

1958-59 (76-1, 93-1, 201-1, 248-1) Special report and first, second and third reports from the Committee of Public Accounts together with the proceedings of the committee, minutes of evidence, appendices and index

SPECIAL REPORT 57
AND
FIRST, SECOND AND
THIRD REPORTS
FROM
THE COMMITTEE OF
PUBLIC ACCOUNTS
TOGETHER WITH THE PROCEEDINGS OF THE
COMMITTEE, MINUTES OF EVIDENCE, APPENDICES
AND INDEX

Session 1958-59

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Friday, 7th November, 1958

The Committee of Public Accounts was nominated of Mr. Arbuthnot, Sir George Benson, Mr. Chetwynd, Colonel Crosthwaite-Eyre, Mr. John Hall, Mr. Hannan, Mr. Hoy, Mr. Cledwyn Hughes, Mr. Pentland, Mr. Peyton, Mr. Simon, Mr. Stevens, Mr. Thornton, Sir Colin Thornton-Kemsley and Mr. Turton.

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SPECIAL REPORT

The Committee of Public Accounts have agreed to the following Special Report :—

TREASURY MINUTE AND ABSTRACT OF APPROPRIATION ACCOUNTS

1. Your Committee have been furnished with a copy of the Treasury Minute dated 30th January, 1959, on the First, Second and Third Reports from the Committee of Public Accounts of last Session. This is presented to the House as Appendix I to this Report.

2. Tables setting forth the Comparison of Audited Expenditure with Exchequer Issues and the General Abstract of the Appropriation Accounts for the year 1956-57, which were handed in to Your Committee by the Treasury on 11th December, 1958, are attached as Appendix II.

5th February, 1959.

APPENDIX I

TREASURY MINUTE DATED 30th JANUARY, 1959, ON THE FIRST, SECOND AND THIRD REPORTS FROM THE COMMITTEE OF PUBLIC ACCOUNTS, SESSION 1957-58.

My Lords read the First, Second and Third Reports from the Committee of Public Accounts, Session 1957-58, dealing with the Appropriation and other Accounts for 1956-57 on which they make the following comments:—

FIRST REPORT**Excess Votes****Paragraphs 3 to 10.—Outcome of Navy Votes**

My Lords have noted the recommendation that the Admiralty should re-examine their arrangements for obtaining information about the numbers of men on various types of engagements. They are informed that changes have been made by the Admiralty which will give more up-to-date information and will improve the arrangements for relating it to average rates of pay in the making of financial estimates and forecasts: in addition the method of calculating average rates of pay has been modified with a view to obtaining even greater accuracy.

My Lords have been assured by the Admiralty that when the Supplementary Estimate was asked for the Department had no reason to foresee the delays in progressing research and development projects which took place in the last quarter of 1956-57. They can readily give the Committee an assurance that the Treasury would not countenance requests for money in Supplementary Estimates where there is reason to believe that the expenditure on the relevant projects may not mature, and they are confident that Departments will not seek to inflate the amounts for which they ask by inclusion of items about which there is serious doubt.

My Lords recognise the difficulties with which the Admiralty are faced in forecasting accurately progress and payments on contracts, even in the latter part of the financial year. They are always interested in measures to secure improvements in this field and are awaiting the outcome of an Admiralty study, now in progress, of the several factors that tend to invalidate estimates of Naval production expenditure, with a view to minimising inaccuracies on forecasting.

Following the Committee's recommendation in paragraph 10 of their Report, My Lords are discussing with the Admiralty both that Department's own internal financial controls and the control of Naval expenditure by the Treasury. The scope of these discussions has been enlarged to embrace the references to control of naval expenditure in the Report of the Select Committee on Estimates on Treasury Control of Expenditure. These discussions will also review and take into account the results of special studies which the Admiralty are carrying out in certain fields of expenditure, notably repayment work, control of the rate of expenditure by shipbuilding contractors and financial control inside production branches. Although these discussions and studies have not yet been concluded, My Lords have reason to believe that it will be found possible to secure improvements.

Paragraph 11.—Treasury Power of Virement

My Lords accept the views of the Committee. Existing arrangements provide for the furnishing by the Service Departments to the Treasury of estimates of outturn before decisions have to be taken on the need for presenting Supplementary Estimates.

SECOND REPORT**Virement Between Votes of the Service Departments****Paragraphs 4 to 6.—Works Services**

The form of the note to the Appropriation Account, to which the Committee refers, has been revised to give a clearer statement of the position. The revised form will be adopted for the Accounts for 1957-58 and subsequent years.

The long standing provisions authorised annually in the Appropriation Act which enable the Treasury to approve virement temporarily between the Votes of the Service Departments contain no qualification as to the circumstances in which the Treasury may exercise its powers. In Their Lordships' view there is no fundamental difference between the circumstances which commonly cause variations in the outcome of the Works Votes and those which may cause variations on other Votes (for example, changes in labour and material costs or in the rate of progress on contracts) and they are of the opinion that the exercise of the powers of virement by the Treasury between the Votes of a Service Department should be governed by the same general considerations.

In their minute of 15th December, 1953 on the Second Report from the Public Accounts Committee, 1952-53, Their Lordships agreed with the Committee the procedure for the authorisation during the year of additional new works. Further, under the arrangements described in Their Lordships' minute of 21st January, 1958 on the Third Report from the Public Accounts Committee, 1956-57, the Comptroller and Auditor General on behalf of the Committee has special opportunities for surveillance of such additional items. These measures, which are designed to secure adequate control over the introduction of new works not provided for in Estimates, are carried out whether or not those new services will cause an excess on the Works Vote. My Lords are not persuaded of the desirability of the introduction of an additional control only when a Works Vote is expected to be exceeded, and would stress to the Committee the importance they attach to ensuring that authorisation shall only be given to projects represented to be urgent in the public interest when the criteria agreed with the Committee are satisfied.

My Lords wish to explain, in this connection, that Treasury authority was given for the construction on the grounds of urgency in the public interest of a cookery school because it was represented to, and accepted by, the Treasury that worthwhile economies would result from providing a single efficient school to replace existing out-of-date facilities at two other schools.

Paragraphs 7 to 10.—Votes for Additional Married Quarters

My Lords note the Committee's statement that when they approved the procedure, whereby savings on the ordinary Works Votes could be applied to meet expenditure provided for under the Additional Married Quarters Votes, they did so on the understanding that the amounts involved would

be small, since the Service Departments had no intention and little opportunity of over-estimating their ordinary Works Votes in order to avoid borrowing from the Consolidated Fund. My Lords regret that the Committee appear to have been misled by the statement on which their understanding was evidently based, despite the warning given by the late Comptroller and Auditor General at that time as to the likely magnitude of the sums involved. They wish to assure the Committee that there has been no deliberate over-estimating of Works Votes and that the large surpluses which have sometimes occurred in recent years were due to factors quite unrelated to the programme for approved housing. In this connection, they would point out that if it had been practicable deliberately to over-estimate expenditure on works services so as to provide a surplus to meet the cost of approved housing, it would have been equally practicable and more convenient to provide for them on Votes in the first instance, thus eliminating the need for recourse to the loan financing arrangements.

In view of the misunderstanding My Lords have reviewed the reasons which led them to support the original proposal and which are stated in the paper submitted to the Committee by the Treasury on 14th April, 1951. They consider that these reasons are equally valid whether the amounts are large or small and that the object which they had in mind would not be served if virement were restricted to relatively small amounts. The purpose of the Armed Forces (Housing Loans) Acts was to put the provision of capital for certain types of service housing more on the basis of the financing of housing generally, and thereby avoid the restriction on the service housing programme which had resulted from the previous requirement to finance that programme entirely out of revenue. The use of virement in these circumstances results in the financing of a larger proportion of the housing out of revenue than was contemplated at the time the estimates for the year were prepared, but, as the Acts were not mandatory and did not preclude the financing of such housing out of revenue, this consequence of the use of virement cannot, in Their Lordships' opinion, be regarded as defeating the purpose of the Acts. Moreover, under the procedure which has been agreed, the extra housing financed out of revenue continues to be set against the amount of the loan authorised by the Acts. Virement cannot therefore be so exercised as to secure the financing of a housing programme greater than that contemplated by Parliament.

My Lords are, of course, conscious of the desirability of securing the greatest possible accuracy in estimating the expenditure on Works Services Votes as on other Votes and they hope that, despite the considerable difficulties involved, the estimates for future years will prove more accurate than those of recent years. They nevertheless trust that in the circumstances indicated, the Committee will agree that they should exercise virement in future on the same basis as in the past and that in so doing they will not be defeating the purpose of the Acts.

THIRD REPORT

Death of Sir Frank Tribe, K.C.B., K.B.E.

My Lords wish to associate themselves with the tribute of the Committee to the late Sir Frank Tribe.

Civil Appropriation Accounts**National Health Service****Paragraphs 2 to 7.—Development Scheme at the Radcliffe Infirmary, Oxford**

My Lords share the concern of the Committee that the Board of Governors of the Radcliffe Infirmary should have committed the Ministry of Health to considerable extra expenditure on the building projects at the hospital without prior approval. The exceptional contractual arrangements which were made in order that work should progress quickly made it difficult for the Ministry to exercise control once there had been a departure from the normal procedure.

My Lords have been assured that all future building work at the Radcliffe Infirmary will be undertaken in accordance with the normal procedure for hospital building schemes requiring the approval of the Ministry and, where necessary, the Treasury. The Board will obtain competitive tenders and work will be authorised only when the Ministry of Health is satisfied by examination of the working drawings and bills of quantities that the work proposed is necessary and is designed and will be executed with proper economy. The Ministry will make it a condition of the start and continuance of any further work that quarterly returns of progress are made, and that any proposed variations from or additions to the agreed plans are submitted to them for prior authority.

My Lords understand that the Ministry are informed of all tenders invited for larger hospital building projects and are consulted about any proposed variations from projects which they have approved and about any other factors likely to increase costs. They obtain from hospital boards quarterly returns of their expenditure on building schemes, including individual returns for each of the larger schemes as a means of checking whether their instructions have been complied with.

Their Lordships are unable to concur in the Committee's view that there has been improper use of money voted for the Health Service. Section 12 (3) of the National Health Service Act, 1946, authorises a Board of Governors "to provide for the university with which the hospital is associated such facilities as appear to the Minister to be required for clinical teaching and research". There have been considerable differences of view as to the extent to which the Minister should authorise the provision of facilities under this Section, but the Section gives him complete discretion. At the time when the Radcliffe Infirmary project was started it was a matter for individual Boards of Governors, subject to the Minister's directions, to settle with the university concerned how far it would contribute to the cost of a particular teaching hospital capital scheme. Such a settlement having been made in respect of the Radcliffe Infirmary project, Their Lordships consider that it is undesirable to reopen it. Since that time a formula has been agreed between the departments concerned, the University Grants Committee and the Treasury which seeks to define the extent to which the capital cost of these facilities should be borne respectively by the hospital board and the university. This formula is not a mandatory interpretation of the Act and there was no obligation to apply it retrospectively to teaching hospital projects for which financial approval had already been given. It will however be applied in future cases, which will therefore conform to the recommendation made in paragraph 7 of the Committee's Report.

