller and Auditor General on page xi. These two paragraphs deal with the utility cloth rebate schemes. These rebates are granted, are they not, in order to help the cost of living index level to be maintained at a stable level?—(Sir John Woods.) That is so. In accordance with the stabilisation policy.

3710. The Comptroller and Auditor General tells us that their cost in 1945-46 was £5 million and that the Estimates for 1946-47 provide £14½ million for this service, and the Estimate for 1947-48 no less than £24,625?—Yes.

3711. The Comptroller and Auditor General tells us in paragraph 27: "In view of the cost falling upon public funds in respect of these rebates, I enquired whether the Board were satisfied that the profits actually earned as the result of the permitted margins were no more than fair and reasonable in relation to the capital employed. In reply the Board stated that the present margins, which were fixed with the aim of yielding a return on capital of about 10 per cent. generally, are considered broadly reasonable." You endeavour to fix margins which will give a return, I take it, of 10 per cent. on capital employed over the industry as a whole?—Yes.

3712. You do not try to fix a margin which will give 10 per cent. to the least efficient firm?—No.

3713. It is a 10 per cent. margin calculated over the whole industry?—Yes. You probably have to fix yourself at some medium point in the scale of costs and fix your margin at that point. That means that some people will get more and some people will get less, no doubt.

3714. It is your view, I take it, that fixing the margin in that way preserves some incentive to efficiency and economy for each individual firm?—Yes.

3715. Because within the ambit of a return of 10 per cent. for the whole industry a man may secure 20 per cent. if he is efficient?—He might, I suppose. He would have to be very efficient I think.

3716. We are told two lines lower down in paragraph 27 "at one stage margins on most items have recently been reduced." Does that affect the 10 per cent. return on capital? Does it affect the amount of the subsidy?—Not necessarily. It does reduce the return on capital obviously but whether it reduces it to 10 per cent. depends on where the margin is at the time. The remark that margins have been reduced relates to a very comprehensive inquiry we made into the retail margins of cloth and clothing. We did that because the previous margins had been fixed at a time of low production and therefore low turnover for the retailers, and it seemed likely that though there had been undoubtedly cost increases there was also a considerable turnover increase. As a result of that inquiry we did reduce margins on most items of cloth and clothing at the end of last January. The reductions were devised so as to yield an average return on capital of about 10 per cent. We then proceeded to institute a similar inquiry into wholesale margins and in fact we had very nearly completed that some time ago, but then we ran into the fuel crisis and there was a considerable loss of production which has rather held up that inquiry because, quite obviously, the data on which we were proceeding were falsified. I ought to tell the Committee that we shall have to announce in a day or two, I think, an adjustment upwards of the retail margins that we put down in January, for the same

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Sir JOHN WOODS, K.C.B., M.V.O., and
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[Continued.]

reason, namely, that the fuel crisis has had a rather damaging effect.

3717. In the last sentence of paragraph 27 the Comptroller and Auditor General tells us: "The Board pointed out, however, that the efficiency of control on the prices of utility goods could not be easily checked by reference to trading accounts owing to the fact that no firms make or handle only utility goods".—That is so.

3718. Is the ratio of utility goods produced to non-utility goods controlled in some way?—In total, yes. But there is no uniform ratio as between utility and non-utility, and indeed export, which is applicable to all traders. They differ according to what their normal trade is. Some will have a much higher export proportion than others. Some will have a higher proportion of non-utilities than others.

3719. But a ratio of division is laid down for each firm or manufacturer?—Yes. We have to secure that we get enough cloth to honour the ration. Therefore you have to plan production on that basis, that you get the required volume of utility. That then has to be parcelled out amongst the firms.

3720. When you come, *ex post facto*, to investigate accounts to see whether this 10 per cent. return on capital is being achieved you say there is difficulty in getting at the facts because a firm of manufacturing tailors are making some utility trousers and some export trousers and some non-utility trousers. Is that right?—Yes. On the export trousers there is no price control at all. Quite obviously we want to get the highest price we reasonably can for our exports. On non-utility trousers the price control is much looser than it is in the case of utility, for the obvious reason that there is no close specification of the article. It is only when you get to the utility—to precise specifications—that you can be very precise about the control.

3721. Have you means of ensuring that the people in the trade in fact discharge the obligations laid upon them to produce a given ratio of utility clothing?—Yes. We have to watch that, because obviously if you can make more money on non-utility clothing and still more on export there is a certain natural desire to make less utility.

3722. I was wondering what steps you could take to enforce compliance with your wishes upon the people in the trade?—I would like you to have a real expert to answer that categorically, but my impression is generally that we really do not have very much difficulty with people trying to avoid what has been put upon them as a job to do in manufacturing utility goods. Really they are very co-operative in carrying out the plans.

3723. I do not want to trespass too much upon modern political questions, but I take it that this growing cost of the subsidy on

clothing is causing the Department some concern?—Yes. It is the result of continued cost-increases of one kind or another, and it is becoming very large, but I ought perhaps to tell the Committee that it has been decided quite recently to take out of the subsidy scheme a certain number of things which were in it. It was in fact announced on 23rd May in the House that as from 2nd June the subsidy would not be paid any longer on utility cotton sheets, towels, pillow cases, tickings and quilted cloths. It has been kept more to the heavy clothing materials.

3724. You are moving in the direction of taking certain ranges of goods outside the subsidy?—Yes. These things that we have taken out do not actually figure in the cost of living index. The result is that we have had to fix new maximum prices for those goods on which the subsidy had previously been paid and the result is that the prices will have to go up by percentages ranging from 20 per cent. to 60 per cent.

3725. The Account is at page 12, which we can take with these two paragraphs. I have only one question on it. "Clothing Coupon Banking Scheme:—Remuneration to banks," a figure of £138,000. Could you explain that to the Committee?—When the rationing scheme first came in the retail traders, of course, had to be given a sort of cushion of coupons, or float of coupons, to start trading with. As coupons came in from the public, and the retailer wished to replenish his stock, he handed over the coupons, or a lot of his coupons, to the Post Office and they counted his coupons and would then give back to him large denomination coupons—a piece of paper saying that he was in credit to the tune of a million coupons, or whatever it was, which he could then use for the purpose of replenishing his supplies. The paid-in coupons would then be handed over to the Board of Trade and cancelled. It was found—

3726. I just want to make sure whether these banks are the joint stock banks?—Yes. I was going to say that the Post Office found that a very difficult scheme for them to work. They would have needed a very greatly increased staff to operate it in a completely foolproof fashion; they were afraid of frauds, and so on, and it was then decided to hand it over to the joint stock banks, and they do the work for us.

3727. When our banks close their doors at 3.30, or whatever the hour is in the afternoon, they then start counting clothing coupons, do they?—Among other things.

3728. And they receive remuneration for that from the Board of Trade?—Yes. I think they have quite a lot of work to do on it, as a matter of fact.

3729. You would not have considered it fair or right to have imposed the cost of this work on the traders, on the wholesalers

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[Continued.]

and retailers in the clothing trade?—I do not think so—not when, over so large a part of the field, especially on these goods, they are fairly heavily price-controlled.

3730. Perhaps Sir Frank can answer this question. There is no similar charge incurred as regards the counting of food coupons, is there?—(Sir Frank Tribe.) No. It is done in the Ministry of Food's local offices. The Ministry of Food never asked the Post Office to undertake it, or the banks. They have done it themselves.*

3731. It is done at the expense of the taxpayer?—Yes.

Chairman.] Are there any questions on Services 54 to 58 on page 12?

Mr. Cuthbert.

3732. What sort of fee do the banks charge? What sort of percentage is it? How do you work the remuneration to the banks? Is it the cost of staff employed upon it or is it commission?—(Sir John Woods.) The banks are paid a shilling per thousand coupons handled.

Mr. McAdam.

3733. Service 57 is: "Diverted Cargoes: Payments, £40,367." What does that actually mean?—It is rather a long standing war thing. When war broke out in the Far East there were certain cargoes going to the Far East which were hurriedly diverted to India. We asked the Government of India, first of all to requisition the cargoes and, having so done, to set up a committee to dispose of the cargoes to the best advantage. That has been done and is being done, and the receipts here shown are what the Indian committee has realised from the sale of the goods. We then proceed to pay out the original owners of these goods when they claim and substantiate their claim against the goods.

3734. Could you give us any idea of the original value of the goods?—No, I have not the figures. I am afraid I have not an account of what we think the total is: This is the result for the year. I could get that information if you would like it.

3735. It would link up exactly whether a loss has been sustained or not in respect of the diversion of the cargoes?—Yes.

Chairman.] Do you want further information, Mr. McAdam?

Mr. McAdam.] Yes. I should like to know the original value of the cargoes.

Chairman.] You would like further information on that point?

Mr. McAdam.] Yes.

Chairman.

3736. Perhaps you will furnish it, Sir John?—We will send a note in.†

* Payment is made to the Cocoa and Chocolate and Sugar Confectionery (War-Time) Associations for counting personal points coupons.

† Information supplied; not printed.

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Mr. Thurtle.

3737. Do I understand that the Co-operative Wholesale Bank share this burden of counting the clothing coupons?—I do not know. I have not a list of the banks. My notes simply say "The Banks."

Mr. Thurtle.] It is not important. It does not matter.

Chairman.

3738. Are there any further questions on Services 54 to 58? We turn back to the report of the Comptroller and Auditor General, paragraph 28, which deals with tobacco. The Comptroller and Auditor General states that the cash expenditure on American tobacco rose from £11 million in 1944-45 to £40 million in 1945-46. That increase is very largely due to the cessation of lease-lend, is it not?—Yes, practically entirely.

3739. It appears that the sales by the Tobacco Control to the manufacturers of cigarettes in this country rose from £30 million to £44 million?—Yes.

3740. Is that an increase in volume or an increase in price, or a combination of both?—In volume, I think.

3741. That really represents an increase in consumption of tobacco by the public, subject to adjustments of stock?—There certainly would be an increase in consumption. The consumption had been rising until recent events. But I would not like to be sure that it was all increase in consumption. It depends on the particular movements of stock at any particular time.

3742. Have the Government now stopped buying American tobacco?—Yes. The manufacturers are given an allocation of exchange and they go and buy their own tobacco.

3743. But you are still buying the Turkish tobacco crop, are you not?—We buy the Turkish tobacco under a pre-war agreement with Turkey. It is more a financial agreement than a tobacco agreement.

3744. Do you lose on the Turkish tobacco?—Yes.

3745. Heavily?—There is a good deal of the Turkish tobacco which, in fact, has not been fully used. I have not the precise figures here, but I know recently we had to sell Turkish tobacco at a price below that which we paid for the tobacco. There is a deficit on the Oriental tobacco, which includes some others, but it is nearly all Turkish. A balance at the 31st March, 1946, showed a deficit of £568,000.

Chairman.] Are there any questions on paragraph 28?

Mr. Cuthbert.

3746. Why did you sell this Turkish tobacco at a loss? Was it because you could not get rid of it?—It was the best price that could be got for it. We pay a rather high price for Turkish tobacco. It is bought mainly for admixture in Virginian.

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[Continued.]

The manufacturer is not willing to pay a fancy price for it.

3747. In other words you have had to sell at a loss?—Yes.

Mr. Benson.

3748. With regard to the bulk purchase of American tobacco in 1945, how did you arrange that? Did you use the existing machinery and just adapt it to your own purposes, or was any machinery set up?—We used an American corporation called the Commodity Credit Corporation of America.

3749. That would be on the financial side of it, surely? How did you arrange to purchase particular parcels of tobacco?—The tobacco companies had their own men out there.

3750. Imperial Tobacco Company would buy as much tobacco as it required?—They would buy under instructions from the Commodity Credit Corporation, but they

are the same people who are now buying directly for our companies.

3751. They were, in effect, buying for their own companies, were they? What the Imperial Tobacco Company man bought would go to Imperial Tobacco Company?—No, I do not think that was necessarily so. They were definitely sort of servants of the Tobacco Control for this purpose.

Lieut.-Colonel Hamilton.

3752. What governed the selling price? Apparently there was a loss. What governed the price at which it was issued again, after having been bulk-purchased?—The Turkish tobacco? There was not a loss on the American tobacco.

3753. The loss was on the Turkish only?—Yes.

Chairman.] The Account is at pages 12 and 13. Are there any questions on Services 59 to 61? That concludes your evidence, Sir John. I am much obliged to you.

(Sir John Woods and Mr. Campling withdrew.)

CIVIL APPROPRIATION ACCOUNTS, 1945-46.

CLASS VI.

VOTE 4.

EXPORT CREDITS.

Mr. E. C. ADAMS, C.B.E., called in and examined.

Chairman.

3754. Will Members turn to the Civil Appropriation Accounts, 1945-6, to paragraph 55 of the report of the Comptroller and Auditor General? The policies which you issue under the Export Guarantees Act cover virtually all risks, do they not?—(Mr. Adams.) All business practically, all over the world.

3755. But you include a great many types of risk for which commercial insurance is not available?—That is so.

3756. To what extent do you cover the risks?—For insolvency purposes we go up to a maximum of 85 per cent. and for all other risks such as the transfer risk, the inability to remit sterling, we go up to 90 per cent.; but it is very seldom that we go beyond those two percentages.

3757. At the foot of the page, in the last sentence of paragraph 55, the Comptroller and Auditor General tells us that you have covered certain goods whilst in course of being processed in certain European countries. Can you tell the Committee what that applies to?—Yes. Perhaps I could take a simple example to show the sort of thing we are doing. Say that a merchant in this country has arranged a sale of perhaps yarn or cloth to, shall we say, Sweden. The wool, the raw material, comes from

Australia and goes through, shall we say, Italy, where they, having the capacity to turn the raw wool into yarn or cloth, do so, and then the goods are shipped direct on to Sweden to the purchaser of the finished material. Now, the risk that we cover is that while the raw material is lying under process in Italy there may possibly be such things as confiscation or an embargo on the export of the finished goods, and we were pressed very heavily to cover those particular risks. So the policy we issued under the powers given under the 1945 Act covers those risks.

3758. The Account is at pages 277 and 278, which we will take together with the paragraph. Subhead B is: "Travelling, Commission and Incidental Expenses". Could you tell us what is the rate of commission you pay? This is on business introduced to you?—That is so, business introduced.

3759. Could you tell us what is the rate of commission, and why, as the service you give is so satisfactory and comprehensive, it is necessary to pay commission?—It dates back for very many years. We are supposed to be run on a more or less commercial basis in the sense that we must pay our way if possible. Therefore, it was thought desirable to use the services of the

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Mr. E. C. ADAMS, C.B.E.

[Continued.]

brokers who are very familiar with the trade to introduce people to us who might not know of the existence of these Government facilities; and, furthermore, the actual use of brokers saves us expenses on salaries, because, quite obviously, we cannot have branches in every place in the country and these brokers, by their normal connections, are able to get out into outlying places. So we do not regard this as an actual additional expense. It is really partly saving us the expense of having extra staff.

3760-1. On the next page, page 279, is the Acquisition of Guaranteed Securities Fund. The footnote tells us that the total amount of securities held by the Fund on March 31st was £7,725,000. Can you tell me by what countries those securities were issued?—The countries in respect of whom we hold these notes making up that total are the U.S.S.R., Turkey, Greece, Rumania, China and Finland.

3762. These are, in fact, advances to enable these countries to purchase British goods?—That is so.

Chairman.] Are there any questions on the Account?

Mr. *McAdam*.

3763. That £331,819 is interest that you have received on securities?—That is the normal interest on the notes at varying rates.

3764. Each country is paying its way?—Yes, except Greece and Rumania. I should perhaps add there that if there is default by one of the countries, then the guarantee given by us comes into operation and we repay to the Fund the amount, and of course the actual expenditure comes on our Vote under the Overseas Trade Guarantees Act, the special guarantees.

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

TRADING ACCOUNTS AND BALANCE SHEETS, 1945-46.

EXPORT CREDITS GUARANTEE DEPARTMENT: CREDIT INSURANCE SCHEME.

(Confidential statement on Export Credits Guarantee Department; Credit Insurance Scheme.)

Chairman.

3765. I have looked at this trading account before, I think, without securing much enlightenment from it. I do not think I want to ask any questions on it?—(*Mr. Adams.*) It is a very simple Account.

Chairman.] To somebody expert in insurance matters. Has any Member of the Committee any questions on the trading account? May I take it that the Account is approved? (*Agreed.*)

VOTE OF CREDIT APPROPRIATION ACCOUNT, 1945-46.

EXPORT CREDITS GUARANTEE DEPARTMENT.

(On this Account no questions were asked.)

(*Mr. Adams withdrew.*)

TRADING ACCOUNTS AND BALANCE SHEETS, 1945-46.

DOMINIONS OFFICE.

(Confidential Report and accounts of the British Phosphate Commission for the year ended 30th June, 1945.)

Sir ERIC MACHTIG, K.C.B., K.C.M.G., O.B.E., and Mr. BANKES AMERY, C.B.E., called in and examined.

Chairman.

3766. Will Members turn to the Trading Accounts and Balance Sheets for 1945-46, to paragraphs 3 to 6 of the report of the Comptroller and Auditor General. In paragraph 3, Sir Eric, the Comptroller and Auditor General states: "No provision has been made in the Commission's accounts for interest and sinking fund payments due to the partner governments since 31st December, 1941, when, as mentioned in previous reports, they were suspended." I think we have been told before that they

were suspended on account of the Japanese occupation of the Islands producing the phosphate?—(*Sir Eric Machtig*): That is so.

3767. Are the payments going to be resumed now?—The position is as follows: When the Islands were occupied by the Japanese the United Kingdom Government agreed with the Governments of Australia and New Zealand that annual payments by the Commission in respect of interest and redemption of the capital sum advanced by the three Governments to the Commis-

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sion should be suspended as from the 1st January, 1942, and that the amounts unpaid from that date should be treated as a debt. It has subsequently been agreed that the payment of interest and sinking fund contributions should recommence at the end of the financial year in which the shipping of phosphates from the Islands was resumed; that is, at the end of the year 1946-47. It has further been agreed that in order to meet the difficulty with which the Commission will be faced in the reconstruction period, when production may be expected to be abnormally low, payment to the partner governments taken together should be at the rate of 7s. sterling per ton of phosphate shipped for a period up to a date three years from the end of the financial year in which shipments recommence; that is to say, for the three years from June 30th, 1947, to June 30th, 1950. The United Kingdom Government have also agreed with the Commonwealth and New Zealand Governments that the rate of interest payable by the Commission on the loan should be reduced from 6 per cent. to 4 per cent. on the condition that interest will also be paid on sums which have been reinvested in the undertaking. The various details in connection with this proposal are still under discussion.

3768. On previous occasions the Committee have asked whether some fuller accounts might not be published than those contained in the White Paper.* I think the matter was to be raised, was it not, with the Dominion Governments?—Yes.

3769. Can you tell the Committee about that?—Perhaps I might ask Mr. Bankes Amery, who is the United Kingdom Commissioner, to explain the position?

3770. If you please?—(Mr. Bankes Amery): My predecessor, Sir Arthur Gaye, referred this question to me as the result of the evidence which he gave last year. Consequently I have been closely into the question with my Australian and New Zealand colleagues during my recent visit to Melbourne and the Islands, from which I have only just returned. The present printed accounts are designed, if published (and there was a general suggestion that even they should not be published during the war), to give all reasonable information to the public, and they meet all requirements in Australia and New Zealand, where the phosphate is consumed. The confidential accounts have always been prepared to furnish additional information to the three partner governments and, of course, to the Public Accounts Committee here. By Article 13 of the Agreement, which was confirmed by legislation in this country in 1920, the Phosphate Commissioners are exempted from political direction, management or control in working, shipping or selling the phosphate. This shows that they are responsible for conducting the undertaking upon commercial lines. The printed

accounts contain information of the type which a purely commercial concern conducting such an undertaking in Australia and New Zealand would be likely to publish. My colleagues and I feel that the publication of fuller information would involve disclosure of confidential information to other phosphate producers, to manufacturers and consumers of superphosphate, and indeed to foreign governments and organisations, of a character which might prejudice the commercial activities of the Phosphate Commission. For these reasons the Australian and New Zealand Commissioners who, it will be remembered, represent the majority of the capital of the Commission, namely, 58 per cent., concur in the view expressed by Sir Gilbert Upcott and Sir Eric Mactig at the last meeting to the general effect that the Commissioners must in this matter conform generally to the practice of other international trading concerns and to the views of Australia and New Zealand. For these reasons my colleagues and I, indeed the whole Board, would much prefer to maintain the existing practice, but on the understanding that they will endeavour to supply the fullest possible information to this Committee at all times.

3771. Paragraph 4 tells us about the resumption of operations in Nauru and Ocean Islands. Now that you are able to resume the production of phosphate, or will shortly be able to do so, upon the Islands, will you close down on your outside activities?—We shall not be able to consider that for several years yet. The consumption of phosphate in Australia and New Zealand is running in the neighbourhood of 1,100,000 tons per annum. It will be about three years before we shall be able to produce that kind of quantity in our own Islands. In the financial year which is ending at the end of this month we shall have produced and shipped 230,000 tons and if the Committee would care for it I could give careful estimates of the quantities we hope to produce during the next two or three years. It will be on a progressive basis, mounting each year by approximately 300,000 tons, and so we expect by round about 1950 to be nearing full production.

3772. When you can achieve full production in the Islands is it your intention to curtail your other activities?—I think the answer to that question depends on the extent to which the consumption of superphosphate in Australia and New Zealand may have been increased in the meantime. There is a demand at the present time in excess of the supply. The import of phosphate at the present time is limited to some extent by the capacity of the manufacturers of superphosphate in Australia and New Zealand. It may well be that in another three years time their capacity to produce and deliver superphosphate from

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and Mr. BANKES AMERY, C.B.E.

[Continued.]

phosphate, may have been increased. We may then be under an obligation to satisfy whatever increased requirements are agreed by the Governments in Australia and New Zealand.

3773. But your main preoccupation is to have sufficient supplies to meet demands in Australia and New Zealand?—That is so, and also in the United Kingdom if the demand ever arose. At the present time there is no demand because it costs too much to ship the phosphate here.

3774. Are you the author of the very vivid report of conditions in the Island which we have with the confidential accounts?—No, I am not the author of that report. The author of that report was a member of the first party who went to the Islands with the Australian Forces in order to take over control from the Japanese.

3775. You have been to the Islands since the Japanese occupation, have you?—I was there last March. I made an extensive investigation on each Island.

3776. I hope things were a little better by the time you got there?—They were very much better.

Chairman.] Are there any questions on paragraphs 3 to 6 of the report of the Comptroller and Auditor General in the

Trading Accounts and Balance Sheets, or on the Account on pages 12 to 13; we will take the Account together with the paragraphs. We also have before us the confidential report and accounts of the British Phosphate Commission for the year ended 30th June, 1945. Has any Member any questions on those accounts?

Mr. Benson.

3777. Was the condition of the Islands due to Japanese morale having gone to pieces?—I am afraid I can only guess at that answer. The population of the Islands during the Japanese invasion was immensely greater than had ever been accommodated before. I think, speaking from memory, there were over 4,000 Japanese in Nauru and a large number in Ocean Island. The Islands are quite incapable of supporting that number without imports, and so the Japanese set to work to grow whatever they could for themselves by rather unsavoury means.

Lieut.-Colonel Hamilton.

3778. Does the expansion of phosphates in Germany come into this at all?—No, not at all.

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

The witnesses withdrew.

Adjourned till Tuesday next at 3.45 p.m.

TUESDAY, 17TH JUNE, 1947.

Members Present:

Mr. PEAKE in the Chair.

Mr. Cuthbert.
Lieut.-Colonel Alan Dower.
Lieut.-Colonel Hamilton.
Mr. Horace Holmes.

Mr. McAdam.
Sir John Mellor.
Mr. Thurtle.

Sir FRANK TRIBE, K.C.B., K.B.E., Mr. D. F. C. BLUNT, C.B.,
and Mr. C. E. I. JONES called in and examined.

TREASURY MINUTE ON THE SECOND REPORT OF THE COMMITTEE OF
PUBLIC ACCOUNTS, 1945-46.

Sir ARCHIBALD ROWLANDS, G.C.B., M.B.E., called in and examined.

Chairman.

3779. Sir Archibald Rowlands, I understand you were with the Ministry of Aircraft Production in its early days, in 1940?—*(Sir Archibald Rowlands.)* Yes.

3780. But until quite recently you have been Finance Member of the Government of India?—That was one of the interludes in my career since the war, yes.

3781. And also Chairman of the Public Accounts Committee in India?—Yes, I had that great pleasure of being on the other side of the table for a short time. From that you will know that I was not present in either Ministry at any time during the period covered by these Accounts, but nevertheless I am responsible.

3782. You accept responsibility?—Yes. I signed the Accounts.

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[Continued.]

3783. Will you turn to the Treasury Minute on the Second Report of this Committee of 1945-46? That is the report on what we knew as the Simmonds Group of Companies?—Yes.

3784. The Treasury Minute, in the second paragraph, states: "My Lords understand that, following the Report of the Committee, the directors of the Company intimated that they were willing to enter into further negotiations with the Ministry on the question of a voluntary refund, but that although representations have been made to the Company no definite offer has yet been received. Their Lordships would be glad to be furnished with a report on the present stage of the discussions with the Company." Have you furnished a report to the Treasury?—Not formally. They know the present position. The position is that on the appearance in the newspapers of this offer on behalf of the Company to enter into negotiations with a view to a refund we did get in touch with the Company. I am afraid negotiations were not very

satisfactory for a long time. Then, Sir Oliver Simmonds, who alone, apparently, could handle it, went to America on a prolonged visit. When he came back I got in touch with him personally; I wrote to him personally. I had a meeting with him. I have quite recently, within the last ten days, received an offer from him. The offer has certain conditions attached to it so I am not in a position to say that we shall necessarily accept the offer.

3785. You will have to give it further consideration?—Yes. The offer was of £150,000 refund, subject to our waiving claims amounting to about £45,000 by ourselves and other Government Departments. It was a net offer, really, of about £105,000. There were certain conditions attached to it which we are examining and will examine in consultation with the Treasury.

Chairman.] I do not think we can carry the matter any further today, then. Are there any questions on the Treasury Minute on the Second Report of the Committee of Public Accounts, 1945-46?

CIVIL APPROPRIATION ACCOUNTS (WAR SERVICES), 1945-46.

CLASS X.

VOTE 2.

MINISTRY OF AIRCRAFT PRODUCTION.

Chairman.

3786. Will Members turn to the Civil Appropriation Accounts (War Services), 1945-46, to paragraph 9 of the report of the Comptroller and Auditor General? Paragraph 9 is just narrational, I think, and tells us the position about the winding up of the Ministry of Aircraft Production?—(Sir Archibald Rowlands.) That is so.

3787. Paragraph 10 deals with a technical irregularity, on which perhaps you would like to make a short statement?—No, I think the position is fully set out by the Comptroller and Auditor General. We, of course, know the rules and we are bound by them. I can only confess that on this occasion the rule was not strictly observed, although there was no desire to charge to the year of account money that might have been chargeable in the next year because of the delay in sending off the warrants. We fully reported to the Treasury and, as you see, the Treasury agreed that the main item, which was nearly £4 million, should be charged to the year of account. We fully know the rule and are bound by it.

3788. This happened at the end of March, 1946?—Yes, that is so.

3789. Has it happened again at the end of March, 1947?—I am afraid there was a similar error, but in regard to a very much smaller amount, at the end of the following year. There were two cases, in point of fact, one for about £40,000 and the other

for £88,000. The £44,000 was really a delay in the post. The warrants had been properly sent forward and signed. That is being charged in the year of account, but the other sum is being carried forward to this year.

3790. Can you give us an assurance that it is not likely to happen in the current year of account?—Subject to the frailty of human nature, certainly. Instructions have been issued and re-issued. You must remember that during the war this sort of thing was not of much importance. The staff were new. The old Civil Servant knows the rule very well and we hope that the new ones know it as well. We have re-issued instructions on it.

3791. Are there any questions on paragraphs 9 and 10? Paragraph 11 deals with the termination of contracts: that is to say, I take it, giving notice that the contract should be prematurely finished?—That is so, in accordance with the standard clause that appeared in all contracts, the so-called "break clause," which gave us the power to do that.

3792. Is good progress being made with the termination of contracts?—Yes. The total number of contracts that was cancelled between September, 1944 and March, 1947, was 25,000; in other words, an increase of 2,000 over the numbers given in the Comptroller and Auditor General's report, which was only up to the end of last year. The value of the contracts cancelled

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for that period amounted to £535 million. We have settled 22,500 out of the 25,000 and of those 12,000 were settled without any cost at all to the Exchequer.

3793. That seems quite satisfactory?—Though it is not quite as good as it might appear, because in those cases it really was not a question of the operation of the break clause. They had nothing on hand in respect of which they wanted to claim anything, and we settled those 12,000 really on the basis of stuff they had already made for us under the contract or had nearly completed and which it was not worth stopping.

3794. Are there any questions on paragraph 11? Paragraph 12 is, I think, purely narrational. In paragraph 13 the Comptroller and Auditor General states: "I notice that when negotiating prices in February, 1946, in the light of technical costs, for deliveries in the year to 31st March, 1946, by one large firm whose actual profits had generally been about twice the estimated rate, the Ministry claimed that past costs must have been over-estimated." Could you give the Committee the name of the firm?—Yes [name given.]

3795. The Comptroller and Auditor General goes on to say: "A reduction from the price indicated by the current cost estimates was agreed in this case." Could you tell the Committee the amount of the agreed reduction?—In 1945? It varied with the engine. We negotiate a price for each separate type of engine.

3796. It was a substantial reduction?—No, it was not very substantial; it was 1½ to 2½ per cent. reduction.

3797. The Comptroller and Auditor General states: "but no such adjustment has been claimed in any of the other settlements examined by my officers"?—Of course we do it as a matter of routine when we come to negotiate a new contract with a firm with which we have had previous contracts, and we have available the outcome of those contracts in terms of profits. If the profits are very substantial we always bear that in mind as a factor in negotiating a new price. In the ultimate result the price is the result of hard bargaining on both sides. You cannot necessarily say: "We will not give you more than that," the other side saying: "We will not take less than that." We start in that way, but in the ultimate result we have to come to an agreement. We have available to us what we think is a pretty good technical cost estimate and the firm have a pretty good idea of what it costs them to make these things. As I say, in the end it comes down to agreeing a figure, but we do, every time, make use of the fact that if they have made more on a previous contract than we

had in mind when we fixed the price we bring that prominently to notice in the negotiations.

Chairman.] Are there any questions on paragraph 13?

Mr. Thurtle.

3798. I take it you felt there was no justification at all for asking for a lower cost in any of the other cases?—We do it always for every contract we make. In the other settlements mentioned by the Comptroller and Auditor General I assume we did not think there was a case.

3799. I just wondered why the sentence was written in that form. It rather implies surprise that there had not been claims made in other cases?—I think partly the reason is this. The firm in question is one of our biggest suppliers. Their contract is very high in terms of total cost and we do rather spread ourselves on paper before we go into action with them. We do not necessarily do it with every other contract but in the negotiations with the firm all these things are taken into account, and the Comptroller and Auditor General has obviously seen the spreading of the whole story of the contract and has not for the others.

Chairman.

3800. Are there any further questions on paragraph 13? We pass to paragraph 14, in which the Comptroller and Auditor General tells us in regard to Agency Factories that the Ministry kept their books for 1945-46 open until the end of December last. The only question I have on that is: can the accounts be rendered earlier in future to the Comptroller and Auditor General?—Yes. This was done quite deliberately with the knowledge of the Comptroller and Auditor General, although I do not say with his concurrence, in order to start the new Ministry, the combined Ministry, off as free as possible of all the charges relating to the Ministry of Aircraft Production and the Ministry of Supply separately. It was quite deliberate. It will not be done again. The Committee might be interested to know that as a result of keeping the books open for three months (we normally close them at the end of September) we cleared debits to the extent of £91 million and credits to the extent of £87 million from suspense, and the accounts of the combined Ministry therefore were relieved of that heavy burden of dead wood.

3801. Are there any questions on paragraph 14? Paragraph 15 deals with suspense accounts over a number of years past, does it not?—It was a suspense account

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[Continued.]

that was there at the end of the year, yes. Actually, I am in full agreement with the implied criticism in the report that we should reduce our suspense accounts to the lowest possible limits, and in fact we are doing it. With regard to the £723,000 referred to in the Comptroller and Auditor General's report we are in the process of reducing that one to £100,000.

3802. What do you say in answer to the statement in the last part of the second subparagraph in which the Comptroller and Auditor General states: "I have recently asked whether the Ministry are satisfied that in general the expenditure not charged in the Account is of such a nature that further investigation is likely to be of advantage to public funds"?—I fully agree with that, and that accounts for the very considerable reduction in the amounts.

3803. I think I saw in one of the newspapers recently that the Ministry of Supply had drawn a cheque in somebody's favour for the small sum of a penny. Did you observe that account?—Yes, I did. It was the subject of a Parliamentary Question.

3804. Does that indicate that a certain amount of accountancy time has been wasted?—I quite agree, but I do not think that is typical. It was the correction of an error between the amount in our books and the P.M.G.'s books. I entirely agree that it should not have been pursued.

3805. I thought perhaps you were taking the view that if you look after the pence the pounds will look after themselves?—We get cheques for similar amounts from contractors, occasionally. They want to clear their books. But I entirely agree it was absurd.

3806. Are there any questions on paragraphs 15 and 16? We pass to paragraph 17, which deals with stocktaking. We are told: "Most results were not satisfactory, the discrepancies found being such as normally occur in course of production. Some results, however, could not be reconciled with factory records, including those of a factory which on termination of the agency was taken over for commercial use by a firm associated with the agent. The Ministry's accountants reported that there had been so much intermingling of assets between the agent, the Ministry's factory and the other firm that stocktaking was most difficult. Not all the Crown property was marked as such, and the plant registered did not record the location of the assets. Moreover, plant issued on loan during production had not been returned, and numerous items had been removed apparently without authority." Could you tell the Committee, first of all, what this factory is?—There is more than one factory. There are two firms in question. It is not quite accurate to say that they are associated, but the same managing director was in charge of both for a short

period. He has now ceased to have anything to do with the first firm, which is the British Manufacture and Research Company, which made our 20 mm. guns for aircraft during the war. They were originally Hispano-Suiza of France and Switzerland. They established a factory at Grantham just before the war and were the main suppliers of the 20 mm. gun that was put in our fighter aircraft during the war. Their managing director was, as you know, Mr. Kendall, a Member of this House. He also was managing director of another firm called Grantham Productions Limited, but there was no connection between the two firms except in the person of Mr. Kendall. British M.A.R.C. occupied four main buildings, known as Factories One and Two and Three and Four. One and Two originally belonged to the British M.A.R. Company themselves. They built Factory No. 1, and they built an extension on to it which was known as Factory No. 2. The Ministry of Aircraft Production built two new factories to cater for expanding production, known as Factories Three and Four, in addition to which, partly as a dispersal measure, a number of small factories were erected in the immediate neighbourhood of Grantham, chiefly on Lord Brownlow's estate. There were about 7, quite small things; some of them only large tin sheds. They were all managed by British M.A.R.C. The British M.A.R. Company sold to us Factory No. 2 as a part, really, of the settlement which emerged from the examination by the Public Accounts Committee in 1942 and 1943. So the position at the end of the war was that of the four main factories, No. 1 belonged to the Company; Nos. 2 and 3 and 4 belonged to us, and they were managed on a "shadow" basis. At the end of the war, when notice of cessation of production was given, the position was that Mr. Kendall, was still managing British M.A.R.C., and he also managed Grantham Productions, a firm that originally was employed mainly, I believe, on manufacturing the Oerlikon gun for the Navy, but which, at the end of the war, went into the manufacture of the so-called "People's Car" and also a small agricultural tractor. It is the case that some of the machine tools that had been supplied for the manufacture of Bren guns were removed from these factories and used by Grantham Productions Limited without our knowing about it at the time. Factories 1 and 2, as I explained earlier, are really one building, and it was frightfully difficult to identify anything. There was a continual movement of machine tools between 1 and 2; and the factories belonging to the Government, namely, Factories 2, 3 and 4 were leased by the Board of Trade to Grantham Productions Limited for the purpose of manufacturing the "People's Car" and these tractors. I do not think there is any doubt about it that some of the machine tools belonging to the Government were used, but it is fair to Grantham Productions Limited to say that they did give

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notice that they wished to purchase some of these machine tools from us, but they rather got hold of them before they identified all the machine tools they wanted to buy. It is our practice and our policy to sell machine tools to the occupants of factories which we have used during the war, if they want them, and to declare the rest redundant. Sometimes, before they have made up their minds they say: "We are not sure. We would like to use identifiable machine tools" and we charge them a rent for them. But I think there is no doubt that a certain amount of movement of machine tools went on between these various factories, including these dispersed factories on the Brownlow estate, without our knowing exactly what had happened.

3807. If I may interrupt you there, in reply to the rather mild criticism of the last sentence of the paragraph, are you satisfied that all practicable steps have been taken to identify and safeguard Government property?—Yes. I can give you a firm assurance that we have traced and know where every machine tool that we supplied on Government account is, whether it was supplied to British M.A.R.C. for the purposes of making the 20 mm. gun or was taken over by Grantham Productions Limited. We have every single machine tool and we have got a complete reconciliation now between the machine tools we provided and the machine tools which are there.

3808. Nothing is missing?—Nothing is missing.

3809. So you will either get back your machine tools or the price of the tools?—That is so. We have sold some of the tools to British M.A.R.C. It is a different company.

3810. Are there any questions on paragraph 17? Paragraph 18 is narratival and I do not think we need trouble with that. Paragraph 19 deals with the disposal of factories and plant. We have had before us already certain particulars about the rentals at which surplus factories have been leased by the Board of Trade. This deals with the sale of factories?—That is so. We do not normally, if I might explain, sell factories. The normal Government policy is to lease them, but certain arrangements made with certain firms provided, in the management agreement for the factory, that they could exercise an option either to purchase or have a first refusal at the end of the war, and these are cases where that option has been exercised. But they are very few out of the whole number of factories we had.

3811. Did the options contain a provision that the factory might be purchased at the 1939 value, less depreciation?—No. There were no precise terms. I think the terms provided that it was to be a price to be agreed, and normally we look to the Valuation Department of the Inland Revenue to advise us as to what is a proper price.

3812. The figures shown in the second column here are the 1939 value, irrespective of the date when the factory was erected. It might have been erected in 1938 or 1942?—Yes. Most of them were erected between 1938 and 1942 or 1943.

3813. Then the value of the factory, I suppose including a certain amount of plant, has been depreciated in the case of buildings at 2 per cent., which is the Inland Revenue rate of depreciation, and I suppose in the case of the tools, and so on, at the appropriate rate?—Yes. Tools and plant are quite separate. This is buildings.

3814. These are buildings only?—Yes. There is a separate scheme altogether for machine tools.

3815. When we look at the third column we find the price at which the factories were sold, and sold by private treaty, not by public tender, were in these five cases very much below the 1939 values?—Yes.

3816. Could you give us the reasons?—I think so. In the first place, of course, a lot of these factories contained buildings, and so on, which were so laid out that they were not of much value to the company acquiring them. Secondly, all these factories are light metal factories. It was deliberate Government policy to encourage the maintenance in this country after the war of the very successful and expanding light metal industry that had been established immediately before and during the war. To give you an example of how great a success that has been, in 1933 the total consumption of aluminium in this country was only 15,000 tons. It only rose to about 80,000 tons in 1939 even with the expanded aircraft programme. Last year the consumption of aluminium in this country was about 176,000 tons, and for the first quarter of this year it is running at the rate of 200,000 tons. It has established itself very successfully. Of course, it has been helped by the fact that it is a substitute for other materials in short supply, like timber and steel, but nevertheless we have every hope that it will become a very prosperous industry in this country.

3817. Are all these five factories dealing with aluminium manufacture?—Yes. I can give you details of them all. Factory A is a sheet strip rolling plant at Falkirk, sold to the British Aluminium Company. Factory B is a light alloy sheet and extrusion works in South Wales, sold to Imperial Chemical Industries. Factory C is a mixture of factories, really. It was sold to James Booth, who are light metal fabricators. Factory D is a small foundry at Wednesbury. Factory E is a mechanised foundry. It was owned by Short Brothers, which is a completely Government-owned firm, as you know. That is the lot. In one case you will notice we did, in fact, seek outside advice, in Factory D, where the depreciated value was £132,500 and it was sold for £90,000. We got Brassert's to advise us

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[Continued.]

as to whether the claim of the factory, in negotiating the price, that they would have to spend a lot of money to make it of any use to them was justified. The figure we got was based on that advice.

3818. On the face of it, it would appear, to take Factory A as an example, that somebody who was getting a factory at much less than half of the 1939 value (and I assume that the cost of building a factory since 1939 has probably doubled) was getting a very good bargain?—He was, but, as I explained, a lot of this factory was not of much use. Some of the expansion of the light metal industry during the war is of very little use in peacetime. Sheet and strip is the main use of light metals in peacetime. At most of the foundries there is very little forging done. There is quite a bit of extrusion still going on but there is very little forging done in this country. It is only used really for special parts of aeroplanes, and a great part of this factory really was not of much use to the company. I may say the Treasury were in on all these prices.

3819. We will take paragraph 20 with paragraph 19 because paragraph 20 deals with the sale of Ministry installation on contractors' premises?—Yes.

3820. Would you tell me which is the largest case referred to in the fifth line from the end of the paragraph?—The De Havilland Aircraft Co., Ltd.

Chairman.] Are there any questions on paragraphs 19 and 20?

Mr. Thurtle.

3821. I gather that all these prices for these factories were fixed by private negotiation?—Yes.

3822. You say that a number of the companies who bought these factories really had not got full use for them? They could not fully utilise them?—That is so.

3823. But there may have been other companies which, if these factories had been brought into the open market, could have made full use of them, I take it?—They would have had to be in the light metal industry. Another factor that entered into it was that we did not want an interruption of production, for labour and other reasons. We did not want to get them merely into the hands of finance houses.

3824. If it had been made public that these factories were for sale, you would then have found out for certain whether other companies could have made use of them or not?—One factory was, in fact, advertised for sale, Factory D. In other cases there was a definite option to buy on the part of the companies.

3825. I was thinking of the two very big factories, because I should imagine the market price of these buildings, as apart from their depreciated 1939 value, would be considerably higher than the 1939 value?

—I do not think there is any doubt about it, if they could be used for that purpose.

3826. Did it not occur to the Ministry that they might make known to industrialists that such factories were in the market, as it were?—As I explained, it was definite Government policy to sell these light metal factories at specially favourable terms, and the only people to buy them, even when they did not have the option, were the people in the business at the time.

3827. Not all the people in the business would have known of them?—I think so. I think it was pretty well known. There is not much in the light alloy industry that is not known to every member of it. Some of the factories we have not sold even yet.

3828. There was a definite decision by the Government?—By the Cabinet.

3829. That they were not to be sold to any other people except the light alloy industry?—My brief would not enable me to say that definitely.

3830. But surely that is what your answer amounts to, that they were to be kept inside the light metal industry?—Yes, inside the light metal industry. That was a definite decision, but not to the individual firm, necessarily.

3831. They could not be sold to any other industry?—No. That was definite Cabinet policy. I may say the Treasury came specially into these negotiations because of the very fact that we were selling at less than the full price. The Treasury were associated with the negotiations.

3832. I can understand the desire of the Government to continue the light metal industry, but I do not quite see why it was necessary for the Department to let them have these factories on such advantageous terms?—It was a new industry. They did not know whether they were going to make it pay. I think you will find, when you come to examine me on the Vote of Credit, that a similar sort of thing went with the price of aluminium in the immediate post-war years.

Mr. McAdam.

3833. The cost price of Factory A was £3,100,000?—Yes.

3834. The depreciated 1939 value was £1,767,000?—Yes.

3835. Is that not a very generous depreciation if you look at the 1939 depreciated value in comparison to the actual building cost?—That was the valuation placed on it.

Chairman.] I do not think the difference between those two figures is all depreciation. This was probably a factory put up after 1939, the value of which has been written down on account of the increased cost at the time of erection over 1939.

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[Continued.]

Mr. McAdam.

3836. Over the 1939 price?—Yes, that is so.

Chairman.] I think that is the point. Are there any further questions on paragraphs 19 and 20?

Mr. Cuthbert,

3837. These firms were all private firms to which these factories were sold? None of them are Government-owned?—No, they are not Government-owned.

3838. They are all private?—One factory was owned by a Government company, namely, Short Brothers. That was actually sold as the result of an advertisement. That was not a light metal factory. That was a mechanised foundry.

3839. Would it be a fair question to ask, Sir Archibald: as the Cabinet did decide to sell these assets, as it were, at such a very low valuation, are they really making a profit in this industry now, with this great help?—I think they are, yes. They are a pretty prosperous industry. During the war they made enormous profits and made rebates amounting to about £40 million.

3840. I mean, since they were handed over to these private companies?—They do appear to me to be doing pretty well.

Chairman.

3841. We pass to paragraph 21. What is the unsecured loan mentioned in the first two lines there?—This was a loan of £450,000 made to the British Aluminium Company, who have got a factory in Scotland, as you know. The capacity of it before the war was about 30,000 tons. We wanted to increase that capacity by about 5,000 tons and we gave them a loan for that purpose amounting to £450,000. I could qualify that statement, but for the purpose of the Committee that is the position. In point of fact part of the loan went to help them with the cost of a hydro-electric scheme which they wanted in connection with the factory.

3842. Can you tell me why no rate of interest on the loan was fixed at the time when it was made?—Negotiations between the company and the Ministry contemplated 4 per cent interest. It was a 20 years' loan repayable in accordance with the amount of aluminium produced by the factory above 30,000 tons. It was contemplated that interest should be paid at 4 per cent., but the full interest would be abated if in fact the output of the factory was less than 35,000 tons in any year, and it would be waived altogether if it fell below 30,000 tons. But it was only waived for that year. It would have been added to the capital debt. That is what was contemplated by the Ministry at the stage when the negotiations took place, but the agreement, as the Comptroller and Auditor General points out, has never yet been signed.

3843. Is it not a little unbusinesslike to make a loan and not to have an agreement as to its repayment?—You very often make a loan before you have got the agreement signed.

3844. It is a good many years ago since this loan was made?—I quite agree. The reason for it is that there has been a dispute between the company and the Ministry as to the rate of interest to be paid, and also about the provision that interest waived in one year, in accordance with the agreement, should be capitalised and added to the loan.

3845. Do you anticipate arriving at some final settlement with the company about this loan?—Yes. But may I explain the present position. It has only just been settled. The reason why the company objected to paying 4 per cent. and to capitalising unpaid interest in any particular year was that they contended that it was the intention from the beginning that the terms of the loan made to them should be no less favourable than the terms of the loan we made to a Canadian company, which amounts to about £13 million, for the erection of additional aluminium capacity in Canada, at a place called Arvida. It is one of the largest aluminium factories in the world, and produces the cheapest aluminium. There is no absolute valid confirmation of that in any of the Ministry's records, and the officers who handled the matter at the time have been consulted and they cannot charge their memories one way or the other. But there is internal evidence to the effect that it was an implied understanding that the terms finally to be settled in respect of this loan to the British Aluminium Company at Lochaber should be broadly the same as the terms in respect of the loan made to the Canadian company. The Canadian company's loan was, as I say, about £12 million or £13 million. That was also for 20 years. It was not repayable, as a matter of fact, until the end of the 20 years. It contained similar clauses providing for an abatement even of the capital itself if the output of the factory fell below rated figures (I will deal with that when I come to the Vote of Credit, if I may) and also waived interest or reduced the interest proportionately if the output from the factory fell below agreed figures. The British Aluminium Company claimed that they ought to get no less favourable terms than that.

3846. Can you tell the Committee the date when the loan was actually made?—In 1940.

3847. You say that you have recently come to a final settlement with the company?—May I say that the company have been paying capital and interest based as far as capital is concerned, on the provision of the agreement, and as far as interest is concerned on the basis of 3 per cent., which they claim to be the proper figure.

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[Continued.]

3848. But the dispute as to whether the interest should be 3 per cent or 4 per cent. is still outstanding?—It is outstanding to this extent, that we have not yet told the company that we accept their contention. But we have the Treasury approval that we should so accept. It was intended at one time that this dispute should be sort of caught up in a further scheme that the company had for expanding their production, abroad chiefly, but that scheme has not come off.

Chairman.] Has any Member any questions on paragraph 21?

Mr. Thurtle.

3849. The loan was actually made in 1940, I gather?—That is so.

3850. This argument which developed as to the right of the company to have the loan on the same terms as those given to the Canadian company did not develop until after you had paid the money?—That is so. It has been continuing until this very moment.

3851. It would not have developed, presumably, if, before you had paid the money, you had got their agreement to the terms which you thought of imposing?—The Ministry did think that in discussion with the chairman of the company they had got his agreement to that (there were several meetings about this) and he appeared at the time to accept 4 per cent., but when he became aware that the terms conceded to the Canadian company were more favourable he refused to sign the agreement and the dispute has been going on ever since.

3852. If I may put it with respect, is not that just the weakness? A borrower, if he once gets his money, is then in a position to dispute what he should pay by way of interest, but if you do not let him have the money until he has agreed to the rate he is usually prepared to agree?—I know that. I quite agree that if the company had signed the agreement in 1940 they could not have got out of it, of course. But they contend that it was always an implied condition that the final terms to be agreed should be not less favourable than those terms which were simultaneously being negotiated in Canada by the Ministry.

3853. Yes, but they did not say that until after they had got the money?—I do not know exactly the date on which they got the money.

3854. I presume this was an exceptional action on the part of the Department? They would not normally lend people money without denitely settling by way of agreement the terms upon which that money is lent?—I quite agree. I am suggesting that the Ministry thought that in

discussions with the company they had got that agreement. After all, the British Aluminium Company do not go back on verbal agreements they make. There is a conflict of evidence as to whether the company and the Ministry were *ad idem* about the precise terms of interest.

3855. The agreement you relied upon was a verbal agreement?—Yes.

Chairman.] Things were sometimes done a little hurriedly in the Ministry of Aircraft Production in 1940, were they not?—Yes; but in this case it was done hurriedly even in the Ministry of Supply, because they started this. The Ministry of Aircraft Production took it over later.

Mr. McAdam.

3856. I assume the factory is the one at Lochaber?—Yes.

3857. Would the Scottish Office have anything to do with the negotiations in respect of the loan at that particular time?—Great though our respect is for the Scottish Office, we think we can make bargains as well as they can, even with a Scottish company.

3858-9. I was thinking about the Secretary of State for Scotland at that particular time and his advocacy in connection with that scheme. I was wondering how far he was in the negotiations?—He had nothing to do with the negotiations.

Chairman.

3860. Are there any further questions on paragraph 21, or on paragraph 22? We pass to the Account, which is at pages 8 to 10. I have only one question and that is on the notes on page 10. No. 6 is dealing with extra-contractual and *ex gratia* payments and Item (i) is: "Payments towards losses incurred on reduction of controlled sale price by scrap metal merchants on excess stocks purchased at the instance of the Ministry," an *ex gratia* payment of £115,000?—Yes.

3861. It seems a good big sum. Could you explain it to us?—Yes. I know the case. During the war it was urgent to clear the factories of all the scrap which was accumulating at a very quick rate, and we pressed the scrap merchants to take the scrap as soon as it arose. We were concerned with two things, namely, saving the scrap for remelting and clearing the factories of the accumulated scrap. One of the largest of the scrap merchants, named Coley & Sons, did cooperate to the full and bought a very large quantity of scrap. They had it on their hands when the price of scrap fell in sympathy with the fall in the price of virgin aluminium, which fell as the war approached its end. They claimed that

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they had made a much heavier loss than what we gave them.

Chairman.] Thank you. I am quite satisfied with that. Are there any questions on

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

TREASURY MINUTE ON PARAGRAPHS 42 AND 43 OF THE FOURTH REPORT OF THE COMMITTEE OF PUBLIC ACCOUNTS, 1945-46.

Chairman.

3862. I think we can take this Treasury Minute quite formally because the same

question is raised on the Vote of Credit Appropriation Account?—(*Sir Archibald Rowlands.*) That is so.

VOTE OF CREDIT APPROPRIATION ACCOUNT, 1945-46.

MINISTRY OF AIRCRAFT PRODUCTION.

Chairman.

3863. Will Members turn to the Vote of Credit Appropriation Account, 1945-46, to paragraphs 29 and 30 of the report of the Comptroller and Auditor General?—Paragraph 29 deals with the loss on the sale of the Ministry's stocks of aluminium by reason of the reductions of the control selling price. I do not think the Committee dissented from the Ministry's view that it was advantageous to proceed with an orderly liquidation of the stocks. It is indicated here, however, that the loss for the year 1945-46 will not be less than £5 million, and there may be further losses in the subsequent year. Can you give us the latest figure for the losses?—(*Sir Archibald Rowlands.*) Yes. The total loss on the trading account for 1945-46 is in fact £6,829,500. But that is not all due to the reduction in price. Over £1 million is due to the fact that when we cancelled a Canadian contract we were, under the contract, compelled to pay compensation, and the thing was settled for £1,130,000. Again, the price paid to the British Aluminium Company is considerably higher than the price paid to Canada although we only sell it at the same price as we sell the Canadian metal. We took the opportunity of writing down the total stock left (that had been bought at the old higher price of about £112 per ton) on the 31st March, 1946, to the reduced price of £80 per ton which ruled throughout 1945-46. So the position, briefly, is that in respect of the sales that took place in 1945-46 the trading loss was £2,676,000. The difference between that and the £6 million that I have quoted is due firstly to our writing down what remained in stock and had not been sold and which accounts for £2,073,000; a payment of £1,130,000 to the Canadian Government; and £950,000 (you can call it subsidy if you like) to the British Aluminium Company.

3864. That payment to the Canadian company was an obligatory payment?—Yes. We had entered into a contract to buy a great deal of aluminium. As the war was approaching its end the Cabinet gave a date at which we should reduce

aircraft production, and we reduced the contracts very considerably.

3865. Passing to paragraph 30, can you tell me why the selling price of aluminium was reduced in April, 1946, from £85 a ton to £67 a ton, when we are told here that it appears that the selling price in the United States was £78 a ton?—There were two reasons for it. Reason No. 1 was this, that the Ministry of Supply were the sole buyers and sellers of aluminium in this country. We were in fact buying under a new, highly favourable contract. The second thing was that as part of the policy to establish a flourishing light metal industry in this country it was thought right that we should sell to the industry at no profit the metal we were buying currently in Canada.

3866. There was an element of subsidy to the light alloy industry?—There was no element of subsidy in this sense, that in respect of the aluminium we were then buying currently; we were recovering the additional cost.

3867. There was an element of subsidy in that you were selling below the world price of £78 a ton?—That is so. If I may carry the story a bit further, the policy has been completely successful and we think that the aluminium fabricating industry now can stand on its own feet, and we have recently raised the price of aluminium from £72 15s. to which it was raised, as you see, on the 9th September, 1946, to £80 a ton, which is £2 a ton more than the American price.

3868. More than the American price at the time when you raised the price?—The price to-day. At the time we raised it, yes. The American price has remained at about £78 and we are now selling the aluminium in this country at £80 a ton, the object of that being that we shall cover all the costs of the subsidy which we will continue to pay, but on a much reduced scale, to the British Aluminium Company. We shall be selling at a cost which will cover us—both the price we are paying the Canadians, plus the freight, insurance, storage, and so on, and the extra cost we are paying the British Aluminium Company over the

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[Continued.]

price we are paying to the Canadian company. We will break even, in other words. There will be no losses on future transactions.

3869. This may be rather a difficult question, but can you tell me what proportion of the aluminium industry, in the shape of finished articles, is purchased by His Majesty's Government eventually?—Eventually, if you are taking the housing problem—the aluminium house, and so on—about 50 per cent. I should say, at the moment.

3870. That includes aluminium for houses and aircraft?—Yes.

3871. I forget whether the Ministry buy pots and pans and things of that sort?—No. We collared them all at the Ministry of Aircraft Production, if you remember. Lord Beaverbrook did.

Chairman.] Are there any questions on paragraphs 29 and 30?

Mr. Thurtle.

3872. I see that on 1st April, 1946, it was estimated that we had sufficient stocks of aluminium then to last us through 1946 and part of 1947?—That is so.

3873. Yet at the same time, in April, 1946, it was thought fit to enter into this

TREASURY MINUTE ON PARAGRAPHS 9 TO 13 OF THE FOURTH REPORT OF THE COMMITTEE OF PUBLIC ACCOUNTS, 1945-46.

Chairman.

3876. These paragraphs deal with price-fixing arrangements with industries or trade organisations, in particular the British Electrical and Allied Manufacturers' Association, known as B.E.A.M.A., and the Technical Veneers and Plywood Manufacturers. In the last sentence of paragraph 13 of their report the Committee express this view: "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." The question which I want to put to you on that is: Do you read that recommendation of the Committee as an injunction to take steps to enable you to have access to the costs of these firms in order to claim refunds if the profits turn out unreasonably high?—(Sir Archibald Rowland.) We have no statutory power to claim a refund of profits made.

3877. Unless you put a term into the contract?—Yes. We have a contractual right but not a statutory right. There is no statutory right at all. We have a statutory right, which we exercised fairly frequently in wartime particularly, of access to a firm's books in order to establish that the prices they were charging us were fair and reasonable; but we have no power, unless it is written in the contract, to claim repayment of a contractual sum.

contract which ultimately had to be cancelled?—No, that contract was not cancelled. The cancelled contract was in 1944.

3874. It was an earlier contract?—Yes.

3875. I beg your pardon. I misunderstood that.—We are very glad we made that contract because the consumption of aluminium is going up by leaps and bounds in this country, and we get a very favourable rate for the aluminium. It is much cheaper than any other aluminium in the world, under this particular contract. It suited the Canadian company because they had extended enormously during the war, chiefly, I admit, with British Government money, and they wanted to keep themselves in production. They offered us a very favourable price which, incidentally, had the advantage of saving the Government a reduction in their interest payments and the repayment of their loan which they were entitled to get if the output of aluminium fell below a certain quantity.

Chairman.] Are there any further questions on paragraphs 29 and 30? We turn to Services 67 and 68 which are at page 14. The Services simply show the transactions in aluminium during the year of account. I have no questions. Has any Member of the Committee any questions? Now we turn to Ministry of Supply matters.

3878. But I imagine that the Ministry of Supply are still placing contracts with the British Electrical and Allied Manufacturers' Association?—Yes, definitely. We negotiate contracts with the individual firms, really.

3879. With the individual firms who are members of the Association?—That is so.

3880. Are you in fact obtaining a clause in the contract which gives you a right of access to their books?—We are trying to arrange something of that sort, but it takes two people to make a contract. We have invited B.E.A.M.A. as a matter of fact to furnish us with the evidence on which they base their new price list, which is higher than the old. They have agreed to this and are proposing to discuss it with our accountants. We are relatively only small consumers in relation to the total output of the B.E.A.M.A. firms now. During the war it was quite different.

3881. They are a price-fixing ring, are they not?—A price-fixing Association, among other things, yes.

3882. There is no effective competition between the members?—Not more than there is between any firms in an Association. The position is much more difficult in peacetime when we are not large consumers in relation to the total output than it was in wartime when ultimately practically everything was bought by the State, directly or indirectly.

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3883. The position is more difficult?—Yes.

3884. You are no longer the only buyer?—By no means. We are living in a seller's market, even in respect of Government stores. B.E.A.M.A. are a pretty tough lot. We say we can be tough, too.

3885. We thought some of the profits made on veneers and plywood were pretty tough when we examined this matter a year ago.—Yes. I cannot give you evidence on veneers, which has been passed to the Board of Trade.

3886. Is there a witness from the Board of Trade here?—We told him to arrive at about 5 o'clock. We have got through the Ministry of Aircraft Production Accounts rather more quickly than I expected. With regard to certain items made by members of B.E.A.M.A. they have offered investigation, such as immersion heaters and gas cookers which we are buying for the housing programme. They have definitely agreed to investigation of costs.

Chairman.] While we are waiting for the Board of Trade witness to arrive (the Board

of Trade witness will deal with veneers and plywoods) I do not know whether any Member of the Committee has any questions to put to Sir Archibald on the arrangements with B.E.A.M.A.

Mr. Thurtle.

3887. You do not know anything about the plywood and veneers business?—No, because the responsibility for raw materials was split in the middle of 1945, the Ministry of Supply remaining responsible for metals, and all other raw materials, timber, textiles, wool and flax went to the Board of Trade. (*Mr. Blunt.*) Our letter in the Treasury Minute, you will see, was addressed to the Board of Trade and not to the Ministry of Supply.

3888. I gather your Department is only a comparatively small customer of the electrical industry?—Relatively to the whole output, yes. Their business is mainly with electricity undertakings, the Central Electricity Board and people like that.

Chairman.] The Committee will now adjourn for five minutes till the witness from the Board of Trade has arrived.

(After a short adjournment.)

Mr. R. F. BRETHERTON, O.B.E., called in and examined.

Chairman.

3889. We are dealing with the Treasury Minute on paragraphs 9 to 13 of the Fourth Report of the Committee of Public Accounts, 1945-46, and we were looking at that part of the Minute which relates to the prices for purchases by the Timber Control of commercial plywood. The Treasury, in their Minute, state: "My Lords will be glad to be furnished, not later than 30th April next, with a full report of the Board's proposals for revising prices of commercial plywood and veneers in the light of this review". Can you tell me if that report has been made?—(*Mr. Bretherton.*) Yes, that report has been made to the Treasury.

3890. Are the Board of Trade still big purchasers of veneers and plywoods?—Yes, we are considerable purchasers of commercial plywood. We are not purchasers of veneers. We never have been, in any capacity.

3891. Where do the plywoods go to? For what purpose are they bought?—For a great variety of purposes: utility furniture; a small quantity goes into general building, and there are very large, widespread industrial uses. They are, of course, part of the total plywood supplies which consist also of imported plywood which is bought and resold by the Board of Trade.

3892. Can you tell the Committee, if your report has been made to the Treasury, what your proposals are for revision of the price-fixing system?—Yes. It is rather a complicated story, I am afraid, because you have, to speak, three sections. Firstly,

you have the veneer cutters; secondly, what we call the integrated firms, who make both plywood and veneers, who do the whole thing from the log through. Finally you have the non-integrated plywood producers, who buy their veneers and just make the plywood, just stick the sandwiches together, in fact. As regards the integrated firms, we have made a cost investigation and, on the basis of that cost investigation, we fixed prices to apply from the 1st May, 1946; we fixed them retrospectively. I should say that we gave notice to the firms about that date that the price at which the Control was buying from May, 1946, onwards would be provisional and subject to final determination in the light of the cost investigation. That cost investigation was ultimately made in the autumn and final prices have been fixed at a somewhat lower level than those previously ruling, and the appropriate refunds from the firms in respect of the earlier period, from the 1st May, 1946, up till the date when the new final prices were fixed, are being collected.

3893. Will the new prices give the firms less profit than the previous ones?—Yes, less profit.

3894. Can you tell the Committee the sort of figures as a percentage of the capital employed which the new prices are designed to give?—They are designed to give rather less than 10 per cent. on capital.

3895. Are you the main purchasers of the outputs of these firms?—Yes, of these integrated firms. We purchase the main,

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so to speak, bread and butter plywood. We do not buy all the specialities which they produce.

3896. Sir Archibald Rowlands was telling us that it was more difficult now than in wartime to fix reasonable prices on account of the outside competition for the products, but that is not so in the case of plywoods, I understand?—No. That hardly arises directly, because we buy as the sole buyer the bulk of the output, as I say, of the bread and butter plywood. It may be rather more difficult to prevent firms making too much on the outside stuff, the stuff which is sold directly to the consumer, but I do not think it is a very serious trouble.

Chairman.] Has any Member any questions?

Mr. Thurtle.

3897. You say that this lower range of prices is designed to give the manufacturers rather less than 10 per cent. on capital employed?—Yes.

(*Mr. Bretherton withdrew.*)

CIVIL APPROPRIATION ACCOUNTS (WAR SERVICES), 1945-46.

CLASS X.

VOTE 12.

MINISTRY OF SUPPLY.

Chairman.

3902. We turn now to the Civil Appropriation Accounts (War Services), 1945-46, to paragraph 7 of the report of the Comptroller and Auditor General. This is a general paragraph, but as the Ministry of Supply is one of the largest spending Departments I would like to ask you one or two questions about it, Sir Archibald. The position is, I take it, that there is very little effective competition between people who quote now for Government contracts?—(*Sir Archibald Rowlands.*) Very much less than there used to be, but our policy remains the same that where there is effective competition we take advantage of it. If we are buying clothing for the Army, for example, we find it possible to get competitive tenders; but over a much larger field than used to be the case before the war effective competition is not available.

3903. When, in the fifth line of paragraph 7, the Comptroller and Auditor General states: "The question of reverting to pre-war practice has been considered by the Treasury in association with the Departments primarily concerned, but the conclusion has been reached that it would be premature to do so under present conditions" that means the pre-war practice of putting

3898. Supposing, for the sake of argument, that what is designed to be achieved is not achieved, but in fact they make much more than 10 per cent. (say they make 15 per cent. or 20 per cent.) at what point could you intervene then still further to reduce the prices?—As far as the present prices are concerned?

3899. Yes.—There have been, of course, further adjustments since the one to which I was referring, because of certain changes in wages and certain other things.

3900. What I was trying to get at was: do you keep a sort of constant supervision of prices to see that excessive profits are not being made?—Yes. We shall have a further investigation of these prices, I have no doubt.

Mr. Cuthbert.

3901. On your last remark, was this further adjustment upwards or downwards?—It was rather downwards.

Chairman.] Are there any further questions? •Thank you, Mr. Bretherton. That concludes the evidence we require from you.

the contracts out to public tender, does it?—No. That is merely the rules in accordance with which a tender is accepted in the Ministry when competition is available. It is rather the expenditure limits, the approval limits. There used to be a rule that no contract should be accepted on a single tender if there was competition available in excess of £20,000 unless, in the case of the War Office, it was personally approved by the Secretary of State, and a lower limit of about £2,000 by the Financial Secretary personally. During the war it became quite impossible to observe those limits, and much wider powers have been delegated to officers much below even the rank of the Accounting Officer, to accept tenders at much higher figures than that. It was considered whether we should revert to the pre-war practice, but the Treasury have ruled that the time is not yet.

3904. What are the present rules as to the approval of contracts?—In my Ministry, as an example, £50,000 or under can be approved by a Deputy Director of Contracts; £50,000 to £250,000 by the Director of Contracts; £250,000 to £500,000 by the Under-Secretary in charge of the whole of the contracts, and over £500,000 has to go to the Second Secretary, my deputy, or myself. But all that is subject

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to a rule that if a particular contract about to be entered into contains any special features or new principles or raises issues of policy, that has to be referred up to the appropriate level, if necessary up to the Minister, whatever the amount involved is.

3905. The pre-war rules provided for the approval being at a higher level at a lower figure?—Yes, very much so. As I say, in the case of the War Office the Secretary of State personally had to approve a contract over £20,000, and the Director of Contracts could himself approve contracts of only about £200.

3906. Do you agree with the statement about four lines from the end of the paragraph, where the Comptroller and Auditor General states: "at present not more than 20 per cent. in value of the main Supply Departments' contracts are placed after competitive tendering?"—That is so, I am afraid. Of course, some of the commodities in which we deal really do not lend themselves to competition. There is no competition between a Rolls-Royce Merlin engine and any other engine in the world. You have to have a Merlin engine. And that is so in the case of a particular kind of tank. There was hardly any competition with tanks. So in quite a field which we have to cover there never will be competition in the true sense that two firms compete against each other for the same commodity, because they do not make the same commodity. We get competition amongst aircraft manufacturers in this sense, that if either the Air Force or the civil corporations require a machine with a certain performance, that is let out to half a dozen firms and they compete for the design, but once the design is sealed there is no effective competition even in the manufacture of particular aircraft. A Mosquito is made by De Havilland and nobody else.

3907. Could I have the view of the Treasury, Mr. Blunt, on the question of reverting to pre-war rules, or of having some modification of the war-time practice?—(Mr. Blunt.) Yes. It is, as Sir Archibald has said, a question whether and, if so, when and how we do revert to the pre-war rule that required the Departments to obtain Ministerial authority in respect of contracts over certain definite limits, rather low limits. Anything above £20,000 required the authority of the Minister. We looked at this in 1942 and it was discussed with this Committee. The Treasury came to the conclusion then that that rule was unworkable in war. There was no competition, or at any rate the dividing line between when competition might be said to be available and was not sought for and when it was not available was getting very thin indeed, and we decided that the rule should be abandoned during the war. We put it to this Committee, who agreed, but said at that time that

the rule had worked well in peace. So that we feel that before we decide what we are going to do in peace we probably ought to consult this Committee. They will probably wish to be consulted again. But this did not seem to us to be the moment to start this going, because we really have not got to the position in which it might be said that there is competition, generally speaking, available. That is not the position now, as the Comptroller and Auditor General points out. It is only within 20 per cent. of the field that there can be said to be competition at all, and we feel that in fact war conditions are still existing. But we are going to look at it again in the autumn of this year and I should imagine (though we have come to no conclusion at all) that we might wish to propose to the Committee some modification of the pre-war rules. I think there is scope for some modification there, but we have an open mind on it at the moment.

3908. There are two factors, are there not? One is that the State is now trading, and is likely to continue trading, on a scale very much greater than before 1939. The second is that if there is full employment there is unlikely to be any effective competition over a wider area?—Yes. On the first point you are thinking of the Nationalised Boards?

3909. Of the activities of the Ministry of Supply, for example, who are trading on a big scale?—Yes, that is so. We do not know, really, what the shape of things to come is likely to be, and it is very difficult to come to any general conclusion at this moment. We gave ourselves till the autumn. Whether we shall be really ready then to make proposals, I am not quite sure, but we shall certainly start thinking about it; in fact we have started thinking about it.

3910. You anticipate that you will make some proposals to this Committee?—Yes. They are such long-standing arrangements with which this Committee is familiar that I think we really ought to make proposals to you.

3911. Sir Frank, have you any observations to make on this matter?—(Sir Frank Tribe.) No, I have no comments. I look to the Treasury to report again on this subject next Session.

3912. Are there any questions on paragraph 7? We pass to paragraphs 52 to 74. Paragraph 52 is largely narrational and sets out whence you derive your powers to embark upon trading operations.—(Sir Archibald Rowlands.) Yes.

3913. We are told in the second subparagraph of paragraph 52: "These powers were prolonged by Sections 6 and 8 of the Supplies and Services (Transitional Powers) Act, 1945, dated 10th December, 1945, for a further period of five years from that

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date". In the course of your trading have you placed any contracts the term of which will run beyond the expiry of the Supplies and Services (Transitional Powers) Act, 1945; that is to say, beyond the 10th December, 1950?—I should not think so, not as long ahead as that.

3914. In the case of the Ministry of Food we did come across some examples of contracts which ran beyond that date.—I am sure we have not any. I can think of no possibility of it. An aircraft from the prototype stage may take three years, but I do not think we need the special powers of the Supplies and Services (Transitional Powers) Act, to place a contract for an aeroplane. These are rather special powers of investigation, compulsion, and so on. These are Defence of the Realm Regulation powers which have been perpetuated. I do not think we need the powers to place a contract for an aeroplane, even if the delivery period is three years. In the case of the Brab I, that enormous giant they are building down in Bristol, it will be long past three years before we get delivery of it from the date we placed the contract.

3915. Sir Frank, do you take the view that the Supplies and Services (Transitional Powers) Act, which terminates in three and a half years' time, would prohibit the placing of a contract which ran beyond the end of the period of the Act?—(Sir Frank Tribe.) It is a point which we are examining, and upon which I would prefer not to express an opinion at the moment.

3916. At the top of the next page your powers are further described. We are told: "These purposes include securing, at fair prices, a sufficiency of supplies essential to the well being of the community; facilitating resettlement of persons and readjustment of industry and commerce to peacetime requirements; relieving suffering and restoring essential supplies in the Dominions". Have you undertaken any expenditure under those powers which is definitely of an uneconomic character?—(Sir Archibald Rowlands.) I do not think so, not openly like that.

3917. The powers are not being used for the purposes of relief subsidy?—No.

Chairman.] Are there any questions on paragraph 52?

Lieut.-Colonel Alan Dower.

3918. Do you anticipate acting under those powers of relieving suffering, and so on?—When I said I did not know of any powers we had exercised, directly that is true but, of course, we obtained a lot of supplies for U.N.R.R.A. which might be regarded as coming within the relief of suffering.

3919. What I really mean is this: You do not actually embark on this work yourself, do you?—No.

3920. You obtain the supplies for U.N.R.R.A., or some similar agency?—Some agency charged with that particular work.

3921. You have in fact supplied U.N.R.R.A. under those powers?—Certainly, with large amounts.

3922. You intend to do so?—It has finished of course. There are some stores still in the pipeline for U.N.R.R.A.

3923. Those in the pipeline will be delivered?—Yes.

3924. Then there will be no more?—No more. There is a special exception in favour of China, which goes on till the end of this present month.

Chairman.

3925. Are there any further questions on paragraph 52? I do not think anything arises on paragraph 53. Paragraph 54 refers to contracts for tank armour placed in 1940 onwards. The Comptroller and Auditor General states: "Advances exceeding £5,500,000 have been made to the contractor". Can you tell the Committee whether those advances are likely to exceed the sums finally due to the contractor?—We believe not. I am in some little difficulty here because, under arrangements we had during the war, as far as possible only one Department investigated the costs of one particular contractor. This firm is Messrs. Colville's. By arrangement the Admiralty have always dealt with armour plate firms; so we are really dependent on the Admiralty for clearing the thing. But there is every reason to believe that the firm are owed more than is so far cleared as accepted expenditure. On this it appears we have advanced to the firm more than the value of the goods they have delivered, but in point of fact there is evidence that they have further claims which will more than wipe out the unvouched expenditure.

3926. The only question I have to ask on paragraph 55 is in regard to the last sentence; that the Ministry has been asked whether they "are satisfied that all possible steps are being taken to secure prompt recovery of agreed overpayments". Has that been done?—Yes. I think we have now a very complete drill on that. If a firm has current contracts either with ourselves or another Government Department, we take steps to see that money that is due to them under a current contract is not paid but is set off, and if necessary we take legal process.

3927. Are there any questions on paragraphs 53 to 55?—Paragraphs 56 and 57 deal with the construction of units for Mulberry Harbours. In paragraph 57 the Comptroller and Auditor General states that in February 1944 the estimate was that the cost of constructing the special sites and 150 caissons would be £5 million,

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and in the last sentence in that first subparagraph he states that the total cost will be about £15 million. Are those two figures comparable?—Not quite, because, as you see, an additional 60 extra caissons were required. These particular things were very difficult to estimate. They were made in all sorts of places. As you know, great breaches were made in the banks of the Thames, and they were constructed in quarry pits and all sorts of places.

3928. I gather that the Accounting Officer of the Ministry of Supply had very little control over this expenditure?—I am afraid that is so, yes, over the particular expenditure on Phoenix. For Whale, the metal part of the thing, the piers, and so on, the contracts were placed under normal contract conditions. They cost about £6 million. The total cost of the thing was about £21 million to £22 million. £15 million was in respect of these special reinforced concrete things.

3929. The agreement on prices, I gather, was very largely left to the technical officer mentioned in the paragraph?—Yes, he was the final authority. The prices were discussed between the contractors and a group of consulting engineers (there were several of them) and they came to an agreement amongst themselves. Quite a bit of bargaining was going on between the individual contractors and the consulting engineers whom we employed. The final prices recommended as a result of that discussion had to be approved by Sir John Gibson. As you say, he was a technical temporary officer who belonged to a civil engineering firm. The normal financial scrutiny, I am afraid, was practically non-existent. There were one or two things during the war in respect of which that more or less happened.

3930. Have the accounts ever been investigated to see whether the contractors made excessive profits?—Yes.

3931. They have been investigated?—They are nearly all cleared now.

3932. What is the general conclusion reached?—I have not any figures that I can quote to you, but most of the payments have been finished. Out of the whole £22 million only about £64,000 is outstanding. I do not know whether it would be possible to identify the individual profits made on these things because they were large contractors doing other jobs as well.

3933. Has this £15 million worth of Mulberries any disposal value?—Yes, quite a lot. We have sold some to the French. We have brought some back here.

3934. I thought the French were going to keep part of this as an exhibit for tourists?—I do not know what they are keeping it for. I know we sold it to them.

3935. Have there been considerable realisations?—No, I do not think there have been large realisations of the concrete, but we recovered a lot of the steel; and we sold some to the French as they stood.

3936. Are there any questions on paragraphs 56 and 57? We pass to paragraph 58: "Contract Prices in the Transitional Period." At the conclusion of that paragraph the Comptroller and Auditor General states: "My tests of current contracts indicate that, for the wide range of supplies for which there is still no effective competition, the Ministry are continuing to settle direct contract prices by these special methods," and the special methods included the placing of contracts either at maximum prices subject to costing or at fixed prices based on estimated costs or on ascertained costs of earlier supplies. In current contracts do you retain the right to cost and to recover sums in excess of a reasonable profit?—No. Unless the terms of the contract provided for that, even in wartime we did not. If we entered into a contract, a fixed price based on pre-estimated costs, that was the end of the matter. If they made excessive profits we used that information for trying to persuade them to make a repayment (which would be purely voluntary; there was no compulsory power about it) and of course we used it when fixing a price for similar articles on a new contract. Where you had a maximum price contract of course you only paid actually the ascertained cost within the maximum price; and we adopt both methods now.

3937. Are there any questions on paragraph 58? Paragraph 59 deals with the firm of Joseph Lucas, the manufacturers of electrical appliances for motor cars?—That is right.

3938. The second subparagraph seems rather critical. The Comptroller and Auditor General states: "In January, 1945, the Ministry, when extending the contract to November, 1945, reserved the right to satisfy themselves that the margin of profit was fair and reasonable, but in February, 1946, there was a further extension to November, 1946, without any investigation." Can you say a word about that?—I think it must be remembered that we were still buying at the same rate as we were buying at in 1941 (when a cost investigation had suggested that the profits made were reasonable) in spite of the fact that there had been a continuous rise in costs and a rise in prices to other consumers. We thought we were doing pretty well in not raising the matter because of the drop in production owing to the war coming to an end. In 1944, for example, we spent nearly £2 million with Lucas' on direct orders. That fell to well below £1 million in 1945 and it was only £155,000

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[Continued.]

in 1946. We were getting our supplies, as I say, at a rate which was the same as the rate in 1941.

3939. When you say at the same rate, do you mean at the same prices?—Yes, at the same prices.

3940. Are there any questions on paragraph 59? Paragraph 60 deals with the control of post-war sub-contract prices. I rather think, Mr. Blunt, we were told at some recent meeting, that there was going to be an investigation of this question by the Contracts Co-ordinating Committee?—(Mr. Blunt.) That is so. I told you that when the Admiralty was here. I said it was to come up at the Contracts Co-ordinating Committee. It has not yet come up there. It is the second item on the agenda. The first item is rather a difficult one on which we want to look round a bit, and a meeting has not yet been arranged. I think the Committee might take it as pretty certain that we shall not try to continue into peace the system of overall trading results which we had in war. You will remember I said at the other meeting that the volume of sub-contracting was now insignificant compared with what it was in the war. Not only is the total of contracts made very much smaller, but the amount of sub-contracting within that total, the proportion of sub-contracting has shrunk as well, and is now a very small problem as compared with what it was in wartime; and the system of overall trading results does not really seem appropriate to peace at all. It was appropriate when the Government were taking, by and large, 80 per cent. of a contractor's products. Now of course, by and large, the position is the other way. They will probably be taking more like 20 per cent. The whole thing is mixed up in the trading account, as you remember. You get the trading results of all his work whether for the Government or for commerce. It was difficult enough in war to disentangle the two. In peace it would be very difficult indeed. Moreover, as you know very well, this system of overall trading results simply led up to a position in which it became clear that a firm had made overall, on all its work, whether for the Government or for the private consumer, a profit expressed as a profit on capital which seemed to the Department to be excessive, but that did not mean that the Department could then go and demand a refund. They could only put it to the firm that they should refund. Some firms did; other firms did not, and it was pretty clear that the willingness in some cases to make a refund was due to the fact of Excess Profits Tax. At any rate, however that may be, there certainly would not be the same willingness now to make a refund and although, as I say, we have not yet had this meeting and have not finally clinched the matter, I think there is no doubt that we shall abandon this system of overall trading accounts

and regulate the small amount of sub-contracting by pre-war methods, possibly with some improvements which we shall be looking at.

3941. Thank you. In paragraph 61 it is stated; "The Ministry notified the light alloy suppliers, whose prices were also regulated by means of overall adjustments related to trading results until 31st July, 1945, that free competition would obtain for supplies after that date." Is that working satisfactorily?—(Sir Archibald Rowlands.) It is not so long ago. As you know, in the light alloy industry there is a certain measure of trade association amongst a section of it, and you are apt to be faced with the same quotation from half a dozen firms who are members of that association; but it is not completely covered by that association, and we can get other prices, which very often enable us to reduce the prices quoted by what you might call the "ring" firms.

3942. The Comptroller and Auditor General states: "I have inquired as to the evidence that free competition is likely to ensure fair and reasonable prices for indirect Government purchases"—I think the answer we gave the Comptroller and Auditor General was that we had not enough evidence to be positive about it one way or the other. We have the fact that we were presented with the same quotation by about six firms who were members of an association, but we had a lower quotation by a very large group outside that association. So it is difficult to say that there is much effective competition between the members of the same association, but I think we got the prices down considerably after negotiation as a matter of fact.

3943. But even if you notify suppliers that free competition will obtain, it does not follow that free competition will in fact obtain?—Exactly. I think what we really meant was that we were no longer going to control them by trading results rebates.

3944. Are there any questions on paragraph 61? Paragraph 62 deals with the disposal and peacetime use of the Royal Ordnance Factories. The Comptroller and Auditor General states: "Of the 23 Royal Ordnance Factories operating at 31st March 1946 it has been decided to retain 20 in production on a peace footing with diminished staffs and one for storage". Would they be employed on civilian production or production for Service Departments?—Both. When we say we are going to retain 20 permanently, that will be subject to review in the light of any change of the strategic bases or strategic hypotheses by the Chiefs of Staff and the Defence Committee. At the moment, as far as we can see, we shall need, in order to discharge our liabilities to the Service Departments about 20 factories of a varying range, with a capacity which could be stepped up over a reasonable period to about 40 per cent.

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[Continued.]

of the peak production in wartime. It is unlikely that those factories can be kept anything like fully employed purely on orders for the Service Departments, and we have started a system of doing work for the civil market in those Ordnance Factories. In point of fact, at the present moment we have £12 million of orders on the books.

3945. Orders for?—Civil work, for private contractors, and for other Government Departments like the Ministry of Works. There is about £12 million. We do all sorts of things—gas cookers, steel furniture, oil well boring equipment, railway wagons and repairs of locos, and we have a very good line in wood-making machinery which is most successful.