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Paragraphs 8 to 11.—Remuneration of Chemists

My Lords share the regret of the Committee that it was not possible to make inquiries before 1957 into the prices actually paid by chemists for drugs used in National Health Service dispensing. Since March, 1958, the Ministry of Health and the Department of Health for Scotland have made reductions in Drug Tariff reimbursement rates which are estimated to produce savings to the Exchequer totalling (apart from on-costs) about £380,000 for a full year (about £320,000 in England and Wales and about £60,000 in Scotland). These savings are expected to result from:—

- (a) reductions in the list prices of standard drugs, made as a result of discussions between the Ministry of Health and the Association of British Pharmaceutical Industry and subsequently reflected in the Drug Tariffs;
- (b) increases of the sizes of packs upon which the Drug Tariff reimbursement rates for a number of standard drugs are based; and
- (c) in Scotland, as a further measure, the introduction of revised rates of reimbursement where large packs of proprietary preparations are used.

The introduction of payment on the basis of larger packs for a number of proprietary preparations in Scotland has brought the Scottish system in this respect nearer to the Ministry of Health arrangements.

My Lords agree that, so long as information is lacking concerning the prices actually paid by chemists for drugs used in Health Service dispensing, there can be no assurance that the remuneration paid to chemists is no more than is fair and reasonable.

In order to ensure, for standard drugs, that for chemists as a whole the Drug Tariff prices broadly represent, and continue to represent, the actual cost of the drugs, the Health Departments are at present discussing with the representatives of the chemists proposals for setting further enquiries in train.

With regard to proprietary preparations, My Lords have been informed that it is considered that there are not the same opportunities for chemists to buy at prices below the reimbursement rates as exist in the standard drug field. Nevertheless, further inquiries are to be made, by the Health Departments, of a representative selection of manufacturers and wholesalers about the terms of trade in relation to such preparations. Discussions are also proceeding with the chemists' representatives with a view to extending the system of agreed pack sizes to a further range of proprietary preparations.

My Lords have agreed with the Health Departments that these further inquiries in the fields of standard drugs and proprietary preparations should be carried out as speedily as possible.

Board of Trade

Paragraphs 12 to 16.—Expenses of Bankruptcy and Companies Winding-up Proceedings: Losses on Investment

My Lords note the views of the Committee. Under the Bankruptcy Act, 1914 and the Companies Act, 1948, the moneys deposited with the Board of Trade by trustees and liquidators are repayable in full on demand.

My Lords would stress that, as stated in the Memorandum submitted by the Board of Trade on 9th May, 1958 (Appendix 3 to the Committee's Report), these funds are not at risk and there is therefore no question of "safeguarding" these moneys in the interest of the trustees and liquidators.

My Lords are glad to be able to inform the Committee that the legislation proposed for reorganising the arrangements prescribed by the Economy (Miscellaneous Provisions) Act, 1926, the terms of which are currently being considered, is intended to include provision for the presentation to Parliament of accounts, to be certified by the Comptroller and Auditor General, regarding the receipt and disposition of bankruptcy and companies winding-up funds deposited with the Board, together with details of the investment of those funds.

Ministry of Supply

Paragraphs 17 to 20.—Recovery of Cost of Development, etc., of Military Aircraft and Aero-engines.

My Lords accept the Committee's view that sales of military aircraft etc. to non-Exchequer customers should normally bear their due share of the cost of development. From discussions with the Ministry of Supply however, My Lords are satisfied that, in the case of military aircraft, it is often difficult, if not impossible, owing to the lack of reliable data, to fix a suitable rate of levy at the outset of development. In this connection, My Lords believe that a distinction can justifiably be made between civil and military aircraft, since the former are developed specifically with a view to commercial exploitation, and the prospective rate of recovery has therefore an important bearing on the original decision to use public funds. My Lords have concluded that the practice of the Ministry of Supply of negotiating appropriate rates of levy for particular types of military aircraft at a relatively late stage is the most practical method. They observe that one advantage of this practice is that the Ministry of Supply should at the later stage have acquired considerable knowledge about the actual cost of development and tooling and very probably an indication of the numbers of equipment to be produced.

As regards ad hoc reductions in the rate of levy, My Lords fully concur in the recommendation of the Committee that the Ministry of Supply should be fully satisfied in each case, by examining the relevant documents or otherwise as necessary, that the Contractor concerned had reduced his standard selling price, and that continuance of the recognised rate of levy would result in an unreasonably low profit.

The Treasury and the Ministry of Supply have discussed the bases on which, and the machinery through which, the Ministry determine the rates of levy for military aircraft and any reduction of these rates. While the Treasury will continue to interest themselves in, and to be kept informed of, the manner in which the Ministry of Supply conduct business of this kind, My Lords do not expect Treasury authority to be sought for individual reductions.

The distinction that exists between the methods of determining the levy on civil aircraft and on military aircraft extends, in Their Lordships' view, to notation of the Appropriation Account. It is the intention that reductions in the levy on civil aircraft will be noted. Unlike the predetermined rate for civil aircraft, the levy on individual sales of military aircraft represents the final stage of a negotiation relating to an individual sale. In these circumstances Their Lordships are of the opinion that notation would be inappropriate.

Paragraphs 21 to 23.—Purchase of Britannia Aircraft for Trooping Operations

My Lords note the views of the Committee.

The tenders referred to in the Committee's Report have been received, but the matter is still under consideration. The ultimate ownership of the three Britannia aircraft has not yet been decided.

My Lords, while appreciating the Committee's doubts about the propriety of charging the cost of these aircraft to the Purchasing (Repayment) Services Vote, recall that, in paragraph 57 of their Sixth Report, 1955-56, the Public Accounts Committee agreed that there were circumstances in which it was proper to use this Vote for purchases made in advance of immediate requirements; such purchases must, in the nature of the case, be made before requisitions have been received from another Department or Government. The purchase of the Britannia aircraft was, however, as the Committee recognised, made to meet a stated military requirement, although a requisition had not been placed with the Ministry of Supply owing to the need to postpone a decision on the ultimate ownership of the equipment. The position of Their Lordships on this issue was fully stated in the Treasury Minute of 31st January, 1957, on the Committee's earlier Report, and Their Lordships still adhere to the view that, in certain circumstances, the use of this Vote for purchases in advance of immediate requirements and firm orders is wholly appropriate, on the understanding that no final expenditure will be borne by the Vote. They are glad to reiterate their assurance that such purchases would only be made after the fullest consideration by, and with the approval of, Their Lordships' officers.

Ministry of Agriculture, Fisheries and Food**Paragraphs 24 to 29.—Lime Subsidy (United Kingdom)**

My Lords note the views of the Committee.

They are informed that the Ministers (being the Minister of Agriculture, Fisheries and Food and the Secretaries of State respectively concerned with agriculture in Scotland and in Northern Ireland) propose to appoint an independent chartered accountant to advise whether prices approved for the purposes of the Agricultural Lime Scheme should be varied.

Paragraphs 30 to 33.—Investigation of Egg Packers' Costs

My Lords agree that the cost to the Exchequer could probably have been reduced to some extent if it had been possible for the results of the costing enquiry to have been obtained by the time at which the guarantee price to the Egg Marketing Board for 1957-58 had to be determined.

Paragraphs 34 to 37.—Milk Subsidy : Distributors' Remuneration

My Lords note the views of the Committee.

They regret that the Committee should have felt that a misleading impression of extreme accuracy was given by working out the profit per gallon to one thousandth of a penny. They think that a distinction can be drawn between the working out of the figures for individual experiences, where a high degree of precision is possible and necessary, and the use of these experiences in arriving at an indication of profits of the retail trade as a whole. My Lords are assured that in determining whether or not the target profit has been achieved, only the first place of decimals is used.

My Lords are advised that the retailers costed by the Ministry of Agriculture, Fisheries and Food, though small in number, are distributed between different size groups in numbers roughly proportionate to the total gallonage handled by each group; that these retailers distribute well over one quarter of all milk sold for liquid consumption; and that this proportion is high in comparison with that deemed sufficient in comparable statistical enquiries.

Having regard to the fact that the present system for determining remuneration of milk distributors has been in operation for some eighteen years and that Parliament is now being invited in the Emergency Powers (Repeal) Bill to authorise the continuation for a further five years of statutory price fixing, My Lords are glad to be able to inform the Committee that the Ministry of Agriculture, Fisheries and Food proposes to appoint an independent Committee to advise him on this and any other relevant matters.

Paragraphs 38 to 44.—Financial Arrangements with the Potato Marketing Board

The Minister of Agriculture, Fisheries and Food announced on 30th June, 1958, that the Government have decided to introduce a new guarantee scheme for the 1959 crop which substitutes, for the purchase of surplus potatoes on Government account, arrangements that assure a minimum return for the industry as a whole related to the requirements of potatoes for human consumption. The Minister stated that the Government hoped that the new system, by facilitating the use by the Potato Marketing Board of their statutory powers for regulating the market, would promote a greater measure of stability for the industry. My Lords share this hope and believe that the new arrangements will lead to a reduction in the cost of the guarantee to the Exchequer including the Government contribution for administrative expenses.

Ministry of Transport and Civil Aviation

Paragraphs 45 to 51.—Blackpool (Squires Gate) Aerodrome

My Lords have been informed by the Ministry of Transport and Civil Aviation that the Ministry of Supply consider it unlikely that the factory at Squires Gate can be let to a tenant requiring flying facilities and that the Minister of Transport and Civil Aviation has decided that steps should be taken to divest his Department of responsibility for owning and managing the airport. Discussions have been opened with the interested parties about the implementation of this decision and about future arrangements for traffic hitherto served by the airport. While these discussions are taking place the ownership and management of the airport will remain responsibilities of the Ministry of Transport and Civil Aviation and the Aerodrome Trading Account will bear a note recording any loss arising from these responsibilities.

Paragraphs 52 to 56.—Instrument Landing System Equipment for Civil Aerodromes

My Lords accept that, where new and complicated equipment is concerned, it is undesirable to place production orders before prototypes have been fully tested; and in the civil field they would agree that, save in cases where there were compelling reasons for exceptional treatment, this should not be done. In dealing with defence equipment, whether for strategic or other reasons production may need to begin before development and testing have been completed. Their Lordships must, as was explained in the Treasury Minutes on paragraphs 32 to 38 of the Committee's Third Report of the 1956-57 Session, continue to give due weight to all the relevant considerations.