3946. To whom do you sell the products?—We only make against orders. People come to us and ask: "Please can you do this for us because there is a great demand and the capacity outside is limited". The firms come to us.

3947. Are you making profits at these factories?—We do not set out to make much in the way of profit. We are making a profit in the sense that a proportion of our overheads which otherwise would not be covered will be covered.

3948. But you are not laying yourselves out to lose money at any of these factories?—No. On the contrary, we are going to cover at least all our direct charges plus, I hope, a very large chunk of overheads. A quotation is made to a contractor. We enter into a firm contract. We do not do any cost-plus contracts with anybody, except Government Departments who have to pay the exact cost.

3949. Are there any questions on paragraph 62? The next paragraphs are largely narratival, down to paragraph 68, which deals with the disposal of surplus stores. There was a White Paper setting out the policy for the disposal of surplus stores?—Yes.

3950. The Comptroller and Auditor General states: "In the White Paper, considerable use of existing trade organisations was contemplated. The need for speedy clearance of stores has limited the scope for this method of disposal". That is to say, you have not been able to adhere to the policy laid down?—Not in every case. In point of fact, when we came to work it out we found it was an unsuitable method, anyhow. You had an arrangement whereby

the manufacturer of a particular article—shall we say a motor car—was given the right to buy his vehicles back, recondition them and then sell them. He was rather apt to pick the best and leave us with what was left, and also could not do it very rapidly. That was one reason. Secondly, there was pressure brought to bear upon us—quite right pressure—to clear the sites where these vehicles were stored. We adopted with greater success a vehicle auction system. We have sold over 100,000 vehicles and we have made over £10 million.

3951. Could you tell me something about the last subparagraph on that page with regard to articles which are scrapped? Some are scrapped for security reasons. Could you give the Committee an example or two of that?—Yes. Some of the latest devices in an aircraft like radar are still very highly secret.

3952. When the Comptroller and Auditor General states that they are scrapped, what does that mean?—It simply means that unless we want it for future use we just break it up. We take the good part out of it and burn the rest.

3953. You destroy it?—Yes.

3954. Has property to any substantial value been destroyed for security reasons?—No. There are very few articles of a security character which are scrapped for security reasons.

3955. Then we are told: "Other goods scrapped include (a) machine tools valued at less than 30 per cent. of 1944 prices" (that seems to be one category) "or otherwise unsuitable for use in post-war industry". Does that mean that the machine tool is melted down and used by the steel works?—That is so. That is what happens. That is deliberate policy. It was deliberately intended that British industry should be re-equipped with good tools and not with poor tools, and it was deliberate policy not to sell machine tools, unless they were in very short supply—unless they were of a particular type—the value of which had depreciated by more than 70 per cent.

3956. You first of all have to determine what you think is the 1944 price for the machine tool?—Yes.

3957. Then ascertain what 30 per cent. of that is?—Yes.

Mr. W. F. JENKINS, C.B.E., called in and examined.

3958. You value the machine tool and see what that comes to, and if it is on the right side of the line you keep it but if it is on the wrong side it goes for junk. Is that so?—That is so. We try to sell it if it is on the right side of the line, and scrap it if it is on the other side.

3959. Is it the theory that it is better to have no tools at all rather than indifferent ones?—No. I said in the case of machine tools in short supply we do not necessarily apply the 30 per cent. rule.

3960. The other articles which are scrapped are: "such proprietary motor

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[Continued.]

vehicle components returned to their makers for disposal as are reported unsuitable for sale owing to obsolescence or excessive stocks in makers' hands". I take it that it is the motor manufacturer who reports whether the article is unsuitable or not?—Yes, but we do not necessarily take his *ipse dixit*. We have in the Ministry a large, highly technically qualified section that deals with vehicles who, for example (although it does not arise here) check the amount of steel that every motor car firm says it wants for its programme.

3961. Can you give the Committee an example of a class of article of which there are excessive stocks in makers' hands at the present time?—May I ask Mr. Jenkins, the Director-General of Disposals, to answer that question?—

Chairman.

3962. Can you give the Committee such an example, Mr. Jenkins?—(Mr. *Jenkins.*) I can only answer that in a general way; that because during the war the stocks of spares that were made for certain types of vehicles represented probably 10 or 20 years of peacetime requirements of that vehicle there will be cases where the stocks on hand are greatly in excess of any possible usage in the maintenance of that particular vehicle. At the moment it has been proved that the sensible thing to do is to make use of the metal in these things instead of retaining them, since they have no market as spares.

3963. The general position, surely, is just the reverse, that the obtaining of the simplest spare part for a pre-war motor vehicle is quite out of the question today?—There may be cases where there is a shortage, but you will bear in mind, I am sure, that the provision during the war would have been for a miscellany of vehicles, many of which are not now in civil use in large quantities. (Sir *Archibald Rowlands.*) Take a tank, for example. That is a vehicle for this purpose.

3964. There seem to be some surplus tanks about the countryside. When we are told that dangerous goods are dumped, what happens to them? Are they dropped into the sea?—Mostly, yes.

3965. Can you tell me why the Northern Ireland Government get a fee of 10 per cent. for their services in selling Government stocks?—I suppose they were put to the expense of doing it. We do not pay for their staff in addition.

3966. Can you then tell me, on paragraph 69, whether the same fee was paid to the Dominion Governments?—Not to the Dominions Office, but to the Dominion Governments who have done the work. The Dominions Office played no part in this selling.

3967. The question I put was whether a similar fee of 10 per cent. was paid to the Dominion Governments for performing

the same services as those performed by the Government of Northern Ireland?—The arrangement varied in different cases. In certain cases it was a percentage of sales, but in other cases the costs of performing the service.

3968. Where it was a percentage of sales, what would be the figure?—I cannot give you the answer offhand.

3969. In the first subparagraph of paragraph 69 the Comptroller and Auditor General states: "Surpluses in most of the Dominions and Colonies are being disposed of through the agency of the various Governments, who are to receive either their actual expenses or a percentage of sales." I was asking what the percentage of sales was?—I can give you the figure on Thursday.

3970. Perhaps Sir Frank Tribe can help the Committee on this point?—(Sir *Frank Tribe.*) What rather puzzled me was that according to the information I had the Australian and New Zealand Governments both were paid 2 per cent. of the gross proceeds for what they did in this respect, whereas Northern Ireland was paid 10 per cent. It was not very clear what were the different services.

3971. Perhaps, Sir Archibald, you would like to furnish the Committee with a note on this point?—(Sir *Archibald Rowlands.*) Certainly. I imagine it was just a bargain in each case.*

3972. It would look as if the Ulstermen were much better bargainers than the Australians?—Not necessarily. It depends on the location of the stores. If everything is in a nice tidy lump, easily disposable, it would be clearly unreasonable to pay as high a rate as if the stores were not easily available to sell.

Lieut.-Colonel Alan Dower.

3973. I think you have probably covered this point. On this question of excessive stocks you say that the only ones scrapped are those which are no use and therefore they are reduced to raw materials.—You are talking about what—machine tools?

3974. Yes. Does that apply only to machine tools?—No, it applies to anything.

3975. I am not disputing the accuracy of your reply in any kind of way. It does seem to me it is very difficult for whoever has to decide whether an article is going to be scrapped or not—that there is no demand for it in the country. What kind of a system is adopted?—Shall we take machine tools, as we are on the subject?

3976. Yes.—We are in close touch with the machine tool trade. We do hold auctions from time to time although the auctioning of machine tools is exceptional rather than the rule; and we have a pretty good idea of what the machine tool demands are.

* See Appendix 12.

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[Continued.]

3977. May I ask if, at that auction, you are ever surprised at certain articles being bought, and also whether some of the articles being auctioned are in fact not bid for at all?—Yes, we have very great difficulty in disposing of some machine tools of a specialised kind, which were made specially during the war. We are reviewing the policy now. We shall probably be deliberately scrapping machine tools that certainly have not depreciated by 70 per cent. but are specialised machine tools for which we cannot see an outlet, instead of storing them unnecessarily and spending money on storing machine tools which we cannot use. We have a panel of the machine tool trade. I hope we are not in their hands altogether, but we do consult with them.

3978. The only other question, which may not be relevant, is what you yourself mentioned, Mr. Chairman, namely, a large number of war stocks. Does that come under you?—The total value?

3979. Yes, the scrapping of them?—We are only concerned with stores which have been declared surplus by the Departments, like the War Office. We only come into the picture at that stage. We have in fact disposed of £221 million worth of stores in this country and £115 million worth of stores abroad, up to a recent date. So we have got rid of quite a lot of stuff by various methods, some by auction, some by private tender, some through trade associations, and so on.

3980. Do those tanks one sees about come under you or not?—Yes.

3981. Are they being left there?—You never can tell, when you see a tank parked, whether it has been declared to us as surplus or whether it belongs to the War Office and they have not yet declared it surplus. We are breaking down a lot of tanks daily. A tank is not a thing you sell, normally. We have to break it down.

3982. Is there any delay being caused there which is reducing the break up value?—I do not think so. We get a pretty steady programme of break down. We use our ordnance factories to some extent for the purpose.

3983. In breaking down, does corrosion and rust reduce its value or not?—Not as metal, no.

Chairman.

3984. Are there any further questions on paragraphs 68 and 69? We pass to paragraph 70, which mentions an ordnance factory which cost £2½ million and was sold for £218,000. Can you tell us the location of that factory?—Yes. It is in Cumberland. It is at a place called Sellafield in West Cumberland. It was an explosives factory, specially designed for that purpose. We had a great difficulty in selling it. Eventually we sold it to Courtaulds. Most of the stuff that was there they did not want. I think they were persuaded to go there partly to provide employment in a diffi-

cult area. But that does not represent the total proceeds of that factory. It is only the amount we sold to Courtaulds. We have removed plant worth £150,000 and we have handed over for disposal to other people £500,000 and we have some farm lands left for sale and a lot of plant we might be able to sell.

3985. Paragraphs 71 and 72 deal with the disposal of shares in companies. In paragraph 72 we are told that shares in four other companies have since been sold, and I gather that those shares were sold on the understanding, that the industrialist who bought the shares would retain the factories. Can that condition be enforced?—No, I do not think it can, but in point of fact I have made inquiries, and every single factory is still engaged in making the product it made when we sold the factory. In spite of the fact that there has been a change of ownership in one case, and the shares have been sold, the factory is still being used for the same purpose.

3986. In any event, if the purchaser ignored his undertaking there would be nothing you could do about it?—I do not think so.

Chairman.] Are there any questions on paragraphs 71 and 72?

Mr. Thurtle.

3987. In the case of the companies, if an individual bought the shares and then floated a public company, would he be considered to be carrying out his bargain?—We tried to avoid selling to merely finance houses. They were really sold to manufacturers. That was a definite objective.

3988. You have had no experience of that sort of thing happening?—No, none at all.

Chairman.

3989. Paragraph 73 deals with loans to contractors. The Comptroller and Auditor General tells us that during 1945-46 further advances of £111,000 were made. That sum is a very small one compared with some of the previous loans like that to the Canadian Company, but is it not a little odd when the war is over to find the Ministry still acting as banker?—You are talking about 1945-46 are you?

3990. Yes.—That £111,000 is a mixture of a good many separate transactions. Some of them are really loans, converting a debt owed to us into a loan, in respect of over-payment on a maximum price contract for example. We get debentures for that. We converted a debt into a loan. Others were small companies that we wanted to keep going at that time and they were loans of working capital.

3991. As a matter of policy I suppose you will not go on making loans to contractors, will you?—We have made one in the last year, in 1946-47. That is practically entirely to one firm, the shares of which we own. It is a firm in South Wales

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[Continued.]

which we are keeping in production for the time being, partly because every bit of steel that is made is good steel, and secondly it is in a depressed area. We have got a large loan outstanding there.

3992. But you would not at the present time advance money to a concern the share capital of which you did not own?—No.

3993. You would leave them to the ordinary resources of the market?—That is so—entirely.

3994. And these various special organisations which have been established for assisting industry?—Yes.

3995. Are there any questions on paragraph 73? I do not think we need trouble with paragraph 74 at this late hour. The Account is at page 37. In the details of expenditure Subhead A is "Salaries, wages, etc. of Headquarters staff", a figure of £21½ million; and Subhead B is: "Wages, Etc. (other than Headquarters staff)" a figure of nearly £44 million. Can you give the Committee the comparable figures for those for the more recent years?—Not out of my head. I will give it to you on Thursday when I come before you. You want the latest figure, to June 1947 shall we say?*

3996. I would like to see the figures for the year 1946-47 and the estimated figures for the year 1947-48?—Yes, I will get those for you.*

3997. We can take that on Thursday. Under the details of receipts at the top of the next page there is an item, "canteen receipts", a figure of very nearly £2½ million, and there is a footnote which states: "Canteen expenditure is included under Subheads A, B and J." That form of presenting the Account does not enable us to tell whether there has been a loss or a profit on the canteens?—No, I am afraid not.

3998. Can you tell us the position?—No, not without notice.

3999. Perhaps we can be told that on Thursday?—Yes.†

4000. Could I also be told on Thursday whether that item on canteen receipts includes receipts from hostels?—You mean our canteens and hostels? The Hostels Association is not run by us.

4001. I understood your Ministry conducted certain hostels?—Yes, we do. Where we conduct the hostels ourselves I imagine the receipts are in there. Where they are conducted for us by the Hostels Association run by the Ministry of Labour they would not be.

4002. You have not many hostels of your own?—No, I think we have very few. We did have during the war of course.

* See Appendix 7.

† See Appendix 6.

4003. There is one suggestion I have to make on the notes. The first note on page 41 gives us the amount of loans outstanding. I was going to suggest to you that the Account might in future contain a note as to the shares which you hold in companies in which you purchase shares. Is there any objection to that, do you think?—None whatever. I hope by next time we shall not have any.

4004. You are trying to get rid of them?—Yes. We have succeeded in most cases.

4005. If there should be any shares still held perhaps a statement of them could be provided?—This one firm I was telling you about will probably still be on our hands but I hope it will be the only one.

4006. Items numbers 6 and 7 in the notes are two gifts with Treasury sanction and Foreign Office concurrence, one of over £½ million and one of £½ million. To whom were they paid?—Poland.

4007. To the present government of Poland?—I could not tell you. I have not followed the changes in government.

4008. This was in the year when the Polish Government changed, or rather the Polish Government which we recognised changed.—It was done with the approval of the Foreign Office. It was done at their request. It was to the Provisional Government recognised by the Foreign Office.

4009. Was it the Government in London or the Government in Poland?—(Mr. Jones.) The Government in Poland. Both these cases were covered by Treasury Minutes which were laid before the House. The Treasury Minutes were laid in November, 1945, and in May, 1946. The gifts were to the present Polish Government.

4010. These matters were quite separate from the Anglo-Polish Financial Agreement which took place in June 1946?—Yes. The Anglo-Polish Financial Agreement does contain an agreement also for gifts of certain used and surplus stores up to the total of £6 million, which are in addition to these two gifts covered by the Treasury Minutes.

4011. Are there any questions on the Account? May I take it that the Account is approved? (Agreed.) We will adjourn now. That will leave us with the Vote of Credit Appropriation Account to take on Thursday.—(Sir Archibald Rowlands.) Yes. With your permission I will leave all the things about timber, wool, cotton and so on to the Board of Trade because we do not deal with those. We deal with the steel and non-ferrous metals.

(The witnesses withdrew.)

Adjourned till Thursday next at 3.45 p.m.

THURSDAY, 19TH JUNE, 1947.

Members present:

Mr. PEAKE *in the Chair*.

Mr. Benson.
Mr. Cuthbert.
Lieut.-Colonel Alan Dower.

Lieut.-Colonel Hamilton.
Mr. McAdam.

Sir FRANK TRIBE, K.C.B., K.B.E., Mr. D. F. C. BLUNT, C.B., and Mr. C. E. I. JONES, called in and examined.

VOTE OF CREDIT APPROPRIATION ACCOUNT, 1945-46.

MINISTRY OF SUPPLY.

Sir ARCHIBALD ROWLANDS, G.C.B., M.B.E., and Mr. R. F. BRETHERTON, O.B.E., called in and examined.

Chairman.

4012. Sir Archibald, today we start with the Vote of Credit Appropriation Account, 1945-46. Will you turn to paragraphs 45 to 61 of the report of the Comptroller and Auditor General? These paragraphs deal with raw materials. In paragraph 45 the Comptroller and Auditor General tells us: "In October, 1945, responsibility for policy and administration in relation to raw materials other than metals used in engineering was transferred to the Board of Trade, but accounting responsibility for the whole of 1945-46 remained with the Ministry of Supply." You have Mr. Bretherton, from the Board of Trade, with you?—(Sir Archibald Rowlands.) Yes.

4013. So that if any of the questions are more properly answered by the Board of Trade, he will answer?—[If you please. All the records are with the Board of Trade and all current policy is in their hands, of course. Before you proceed, may I hand in the information you asked for on Tuesday? You will remember you asked for three things. First of all you asked for a note on the basis of the charge by Northern Ireland for disposals.* Secondly, you asked for a note on the expenditure on canteens; † and, thirdly, you asked for a note on the strength of the factories and the Ministry of Supply generally at the end of 1946, the financial year, and 1945. ‡ I have that information. May I hand it to your Clerk?

4014. Yes, perhaps you will hand it to him. Paragraph 46 deals with the price-fixing policy. The Comptroller and Auditor General states: "In August, 1943, the Ministry of Supply reviewed the policy inaugurated in April, 1942, of stabilising the prices of raw materials affecting the cost-of-living index or principally used for goods ultimately purchased by the Govern-

ment." A little lower down he tells us: "As a result, the selling prices of most raw materials were increased at various dates between 1944 and 1946 so as to cover full estimated costs apart from certain transitory wartime increases. The principal exceptions were fertilisers and leather, because of their effect on the cost of living, and timber, because of its important in building." I understand from that that these commodities—fertilisers, leather and timber—were at any rate during the year of account sold below the cost of acquisition and therefore subsidized?—I gather that is so, yes.

4015. May we be told at what cost to the taxpayer these three commodities were subsidized during the year of account?—May I ask the Board of Trade witness to answer that?

4016. If you please?—(Mr. Bretherton.) During the year of account?

4017. Yes, or, if you like, over a longer period?—I think as far as leather is concerned, in the year of account the actual net trading loss over the whole of the operations of the Leather Control was something like £750,000. I have not the exact figure but I think it was of that order.

4018. Is that policy still in operation?—The policy is still in operation.

4019. As regards leather the effect is to provide the leather manufacturers with their raw material much below its economic figure, is it not?—Yes. The hides, which are the main raw material, are sold to them by the Leather Control at prices which in many cases are below the cost of those hides to the control itself.

4020. Is that done irrespective of the class of goods ultimately produced?—No, not entirely. Broadly speaking that policy is applied where the leather which is produced from those hides goes mainly into footwear.

4021. And mainly, I take it, into classes of footwear the prices of which to the public are controlled?—I believe though I am not

* Circulated to Committee; not printed.

† See Appendix 6.

‡ See Appendix 7.

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competent to speak about this, that the prices of all footwear to the public are controlled, or very nearly all.

4022. A great deal of footwear, no doubt, is exported?—Not very much, but certainly some quantity.

4023. You say not very much is exported?—Not very much.

4024. What sort of proportion of the total volume of production is exported?—I should say it is under 5 per cent.; but that is a random figure.

4025. Insofar as there is an export of footwear, the foreign purchaser gets the benefit of the subsidised price of leather?—I think that depends on what price the footwear exporter chooses to sell at. The benefit may or may not go to the foreign buyer.

4026. The export prices are not controlled?—No.

4027. The manufacturer is free to get whatever he can for the footwear?—Yes.

4028. Have you carried out any test of the profits made on the sale of footwear by the manufacturers?—I am afraid I am not really competent to talk about footwear. The footwear prices have never been a matter for the Ministry of Supply at all. It is only the leather, up to the leather stage.

4029. Is there anybody present who can tell us about the control over the footwear manufacturers?—I do not think so. (Sir Frank Tribe.) Perhaps I could give some information. I understand that the controlled prices of utility footwear anyhow were designed to allow manufacturers generally about 5 per cent. profit on cost, but when the Ministry of Supply carried out cost investigations in 1945 of cross-sections of the trade they revealed profits on the cost of sales of 14.8 per cent. in 1943 and nearly 13 per cent. in 1944, equivalent to about 38 per cent. and 35 per cent. respectively on capital employed. So apparently the profits were working out at anything from double to treble the profits which the controlled prices were designed to produce.

4030. Are you speaking there of firms which both manufacture footwear and themselves sell it to the ultimate consumer, or firms in the distributing trade?—These are the manufacturers.

4031. Whose job is it, Sir Frank, to see that the manufacturers of footwear do not make excessive profits?—During the year of account I should have thought it was the Ministry of Supply. (Sir Archibald Rowlands.) Until October, when the Board of Trade took it over. (Mr. Bretherton.) No, not footwear. On that, control over the prices of civilian footwear has always rested with the Board of Trade. The Ministry of Supply have never had anything to do with the prices of civilian footwear as such. The Ministry of Supply were

responsible for controlling the prices of leather, whether going into civilian or other footwear, and I suppose the Ministry of Supply Contracts Department dealt with Service footwear.

4032. I think we had better ask for some information from the Board of Trade on those figures which you have furnished, Sir Frank?—(Mr. Blunt.) Would not the Ministry of Supply merely have been costing as agents for the Board of Trade? (Sir Frank Tribe.) That may be so, certainly. The controlled selling prices of footwear during the year of account were under statutory powers vested in the Board of Trade, but this cost investigation, I understand, was carried out by the Ministry of Supply. (Sir Archibald Rowlands.) We had the costers. The Board of Trade did not.

4033. Perhaps you, in conjunction with the Board of Trade, or perhaps the Board of Trade at your request, could furnish us with some information?—Certainly.*

4034. As regards fertilisers, I take it that the purpose of subsidising fertilisers is to keep down the cost of producing crops to the farming community. Is that right?—(Mr. Bretherton.) Yes.

4035. Can you tell us the cost of fertiliser subsidies in the year of account?—I am afraid I have not the figure in the year of account. In the current year, 1947-48, it is estimated at £6½ million.

4036. That is for the year 1947-48?—Yes.

4037. This is really a food subsidy, is it not?—Yes, I suppose so. The effect, I believe, is to encourage the farmer to use fertilisers generally.

4038. It ought, surely, to be transferred to the Vote of the Ministry of Agriculture or the Ministry of Food?—It actually emerges, of course, as a trading loss shown by the Board of Trade Fertiliser Control. I do not think it can emerge in any other way because that is how it is done. Raw materials are bought at one price and sold at another.

4039. But it is a subsidy deliberately incurred contrary to your general policy in regard to raw materials?—Yes.

4040. When we come to timber, the purpose there is to keep down the cost of building, and so on. Can you tell us the cost of the timber subsidies, also?—I think, if I may say so, the term "subsidy" in respect of timber is perhaps rather misleading, because although during part of the period of account, a little timber was being sold for less than it cost, the bulk of the timber that was actually sold during that period was being sold for more than that cost, though less than the actual current replacement cost, and

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against such trading losses as it may have made during that period the Timber Control had considerable accumulated profits from an earlier stage in its operation, and certainly at no period during the actual accounting period which we are discussing was the Timber Control in total in the red.

4041. You accept the statement in the third line on page xviii where we are told that the review of prices in the middle of June, 1946 "showed that maintenance of existing prices for a further year would cost the Exchequer some £9 million? Do you accept that as a statement of fact?—I think all that can be said is that if you had maintained 'prices at' that level for a further year you would have got in £9 million less money than you otherwise would have done. It does not follow from that that the Control would have made an actual trading loss of £9 million.

4042. Obviously if you increase prices you draw in more money, but the statement here is quite definite that: "maintenance of existing prices for a further year would cost the Exchequer some £9 million". That is either accurate or it is inaccurate. —If that means that if we had maintained prices for a further year from June, 1946, the Timber Control would have shown a final loss on its accounts of £9 million, that would not be correct.

Lieut.-Colonel *Hamilton*.] May I ask what is the interpretation, then, of that statement?

Chairman.

4043. Yes. As it is your statement, Sir Frank, perhaps you could explain the matter to us?—(Sir *Frank Tribe*.) I think the interpretation is what the sentence says, namely, that if the existing prices were maintained for a further year the cost to the Exchequer would be £9 million. I am told that is divided as to £4½ million on softwood, £2 million on hardwood and £2½ million on plywood. Actually, as you will see, although the Treasury expressed the view in August, 1946, that the prices should be increased at once they were not increased until May, 1947, and then only in respect of softwood.

Lieut.-Colonel *Hamilton*.

4044. Those figures would be definitely trading losses?—The difference between the current costs and existing prices, and I think to that extent it means that the extra income needed to meet this was estimated to be in the region of £9 million.

Mr. *McAdam*.

4045. Does that reply mean that the Treasury saved only the £2½ million on the plywood out of an estimated cost of £9 million?—£4½ million was the figure for softwood. The Order was not made until about eight months after the agreement was reached, so it may be presumed that

the resulting loss of income was in the neighbourhood of two-thirds of £4½ million, plus the failure to get anything on the increase in the price of hardwood and plywood.

4046. But I understood you to say it was £2½ million on the plywood?—Yes.

4047. That means £2½ million less on the £9 million?—The £2½ million was included in the £9 million.

4048. Yes; it means only £2½ million less than the estimated cost of £9 million?—No. The price of plywood was not raised. The only Amending Order related to softwood. That was increased after a delay of eight months and no Order was made increasing the prices of hardwood or plywood.

Chairman.

4049. I must confess I am still not quite clear as to whether maintenance of the existing prices would have resulted in a deficit of £9 million at the end of the year. —(Mr. *Bretherton*.) Perhaps I might help on that. The position as far as we can see it is that, as has been said, though the softwood prices were not in fact raised until the 1st May, 1947, by the end of the financial year, the 31st March, 1947, the Timber Control was just about breaking even on all its operations; that is, it had used up most, if not all, of the reserve of £7 million which it had in hand a year earlier, and had none of that left. It was not itself in the red.

4050. It had a profit of £7 million in hand from—?—(Sir *Archibald Rowlands*.) From the end of March, 1946.

4051. At the end of March, 1946?—Yes.

4052. Then you say it was breaking even at what date?—(Mr. *Bretherton*.) At the end of March, 1947, it would approximately have exhausted that reserve.

4053. Then in fact there must have been a deficit of about £7 million during the year 1946/47?—Yes. That, I think, is the way of putting it.

4054. Then we have arrived at the answer. Can you give any explanation of the delay in increasing the prices when the Treasury expressed the view in the middle of August that they should be increased immediately?—I think the decision actually to increase them, which was a decision taken by the Lord President's Committee, was taken in late October or early November. The actual drafting of the necessary Orders and drawing up the necessary price schedules was an extremely lengthy job, but also it was necessary at that time to increase the home grown timber prices, which was an even lengthier job—the prices for standing timber and the controlled prices for home-grown timber. With the extremely depleted staff

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with which the Timber Control had to work it was simply not possible to get through the work in the time, before the end of February or March. By that time it was clear that the prices we should have to pay for timber in the current year were different from the prices which had been estimated earlier on, and that there would be advantages in waiting a little longer in order to be able to fix our prices on a firm basis of the 1947 purchases. Therefore we waited until the 1947 prices were really known. We then decided how much increase in price it was necessary to make to cover the actual cost of the 1947 purchases and to balance the accounts, and we made the increase as far as softwood is concerned. As far as hardwood and plywood are concerned the increase has not yet been made but will be made very shortly. The circumstances are rather similar.

4055. Had the prices operative in 1946 been operative since the outbreak of war?—Since July 1940 substantially, with small changes.

4056. In paragraph 47 the Comptroller and Auditor General tells us: "When estimating in 1944 the costs of flax and tow with a view to bringing prices to an economic level, the Ministry took no account of the Control overheads, administrative expenses or interest charges." Was that a mistake of omission?—No. The estimates at that time were necessarily being made on an extremely broad basis. The cost of the Control overheads and interest charges were a comparatively small part of the total costs, and no specific mention was made of them in the Estimates. That does not necessarily mean that they were not taken into account in an allowance which was originally made for contingencies.

4057. What part of the trading loss of £1½ in the year of account was due to this omission, or these omissions—the other factor being an over estimate of the yield per acre in Northern Ireland apparently?—The actual net loss in the year of account is now I think given as about £1,450,000. A good part of that, some £650,000, really represented the loss on the sales of Dominion flax, stocks of Dominion flax and other flax which had been bought before the price change in 1944, and we never intended fully to cover that cost.

4058. Let us get this clear. Are you challenging this statement that these omissions together with an over-estimate of the 1944 yield in Northern Ireland were largely responsible for a trading loss of over £1½?—I would challenge the remark about the omission of the Control overheads because the Control overheads were an extremely small portion of the sum involved; nor indeed is it really true to

say that they were omitted. They were not specifically mentioned in making up the estimate. That is all.

4059. Can you give me any figure which you would admit was attributable to the omission of these items: the Control overheads, the administrative expenses or interest charges?—No.

4060. You cannot?—The items in question amounted to about £150,000 but I do not think that we would accept that they were in fact omitted from our estimates. (Sir Archibald Rowlands.) There was a question of policy involved in this. The price that was fixed at £270 a ton was three times the pre-war price and it was decided I think that that was about as far as you could go. After the first World War the flax industry got into trouble because it had put its prices up too high. £270 a ton was three times the pre-war price and (it is a Board of Trade question now) was deliberately fixed as a ceiling, and as the Board of Trade witness says it was not that the overhead expenses were deliberately omitted by an error because nobody thought about it, but it was deliberately decided to fix the ceiling price at £270 a ton rather than at £280 which would have been the price I think to have covered all the possible expenses.

Chairman.] Are there any questions on paragraphs 45-47?

Mr. Cuthbert.] These losses we were hearing about just now—the £6½ million, for instance, on fertilisers, and now this £1½ million—are they in addition to the ordinary subsidies we hear about; for instance, the £450 million which we heard about in the Budget? As far as subsidies are concerned these are in addition to that, because they appear in these Accounts in a different way?

Chairman.

4061. Sir Frank, you can answer that?—(Sir Frank Tribe.) I think Sir Percivale Liesching made that clear when giving evidence on behalf of the Ministry of Food. They do not appear in the Ministry of Food's figures of food subsidies, but Sir Percivale Liesching made it clear that they were included in the comprehensive figure which the Chancellor of the Exchequer gave in this year's Budget speech of the total subsidies from the Exchequer in respect of food and allied materials.

Mr. Benson.

4062. With regard to timber have you now raised the price to such an extent that there will be no loss to the timber control?—(Mr. Bretherton.) So we believe.

Chairman.

4063. They have not raised the price of hardwoods, I understand?—No. That is as far as soft wood is concerned.

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Mr. Benson

4064. I meant by the inclusion of hardwood. Do you propose to do that?—As far as hardwood and plywood are concerned we propose to raise the prices very shortly.

4065. Is the reason for the delay in raising them similar to the reason you gave just now in connection with the delay in rising the price in softwood, that you are understaffed?—Yes.

4066. You have no intention that there shall be this concealed subsidy to the building industry?—No.

4067. Turning to paragraph 47, how comes it that an overestimate of the yield of flax in Northern Ireland increases your trading loss? Did you buy at so much per acre? Had you fixed a price of so much per acre for the flax?—For two years the price was fixed on the basis of so much per ton on flax, plus a payment of £10 for every acre that was sown with flax. Therefore, of course, since you did not know exactly how much flax you were going to get per acre you did not know the figure at which the final cost of flax, including the acreage subsidy, would work out.

4068. The acreage subsidy was £10 per acre.—Yes.

4069. How many acres were sown with flax?—In 1943, which was the first year in which you had a £10 an acre payment, 90,000 acres and in 1944 124,000 acres.

4070. Your acreage subsidy was roughly £1,200,000?—Yes.

4071. What percentage of the loss was due to that overestimate?—It is extremely hard to say.

4072. Approximately? What was your loss on the purchase of Northern Ireland flax?—Our loss on the purchase of Northern Ireland flax is not separately distinguished. I do not think it is possible to distinguish it separately.

4073. What did you pay per ton of flax in Northern Ireland?—I have just explained that we do not know exactly because we paid a price plus an acreage payment.

4074. Your acreage payment was £10 per acre?—Yes.

4075. Quite roughly what does an acre yield?—We expected that the yield would be on the basis of 6 tons to the acre. In fact it was 8 or 9 for one year.

4076. So that your acreage payment is roughly equivalent to about £60 to £90 per ton?—£60 per ton was the figure we took as an estimate.

4077. Approximately what was the cost paid to the Northern Ireland grower, this 25 per cent.?—It was about £285.

4078. What were they getting pre-war?—The price pre-war was about £85.

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4079. It is more than three times the pre-war price?—Yes.

4080. What was the justification for increasing the cost to the grower by three and a half times? Is there any other agricultural commodity which is purchased in England which shows an equivalent increase?—I do not know, on the second point. On the first point, it has to be remembered that whereas before the war the acreage under flax in Northern Ireland had fallen to under 20,000 acre (I think in one year to as low as 5,000 acres in the '30's) we are talking here about an expansion of acreage to 93,000 acres in 1943 and 124,000 acres in 1944. That expansion, of course, meant using land for flax which was not as suitable for flax as the land previously cultivated. It also meant bringing into flax cultivation a great many farmers who were not at all expert in the cultivation of flax and who naturally got very low yields.

4081. Have you made any attempt to arrive at the cost of flax to the farmer? Do you know whether the farmer made a great deal out of it?—It is extremely difficult to cost a particular crop like flax; I think most of all in Northern Ireland. I could give nothing but impressions, I think, of the actual profits made by farmers.

4082. What are your impressions?—My impressions are that the skilled farmers, those who had grown flax before, did extremely well on those prices and that many of the people who came in to provide the last quarter or the last one-third of the big acreage in 1944 in fact made losses out of it.

Chairman.

4083. Are there any further questions on paragraphs 45-47? We turn now to paragraph 48 which deals with wool. I should like to be told a little bit about the constitution and appointment of the company mentioned in paragraph 49, the United Kingdom-Dominion Wool Disposals, Limited. Is that a public or private company? Who owns the shares? Who are the Directors, and who appoints them?—It is a private company. The shareholders are persons appointed by the four Governments concerned. The Directors are also appointed by the Governments concerned in certain proportions.

4084. Do you see the accounts of this company, Sir Frank?—(Sir Frank Tribe.) It is provided that we shall do so. We have not seen them yet, but we shall do so.

4085. Will they be published at any stage?—(Mr. Bretherton.) Yes, the accounts will be published.

4086. In what form?—I do not think the exact form has been settled.

4087. Will they appear with the Appropriation Accounts?—No.

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4088. Will they be furnished to this Committee privately, or will they be open to the general public?—I have no doubt they can be furnished to this Committee privately.

4089. You said just now that they would be published. I wondered in what form they would be published. If it is a private company it is under no obligation to publish its accounts?—No, but I think it will publish its accounts in this case.

Chairman.] Are there any questions on paragraphs 48 and 49?

Mr. Benson.

4090. You are at the present moment primarily concerned with the disposal of your previously purchased clips, are you not?—Not entirely. The whole idea underlying the disposals scheme was that it was not possible to dispose of this wool independently of the current clips that were coming forward. And the scheme provides, of course, for the Joint Wool Organisation to be prepared to buy up any wool offered to it from the current clips at certain minimum reserve prices while at the same time it is offering for sale its own pre-existing stocks.

4091. In the event you have not had to buy any, have you?—Of certain types there have been some purchases, of the poor qualities; and of cross-bred, even, this year.

4092. To what extent have you reduced your gross holding of wool?—I have not the figures with me but it is a large proportion.

4093. What is the basis on which you sell? I know it is the basis of current auction prices but what decides whether you shall sell one million bales or half a million bales? Or, rather, what is the basis on which you decide to put on offer a given quantity of wool?—I think I can hardly speak to that because that is actually a matter for the determination of the Joint Organisation itself with its own directorate.

4094. In so far as we are represented on the directorate are we represented by a representative of the Ministry of Supply?—No. The British Directors are appointed direct by the President of the Board of Trade.

4095. In the period we are discussing they were under the Ministry of Supply, were they not?—No, not during this period. Well—it is a little difficult to say, because one is dealing here with the interim period before the Joint Wool Organisation had been properly constituted. It was agreed that the financial provisions of the scheme, the division between the Dominions and the United Kingdom, should have effect as from 1st August, 1945, but it took some time to constitute the actual Joint Wool Organisation and the Chairman and Directors were not appointed until about April, 1946.

4096. Sales of clip at public auction did not really come into operation until the Board took over from the Ministry of Supply. That is correct, is it not?—Sales by public auction did not commence until September of last year. There was an interim period which was provided for in the original agreement with the Dominions under which the United Kingdom Government continued to take up the whole of the clip as far as the actual financing of the taking up was concerned and at which sales were made at fixed prices. They were in fact practically the same prices as those which had ruled in the previous year.

Mr. Benson.] I was concerned primarily with the effect of releasing the previous clips on the public auctions. If that did not come under the Ministry of Supply it does not arise here. I think perhaps this question had better be reserved for next year on the Board of Trade Vote.

Chairman.

4097. Yes. Are there any further questions on paragraphs 48 and 49? Paragraph 50 describes the subsidy which is given to the sheep farmer as a matter of policy, I understand. Will this continue to appear as a deficit in the accounts of the Ministry of Supply or is this going to be handed over to the Ministry of Agriculture?—The Ministry of Agriculture is taking over the disposal of the home clip as from April of this year. It will dispose of the 1947 clip.

4098. The Ministry of Agriculture will purchase the wool from the farmers and sell it to the trade?—Yes.

4099. So that this loss will then appear in the account of the Ministry of Agriculture?—Yes.

4100. But you say the same thing is not going to be done and cannot be done in the case of fertilisers?—No.

4101. Are there any questions on paragraph 50? Paragraphs 51 to 55 are, I think, largely narrational, dealing with the control of iron and steel, which has been considered by the Committee before. Paragraph 54, Sir Archibald, deals with the winding up of the Central Fund and the Special Fund also, I think. Can you tell us what progress is being made in winding up these funds?—(Sir Archibald Rowlands.) It has been finished, as you know. It stopped over a year ago. It ended up with a debit balance of about £40 million of which, however, £25 million is a notional figure representing the difference between the cost at which steel was sold under control in this country and the cost at which steel was imported under lease-lend from America. The £25 million out of the £40 million is really a book figure. We did not pay that to the Ameri-

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cans for it. We controlled the price of steel as from November, 1940. It remained constant till after the war, since when it has been increased in two instalments, one by 15s. a ton and the other by 5s. a ton.

4102. These two funds will have to be finally wound up one day, will they not?—They are wound up. It is only a question of auditing and getting the exact figure. I may say the Central Fund was fed by the industry itself to the extent of about £163 million during the period of the fund. The fund was originated by the industry itself. It was a fund really to subsidise the extra cost of imported steel and steel-making materials from 1939 onwards, and the levies were raised on firms in the industry, the levies being increased progressively until the final increase brought the levy up to 45s. 6d. a ton of ingot steel. The industry itself paid into the Central Fund, as I say, £163 million during the currency of the fund and the net loss to the Exchequer was notionally £40 million, of which, as I have explained, £25 million was merely a book-keeping difference between the assumed cost of the steel under lease-lend and the cost at which it was sold in this country. The Special Fund did not last very long. It ended in 1941, effectively. It had a balance of about £3 million. A division of the £3 million has been agreed between the Ministry and the Iron and Steel Federation but its final disposal is awaiting a ruling on an income tax question of some complexity.

4103. In paragraph 56, on page xxi, we are told: "Such of the abnormal war-time costs previously covered by the Central and Prices Funds arrangements as may continue for a period after the termination of those arrangements will be met by direct subsidy; of these costs the most important are sea freight charges in excess of about 50 per cent. above pre-war and assistance to producers of home ore"—There are four items of cost which were thought to be transitory which are covered by the direct subsidy, but I may say we are already examining the desirability of continuing these subsidy arrangements which in fact really means subsidising steel to the extent of about £2 a ton and whether in fact the consumer should not bear it himself instead of the taxpayer directly. That is under active consideration at the moment in consultation between the Iron and Steel Board and ourselves. We thought it was only going to last a short time but in fact it looks as though some of these costs will go on.

Chairman.] Are there any questions on paragraphs 51 to 56?

Mr. Benson.

4104. What exactly does "lighter sections" include?—Things like wire ropes, cold drawn tubes and things of that sort.

4105. There is a loss referred to in the second subparagraph of paragraph 52. Was that due to the changeover?—Some firms did make a loss in that year.

4106. That was due to the changeover?—Yes, and the end of the war.

4107. I take it the matter has been subsequently completely reversed and that we are once again in a highly profitable state?—It varies, as you know. The steel industry is a mixture of high-cost producers and low-cost producers.

4108. But these are the fabricators of steel, I take it?—Yes, they do not make steel themselves. They are the finishing end of the steel industry.

4109. Your remark also applies to them, that there is a very wide disparity between costs?—Yes, very much so. Some people make a lot of money and other people are really losing money.

4110. Are you doing anything about it?—About what?

4111. About stepping up the efficiency of the high-cost producers?—I hope so. I hope the whole of the industry is going to be rehabilitated under the scheme which you know about.

4112. Is there anything being done at the moment?—Lots of things have been done. As you know, in South Wales they are about to spend £50,000,000 on getting what ought to be the most efficient plant for making tin plate in the world.