Department of Scientific and Industrial Research**Paragraphs 57 to 60.—Grants towards Construction of a Radio Telescope**

My Lords note the views of the Committee. They are able to report that instructions designed to ensure close control by both the University and the Government Department concerned in any future case of this kind have been issued.

Ministry of Defence Appropriation Account**Paragraphs 61 to 67.—Hertford British Hospital, Paris**

My Lords note the views of the Committee in paragraph 65, with which they agree. As regards paragraph 67, My Lords understand that the staff of the hospital is being reduced to a limited extent as a result of further civilianisation. Measures of this character will, however, not affect significantly the running costs of the hospital. The Ministry of Defence are therefore carrying out a review of the whole future of the hospital, in consultation with the interested Service Departments and the Treasury. One of the factors under consideration is the claim by the Civilian Committee of Management that they are unable to meet the full daily standard recovery charge of 55s.

Navy Appropriation Account**Paragraphs 68 to 73.—Lease of a Factory**

My Lords have noted the observations of the Committee and concur in their views.

Army Appropriation Account**Paragraphs 74 to 80.—Welbeck College**

Since the report of the Committee was published the War Office have decided to introduce a scholarship scheme on broadly similar lines to the Admiralty and Air Ministry schemes in order to increase the supply of candidates for commissions in all arms, in particular in the non-technical arms for which Welbeck does not provide. The need for both Welbeck College and the scholarship scheme rests primarily on the extent of the Army's total requirements and the inadvisability (emphasised by present recruiting difficulties) of relying on the scholarship scheme alone for the needs of both the technical and the non-technical arms. My Lords accept the recommendation of the Committee that the need for retaining Welbeck College should be kept under review, and they will watch the success of recruiting by the various methods available over the next few years with critical interest.

The War Office are also reviewing the scale of contributions payable by parents of boys at the College.

Paragraphs 81 to 86.—Territorial Army: General Reserve Funds of Associations

My Lords note the comments of the Committee on grants to the Territorial Army Associations. A review of the general level of reserves of the Associations will be carried out when the Territorial Army has settled down at a more stable level, or in any case not later than in 1961. In the meantime grants to Associations with large reserves will be restricted.

Beginning with the Estimates for 1959-60, a note will be inserted in Army Estimates to indicate that the unexpended balances of certain grants to the Territorial Army Associations are not surrenderable to the Exchequer and that the expenditure from the grants is not subject to audit by the Comptroller and Auditor General.

My Lords are of the opinion that the primary purpose of Territorial Army reserve funds is to provide against short-term fluctuations in commitments which arise from year to year, and which cannot be adequately dealt with by a system of annual grants, and they therefore agree that if, despite the restriction of issues of the grants, it appears that Associations still have unexpended balances to invest they should be advised to invest only in short-term securities.

Paragraphs 87 to 88.—Supply of Stores to Central Ordnance Depots

Paragraphs 89 to 94.—Supply of Boots

My Lords note the Committee's remarks about the desirability of extending the practice of having common stockholdings of items of stores used by more than one Service Department. The Defence Administration Committee are studying the possibility of integrated storeholdings for accommodation stores, and will, in the light of the results, consider whether it would be worth while to widen their studies to other items.

Paragraphs 95 to 97.—Parliamentary Control of Works Services

Their Lordships agree that when a Supplementary Estimate for works services is presented, the rule requiring that a Supplementary Estimate should be shown in the same detail as the original Estimate should be applied, even if a reduced Estimate for works services is shown.

Although the provisions for major works, minor works and repairs and maintenance have been shown only as items in Army Vote 8, Subhead A they have nevertheless in practice been treated for virement and accounting purposes as the equivalent of separate subheads. My Lords agree however that provision for these services shall in future be made in separate subheads. The present form of Vote 8, Subhead A is based on the War Office accounting procedures for works services, which are being reviewed generally as part of the reorganisation of the works organisation. There are practical difficulties in the way of introducing this particular change forthwith but the general review should be complete in time to enable the War Office to implement the recommendations of the Committee in the Estimates for 1960-61.

Paragraphs 98 to 101.—Disposal of Property on Abolition of A.A. Command and Reorganisation of the Territorial Army

My Lords note the remarks of the Committee about the need for the early disposal of surplus A.A. Command and Territorial Army properties. They are assured by the War Office that decisions on future requirements are being speeded up and that properties declared redundant are being disposed of as quickly as possible.

Post Office Commercial Accounts

Paragraphs 102 to 103.—Parliamentary Control of Capital Expenditure

My Lords agree that Parliament should be given more information regarding Post Office major works. They are informed that the Postmaster General intends to publish annually, in connection with Estimates, a White Paper

on capital expenditure by the Post Office in the ensuing year. It is proposed to include in the annual White Paper a list of those major building projects of which the estimated total cost is in each case £100,000 or over and which it is proposed to start within the financial year.

My Lords trust that the information in this form will satisfy the needs which the Committee had in mind.

Paragraphs 104 to 106.—Income from Agency Services

The practice of increasing the charges by 1.42 per cent. for Agency Services rendered by the Post Office to other Government Departments and authorities has been reconsidered by the Treasury and the Post Office in accordance with the Committees' recommendation. It is possible to place different interpretations on the relevant provisions embodied in the White Paper of 1955; and the existing practice derives from the view that the Exchequer contribution is an expense properly distributable over all Post Office services. It has, however, been agreed, without prejudice to any future arrangements which may replace those embodied in the White Paper, to adopt the interpretation of these provisions which appears to have commended itself to the Committee. The increase in charges will accordingly cease as from the current year.

Paragraphs 107 to 108.—Management Expenses of Premium Saving Bonds

The practice of adding a profit element of 5 per cent. to the cost of managing the premium savings bonds scheme was, as indicated by the Treasury in evidence to the Committee, a special arrangement which was regarded as justified by special circumstances. Having regard to the Committee's comments the matter has been reviewed and the Post Office have agreed, without prejudice, to discontinue the additional charge as from the current year.

Crown Lands—Crown Estate Abstract Accounts

Paragraphs 109 to 113.—Lease of Houses in Cumberland Terrace, Regent's Park

My Lords note the views of the Committee with which they are in full agreement. They will again draw the attention of all Accounting Officers to the need to obtain firm and binding agreements before commitments are incurred.

APPENDIX II

PAPER handed in by Mr. J. Macpherson, on 11th December, 1958

1956-57

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,
11th December, 1958COMPARISON OF AUDITED EXPENDITURE IN 1956-57 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	824,331,065	5 1	824,331,065	5 1				
NAVY	342,600,000		349,309,975	15 -			6,709,975	15 -
ARMY	498,900,000		491,644,446	2 4	7,255,553	17 8		
AIR SERVICES	471,500,000		470,034,419	8 5	1,465,580	11 7		
MINISTRY OF DEFENCE	16,800,000		16,751,733	18 2	48,266	1 10		
	1,329,800,000		1,327,740,575	3 11	8,769,400	11 1	6,709,975	15 -
CIVIL SERVICES	2,659,349,000		2,653,679,714	9 6	5,669,285	10 6		
REVENUE DEPARTMENTS	359,186,000		356,853,734	15 9	2,332,265	4 3		
TOTAL	5,172,666,065	5 1	5,162,605,089	14 3	16,770,951	5 10	6,709,975	15 -
					6,709,975	15 -		
					10,060,975	10 10		

1956-57

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, 1956-57			Expenditure, 1956-57			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.
Navy	411,510,000	62,670,000	348,840,000	411,100,146	14 11	61,790,170	19 11	349,309,975	15 -
Army	612,725,100	112,725,000	500,000,100	605,796,853	10 4	114,152,407	8 -	491,644,446	2 4
Air Services	617,622,110	140,172,100	477,450,010	595,112,923	1 1	125,078,503	11 8	470,034,419	8 5
Ministry of Defence	18,498,000	648,000	17,850,000	17,399,733	18 2	648,000	- -	16,751,733	18 2
TOTAL, NAVAL MILITARY AND AIR SERVICES AND MINISTRY OF DEFENCE	1,660,355,210	316,215,100	1,344,140,110	1,629,409,657	3 6	301,669,081	19 7	1,327,740,575	3 11
Civil Services:									
Class I	33,863,989	12,035,930	21,828,059	33,486,764	7 5	11,938,681	17 5	21,548,082	10 -
" II	96,096,111	2,158,170	93,937,941	92,818,858	6 2	2,130,880	13 7	90,687,977	12 7
" III	102,489,220	11,390,615	91,098,605	100,517,474	16 4	11,278,139	- -	89,239,335	16 4
" IV	462,935,610	28,073,673	434,861,937	461,872,738	19 2	28,073,621	3 4	433,799,117	15 10
" V	849,302,416	89,289,377	760,013,039	841,086,271	16 11	88,586,511	7 1	752,499,760	9 10
" VI	372,275,117	104,080,693	268,194,424	365,878,922	7 10	102,202,193	13 5	263,676,728	14 5
" VII	92,891,183	16,938,910	75,952,273	91,773,205	5 1	16,918,871	6 7	74,854,333	18 6
" VIII	349,483,781	34,571,735	314,912,046	338,218,862	13 10	29,287,996	10 11	308,930,866	2 11
" IX	177,569,600	15,647,520	161,922,080	171,187,194	3 -	15,535,082	3 7	155,652,111	19 5
" X	491,953,008	26,618,778	465,334,230	489,280,250	10 5	26,488,851	- 9	462,791,399	9 8
TOTAL CIVIL SERVICES	3,028,860,035	340,805,401	2,688,054,634	2,986,120,543	6 2	332,440,828	16 8	2,653,679,714	9 6
Revenue Departments:									
Customs and Excise	16,644,600	828,500	15,816,100	16,487,419	- 1	828,500	- -	15,658,919	- 1
Inland Revenue	40,189,000	275,000	39,914,000	39,815,257	1 3	275,000	- -	39,540,257	1 3
Post Office	327,180,910	22,761,910	304,419,000	324,416,468	14 5	22,761,910	- -	301,654,558	14 5
TOTAL REVENUE DEPARTMENTS	384,014,510	23,865,410	360,149,100	380,719,144	15 9	23,865,410	- -	356,853,734	15 9
TOTAL FOR VOTED SERVICES	5,073,229,755	680,885,911	4,392,343,844	4,996,249,345	5 5	657,975,320	16 3	4,338,274,024	9 2
								54,573,376	8 11
									503,556 18 1

SPECIAL REPORT FROM

	Estimated Expenditure	Actual Expenditure		Less than Estimate		More than Estimate		
	£	£	s. d.	£	s. d.	£	s. d.	
CONSOLIDATED FUND								
National Debt Services—Interest, etc.	670,000,000	710,634,000	10 5	—	—	40,634,000	10 5	
Sinking Funds	37,000,000	36,984,748	14 —	15,251	6 —	—	—	
Excess Profits Tax post-war refunds (part deducted for tax)	1,600,000	599,000	— —	1,001,000	— —	—	—	
Payments to Northern Ireland Exchequer... ..	61,000,000	66,443,850	16 8	—	—	5,443,850	16 8	
Other Consolidated Fund Services	10,000,000	9,669,465	4 —	330,534	16 —	—	—	
TOTAL OF CONSOLIDATED FUND SERVICES	779,600,000	824,331,065	5 1	1,346,786	2 —	46,077,851	7 1	
GRAND TOTAL OF EXPENDITURE	—	5,162,605,089	14 3	—	—	—	—	

The savings on Votes for the year 1956-57 amounted to £54,573,376 8s. 11d. as shown in column 7 and were dealt with as follows:—

	In the Financial Year			
	1957-58	1958-59		
	£	s. d.	£	s. d.
Written off from the Exchequer Grant Accounts out of Ways and Means of 1956-57	27,695,749	13 8	—	—
do. 1957-58	26,867,234	17 5	—	—
Paid to H.M. Exchequer by the Paymaster-General	10,391	17 10	—	—
	54,573,376	8 11	—	—

* An Excess Vote for this amount was agreed to by the House of Commons on 17th March 1958 (*see* H.C. 108 of 1957-58).

† An Excess Vote was agreed to by the House of Commons on 17th March 1958 in respect of National Assistance Board, Class X Vote 5, granting a sum of £10 and sanctioning the application of Surplus Receipts amounting to £33,571 3s. 1d. to meet the balance of the deficit (*see* H.C. 107 of 1957-58).

Industry	1910		1920		1930		1940	
	Number	Value	Number	Value	Number	Value	Number	Value
Manufacturing	1,234,567	\$1,234,567,890	1,345,678	\$1,345,678,901	1,456,789	\$1,456,789,012	1,567,890	\$1,567,890,123
Construction	234,567	\$234,567,890	245,678	\$245,678,901	256,789	\$256,789,012	267,890	\$267,890,123
Transportation	345,678	\$345,678,901	356,789	\$356,789,012	367,890	\$367,890,123	378,901	\$378,901,234
Trade	456,789	\$456,789,012	467,890	\$467,890,123	478,901	\$478,901,234	489,012	\$489,012,345
Services	567,890	\$567,890,123	578,901	\$578,901,234	589,012	\$589,012,345	600,123	\$600,123,456
Government	678,901	\$678,901,234	689,012	\$689,012,345	700,123	\$700,123,456	711,234	\$711,234,567
Unemployed	789,012	\$789,012,345	800,123	\$800,123,456	811,234	\$811,234,567	822,345	\$822,345,678
Total	3,234,567	\$3,234,567,890	3,345,678	\$3,345,678,901	3,456,789	\$3,456,789,012	3,567,890	\$3,567,890,123

FIRST REPORT

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

EXCESS VOTES

Your Committee have to report that during the year ended 31st March, 1958, expenditure in excess of the grants voted by Parliament was incurred as follows:—

Civil Department	Excess of Expenditure over Supply Grant			<i>Less</i> Surplus Receipts for whose application as Appropriations in Aid authority is to be sought			Net amount to be Voted		
	£	s.	d.	£	s.	d.	£	s.	d.
CLASS II Vote 1, Foreign Service ...	147,522	19	3	147,512	19	3	10	—	—
CLASS X Vote 4, National Insurance and Family Allowances	94,853	15	6	600	17	5	94,252	18	1

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

19th February, 1959.

SECOND REPORT

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

VIREMENT BETWEEN VOTES OF SERVICE DEPARTMENTS

Your Committee have reviewed the exercise by the Treasury of their powers under the annual Appropriation Act to sanction provisionally, subject to subsequent confirmation by Parliament, the application of surpluses on any Votes of a Service Department to meet deficits on other Votes of the same Department. They see no reason why Parliament should not sanction the virement temporarily authorised by the Treasury in their Minutes laid before the House in February, 1959.

12th May, 1959.

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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 Report:—

CIVIL APPROPRIATION ACCOUNTS

CLASS I. VOTE 22—MISCELLANEOUS EXPENSES

HISTORY OF PARLIAMENT TRUST (GRANT IN AID)

- Q. 3468-9. 1. The Grant in Aid to the History of Parliament Trust began in 1951-52. A sum of £17,000 a year, including £2,000 a year for costs of publication, was promised for 20 years, i.e. a total of £340,000 from public funds. This was expected to be a sufficient sum to do the whole work from the earliest beginnings of Parliament to the end of the 19th century. Grant paid to 31st March, 1959, was £96,000. No volume has yet been published. The first is expected to appear in 1962.
- Q. 3474. 2. The Treasury informed Your Committee that it is now clear that the Trustees are not going to be able to complete the programme, or anything like it, for £340,000. They have divided the history into 15 periods. Work is at present in hand on five of these periods covering the years 1500 to 1600 and 1715 to 1820. Work is about to start on a sixth section also, covering the period 1377 to 1422, and the original grant has been increased by £20,000 to finance this addition. In the judgment of the Trustees, the completion of these six sections is all that they will be able to do on the grant so far promised. To complete the work would cost, at present prices and expectations, a further £470,000, making the total estimated expenditure on the research work some £830,000, before allowing for the costs of publication.
- Q. 3502-4, and 3474, footnote. 3. Thus, the Trustees will be able to do only about two-fifths of the work for the grant in aid promised in 1951-52. It was explained to Your Committee that this was partly due to increases in costs since then and to the fact that the expectations of unpaid assistance were not realised, but mainly to the fact that until the work was started no one really knew what material there was to be assembled and how much work required to be done.
- Q. 3474, 3510-11. 4. Your Committee were informed that the Trustees had considered whether they should try to do the work in a more sketchy fashion, but had been advised that, from the point of view of scholarship, this would be a complete waste of money. The alternatives were therefore either to abandon the work, which would mean that the sum of about £100,000 already spent would be thrown away; or to go on as they were, uncertain whether Parliament would think fit in ten years' time to provide the funds to complete the work. The Trustees have brought the facts to the attention of the Government. The Treasury informed Your Committee that the Government had come to the conclusion that the only sensible course, and probably the course that would commend

itself, most to Parliamentary opinion, would be to allow the Trustees to proceed as they were. Grants on the scale originally promised will be continued, but the Government are not committed to further grants for the completion of the whole work. Indeed, the Trustees have been warned that it is unlikely that they will get more.

5. The Treasury reported that the Trustees are satisfied that the work is now proceeding at the optimum pace. Accordingly the continuation of grant within the total of £360,000 now promised to the Trustees will provide sufficient funds for the work for several years longer. When the sections now being prepared have been completed, however, the Government and Parliament of the day will have to consider afresh what, if anything, should be done to complete the work.

6. It was suggested in evidence that there is a serious gap in the work of research corresponding roughly with the Stuart period—1600–1715; it was pointed out that if this important period in the history of Parliament were completed, there would be a continuous history from 1500 to 1820 and that to fill this gap would cost a good deal less than it would to complete the whole work.

Q. 3507.

7. This is not a matter on which Your Committee feel it appropriate to make any recommendation; but they think it right that Parliament should be made aware of the changes in the programme and the reduction in the scope of the work that will be done with the £360,000 which public funds are committed to provide. They also think that the attention of Parliament should be drawn to the alternative open to it to abandon the History at the cost of writing off the £100,000 already spent.

CLASS V. VOTES 5 AND 11—NATIONAL HEALTH SERVICES

GENERAL DENTAL SERVICES: INVESTIGATION OF APPARENTLY EXCESSIVE TREATMENT

8. Most courses of dental treatment, the main exception being the provision of dentures, may be given by general dental practitioners under the Health Service without the prior approval of the Dental Estimates Boards, who price and approve all claims for payment. The Boards thus do not become aware of the nature and extent of treatment given until it has been completed and the dentist has claimed payment.

C. & A. G.'s
Civil Report
(Classes I–V),
Paras. 32–5.

9. In England and Wales, but not in Scotland, provision for the investigation of excessive dental treatment was made by Regulation 19 of the National Health Service (Service Committees and Tribunal) Regulations, 1956, which came into force on 1st October, 1956. Under this Regulation the Minister may refer to the Local Dental Committee for consideration any case where it appears to him, after an investigation of a number of the claims submitted by a dentist, that there is a *prima facie* case for considering that he has regularly provided excessive treatment. If, after the prescribed procedure, which includes provision for an appeal and representations by the dentist, it is decided that he has regularly provided excessive treatment, the Minister may direct that the dentist shall for a specified period submit estimates for the

prior approval of the Dental Estimates Board for all treatment he proposes, other than examination or emergency treatment.

10. In May, 1957, the Dental Estimates Board supplied to the Ministry analyses of claims for treatment by 31 dentists which, when compared with national or area average figures, suggested excessive treatment. These analyses showed a high average cost per course of treatment rising for some of the dentists to more than three times the national average. Relatively large numbers of the claims included £15 or more for fillings. For five dentists the proportion of their claims which included charges for radiographs ranged from 71 to 90 per cent. as compared with an area average of 5½ per cent. After careful examination of the particulars of treatment provided by the 31 dentists the Ministry's dental and statistical advisers concluded that the information provided could not in itself be held to constitute *prima facie* evidence of excessive treatment sufficiently strong to warrant reference to the Local Dental Committee under the Regulation. The Ministry have however further investigated five of the 31 cases, and at the time Your Committee took evidence action was being taken under the Regulation on one of them.
- Q. 1729.
- Q. 1724.
- Q. 1723, 1757.
- Q. 1724, 1755.
- Q. 1737-8, 1740.
- Q. 1746-8.
- Q. 1787.
- Q. 1789.
11. Your Committee were informed that the Regulation of 1956 was not introduced in the belief that excessive dental treatment was at all general. The action so far taken was experimental. Wide variations in dental techniques, including new techniques favoured particularly by the younger generation of dentists, were instanced as difficulties in establishing whether treatment by one dentist, even though differing widely from the average in some respect, was in fact excessive. Nevertheless, Your Committee consider that differences from the average so striking as those disclosed by the Dental Estimates Board's analyses cannot be dismissed on general grounds alone. They provide sufficiently strong *prima facie* evidence of excessive treatment to call for inquiries into the type of practice and the techniques used, even if they do not, in themselves, justify reference to the Local Dental Committee under the Regulation. The Ministry have had the Board's figures before them for nearly two years. During that time excessive treatment, if there be any, may have continued unchecked. Your Committee trust therefore that effective implementation of the Regulation will not be hampered by delay in investigation or undue caution in its application.
12. As regards Scotland, it was stated in evidence that the introduction of a similar regulation had been considered but rejected. The Department had always found it extremely difficult to establish excessive treatment from a study of estimates and overall averages. But particular courses of treatment, for which it was possible to establish that more treatment than was necessary had been proposed or given, were referred by the Scottish Dental Estimates Board to the Executive Council for investigation as to whether there had been a breach of the terms of service. Some of these references had led to the imposition of financial penalties. This procedure has also been applied in England and Wales where excessive treatment of particular patients has been established.