4113. Is that at Swansea?—Margam and Llanely. The melting works will be at Margam and the cold reduction plant will be at Llanely and not Swansea, if the Government decision is adhered to. There has been a fight between the two towns for the location of the cold reduction plant.

4114. Was that the cause of the heat at Question Time today?—Yes.

Lieut.-Colonel Hamilton.

4115. Are they abandoning one scheme?—No. The position is briefly this. At the least one cold reduction plant will be required. They do not know yet (it will depend rather on the export trade) whether more than one will be required. The plant is expected to produce 7,000 tons of tin plate a week. It is possible that one plant can increase to much more than that, to 10,000 tons, and they do not really know yet whether they want two cold reduction plants. They certainly want one; there is no doubt about that. The original idea was that they were to have two and they were to be located respectively at Swansea and Llanely, but they recommended that for the time being only one plant should be erected and the Government have decided, having considered all the sociological and other factors, that the first plant should be erected in Llanely rather than Swansea.

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Chairman.

4116. Are there any further questions on paragraph 56? We pass to paragraph 57 which deals with contracts for Nigerian tin. The Comptroller and Auditor General states that the Ministry arranged to purchase Malayan stocks and production for sale to other countries.—Actually the whole tin output of the world is really distributed by agreement between the main consuming countries and producers. There is an International Tin Conference on which this country is represented; in fact it is almost run by the Ministry of Supply.

4117. Do you take the view that the Ministry would require any statutory authority for entering into transactions of this kind?—Not unless we lose money, which I hope we shall not do. The Ministry do not actually buy any tin. We buy all the aluminium.

4118. When the Comptroller and Auditor General states that you "arranged to purchase Malayan stocks and production for sale to other countries", what does that indicate to your mind?—I may be wrong about this. I thought we did not buy tin directly but I may be wrong.

Lieut.-Colonel Hamilton.

4119. The Comptroller and Auditor General states: "The Ministry continued to take all the Nigerian production". How can you take it unless you buy it?—That was a long time ago. I am talking of the current position. We do buy some materials. We do not buy others. We arrange for the purchase of the raw materials of a metal required. We buy copper, for example, I know. I thought we no longer bought tin ourselves, but I may be wrong. (Mr. Blunt.) I think the Ministry do buy the tin. (Sir Archibald Rowlands.) I accept that.

Chairman.

4120. Suppose you do buy the tin and do not make a loss on it, in your view you do not require any statutory authority?—I think we have adequate statutory authority at the moment under the Supplies and Services Act, till 1950.

4121. Are there any questions on paragraph 57? Paragraph 58 deals with the new arrangement for distributing softwood timber. We are told in paragraph 59 that the controlled prices allowed 11 per cent. for merchants' remuneration and the Comptroller and Auditor General states: "It was granted subject to revision after nine months and the Board are at present considering the report on a recent investigation of the trading results of a cross section of softwood merchants made by one of the two firms of professional accountants now engaged as advisers on raw material costs and related

questions". May we be given the result of this recent investigation into the profits of the timber merchants?—(Mr. Bretherton.) Yes. The investigation showed that the figure of 11 per cent. mentioned there gave a very reasonable proper return to what we call the first-hand merchants; but it gave rather less than what might have been expected to the second-hand merchants in general, who mostly buy timber from the first-hand merchants and then sell to the consumer, but that a good deal more money than was proper had been made mostly by small merchants who were selling timber in small lots and were entitled under the Timber Control Orders to make an addition to the stand-and price because they were selling in small lots, or, in the case of lots of timber under £1, at prices that are not controlled by Order at all. That is, I think, what the investigation showed. We have taken certain measures since then and certain things have happened since then which we hope will set right the difficulty about excess profits on small lots.

4122. Has this margin of 11 per cent. been reduced?—No. As far as the first-hand merchants are concerned, substantially it has not. A lower margin has been fixed, but that is due to the fact that the timber prices have been raised, as was explained some time ago and therefore, in order to provide the same absolute remuneration, of course a smaller percentage margin is all that is needed.

4123. Does the report of the independent accountants give you any figure of return on capital employed by groups of timber merchants?—No. When one is dealing with merchants it is, I think, extremely difficult to arrive at any figure of capital employed—indeed to arrive at just what capital they do employ, and we have found it generally impossible to fix rates on the basis of capital employed when we are dealing with merchants.

4124. In that case how do you measure your profits—in relation to what?—Partly in relation to their turnover and partly in relation to what we can gather may have been a fair profit before the war. It is extremely difficult.

Chairman.] Are there any questions on paragraphs 58 to 60?

Mr. Benson.

4125. Do I take it that the large merchant gets 11 per cent. and then the merchant to whom he sells also gets an additional 11 per cent?—No. The arrangement was that the total difference was 11 per cent.—that is, between the controlled selling price and the final price to the consumer, apart from small lots.

4126. Who splits that up?—Of that 11 per cent. the first-hand merchant kept, I think it was 2½ per cent. and he passed the rest on to the second-hand merchant.

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[Continued.]

4127. It goes through only two hands?
—Through only two hands, yes.

Chairman.

4128. Are there any further questions on paragraphs 58 to 60? We turn to the Account, which is at page 16. These figures tell us nothing, do they, Sir Archibald?—(Sir Archibald Rowlands.) They do not tell me very much.

4129. Owing, I take it, to there being a good deal of . . .?—Aggregation.

4130. Lease-lend supplies and aggregation. They do, however, represent dealings in raw materials?—Yes.

4131. Payments for raw materials on the one hand and receipts for their sales on the other?—Yes.

4132. As your Department is going to go in for trading on a big scale and in fact is involved in trading on a big scale, would it not be wise if the House of Commons were informed of your commitments for the future?—Our estimates give a forecast of all the net receipts or net payments resulting from our trading—

4133. For the ensuing year?—And also this figure gives you a net figure. Whether the Committee would like more detail or whether the Account should be presented in greater detail is a matter for the Committee to consider and decide. There would be no objection on our part in showing the separate transactions, say for aluminium and copper and so on.

4134. In the course of your trading you enter into a number of long term contracts?—Not very long on the whole. It is about 6 months. It varies with the commodity. Copper is about six months. For aluminium as a matter of fact we have a contract that goes on until 1948. We have a very favourable contract as I explained on Tuesday. For lead it is about 6 months.

4135. You mean generally speaking you do not have contracts which run beyond the year in respect of which Estimates are presented?—Unless, for example, we have on the 1st January to buy forward. You have to buy forward. We have to guarantee the supply of material. We aim at making neither a loss nor a profit and in order to do that one has normally to make a small profit. We have been making large losses in the past but I am hoping that in future we shall avoid those.

4136. Have you any contracts now in existence which bind you either to buy or sell beyond the end of March, 1948?—Certainly to buy. The aluminium contract does not exhaust itself until about September, 1948.

4137. Have you anything which runs beyond December, 1950?—Not beyond the 15th December, 1950, no.

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4138. I think the 12th is the official date, is it not, Sir Frank?—(Sir Frank Tribe.) I thought it was the 10th, speaking from memory. Anyhow it is December, 1950.

4139. I was thinking of the end of the grouse shooting season! What I had in mind was that other Departments which have entered into commitments which run beyond the end of the year for which they are presenting Estimates, such as for the rebuilding of the House of Commons down here in the next three or four years, give a figure of the total estimated requirements?—(Sir Archibald Rowlands.) So do we for buildings as you know.

4140. I wondered whether in respect of your trading activities you might consider doing something of the same kind?—It would be difficult unless you split it up. You do not always want to say how far you are buying forward or how much you propose to buy forward. It is difficult enough for a Government Department to do these trading transactions without exposing all their actions to the gaze of the public they are dealing with.

4141. Yes. But a global figure of future commitments without specifying commodities would not hurt anybody?—Not at all: It would not be very illuminating; but still we are quite prepared to do exactly what this Committee, the Estimates Committee or the Treasury want on that.

Chairman.] It is a point the Committee will have to consider. Are there any questions on the Account?

Mr. Benson.

4142. You say you made large losses. Have those losses been policy losses?—Some of them definitely have been policy losses, yes. I explained to the Committee on Tuesday that we incurred a considerable loss on aluminium running into several million pounds because we definitely wanted the fabricating industry in this country to have a chance of establishing itself or maintaining the position it had attained during the war, and it has done so. Our policy today is that we make no loss on aluminium.

4143. Are you making any policy loss on any metal?—At the moment I think none, no—certainly not a policy loss. We did make a policy loss on aluminium but now that has been stopped and we are hoping at least to recoup ourselves for the whole cost of aluminium, including the subsidy paid to the British Aluminium Company, to the home producer.

4144. The prices in this country are governed roughly by a desire to make your account balance?—That is so.

4145. Have you any idea how, with that policy in view, prices of raw material and metal compare with foreign prices?—Normally we buy most of our raw materials at

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the world price. If you like to take aluminium as an example, we used to sell it a short time ago at £72 15s. od. a ton which compared with the American price of £78 a ton. We are now selling aluminium

at £80 compared with £78 a ton in America; but we have to bring it all the way from America.

Chairman.] Are there any further questions on the Account?

(*Sir Archibald Rowlands, Mr. Bretherton and Mr. Blunt, withdrew.*)

Sir ERIC BAMFORD, K.C.B., C.B., C.M.G., called in and examined.

CIVIL APPROPRIATION ACCOUNTS, 1945-46.

CLASS VI.

VOTE 14.

DEPARTMENT OF SCIENTIFIC AND INDUSTRIAL RESEARCH.

Sir EDWARD V. APPLETON, G.B.E., K.C.B., D.Sc., LL.D., F.R.S., called in and examined.

Chairman.

4146. Sir Edward, have you appeared before the Public Accounts Committee on a previous occasion?—(*Sir Edward Appleton.*) I do not think so, no.

4147. May I extend to you a welcome.—Thank you.

4148. Will Members turn to the Civil Appropriation Accounts, 1945-46, to paragraphs 57 and 58 of the Report of the Comptroller and Auditor General. I think the Department of Scientific and Industrial Research has been in existence for some 30 years, has it not?—Was it not in 1916 that it was founded?

4149. I think so; or thereabouts; and it has at no time required any statutory authority for its proceedings?—That is so.

4150. Or for its expenditure, perhaps I should say. It was established by Order in Council, was it not?—That is so.

4151. The Comptroller and Auditor General in paragraph 57 tells us about the main headings of expenditure and how they have gone in recent years. Could you tell me, in regard to the grants to students, mentioned in the second line there, and others engaged in scientific research, £18,000, how the students who receive these grants are selected?—Applications are made by Heads of the University Departments on behalf of students working in their laboratories. These applications are considered by the Scientific Grants Committee, which is a committee of the Council for Scientific and Industrial Research, to whom the Scientific Grants Committee recommends that certain men or women shall be given these maintenance allowances and grants for scientific research. The Advisory Council is the body which advises the Lord President on all activities of the Department, not only on grants to students but on grants to research associations and on the work of our own stations.

4152. What I want to be assured about is that there is some machinery in operation which would prevent overlapping with

regard to the grants to students as between the Department of Scientific and Industrial Research and the university grants and the ordinary educational grants.—I think that cannot possibly happen because we are the only body who give grants for training in research. The university Grants Committee gives a grant to the university for the teaching staff and for the running of the university, but we give grants to promising students to be trained in research so that after three years research training at a university these men can come into industry or government as research workers.

4153. Then as regards the grants to research associations they, I take it, are all non-profit making bodies, are they?—Entirely.

4154. Established by different industries?—Established by different industries. They are autonomous bodies the income of which is as to two-thirds (I am speaking generally) provided by the adhering firms in the industry and as to the remaining one third by grants from the Government by way of the Department of Scientific and Industrial Research.

4155. Can you tell me how many research associations approximately are in receipt of grants?—At present the number is 33. I could supply a list if you wished it of the industrial grants and Government grants.

4156. Those two items we have been discussing come under Subhead B. Under Subhead C there is the cost of research work and investigation carried out by the Department in its own establishments. How many establishments are there?—Ten establishments and three more in process of formation.

4157. What are the principal ones?—The principal one is the National Physical Laboratory. Then there is the Chemical Research Laboratory; there is the Food Investigation Laboratory; there is a Forest Products Laboratory; there is a Fuel Research Laboratory. Shall I go through the

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[Continued.]

list? We have a Geological Survey, a Road Research Laboratory and a Water Pollution Research Laboratory, the Building Research Station and the Pest Infestation Station. But we are intending to increase that number by the addition of three new organisations, one on mechanical engineering (the Lord President announced that recently), one on hydraulics research and one on Fire Research.

4158. A great many Government Departments have their own research bodies, have they not?—Yes, particularly the Supply Departments.

4159. I wondered what steps had been taken to co-ordinate the work of your research bodies with their research bodies and prevent an overlap of function?—Clearly that is a very important matter and very special steps are taken to that end. Each one of our research organisations has an advisory board and on that advisory board the Defence Departments are represented by way of assessors. Our programme is discussed by this advisory board which has on it representatives of the Defence Research Departments, not only the Supply Departments but also the actual Service Departments. Then in addition every year I take the chair at a meeting of the Directors of Scientific Research of the Supply Services and all the programmes, prepared in common form, are subjected to the most careful examination with the object of discovering not only undesirable overlapping but gaps, too.

4160. To take a concrete example, or to take a single example, the Ministry of Transport have an organisation for doing research into roads, and so on, and you also have an organisation. Where is the dividing line drawn between the two?—I think, if I may say so with all respect, your statement is not quite correct. We have a road research organisation and the Ministry co-operate with us in respect of large scale trials, but we are responsible for road research and there is obviously a need for the closest co-operation between us and the Ministry as the executive department. Their Chief Engineer is on our Road Research Board.

4161. But in agriculture I think the Ministry of Agriculture has a number of research organisations, has it not?—That is so, but we are not concerned with growing crops. (Sir Frank Tribe.) Perhaps the Ministry of Works is an example. The Ministry of Works has on its Estimates quite a large appropriation for research on building.

4162. I wondered if there was some broad dividing line or narrow dividing line which enabled you to say that a certain form of research was appropriate to the Department of Scientific and Industrial Research and other forms of research were appropriate to the particular Government Department?—

(Sir Edward Appleton.) The dividing line would be that between research and development or research and large scale trials, but, as Sir Frank points out, there is in the Ministry of Works exceptionally an organisation which could be called research. I hope I may speak quite freely here. That particular problem of overlap is under discussion at the moment and it may well be that the result of these discussions will be that the Department of Scientific and Industrial Research is accepted as the main research organisation and less work of a research character will be done by the Ministry of Works.

Chairman.] Are there any questions on paragraphs 57 and 58?

Mr. McAdam.

4163. I understood you to say that as far as the Ministry of Transport was concerned they had no research department of their own and you do the research work of the Ministry of Transport. Does that apply to, say, safety working on railways, types of locomotives, and so on?—I said that we did road research. We do not do research on railway operations.

4164. The Ministry of Transport will have a research department of its own for performing those functions?—For railway transport I imagine they would have at present to rely on the research departments of the railways. There is, for example, a good research department in the London Midland and Scottish Railway. We are concerned only with the road side and not with railways except for particular problems (e.g. concrete sleepers and stability of embankments) which are similar to those already under study in other connections.

Mr. Benson.

4165. What machinery have you for making known the results of your research?—We are now building up an Intelligence Division. I will say quite openly that, in my view, we have not taken sufficient positive steps in the past to make readily available and to make known the results of our work, and to that end the Lord President has approved the setting up of an Intelligence Division composed of scientific men as well as administrators, the function of which is to assist industry in every possible way by making available and making known our results and in fact the results which are already freely known to science.

4166. If any individual firm comes to you not to do research for them but to ask for information do you supply it?—Yes, certainly, and it is the function of this Intelligence Division to help anybody who comes along with any kind of problem concerned with research. It may be this kind of question: "What type of research organisation should we as a firm set up?"

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[Continued.]

This Intelligence Division is supposed to help them on that, even to the extent of helping to get the right men for their research organisation.

4167. Supposing a firm came to you with a specific technical problem would you deal with it or say "No, this not our business?"—Usually we should suggest a consultant, but we could do the work for them if they paid for it, the results being confidential. We are not very anxious to do that because we feel, as a Government Department, that our work should be known to everybody, and in fact if you look down the list of the subjects on which we do research you will find that they all have a community flavour as well as an individual flavour. People live in houses, travel on roads, burn fuel, and so on, and that is why we think it is our function to conduct research on these fundamental matters; but we would do research for a firm confidentially. We should charge them the full amount of the cost but we should be obliged, as we are a Government Department, to say to the firm: "If another firm comes along and asks us to do the same work we are bound to give them the information which is already available." But there is in existence, or just about to start, an organisation in industry to do precisely the task you have identified. That is the Fulmer Research Institute, which is to be opened shortly by Sir Stafford Cripps. We, in the Department of Scientific and Industrial Research, are very interested in seeing that experiment carried out, to see an organisation developed which will undertake confidentially for industry researches on specific problems.

4168. Do you confine yourselves purely to what really are specific problems or do you engage in pure research?—We engage in what I would prefer to call objective fundamental research and applied research. I am one of the individuals (although I have been what is called a pure research worker for many years) who does not like the distinction between "pure" science and "applied" science. There is almost, if I may say so, a Gentleman v. Players flavour about it which does not appeal to me very much. There is an air of snob-bishness about "pure" research, so I would suggest that we call it objective fundamental research. I can give you good examples of that. For example, work on nuclear physics directed towards elucidating our knowledge of atomic structure, with the distant, objective of atomic energy as applied to benevolent acts. My own work on the upper atmosphere would, I think, be classed as objective fundamental research, research directed to getting insight into a problem with the object of clearing up the background.

4169. Actually you do engage in fundamental problems of physics?—Yes, but

directed to elucidating some region of practical importance and also applied research.

Chairman.

4170. Are there any further questions on paragraphs 57 and 58? We turn to the Account which is at page 312. I want to ask a question about the Geological Survey of Great Britain. It is combined with the Museum of Practical Geology. Where is the museum?—In South Kensington, Exhibition Road.

4171. What does the Geological Survey comprise? Who does it? How much does it cost? Who gets the benefit?—The figures of cost are given in the Account at page 313. The Geological Survey is a national organisation which serves all users of its knowledge freely; for example, it finds out where the coal is in this country, where the other ores are and gives advice freely on the one hand at present now to the Coal Board or the Ministry of Supply, or any other organisation wishing to know something about the geology of this country.

4172. When was the work begun?—It was begun in 1836.

4173. That was long before the Department of Scientific and Industrial Research?—Yes. It is the oldest Geological Survey in the world.

4174. You cannot say upon what Department's Vote it was borne in 1836?—No. It was before my time!

4175. Would you think that there was any case for suggesting that the National Coal Board might make a contribution to the cost of the Geological Survey now?—I do not think so. We are in the process of handing over the National Coal Survey to the Coal Board and they will have to pay for that, because of course, the National Coal Survey is directed entirely to the study of the seams. But I would say we acquire the information about the disposition of the coal in the course of our investigation of the geology of this country. We would want to do it anyway, and since the information has been acquired by us it can be made freely available to the National Coal Board.

4176. As I understand it, the Geological Survey is more concerned with finding where the coal is than investigating the precise nature of the coal in seams. Is that right?—Precisely. Perhaps I did not make it clear. The function of the Geological Survey is to find out where the coal is and then, in addition, we have built up, over the last 20 years, a National Coal Survey, the function of which is to discover what it is.

4177. The cost of the Survey is included in these Accounts?—It is included under Subhead C, under the Fuel Research Organisation but, as I say, it is shortly to be transferred to the National Coal Board.

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[Continued.]

4178. Which means that they will bear the cost of investigating the nature of coal in future?—Precisely.

4179. On page 314 we see the details of receipts, and under "Fees and Charges" there are sums of £89,000 from outside bodies and £289,000 from Defence and Supply Departments, and so on. Has there been any increase in the fees and how are the fees settled?—As to outside bodies, the fees charged are generally the total costs including overheads, but if a problem is of general interest it may be carried out at reduced charge, or even free, and the results published.

4180. And the fees payable by the other Departments?—Similarly.

4181. So that you are charging an economic price for any service you render. Is that right?—Generally, Yes. Perhaps I might explain why the fees for Defence and Supply Departments seem so large and for other Departments so small. The Defence and Supply Departments have research organisations of their own and therefore, when we do work of a specialist character for them, it is essential that they should pay for it; otherwise you would be having work on their programme done on somebody else's Vote. On the other hand we do work freely for Civil Departments according to a Treasury Circular (T.C. 16/23) dated 29th June, 1923, the second part of which reads as follows: "Researches and special investigations required for normal administrative purposes will be undertaken as free services." That means that when we are formulating our programme of research on, say, roads or fuel or building, and so on, we naturally consult the Executive Departments concerned with these matters so that our programme can bear some definite relationship to their needs of knowledge.

VOTE OF CREDIT APPROPRIATION ACCOUNT, 1945-46.

DEPARTMENT OF SCIENTIFIC AND INDUSTRIAL RESEARCH.

Chairman.

4187. Will Members turn to the Vote of Credit Appropriation Account, 1945/46, to paragraph 65 of the report of the Comptroller and Auditor General? This paragraph is not critical at all. I think the Committee might be interested to hear something from you about it. "Research in tube alloys" was simply a pseudonym for some other research?—(Sir Edward Appleton.)—Yes, for research directed towards the production of the Atomic Bomb.

4188. The expenditure charged in this Account, amounting to £426,000, relates only to the period from the 1st April, 1945, to 31st December of that year after which the responsibility passed to the Ministry of Supply?—That is so.

Chairman.] Are there any questions on the Account?

Mr. McAdam.

4182. On page 312, Subhead A.I. is "Salaries, etc." The Grant was £64,914. It was not used to the extent of £8,651. The explanatory note states that it was due to inability to expand staff, particularly in the Intelligence Division. Could you give us any indication as to whether there is any likelihood of a speedy improvement in the recruitment of staff?—There has been a slight improvement since that date, the 31st March 1946, but I am sure it will be readily understood that men in this Intelligence Division have to be very carefully picked. They have not only to know their science but they have to be able to assist the inquirer.

4183. You will depend for that staff on quite a lot of the young men coming out of the Universities, and they are slow coming out of the Universities at the present moment, owing to war service?—That is so. (Sir Frank Tribe.) I might say the salary estimate for the current year is £158,000.

Mr. Benson.

4184. On page 314, "Outside bodies", under Subhead C: are those mainly commercial bodies?—(Sir Edward Appleton.) Yes.

4185. So that actually you have very large clientele of commercial firms?—Yes. They may be tests done by the National Physical Laboratory for firms who want to meet a particular specification.

4186. You run the National Physical Laboratory as well?—Yes.

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

4189. "The total expenditure" the Comptroller and Auditor General tells us "incurred by the Department of Scientific and Industrial Research from 1st December 1941 to 31st December 1945 amounted to" just over £2 million of which £411,000 was for salaries and £1½ million in respect of research. The bulk of the latter sum was paid out under contracts placed with certain firms. Can you tell us who was the principal firm with whom the contracts were placed?—There were two firms. The principal firm was I.C.I. who did work on the development of a diffusion plant for the separation of the fissile material, Uranium 235, from the naturally-occurring mixture of Uranium 235 and 238. I.C.I. (General Chemicals) also did work for us on the manufacture of Uranium metal from the oxide in which form it is found in nature.

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Then I.C.I. (Billingham) did work on the separation of heavy water on a laboratory scale.

4190. On what basis were these programmes undertaken? Did you pay them the actual cost of what they did or cost plus a profit or cost plus overheads, or something of that sort?—The basis was cost plus overheads, but I would like to emphasise that the control of this work as regards patents was quite complete. Every patent taken out, or every invention, I will put it, made by a firm while working for us in this field became the property of the Government. The firm was allowed to have the first refusal of a licence to use the patent outside the atomic energy field and the decision as to whether the particular use they were going to make of the patent was inside the atomic energy field or outside the atomic energy field remained with the Department. I do not think any Government Department made such restrictive provisions on its patents through the war as we did. There was another firm working besides I.C.I., and that was Metropolitan Vickers, in Manchester.

4191. If there is any secrecy still attaching to any of these things you have told us you will take them off the record?—There is nothing secret in what I have said so far.

Chairman.] Then I will ask the other Members of the Committee to put questions to you, and perhaps you will be more indiscreet!

Mr. Benson.

4192. I gather that you said that the present experiments on the Atom Bomb had passed to the Ministry of Supply, or the responsibility had passed to that Ministry?—The responsibility for research and production in the atomic energy field has passed to the Ministry of Supply.

(Sir Edward Appleton withdrew.)

VOTE OF CREDIT APPROPRIATION ACCOUNT, 1945-46.

CONTROL OFFICE FOR GERMANY AND AUSTRIA.

Sir GILMOUR JENKINS, K.B.E., C.B., M.C., and Mr. S. J. SECKER, called in and examined:

Chairman.

4199. Sir Gilmour Jenkins, is this your first appearance before the Public Accounts Committee?—*(Sir Gilmour Jenkins.)* It is, yes.

4200. You signed the Accounts of the Control Office, but I do not think you were Accounting Officer during the year of account, were you?—That is so. I was not there at that time, no.

4201. When did you become Accounting Officer?—In the middle of July last year.

4202. Paragraph 62 of the report of the Comptroller and Auditor General on the Vote of Credit Appropriation Account puts the position as regards accounting quite

4193. Does that mean that you have nothing more to do with it?—Oh, no.

4194. Is it merely technical responsibility?—No; the responsibility has gone over to the Ministry of Supply, and they will be responsible not only for research on atomic energy but they will be responsible for the production of fissile material if it is decided that fissile material is needed by this country. By fissile material I mean the substance of which Atomic Bombs are made.

4195. Yes, I understand that.—Our specialised knowledge, if I may put it in that way, because I am referring to our own stations, is used by the Ministry of Supply. I would rather not go into too many details but, for example, the geology of Uranium is obviously a very interesting question. We, having a Geological Survey of Great Britain, are doing that work for them. We are also doing work on analysis of ores, and so on.

4196. You work in close contact with them?—Yes.

4197. Are their results and discoveries made patent to you?—Yes, if they are any use to us.

4198. How can you tell whether they are of any use to you unless you know what they are?—Most of these patents refer to inventions definitely within the atomic energy field, but sometimes an invention is made which fulfils a special requirement in the atomic energy field but also could be used outside it; and it is in the second category where we are informed.

Chairman.] Are there any further questions on paragraph 65? The Account is at page 17. It is brief and I have no questions upon it. Has any Member of the Committee any questions upon it? Thank you very much, Sir Edward.

clearly, I think. For the first seven weeks of the year of account (that is up to the 31st May, 1945) the Foreign Office was the Accounting Department?—Yes.

4203. From the 1st June, 1945, to the end of December it was the War Office; but in October, 1945, the Control Office became a separate Accounting Department as from the 1st January, 1946. So that in the year of account there have been three separate authorities responsible?—Yes, three separate authorities.

4204. First of all the Foreign Office for 7 weeks; then the War Office for something like 7 months and finally the Control Office for the last three months of the year, and the Account appended refers only

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[Continued.]

to the last three months?—Only to the last three months. (Sir *Frank Tribe*.) Perhaps I might say that in the report which the Committee considered earlier on the Appropriation Account for the Army Services, in paragraph 42 I reported that the net expenditure on the pay and allowances of headquarter and overseas civilian staffs during the period of War Office control was £1,395,000.

4205. That was during the period of War Office control?—Yes.

4206. That was the seven months from May till—?—From 1st June to the end of December, 1945.

4207. In paragraph 62 the Comptroller and Auditor General also tells us: "The pay and allowances of service personnel employed with the Commissions continued to be borne on the Votes of the Defence Departments, and the supplies and services required by staffs overseas, both service and civilian, continued to be met from service sources without financial adjustment". That is accommodation, housing, food and so on, in Germany?—(Sir *Gilmour Jenkins*.) Yes, food and all housekeeping services, you might say.

4208. It is therefore a matter of mere guesswork, really, to find out what the cost of the Control Commission as such was during the year?—Yes.

4209. Paragraph 63 is so critical that I think I had better ask the Comptroller and Auditor General to amplify his criticisms a little and then ask you to make any comments you have?—(Sir *Frank Tribe*.) In amplification of this paragraph I might say that I think the criticisms can be summarised under seven different heads. The first, I would say, is delay in accounting. At no time has the Control Office succeeded in rendering to my Department the monthly accounts within the normal prescribed period of two months following the particular month. The actual signed Appropriation Account which is under examination today by the Committee in respect of 1945-46, was not received until 17th March, 1947, and the first monthly account for 1946-47 was not received until 21st May of this year; that is to say, 13 months after the month to which it referred, whereas normally one gets these accounts within two months. Secondly, we had great difficulty in tracing necessary documents. Vouchers had not been produced in support of the Accounts, and we have found great difficulty in getting schedules building up the voucher detail to the figures in the Accounts. There has been no cross-referencing from paid drafts to supporting vouchers or pay sheets and, so far as we can discover, very little co-ordination between the establishment records and the pay records in the Department. Thirdly, I speak of shortcomings in accounting. The Vote has been charged with the whole sum drawn from the cashier for net pay whether

actually the pay was claimed at the pay table or not, and in fact we discovered that there were many unclaimed pay packets which had accumulated, often for months on end. Charges to the Vote and corresponding credits to suspense accounts in respect of tax deductions were based on summaries prepared in pencil from wages ledger sheets, which were of the loose-leaf type, and very frequently there were no certificates that insurance cards had been duly stamped. Even the imprest account relating to Norfolk House, which is the London headquarters of the Department, shows that the records are often in pencil. There are items scratched out and amended. We discovered unvouched charges, a difference between vouchers and account booking, and payments to unauthorised recipients. Fourthly, inadequacy of records of advances made overseas and information about what the Army call "casualties". The records kept do not enable us to satisfy ourselves in the Exchequer and Audit Department that all advances made have been charged to the accounts of the men concerned. There seems to be inadequate information sent from Germany. For instance, reductions of allowances have not been made as they should have been. Fifthly, there is the general question of overpayment. As a result partly of the inadequacy of the records which I have just mentioned there were heavy overpayments both to serving staff and staff which had been discharged. A high percentage of the accounts which we have examined showed final overpayments. A Question was asked about this in the House of Commons recently, when Mr. Mayhew, the Minister in charge, said he was aware of these overpayments and said that the overissues outstanding against staff who had left the service in April of this year came to £38,000 of which nearly £22,000 was still owing. There were redundant and duplicate cards among the salary record cards. A system of mechanised accounting had been introduced. Under this system dummy cards were used, but there were duplications of payment and overpayments. As another example of overpayment I may say that in one case it was found that over a year's salary, £860 less tax, had been paid to a man who should apparently have received no pay because his firm had in fact agreed to pay him. Sixthly, there is the question of accounting for stores and supplies which I mention towards the end of the report. We have been unable to discover what store accounts are being maintained, to whom they are rendered for examination, what accounting or financial instructions have been issued, or what procedure has been laid down for inspection and stocktaking. Seventhly, there is the general point that during the period from June of last year we have sent a number of written questions to the Accounting Officer of the Office on most of the subjects I have already mentioned but we have not had replies to any of these

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questions. I would not like the Committee to consider that in our view there is any deliberate obstruction. That is not one's impression at all. I do not think there is any unwillingness but it seems to us from examining the papers that really the papers are in such confusion that a reply has been found extremely difficult or impossible. Anyhow, no replies have been received to queries which have been outstanding now for about 12 months. The latest accounts we have examined showed that there is no sign as yet of any internal audit and we do not know whether any such audit has been set up. The Accounts before the Committee today relate almost entirely to salaries, but, as I have explained in the latter part of paragraph 64 of my report, the Office is now responsible for a very large expenditure which amounted to £120 million net in 1946-47 and over £86 million in the current year's Estimate, and one hopes that the accounting arrangements in the Department in relation to these very large figures will be more satisfactory than they were in respect of the first three months' expenditure recorded in these Accounts.

4210. Sir Gilmour, having heard that statement from the Comptroller and Auditor General I expect you would like to say something?—(Sir Gilmour Jenkins.) If I may make a general remark first of all on what the Comptroller and Auditor General has said, I think that, while he may have perhaps have gone rather far in some instances, the general picture is a true picture. But the circumstances which faced the Accounting Officer at that time, and the Department, throw some light on the reasons why conditions are as they are. At that time the situation in Germany was completely chaotic. The Control Office was set up because the control of the civilian side, the military government side, of the work in Germany could not be handled by the War Office who were then trying to handle it with all their other commitments. Germany itself was in a state in which everybody was working to get rid of displaced persons, of whom there are about 3 million cluttering the place up, a menace to life and property. There were no railways in the early stages; they were being built and got into operation at the time of which we are speaking. There was no local government; that was being built up. There was no German control of any kind, and it is not altogether surprising that the people who were responsible on the ground for dealing with that state of affairs were not accounting according to the best traditions of governmental accounting for their expenditure, nor, I think, was it altogether surprising that the people who were trying to build up a staff to control that overseas staff in London were also failing to look at this part of their duties quite so urgently as they were looking at some of the others. While I do not say that

that is a complete excuse (no doubt all these things ought to have been done) I think it is some explanation, and certainly there is some sympathy due to the Accounting Officer at the time and the very small staff who were dealing with the accounts in the difficulties which faced them. As regards the last point which the Comptroller and Auditor General made about the queries which have been addressed to the Office and which have not been answered, I should like to take this opportunity of apologising to him for that. It is another case in which that particular urgent job has been put aside from time to time for jobs which looked to be of greater urgency, but they are in hand at the moment and I hope it will be possible to let him have replies (all of them may not be complete, but at any rate they will be replies covering the bulk of the field) within the next week or two. I will see that every effort is made in that direction. My general reply has covered the main points he made about delay in accounting and about the difficulty in tracing documents and being sure that the advances which had been made to the personnel overseas were traced back and charged against their accounts. That has been one of the most difficult problems we had to face. At the time when we took over from the War Office the vouchers and schedules which were being received from Germany and Austria, indicating what advances had been made, had to be distributed immediately to the pay accounts of the people concerned so that the proper deductions could be made, and there was no machine system then (which we introduced later) to total the advances recovered so that we could see what was the discrepancy between the total recoveries and the total advances as recorded by the War Office. That discrepancy has been discovered since by the most laborious process of going through the whole of the individual accounts of the men concerned and we know what the missing figure is. We think that at any rate a substantial part of that figure is accounted for by missing vouchers. There again, Germany was almost in a state of war, and vouchers and schedules coming through the post certainly went astray from time to time. There was, at the time when we took over, no record of the schedules which ought to arrive, and therefore there was no way of tracing if a schedule and all its vouchers went astray. We are doing our best (it is a very laborious process) to try to discover what schedules are missing, and to see if we can re-create the accounts from any duplicates that may still be in the War Office archives.

4211. Thank you. Can you tell the Committee of any date as from which you hope the accounts will be accurately kept, or will have been accurately kept?—A sound system of machine accounting was installed in the Pay Branch on 1st April, 1946, that is immediately after the end of this

account, and the work of totalling advances and recoveries has been done currently from that date. When the Director of Accounts took over from the War Office on 1st January, 1946, he realised, of course, these deficiencies as, indeed, did the people from whom he took over. He had a very small staff and it was a very big task to get the new system going by 1st April.

4212. This is a terrible story of bad accounting?—Yes.

4213. But the amount of money involved in the year of account is comparatively trivial, apparently, or at any rate, small. When we come to the following year we are told that the expenditure of the Control Commission was £120 million net, and I was wondering if similar conditions of laxity had existed throughout the expenditure of this £120 million?—No, I hope not. Of course, the £120 million is a very different story from the £1 million odd that you have before you at the moment. This is purely a pay account. The most formidable difficulties in detail have arisen on these pay accounts. It is a most complicated business to have the bulk of one's staff overseas making local drawings, and to keep those accounts in order. We introduced, on 1st April, 1946, a machine system. We had the greatest help from the Treasury Organisation and Methods Branch and the machine companies in devising a system which is, I think, a good system for accounting for this very difficult part of our work. The bulk of the account after that, of this very large sum, of course is in respect of food, raw materials, petrol and all the other requirements of the economy of the country. That is a very much easier matter to account for in many ways. For example, 80 per cent. of the total of what we call Category A accounts (that is the Disease and Unrest Account) is food, of which almost all is grain. That is bought for us by the Ministry of Food and the accounting of that is a relatively simple task.

4214. I think you told me that you thought that as from 1st April, 1946, there would be accurate accounts available eventually?—Yes. That was as regards pay accounting.

4215. So that any loss falling on the Exchequer due to laxity of accountancy you think will be limited to the period preceding 1st April, 1946?—I would not like to commit myself absolutely to that, but I think broadly speaking that is true. The system I think is a good system but there are obvious difficulties of personnel. We had a very small, untrained staff on accounting, even at that time. The staff has grown and is now larger, and to some extent more experienced, but it is not a perfect staff, and there will be a good many human errors arising, I think.

4216. I quite appreciate the difficulties you yourself must have encountered in coming into this sticky mess in the middle of last summer, when things were apparently in a very bad way, but can you tell us at what stage, or how much longer it is likely to be before you are able to follow the normal procedure of sending accounts to the Comptroller and Auditor General say a month or two after they are closed?—I very much hope we shall be able to do that quite shortly. I think we can do that almost at once.

4217. Sir Frank, so far you have not received any accounts at all?—(Sir *Frank Tribe*.) Until a few days ago we had only received accounts up to April, 1946, but I am told that in the last three or four days we have received accounts up to July, 1946. We have not had time to examine them yet. (Mr. *Secker*.) There are one or two snags on August and September, and beyond that point we have a clear run.

4218. Tell me, what is your position as regards staff? Are you having staff difficulties?—(Sir *Gilmour Jenkins*.) So far as accounting is concerned we have difficulty in recruiting staff and in keeping the staff that we have when it has been trained. A good deal of it is mechanical and a good many of the people that we have recruited find more congenial and better paid jobs outside, after they have been with us for a short time. There is some difficulty there.

4219. Is the cause that many of the junior staff recognise that the nature of the employment must make it a temporary job?—I think that is a factor.

4220. How do the salaries go compared with the salaries paid here? Are they the same? I am speaking of the staff in Germany?—I misunderstood. The accounting staff is all here for this purpose.

4221. The accounting staff is all in London?—The accounting staff for pay, for these purposes, is all here.

4222. There is no accounting staff in Germany?—There is no accounting staff in Germany for pay. The Director of Accounts reminds me of the people who are dealing with local advances. Local advances used to be done by the Army but gradually during this year we have taken them over and we have our local imprest holders. They are very few, but the staff here are very largely ex-service people and they find better jobs as soon as they can. That is very understandable.

4223. There is a constant turnover?—There is a constant turnover in the accounting staff. It is a very mechanical job.

4224. Sir Eric, I suppose you have done what you can to assist this Department in overcoming its difficulties?—(Sir *Eric Bamford*.) We have been in touch with Sir Gilmour Jenkins and we are very willing

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to do anything we can to help. We do recognise the very great difficulties he has been under in obtaining staff to fill the posts which have been authorised, and we are in correspondence at the moment with a view to giving any help we can both in finding staff and in looking at the organisation as a whole to see if there is anything which can be done to help.

Chairman.] Thank you. Are there any questions?

Lieut.-Colonel *Alan Dower.*

4225. From a Public Accounts point of view it is very worrying, but on the other hand the difficulties which you came up against you think were more or less unavoidable. Is that it?—(Sir *Gilmour Jenkins.*) Yes.

4226. May I ask you this: have you the facilities for recovering any of the losses that have occurred?—Of the £38,000 odd which was mentioned just now, which represents total overpayments to the staff—that is, total overpayments to people who were identifiable, people to whom we knew the overpayments had been made—we have recovered £16,500 roughly, and £21,800 is still owing. We have not asked for authority to write any of that off yet as a bad debt. We are hoping to recover at least some of it.

4227. You have not really finished your investigations?—We have not finished our investigations. In addition to that there is £50,000 which has been paid on local advances and has not been charged to the people who drew the advances. There we do not know who the people are against whom they should be charged. That is the main problem of the overseas advances I was describing just now, and we are trying to recover the schedules. We think the vouchers and the schedules have all disappeared. We are trying to re-create them and see how much we can recover.

4228. You feel it is possible to recover some of it?—It is possible to recover some, we hope, but I think the bulk of it cannot be recovered at this date.

Mr. McAdam.

4229. You did not tell us anything about Austria. Is the position in Austria as bad as you found it in Germany?—The accounting system was the same in both cases. I was really dealing with Germany and Austria together. The pay accounting is done in London for both Germany and Austria, and the same system applied in both.

Mr. Benson.

4230. I gather that the Army had control of your work for six months prior to your Department taking over?—That is so.

4231. We have had no report from the Comptroller and Auditor General in respect of the Army's functioning. Did you not take over their system?—Yes. (Sir *Frank Tribe.*) I might remark that I have re-

ported to the Committee on the Army Appropriation Account. I said there: "The standard of accounting was below normal. The hurried recruitment of personnel for service overseas strained an improvised accounting machinery and some confusion arose during the period, October to December, 1945, when responsibility was shared by the War Office and the Control Office. There were shortcomings in the vouching, for miscellaneous expenditure and, on the records available, my officers have not been able to satisfy themselves that all advances of pay to staffs overseas charged in the account have been duly debited to the accounts of the officials concerned". That related to the Army period. When this Committee considered that report they decided to defer consideration of the matter until today.

4232. It perhaps was inaccurate in my statement. What I really meant was that the tone of the report of the Comptroller and Auditor General in respect of the Army period is very different from the tone of paragraph 63, and one would have assumed that the conditions were more settled in the first period and that there would have been an accounting machine developed in that period which could have been taken over. It is the people who were in first charge who had the difficulty of recruitment and the difficulty of constructing the machine?—(Sir *Gilmour Jenkins.*) I am afraid I cannot say what steps the Army took, but they were undoubtedly in the same position as we were in that Germany was in a chaotic state. Their system of receiving vouchers from Germany and Austria must have been as bad as we found it in the first quarter of the following year.

4233. The tone of the Comptroller and Auditor General's two reports does not stress that. Was there any regression in the period after the Control Commission took over?—(Sir *Frank Tribe.*) No, I would not say that. The Army took over for a comparatively short time and they probably accumulated their difficulties and handed them over to the Control Office when it was set up. I did not intend, by the difference in the critical nature of these two paragraphs in the two different reports, to imply that the Control Office was less efficient than the Army. We have not had so much time to discover the Army's failings. (Sir *Gilmour Jenkins.*) We have inherited their losses. We are trying to account for them and have had the job of tracing, for example (to take the overseas advances, which is the most difficult of all) against whom those advances should be charged. That is being done by going through the individual accounts of each man.

4234. Are you going through the period prior to January?—Yes.

4235. So you are, in effect, trying to straighten up the mess the Army left, as well as the mess that your predecessor left

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[Continued.]

you?—Yes. That sum of £50,000 that I mentioned as being the amount that ought to have been charged against particular people but was not so charged relates to the Army period as well as to our own period. (Sir Frank Tribe.) Perhaps I can say, before you adjourn, that I found it necessary to report in this rather critical way to the Committee because it was obviously a matter I had to bring to the Committee's attention, but I should like the Witness to realise that we, in the Exchequer and Audit Department, do appreciate also the great difficulties under which the Control Office has been working and sympathise with the many troubles which Sir Gilmour has explained. The main point that I, personally, would like to press is that we do hope, in the Exchequer and Audit Department, that there will be set up an efficient internal audit department in the Control Office. I feel that that would help both the Office and my Department very greatly. (Sir Gilmour Jenkins.) That has been done. We have started that. We have just got it going. That, again, has been a difficulty of staff, a difficulty of

being able to detach them from the day to day work of keeping our pay up to date and making sure that these advances were properly charged rather than going through a more elaborate audit. It has been a matter of a clash of priorities once more. But we have got it going now, and Sir Eric Bamford has been most helpful in producing staff and also in guiding our steps.

Chairman.

4236. We are much obliged to you for the very full and frank statement you have made to the Committee. I think you have been peculiarly unfortunate. I must say, in having, at your first appearance here, to answer for an Account and a report as bad as this. You will hardly expect, when you open the report of the Public Accounts Committee at the end of the session, to find any very complimentary paragraphs about the Control Commission?—I am afraid not.

Chairman.] I hope we shall be able to be more complimentary in a year's time. There is nothing on the Account, I think.

(The witnesses withdrew.)

Adjourned till Tuesday next at 3.45 p.m.

TUESDAY, 24TH JUNE, 1947.

Members Present:

Mr. PEAKE in the Chair.

Mr. Cuthbert.
Lieut.-Colonel Hamilton.
Mr. Horace Holmes.
Mr. McAdam.

Mr. John R. Thomas.
Mr. Thurtle.
Mr. Wadsworth.

Sir FRANK TRIBE, K.C.B., K.B.E., Sir ERIC BAMFORD, K.B.E., C.B., C.M.G., and
Mr. C. E. I. JONES called in and examined.

CIVIL APPROPRIATION ACCOUNTS, 1945-46.

CLASS II.

VOTE 13.

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.

4237. Sir David, will you turn to the Civil Appropriation Accounts, 1945-46, Class II, Vote 13, at pages 94 and 95. This is the Account for India and Burma Services to 31st March, 1946. Under some recent re-arrangement of duties there will in future, will there not, be two Permanent Secretaries, one for the India Office and one for the Burma Office and, I take it, two Accounting Officers?—(Sir David Monteath.) I am to-day, for the last day, Permanent Under-Secretary in both offices

and Accounting Officer for both. What will happen as regards next year's Accounts I am afraid I am not able to say. For ordinary administrative purposes the two Offices will be separate in future, but it has been suggested to me that, inasmuch as next year also this Committee will be scrutinising a joint account for the preceding year, there should be a single Accounting Officer for the two Offices still. But I am afraid I do not know quite how things will be arranged. For the moment I am responsible for both.

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[Continued.]

Chairman.] I have no questions on this Account. Has any Member of the Committee any questions on this Account?

Lieut.-Colonel *Hamilton*.

4238. Subhead D.D.D. on page 94 is: "Cabinet Mission to India", and the expenditure was £648. Is that the whole expense? It seems very small?—No. The

Cabinet Mission, you will remember, went out in March, towards the end of the financial year.

4239. It is only just the preliminary expense?—Yes.

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

VOTE OF CREDIT APPROPRIATION ACCOUNT, 1945-46.

INDIA AND BURMA OFFICE.

Chairman.

4240. Will Members turn now to the Vote of Credit Appropriation Account, 1945-46, to paragraphs 20 to 25 of the report of the Comptroller and Auditor General? In paragraph 20 the Comptroller and Auditor General tells us about the war-time financial arrangements for meeting the cost of Indian defence expenditure; and of the total net expenditure in the year of account of £589 million, £267 million was certified as chargeable to the United Kingdom. Could you tell the Committee how the division of the sum between the United Kingdom liability and the Indian liability is arrived at?—Yes. Broadly speaking, putting it in general terms, the financial settlement is that India, of course, pays in the first instance in rupees practically all the expenditure incurred insofar as it is incurred in India. Then it has to be divided up. The basis of the division is that India accepted as a final charge on her the cost of her normal pre-war garrison, increased by the rise in pay costs, and so forth, since the beginning of the war. She also paid for the cost of any additional troops brought into or raised in India during the war for the defence of India. Thirdly, so far as troops go, she paid the normal costs of roughly a division of troops and two squadrons of the Air Force who were accepted before the war as India's element in her own external defence. In regard to war expenditure also the arrangement was that she bore the cost of the services created in India insofar as they were required for the maintenance of the troops who were her liability. The United Kingdom Government, on the other hand, undertook to pay the full cost of raising, training, and, once they were outside India, of maintaining all the forces raised in India and used for Imperial purposes in the war outside India. The British Government also met finally the cost of equipment supplied from this country to such forces in India, and accepted also the cost of expanding the munition factories, building new establishments—ordnance departments, munition factories and so forth. There was a supplementary and later arrangement, known as the Raisman Agreement, whereby India was allowed to acquire those for her own use at half the cost and that adjustment has, to a very

large extent, already been made. That is, broadly, the division of expenditure between the two.

4241. In the last subparagraph of paragraph 20 we are told: "Certain credits appropriate to 1944-45 in respect of expenditure incurred by South East Asia Command for which India is wholly or jointly liable could not be given in the year owing to the fact that complete information was not furnished by the command." Are the Accounts now cleared?—I should, perhaps, have explained that in the year 1944-45 in which this expenditure was incurred a great deal of the expenditure incurred in India was in respect of preparations for the South East Asia campaign which, of course, never actually took place. The difficulty in getting the Accounts straight for that year was due partly to the fact that the war was being waged to some extent inside Indian territory and, secondly, to the fact that the headquarters of South East Asia Command shifted considerably from one place to another. The adjustment of the expenditure actually incurred in 1944-45 is not absolutely completed.

4242. Is it likely to be completed in the near future?—Yes. It will be completed in next year's Accounts.

4243. On paragraph 21, you have already mentioned, I think you call it the Raisman Agreement or arrangement?—Yes.

4244. Under which India could acquire ownership of certain capital assets by payment of half their cost?—Yes.

4245. Are the assets decided upon?—Yes. I think that adjustment has now been completed and the total credit to His Majesty's Government is rather over £11 million as against the figure of £9½ million mentioned here.

4246. Paragraph 22 speaks of the report of the Auditor General of India on the defence expenditure in India. At the top of the following page, in the fourth line, the report deals with various shortcomings and then the Comptroller and Auditor General goes on to say, a little lower down: "it records that in the circumstances prevailing the standard of financial administration may be regarded as generally satisfactory." Can you tell the Committee what the nature of the shortcomings in accountancy was?—I alluded to one cause, which

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[Continued.]

was the fact that the war was being waged, at one period in the year, well inside Indian territory, which of course threw the accounting staffs close up to the fighting line into considerable confusion. There was also the fact that headquarters were shifting. But the real difficulty was, I think, the continual change of technical officers and the accounting officers who were in charge of any particular enterprise. I have it first-hand from an officer of the Military Accounts in India that that was a very great handicap to them and worked particularly acutely because of the shortage of trained accountants in India to cope with such a vastly increased undertaking as they had during the latter period of the war. They remedied the shortages as best they could by sending round touring parties of experts and particularly accountants, to instruct the local accounting authorities how they should show their accounts. They conducted test audits, too, and they mobilised all the professional chartered accountants in India that they could and added them to their Military Accounting Staff. Those, of course, were such remedial measures as they could undertake, but the real difficulty was the circumstances in 1944-45 with headquarters continually shifting and the enemy well into the country where the operations were being conducted.

Chairman.] Are there any questions on paragraphs 20 to 22?

Mr. John R. Thomas.

4247. I would like to ask what the financial amount of the shortcomings involved was? Was it a question of thousands or hundreds of thousands of pounds?—I am afraid I have no information. You mean, of what you might call the defaulting account?

4248. Yes.—I am afraid I have no accurate information on that. I am told it amounted in all to about £3 million—between £3 million and £4 million.

4249. These are the re-adjustments found necessary, I take it, which will be made in the 1945-46 Accounts?—Yes.

Chairman.

4250. Paragraphs 23 and 24 deal with the arrangements with Burma. Paragraph 24 refers to a report of the Auditor General of Burma which "indicates that . . . considerable amounts have been charged in the accounts in respect of pay, allowances and pensions, and of claims for supplies and services rendered before evacuation, which, in the absence of conclusive evidence of entitlement, have been admitted on the best evidence available and subject to further investigation on the return of the Office to Burma." Has that further investigation been completed?—I could not say that it has actually been completed. It is in progress and a great deal of progress towards completion has been made. The Accountant-General's Office did not return to Rangoon till early in 1946. The Civil Government

as a whole returned in October 1945, but the Accountant's Department and the Auditor General who was with him could not return till later owing to difficulties about accommodation and equipment. So I am afraid I cannot say that the investigation of all these pre-evacuation claims is as yet wholly complete.

4251. From such reports as you have received is there any evidence of fraud?—I think there is evidence of attempted fraud, but I think it is kept well in check. I cannot be precise on the military side; but perhaps it is symptomatic, taking it from the civilian side where, similarly, there are pre-evacuation claims to be considered that out of over 100,000 claims less than 50,000 have been admitted as just claims.

4252. There have been a number of fraudulent, or probably fraudulent claims made?—Claims that, at any rate, cannot be substantiated. Whether they are fraudulent I would not like to say.

4253. We will take paragraph 25 together with paragraph 24. Paragraph 25 deals with advances to the Government of Burma for civil administration?—Yes.

4254. There has been some recent agreement made, has there not, over the way in which the expenses shall be divided?—Yes.

4255. Perhaps you could summarise the terms of that agreement for the benefit of the Committee and the record?—That agreement which was made by a Mission which went out quite recently covered only the Burma budget for 1946-47. I should explain that the Burma financial year runs from the 1st October to 30th September, a point one has to bear in mind when considering Burma figures as against the British Government's figures, which run in a different financial year. That arrangement, which the Chancellor announced to the House last month, relates only to the underwriting by His Majesty's Government of the Burma budget for 1946-47 and has not really any relation to the Accounts that we are considering just now. But if the Committee would wish I could give an indication of it.

4256. During the period of rehabilitation Burma was financed by advances from this country?—Yes.

4257. Can you tell us the extent of the advances, and whether we are going to recover any of them ultimately?—During the half year from October 1945 to March 1946 the amount advanced was £6,790,000 odd. Those advances cover two periods. The first was for the first half of our financial year from 1st April to the end of September, when the Government of Burma was in India and had little expenditure to meet other than the cost of maintaining its own skeleton organisation and maintaining such refugees from Burma as were its charge. The expenditure for that period was less than £1 million. It was £860,000. In

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[Continued.]

October the Government returned to Rangoon and took over the administration of the services which the Civil Affairs Service, under the military, had hitherto been conducting since we recovered the country. They took over those services as they could, piecemeal. Perhaps the most important was the resumption to the Civil Government's responsibility of currency and finance which they took over in February, 1946. Together with that was the recreation of administrative services, which has just been a skeleton while they were in India, to more or less their full strength when they got back to their own country, and also paying such just claims as there were for Government servants who had stayed on in Burma during the Japanese occupation. In respect of all those services the total advance for the year in question was £6,792,000. That expenditure is audited by the Auditor General in Burma.

4258. Have we a claim for the repayment of all or part of that sum?—We have a right to a claim. How far it will be possible to enforce the claim is a political question. The agreement recently made by the Treasury with the present Burma Government did not, I think, commit the

(Sir David Monteath withdrew.)

VOTE OF CREDIT APPROPRIATION ACCOUNT, 1945-46.

FOREIGN OFFICE.

Mr. L. R. SHERWOOD, C.M.G., O.B.E., called in and examined.

Chairman.

4260. You appear in place of Sir Orme Sargent?—(Mr. Sherwood.) Yes.

4261. Will you turn to the Vote of Credit Appropriation Account 1945-46, to pages 8 and 9, Services 23 to 35? On Service 23, can you tell the Committee how much money during the war years we have given by way of assistance to the Government of Saudi Arabia?—Yes. The total is £12,679,000.

4262. Can you give us the main headings upon which the money has been spent?—Cash, £6 million; gold, as sovereigns, £1,383,000. 26 million of their own currency (riyals) which cost £1,336,000; minting and freight charges in connection with some of the currency, £39,000; food (cereals, sugar, tea and coffee, mostly) £3,315,000 and miscellaneous supplies, cotton piece goods, medical supplies, tyres and steel tubes, £582,000. The total is £12,679,000.

4263. On Service 24 can you tell us what the total assistance to Ethiopia has been in these same years?—Yes. The final total to date is £3,108,000.

4264. Turning to Service 27, there was £166,000 refund of purchase tax on supplies for Allied Governments. Is that on

Government of Burma to anything in respect of the previous year and dealt only with the present budget year, 1946-47.

4259. What, shortly, is the nature of the agreement in respect of the present budget year?—Burma undertook to impose taxation up to the limit, to raise locally by loans as much as she could to meet her own expenditure; but subject to those undertakings on the part of Burma to do her utmost to finance herself. His Majesty's Government agreed to increase their contribution towards the deficit on Burma's ordinary budget for the year 1946-47 (a deficit which was foreseen owing to the fact that revenue is not coming in on the pre-war scale yet), to an amount not exceeding 16 crores of rupees, that is, £12 million. In addition, in respect of the frontier areas, the hill areas, there was a balance of £2½ million which the Treasury agreed might be available for the reduction of the deficit.

Chairman.] I think that is all I want to hear about this. Has any Member any question on those paragraphs? The Account is at page 12. I have no question on it. Has any Member of the Committee any questions? Thank you, Sir David. That finishes your evidence today.

supplies given to the Allied Governments in this country?—Not given. Bought by them, on which they paid purchase tax. They were the Allied Governments in this country, but we allowed them a rebate of purchase tax on stores which they bought for official use.

4265. What kind of stores—office furniture?—Office equipment, very largely. One country bought a very large consignment of decorations from Spinks. The Norwegians bought a great deal of export stuff ready for re-opening their country. I do not know whether the figures would interest you at all. The main recipients were the Norwegians.

4266. I was wondering whether it included consumer goods?—Yes, to a certain extent it would in the stuff that was to be exported by the Norwegians and I think the Americans bought consumer goods, too, to a certain extent.

4267. What was the justification for refunding the purchase tax?—By a general agreement, foreign governments are not charged with taxation, in the same way that the Diplomatic Corps gets immunity from taxation. While they were our guests over here we made them this concession.

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Mr. L. R. SHERWOOD, C.M.G., O.B.E.

[Continued.]

4268. Service 29 is: "United Nations Relief and Rehabilitation Administration." There was a contribution of nearly £8 million. Can you give us the figure of the total contribution?—Yes. It is difficult to say exactly what the contribution to UNRRA itself is at the moment, but I have here the report dated April 30th, which is the latest, of the cash payments and the departmental returns of wages for issues other than cash, and these are the figures: the cash payments are £51,984,000 and the supplies and services are valued at £90,053,000 making a total of £142,037,000.

4269. So far as the £90 million odd on supplies is concerned, who prices them?—The Supply Departments themselves.

4270. Each Supply Department prices its own?—Yes.

4271. The accounts are audited, are they not, by commercial auditors?—The accounts of UNRRA itself, yes, by a professional firm of accountants.

4272. Is that an English firm or an American firm?—Deloitte, Plender, Griffiths and Company. Their American office does it.

4273. Are the reports of the auditors on the Administration satisfactory, generally speaking?—No, I am afraid I cannot say they are. They have a good many things to criticise. Perhaps I may say, in fairness to UNRRA, that the difficulties must have been immense in running an organisation like that of a temporary nature when the whole world was short of manpower, and particularly accountants.

Mr. John R. Thomas.] Cannot we have a copy of that report?

Chairman.

4274. Do you get a copy, Sir Frank?—(Sir Frank Tribe.) I see a copy, and a copy could, I think, be circulated to the Members of the Committee.

Chairman.] It could be made available if you would like to see it, Mr. Thomas.

Mr. John R. Thomas.] I should like to see a copy.

Chairman.

4275. Are copies available?—Yes, we have a copy. No doubt the Foreign Office have copies. I can let the Clerk to the Committee have a copy.

4276. If you let the Clerk to the Committee have a copy, if any Member wants to see it besides Mr. Thomas, it will be available. I should like to ask a question about Service 31. These are advances on account of pensions of the former employees of the Shanghai (Municipal Council Tientsin Municipal Council) and the Siamese Government. Have we any prospect of recovering the advances made by

way of pension, I suppose to people who were evacuated and were resident in this country during the war?—(Mr. Sherwood.) That is so. We have in fact recovered the entire advances to the Siamese pensioners as part of our financial settlement with the Siamese Government after the war. They refunded the whole of the advances, with interest as well. In the case of China we cannot report any progress yet. The negotiations are extraordinarily difficult and extremely prolonged, and the Liquidation Board, consisting of Chinese members and of members of the other people interested in the municipalities, have recorded disagreement on one or two salient features. It is now referred to governments to discuss between themselves. So all I can say is that negotiations are going on.

4277. Have these pensions been paid at the full rates?—No. There was a maximum limit of £40 a month put on.

4278. So that a man entitled to a higher pension drew only £40 a month?—Yes, he drew only £40 a month by way of advances.

4279. Were they paid after making a deduction for income tax or before?—With no deduction for income tax.

4280. You left it to the recipient to make his own tax return?—Yes. I think I ought to say at that stage that the Solicitor of Inland Revenue reported that these advances were not taxable. They did not come within the scope of the Income Tax Acts.

4281. That was the advice of the Solicitor of Inland Revenue?—Yes.

Chairman.] Are there any questions on these services?

Mr. McAdam.

4282. Service 29 is "United Nations Relief and Rehabilitation Administration:—(a) Contribution towards administrative expenditure, £310,173 13s. 11d.; (b) Contribution towards operational expenditure, £7,650,000". I assume that so far as the £310,000 odd is concerned, that is for actual salaries, and the £7,650,000 is the actual amount granted in relief or for rehabilitation?—I do not think it would be quite so simple as that. After all, this is only the British contribution, and I think the £310,000 would largely have gone to the upkeep of the European office in Portland Place; but it might include a good deal more than salaries simply.

4283. I am dealing with it from the British standpoint. That is really for office accommodation, salaries and so on?—Yes.

4284. And the £7,650,000 was the actual amount granted in relief?—That, I think, would include the cost of distributing it.

24 June, 1947.]

Mr. L. R. SHERWOOD, C.M.G., O.B.E.

[Continued.]

4285. Then (b) should be administrative as well as operational expenditure?—That, I think, is hard for me to answer. I think that would depend very largely on U.N.R.R.A.'s original definition, which I am afraid I have not here.

Chairman.

4286. Are there any further questions on Services 23 to 35?—(Sir Frank Tribe.) May I interpose to say that I find I have a

copy of Deloitte, Plender, Griffith's report with me, so that I can hand it in at once. (*The same was handed to the Chairman.*)

Chairman.] We will study that at our leisure. Mr. Thomas can have it now. (*The report was handed to Mr. John R. Thomas.*)

Thank you, Mr. Sherwood.

(*Mr. Sherwood withdrew.*)

TREASURY MINUTE ON PARAGRAPH 41 OF THE FOURTH REPORT OF THE COMMITTEE OF PUBLIC ACCOUNTS, 1945-46.

Sir WILFRID EADY, K.C.B., K.B.E., C.M.G., and Sir LEONARD PATON, C.B.E., M.C., called in and examined.

Chairman.

4287. Sir Wilfrid, will you turn to the Treasury Minute on paragraph 41 of the Fourth Report of the Committee of Public Accounts of last year? That paragraph deals with the United Kingdom Commercial Corporation. This corporation is in process of liquidation, is it not?—(Sir Wilfrid Eady.) Yes.

4288. In our report we said, in the last sentence of paragraph 41: "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". Can you tell me whether all the offices of the United Kingdom Commercial Corporation have now been closed?—Sir Leonard Paton, of the United Kingdom Commercial Corporation, is present, and would be able to give you the complete story of the position and the developments of the past year.

4289. Can you answer my question, Sir Leonard, as to whether all the offices have been closed?—(Sir Leonard Paton.) Yes. All the offices have been closed except at Turkey. We have a small office still in Turkey, which we have kept really because we have quite considerable recoveries to make. We do not think it will take very much longer. It has paid quite handsomely. We have recovered about £140,000 just by waiting a little longer. Everything else is closed up.

4290. The Treasury, in their Minute, state that they "have been assured by the Corporation that all short cuts consistent with orderly liquidation will be taken and that the liquidation will be carried out as economically as possible." Is that being done?—Yes.

4291. Who is the liquidator?—The liquidator is Mr. W. H. Lawson, of Binder, Hamlyn, who were the auditors to the Corporation.

4292. Is the liquidator in receipt of a fee?—He will receive a fee, but it is not yet fixed. He has to fix that fee with the Treasury, and that has not been discussed yet. (Sir Wilfrid Eady.) It is estimated that the total expenses from the formal date of liquidation to winding up will not exceed £50,000 and are likely to be a good deal less. We are satisfied at the Treasury that that was cheaper, in terms of money, than a gradual running out of the Company's activities, apart from the inconveniences that that alternative would have caused. As the Committee will be aware, certain legal expenses arise in the case of formal liquidation which, of course, would not have arisen on just allowing the Corporation to be moribund. On looking at the present position we are satisfied that the decision on financial grounds to liquidate was right and certainly on political grounds it was right, in relation to the countries where the Corporation had its business.

Chairman.] We come to the accounts of the Corporation in a minute. Are there any questions on the Treasury Minute on paragraph 41?

Mr. John R. Thomas.] I would like to ask how the proposed or assumed expenditure of £50,000 for liquidation expenses is going to be made up, in view of the statement of affairs presented as at 31st July, 1946?

Chairman.] You are looking at one of the papers which has been circulated?

Mr. John R. Thomas.

4293. Yes. (Sir Leonard Paton.) I wonder if I might have the question again?

4294. First of all, I would like to know the basis of the liquidator's remuneration. Although it has been stated that the fee has not yet been agreed there is a suggestion that it will amount to something like £50,000. (Sir Wilfrid Eady): That is not only the fee of the liquidator.

24 June, 1947.] Sir WILFRID EADY, K.C.B., K.B.E., C.M.G.,
and Sir LEONARD PATON, C.B.E., M.C.

[Continued.]

4295. That is the liquidation expenses?—(Sir Leonard Paton.) That is the fee and expenses.

4296. What I would like to have, if possible, is that £50,000 broken down and divided as between expenses, solicitors' costs and liquidator's fees?—We estimate that the actual expenses will be about £33,000, so that we are leaving a balance of about £17,000 as a figure within which a settlement can be reached with the liquidator. I imagine that when he comes to fix it he will work it on a time basis in the first place and then there will be something for negotiation.

4297. A time basis? That answers my question,—whether the liquidator's fee is going to be paid on a time basis or on a percentage basis. The usual method is on a percentage basis?—(Sir Wilfrid Eady): Not on this turnover. It will be on a time basis, not a percentage basis.

Mr. John R. Thomas.] That answers my question.

Chairman.] Are there any further questions on the Treasury Minute on paragraph 41 of the Fourth Report of the Committee of Public Accounts, 1945-46?

VOTE OF CREDIT APPROPRIATION ACCOUNT, 1945-46.

THE TREASURY.

(Accounts of the United Kingdom Commercial Corporation and the English and Scottish Commercial Corporation for the year ended 31st March, 1946.)

(Accounts of the Winding Up of the United Kingdom Commercial Corporation.)

Chairman.

4298. Will Members turn to the Vote of Credit Appropriation Account, 1945-46, to paragraphs 11 and 12 of the report of the Comptroller and Auditor General? We will take with these two paragraphs of the report the Accounts of the United Kingdom Commercial Corporation and of the English and Scottish Commercial Corporation which have been circulated for information. Paragraph 11 of the report of the Comptroller and Auditor General is largely narrative about the history of the Corporation's activities. Can you tell me, Sir Leonard, the total profits made by the United Kingdom Commercial Corporation before tax, up to the date of liquidation?—(Sir Leonard Paton.) The total profits are of the order of £21 million. That is before charging taxation.

4299. When we come to paragraph 12, that deals with the English and Scottish Commercial Corporation. This Corporation, of course, engaged in a number of very uneconomic ventures, did it not?—Yes.

4300. With regard to the £22 million lost on the purchase of wolfram, that was mainly bought from Portugal, was it not?—Portugal and Spain. That was done on joint account with the Americans.

4301. Can you express a view as to whether the loss of that money was justified by the course of events?—(Sir Wilfrid Eady.) I think that is probably a question I would have to answer. The Chiefs of Staff were quite satisfied that this expenditure at the time was essential to keeping this material out of the hands of Germany.

4302. This item and some other items, I think, were on joint account with the United States. Has a settlement with the

United States been made?—(Sir Leonard Paton.) A settlement with the United States has been made up to 30th June, 1945, which is the latest period at which they have been able to agree them with us, and we think, we have had a generous settlement from the Americans. They have paid up their 15 million dollars with practically no question at all. That does not appear in these Accounts because part of the settlement was arrived at only after these Accounts were completed.

4303. The Comptroller and Auditor General, in paragraph 12 states: "Sundry Debtors and Payments in Advance amounted to £33,643,673, of which some £20 million represents advance payments to the Ministry of Supply for supplies to Russia, nearly £6 million relates to goods supplied to Russian trade organisations, and £4,275,967 represents the Russian liability to contribute towards the cost of Persian road transport. This liability is, I understand, still under discussion. In addition to the amounts included in Sundry Debtors there was a sum of £15,600,000 in respect of Russian trading transactions standing in suspense at 31st March, 1946." Are there any prospects, or any good prospects, of recovering all or part of these sums from Russia?—It is difficult for me to express an opinion because negotiations were taken over by the Board of Trade at the end of 1945 and they now form part of much bigger negotiations which the Board of Trade have for future trading relationships. So I am not able to say to what extent they will be recovered. (Sir Wilfrid Eady.) I think it is fairly clear that some kind of reasonable agreement will be reached (that is the hope of the Government) with the Russians about supplies.

4304. Negotiations are proceeding?—Yes. They form the undercurrent of the Mission that has just gone out to Moscow.

24 June, 1947.] Sir WILFRID EADY, K.C.B., K.B.E., C.M.G., [Continued.
and Sir LEONARD PATON, C.B.E., M.C.

Chairman.] Are there any questions on paragraphs 11 and 12 of the report of the Comptroller and Auditor General?

Mr. Thurtle.

4305. Did I gather from what you said just now that you think in so far as goods supplied are concerned, we shall get payment from Russia?—I think we shall get payment from Russia.

Mr. John R. Thomas.

4306. As a matter of interest I should like to know whether any of these goods were subject to purchase tax?—No goods on export are subject to purchase tax.

Mr. McAdam.

4307. I should like to know whether there is any agreement with the Persian Government in connection with the Persian road expenditure?—My impression is that it was a road which the Persian Government claimed was not necessary, and the expenditure fell on us. The Persian Government will have the road at the end.

4308. They will have the road and we shall have the value of the expenditure?—They are not necessarily very interested in the road at the moment.

Chairman.

4309. Are there any further questions on paragraphs 11 and 12? We will look at these accounts which have been circulated. I should like to ask a question on the Accounts of the English and Scottish Commercial Corporation. On the back page is the Income and Expenditure Account for the year ended 31st March, 1946 and the first item is "Ascertained Irrecoverable Expenditure less Surpluses on Sale of Commodities," a figure of £8½ million.—(Sir Leonard Paton): That is mainly the wolfram settlement: the amount that was written off in this particular year.

4310. Can you give me the total of the surpluses on the sale of commodities included there?—The total of surpluses is £775,000. (Sir Wilfrid Eady.) It is shown against "Sundry Income" which is the last line of the Account. It is, in fact, picking up the surpluses on the sale of commodities.

4311. So that the ascertained irrecoverable expenditure is in the neighbourhood of £9 million?—Yes, a bit more. (Sir Leonard Paton): On the whole year the amount written off was £10,361,000, which consists of £11 million altogether irrecoverable expenditure, and recoveries of £775,000. That makes a total written off in the year of £10,361,000.

4312. Can you give me the main items of irrecoverable expenditure?—Wolfram is

much the greatest. I think I could give you all the details. There was a deficit: in Portugal there were two items, one of £721,000 and another of £739,000, which fell entirely upon ourselves. There was £599,000 which was on joint account with the Americans. There was nearly £5 million on joint account in Turkey, and there was £2,167,000 on joint account in Spain.

4313. What was the £5 million in Turkey expended on?—It was expended on mohair and different kinds of oils and oil seeds, which, again, the Ministry of Economic Warfare wanted to keep away from the Germans.

4314. And the £2 million odd in Spain?—Practically entirely on wolfram, but there were certain quantities of warm clothing and gloves and things of that kind which, again, we wanted to keep away from the Germans.

Chairman.] Are there any questions on the Accounts of the United Kingdom Commercial Corporation or the English and Scottish Commercial Corporation?

Mr. Cuthbert.

4315. I take it the whole object of this company really was to purchase commodities in order to keep them out of enemy hands; but were there any surplus commodities left over at the end, and were they disposed of in any way in order to get some money back?—These are really deficits. We have taken any credit for the proceeds we received. We sold the gloves, for instance, to the American troops and we have sold other items in America, for dollars, where we could. We have sold them to the Army here, or got rid of them in one way or another; but some certainly have been destroyed as being of no commercial value when we could get access to them. (Sir Wilfrid Eady): I think I could give the Committee some overall figures. Of these what are called pre-emptive purchases (the purchases to keep things out of the hands of the enemy) out of £45½ million expenditure, we recovered just under £19 with a deficit of £26½ million; so that it was not a complete loss but it was a very substantial one. Similarly, on some of what are called political purchases, to keep countries out of the Axis Alliance, out of the Axis influence, there was nearly £10 million expenditure, of which £6 million worth was sold.

Chairman.] On page 7 is the Account, Service No. 7. That is purely formal, I think. We shall not get any information from that. That finishes the evidence as far as the United Kingdom Commercial Corporation is concerned. Thank you, Sir Leonard.

(Sir Leonard Paton withdrew.)

24 June, 1947.] Sir WILFRID EADY, K.C.B., K.B.E., C.M.G.

[Continued.]

VOTE OF CREDIT APPROPRIATION ACCOUNT, 1945-46.

THE TREASURY.

Chairman.

4316. Will Members turn to paragraphs 1 to 5 of the report of the Comptroller and Auditor General. These paragraphs are largely formal. I should like to ask one question on paragraph 4, in the second sub-paragraph of which the Comptroller and Auditor General states: "Following the cessation of hostilities, however, Lend-Lease was terminated by the United States on 1st September, 1945, and the provision by the United Kingdom of Mutual Aid to Allied Governments also largely came to an end at various dates in the latter part of 1945". Has it come to an end entirely now, or are Mutual Aid supplies still being supplied?—(Sir Wilfrid Eady.) No, there are none being supplied now.

4317. They have been concluded?—Yes.

4318. Are there any questions on paragraphs 1 to 4? Paragraphs 6 and 7 are purely narrational, and I think we need not trouble with them. Services 1, 16, 19 and 20 are on pages 6 to 8. Are there any questions on any of those Services? We turn now to paragraphs 8 and 9 of the Comptroller and Auditor General's report. These deal with the financial settlement with Canada, and I think the Committee might be interested to hear what is the total extent of the financial aid we have received from Canada during the war?—I have not the figures clearly in that form.

TREASURY MINUTE ON PARAGRAPHS 24 TO 26 OF THE FOURTH REPORT OF THE COMMITTEE OF PUBLIC ACCOUNTS, 1945-46.

Chairman.

4320. We go back to the Treasury Minute on paragraphs 24 to 26 of our Fourth Report. These paragraphs deal with the purchase of stores from Secret Service funds upon which we made some comments a year ago. The Treasury, in their Minute state: "The Committee express the view that it is undesirable that Secret Service Funds should be used to purchase stores or for capital expenditure, but recognise that limited exceptions may be necessary in special cases. My Lords accept the Committee's recommendations and confirm that any exceptions which They may authorise in future will not be on the scale of the expenditure incurred in the case referred to by the Committee". Have there been any exceptions made?—(Sir Wilfrid Eady.) No, there have been no exceptions authorised recently.

4321. Perhaps Sir Frank Tribe would tell us whether he has inspected the records of the stores delivered in the particular case which we had under discussion and what the result of his investigation has been?—(Sir Frank Tribe.) My officers made an investigation. I am afraid they did not get

I will circulate them to the Committee. I will insert them in the Minutes if I may, and circulate them to the Committee.

4319. Sir Frank, have you any figures?—(Sir Frank Tribe.) No precise figures.* I understood that, everything added up together, the total financial aid is in the region of £1,000 million. (Sir Wilfrid Eady.) That is including the post-war Canadian Loan. (Sir Frank Tribe.) Yes. (Sir Wilfrid Eady.) The total aid to which the Comptroller and Auditor General is referring is 1,400 million Canadian dollars or £322 million odd. But that is exclusive of \$2,000 million which the Canadian Mutual Aid Board have spent in supplies for the United Kingdom and, of course, exclusive of the Canadian Loan Agreement which was not in the war but, if the Committee will forgive me for not having the figures in that form, I will complete them for the Minutes.*

Chairman.] Are there any questions on those two paragraphs? On page 7 there are Services 4 and 5. Has any Member of the Committee any questions on those Services?

* Note by Witness:

The total extent of the financial aid during the war from Canada to the United Kingdom is over £1,200 millions.

very far. On the Foreign Office side they found that there were no supporting orders—

4322. This is the case referred to in paragraph 24 of the Report of the Committee?—Yes. There were no supporting orders, invoices or receipt vouchers, but we were told that the spare parts and a large number of the articles had been returned to the contractors for breaking down. The view was expressed that most of the material would fetch scrap prices only. On the Admiralty side we found that all official papers had been destroyed long before on Foreign Office instructions, but we were given certain information verbally about what they thought the result was. The general conclusion is that the store accounting was much below any standard we should accept for ordinary stores, but we found no reason to suspect any fraud or financial irregularity.

4323. That is to say your investigation tended to confirm the views expressed by the Public Accounts Committee on this matter?—Yes.

4324. And, with their passion for secrecy, the Secret Service Department had destroyed its own accounts?—Exactly.

24 June, 1947.] Sir WILFRID EADY, K.C.B., K.B.E., C.M.G.

[Continued.]

Chairman.] Are there any questions on the Treasury Minute on paragraphs 24 to 26 of the Fourth Report of the Committee of Public Accounts, 1945-46?

VOTE OF CREDIT APPROPRIATION ACCOUNT, 1945-46.

THE TREASURY.

Chairman.

4325. Will Members turn back again to the Vote of Credit Appropriation Account, 1945-46, to paragraph 10 of the report of the Comptroller and Auditor General? That paragraph is purely formal. It relates to the Secret Service. This appears in your report every year, Sir Frank?—(Sir *Frank Tribe.*) It appears every year. I see every year the certificates signed by the responsible Ministers and record them accordingly.

4326. The Account is at page 5, where there is shown the balance of expenditure in excess of £100 provided on the Secret Service. The figure for the subsequent year and the figure for the financial year 1947-48 is very much lower, is it not?—(Sir *Wilfrid Eady.*) It is £2½ million for 1946-47 and the same sum for 1947-48.

4327. Having fallen from a peak figure of just over £15 million, I understand?—Yes; that was in 1943. Then it was £12 million; then it was £7 million, and now the figures are £2½ million and £2½ million.

4328. This expenditure seems to be progressing in the right direction?—Yes.

Chairman.] Are there any questions on Service 6 on page 7?

4329. Mr. *Thurtle.*] Whose responsibility is it to say that we have an adequate Secret Service?—The responsible Minister's.

Chairman.

4330. Are there any further questions? We turn to paragraph 13, which deals with our old friend E.N.S.A. Can you tell us whether the system of financial control over E.N.S.A. is satisfactory and how it operates? Is it done by the Treasury?—The Treasury is represented on the Inter-Services Committee which deals with E.N.S.A. I think we have reason to be satisfied with the financial control because of the nature of the financial arrangements made for reimbursing from E.N.S.A. profits the Government expenditure. The detailed financial control was delegated by the Board of E.N.S.A. to a Finance Organisation Committee, and the Government Finance Officer is a member of that Committee also.

4331. Who audits the Accounts?—It is the N.A.A.F.I. audit. E.N.S.A. forms part of N.A.A.F.I. The Comptroller and Auditor General has access to them. I am not sure whether they are audited by a private firm or not. (Sir *Frank Tribe.*) They are audited by Deloitte, Plender, Griffiths & Co. (Sir *Wilfrid Eady.*) Yes. I thought it was

Deloitte, Plender, Griffiths. There is a regular audit and there is a continuing internal audit under the Chief Accountant of N.A.A.F.I.

4332. The main part of the expense is met by allocation of profits from the canteen?—From N.A.A.F.I. That is right.

4333. So far as the present activities of E.N.S.A. are concerned, is there any liability falling on the Exchequer?—No, there will not be any at all, I think. N.A.A.F.I. will have to refund to the Treasury out of their profits and I think it is reasonably certain that N.A.A.F.I.'s accounts will practically cover the E.N.S.A. expenses.

Chairman.] Are there any questions on paragraph 13?

Mr. *John R. Thomas.*

4334. I would like to know, if it is not out of order, what happened to the surplus funds of N.A.A.F.I. after the war; whether they were dispersed amongst the welfare funds and benevolent funds, and what action was taken by the responsible authorities to ensure that those funds were properly administered?—I am afraid I have not the N.A.A.F.I. accounts before me. I am not responsible for those. My impression is that the surpluses went back to the Services and were used for various Service organisations, and so on. Whether they went back on to subsequent prices in N.A.A.F.I. I am not sure. I have not the N.A.A.F.I. accounts here. They are not part of our responsibility.

4335. I submit, Mr. Chairman, this is quite an important question, because one should know what has happened to the N.A.A.F.I. funds as the result of the war—whether they were disposed of by the Services themselves, and on what authority. I have a specific point there, and that is that there was a sum of, I think, £300,000 which was disposed of by someone at the Air Ministry (whom I do not know), to a particular organisation. I gather that that £300,000 was a part of a non-public fund?—The Service Departments are responsible for N.A.A.F.I. accounts. I simply have no details at all of what they did with their money. I have no doubt it could be ascertained.

Chairman.] There will be an opportunity, not this current year because we have already seen the Service Departments' witnesses, but next year, when we can certainly make a note to ask the Service Departments how the N.A.A.F.I. profits have been dealt with.

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[Continued.]

Mr. John R. Thomas.

4336. Do I understand that the non-public funds are outside the jurisdiction of the Treasury?—I do not know that the non-public funds are outside the jurisdiction of the Treasury, but the whole of the N.A.A.F.I. accounts are under the jurisdiction of the Service Departments. The Treasury is responsible merely for the E.N.S.A. part, as there was a direct Treasury advance towards the cost of E.N.S.A.

Chairman.] We shall have to put this question next year to the Service Departments, Mr. Thomas.

Mr. John R. Thomas.

4337. May I put another question to Sir Wilfrid? Do the Treasury accept any responsibility whatsoever for non-public funds?—I do not think I could answer a general question like that. If the non-public funds form part of the funds which another Department is responsible for, that Department has to account for them.

4338. It is within a Department. It is not for the Treasury?—The Treasury does not collect all the non-public funds which other Departments are administering and look after these little packets.

Mr. John R. Thomas.] That does answer my question.

Chairman.

4339. There is an Account at page 7, Service 8. That is just formal. We turn now to paragraphs 14 and 15 of the report of the Comptroller and Auditor General, the Currency Deposit Account. The only question I want to put on this is to ask whether the whole of the cost of the occupation of Italy fell upon the Italians. If you look at the last sentence but one of paragraph 14 you will see the Comptroller and Auditor General states that the sum of £126 million credited to the Vote "represents the clearance of all sums paid into the Currency Deposit Account in respect of Italian lire up to 31st March, 1946".—I am afraid I cannot answer that without going back to find out whether the whole cost of occupation nominally falls upon Italy. It would only be nominally falling upon Italy, I am afraid.*

4340. Then we are told: "No receipts have been brought to the credit of the Vote during the year in respect of other currencies, the balances of which amounted to approximately £15,300,000 at 31st

* Note by Witness:

From the date of disembarkation until 1st June, 1946, the whole of the internal cost of the occupation of Italy fell upon the Italians. Between 1st June, 1946, and the final withdrawal of United Kingdom forces from Italy the United Kingdom assumed responsibility for the internal as well as the external costs.