13. Both in England and Wales and in Scotland, certain types of treatment require the prior approval of the Dental Estimates Boards. Your Committee appreciate that a large increase in the number of treatments requiring prior approval might lead to delays, but they suggest that control might be strengthened by requiring prior approval to be obtained for all non-urgent courses of treatment which exceed a stated cost limit. Your Committee accordingly recommend that the two Departments should consider this and other means of strengthening control over excessive dental treatment. Q. 1789.

SUPPLEMENTARY OPHTHALMIC SERVICES: REMUNERATION OF OPTICIANS

14. After protracted negotiation the Optical Whitley Council of the National Health Service has recently reached agreement on revised fees to be paid to opticians for sight testing and dispensing under the supplementary ophthalmic services of the Health Service. Previous Committees of Public Accounts have expressed concern at the lack of factual information about the earnings and costs of opticians necessary to judge whether the remuneration afforded by such fees is fair and reasonable. Your Committee have therefore considered whether the information on which the revised fees were based is adequate for this purpose, and whether it affords any indication as to the fairness of the previous fees, which had been in force since 1949.

C. & A. G.'s
Civil Report
(Classes I-V),
Paras 42-7.

15. A questionnaire issued in 1954 to representative opticians sought adequate information on earnings and costs; but the response to it was unsatisfactory, and in 1956 a simpler questionnaire was issued, designed to determine solely the overhead costs of the average optician on sight testing and dispensing. Proceeding from the information obtained by this questionnaire, the Ministry assessed the expenses involved in one sight test and one dispensing, and added a margin for profit. On the basis of these assessments the Management Side of the Whitley Council proposed an increase in the average sight testing fee and a reduction in the average dispensing fee. These proposals would have produced a net saving to the Exchequer estimated at some £250,000 per annum. They were not accepted by the Staff Side; neither was a second offer, made after considering their representations, which would have cost the Exchequer some £250,000 per annum more than the current fees. After Ministers had reviewed the whole matter in the light of further representations by the Staff Side, a third offer, estimated to cost the Exchequer some £450,000 per annum more than the current fees, was accepted by the Staff Side.

16. In their assessment of the proposed fees the Ministry took account of certain factors which are matters of judgment and opinion rather than fact, such as the notional remuneration to be allowed for a working proprietor and the number of sight tests and dispensings that an optician fully occupied on such work might be expected to carry out. It was in this field and in connection with the amounts to be allowed for profit, depreciation and rising costs that differences existed between the two sides of the Whitley Council. The extent of uncertainty on these matters is indicated by the fact that in the course of Q. 1879.

the negotiations concessions estimated to cost the Exchequer some £700,000 per annum in all were made.

Q. 1872. 17. This process of bargaining, in which very substantial sums were conceded by the Exchequer, resulted in a settlement which the Ministry of Health consider very fair. Your Committee appreciate that a certain amount of bargaining is probably inevitable in negotiations of this sort. They nevertheless consider that the fuller information that would have been yielded by the 1954 questionnaire, had it met with an adequate response, would have narrowed the field of argument and would have provided more reliable evidence on which to agree fees fair and reasonable to both sides.

Q. 1876. 18. The new fees average about 5 per cent. more than those in payment since 1949. In calculating them the Ministry made allowance for an increase of approximately 6 per cent. in costs since 1956. The *prima facie* inference to be drawn from the recent settlement therefore is that the former fees were about right in 1956, but may well have been too high in the preceding seven years in view of the general rise in costs during that period. In evidence it was emphasised that any comparison must take account of the turnover, which was much smaller in 1952 than in later years. That may be so, but Your Committee still have considerable doubt whether the fees paid to opticians for some nine years past have provided no more than fair and reasonable remuneration on the standards normally applied to Government work.

Q. 1875, 1879.

19. Another disturbing feature is that the opticians have derived an unintended profit of unknown amount from the payments made to them for lenses and Health Service frames. Such payments are intended to provide only bare reimbursement of cost, and are based on the list prices of ophthalmic prescription houses, but in 1957 the Ministry became aware that opticians were generally receiving a discount of 5 per cent. off those list prices for settlement in one month. The Ministry therefore reduced the reimbursement rates by 5 per cent. from 1st April, 1958, thereby obtaining estimated savings of £130,000 per annum to the Exchequer and £40,000 per annum to patients. The Ministry were aware of this discount in 1948, but not of the extent to which it was actually received. They can give no estimate of the total unintended benefit that has thus accrued to opticians, but there can be no doubt that the total was substantial over the ten year period.

Appendix 6,
Para. 3.

20. The foregoing serves only to emphasise the view expressed by previous Committees of Public Accounts that there must be knowledge of the relevant facts, if Parliament is to be assured that the levels of remuneration in the Health Services are fair and reasonable both to those who provide the services and to the taxpayers. Your Committee see no reason why it should not have been possible to obtain sufficient information about the actual earnings and costs of opticians to dispel any doubts in this respect. They trust that in future no increase of fees will be agreed until the Ministry have been supplied with such information.

CLASS VI. VOTE 1—BOARD OF TRADE

GRANT TO THE EMPIRE COTTON GROWING CORPORATION

21. The Empire Cotton Growing Corporation was incorporated by Royal Charter in 1921 to promote the growing and cultivation of cotton in the Empire, and so increase the field of supply of cotton for the United Kingdom cotton industry. An agreement between the Board of Trade and the Corporation provided for the Corporation to be financed partly by a voluntary levy on the cotton industry, calculated to yield about £100,000 a year, and partly by a Government grant of £978,715. This grant, representing the United Kingdom Government's share of the profits of a cotton control scheme instituted during the 1914–18 war in conjunction with the Egyptian Government, was issued from the Board of Trade Vote for 1921–22. It was to form a capital fund, the investment control of which was vested in the Corporation's Board of Trustees.

C. & A. G.'s
Civil Report
(Classes
VI–X), Paras.
9–11.

22. The agreement between the Board of Trade and the Corporation provided that in certain events the Board might demand repayment of the grant in full, or of such part as had not been previously properly expended by the Corporation. These events included failure by the cotton industry to make the prescribed levy, and a substantial cessation of the objects for which the Corporation was established. In 1923 a compulsory levy was substituted for the voluntary levy, and the Board were advised that, technically, they were entitled to demand repayment. With Treasury agreement they decided, however, not to exercise their right so long as the other conditions of the agreement were fulfilled, and so long as a contribution by way of levy on cotton continued to be paid to the Corporation.

Q. 1212.

23. In 1957 the Colonial Office informed the Treasury that African cotton crops had increased to a point where the objects for which the Board of Trade originally fostered the scheme could be said to have been largely fulfilled. The contribution to the Corporation's funds by the United Kingdom cotton industry was reduced from £32,000 in each of the years 1951–52 to 1955–56 to £15,000 in 1956–57 and to £5,000 in 1957–58. Your Committee accordingly inquired whether consideration had been given to withdrawal of the grant. They were informed that although the object for which the Board of Trade originally fostered the scheme, namely the provision of supplies of cotton for the United Kingdom industry, might be considered to have been fulfilled, the Corporation was still doing valuable work within the terms of its Charter in promoting the growing and cultivation of cotton in Colonial territories. The United Kingdom Government could therefore be said to have a continuing interest in the scheme although, departmentally, the main interest now rested with the Colonial Office rather than with the Board of Trade. The Board stated that it had been intended to review the scheme in 1960, but the date had been advanced, and it was proposed to carry out the review forthwith.

Q. 1210–11,
1222.

Q. 1210–11.

Q. 1231, 1238.

24. Your Committee welcome the intention to review the scheme. They do not wish to offer any opinion on the merits of continuing assistance to cotton growing in Colonial territories, but they consider that any future assistance should be given in a more orthodox manner. The provision of assistance by means of income from a capital grant removes from the normal processes of Parliamentary control what is, in effect, an annual grant in aid. They recommend therefore that the capital grant be withdrawn and that provision for any assistance considered necessary in the future be included annually in departmental Estimates.

CLASS VI. VOTE 10—MINISTRY OF SUPPLY

EMPIRE TEST PILOTS' SCHOOL

C. & A. G.'s
Civil Report
(Classes
VI-X), Paras.
22-6.

25. The Empire Test Pilots' School was established in 1943 to train on the latest types of aircraft pilots capable of undertaking the highest range of experimental and research flying. The cost of running the School was estimated at £700,000 for the 1957 course, which was attended by 28 students. Of these 10 came from Commonwealth and Allied countries and, in accordance with arrangements approved by the Treasury, fees representing the extra cost of training these students, and averaging approximately £10,000 each, were charged. The remainder were trained for Ministry of Supply Experimental Establishments. The cost of their training was estimated to average about £30,000 each.

26. The requirements of the Ministry of Supply are met by R.A.F. or R.N. pilots, who take the course while serving and are then posted for tours of duty with the Ministry's establishments, normally for periods of three years. The number of these pupils is relatively small. It is necessary to train them on a variety of up-to-date aircraft representative of the types in use in the Services. Maintenance and running costs and the provision for depreciation of the aircraft involved are heavy. The cost of training per pupil is therefore high.

Q. 2550.

Q. 2560, 2613.

27. The Ministry thought it possible that with the change in the character of the defence programme their requirements would diminish. They were therefore setting up a working party to look again into the need for the School and into possible economies. Your Committee trust that, in view of the high cost involved, these inquiries will be vigorously pursued. They also suggest that the Treasury and the Ministry should consider whether it remains appropriate that outside students should be accepted for this type of training on terms which provide for repayment of extra costs only.

Q. 2562.

Q. 2564.

Q. 2579.

Q. 2543, 2579

28. Although the School was set up to train test pilots for industry as well as for the Ministry of Supply, only one trainee from industry had been taken in ten years. The Ministry thought that, except to the extent that firms had carried out such training themselves, they had been able to meet their needs from former R.A.F. or R.N. flying personnel who had probably been trained at the School while they were serving.

29. If industry had its pilots trained at the School, the charge, on the extra cost basis, might be £10,000 each compared with the full cost of £30,000. But by drawing on former pupils of the School in the Forces, industry gets the benefit of the School for nothing. Your Committee think it would be reasonable to look to industry for some contribution towards the cost of the School, and they recommend that the possibility of such a contribution should be considered in the review now being undertaken. Q. 2563.

CLASS VI. VOTE 10—MINISTRY OF SUPPLY

CLASS VI. VOTE 11—MINISTRY OF SUPPLY (PURCHASING (REPAYMENT) SERVICES)

CONTROL OF EXPENDITURE ON DEVELOPMENT AND PRODUCTION

30. Your Committee examined four cases where there was evidence of bad estimating and defects in the system of financial control.

Orion Aero-engine

31. Early in 1954 the Ministry of Supply obtained Treasury authority to place a contract for the development of the Orion aero-engine to type test* over the next six years, subject to a contribution by the manufacturer. The cost was estimated at about £6.5 million. In March, 1957, the Ministry reported to the Treasury that the estimated cost had risen to £12.9 million. The cost of the work to be done had been under-estimated, and the need for an additional six engines for the testing programme had been overlooked. This accounted for £3.65 million of the increase. Rising costs due to inflation accounted for a further £2 million. Proposals were considered for further expenditure, conditional upon an increased contribution by the contractor; but after the cancellation of proposals to use the engine in the Britannia aircraft it was decided in January, 1958, that financial support should stop. The final liability of the Ministry is estimated at about £4.5 million. C. & A. G.'s Civil Report (Classes VI-X), Paras. 27-31, Q. 2627. Q. 2658. Q. 2633.

32. Your Committee were informed that the original estimate of £6.5 million was an approximate one made by the Ministry and subsequently confirmed by the contractors. It was not a detailed estimate made by technical costs methods, but was produced by the engineers and scientists responsible for this class of work, and was based on the limited experience available at the time of this class of engine and of the cost of developing an engine of this character. It was related to the development of an engine *per se* rather than as an integral part of a project to develop a particular aircraft. The estimate covered the production of nine engines. It was when the project was extended to test the performance of the engine in the Britannia that the further six were required. In fact it was found that the engine could not be used to advantage in the Britannia, when the theoretical estimates of its performance in that aircraft, made both by the manufacturers and independently by the Ministry of Supply, proved to be incorrect. Q. 2619. Q. 2621. Q. 2620. Q. 2623. Q. 2678.

* Type test for a civil aero-engine is a special test, conducted under the supervision of the Air Registration Board, which must be satisfactorily completed before the aero-engine can be approved for use in a civil aircraft.

33. Your Committee accept that there are difficulties in estimating from the start the cost of any new development. They are disturbed to learn, however, that no warning of the very conjectural nature of the estimate of £6.5 million was given to the Treasury in August, 1953, when authority to undertake the work was requested. They are even more disturbed to find that it was not until towards the end of 1956 that the large increase in the estimated cost of the project came to the notice of the Ministry, and not until March, 1957, that the Treasury were told that the estimate was £12.9 million. Even then the Ministry appear to have expected large sales of the engine, including sales for use in the Britannia. Your Committee accept that the use in the Britannia was not the only use contemplated; but it was clearly an important factor in the project, and it was not until late in 1957 that the calculations on which it was based were found to be incorrect.
- Q. 2627.
- Q. 2659.
- Q. 2657.
- Q. 2635, 2636, 2661.

34. The ending of the project had restricted the Ministry's expenditure to £4.5 million, but this expenditure has been largely nugatory.

Avon RA29 Engine

35. Treasury authority for the development of the Avon RA29 engine was given in July, 1955. The Ministry told the Treasury that the development was necessary in order to get a competitive performance from the strengthened Comet IV aircraft. The cost was estimated at £2.36 million, including the cost of supplying engines for the programme.
- C. & A. G.'s Civil Report (Classes VI-X), Paras. 32-7, Q. 2696.

36. In April, 1956, the Ministry informed the Treasury that the cost had increased for various reasons. In particular it had been found that, owing to structural difficulties, two only instead of four of these engines could be installed in each of the aircraft available for testing, thus delaying development. Later it was also found that the original estimates furnished by the contractors were not sufficiently detailed. Provision had been made for only two years' bench testing because the contractors had found it difficult to foresee all that might be required. In December, 1956, the Treasury were told that as a result of these and other factors the estimated cost had risen to £7.6 million. Under the terms of their development contract with the airframe contractors for the Comet IV the Ministry were committed to providing RA29 engines for embodiment in that aircraft. In November, 1957, with Treasury concurrence they negotiated an agreement with the engine manufacturer to ensure development of the engine to the standards required, subject to limitation of the Ministry's contribution to a maximum of £8.8 million.
- Q. 2702.
- Q. 2719-20.
- Q. 2728-9.
- Q. 2733.
- Q. 2730-1.
- Q. 2730.
37. The Ministry admitted in evidence that the contractors' estimate had been examined by their technical staff who had not detected that it provided for only two years' testing. They had relied at that time on the contractors. It subsequently turned out that when the contractors had put this estimate forward as a full one, they had in mind that the engine might have other applications of a military kind. They thought that part of the development experience could be obtained on the RA24, a somewhat similar engine that was being developed specifically for military purposes. Unfortunately this was not appre-

ciated by the Ministry's technical staff at the time. In the event the development of the RA24 was delayed, and these costs fell on the RA29.

38. The Ministry also explained that it was only at a later date that it came to the attention of the airframe makers, the engine makers and the Ministry that only two instead of four engines could be installed in Comet II aircraft for testing. On detailed examination it was discovered that the structure of the aircraft was not strong enough to carry the big thrust strains put upon it by four engines of the power of the RA29. The Comet II presented the only opportunity for early tests, and the best use had to be made of the available material. Q. 2724-7.

39. It is clear that the contractors' original estimate was not sufficiently detailed. The Ministry admit that it is regrettable that this was not clearly established at the time. Your Committee would have expected the limitations in the estimate to have been brought out on its examination by the Ministry's technical officers. The failure to do so leaves Your Committee in doubt as to the effectiveness of this examination. It should hardly be necessary to stress the need for full and careful examination of any estimates put forward by contractors as a basis for undertaking these expensive development contracts. Your Committee consider that the Ministry should take special steps to ascertain why the examination failed in this case, with a view to preventing such failures in future.

Sea Vixen Aircraft

40. A contract for the supply of a prototype of this aircraft was placed by the Ministry of Supply in December, 1953, after the Treasury had authorised its development within a total estimated cost of £1,325,500. In April, 1955, the Ministry informed the Treasury that the cost of the contract, originally estimated by the contractor at £1,118,000, was now estimated to be £3,092,000. A revised estimate of the cost of research and development on the Sea Vixen has since been approved by the Treasury covering expenditure within a limit of £4.2 million for the main prototype contract and further expenditure on other contracts.

C. & A. G.'s
Civil Report
(Classes
VI-X),
Paras. 38-42.

41. The Ministry stated that this particular aircraft was, in a sense, the first of its kind. It was not just an aircraft but a very complex integrated weapon system, involving great technical problems of design. The original estimates were based upon consultations that took place between the Ministry and the contractor. Both parties had very limited experience of the problems involved in the new concept, and the estimate was based on experience of somewhat simpler types of aircraft. It was only later that the true technical difficulties were fully appreciated. Q. 2769.
Q. 2771.

42. A production order was placed in February, 1955, for three aircraft for development work with the Ministry of Supply Air Fleet and for a number of aircraft for the Admiralty. In June, 1957, the Ministry reported to the Treasury that the estimated cost per aircraft had risen by some 85 per cent., and the latest estimate of cost given

to Your Committee showed an increase over the original estimate of 190 per cent.

Q. 2811. 43. In explanation of these increases the Ministry admitted that the original estimates for the production order were inadequate. They pointed out that the production contract was placed very early in the period of development, and they thought that if it had been possible to delay the order until the development work had been much more firm, a better estimate might have been produced. During the course of production some 250 modifications had to be incorporated as a result of the development work.

Q. 2775. 44. Your Committee were informed that the original estimates for the development and production of this aircraft were genuinely regarded by the officers concerned with the project at the time as reasonable in the light of the knowledge at that time. The Ministry were hoping in any future cases of major development to have time to make in advance a thorough analysis and study of the problems involved. It should then be possible to produce more reliable estimates. Action was also being taken to tighten up the control procedures during production. The Ministry had now developed a technique whereby modifications were looked at by representatives of both the ordering Department and the Ministry of Supply with finance representatives from each, to try and strike a balance between what was essential and what was desirable but not justified by cost. Your Committee welcome this since it seems obvious to them that estimates compiled on an inadequate basis, falsified in the event, can be of little use as an instrument of control.

Q. 2826.

A Radar Scanner

C. & A. G.'s
Civil Report
(Classes
VI-X),
Paras. 43-7.

45. The original estimate for development of a radar scanner, put forward by the only company which had provided an acceptable design, was £44,000. To allow for the absence of previous experience in this field and the consequent lack of any basis of comparison on which to judge the estimate, the Ministry sought Treasury authority for the work at an estimated cost of £60,000. Treasury authority was granted accordingly in 1951. In July, 1953, the requirement for the equipment was amended to incorporate certain new and exacting features, and the estimate of cost was increased to £350,000, to include the supply of four development models and 20 prototypes instead of the three models originally provided for. Further increases to cover a larger number of models were later authorised, and eventually 17 development models and 16 prototypes were provided for at a total cost of £1.9 million, for which Treasury sanction was given in May, 1958.

46. A production order was placed in December, 1953, while the scanner was still under development. Later amendments to the contract considerably reduced the number of equipments on order, and in August, 1956, the major part of the order was cancelled. In March, 1957, the contractor estimated the cost of the remaining equipments on order at over five times the original estimate, excluding the cost

of tools and test equipment. The unit cost including tools and test equipment was later estimated at eight times the original figure.

47. The Ministry admitted that they had an imperfect appreciation of the difficulties of an acceptable design for this scanner. It was a completely new type of apparatus involving processes which had not been applied before in this type of equipment. Neither the firm nor the Ministry's Research Establishment had realised the difficulties of doing this. During the course of the work the possibility of meeting the requirement by other means was considered, but it was thought necessary for this work to proceed despite its very great cost. Q. 2845.

48. Your Committee inquired into the Ministry's arrangements for checking technical progress against the contractor's expenditure. The Ministry explained that the normal practice was for their technical officers to watch development work by periodical visits to the firm and discussion with the firm's personnel. They had done so in this case, and had made representations to the firm in an endeavour to improve performance. Because of pressure of work at that time, however, the supervision had been much more limited in extent than was either normal or desirable. The Ministry stated that they had since taken steps to tighten up their organisation for control. Your Committee trust that these steps will not be limited to technical control, but will extend as well to financial control. Q. 2848.

General

49. Each of the four projects dealt with in the preceding paragraphs was started on an estimate of cost which proved quite inadequate. The Ministry have emphasised the difficulties in estimating the cost of new and highly specialised production, and Your Committee recognise that they may be considerable. The fact remains, however, that the original estimate is the basis on which the Government becomes financially committed. Therefore the difficulties involved in estimating a development project, especially when production does not wait for the completion of development, make it all the more important for the Ministry's system to ensure four things—

- (a) that the original estimates are fully and carefully examined by the Ministry's technical and finance staff;
- (b) that the Treasury are specifically warned when their authority is sought if the estimate of cost is conjectural and may well prove to be too low;
- (c) that a careful and continuous watch is kept on the progress of the work in relation to the expenditure incurred;
- (d) that the cost is frequently and regularly reviewed by the Ministry and any increases promptly reported to the Treasury.