March, 1946." Have those balances been clawed back by the Treasury since the end of the year of account?—The major one is the one of £12½ million to Greece, and that forms part of a complicated series of claims and counterclaims against the Greek Government. We have claims against them for civil affairs supplies and we have had to draw from the account to pay for the cost of the Greek armed forces for the first part of April of this year. We shall have to draw on that account, also, for the next six months of this year. That will run down the Greek account from £12½ million to about £2½ million by the time we have these various claims in.

4341. Are there any questions on paragraphs 14 and 15? Service 17 is at page 8. Has any Member of the Committee any questions on that? Then there is a number of Services administered by the Treasury, Services 2, 3, 9 to 15, 18 and 21 and 22 on pages 6 to 8. The only one of those upon which I have any questions is Service 22, which deals with the purchases of silver and the sales of silver. Can you tell the Committee how much silver was repayable to the United States which was borrowed in the early years of the war?—Yes, 88 million ounces of Lease-Lend silver as at the 31st March, 1946.

4342. And the silver for that purpose was largely provided, was it not, by reducing the silver content of our own currency?—That was Lease-Lend silver supplied to us by the United States. We have to begin the problem of repaying that, and one of the contributions towards building up the specie silver for repayment or for sale of silver was reducing the silver content of our own coin.

4343. Then by reducing the silver content of the coinage here, the profit made on coinage is very much enhanced, is it not?—Yes, it is.

4344. Can you give the Committee any figure of the amount by which the debasement of the coinage has increased the receipts from silver coinage?—No. I shall have to put that into the Minutes. I am afraid I cannot tell you that.†

Chairman.] Are there any questions on Service 22?

Mr. McAdam.

4345. Have you bought silver from any other country except the United States?—Very little. There were other items, but nothing comparable with the big Lend-Lease silver from the United States. In answer to the Chairman, may I say that when the Coinage Bill was before Parliament it was estimated that we should be

† Note by Witness:

Substitution of cupro nickel for silver in the coinage results in an extra profit of about £26 per £100 face value coin.

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able to recover 20 million ounces of fine silver a year from the superseded coinage and we would be able to acquire the silver thus recovered by purchases at the current market rate which is now about 43 pence per fine ounce. What profit, in the sense you ask that question, we would make over this, I cannot answer without going back to my figures. I will put it into the Minutes, if I may.

Chairman.] Pages 1 to 4 of the Account are just the summary, I think, and are formal. That concludes the Committee's consideration of the Vote of Credit Appropriation Account, 1945-46. May I take it that the Vote of Credit Appropriation Account is approved?—(*Agreed.*)

CIVIL APPROPRIATION ACCOUNTS, 1945-46.

CLASS I.

VOTE 3.

REGISTRATION OF ELECTORS.

Chairman.

4346. Will Members turn to the Civil Appropriation Accounts, 1945/46, Class I, Vote 3, Registration of Electors. This Account is at page 12. Have you that Account before you, Sir Wilfrid?—(*Sir Wilfrid Eady.*) Yes.

4347. This is the Exchequer contribution towards the expenses incurred by the local authorities in registration, is it not?—Yes. It is in respect of the maintaining of the 1939 Register; then the Wartime Registration Act, 1943, and the Representation of the People Act, 1945—two sets of expenses. The heavy expenses were under the latter heading.

4348. At what rate is the Grant made?—It is based upon the claims for work carried out by the local authority. They submit detailed accounts of the work they have carried out on it.

4349. What percentage of the expenditure is borne by the Exchequer?—In regard to the heavy one, the one I spoke

about, the Wartime Registration Act and the Representation of the People Act, the whole of the registration expenses with the exception of the printing, which is borne on the Stationery Office Vote, were carried on the Treasury Vote. The basis on which we paid the local authorities was a 50-50 basis. The maintenance of the 1939 Register cost only £1,300.

4350. Are there scales fixed up to which the local authority is permitted to spend money?—Yes, but I have not the regulations with me to give the Committee the general guidance.

4351. You cannot say whether the scales are related to the number of voters or the area?—I think they have to be weighted for difficulties of certain areas, and so on, but I am afraid I have not those particulars with me.

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

VOTE 6.

PRIVY SEAL OFFICE.

(*On this Account no questions were asked.*)

VOTE 12.

GOVERNMENT HOSPITALITY.

Chairman.] The Account is at page 26. Are there any questions on the Account?

Mr. Thurle.

4352. This is nothing at all to do with the expenditure by the British Council on hospitality, is it?—(*Sir Wilfrid Eady.*) No.

4353. That is the main part of the expenditure on Government hospitality, I take it?—Yes, it must be. This is the direct Government hospitality to various delegations which come to the Government.

Mr. John R. Thomas.

4354. I would like to know the formula, as to what the basis of the allocation is? Is a Minister automatically empowered, or is it done by the Department or do the Treasury step in, or is there an Entertainment Committee? What is the machinery?—There are certain rough and ready guides which the Government Hospitality Fund operates. A Department wishing to use the Government Hospitality Fund has, in most cases (I think it is very nearly invariable) to get the consent of the Minister

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[Continued.]

because, among other reasons, the Minister is likely to be the host, and the proposals are made to the Government Hospitality Management and, if they are reasonable, they make the necessary arrangements. There are, of course, special cases. For example, in 1942 there was a special allocation of £10,000 to cover the cost of visits of Dominion, Indian and Allied representatives. It is contemplated that when the Government of India delegation comes to this country for negotiations on the sterling balances the whole expenses of the delegation will be paid by the British Government, just as the Government of India paid the expenses of the corresponding British delegation that went to India. But those are rather exceptions from the general rule.

4355. No amount here, I take it, covers any expense incurred by the higher Civil Servants on entertaining?—No.

4356. Is there any entertainment allowance paid to higher Civil Servants for entertaining?—No, there is no regular allowance. To officers who necessarily, as part of their business, have to do a certain amount of entertaining, Departments allow a small per head payment to be charged to the Departmental cost instead of it entirely coming out of the pocket of the person. It is a very modest charge and, I can assure you, does not meet their expenses.

Mr. John R. Thomas.] I am quite sure of that. I knew the answer to the question before I raised it. I think it is unjust and very hard.

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

VOTE 18.

REPAYMENTS TO THE LOCAL LOANS FUND.

(On this Account no questions were asked.)

VOTE 19.

ROYAL COMMISSIONS, ETC.

Chairman.

4357. On this Vote, Sir Wilfrid, it seems a little odd to me, looking down the list of the Subheads, to find Subhead E: "Scottish Savings" included amongst the list of Royal Commissions, and its expenditure borne here?—(Sir Wilfrid Eady.) It is Commissions and Committees, and for some reason it has been a long-established tradition that the Scottish Savings Committee gets charged to this Vote. The English Committee has its own Vote and the Scottish Savings Committee gets charged to this Royal Commissions and Committees Vote.

4358. But we have a National Savings Committee which covers England and Wales with, I take it, its own Accounting Officer?—That is so.

4359. It seems rather difficult to fit these Scottish people in anywhere? They have to come in here amongst the Royal Commissions.—Yes. I say with hesitation that I expect that was the reason. It is a long standing one.

4360. Would not the Scottish Office Vote be a more proper place for the expenditure to be borne, if Scotland insists on having its own Committee?—The general Savings Movement has always been under the general responsibility of the Treasury and I think it is reasonable that it should be on the Treasury Vote rather than on the Scottish Office Vote.

4361. You think you can exercise better control of the Scottish Savings Committee, if they are on your Vote than if they are on the Scottish Office Vote?—That I am not prepared to say. I should think it is very likely.

Mr. Thurtle.

4362. You would not say it is a conclusive reason why this arrangement should remain as it is that it has been like it for so long, would you?—No. I think it is probably a matter of Parliamentary convenience. It fits in here as a relatively small account on the Treasury Vote instead of being on the special Vote for the larger Savings Movements in England and Wales.

4363. Although it would appear to be more logical for it to be on the Scottish Office Vote?—Yes, I daresay it would be.

Chairman.

4364. I have one further question on this Account, and that is on page 41. It appears that the Royal Commission on Population had a Supplementary Estimate under Subhead I.2., of £165,000. Can you explain that? The footnote tells us that it was to meet the cost of a sample family census. What is this Commission doing with all this money?—It is at present adjourned while a report is being prepared. It made that sample inquiry, on which there was a certain amount of Press comment over the country.

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4365. This £136,000 expenditure was incurred largely in sending round to ask other people personal questions?—I think it must have been, yes. I cannot think of any other reason for spending so much money. It must have been, I think, travelling and out-of-pocket expenses and possibly some small salary payments.

Chairman.] Are there any question on the Account?

Mr. Thurtle.

4366. Which Department would carry out such a survey as that?—The Royal

Commission did it themselves. They organised it. (Sir *Frank Tribe.*) I believe they used the Ministry of Food largely as agents for the purpose. (Sir *Wilfrid Eady.*) Yes, I think that is true. They used Ministry of Food officers, but they were the responsible financial authority for it.

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

VOTE 20.

MISCELLANEOUS EXPENSES.

Lieut.-Colonel Hamilton.

4367. The first Service is "Honours and Dignities" and there are Subheads A. "Salaries, &c." and B. "Expenses". As a matter of interest, what actually does that mean? There was an expenditure of £13,000?—(Sir *Wilfrid Eady.*) The cost of the Insignia, mainly. There was £4,400, the Estimate for administrative expenses, £70,000 for Insignia, Heralds' Regalia,

etcetera, £1,500 for State portraits, £200 for the expenses of the Garter King, and so on. That was the estimate, but owing to the slow delivery of Insignia through shortage of labour, the expenditure on Insignia instead of being £70,000 which was the estimate put in, was just under £8,000.

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

VOTE 21.

SECRET SERVICE.

Chairman.] This is just a token Vote for the Secret Service. May I take it that the Account is approved?—(*Agreed.*)

TREASURY CHEST FUND ACCOUNT, 1945-46.

(*On this Account no questions were asked.*)

CIVIL APPROPRIATION ACCOUNTS, 1945-46.

CLASS I.

VOTE 23A.

REPAYMENTS TO THE CIVIL CONTINGENCIES FUND.

(*On this Account no questions were asked.*)

CIVIL CONTINGENCIES FUND ACCOUNTS, 1945-46.

Chairman.

4368. I have a question on the Civil Contingencies Fund Accounts, 1945-46. Will you turn, Sir Wilfrid, to page 3? In the fifth line from the foot of that page you will see an item "Grant towards the cost of judicial robes required by a High Court Judge on appointment", a figure of £331. I thought the practice was for High Court Judges to provide their own robes on appointment. I wondered why there had been this departure?—(Sir *Wilfrid Eady.*) The reason is that the pre-war cost of the robe was about £380, but, owing to the rise in prices and the incidence of

purchase tax, the cost rose to nearly £1,000, of which purchase tax was responsible for £380. The suggestion was, on the appointment of a particular judge, that a Grant should be given equivalent to the purchase tax. The Treasury were not prepared to agree to make a Grant which would exclude purchase tax from a charge otherwise falling on a citizen, but it agreed that they should carry some part of the increased burden, and in this case the contribution took the form of one-half of the cost incurred by the judge on the purchase of new ermine robes. The Grant was not to be paid in respect of second-hand robes. This is the only case that has arisen so far.

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[Continued.]

4369. There might be scope here for an amendment of the purchase tax schedule, might there not, excluding judges' robes?—I hope not. It might turn out more expensive. This is the first case that has arisen and the only one, and I think probably settling it as a special case might prove a little less expensive than agreeing that judges' robes were exempt from purchase tax. That might open up a number of other claims.

4370. Are you rather assuming that persons appointed as High Court Judges in future will not have noticed this entry?—This is the only case in which the

suggestion has been made that the Exchequer should come to the assistance of one of the High Court Judges.

Mr. Thurtle.

4371. You think it is not to be regarded as a precedent?—No. I think if this arose as a matter of standing rule, if the Lord Chancellor proposed this as a matter of standing practice, we should have to do something a little more formal and within the approval of the Committee than make an *ad hoc* Grant of this kind.

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

CIVIL APPROPRIATION ACCOUNTS 1945-46.

CLASS III.

VOTE II.

MISCELLANEOUS LEGAL EXPENSES.

CLASS IV.

VOTE 10.

SCIENTIFIC INVESTIGATION, ETC.

(On these Accounts no questions were asked.)

VOTE II.

UNIVERSITIES AND COLLEGES, GREAT BRITAIN.

Chairman.

4372. Can you tell me if there is any statutory authority for the Grants to Universities?—(Sir Wilfrid Eady.) I think one or two have statutory authority but, broadly speaking, this does not come under a regular statute.

4373. It is one of those cases where the only authority for the payment is the Appropriation Account?—Yes. It is administered by a University Grants Committee which was appointed by the Chancellor of the Exchequer after consulting the Minister of Education and the Secretary of State for Scotland. It is all very

regular but I do not think it derives from specific authority except in one or two minor cases.

4374. It is a continuing service?—Yes.

4375. And the amounts are growing rather rapidly, are they not?—Yes, very substantially.

4376. The expenditure was £4,700,000 in the year of account, but I think in the Estimates for 1947/48 it is more like £12 million?—Yes, something like that.

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

CLASS V.

VOTE 7.

SPECIAL AREAS.

(On this Account no questions were asked.)

VOTE 8.

FINANCIAL ASSISTANCE IN SPECIAL AND OTHER AREAS.

Chairman.

4377. The Account is at page 233, and I should like to ask a question on this account about the statement of loans outstanding, at the foot of the page. The amount of interest in arrear was £37,000. Is that related to the amount of the loan of £687,000?—(Sir Wilfrid Eady.) Yes. That is right.

4378. Can the Committee be told who it is who is in arrear with their interest?—The interest in arrear is all in the case of one company.

4379. Can we know why they are in arrears with their interest?—It is because of the present coal position under which the Minister of Fuel and Power has required the coal from the colliery con-

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and Mr. E. H. E. HAVELOCK, O.B.E.

nected with this company to be sent to the Welsh steelworks, so that the coalite plant is not able to operate. Compensation is not payable in such a case. This is just a "war casualty".

4380. This concern obtained a loan to establish itself in a Special Area to produce coalite. Is that right?—Yes.

4381. Later its supplies of coal were diverted to a steel works?—That is right.

4382. So that it is standing still?—It is standing still in its original purpose of operation, yes.

4383. In the meantime the Treasury are not getting interest on the funds advanced?—That is so.

4384. I presume you will get your money back eventually when this firm is taken over under the Coal Industry (Nationalisation) Act?—We may do. I do not know what valuation will be put on it. I think it is possible we shall incur losses in this particular case. It is a very exceptional case.

4385. Your advances would be a first charge on the plant?—Yes. We hold a first mortgage security.

Chairman.] Are there any questions on the Account?

Lieut.-Colonel *Hamilton*.

4386. Who recommends these loans? Do the Board of Trade recommend them? On whose advice does the Treasury give these loans?—It is the Minister of Labour who defines the area, and there is an Advisory Committee appointed under section 5 of the Act which advises on the exercise of the functions in the Act. The Committee at that time consisted of Lord Portal, Lord Woolton and Mr. Nigel Campbell, and the Committee's function is now confined to giving advice on the administration of the existing loans. This business has, of course, rather run itself out.

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

—————
VOTE 14.

WIDOWS', ORPHANS' AND OLD AGE CONTRIBUTORY PENSIONS.

—————
CLASS VI.

VOTE 12.

DEVELOPMENT FUND.

(*On these Accounts no questions were asked.*)

—————
DEVELOPMENT FUND ACCOUNTS, 1945-46.

Mr. E. H. E. HAVELOCK, C.B.E., called in and examined.

Chairman.

4387. It was the practice before the war, I think, for the Development Commissioners, or whatever the body is called, to publish an annual report, was it not?—(*Mr. Havelock.*) Yes, if I may answer that. That was simply held up during the war when no reports were allowed to be published. We shall resume that practice now.

4388. Will you report in respect of the financial year 1946-47?—We shall try to cover the war years and the period up to 31st March, 1947.

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

(*Mr. Havelock withdrew.*)

—————
CIVIL APPROPRIATION ACCOUNTS, 1945-46.

—————
CLASS VI.

VOTE 13.

DEVELOPMENT GRANTS.

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[Continued.]

CLASS VII.

VOTE 9.

RATES ON GOVERNMENT PROPERTY.

(On these Accounts no questions were asked.)

CZECHOSLOVAK FINANCIAL CLAIMS FUND AND CZECHOSLOVAK REFUGEE FUND ACCOUNTS, 1945-46.

Chairman.

4389. Sir Wilfrid, can you give us any information as to when either or both of these Funds will be wound up?—(Sir Wilfrid Eady.) We are just in the process of beginning some financial negotiations

with the Czechoslovak Government in which, I hope, part, at any rate, of this will be cleared out of the way.

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

TITHE ACT, 1936, ACCOUNTS, 1945-46.

Chairman.

4390. I have a point on Accounts Nos. III and IV on the back page of this Account. Account No. IV is an account of the Redemption Stock Sinking Fund for the year ended 31st March, 1946. On the left-hand side of the Account there is the item: "Issued from Redemption Annuities Account" £563,000, and on the other side of the Account the amount applied in purchase and cancellation of Redemption Stock is nil. Hitherto I believe the usual practice has been to apply a surplus in the redemption of stock, has it not?—(Sir Wilfrid Eady.) Normally, yes, it has.

4393. It looks a very small effort?—Yes. That is why I say I would like to give you a considered answer, because I think it is likely that this was simply taken into account with a number of other funds. If you will excuse me for not knowing the answer to that one, I will insert the answer in the Minutes.

Chairman.] I think if you would furnish a note to the Committee of the date when the investment was made it would be of interest to us. Are there any questions on the Account?

Mr. Cuthbert.

4394. If it had not been invested would it have remained as cash? In the past has it always been held as cash by the Treasury?—I think, probably, it would have been used for redemption of stock.

4395. It would have been used for the purchase of stock?—Yes, for the purchase of stock. It is for the reason that the Chairman asked that I would like to put the answer in the Minutes, if the Committee will permit it.

Chairman.

4396. Shall we keep the Account open till the next meeting? I do not suppose we shall have your explanation by Thursday?—Yes, we will get the man who understands the tithe finance up, specially.

We had better reserve that Account until we meet on Thursday.

CIVIL APPROPRIATION ACCOUNTS (WAR SERVICES), 1945-46.

CLASS X.

Chairman.

4397. Will Members turn to the Civil Appropriation Accounts (War Services), 1945-46, the first six paragraphs of the report of the Comptroller and Auditor General. In paragraph 3 the Comptroller and Audi-

tor General states: "Some of the Class X Accounts for 1944-45 were rendered to me at a very late date". Perhaps you would like to make some observation on this, Sir Frank?—(Sir Frank Tribe.) The Appropriation Accounts are due by statute to be ren-

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[Continued.]

dered to me by the end of November in each year. In this year, out of the 20 accounts recorded in this volume, as many as 6 were not received until the beginning of 1947. That put additional pressure of work upon my Department and made it impossible for me to render a report to this Committee until 8th April. In future years, if this Class is going on, I think it would be in the interests of this Committee that the Appropriation Accounts should be rendered to me at an earlier date than was possible last winter.

4398. I assume, Sir Wilfrid, that some of these Class X accounts, although they are called "War Services" will go on for several years?—(Sir Wilfrid Eady.) I am not the Accounting Officer, as the Committee appreciates, for any of these, but in my capacity as a Treasury Officer I will call attention to the report of the Comptroller and Auditor General.

Chairman.] I think we will adjourn now, and leave these other small items on our agenda until our next meeting.

(The witnesses withdrew.)

Adjourned till Thursday next, at 3-45 p.m.

THURSDAY, 26TH JUNE, 1947.

Members Present:

Mr. PEAKE in the Chair.

Mr. Benson.
Mr. Cuthbert.
Lieut.-Colonel Hamilton.
Mr. Horace Holmes.

Mr. McAdam.
Sir Frank Sanderson.
Mr. John R. Thomas.
Mr. Thurtle.

Sir FRANK TRIBE, K.C.B., K.B.E., Sir ERIC BAMFORD, K.B.E., C.B., C.M.G., and Mr. C. E. I. JONES called in and examined.

TITHE ACT, 1936, ACCOUNTS 1945-46.

Sir WILFRID EADY, K.C.B., K.B.E., C.M.G., called in and examined.

Chairman.

4399. Sir Wilfrid, we were dealing, I think, when we adjourned, with the Tithe Act, 1936, Accounts, 1945-46, and you were going to explain to the Committee why it was that in the year of account, instead of following the normal practice of using the surplus to redeem stock, the surplus was invested in 3 per cent. Savings Bonds.—(Sir Wilfrid Eady.) The very simple explanation is that at the time at which the Sinking Fund payment was made in 1945, no redemption stock was available in the market. The Commissioners therefore purchased the tap 3 per cent. Savings Bonds and later sold those, and, when redemption stock came into the market, bought the redemption stock. They were able to make a profit on the switch.

4400. They subscribed for the 3 per cent. Savings Bonds on tap?—That is right. They took a tap loan as a temporary holding.

4401. They purchased them at par, did they?—Yes. That happened both on the 1st April and the 1st October in 1945. It was unusual that no redemption stock should be available. On both occasions the Commissioners bought the Savings Bonds on tap, but in October, 1946, they were able to

get out of the Savings Bonds into redemption stock at a profit. The position at the moment is that there are no investments held in the Sinking Fund because all the half-yearly Sinking Funds have now been brought into an orthodox pattern and have been applied in the purchase and cancellation of redemption stock.

4402. There was £66 million of this stock held at the date of the Account?—That is right, nearly £67 million.

4403. The normal practice is for the Commissioners to go into the open market and purchase, is it?—Yes. They are satisfied from their experience that the best use of the Sinking Fund payments is to purchase redemption stock in the market if it is available.

4404. It is fully within their powers, is it, to make an investment?—Yes, I think so. The Treasury Minute of 1942 says: "As regards the investment of the Sinking Fund contributions the National Defence Commissioners shall purchase 3 per cent. redemption stock for the purpose of cancellation whenever, in the opinion of the Commissioners, the stock stands at a suitable price. If 3 per cent. redemption stock is not so available the Commissioners shall invest then in such securities as are guar-

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SIR WILFRID EADY, K.C.B., K.B.E., C.M.G.

[Continued.]

anted by the British Government as in their opinion will be most suitable for the Fund, provided that in any event the securities are definitely redeemable." So they are covered by the Treasury Minute and were relying on it as a temporary market operation before they got back on to the

normal use of the Sinking Fund.

4405. At present they hold no investments?—No investments at all.

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

TRADING ACCOUNTS AND BALANCE SHEETS, 1945-46.

Chairman.

4406. Will Members turn to the Trading Accounts and Balance Sheets, 1945-46, to paragraphs 1 and 2 of the report of the Comptroller and Auditor General? In paragraph 1 the Comptroller and Auditor General states: "This volume contains only those few accounts of normal Departmental trading, etc., activities which it was considered necessary to prepare and publish under war conditions." I should like your view, Sir Wilfrid, as to the probability or possibility of this Committee receiving, embodied in these Trading Accounts and Balance Sheets, some accounts of the very large trading activities which the Government carry on to-day.—(*Sir Wilfrid Eady.*) Would you be willing that the Treasury Officer of Accounts, Sir Eric Bamford, should say something about that?

4407. Yes, please.—(*Sir Eric Bamford.*) The position is that many of these Trading Accounts will be resumed in 1946/47, and we anticipate that the balance will all be in operation in 1947/48.

4408. You are referring to the Trading Accounts which were in this volume before the war but which were excluded during the war?—To all the Departmental Trading Accounts, including the new big Departments.

4409. This volume will in future cover the Trading Accounts of the big Departments?—Yes. In 1947/48 we hope that the whole ambit will be covered again.

4410. It will cover the Ministry of Food and the Ministry of Supply?—Yes, and the Board of Trade, as well as the normal Post Office commercial accounts and so on.

Mr. Benson.

4411. Does that mean that the whole of the bulk purchases from abroad, the imports, will be set out in trading account form?—Yes.

Chairman.

4412. Including stock figures, do you suppose?—(*Sir Wilfrid Eady.*) I am not so sure about that. The financial accounts will be shown, but I am not so sure about the stock figures.

Mr. McAdam.

4413. Will the value of the stocks held not be shown in the Accounts?—Not the quantities, but the money value will be shown.

Chairman.

4414. I was not referring to the quantities, but the money value. The global value of the stocks will be of no use to our competitors when it is about a year behind, in any event?—That is so.

Chairman.] Are there any further questions on paragraphs 1 and 2 of the report of the Comptroller and Auditor General on the Trading Accounts and Balance Sheets, 1945/46?

PUBLIC INCOME AND EXPENDITURE ACCOUNT FOR THE YEAR ENDED 31ST MARCH, 1946.

Mr. McAdam.] On page 2 I see the arrears of surtax are £69 million odd. What steps have been taken, if any, to recover that?

Chairman.

4415. The £69 million is not the figure of arrears. It is surtax including arrears of super tax, is it not?—(*Sir Wilfrid Eady.*) It is the total surtax. It is not £70 million of arrears. In his Budget Speech the Chancellor of the Exchequer called attention to the fact that there were some arrears in surtax and that he had given instructions to the Board of Inland Revenue to chase these laggard taxpayers.

Mr. McAdam.

4416. Could you give us any idea of the actual amount outstanding?—I could not, without notice.

Chairman.

4417. We should have had these figures for the year of account when the Board of Inland Revenue were before us.—(*Sir Frank Tribe.*) Yes. In the Report on the Revenue Appropriation Accounts I reported the amount of surtax and super tax in arrears and how it had been accruing year by year. The Committee considered that when they took evidence from the Board of Inland Revenue.

Chairman.] The amount has been reported to the Committee in the Comptroller and Auditor General's report on the Revenue Appropriation Account. Are there any further questions on this Account? May I take it that the Account is approved? (*Agreed.*)

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Sir WILFRID EADY, K.C.B., K.B.E., C.M.G.

[Continued.]

CONSOLIDATED FUND ABSTRACT ACCOUNT, 1945-46.

(Finance Accounts, 1945-46.)

Chairman.

4418. Will Members turn to the Consolidated Fund Abstract Account, 1945/46? The report of the Comptroller and Auditor General is on pages 9 to 11. On paragraph 2, have you any information, Sir Wilfrid, as to the average rate of interest on the floating debt in the year of account? We are told that it was reduced by approximately 10s. per cent. in October 1945.—(Sir Wilfrid Eady.) 1 per cent. for the first half year and $\frac{1}{2}$ per cent. for the second half year.

4419. That is on Treasury Bills, is it not?—Yes.

4420. There are slightly different figures for Treasury Deposit Receipts, are there not?—Yes. It is one and one-eighth the first half of the year and five-eighths the second half of the year. It was done at the same time as the Treasury Bills were altered.

4421. In paragraph 3 we learn that the nominal amount of the National Debt at 31st March, 1946, was £23,000 million. Can we be given the amount of the increase in the National Debt during the war years?—Roughly, from my recollection, from £8,000 million to £22,000 million, actually during the war years.

Sir Wilfrid Eady withdrew.

TREASURY MINUTE ON PARAGRAPHS 1 TO 3 OF THE COMMITTEE OF PUBLIC ACCOUNTS, 1945-46.

Sir EDWARD BRIDGES, G.C.B., G.C.V.O., M.C., and Sir BERNARD GILBERT, K.C.B., K.B.E. called in and examined.

Chairman.

4425. I am sure the Committee is gratified that you have been able to spare a little of your valuable time, Sir Edward, to come and give evidence before us?—(Sir Edward Bridges.) I am very glad to come.

4426. The questions I should like to put to you arise mainly on the Treasury Minute of the 8th January, 1947, on the Fourth Report of this Committee of last year. You have a copy of the report and of the Treasury Minute, have you?—Yes, thank you.

4427. Paragraphs 1 to 3 deal with the standards of accounting and audit. This really deals with two separate questions, one of which is the accounting in Government Departments themselves and the other is the audit of the Accounts by the Comptroller and Auditor General. As this Committee is aware, standards of accounting in Government Departments were greatly relaxed during the war years, were they not?—Yes, very great relaxations were made.

4422. I have a question on paragraph 7. We are told the amounts contributed to the International Monetary Fund and the International Bank. Are all our instalments now paid up to those two dates?—Yes, for the Fund. The Fund is paid up. For the Fund we paid up 1,300 million dollars and to the Bank we have paid up 260 million dollars.

4423. What happens to that money in the hands of the Monetary Fund?—It forms, of course, the operational fund on which the fund, with the same subscriptions from the other members, really gives the International Accommodation Money to the countries which go to the Fund.

4424. Is it actually left on deposit in London?—No. It is re-lent to us by the Fund in interest-free notes it is not left on deposit in London—a large portion, all except just a small float for their own expenses.

Chairman.] Are there any questions on the report of the Comptroller and Auditor General? Are there any questions on the Account? May I take it that the Account is approved? (*Agreed*). Thank you, Sir Wilfrid.

4428. For reasons of economy of manpower and staff. I think what the Committee would like to hear from you is your general view as to whether the pre-war standards should now be the objective to be aimed at again, or whether some lower standard would suffice so far as both things are concerned, the standard of accountancy in Government Departments and the standard of the audit conducted by the Comptroller and Auditor General?—First of all, perhaps, I might say that in the two years since the end of the war we have made good progress in restoring standards of accountancy and of financial control. I do not say that we have not some way to go yet to get where we ought to be, but I think good progress has been made and we have got a long way back towards pre-war standards, and I should hope that in the next financial year we should be able to present to you a pretty clean bill of health all round, except for one or two places where particular difficulties are still being encountered. On your specific question as to whether we are aim-

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[Continued.]

ing at restoration of the pre-war standards, the short answer is that in certain respects we certainly are. So far as controls are necessary to prevent fraud, or for the exercise of proper administration, we regard those as objectives of the first importance, and we should not let anything stand in the way of attaining those objectives. But during the war I think we have probably learnt a certain amount as a result of the relaxation of the detailed checks which were previously in force, and it may be that in certain respects we may come to the conclusion that it is not necessary to restore all the detailed checks which were previously in force. Of course, before the war there were plenty of fields in which there were selective checks and not a full 100 per cent. check. There is nothing new in the principle, and I think it is really a question of looking at the circumstances of each case and satisfying one's self as to what is the right standard to attain in a particular field, having regard to the circumstances which prevail in that field. In this matter we are to a considerable extent, of course, dependent on the staffing situation, and I am glad to be able to say that the normal scheme of recruitment, which has now been restarted, is giving us a very good type of clerk, who is well-reported on by the heads of the financial branches; and, given a continuance of satisfactory recruitment, I think there is probably more field than there used to be for the employment of a really intelligent selective check rather than of a less intelligent 100 per cent. check. Another feature I might mention is that as I think you know, the Civil Service can claim to be fairly up-to-date in the use of mechanised methods in accounting procedures. We are continuing steadily to introduce more and more mechanisation, and that, I think, makes it unnecessary to restore a detailed 100 per cent. check in such fields as payroll work. I think that would be my general answer to your question.

4429. Would you say a word on the observation in paragraph 2 of the Report of the Committee of Public Accounts? There we draw attention to the fact that the Comptroller and Auditor General explains that shortage of experienced staff had necessarily led him to adopt a radically-revised system of audit during the war, and the paragraph finishes up by saying that the Comptroller and Auditor General "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"?—On that we agree entirely, and I think I am right in saying that a very happy agreement has been reached with the Comptroller and Auditor General as to the extent to which his staff should be increased. We entirely

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accept that there should be an increase, but I should imagine that in that field, as well as in the field of internal audit and control, experience may show that, quite properly, there is room for some extension of the system of test audit, and I do not think that in the Treasury we should feel that there was anything financially wrong in not insisting that one should, in all cases, as a matter of fact return to the pre-war standards of full audit as against test check.

4430. Sir Frank, are you satisfied with the arrangement made as regards increase of staff?—(Sir Frank Tribe.) Yes, quite satisfied. You will remember I made a fuller statement on this at the second meeting of the Committee this Session. I said we had reached a very friendly arrangement with the Treasury, who have given us everything we want in the way of staff requirements. We do not want to expand too rapidly because it leads to difficulties later on. I was able to assure the Committee that the general standard of audit had improved, and I entirely agree with what Sir Edward Bridges has said about the development of the selective check. I am sure that is the way in which the future work has got to be grappled with, and one does not anticipate any very large increase of staff in consequence, in spite of the fact that the work is growing.

4431. A specific point arose when the Board of Inland Revenue witnesses were before us, Sir Edward, and that was that statements were made (you may recall them, Sir Frank) to the effect, that, had they had more tax inspectors and collection staff, they could have achieved a much higher reduction in the arrears of tax payments. Was not something of that sort said, Sir Frank?—Yes. Each year during the war the Comptroller and Auditor General has drawn the attention of the Committee to the fact that arrears of tax—income tax, supertax, excess profits tax and other taxes—had been growing year by year, and the Committee examined Sir Cornelius Gregg as to the reasons for that, and whether it was not possible now to collect some of those arrears of tax. He said that his difficulties were largely staff difficulties and that if he could have more staff he could collect more tax.

4432. It is a question of course, Sir Edward, as to whether increasing staff, whilst it may accelerate the collection of tax and achieve the result one wants to see (surtax being "clawed" in more quickly) will ultimately achieve any increase in the amount of money collected?—(Sir Edward Bridges.) I think we all of us agree that it is very unsatisfactory to be in a position in which you have a heavy back-log of arrears, and from the point of view of the Department, the taxpayer, and everybody else, we ought to get as soon as we can to a position in which those arrears are, so far

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as possible, cleared off, and matters are being dealt with currently. There is no dispute about the fact that that should be done. The only difficulty is the time it takes to recruit and train the rather experienced staff which are required for this work. Progress is being made, but I am afraid it is rather slower than one would like, owing, to a considerable extent, I think, to the difficulties of the work.

Chairman.] Are there any questions on the Treasury Minute on paragraphs 1 to 3 of our Fourth Report of last year?

Mr. McAdam.

4433. You mentioned the fact that there is an improvement in respect of staff. You also mentioned the mechanical aid that you hope to receive. Is there any difficulty in respect of obtaining Burroughs' Adding Machines, and things like that?—There was some difficulty, but I understand it has now been overcome.

Mr. John R. Thomas.

4434. My experience, pre-war at any rate, was that the Treasury audit and the Departmental audits were very detailed and very, very exact. In fact, my own impression was that they were too detailed and probably did not justify the amount of work put in. I was very glad to hear you mention the introduction of mechanisation and a greater use of test checking to replace the detailed audit. I have particularly in mind stores, stores accounting and stores auditing. In the Services one finds that there is a Departmental audit and then there is what is called a Treasury audit. I am not quite sure, and I would like to know who conducts the Treasury audit. Is that the Treasury itself, or is that the Comptroller and Auditor General?—I am not quite sure that I recognise the phrase. The normal position is that the larger Departments carry out an internal audit of their own payments and that the only other audit is the Comptroller and Auditor General's audit. I do not know whether the Comptroller and Auditor General can help with the phrase? (*Sir Frank Tribe.*) I think sometimes the audit carried out by my Department is known, wrongly, as the Treasury audit.

Sir Frank Sanderson.

4435. The question I wish to ask rather depends upon the one that has been put by Mr. Thomas. In view of the great shortage of accountants and clerical staff generally, is any consideration given to the question of modernising the form in which the accounts are drawn up, with a view to causing a reduction in the amount of labour necessary?—(*Sir Edward Bridges.*) Yes, a great deal of attention is paid to that, and I think I can say we benefited very much in the war through a number of professional accountants having served in

several of the financial and accounting branches, and a great deal of extremely useful work of that kind has been done. More than that, the Organisation and Methods Branches of the Treasury and of the Departments are continually at work on those problems.

4436. Would you agree that big business could teach something to the accountancy side?—Yes, but I think it is fair to couple that with the observation that Government accounting has, after all, been directed to a different purpose from that to which most commercial accounting is directed, namely, to Parliamentary control and Estimate procedure, and it is only as Government Departments have more and more commercial activities put upon them that it becomes all the more necessary for them to learn from the commercial accountants how they would tackle the commercial problems in that field.

4437. That, I think, is fully appreciated by the Committee.—We are very glad to learn from them in that field.

Mr. Thurtle.

4438. When you are considering whether you would substitute for a 100 per cent. audit one of these test or selective audits, is the staff position such that you can disregard that as a factor and come to a decision on the merits of the case?—What has happened in practice, of course, is that during the war the staff position was such that these 100 per cent. audits had to be abandoned, and we had to go to a very selective test, probably a too small percentage test. Now as and when it is possible to get more staff, we have to consider which are the greatest needs which should be restored first; in which field there is some evidence that we are suffering through having a too small percentage of audit. That is the way in which the problem presents itself. We have not yet reached the point at which we can consider these matters yet without looking at our staff position.

4439. On the question of mechanised accounting, is it quite certain that the Treasury has at its disposal the highest degree of experts in this matter of mechanical accounting?—I think I can give an unqualified "yes" to that. This was one of the earliest fields in which we started on what is now the Organisation and Methods work. We have been hard at work on this for over 25 years and I believe it is true that Government Departments on the whole are more highly mechanised than most business organisations.

4440. One other question. After you have decided in a given case that it is wise to substitute a selective audit for a 100 per cent. audit, have you then to reach agreement with the Comptroller and Auditor General, or do you do it on your own?

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—I think we should certainly consult with him in these matters and keep in touch with him. (Sir *Frank Tribe*.) Yes. The Organisation and Methods Branch of the Treasury has been in close touch with us and has consulted us about the advice they should give to other Government Departments about the way in which accounts might be kept on a mechanised basis, and otherwise.

4441. The point of my question was that you would not adopt a selective test in place of a 100 per cent. one without the agreement of the Comptroller and Auditor General?—(Sir *Edward Bridges*.) No, we should certainly consult with him about it.

Chairman.] Are there any further questions on the Treasury Minute on paragraphs 1 to 3 of our Fourth Report of last year?

TREASURY MINUTE ON PARAGRAPHS 14 TO 16 OF THE FOURTH REPORT OF THE COMMITTEE OF PUBLIC ACCOUNTS, 1945-46.

Chairman.

4442. These paragraphs deal with the question of insurance of foodstuffs and raw materials against marine risk. In paragraph 14 of their Report the Committee pointed out that during the war the Treasury agreed to the exceptional procedure of insuring commodities and raw materials in order to help maintain the marine insurance organisation which is a very important element in the national economy. The Public Accounts Committee were not quite satisfied that the marine underwriters were not doing too well out of this, and there were some revised arrangements made to operate, as we say in paragraph 16, from the 1st January, 1946. The first point I would like to put to you is whether the Treasury are satisfied that the revised arrangements are not giving the underwriters excessive profits?—(Sir *Edward Bridges*.) We had a further review in December, 1946, on the results of 1946, as a result of which it was agreed to have a further cut in the premium rates of approximately 12 per cent. for the current year; that is, 1947. Apart from that, the arrangement made in January, 1946, is being continued for the present.

4443. Arising out of that, seeing the greatly extended range of State trading today, what is the general policy regarding insurance?—Up till the war the general policy of the Government was not to insure. But, during the war, as an exception it was decided to insure certain special risks, the marine risk of cargoes of foodstuffs and raw materials, and fire risks while in store. It has been decided to continue for another two years with the insurance of marine risks of cargoes of foodstuffs and raw materials imported by the Government, and the fire risk during storage in this country. The reason for that decision, or the main reason for that decision, is that it is not really possible to forecast at the moment just what will be the future of the present arrangement whereby the Government is such a large importer of foodstuffs and raw materials, and we think it is right to continue the present arrangement for another two years until we can see the position rather more fully. That, I think,

is the answer so far as concerns direct Government activities. So far as concerns the boards of socialised industries, they have been informed that, in the opinion of Ministers, it is for them to settle their own insurance policy themselves in the light of the considerations which affect their own undertakings.

4444. That is to say, to decide for themselves whether they insure particular risks or not?—That is so.

Chairman.] Are there any questions on the Treasury Minute on paragraphs 14 to 16 of our Fourth Report of last year?

Mr. Benson.

4445. Have you any idea how the private insurance business has developed?—How it has developed?

4446. Yes. There was very little private insurance of marine risks during the war, on bottoms and the like. Has it developed since the war? I take it it is Lloyd's, who are concerned here?—Yes.

4447. Has the international business of Lloyd's come back?—You mean the business carried on by our insurance companies overseas?

4448. Yes, the private business of Lloyd's. You insured the risks in order to carry Lloyd's during the period of the war?—That was one of the factors. I think it is true to say that our insurance interests overseas are still a very valuable factor in our economy from the point of view of the balance of payments.

4449. That is not the point I was raising. You decided to continue insurance with Lloyd's?—Yes.

4450. I assume primarily for the same purpose, namely, to maintain the mechanism of Lloyd's?—That was one of the factors, certainly.

4451. What other factor was there?—Certain services are rendered in return for the insurance policies taken out against marine and fire risks. Supposing the Government were now to decide to discontinue

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insurance through underwriters, it would be necessary to set up some kind of Government organisation to handle the work involved and, frankly, it would be a great nuisance to have to attempt to set up that rather complex organisation at the present time.