50. The four cases examined by Your Committee show failures under each of these heads. The omission of items of expense from the original estimates for the Orion and RA29 engines was not detected by the Ministry's examination. In none of the cases were the Treasury fully warned that the estimate on which they were asked to approve

the work was conjectural, a particularly important feature of the Sea Vixen and scanner contracts. Large increases in the cost of each project came to the Ministry's notice at so comparatively late a date that Your Committee doubt whether the progress of the work was under continuous technical and financial control. It is admitted throughout that increases were not promptly reported to the Treasury for their specific authority.

51. Your Committee were informed in the course of evidence that action has been, or is being, taken in the light of these cases to strengthen Treasury control. They are glad to know this, but they are not satisfied that this action goes far enough into the Ministry's internal organisation. They accordingly recommend that the Ministry and the Treasury should also review the arrangements for checking firms' original estimates of cost and for the current financial control of expenditure on development and production contracts of this kind.

CLASS VIII. VOTE 2—AGRICULTURAL AND FOOD GRANTS AND SUBSIDIES

CEREALS DEFICIENCY PAYMENTS: CERTIFICATION OF WHEAT OF HIGH MOISTURE CONTENT

C. & A. G.'s
Civil Report
(Classes
VI-X),
Paras. 65-9.

52. The Cereals Deficiency Payments Scheme provides that if the United Kingdom average of "at farm" prices of millable wheat realised by growers falls short of a standard price, payments equal to the deficiency will be made on the quantities of millable wheat sold by the growers and on wheat made millable after sale. The average realised prices are calculated from certificates of sale furnished by authorised merchants appointed by the Departments.

53. Millable wheat is defined in the Scheme as "... wheat which is sweet and in fair merchantable condition . . . and capable of being manufactured into a sound sweet flour fit for human consumption having regard to the customary methods employed in the milling industry for cleaning and conditioning wheat". The Ministry's instructions to authorised merchants explain that "wheat that requires exceptional treatment cannot be regarded as millable wheat; it should (either) be treated before sale . . . in order that it may be made millable, or sold as wheat capable of being converted into millable wheat and dried by an authorised bulk drier operator". In the latter case the Scheme requires that the lower prices obtained for such "potentially millable" wheat shall be excluded from the calculation of the average realised price, and the related deficiency payments are to be made not on the quantity sold but on that quantity less a standard deduction of 4 per cent. to allow for loss of weight by drying and other operations.

54. In 1957, some wheat with a moisture content as high as 24 per cent. was certified as millable, although the prices paid to the growers had been reduced where the degree of moisture exceeded 18 per cent. Prices were sometimes 14s. or less per cwt. as compared with around 17s. 3d. for wheat of 18 per cent. moisture. The merchants justified

their certificates on the ground that moisture content was not specifically mentioned in the Scheme's definition of millable wheat. One firm claimed that the reduction of the excess moisture content was not exceptional treatment which would require the wheat to be certified as only potentially millable, and stated that in the absence of any reference to moisture content, or until the meaning of "exceptional treatment" was clarified, they could only continue to certify such wheat as millable.

55. The result of certifying as "millable" wheat with a high moisture content is that the lower prices paid for it are included in the calculation of the average realised price, and this tends to increase the rate of deficiency payment. Moreover, the growers concerned are paid the subsidy on the full gross weight without deduction of the standard 4 per cent.

56. The Ministry admitted in evidence that the exceptional treatment envisaged in the instructions to merchants undoubtedly referred to wheat of such high moisture content that it had to be dried before it could be turned into flour. No definition of "exceptional treatment" had however been given to merchants because the Ministry did not think it a matter which could be defined by scientific formula. The milling industry did not operate to any specific standard of maximum moisture content for millable wheat; the degree of moisture in grain used for milling varied naturally from year to year and as between one area and another by reason of weather conditions. The Ministry had left it to the merchant to decide from his experience of the trade whether wheat is properly certifiable as millable or not. They had, however, recently issued a circular warning merchants of the importance of the matter.

Q. 3217-19.

Q. 3299-300.

C. & A. G.'s
Civil Report
(Classes
VI-X),
Para. 69.

Q. 3240.

Q. 3228.

Q. 3268,
3294.

57. The Ministry stated that they were fully alive to the need to watch the situation. They had a system of questioning any transaction at a low price indicating that wheat which was not millable might have been certified as millable. These transactions were so few as to leave the Ministry in no doubt that the quantity of wheat that might have been improperly certified as millable must be very small. They were therefore unwilling to change the system unless the remedy was practicable and not too costly.

Q. 3226.

Q. 3230.

58. Your Committee note the assurance that the loss to public funds by certification of over-moist wheat is small and under control, but they would welcome more vigorous action to obtain information on the amount of public money involved. They consider that there are potential dangers of larger losses, and they think it should be possible to improve on the definition so as to give the authorised merchant some guidance in the exercise of his judgment. The Ministry stated in evidence that it would not be feasible to revise the definition of millable wheat in the Cereal Deficiency Payments Scheme so as to include in it a maximum figure of moisture content. Your Committee recommend, however, that the Ministry should at least revise the wording of the definition so that authorised merchants are left in no doubt

that wheat requiring exceptional treatment is wheat with excess moisture content.

59. They trust that the Ministry will continue to keep a close watch on low-price transactions, and will lose no time in applying more drastic remedies if there is any sign of an appreciable increase in the extent of the losses to public funds from faulty certification.

CLASS VIII. VOTE 3—AGRICULTURAL AND FOOD SERVICES

CAPITAL EXPENDITURE AT EXPERIMENTAL CENTRES

C. & A. G.'s
Civil Report
(Classes
VI-X),
Paras. 79-82.

60. In 1945 the Agricultural Improvement Council, an advisory body set up by the Minister, recommended that 17 experimental husbandry farms and seven horticultural stations should be established with the object of testing the results of research work under practical farming conditions. The Council estimated that the capital cost would be in the region of £772,000. At 31st March, 1958, ten farms and six horticultural stations had been established, as well as certain other projects not included in the original estimate. The capital cost was about £2 million of which £219,000 related to the additional projects. Further work planned on the existing centres was estimated to cost an additional £576,000.

Q. 3426. 61. The Ministry explained that the figure of £772,000 given by the Agricultural Improvement Council in 1945, before any sites had been chosen, was not a considered works estimate. It was only a guide to what the order of expenditure for the immediate programme might be. Since 1945 there had been a steep rise in building costs and a great expansion of post-war agricultural research which required many investigations to be undertaken which were not allowed for in the original programme.

Q. 3454. 62. The Ministry agreed, however, with the Treasury that their method of obtaining Treasury authority for much of this expenditure in a piecemeal fashion had not enabled them or the Treasury to see where they were going project by project. Your Committee note that the Treasury and the Ministry are to review these methods in order that the Treasury may be kept in touch with future developments. They trust that this review will be rapid and effective. Your Committee

Q. 3424. take note of the assurance given that no further work will be undertaken without very careful thought to see whether further expansion is essential.

REVENUE DEPARTMENTS APPROPRIATION ACCOUNTS

VOTE 2—INLAND REVENUE

STAMP DUTIES

C. & A. G.'s
Revenue
Report,
Paras. 20-7.

63. The Stamp Act, 1891, requires stamps to the value of the duties imposed by the Act to be impressed or affixed to a large variety of instruments affecting legal and commercial transactions at the time the

instruments are executed or within a short period afterwards.' In certain cases late stamping is permitted under penalty.

64. The general penalty provided by the Act for late stamping is £10, but where the duty is *ad valorem* a further penalty equivalent to the stamp duty is also provided for, and a fine of £10 may also be imposed. It has not been the practice of the Commissioners of Inland Revenue to exact the additional penalty. Fines are rarely inflicted. The penalty for late stamping is generally limited to 10s. or £1. The Inland Revenue Department are, however, reviewing their practice in regard to mitigation of fines and penalties, and are considering whether there is a case for imposing heavier penalties. Q. 114.

65. The Department considered that most stamp duty that ought to be collected is collected. They admitted that some local authorities showed a reluctance to stamp their tenancy agreements. They also had reasons for thinking that nominee shareholdings were sometimes being used to avoid stamp duty, but they considered that the opportunities for avoidance of duty in this way were limited. Q. 121.
Q. 142-5.
Appendix 3.

66. Your Committee note the opinion of the Department that leakage of revenue from stamp duties is small. It appears however from the evidence given to them that the provisions of the Act could be more vigorously enforced. They therefore welcome the Department's proposal to review their practice in regard to fines and penalties. Moreover, Your Committee appreciate that the scope for improvement is limited by the archaic state of the law, and they recommend that the Departmental review should extend to the improvements that would be possible if the law were amended and brought more into line with modern conditions and values. Q. 138.
Q. 150.

VOTE 3—POST OFFICE

FACTORIES DEPARTMENT: REPAIR OF TELEPHONE APPARATUS

67. The repair of Post Office equipment and apparatus is at present carried out at four factories, which together employ a labour force of from 2,500 to 3,000. The major part of the work is on the repair of telephone apparatus, which in 1956-57 represented £4.4 million out of a total of £5.6 million for all repaired equipment. During the war a great deal of construction work was done. Since then it has been Post Office policy not to manufacture in bulk any equipment which contractors would be willing to make. Q. 786, 788.
C. & A. G.'s
Revenue
Report,
Paras. 28-37.
Q. 795.

68. The unused capacity of the factories is about 20 per cent. There is some redundancy of staff, due to the modernisation of repair techniques and to an increase in the quantity of apparatus repaired locally instead of being taken to the factories. Q. 823.

69. From 1955-56 to 1957-58 there was a fall in the number of additional telephone subscribers, and the Post Office found that the level of repair of old telephones and the rate of purchase of new ones were producing large excess stocks. The holding at 31st March, 1958, was in fact 1,555,000 instruments, whereas the stock that the Department Q. 912, 948.
Appendix 4.



Q. 3088. need for working purposes is equal to six months' user, or a little under 400,000. The Post Office gave Your Committee details of a programme for the next five years, designed to reduce the stock to the six months' user level by March, 1963, partly by a provision in the programme for scrapping 1,200,000 telephones.

Q. 849. 70. But Your Committee also learned that the Post Office is deliberately restricting the demand for new and more efficient instruments. A telephone of new design was announced on 14th May, 1958. The new instrument in black is supplied only when the Post Office want to instal it for the sake of its superior electrical performance. The subscriber can have the new instrument in colour, on payment of an extra initial charge. There is a big public demand, and the charge has been fixed above cost to control this demand.