4452. Did not you have that organisation before the war, when you carried your own risk?—No, I do not think we did, not at any rate so far as concerns the sort of goods which are now covered by the present insurance. The Government, before the war, was not an enormous importer of foodstuffs and raw materials.

4453. In regard to the socialised industries, they will not be importers, will they? They will not be carrying similar risks? The coal industry is not going to carry similar risks to the ones you are insuring?—No, but on the other hand I imagine that they carry certain rather specialised risks which are different from the risks carried by the ordinary Government Department before the war.

4454. But you do not insure any risks save marine risks and cargoes?—Fire risks of the raw materials and foodstuffs stored in this country.

4455. Having told them they can do what they think best, are you giving them any guidance or any information as to what has been the previous policy of Government Departments?—They are aware of that. If they require any guidance as to our experience, it would be available to them.

4456. Has it been offered? I have no doubt it would be available?—(Sir Bernard Gilbert.) I think it has been offered. We have, in fact, received representations from the insurance interests and we have told the boards of the socialised industries so far created that it is their business to consider whether to insure or not, but we have pointed out to them the considerations to be borne in mind. In particular, we did not want them to regard it as axiomatic that because they were large therefore they should not insure, being big enough to carry their own risks. We wanted them to appreciate the full considerations which apply on insurance, in reaching their answer. We also asked them to bear in mind the important international aspect as regards earnings abroad of a healthy insurance industry in this country, because a good many of our earnings abroad simply come through reciprocal re-

insurance with other people. But it is all within the framework that the decision ultimately is their decision.

Mr. John R. Thomas.

4457. Who bore the risks pre-war? Is it the fact that the Government bore the risks themselves, or were they actually carried by Lloyd's?—(Sir Edward Bridges.) As I understand it they were carried by Lloyd's. There was a War Risks Reinsurance Scheme.

4458. Secondly, I would like to ask this question. We have just heard from Sir Edward Bridges that the premium rates have been reduced for 1947 by something like 12½ per cent. I would like to know how those rates that are paid today, in 1947, compare with commercial rates, having regard to the presumably very large volume of business which the Government is able to place with the underwriters?—I am afraid I have not a detailed comparison. Perhaps I can get it and send it in?

4459. Some comparative statement would be helpful?—Certainly.*

Sir Frank Sanderson.

4460. Would you say it was generally appreciated that it takes three years of an accountancy period before any one year is complete? That is to say, the year in which the premiums are received for the risk to be taken; (2) the year in which the claims are sent in, and (3), the year in which the claims are, in fact, settled; and, that being so, is it not essential that there should be a considerable time lapse between the time the business is placed with Lloyd's and the profit or loss which may have been sustained upon that business is a known factor?—I agree it does take a good time before you know the final result. Nevertheless, it was found possible at the end of last year to make a provisional examination of the outcome of the year from the point of view of deciding whether the present rates of premium should continue or whether they should be reduced. I agree it was only arrived at on provisional results; but that was done.

4461. It is just an extremely rough guess. It could only be a guess?—An estimate, yes.

Chairman.] Are there any further questions on the Treasury Minute on paragraphs 14 to 16 of our Fourth Report of last year?

*See Appendix II.

TREASURY MINUTE ON PARAGRAPHS 33 TO 35 OF THE FOURTH REPORT OF THE COMMITTEE OF PUBLIC ACCOUNTS, 1945-46.

Chairman.

4462. This is a matter which caused the Committee some little concern. No doubt you are conversant with the facts, Sir Edward?—(Sir Edward Bridges.) I am.

4463. Which were that the Coal Commission, without consulting the Treasury, introduced a scheme of pensions which were much more favourable to their employees than the ordinary Civil Service

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[Continued.]

scheme. The Committee felt it would be some embarrassment when the officers of the Coal Commission found themselves transferred to the new Coal Board; the Coal Board might find themselves in the position of having to establish a pensions scheme at as favourable a rate as that paid to the servants of the Coal Commission and that the repercussions might be serious. I expect you have given some thought to this question of superannuation where the public boards are concerned, and one wonders why it should not be possible ultimately to have uniform schemes of superannuation covering them, and to achieve uniformity with the Civil Service. Perhaps you could observe upon those two possibilities?—If I may take the second one first, we should agree that there is no reason why the superannuation schemes of the public boards should be more favourable than the Civil Service scheme, unless there is some factor which differentiates between the two. May I illustrate that? The Airways Corporations have a special scheme dealing with pilots who leave the service at a very early age.

4464. Like policemen who retire early?—I think their age of retirement is even earlier than that of a policeman. When you get that kind of circumstance I think you have to adapt your superannuation scheme to meet it.

4465. Apart from that, you say there is no reason why, in theory or practice, they should not be the same?—I say there is no reason why, in theory, superannuation schemes of the public boards should be more favourable than the superannuation scheme of the Civil Service. If you come down to consider whether they should be identical with the Civil Service scheme I think you find yourself faced with this difficulty, that in none of these cases, or in hardly any of these cases, did you start from scratch. There is usually some pre-existing scheme in the industry concerned which you have to take into account, and that scheme may be drawn up on somewhat different lines, with some variation in the method of financing the scheme or in the benefits, but nevertheless the value of the benefits may be as near as no matter broadly equivalent to the Civil Service scheme. If you find that kind of situation I think we, for our part, should rather doubt whether there is any overwhelming need to insist upon absolute uniformity, although I agree that if you could have absolute uniformity it would facilitate transfers between different types of employment.

4466. The practical difficulty, surely, is that when the State takes over an industry such as the coal industry, you find a great variety of superannuation schemes in force. You find some undertakings where there is no superannuation scheme at all?—That is so.

4467. And where they have relied upon high salary rates and savings by their employees. You find other concerns where there are superannuation schemes with very generous terms?—Yes.

4468. I take it that the tendency is bound to be for the socialised or State board to adopt a scheme which incorporates the most favourable features to be found in any of the superannuation schemes which they are taking over?—As far as the Coal Board is concerned, we are by statute consulted in regard to that superannuation scheme, and consideration of it is fairly well advanced. The broad lines of that scheme are very close indeed to the Civil Service Superannuation Scheme. The result which the Committee feared in their last report has not, I am glad to say, come about in practice.

4469. What, in practice, will have happened to those former employees of the Coal Commission who had for a period at any time been contributors to a scheme which was more favourable than that which is contemplated?—I do not know the details, but I assume that in that instance, as in many other instances, there must be some provision for protecting existing rights; for our part we would regard it as absolutely right, when you are starting a new, big scheme for a new, big undertaking, to settle the scheme on the broad lines which are right and to make a saving for existing holders rather than to frame your whole scheme for the future in relation to the existing rights of a relatively small number of individuals.

Chairman.] Are there any questions on this Minute?

Mr. Thurtle.

4470. I take it, Sir Edward, you would regard it as desirable if a new organisation is starting to have the staff in a fully contented frame of mind? You would not like them to start with a sense that they had a bad superannuation scheme?—No, certainly not. I ought, perhaps, to have mentioned one other point, that, of course, some of these schemes are contributory, whereas the Civil Service Scheme is not. That, again, is a point of difference.

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[Continued.]

CIVIL APPROPRIATION ACCOUNTS, 1945-46.

CLASS I.

VOTE 4.

TREASURY AND SUBORDINATE DEPARTMENTS.

Chairman.

4471. There are one or two points of general interest which affect a number of different Government Departments which I should like to put to you. The Account is merely a peg upon which to hang these questions. One of the questions which has arisen at this Committee in regard to a number of different Departments where Accounting Officers have appeared is the position of these new international bodies which are growing up in such increasing numbers and the salary scales which they pay to their employees. There is a reference to it in paragraph 33 of the report of the Comptroller and Auditor General on the Civil Appropriation Accounts. That was in regard to U.N.E.S.C.O. There is the Food and Agricultural Organisation of the United Nations, the European Central Inland Transport Organisation, the European Coal Organisation, the League of Nations and the International Labour Office. Our experience prompts us to think that the salaries paid are very often settled at much higher levels than the salaries which would be paid to Civil Servants of equal standing in this country. We wanted to know what influence you were able to exert in these international bodies to induce them to adopt salary scales which were not grotesquely high, and we would like to know what your difficulties are in that connection?—(Sir Edward Bridges.) These salaries have nearly all been fixed by international committees and, of course, in an international committee no one country can have a predominant or final word; but it is fair to say that we have been given a very good chance of having our say on these organising committees. We had a very experienced representative, Sir William Matthews, a former colleague of mine in the Treasury, on the United Nations Preparatory Commission which worked out the salary scales for the United Nations Organisation and the salaries of a good many of these other international bodies have been broadly founded on the United Nations scales. I think it is fair to say that we have had a very good chance of making our voice heard and, indeed, I think we have made it heard to a considerable extent.

4472. Are there any special considerations in your mind which would make it fair to pay a man more because he served one of these organisations than his services would command if he remained in the Civil Service here?—May I put it in this way, that I have been concerned with a good

many of the appointments of British Civil Servants to these posts, and I think I know more or less the frame of mind in which people regard these salaries. Although it may seem strange, I would say at once that these salaries do not make these posts unduly attractive to home Civil Servants, when you take into account the expense of living in New York and the possible separation of families, the disturbance of children's education or perhaps the expense of keeping up two households. There is no particular attraction in these salaries though I agree they look very big. But judging by experience, I do not think we can fairly say that these salaries have acted as an undue attraction to people to take these jobs rather than stay in jobs of comparable importance in Whitehall.

4473. Even where the man appointed is able to make such arrangements, by giving up any notional residence here, as to make his salary free of income tax?—Yes, even taking that into account.

Chairman.] Are there any questions on this subject?—I think we will stick to one subject at a time.

Mr. Benson.

4474. I take it that what does exercise a very great influence is that these posts have to carry a salary which an American representative would be prepared to accept, particularly when you come to the International Bank. The bulk of the work is done in New York and it is financed by America and America must play a large part in the running of the bank. Quite obviously, I take it, the salary must be sufficient to attract an American of adequate standing?—Certainly that is so. The rates in the American Civil Service are not very high, and it does so happen that, even though the American standards may have played quite an important part in the fixing of these rates, I do not think we could fairly say that from the point of view of getting people from this country to take the jobs the salaries are too high.

Chairman.

4475. Are there any further questions on this subject? Now a somewhat allied question arises in regard to conditions of employment with public boards. How far is there Treasury control of the salaries and conditions of employment fixed by these public boards for their employees?—By the boards for their employees?

4476. Yes, or is it completely within their own freedom to fix what salaries they please? I am not speaking of the members of the

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Sir BERNARD GILBERT, K.C.B., K.B.E.

[Continued.]

boards whose salaries are laid down by Parliament. I am speaking of the conditions upon which they employ other people.—The position is that except for the superannuation position in regard to which our assent is required for superannuation schemes, there is no Treasury control over salaries or conditions of service of the staffs of the public boards.

4477. Is there not a danger, in that case, that Civil Servants will be attracted to the much more remunerative jobs which are to be found in these undertakings?—We have an arrangement that if the chairman of a board wants a Civil Servant to be employed on his board the matter is to be put through the head of his Department. One has to consider, in each case, whether the individual can be spared. There have been a limited number of cases in which a Civil Servant has been asked for a higher paid and perhaps more responsible job on a public board but he could not be spared. On the other hand, in quite a number of cases (I think there have been almost 50 altogether) it has been possible to agree to let the Civil Servant go, and I cannot say that we have experienced any serious embarrassment in that matter.

4478. Would it be wrong for a Civil Servant to apply for a job with one of these boards privately?—I think we would take the view that if he wanted to apply he should first consult his establishment officer.

4479. But you do not notice any serious tendency at present for Civil Servants to drift away to employment of this character?—No. I cannot say that the position has been completely free from embarrassment, but we have not had any really serious difficulty.

4480. There are, of course, much higher paid posts to be obtained in the employment of these boards than a man can ever hope to achieve in the Civil Service, are there not—at present, at any rate?—Are you talking not of the members of the boards but of the staffs of the boards?

4481. Yes, I am talking of the staffs of the boards.—I am afraid I could not give any very clear answer to that question. There are, of course, a number of very highly paid technical posts under some of these boards, but I am not aware that there is any large number of administrative posts under the boards on the staffs of the boards which are very much more highly paid than the Civil Service.

4482. You mean the highly paid technical jobs would not be ones for which Civil Servants would have the necessary qualifications?—To take the Coal Board, I should imagine a lot of their most highly paid people are mining engineers and technicians in regard to which these high rates of pay have prevailed for some years.

Mr. *John R. Thomas.*] They put the highly qualified administrators on the board, do they not?

Mr. *Horace Holmes.*

4483. We could find some examples in that direction, of mines inspectors becoming agents and colliery managers, and so on?—I dare say we could.

Chairman.] Those are all the questions I want to put on this issue. Has any Member of the Committee any questions on the matter?

Sir *Frank Sanderson.*

4484. *Dñe,* I think, particularly to the incidence of abnormally high taxation, it has become a practice with the boards, which I take it we are not in a position to discuss this afternoon, to pay remuneration by means of what is called an expense allowance. What I would like to ask is this: is that principle going further down the scale? Does it apply equally to the staffs engaged by the boards of these industries?—I really have not any accurate information on the subject, I am afraid.

Sir *Frank Sanderson.*] I take it, Mr. Chairman, we are not in order in examining in respect of the boards themselves, are we? It is only the staffs engaged by the boards about whom we may ask questions?

Chairman.] I think you can ask Sir Edward questions as to the attitude of the Treasury to what happens on the boards, but the Treasury are not directly answerable for the boards, of course.

Sir *Frank Sanderson.*

4485. If you are in a position to give the Committee any information I would like to ask you if you could inform the Committee what is the attitude of the Treasury to the innovation of paying substantial sums in the form of an expenses allowance? In other words, a considerable portion of their salary is paid free of all taxation?—We should not agree that we had authorised anything which had the result of what you have just said, namely, of a considerable proportion of salary being paid free of taxation. To the best of my knowledge, all the expense allowances which have been authorised have been on the specific basis that they represented expenses necessarily incurred in the discharge of the officers' duties.

Sir *Frank Sanderson.*] Would you invite the members of the board to give particulars of the expenses thus incurred?

Mr. *John R. Thomas.*] Mr. Chairman, before Sir Edward answers that question, surely one has a right to protest that that is an improper question? I do suggest (and I shall bow to your ruling) that that is a question for the boards. We are a Committee dealing not with policy presumably, and I doubt whether that possibly em-

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barrassing question as to remuneration should be put to a very senior Civil Servant?

Chairman.

4486. As I understand it, the Acts of Parliament lay down nothing beyond the remuneration of the members of the Board?—The Acts of Parliament do not actually lay down the remuneration. They say that remuneration shall be fixed by the Minister with the approval of the Treasury, or some such words.

Sir Frank Sanderson.] On that I feel I must say in reply that far be it from my wish to embarrass the Treasury or the members of the boards, but we have to carry out our duties and I do feel that, so far as the information is available, we should ask for it, on a point which, after all, is regarded as of major importance.

Chairman.

4487. I should have thought really, Sir Frank, it was a question which would be better put on the floor of the House to the responsible Minister than put in this Committee?—I rather think I may have given a slightly incomplete answer just now. The section of the Act says: "There shall be provided to the members of the Board such salaries and allowances as may be determined by the Minister with the approval of the Treasury."

4488. Then I think it is quite clear, Sir Frank, that you could ask the Minister on the floor of the House what the allowances were?—It has been stated, as far as the Coal Board is concerned.

Mr. Benson.] On that point of order, I do not think the Coal Board Accounts come before us because it is regarded as a trading concern, but does that preclude us from raising any question on the expenses of the Coal Board which are fixed by the Minister? It is a Ministerial act and therefore ought to come under our survey?

Chairman.] No, it certainly does not. We have not any Accounts as yet.

Mr. Benson.] No, not yet. I am only suggesting that the fact that a Minister does intervene in the expenditure of any one of these socialised undertakings whose accounts do not come before us may enable us to query the Ministerial decision, as the Public Accounts Committee.

Chairman.

4489. Yes, I think so, when we get the Accounts of a year which includes salaries and allowances paid by the Board to its members. You will see the accounts will you not, Sir Frank?—(*Sir Frank Tribe.*) No, I do not think I shall. I shall see the account of the transactions between the Consolidated Fund and the boards.

4490. They will not include anything for the remuneration of the members of the boards?—No.

4491. They are paid out of the funds of the boards and not out of the Exchequer?—I understand the Act requires that the Accounts of the Board as audited by professional accountants shall be presented annually to Parliament.

Mr. Benson.] I may be wrong but I thought there was a Division which precluded our investigating those accounts?

Chairman.] The decision taken in the House was that they should be presented to Parliament but should not be examined by the Comptroller and Auditor General.

Sir Frank Sanderson.

4492. In view of what I have said I must make it perfectly clear that I was making no reference either to the Coal Board or to any other particular board. I was merely putting my questions in a general way. The last thing I had in mind was any particular board?—(*Sir Edward Bridges.*) I think I could answer the question in this way, that I am sure that the general principle which would be observed by the Treasury, in so far as they are concerned with fixing allowances, would be to fix allowances on such a basis that the sums were only paid in respect of expenses necessarily incurred in the discharge or performance of Board's duties. From that point of view I think we should not regard it as accurate to describe the allowances as a tax-free addition to salary. (*Sir Frank Tribe.*) On the point you put to me just now, Mr. Chairman, I should like to add that the Committee will remember that they examined Sir Cornelius Gregg on the Inland Revenue aspect of this, at one of the early meetings of the Committee this Session, and I understand the position to be that the recognition of any tax-free allowance ultimately depends upon how far it is accepted by the Inland Revenue, who have the final say in the matter.

Chairman.

4493. I think that is as far as we can carry it, thank you very much. There is one other general question which arose on a number of different accounts this year, and that was in relation to Exchequer Grants to local authorities. We found, in the course of our investigations, that a good many different Government Departments were making Grants to local authorities at a percentage rate which varied not with the nature of the service but according to their estimation of the financial position of the local authority concerned. The point I want to put to you is whether, now that the formula for the block grant is being revised, or has been revised, that should not be the point

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at which variations in the financial needs of local authorities should be considered, and that other Government Departments, such as the Ministry of Agriculture, for example, in making Grants to drainage authorities, should not have any regard to whether the authority concerned is a

rich one or a poor one?—(Sir Edward Bridges.) It is a very complicated matter. We have ventured to produce a memorandum for you on the subject. Perhaps you would like to have it handed round?

The following memorandum was handed in:

GRANTS TO LOCAL AUTHORITIES.

MEMORANDUM BY THE TREASURY.

The Treasury have been asked the following question by the Public Accounts Committee:—

“ Now that the basis of the Exchequer contribution to Local Authorities is being reviewed, would it in the view of the Treasury be appropriate that this contribution should be the sole means of “ evening out ” the financial position of different authorities and that any grants to local authorities made by other Government Departments should vary, if at all, solely in relation to the nature of the service performed and not according to the financial position of the authority? ”

1. The general idea underlying this question is that, in attaining the accepted objective of Government grants to local authorities that, in the aggregate, they should secure roughly an equalisation of the burden of local rates over the country, the task of equalisation should be assigned solely to the block grant and that grants for particular services (education, highways, housing, health, police, etc.) should not include in their basis any regard to the financial position of the recipient authority.
2. The Treasury's view on this question is based mainly on practical considerations. There are two reasons why an acceptable degree of “ evening out ” the burden of local rates could not be secured if the task were left entirely to the block grant. The first is that the differences of local expenditure in relation to rateable value are so great as to impose a severe strain on any block grant which attempted the task alone. It must be remembered that the formula for a block grant must be incorporated in a statute and be on relatively simple lines. There are limits to the amount of higher mathematics which Parliament will tolerate. It must also be remembered that, if there was a flat rate of grant for all authorities, that rate would have to be fairly low to avoid giving more help to wealthy authorities than they really needed. A simple block grant supplementing a moderate flat rate for other grants could hardly “ even out ” the differences between the richer areas where the rate level, if there were no Government grants at all, would in some cases be under 15s. in the £, and the poorer areas where on the same hypothesis, it would in some cases be as much as 40s. or even more. Some of the grants for specific services therefore have to come to the aid of the block grant in “ evening out ” local burdens.
3. The second reason why “ evening out ” cannot be left entirely to the block grant is the existence of services which involve heavy burdens in some areas and are not required at all in others. Coast erosion is an extreme illustration. Rural water and sewage, and reconstruction of blighted areas are others less extreme. It is not suggested that grants for these kinds of services must necessarily always be graded in the light of the financial situation of authorities but only that, if those of them which involve a heavy cost were not graded they would add very considerably to the difficulties of devising a block grant which substantially equalised burdens.
4. The Treasury's view on the question, as a practical issue, therefore, comes to this, that an adequate degree of “ evening out ” of local rate burdens can only be secured if the block grant is assisted towards the achievement of this object by a grading, in the light of the financial situation of authorities, of some of the grants for specific services which affect everybody (preferably those involving the biggest amounts of money, as the extent of grading which is possible obviously depends largely on the money involved), and of grants for specific services which affect only a limited number of authorities where there is an appreciable burden in some of the areas affected.
5. Whether other grants, beyond those necessary to secure adequate “ evening out ”, should also be graded is a more open question. Some existing small grants which are graded owe their form to historical reasons which no longer apply and it is a question whether, as convenient opportunity offers, their form should not be reconsidered.

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6. The Treasury is aware that in the past, various considerations of principle have been put forward as reasons why Government grants should be uniform or why, even if graded, they should not fall in the case of any authority below some specified and fairly high minimum. In the Treasury's view, these considerations have progressively lost a good deal of their force as the need for using Government grants to secure roughly an equalisation of the burden of local rates has been increasingly recognised.

Chairman.

4494. I expect you have given us in this memorandum something which it will be quite impossible for us to digest at short notice. Perhaps you could say a few words in explanation?—(Sir *Bernard Gilbert.*) In a nutshell, it comes down to this, that we think the question is mainly a practical question. However desirable it might be to even out the rate burden of local authorities simply through the block grant, the facts are, unfortunately, that the differences between one area and another are much greater than you can possibly deal with by one single grant. You have to call other grants to your assistance. (Sir *Edward Bridges.*) Paragraph 2 of our memorandum deals with this. (Sir *Bernard Gilbert.*) Paragraph 2 gives some figures. If you have a rich area, then the total of the expenses incurred locally on the business of government could be covered by a rate perhaps up to 15s. in the £, but if you have a poor area their rates, if they had to pay for everything themselves, might be well over 40s. in the £, and it is that difference between, say, something up to 15s. and something from 40s. in the £ upwards that you have somehow to even out through your system of Government grants; and the block grant itself is not capable of the task. So one rather tends to call other grants in aid, especially the big ones, such as the Education Grant, to help one in producing in the result a reasonable parity of rate levels.

4495. Sir Frank, can you recall what were the main examples we came across of grants where there was a difference according to the financial need of the authority concerned?—(Sir *Frank Tribe.*) I think the Committee took most interest in the subject in connection with what is a comparatively small grant made by the Ministry of Agriculture in respect of land drainage. They examined the Accounting Officer for the Ministry of Agriculture, who explained that the grant varied considerably, up to 75 per cent., I think, as the maximum. The Committee also discussed it with Sir William Douglas, the Accounting Officer of the Ministry of Health who explained that, when other Departments did make varying grants they consulted the Ministry of Health about the financial position of the authority, and he was satisfied that other Departments did not make grants wildly without consulting them. On the other hand, when the Committee examined Sir Alexander

Maxwell on the Police Grant he seemed, I thought, to imply that he could not conceive of varying the rate of the Police Grant, which was a flat 50 per cent. rate all over; and Sir Cyril Hurcomb made it clear to the Committee that it was appropriate in his view that all grants in respect of roads should relate to the type of road and should have no relation to the financial position of the authority. I think those were the four witnesses I can recall whom the Committee examined upon this matter.

4496. We were given two views on each side of this question by four different accounting officers?—Yes. (Sir *Bernard Gilbert.*) I am not sure that they are really views as to what ought to be done. They are rather statements of fact as to what is done. You have two examples which fall into one class and two examples which fall into another. The Police Grant really could be graded, but I think the fact is that it is not really big enough to make it worth while calling it in aid of the block grant as a graded grant; whereas the Education Grant, which is several times the size of the Police Grant, is well worth grading because the assistance it can give by reason of its size being so much more substantial. Land drainage is rather separate. There is another category of grant. There are some services of local government where the need for the service varies very considerably between one area and another. Some local authorities just do not require it and others require a lot of it, and, therefore, unless you grade the grant you get a difference on that service which you cannot even out on anything else. An outstanding case would be coast erosion in a county like Norfolk. If you found a grant large enough for Norfolk for coast erosion but it was on a flat scale, you would be giving too much for, say, other coastal counties which have only a small problem that way, and if you tried to bring it into a formula with the block grant you would get into a hopeless mess. There is another point. The block grant has to be set out in a statute and there are limits to the amount of the mathematical formulae which Parliament will stand in statutes.

Chairman.] We will give further consideration to this in the light of the memorandum which has been handed in. I think it is perhaps too complicated a subject to pursue in greater detail to-day, unless any Member of the Committee has any question to put on it. Has any

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Member of the Committee any questions on Account is approved? (*Agreed.*) Thank
the Account? May I take it that the you both for attending.

The witnesses withdrew.

Adjourned till Thursday, 24th July, at a Quarter to Four o'clock.

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APPENDIX No. 1

PAPER handed in by Sir Eric Bamford, K.B.E., C.B., C.M.G., on 25th February, 1947

1944-45

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, 1947COMPARISON of AUDITED EXPENDITURE in 1944-45 with
EXCHEQUER ISSUES of that Year.

	Exchequer Issues		Audited Expenditure (net)		Audited Expenditure (net)			
	£	s. d.	£	s. d.	Less than Exchequer Issues		More than Exchequer Issues	
	£	s. d.	£	s. d.	£	s. d.	£	s. d.
CONSOLIDATED FUND SERVICES	437,286,899	16 9	437,286,899	16 9	—		—	
NAVY	1,810	0 0	774,581,956	0 5	} 15,033,633	9 8	—	
ARMY	1,510	0 0	1,077,680,495	4 0				
AIR SERVICES	1,110	0 0	484,599,938	18 9				
	4,430	0 0	2,336,862,390	3 2				
CIVIL SERVICES	474,405,570	0 0	2,821,601,316	10 3	} 15,033,633	9 8	—	
REVENUE DEPARTMENTS	142,808,000	0 0	150,644,188	18 7				
VOTE OF CREDIT	5,125,000,000	0 0	*418,076,470	18 4				
TOTAL	6,179,504,899	16 9	6,164,471,266	7 1	15,033,633	9 8	—	

* 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 (see following page)	5,099,991,665	6 2
	4,681,915,194	7 10
	<u>418,076,470</u>	<u>18 4</u>

1944-45

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, 1944-45			Expenditure, 1944-45			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	813,252,869 6 5	38,670,913 6 0	774,581,956 0 5	—	774,580,146 0 5
Army	160,001,660	160,000,150	1,510	1,237,680,645 4 0	160,000,150 0 0	1,077,680,495 4 0	—	1,066,622,213 11 10
Air Services	230,001,220	230,000,110	1,110	678,906,258 6 10	194,306,319 8 1	484,599,938 18 9	—	11,056,771 12 2
TOTAL, NAVAL, MILITARY AND AIR SERVICES ...	430,004,870	430,000,440	4,430	2,729,839,772 17 3	392,977,382 14 1	2,336,862,390 3 2	—	484,598,828 18 9
Civil Services:								
Class I	4,662,684	1,162,825	3,499,859	5,215,105 1 8	916,140 17 4	4,298,964 4 4	132,677 9 4	931,782 13 8
" II	28,658,757	463,037	28,195,720	28,322,711 6 7	424,304 0 7	27,898,407 6 0	1,608,676 3 6	1,311,363 9 6
" III	22,015,229	1,937,457	20,077,772	24,428,960 3 3	1,791,234 14 6	22,637,725 8 9	507,248 5 6	3,067,201 14 3
" IV	94,211,515	7,470,532	86,740,983	95,148,873 18 1	7,470,067 19 5	87,678,805 18 8	767,524 10 11	1,705,347 9 7
" V	218,261,264	4,775,695	213,485,569	212,937,810 18 9	4,349,562 4 5	208,588,248 14 4	4,900,783 2 6	3,462 16 10
" VI	25,605,734	4,147,804	21,457,930	32,456,951 17 3	3,860,625 19 0	28,596,325 18 3	425,795 8 5	7,564,191 6 8
" VII	17,299,896	1,464,573	15,835,323	40,547,711 13 1	1,462,686 7 1	39,085,025 6 0	134,846 19 8	23,384,549 5 8
" VIII	39,816,993	70,243	39,746,750	67,036,508 18 0	70,243 0 0	66,966,265 18 0	25,609 8 2	27,245,125 6 2
" IX	54,050,859	1,278,000	52,772,859	54,049,400 9 5	1,278,000 0 0	52,771,400 9 5	1,458 10 7	—
" X	700,156,090	700,154,100	1,990	2,885,736,045 11 3	602,655,898 4 9	2,283,080,147 6 6	—	2,283,078,157 6 6
TOTAL, CIVIL SERVICES ...	1,204,739,021	722,924,266	481,814,755	3,445,880,079 17 4	624,278,763 7 1	2,821,601,316 10 3	8,504,619 18 7	2,348,291,181 8 10
Revenue Departments:								
Customs and Excise ...	6,626,400	187,300	6,439,100	6,001,044 16 5	187,300 0 0	5,813,744 16 5	625,355 3 7	—
Inland Revenue ...	14,190,500	146,300	14,044,200	13,783,919 14 2	146,300 0 0	13,637,619 14 2	406,580 5 10	—
Post Office	128,780,150	5,110,150	123,370,000	136,602,974 8 0	5,410,150 0 0	131,192,824 8 0	—	7,822,824 8 0
TOTAL REVENUE DEPARTMENTS ...	149,597,050	5,743,750	143,853,300	156,387,938 18 7	5,743,750 0 0	150,644,188 18 7	1,031,935 9 5	7,822,824 8 0
Vote of Credit	5,250,000,000	—	5,250,000,000	{ (I) 4,681,915,194 7 10 (II) 418,076,470 18 4 }	—	{ 4,681,915,194 7 10 418,076,470 18 4 }	150,008,334 13 10	—
	7,034,340,941	1,158,668,456	5,875,672,485	11,432,099,456 19 4	1,022,999,896 1 2	10,409,099,560 18 2	159,544,890 1 10	4,692,971,966 0 0
Deduct Vote of Credit Expenditure (i) already included under Army, Navy, Air and other Votes (see Column 8).	—	—	—	4,681,915,194 7 10	—	4,681,915,194 7 10	—	4,681,915,194 7 10
TOTAL FOR VOTED SERVICES	7,034,340,941	1,158,668,456	5,875,672,485	6,750,184,262 11 6	1,022,999,896 1 2	5,727,184,366 10 4	159,544,890 1 10	11,056,771 12 2

	Estimated Expenditure	Actual Expenditure	Less than Estimate	More than Estimate
	£	£ s. d.	£ s. d.	£ s. d.
Consolidated Fund				
National Debt Services { (a) Interest, etc. } { (b) Sinking Fund }	420,000,000	414,935,936 8 5 5,064,063 11 7	—	—
Payments to Northern Ireland Exchequer	9,000,000	10,010,097 3 6	—	1,010,097 3 6
Other Consolidated Fund Services	7,000,000	7,276,802 13 3	—	276,802 13 3
TOTAL OF CONSOLIDATED FUND SERVICES	436,000,000	437,286,899 16 9	—	1,286,899 16 9
GRAND TOTAL OF EXPENDITURE		6,164,471,266 7 1		

* These deficits were met from the Vote of Credit with the exception of the sum of £11,056,771 12s. 2d. in respect of Army Services for which an Excess Vote was agreed to by the House of Commons in May, 1946, sanctioning the application of Surplus Receipts amounting to £11,056,761 12s. 2d. and granting a sum of £10. (House of Commons Paper No. 140 of 1946-47.)

		£	s. d.	In the Financial year	
				1945-46	
				£	s. d.
The savings on the Votes for the years					
1942-43 (balance)		73,586,758	8 4		
1943-44		53,631,034	11 5		
1944-45 (see column 7 above)		159,544,890	1 10		
		<u>286,763,283</u>	<u>1 7</u>		
Written off from the Exchequer Grant Accounts out of Ways and Means of 1944-45				5,576,976	4 11
do. 1945-46				281,184,641	8 5
Paid to H.M. Exchequer by the Paymaster-General				1,665	8 3
				<u>286,763,283</u>	<u>1 7</u>

were dealt with as follows :—

APPENDIX No. 2.

PAPER handed in by *Sir Eric Bamford, K.B.E., C.B., C.M.G.*, on the 25th February, 1947
 TREASURY MINUTE DATED 8TH JANUARY, 1947, ON THE SECOND, THIRD AND FOURTH
 REPORTS OF THE COMMITTEE OF PUBLIC ACCOUNTS, SESSION 1945-46

My Lords read the Second, Third and Fourth Reports of the Committee of Public Accounts, Session 1945-46, dealing with the Appropriation and other Accounts for 1944-45, on which They make the following comments:—

SECOND REPORT**Ministry of Aircraft Production—Control of Prices.**

Write to:—

The Secretary,
 Ministry of Supply.

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 made by the Committee of Public Accounts in their Second Report, Session 1945-46, regarding the excessive profits made by Simmonds Aerocessories Limited as sub-contractors for the supply of specialised nuts to aircraft manufacturers.

2. My Lords understand that, following the Report of the Committee, the directors of the Company intimated that they were willing to enter into further negotiations with the Ministry on the question of a voluntary refund, but that although representations have been made to the Company no definite offer has yet been received. Their Lordships would be glad to be furnished with a report on the present stage of the discussions with the Company.

I am, etc.

THIRD REPORT**Army—Excess Vote.**

My Lords note the comments of the Committee.

FOURTH REPORT**Paragraphs 1 to 3.—Standards of Accounting and Audit.**

1. My Lords note the comments of the Committee with which They fully agree. In Treasury Circular of 28th September, 1945, regarding the discontinuance of Votes of Credit in 1946-47, Departments were informed of Their Lordships' desire that the customary rules governing the preparation of Estimates and accounting for expenditure should be resumed as soon as possible, although They recognised that continuing manpower difficulties and the uncertainties inseparable from a period so close to the end of hostilities would make it impracticable to restore the full pre-war standards in 1946-47. My Lords do not doubt that there will be a progressive improvement in the standard of internal audit and control as the difficulties connected with transition from war to peace diminish.

2. My Lords share the view of the Committee that the present minimum standard of audit carried out by the Comptroller and Auditor General should be raised to a higher level as soon as possible. They will give full consideration to the Committee's comments should the Comptroller and Auditor General deem it necessary to seek an increase in the post-war establishment of his Department.

Paragraphs 4 and 5.—Form of Estimates and Accounts for Works Services.

1. My Lords are glad to note that the Committee share Their view in deprecating a reversion to the very detailed form of the pre-war statements of works services in Estimates and Appropriation Accounts.

2. Their Lordships have proposed to the Select Committee on Estimates and the Public Accounts Committee that provision for new works services over £10,000 in the Estimates of the Defence Departments and the Ministry of Supply should be divided only under a limited number of bulk headings, further details being made available to those Committees as they may from time to time require.

3. My Lords understand that the two Committees are prepared to agree to this proposal as an experimental measure for 1947-48, while reserving their rights to reconsider the matter in respect of the Estimates for subsequent years. Their Lordships have accordingly arranged for the Estimates for 1947-48 to be prepared by the Defence Departments and the Ministry of Supply on the above basis.

4. With regard to the display of individual works in the Civil Estimates (other than the Ministry of Supply) My Lords assume from the Committee's comments that they would not be averse from the adoption of some higher limit than £10,000 in order to secure greater prominence for the most important works undertaken. My Lords welcome this suggestion, but They propose to continue the £10,000 limit for the Estimates for 1947-48 and to consider further, in consultation with the Public Accounts Committee and the Select Committee on Estimates, what limit should be adopted for subsequent years.

5. My Lords also welcome the Committee's recommendation that some further simplification might be considered in the details of new works displayed in the Appropriation Accounts. Their Lordships' proposals with regard to works services of the Defence Departments and the Ministry of Supply will achieve this result, as the Appropriation Accounts for these Departments will show only the expenditure incurred during the year, divided under the bulk items appearing in the Estimates, together with the latest revised Estimates of the total cost of the new works started during the year.

6. As regards the Appropriation Accounts of the Civil Departments (other than the Ministry of Supply) My Lords consider, in the light of the Committee's recommendations, that the publication of detailed statements of new works should be discontinued and that arrangements should be made for the Explanations to the New Works Subheads to record any appreciable variations between the estimated and actual expenditure during the year on important works. Their Lordships will accordingly request Departments to make arrangements to this effect, beginning with the Appropriation Accounts for 1946-47. Detailed statements of expenditure sub-divided under the items shown in the Estimates will continue to be prepared for departmental use and these statements will be available, if required, for the information of the Committee.

Paragraphs 6 to 8.—Payments to Local Authorities for War Services.

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 6 to 8 of the Fourth Report of the Committee of Public Accounts, Session 1945-46, regarding the settlement of claims by local authorities for expenditure on war services.

2. Their Lordships share the hope expressed by the Committee that all possible steps will continue to be taken to expedite the clearance of these claims. Their Lordships would be glad to be furnished with a report showing the progress made as at 31st March, 1947, as soon as possible thereafter.

3. The Committee trust that arrangements will be made which will avoid the Comptroller and Auditor General having to examine all the departmental files on which these claims are settled in order that he 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. My Lords do not doubt that Departments will find it possible to make satisfactory arrangements to meet the Committee's wishes in consultation with the Comptroller and Auditor General.

I am, etc.

Paragraphs 9 to 13.—Price-Fixing Arrangements with Industries or Trade Organisations.

Write to:—

The Secretary,
Ministry of Supply.

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 made by the Committee of Public Accounts in paragraphs 9 to 13 of their Fourth Report, Session 1945-46, regarding price-fixing arrangements with industries or trade organisations.

2. My Lords understand that the arrangements with the British Electrical and Allied Manufacturers' Association referred to by the Committee expired on 30th June, 1946. In negotiating any future general agreement with the Association full regard must clearly be paid to the Committee's recommendation that the prices for Government orders should be fixed so as to give no more than fair and reasonable profits. My Lords would wish to be consulted before any such agreement is concluded.

I am, etc.

Write to:—

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 President of the Board of Trade to the comments made by the Committee of Public Accounts in paragraphs 9 to 13 of their Fourth Report, Session 1945-46, regarding price-fixing arrangements with industries or trade organisations.

2. My Lords understand that the prices for purchases by the Timber Control of commercial plywood manufactured by two of the four integrated firms have been reduced provisionally with effect from 1st May, 1946, and that final prices for deliveries from that date by these two firms will be determined in the light of a costings investigation which has recently been completed. Their Lordships also understand that consideration is being given to a review of the prices of all commercial plywood purchased on Government account, both from the integrated and non-integrated firms. My Lords will be glad to be furnished, not later than 30th April next, with a full report of the Board's proposals for revising prices of commercial plywood and veneers in the light of this review, which should pay full regard to the Committee's recommendation that the profits on Government orders should not be in excess of a fair and reasonable standard.

I am, etc.

Paragraphs 14 to 16.—Insurance of Foodstuffs and Raw Materials against Marine Risks.

My Lords note the comments of the Committee and will keep under close review the operation of the revised arrangements which have been in force since 1st January, 1946.

Paragraph 17.—Pay-As-You-Earn: Discharge of Outstanding Tax in certain cases of Crown and Railway Employment.

My Lords note the comments of the Committee.

Paragraph 18.—Purchase of Specialised Equipment.

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 paragraph 18 of the Fourth Report of the Committee of Public Accounts, Session 1945-46, regarding the purchase of specialised equipment by the Foreign Office.

2. My Lords share the views of the Committee with regard to the advantages of centralised purchasing. They understand from semi-official discussions that, with certain agreed exceptions, future Foreign Office requirements for specialised equipment exceeding in value £100 in any individual case will be obtained through the appropriate Supply Department.

I am, etc.

Paragraph 19.—British Council Book Export Scheme.

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 to the comments in paragraph 19 of the Fourth Report of the Committee of Public Accounts, Session 1945-46, regarding the British Council Book Export Scheme.

2. Following discussions with the Departments concerned, My Lords have agreed that the functions hitherto performed by the British Council through the instrumentality of B.E.S. Limited shall be transferred to the Central Office of Information. My Lords will be glad if the Secretary of State will ensure that the British Council take the necessary action to liquidate the Company as soon as possible. I am also to request you to inform Their Lordships when this action has been taken.

I am, etc.

Write to:—

The Director-General,
Central Office of Information.

SIR,

I am directed by the Lords Commissioners of His Majesty's Treasury to invite your attention to the comments in paragraph 19 of the Fourth Report of the Committee of Public Accounts, Session 1945-46, regarding the British Council Book Export Scheme.

2. Following discussions with the Departments concerned, My Lords have agreed that the functions that were performed by the British Council in connection with the export of British books shall be transferred to the Central Office of Information.

3. My Lords have recently received detailed proposals for the transfer of these functions to your Department, which They are now considering in the light of the Committee's recommendation that the scheme for fostering the export of British books through Government channels should cease as soon as publishers have access to the countries concerned and can carry on their transactions in the ordinary way.

I am, etc.

Paragraphs 20 and 21.—Formation of Colonial Food Yeast, Ltd.

Write to:—

The Under Secretary of State,
Colonial 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 to the comments contained in paragraphs 20 and 21 of the Fourth Report of the Committee of Public Accounts, Session 1946-46, regarding Colonial Food Yeast Limited,

2. The Secretary of State will note that the Committee were not entirely satisfied as to the need for the interposition of Colonial Food Yeast Limited between the Colonial Office and the operating company. The future of Colonial Food Yeast Limited has been the subject of semi-official discussion between the Colonial Office and the Treasury in connection with an application for further assistance to this scheme from the Colonial Development and Welfare Vote. In the course of these discussions the Treasury have urged that Colonial Food Yeast Limited should be put into liquidation at an early date. My Lords will be glad to be furnished with the considered views of the Secretary of State on this proposal not later than 31st March next.

I am, etc.

Paragraphs 22 and 23.—Approval of Colonial Development and Welfare Schemes.

My Lords have caused the following letters to be sent to the Colonial Office and the Dominions Office:—

8th October, 1946.

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 the Colonies to the comments in paragraphs 22 and 23 of the Fourth Report of the Committee of Public Accounts, Session 1945-46, regarding the approval of schemes assisted by grants under the Colonial Development and Welfare Act, 1940.

2. The Secretary of State will note that the Committee welcomed the view expressed on behalf of Their Lordships that an application for assistance from the Colonial Development and Welfare Vote should be submitted for Their Lordships' approval before any expenditure is incurred on a scheme to which such an application relates, in order that it may be demonstrated at the outset not only that the scheme comes within the ambit of the Colonial Development and Welfare Acts, but also that the scheme is a sound one in itself. I am, therefore, to request you to move the Secretary of State to instruct all Colonial Governments that no expenditure should be incurred on any scheme in respect of which it is proposed to apply for assistance under the Colonial Development and Welfare Acts until Their Lordships' approval for the scheme has been obtained.

3. My Lords have considered how this rule should be applied in the following cases:—

(a) In the past there have been cases where a Colonial Government's claim for retrospective assistance has been based on an assurance given by the Colonial Office that a particular project was likely to be considered favourably for such assistance. Save as provided in (d) below, My Lords will not be prepared in future to authorise any payments from the Colonial Development and Welfare Vote on account of retrospective expenditure incurred on the basis of assurances given in advance of Their Lordships' approval of the scheme.

(b) Where as a matter of urgency, and because time does not permit the working out in full of a scheme under the Act, a Colonial Government incurs the necessary expenditure from its own funds in the first instance, My Lords will be prepared to approve the grant of assistance from the Colonial Development and Welfare Vote with retrospective effect, provided the following conditions are fulfilled:—

(i) The Colonial Office and the Treasury must be consulted before the work is started and at that stage both Departments must be satisfied that the scheme is desirable in itself and eligible for assistance under the Act. This would not preclude a decision being taken at a later stage to finance the scheme otherwise than by assistance from the Colonial Development and Welfare Vote, except in the case of a grant-aided Colony where it would be necessary to decide the incidence of charge at the outset,

(ii) In each case Their Lordships' sanction, stating the maximum amount up to which authority is given for eventual reimbursement from the Colonial Development and Welfare Vote, must have been notified to the Secretary of State, before any expenditure is incurred. This condition is not intended to preclude interim grants for a lesser amount of assistance than the total which will eventually be required, nor the making of supplementary schemes.

(c) Where a Colonial Government engaged on works already covered by a scheme sanctioned by Their Lordships foresees that the scheme cannot be completed without an excess over the original estimate, My Lords will be prepared to authorise supplementary expenditure as a charge to the Colonial Development and Welfare Vote, provided that They have been notified at the earliest point when this possibility could reasonably be anticipated that the authorised limit of expenditure is about to be exceeded. The Secretary of State will no doubt consider whether any change in the system of Progress Reports is necessary to ensure that he receives prompt information of any schemes on which an excess may be incurred.

(d) My Lords understand that the Secretary of State has under consideration a few cases in which expenditure has been incurred on schemes in anticipation of Treasury sanction before the Colonial Office or Colonial Governments became fully aware of Their Lordships' views on the subject of retrospective assistance. I am to say that Their Lordships will be prepared to consider on their merits applications for assistance in cases of this sort where a Colonial Government has incurred expenditure on a scheme on which it had submitted an application for assistance and where the Secretary of State represents that there were reasonable grounds for expecting such assistance to be forthcoming. The Secretary of State when drawing up his instructions to Colonial Governments will, no doubt, bear in mind Their Lordships' views on the application, in cases such as those set out above, of the general rule as to the submission for approval of Colonial Development and Welfare schemes.

I am, etc.

The Under Secretary of State,
Colonial Office.

8th October, 1946.

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 Dominion Affairs to the comments in paragraphs 22 and 23 of the Fourth Report of the Committee of Public Accounts, Session 1945-46, regarding the approval of schemes assisted by grants under the Colonial Development and Welfare Act, 1940, and to the enclosed copy of a letter which Their Lordships have this day caused to be sent to the Under Secretary of State, Colonial Office.

2. My Lords would be glad if the Secretary of State would bring this letter to the notice of the High Commissioner for Basutoland, the Bechuanaland Protectorate and Swaziland, and impress upon him the need for adhering to the procedure therein described, in so far as the territories of the South African High Commission may be affected.

I am, etc.

The Under Secretary of State,
Dominions Office.

Paragraphs 24 to 26.—Purchase of Stores from Secret Service Funds.

The Committee express the view that it is undesirable that Secret Service Funds should be used to purchase stores or for capital expenditure, but recognise that limited exceptions may be necessary in special cases. My Lords accept the Committee's recommendations and confirm that any exceptions which They may authorise in future will not be on the scale of the expenditure incurred in the case referred to by the Committee. Their Lordships have already arranged that the records of the stores delivered in that case and of their subsequent disposal should be open to the inspection of the Comptroller and Auditor General.

Paragraphs 27 and 28.—Arrangements for Securing Economy in Manufacture.

Write to:—

The Secretary,
Admiralty.

The Secretary,
Ministry of Supply.

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 (Minister) to the comments in paragraphs 27 and 28 of the Fourth Report of the Committee of Public Accounts, Session 1945-46, regarding the arrangements for securing economy in manufacture.

2. My Lords trust that Departments will keep the arrangements for securing economy in manufacture under close review and that, so far as practicable, common arrangements will be made for dealing with questions of efficiency in production methods.

I am, etc.

Paragraphs 29 and 30.—Control of Sub-Contractors' Prices.

My Lords will pay close regard to the comments of the Committee in the review of the post-war arrangements for the control of sub-contract prices which is now taking place.

Paragraphs 31 and 32.—Greenwich Hospital. Contributions towards the Cost of Naval Age Pensions.

My Lords note that the Committee raise no objection to Their Lordships' action in sanctioning the discontinuance of contributions by Greenwich Hospital towards the cost of Naval Age Pensions as from 1st April, 1944.

Paragraphs 33 to 35.—Coal Commission: Superannuation Fund.

1. While My Lords recognise that the Coal Commission acted within their statutory powers in approving the revised scheme, They share the regret expressed by the Committee that They were not consulted about the revised arrangements.

2. My Lords note the Committee's recommendation that the arrangements made by the Coal Commission should not be regarded as a desirable precedent in determining superannuation schemes for other public organisations in a similar position. Their Lordships will pay full regard to this recommendation in considering any superannuation schemes for which Their concurrence is required. Informal arrangements have also been made for consultation between the Treasury and other Departments on any general questions of principle arising in connection with the superannuation arrangements of nationalised undertakings and similar public boards where responsibility for approval rests with a Department other than the Treasury.

3. Their Lordships, however, feel bound to point out to the Committee that the circumstances and requirements of these various bodies with regard to superannuation may differ widely, particularly in respect of the statutory or other conditions under which service before the establishment of the scheme is allowed to count. The application of any general principles must, in Their Lordships' view, fall to be determined in the light of the particular circumstances of each case. Accordingly, My Lords are doubtful whether anything approaching uniformity of individual schemes is likely to be achieved.

Paragraphs 36 and 37.—Coal Charges Account.

My Lords note the comments of the Committee. The charge imposed by the Coal (Charges) Orders will cease to be payable in respect of any period beginning on or after 1st January, 1947, when the coal industry is transferred to the National Coal Board. The future of the Coal Charges Account is at present under Their Lordships' consideration.

Paragraphs 38 to 40.—Expenditure on Buildings for School Meals.

1. My Lords do not read the Committee's comments as questioning the desirability of continuing in 1945-46 and subsequently the arrangements approved in 1943 for the Ministry of Works to carry out the provision of buildings for school meals at the request of and on behalf of those local education authorities who were unable to undertake the work themselves owing to the severe stringency of labour and materials. Their Lordships are fully satisfied that these arrangements were in the national interest.

2. My Lords recognise that normal accounting procedure would have required the work to be performed by the Ministry of Works as agents of the local education authorities on a repayment basis, with provision on the Ministry of Education Vote for 100 per cent. grant on the payments made to the Ministry of Works by local education authorities. They consider, however, that They would not have been justified in imposing this additional accounting burden on local education authorities and Government Departments at a time when accounting resources were strained to the utmost.

3. My Lords confirm that, in approving these arrangements, They had no intention of departing from the rule to which the Committee refer, nor was there any intention of transferring permanently to the Ministry of Works functions specifically laid upon local education authorities by the Education Act, 1944. The Committee's criticism appears to Their Lordships to be directed mainly to the failure to bring this departure from normal practice to the notice of Parliament in the Estimates. The Memoranda on the Ministry of Education Estimates for 1945-46 and 1946-47 published as Command papers refer to these arrangements in general terms, but, in deference to the Committee's views, My Lords will also cause a suitable note to be made on future Estimates for the Ministry of Education and Public Buildings, Great Britain.

Paragraph 41.—United Kingdom Commercial Corporation.

1. My Lords note the comments of the Committee. Following the meeting of the Committee in June last, the United Kingdom Commercial Corporation advised Their Lordships that, as the commercial activities of the Corporation had come to an end, the Board considered that the Corporation should be wound up forthwith. My Lords agreed to this course and the United Kingdom Commercial Corporation was placed in voluntary liquidation on 31st July, 1946.

2. The collection of outstanding debts due to the English and Scottish Commercial Corporation will be dealt with by that Corporation, which will continue in existence for this purpose under a new Board acting under Their Lordships' general directions.

3. My Lords have drawn the attention of the United Kingdom Commercial Corporation to the comments of the Committee regarding the expenses of liquidation. They have been assured by the Corporation that all short cuts consistent with orderly liquidation will be taken and that the liquidation will be carried out as economically as possible.

Paragraphs 42 and 43.—Control Price of Aluminium.

My Lords have under consideration the future arrangements for the production of aluminium in this country. Before reaching a decision, They will not fail to give the fullest consideration to the fact that the present arrangements involve a substantial subsidy on home production.

Paragraph 44.—Retirement of Sir Gilbert Upcott, K.C.B.

My Lords are glad to have this opportunity of associating Themselves with the Committee's appreciation of the services of Sir Gilbert Upcott.

APPENDIX 3

PAPER forwarded by *Sir James Barnes, K.B.E.*, on 22nd April, 1947
 NOTE ON THE USE OF CIVIL FLYING SCHOOLS FOR THE TRAINING OF R.A.F.
 PERSONNEL

HISTORICAL NOTE

Period 1923—1935

1. The training of R.A.F. Reserve pilots was first instituted in 1923, and, for reasons given below, arrangements were made for this training to be carried out with certain civil firms which possessed the airfields and facilities required. To begin with such schools were set up by four firms, all facilities being provided by them and no capital expenditure falling on the Air Ministry.

Period 1935—1939

2. This was the expansion period and during these years the civil operated schools rapidly increased in number, size and scope. The number rose from 4 in 1935 to 46 at the outbreak of war (a total of 78 being in fact planned). All schools were enlarged and the scope of their activities extended to embrace, in addition to the original elementary training of Reservists, the following activities:—

- (i) 1935—Elementary flying training of regular personnel (Short Service Commissioned, University candidates for Commissions and airman pilots). The course lasted about 8 weeks.
- (ii) 1937—Elementary flying training of personnel of the Volunteer Reserve.*
- (iii) 1937—Advanced flying training of personnel of the Volunteer Reserve.
- (iv) 1938—Navigational training of regular pilots and observers.
- (v) 1939—Training of Volunteer Reserve aircrew personnel (observers and wireless operators/air gunners).

These rapid developments involved some changes in the arrangements with the contractors. For instance, special arrangements were made for the construction of airfields and buildings at the cost of the Air Ministry in some cases, and the issue on loan of Service equipment (including aircraft) was increased. The introduction of advanced training in 1937 involved the use of Service as distinct from elementary type aircraft.

Period of the war

3. During the war several important changes occurred. For example, some schools were closed for operational reasons and others moved to different sites. Also the aircraft, spares and much equipment were provided wholly from Royal Air Force sources. Maintenance, overhauls and repairs remained the responsibility of the operating companies.

Post-war Period

4. There are at present 16 civil schools engaged on elementary flying training of regular personnel. During 1947, 11 of these will cease to be so engaged and will be re-established for the flying training of reserve pilots, navigators and signallers. The remaining 5 schools will continue for a time to meet current requirements for the Royal Air Force, Naval Aviation and the Army, but will ultimately close down when Service facilities become available for their present tasks. The existing approved programme for reserve flying training provides for a total of 25 schools.

The expedient of using civil schools for regular training, adopted as an expansion measure, is not being continued. It has been accepted as of vital importance that aircrew training of regular personnel, especially the new type national service man, shall be a unified process under close Service control, carried out in one R.A.F. school under the supervision of one staff and integrated with the technical, administrative, combat and disciplinary training that must be phased in step with it. For these reasons the system of starting the regular trainee in a civil school and then switching him to the advanced flying and weapon training that only the Service can give, has been abandoned.

* The R.A.F. Volunteer Reserve was instituted in January, 1937, as a form of reserve for direct entrants as opposed to the reserve of regulars.

Control and Administration

5. From 1923 to 1939 the schools were run by the operating companies entirely. The manager of the school was the chief flying instructor who with the other instructors were all members of the Reserve. The supervision and inspection of the training was one of the responsibilities of the Superintendent of Reserves and his staff, who were a Royal Air Force formation. With the outbreak of war the civil schools came under the control of Flying Training Command and the schools were given a more pronounced Service tone. The instructors were mobilised, and ceased to be servants of the operating companies but for the most part remained with the schools. Serving officers were seconded to the companies to act as Commanding Officers of the schools, in which capacity they were responsible to Flying Training Command for Service and training matters and to their employing company for the civil operation of their schools.

Financial arrangements

6. During the period 1923-1935 when operating companies were providing all facilities, payment was made to them on negotiated terms in the form of an hourly flying rate related to a guaranteed number of hours flying and including profit. Later, when the increasing functions of the schools rendered a guaranteed hours system impracticable, the payment took the form of a fixed annual charge to cover operational expenses and a certain profit, and a flying rate to cover flying costs and a further element of profit.

Competitive tendering became possible from 1937 onwards on this latter basis at fresh airfields not owned or leased by operating contractors. In a minority of cases the method of payment of operational expenses was by refundment of actual expenditure, subject to post audit, the contractor's reward in these cases, in addition to the profit element in the flying rate, being a fixed annual "management" fee. These "fixed price" and "management" forms of contract have continued during and since the war, and will be used for the 25 Reserve flying schools, some of which it will be possible to put out to competitive tendering.

ADVANTAGES OF THE SCHEME

7. The original decision to use civil firms for the training of reservists was taken on several grounds:—

(a) *Economy.* The expenditure of large sums on land, buildings and installations was avoided by the use or development of civilian owned facilities which already existed. As regards running costs there was at least *prima facie* evidence that the schools operated by civil companies were more economical in men and money than Service schools. A direct comparison of costs has not been possible because at no time have civil and Service schools of precisely the same composition and function been in operation. Some investigations were made which definitely supported the assumption that these schools were an economy and this conclusion was confirmed by a check carried out over three air observer Service schools and three most nearly corresponding civil schools by Sir Harold Howitt in 1942.

(b) The schools had a "war potential" value, as indeed amply proved to be the case. The increase in the number of civil schools during the expansion period—

(i) freed a number of Service schools to concentrate on larger intakes for advanced and operational flying training;

(ii) provided an extensive and ready made training organisation in reserve behind the Service.

(c) The schools provided employment for aircraft firms, and so served to assist the aircraft industry in some degree through a difficult period.

(d) The schools were able to provide training facilities in places and at times convenient to the trainees, i.e., at week-ends and in the evenings.

Reservists, in the nature of the case, are only available for training at these times and during their annual holidays. They live all over the country. To reduce travel time to a minimum and so increase the training time, the schools must be

sited near where the reservists live. It would be too heavy a commitment to provide Service schools in the numbers required for this task. The civil school is a flexible organisation readily capable of adjustment to the varying loads which fall upon it. Herein is the justification for the re-establishment of schools of this type for the refresher flying training of the Reserves now and in the future. There is no practical or more businesslike alternative to these arrangements for so widely dispersed an effort. Experience has shown that successful reserve activity depends upon the existence to a certain extent of a club atmosphere at the schools. For this reason there will be some relaxation of the marked Service tone and direct disciplinary control essential during the war.

The staffs at the schools will, therefore, revert to their pre-war status as civilians who are themselves members of the Reserves. The training will be supervised and the schools inspected by the staff of Reserve Command, the Air Officer Commanding-in-Chief of Reserve Command being now the Commander responsible for the administration and training of the Reserves.

The reasons for restricting the use of civil schools to the flying training of reservists and for utilising Service schools for the flying training of regular personnel are briefly indicated in paragraph 4 above.

Air Ministry,
King Charles Street,
Whitehall, S.W.1.

22nd April, 1947.

APPENDIX 4

PAPER forwarded by *Sir Eric Bamford, K.B.E., C.B., C.M.G.*,
on the 27th May, 1947

INCOME TAX POSITION OF BRITISH SUBJECTS EMPLOYED BY INTERNATIONAL ORGANISATIONS

Qs. 234-6

1. The Diplomatic Privileges (Extension) Act, 1944, provided that certain immunities, including tax exemptions, might be conferred by Order in Council on officers of international organisations. Orders have been made with respect to:—

United Nations—S.R. & O. 1945 No. 1539.

U.N.R.R.A.—S.R. & O. 1945 No. 79.

Preparatory Commission of U.N.E.S.C.O.—S.R. & O. 1945 No. 1638.

United Nations Information Organisation, Inter-Governmental Committee for Refugees, and European Advisory Commission—S.R. & O. 1945 No. 84 (revoked as regards E.A.C., which no longer exists).

European Central Inland Transport Organisation—S.R. & O. 1945 No. 1639.

War Crimes Commission—S.R. & O. 1945 No. 1211.

European Coal Organisation—S.R. & O. 1946 No. 895.

2. No tax exemptions are given by any of these Orders to British subjects whose usual place of abode is in the United Kingdom. The income tax liability of such persons, when employed abroad by one of the Organisations, is governed by the ordinary income tax law, as follows:—

3. Where a British subject whose usual place of abode is in the United Kingdom is employed by one of the Organisations and exercises his employment wholly abroad, he is not liable to United Kingdom Income Tax in respect of his remuneration from the Organisation for the period of his service abroad if, for the whole of that period, he is "not resident" in the United Kingdom for tax purposes.

4. If the employee is "resident" in the United Kingdom for tax purposes during the period of service abroad, he is liable to United Kingdom Income Tax in respect of his remuneration from the Organisation on the basis of the amounts paid or received in, or remitted to or brought into, the United Kingdom (including any allotments to his wife and/or dependants in the United Kingdom out of that remuneration).

5. As to what constitutes "residence" for tax purposes:—

(a) An employee who has been ordinarily resident in the United Kingdom is not regarded as ceasing to be resident here if his period of service abroad does not include a complete Income Tax year (ending 5th April).

(b) An employee whose period of service abroad includes a complete Income Tax year is regarded as not resident in the United Kingdom for the full period from the date of departure to the date of return, except for an Income Tax year (or broken parts of the years in which his service abroad begins and ends) in which he becomes resident as set out in sub-paragraph (c) by reason of a visit to this country.

(c) If a place of abode is maintained in this country, he is regarded as resident for any Income Tax year (or broken part of a year) in which he is in this country, for whatever period. If no place of abode is maintained in this country, he is not regarded as resident by reason of a visit or visits unless he is here for an average of three months a year or more or unless he is here in a particular Income Tax year for six months or more.

6. The above is the present position. It should, however, be added that the Diplomatic Privileges (Extension) Act, 1946, gives His Majesty power by Order in Council to confer exemption from United Kingdom Income Tax in respect of emoluments received by certain categories of officials of an international organisation associated with the United Nations, *including* officials who are British subjects and whose usual place of abode is in the United Kingdom. No Order in Council under the Act of 1946 has yet been made, but it is contemplated that such an Order with respect to the United Nations (replacing S.R. & O. No. 1539 of 1945) will be made in the near future.

Treasury Chambers (H.F.12/06).

27th May, 1947.

APPENDIX 5

PAPER forwarded by *Sir Cyril Hurcomb, G.C.B., K.B.E.*,
on the 29th May, 1947

DISPOSAL OF SHIPS

Question 2779.

1. Basic prices were calculated by taking the average actual (building) cost of each class of ship and deducting approximately 25 per cent. therefrom, together with depreciation at 6 per cent. per annum on the reduced value. The basic prices of some of the ships were further reduced because they either—

(i) were built for wartime purposes necessitating the provision of features which made them uneconomical to run in commercial peacetime conditions, or

(ii) needed very extensive alterations, for which the purchaser had to pay, to fit them for commercial use.

2. Excluding secondhand ships and ships for which no basic price was fixed, the relevant round figures for ships sold under the First and Second Invitations to Tender, and by the Brokers' Pool are:—

A. Building costs	...	...	...	...	...	...	...	...	...	£	38,500,000
B. Deductions											
(i) to offset wartime building costs and special features	...	...	...	...	...	...	...	...	£	11,500,000	
(ii) depreciation for age	...	...	...	...	...	...	...	...		3,500,000	
											15,000,000
C. Basic prices	...	...	...	...	...	...	...	...	...	...	23,500,000
D. Realised prices	...	...	...	...	...	...	...	...	...	...	28,000,000

3. It is not possible at this date to separate the cost of the special wartime features or equipment which were either commercially of no, or little, value or even cost the purchaser something to remove, but it will be seen that even if these features, as well as the wartime building costs, are included, about £4½ millions out of £11½ millions was recovered by excess of realised prices over basic prices.

Ministry of Transport.

29th May, 1947.

APPENDIX 6

PAPER handed in by *Sir Archibald Rowlands*, G.C.B., M.B.E., on the 19th June, 1947

MEMORANDUM ON TRADING ACCOUNTS OF CANTEENS AND HOSTELS FOR THE YEAR ENDED 31ST MARCH, 1946

1. Canteens

Profits in relation to turnover were as follows :—

	Sales. Food	Cigarettes and Bar	Total	Surplus or Deficiency
	£	£	£	£
R.O.F.'s	1,067,333	934,487	2,001,820	— 33,520
Outstations	260,586	115,457	376,043	+ 15,296
Headquarter Canteens ...	51,465	6,942	58,407	+ 5,186
Totals	1,379,384	1,056,886	2,436,270	— 13,038

2. Financial Year 1946-47

The preliminary (*unaudited*) results for the year ended 31st March, 1947, on the above basis are as follows :—

	Sales. Food	Cigarettes and Bar	Total	Surplus or Deficiency
	£	£	£	£
R.O.F.'s	470,450	344,600	815,050	+ 38,640
Outstations	268,400	144,400	412,800	+ 10,010
Headquarter Canteens ...	116,314	28,136	144,450	+ 13,050
Totals	855,164	517,136	1,372,300	+ 61,700

3. *Hostels*

Expenditure and receipts for the year ended 31st March, 1946, were as follows :

	Expenditure	Receipts	Losses
R.O.F. Hostels	£ 788,147	£ 488,999	— 199,748
Staff Clubs	38,658	31,649	— 7,009
Small Industrial Hostels ...	51,424	31,403	— 20,021
Totals	878,229	552,051	— 226,778

These figures are subject to audit.

20th June, 1947

APPENDIX 7

PAPER handed in by *Sir Archibald Rowlands*, G.C.B., M.B.E., on the 19th June, 1947STAFF EMPLOYED BY THE MINISTRY OF SUPPLY AT VARIOUS DATES
NON-INDUSTRIAL STAFF*Numbers*

	1st April, 1945		1st April, 1946	1st May, 1947
	M.O.S.	M.A.P.	Combined Ministry	
(a) Headquarters	16,700		19,147	15,736
(b) R.O.F.'s	22,440		8,276	6,248
(c) R. & D. Estabs.	5,046		9,190	8,266
(d) R.M.D. (incl. metals) ...	6,242		319	191
(e) Inspection Depts.	7,258		4,954	4,123
(f) Other outstations	3,065		6,278	6,347
	60,751	21,470		
	82,221		48,164	40,911*

* Falling to 34,000 by 1st April, 1948.

Cost

Actual 1945-46		Probable 1946-47	Estimated 1947-48
M.O.S.	M.A.P.	Combined Ministry	
£21,515,006	£10,065,689		
£31,580,695		£19,000,000	£17,000,000*

* The figure for 1947-48 includes the cost of Service officers which in previous years was subject to waiver.

INDUSTRIAL STAFF

Numbers

	31st March, 1945	31st March, 1946	30th April, 1947
M.O.S.		*	*
(a) Headquarters	101	215	218
(b) Royal Ordnance Factories...	180,686	37,969	33,237
(c) Research and Development	5,284	5,491	9,322
(d) Inspection	45,294	10,709	6,678
(e) Storage and Maintenance...	13,819	17,636	23,382
(f) Miscellaneous	2,045	1,583	1,330
	247,229		
M.A.P.	30,833	Included above	Included above
Grand Total	278,062	73,603	74,167

*These figures represent combined Ministry of Supply and Ministry of Aircraft Production.

Cost

Actual 1945-46		Probable 1946-47	Estimated 1947-1948
M.O.S.	M.A.P.		
£43,837,651	£4,715,481		
£48,553,132		£22,000,000	£20,837,000

20th June, 1947.

APPENDIX 8

PAPER forwarded by *Sir Donald Fergusson, G.C.B.*, on the 8th July, 1947
EUROPEAN COAL ORGANISATION

(With reference to Questions by the Committee on 10th June, 1947—
Question 3478.)

Contributions to the expenditure of the Organisation for the year are fixed by negotiation and agreement between the member countries when the annual budget has been discussed in detail and accepted by them. This method was preferred because no other simple and suitable formula for apportionment could be found. All the obvious statistical bases such as coal production, coal consumption, coal imports, population or national income would have given in practice most inequitable results. Moreover, the method adopted has the merit that applicants for membership are not deterred by the existence of a fixed scale of subscriptions arranged without discussion with the intending member.

Contributions in 1946 were as follows:—

	£	%
United Kingdom	12,120	19.5
U.S.A.	12,120	19.5
France	12,120	19.5
Poland (joined during year) (Part year)	9,110	15.0
Belgium	3,420	5.5
Netherlands	3,420	5.5
Denmark	2,850	4.6
Norway	2,850	4.6
Turkey	2,280	3.6
Luxemburg	1,140	1.8
Greece	570	.9
	62,000	100.0

Under the allocation for 1947 approximately 72 per cent. of the estimated total expenditure will be met in equal shares by the United Kingdom, United States of America, France and Poland (£11,350 each) and the remainder by the other 8 members.

Ministry of Fuel and Power.

APPENDIX 9

PAPER forwarded by *Sir Percivale Liesching, K.C.M.G.*, on the 10th July, 1947

MINISTRY OF FOOD CLAIMS AGAINST THE RAILWAY COMPANIES FOR LOSS OF,
OR DAMAGE TO, FOODSTUFFS IN TRANSIT

Qs. 3453-61.

1. The work of preparing and following up claims for losses and damage in rail transit is costly in manpower and is frequently unremunerative. Arrangements for paying the Railway Companies a flat rate for freight were introduced from 1st October, 1941, with a view to economising in manpower, and during 1942 the increasing volume of rail traffic made it clear that simplified arrangements in connection with claims were necessary.

2. Certain Government Departments at that time were in favour of retaining the existing system of pursuing and settling each claim separately, considering that the incentive for the railways to keep losses as low as possible would be lost if the basis of cash settlement of individual claims was abandoned. The Ministry of Food, however, was of opinion that, provided the railway policing arrangements in respect of actual losses were maintained and strengthened, there was, on balance, no advantage to be gained by insistence on cash settlement of each claim and that the very large saving in manpower which could be effected outweighed the disadvantages of block settlement. There was a large and growing mass of unsettled claims which the Railway Companies, owing to staff difficulties, could not cope with, and the following arrangements were therefore introduced to cover claims for losses and damage after 1st October, 1941:—

(a) Notification of loss is made to the railway dispatching station as soon as a shortage is discovered. No money value is placed on the loss at this stage, since speed in advising the Railway Company of the loss is of prime importance.

(b) Monthly evaluated lists of losses notified to the railways are sent in by the Commodity Divisions of the Ministry to one central point, viz.: Transport Finance Division. There they are collated and passed to the headquarters of each Railway Company, since it is considered that re-

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sponsible officers at railway headquarters should know where losses are occurring. If losses are frequent at any particular railway station, railway headquarters may decide that their policing arrangements require strengthening at that point.

(c) The Enforcement Division of the Ministry receives copies of the monthly lists of railway losses and is in frequent contact with the railway police. Any large loss of food on rail is specially reported and the area Enforcement Officer collaborates with the local railway police in tracing the loss.

(d) The Ministry's monthly list of losses is made up of a large number of trifling items and a limited number of large losses. The latter are followed up separately and delivery is frequently proved by the Railway Companies at a later date. In such cases the Ministry's records are corrected.

(e) Although claims are not pursued individually, the Ministry receives from the Railway Companies, in settlement of its claims, a credit equal to 0.5 per cent. of carriage charges paid by the Ministry. In addition, the Companies hand over to the Ministry without charge all foodstuffs found on the railways without identity of ownership. Prior to the war the railways, having met claims for losses, sold all unidentified goods and retained the proceeds.

3. The basis of settlement negotiated by the Ministry and outlined in paragraph 2 above was approved by the Treasury in a letter dated 26th February, 1943, of which the following is an extract:

"The scheme you have worked out seems to us to be a very good one and we have no hesitation in approving it. We have written to the Ministry of War Transport saying that we should be glad to see similar proposals introduced in other similar cases".

4. In conformity with the Treasury view, the Ministry's commuted railway claims arrangement has been followed by most other Government Departments. It has worked very satisfactorily from the point of view of the Ministry of Food and has the advantage of requiring only a small number of staff to operate it. The saving in manpower to the Railway Companies and to the Departments has been very substantial. One further advantage of a block settlement of this kind is that the claims for each month are settled currently; there is no accumulation of unsettled claims such as results from a system of individual settlement.

5. During the four years to 31st March, 1946, 23.73 million tons of goods have been moved on Ministry of Food account at a flat rate cost of £30.77 millions. The approximate tonnage of goods lost during that period was 12,000 tons, or about 58 tons per week. This comparatively small tonnage (0.53 per cent. of the total moved) cannot be regarded as an abnormal leakage and it is doubtful if much impression would have been made on the total by the employment of large staffs engaged on pursuing individual claims.

6. During the same four year period the total value of *prima facie* claims against the Railway Companies for losses and damage amounted to approximately £1,112,000, of which a substantial proportion would in the normal course have been rejected or reduced by the Railway Companies on the ground of non-liability or frail packaging. In respect of the remainder the Ministry recovered by way of the allowance on freight charges under the block settlement and the proceeds of unidentifiable goods found on rail a total of £282,000 during the period mentioned. The difference between the value of claims recorded and the total of recoveries is absorbed in the accounts of the Ministry's Transport Finance Division.

Ministry of Food.

APPENDIX 10

PAPER forwarded by *Sir Eric Bamford*, K.B.E., C.B., C.M.G., on the
12th July, 1947

CURRENCY TRANSACTIONS IN THE CHANNEL ISLANDS DURING THE
GERMAN OCCUPATION

Memorandum by the Treasury

At the Public Accounts Committee meeting on 20th May, 1947, the Treasury was asked to submit a memorandum about the banking and currency transactions during the German occupation of the Channel Islands.

2. When the Germans invaded the Channel Islands they made Reichsmarks legal tender and required the population to accept them at the official rate of exchange. The Reichsmarks were introduced into the Islands by the Germans, i.e. they were not printed either by the States Governments or by the British Banks.

3. After earlier fluctuations, the rate of exchange was fixed in September, 1942, at 9.36 Reichsmarks to £1 and remained at that rate during the rest of the occupation. The sterling notes and coins previously used were driven out of circulation by the German currency.

4. It was decided on liberation that the Reichsmarks held by the Islanders and the Banks should be withdrawn against sterling at the current rate (of 9.36 to £1). (In Guernsey the rate of 10 Reichsmarks to £1 was used for exchanges of currency made by the Island Government shortly before the arrival of the liberation forces.)

5. The Bank accounts were kept in sterling throughout the occupation. The Banks remained liable to their customers for the sterling equivalent of the Reichsmarks deposited with them. Reichsmarks issued to German troops, being legal tender, passed into circulation in the normal course, and ultimately found their way into bank deposits. The introduction of Reichsmarks into the closed economy of the Islands and the budgetary deficits necessarily incurred by the States Governments resulted in inflation and a substantial increase in the volume of Bank deposits.

6. During the occupation the administration of the Islands was carried out by the States Governments under German direction. The States were forced to borrow from the Banks to meet the cost of requisitioning accommodation, and providing services for the occupying forces, and to cover current budgetary deficits.

7. The indebtedness of the States to the Banks also included the compulsory levies of sterling and Reichsmark notes by the German authorities and the cost of withdrawing Reichsmarks in circulation on liberation against sterling.

8. It will thus be seen that the Banks acquired Reichsmarks by parting with sterling assets or by incurring a sterling liability which had to be met in sterling after liberation.

9. The assets of the Banks on liberation included certain sums held to their credit in German-controlled Bank accounts on the continent. These balances had their counterpart in the books of the Banks in sterling credits to the accounts of the States or the Islanders. It was decided after liberation that recovery of these credits could not be demanded from the French Government or from the French banks, so that these continental assets were valueless to the Banks.

10. The Banks, despite trading losses incurred during the occupation, agreed after liberation—as a contribution towards the general settlement—to waive their claim to interest on advances made to the Island Governments during the period of occupation.

Treasury Chambers.

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APPENDIX II

PAPER forwarded by *Sir Edward Bridges*, G.C.B., G.C.V.O., M.C.,
on the 9th July, 1947

MARINE INSURANCE ON GOVERNMENT CARGOES

Qs. 4457-4459.

1. H.M.G. is interested mainly in commodities of which it is the sole importer and its business is placed on a basis of average rates, whereas the rates charged to the private merchant vary according to the particular voyage covered. It therefore is difficult to make any direct comparison between the rates of premium paid by H.M.G. and those paid by commercial firms.

2. Nevertheless the Treasury is satisfied that the Government secures more favourable terms on its contracts than could be secured by private merchants on the same type of business. The successful placing of insurances demands the fullest possible knowledge of market conditions from day to day and an ability quickly to take advantage of any developments favourable to the insurer. The experts of the War Risks Insurance Office maintain daily contact with the market and have always shown great skill in securing for the Government the minimum possible rates over the very large number of transactions with which they are concerned.

3. It is, of course, open to private merchants to show the same skill in their negotiations with the market, but the private merchant does not benefit from the additional concessions that the War Risks Insurance Office have secured for the Government. The most important of these is that referred to in paragraph 16 of the Fourth Report of the Committee for the Session 1945-46, under which the Government shares any profits earned by the market on Government business in excess of 15 per cent. of premiums paid. Other examples are:—

(i) Government contracts do not contain the normal provision that an additional premium must be paid on shipments by vessels over 25 years of age.

(ii) Government contracts include a provision which, in effect, secures that if private merchants should succeed in placing any substantial contracts at a lower rate than is being paid by the Government for the same risks, the rate charged to the Government comes down to this lower rate forthwith.

16th July, 1947.

APPENDIX 12

PAPER forwarded by *Sir Archibald Rowlands*, G.C.B., M.B.E.,
on the 17th July, 1947.

NOTE ON THE FEES PAID TO THE NORTHERN IRELAND GOVERNMENT AND OTHER DOMINION, ETC., GOVERNMENTS FOR CARRYING OUT DISPOSALS ON BEHALF OF THE MINISTRY OF SUPPLY.

NORTHERN IRELAND

The terms of payment for the services of the Northern Ireland Government, which operates through its departments according to the type of stores, provide for a fee of 10 per cent. of the gross proceeds, subject to such adjustment as may be agreed from time to time in respect of additional work done, and to review in the light of experience and in relation to the cost of the services performed. The terms were approved by the Treasury.

DOMINION AND OTHER GOVERNMENTS

Australia charges 2 per cent. of gross proceeds to cover administrative expenses, plus other actual expenses.

Storage costs are chargeable and a percentage, probably $8\frac{1}{2}$ per cent., will be retained in lieu of customs and import duties.

New Zealand charges 2 per cent. of gross proceeds plus customs duties on surpluses other than of indigenous production (which are likely to be very few, if any at all).

South Africa charges 4 per cent. on gross proceeds, covering administrative expenses and customs duties, with the proviso that exceptional expenses, e.g. on breaking down or otherwise disposing of unsaleable goods, shall be separately considered.

Falkland Islands charges actual expenses plus 1 per cent. of net proceeds for administrative expenses.

<i>West African Colonies</i>	}	all charge actual expenses.
<i>East African Colonies</i>		
<i>Seychelles and Mauritius</i>		

Disposals carried out under the Northern Ireland agency in the eighteen months of its operation to date have produced gross proceeds of £666,000. This represents only a small volume of work, by comparison with the United Kingdom and other main theatres abroad. Moreover, the Northern Ireland Government had only few surpluses of its own to dispose of, comprising little more than civil defence stores, most of which it had cleared before undertaking the disposal of H.M.G. stores. In contrast, the Dominions who have undertaken disposal of H.M.G. stores have dealt, at the same time and through the same disposal organisation, with substantial surpluses of their own, thereby spreading the cost and cheapening their charges to H.M.G.

APPENDIX 13.

PAPER forwarded by the Ministry of Fuel and Power on the 15th July, 1947, together with the covering note.

15th July, 1947.

DEAR CRAWFORD,

I enclose the last memorandum which Sir Donald undertook to send in to the Public Accounts Committee, dealing with the cost of operating the pipeline for the transport of petrol.

A copy of the map showing the position of the pipelines is also attached. I am afraid that we have no facilities in this Ministry for reproducing this map.

Incidentally, in connection with the statement by the Chairman which prompted the discussion on the use of the pipelines, I understand that of the 73 trains he mentioned, 24 were for heavy oils which cannot be carried in the pipeline. Of the remainder only 9 (carrying petrol and kerosene) were for areas served by the pipelines and of these only 4 were for delivery in the immediate vicinity of pipeline terminals.

Yours sincerely,

(Sgd.) L. F. MURPHY,
Private Secretary to
Sir Donald Fergusson.

J. S. CRAWFORD, Esq.,
Clerk to the Committee
of Public Accounts.

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PAPER handed in by *Sir Donald Fergusson, G.C.B.*, on 15th July, 1947

UNITED KINGDOM OIL PIPELINES

Questions 3531-3539

1. The Committee asked for a map of the pipelines and enquired as to the general reasons precluding their use for commercial distribution of oil in peace time and as to the cost of their use compared with other forms of transport.

2. Pipelines are a rapid and cheap form of transportation in countries where continuous bulk movements of oil are required over long distances. Most of Great Britain, however, is within easy reach of sea ports. Accordingly the pre-war distribution system was based on those ports where bulk installations had been constructed which could be fed by ocean tankers. From these points redistribution was mainly over comparatively short distances in comparatively small quantities and directly to customers without the necessity for using large scale inland depots. In these circumstances trunk pipelines offered no advantages over rail, water, or road transport and no such pipelines had been constructed before the war in this country.

3. The present pipelines system was devised and built to meet strategic and other war-time requirements, e.g. :—

(a) To enable motor spirit to be brought to the Eastern side of Britain, via the Western ports as the Eastern ports could not be used.

(b) To link the Mersey and Severn in case the use of either group of ports was prevented by enemy action.

(c) To fuel the bomber offensive which was based on aerodromes in the Eastern Counties.

(d) To reduce the East to West road and rail traffic which would have cut across the main North/South military lines of communication.

4. In furtherance of these objectives the pipelines, as will be seen from the map,*

(i) joined up established importing and distributing centres and

(ii) projected into areas which are not highly industrialised and where peace-time consumption of oil is small.

Continued working of the lines is no longer justified to meet the present needs of the Service Departments and, in existing circumstances, the system has no commercial advantages since installations at the ports can be better served by sea and because approximately the same number of vehicles would still be required to serve industrial areas. Moreover, provision for off-take at intermediate points along the lines would require the construction of additional storage installations.

5. It is estimated that the actual overall cost per ton-mile for delivery of motor spirit by the present methods of transport to all points on or close to the pipeline averages less than ¼d. per ton-mile. The bare operating cost of using the pipeline for these deliveries is estimated to be £30,000 a year in excess of this but the saving in rail transport would be very small since only a small proportion of the petrol carried by the railways goes to points on or near the pipelines.

In addition to the bare operating cost, allowance would have to be made for interest on capital, depreciation, major replacements, management and other overhead expenses if the lines were to be self-supporting. This would bring the full cost of the pipeline to approximately 1d. per ton-mile.

Ministry of Fuel and Power.

* Copy of map was made available for inspection by Members in the Committee and Private Bill Office; but not printed.

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