Q. 844. 71. Your Committee think there is a danger that the maintenance of the repair organisation may be treated as an end in itself. The restrictions on the demand for new telephones appear to them to be the danger signal. They recommend that the Post Office should review the present repair programme in the light of the current demand for new instruments, and make sure that all practicable steps are being taken to prevent uneconomical repair work being undertaken. As the factories are at present working below capacity, Your Committee also recommend that the Post Office should further examine the possibility of securing economies by some merging of the existing factories.

NAVY APPROPRIATION ACCOUNT

ADMIRALTY CONTROL OF EXPENDITURE BY DOCKYARDS ON SHIP REFITS

C. & A. G.'s Navy Report, Paras. 15-19. 72. In 1953-54 four minesweepers underwent lengthy refits at Malta and Gibraltar Dockyards at a cost of about £100,000 each. Although at that time Admiralty authority was required for expenditure on this class of vessel in excess of £45,000, the dockyards did not seek authority until the work was well advanced or completed.

73. After short periods of operational service in the Mediterranean the vessels returned to the United Kingdom in December, 1954, to be placed in Reserve. Further refitting was found to be necessary to bring them up to Reserve standards, and towards the end of 1955 three of the four vessels were placed in the hands of contractors for refit. In view, however, of the size of the estimates of cost furnished by the contractors during the course of the work, the ships were removed to H.M. dockyards for completion.

74. The dockyards started work in October, 1956, but did not submit estimates of cost until January, 1957, by which time substantial expenditure had been incurred. These estimates amounted to about £100,000 for each vessel in addition to the expenditure already incurred by the contractors. Revised estimates were submitted for Admiralty approval as the work progressed, but expenditure on two of the vessels exceeded approved estimates by considerable amounts before

the submission of revised estimates. Expenditure on one vessel amounted to £186,000 when the approved estimate was £152,000; expenditure on the other exceeded £150,000 when the approved estimate was £101,500.

75. Your Committee inquired into the failure of dockyards to obtain Admiralty authority before incurring expenditure in excess of delegated powers or approved estimates. They were informed that, although it was simple for dockyards to know from week to week what was being spent in labour and materials on a ship, they were unable to assess accurately the cost of equipments to be built into the ship as part of the refit. The Admiralty admitted that the difficulty of assessing the cost of equipments could excuse only limited excesses over approved estimates, and that in the case of these mine-sweepers the dockyards had failed to carry out instructions. They stated that the dockyards in question had been reminded of their responsibilities and that further instructions had been issued emphasising that approved limits of expenditure must not be exceeded.

Q. 2265-6.

Q. 2267.

Q. 2265-7,
2273.

76. Your Committee are concerned to note that a number of dockyards apparently disregarded instructions designed to enable the Admiralty to exercise control over expenditure on refitting ships, and that action was not taken in time to check the large unauthorised expenditure before it had reached considerable sums. Committees of Public Accounts have frequently emphasised the necessity, in the interests of financial control, for timely notification of prospective excesses over approved estimates. Your Committee regard disciplinary action as important in the event of failure by dockyards to observe instructions.

DELAY IN TERMINATION OF AGREEMENTS

77. In 1947 a joint committee, with Admiralty and Ministry of Supply representation, was set up to co-ordinate the planning for economical production of a vital armament product, and in 1948 arrangements were made to retain reserve production capacity with two firms. Potential requirements were reviewed in 1950 and again in 1955 when, in the light of proposed changes in the composition of the Fleet, those of the Admiralty were substantially reduced.

C. & A. G.'s
Navy Report,
Paras. 23-6.

78. At a meeting of the joint committee in March, 1956, the Ministry of Supply were able to assess their requirements only within wide limits. By November, 1956, the potential requirements of the Admiralty had been further reduced to a figure which could be met by either firm at which capacity was being retained. The Admiralty then proposed to invite the firms to make proposals for meeting the reduced requirements, but before doing so, inquired whether the Ministry of Supply were interested in the capacity of these firms. In April, 1957, the Ministry proposed a joint working party to investigate how total required capacity might be achieved with a minimum of government assistance. In August, 1957, the Admiralty accepted this suggestion, subject to an early meeting of the joint committee being arranged to discuss the terms of reference of the working party. The joint com-

mittee met in October, 1957, and agreed these terms of reference. At this meeting the Admiralty gave notice of intention to terminate the agreements with the two firms for the retention of capacity, and in November, 1957, the firms were given notice of termination effective from the end of 1958. From 1949, apart from the years 1951 to 1953 when a certain amount of the reserve capacity was used, the Admiralty made payments to the two firms for the maintenance of reserve capacity totalling between £130,000 and £160,000 a year.

Q. 2369-75. 79. Your Committee investigated the delay in terminating these agreements, particularly between November, 1956, when it became clear that the reserve capacity was excessive for Admiralty requirements, and November, 1957, when notice of termination was given. During this period the intervals between communications between the Admiralty and the Ministry of Supply appear to have varied from two to five months. They were informed that, within the Admiralty, consideration of this question had been regarded as less urgent than other work and that the Naval Construction Department, the department mainly concerned, had been working under considerable pressure aggravated by shortage of technical staff.

80. Your Committee recognise the difficulty of assessing the relative importance of matters requiring the attention of limited staff. They are, however, disturbed by the apparent absence in this case of a sense of urgency in the termination of agreements involving expenditure of £130,000 to £160,000 a year. They trust that all spending Departments will attend to the importance of early and urgent action when it appears that public money is being spent to no purpose.

REPAYMENT WORK FOR OTHER GOVERNMENTS

C & A. G.'s Navy Report, Paras. 27-9. 81. The Admiralty order a considerable amount of shipbuilding, conversion and repairs on behalf of other Governments. Expenditure on these activities is charged to Navy Votes and recoveries from the Governments concerned are credited to appropriations in aid.

Q. 2411. 82. In evidence before the Committee of Public Accounts of Session 1956-57 the Admiralty stated that, in general, their practice was to obtain advances from customer Governments before incurring expenditure. In his Report on the Navy Services Appropriation Account for 1957-58, however, the Comptroller and Auditor General observed that at 31st March, 1958, expenditure on behalf of certain Governments charged to Navy Votes exceeded by more than £1 million advances from the Governments concerned.

Q. 2412.
Q. 2394,
2412. 83. The Admiralty stated that it was still their aim to obtain advances sufficient to cover expenditure. They attributed their failure to achieve this aim to the inadequacy of their assessment and collection machinery to deal with a greatly increased amount of repayment work of this nature. Up to 1956-57 this work had amounted to less than £10 million a year, but had subsequently increased to approximately £30 million a year. During 1958 the gap between expenditure and advances became much greater than at 31st March, 1958. Having discovered in the early part of the year that the position was getting

Q. 2423.
Q. 2394.

out of hand, the Admiralty decided to set up a special section within the Navy Accounts Directorate in an attempt to deal with the situation.

84. Your Committee inquired whether it was generally accepted policy that advances should be obtained before expenditure was incurred on behalf of other Governments. The Treasury stated that they had considered this question in 1952, and had come to the conclusion that prepayment was the ideal to be pursued. They recognised that there might be difficulties in applying this policy in some circumstances and admitted that the rules evolved in 1952 had related to transactions on a much smaller scale than those now undertaken by the Admiralty, and mainly to the supply of stores and equipment. Nevertheless, they still considered that the prepayment principle was the proper one and that it represented the ideal approach. The Admiralty did not accept this principle without reservations.

Q. 2398,
2417, 2427.

Q. 2428-9.

85. Your Committee trust that the measures taken by the Admiralty to eliminate the defects in the machinery for assessment and collection will prove successful. They support the view of the Treasury that advances should be obtained before expenditure is incurred on repayment work, and consider that any departure from that policy should be specifically authorised by the Treasury.

ARMY APPROPRIATION ACCOUNT

OVER-PROVISIONING OF BRASS TUBING

86. In 1954-55 the War Office purchased large quantities of brass tubing in order to build up the reserve stock. This stock was calculated at the same average issue rate for each of 33 different sizes of tubing, although the peace-time rates of use varied considerably according to the size. The War Office informed the Committee of Public Accounts of Session 1955-56 that the reserve was based on estimated wartime wastage rates which bore no direct relationship to peacetime consumption. A review was being carried out of all sizes in detail to see what the reserve should be, but the War Office had no reason to believe that there had been over-provisioning.

C. & A. G.'s
Army
Report,
Paras. 8 & 9.

87. The Comptroller and Auditor General reported that in May, 1958, some 1,400,000 feet of this brass tubing, estimated value £276,000, was still held in stock, largely as war reserves. He was informed by the War Office that, owing to its ambiguity, the scale of requirements was wrongly interpreted to mean that the length laid down had to be provided for each size, and that, in consequence, considerable over-provision had resulted. The future requirement, if any, for this reserve had not been finally reassessed, but the depot had been informed in July, 1958, that it was to be reduced to 38,544 feet.

88. In evidence before Your Committee, the War Office admitted that it was not clear from the wording of the scale what was intended, and said that the scale had been interpreted foolishly, with the result that over-provisioning to a value of about £250,000 had occurred. The bulk of the surplus tubing had now been sold and there was a loss of 41 per cent. or about £100,000 on sale.

Q. 2096.

Q. 2098.

Q. 2120.

89. Your Committee are disturbed to learn that the over-provisioning only came to light in 1958, some three years after the Comptroller and Auditor General had first raised the question. They consider it regrettable that, although it had been stated within the War Office in December, 1956, that there was no known requirement for brass tubing, no action in regard to the reserve was taken at that time.
- Q. 2097.
- Q. 2111-13.
- Q. 2110.
- C. & A. G.'s
Army
Report,
Para. 20.
Q. 2116.
90. The War Office informed Your Committee that the process of reviewing war reserves is a continuous one, but that difficulties had arisen owing to the changes in the Army. Meanwhile large deficiencies and surpluses on stocktaking continue to be revealed on the Army Appropriation Account. Your Committee note the view of the Treasury, which was shared by the War Office, that an absolute improvement, either in reducing the War Office holding of reserves or in the accuracy of the storekeeping or accounting, cannot be looked for until the reserve policy has been decided and surplus stores disposed of as far as possible.
91. Your Committee, while appreciating that the changes in the Army have complicated the problem of formulating war reserves, and that a large number of items and scales are involved, none the less deplore the lack of a sense of urgency apparent in these disclosures. They trust that early action will be taken to fix the level of reserves and that stocks thrown up as surplus will be disposed of as soon as possible. They hope that this action coupled with the measures already taken by the War Office to ensure greater accuracy in storekeeping and stocktaking at the depots will lead to an appreciable reduction in future in the stocktaking discrepancies recorded in the Army Appropriation Account.
- Q. 2093-5.

PURCHASE OF WIRELESS SETS FOR ROYAL ARMOURED CORPS

- C. & A. G.'s
Army
Report,
Paras. 10-13.
- Q. 2003.
92. The War Office in January, 1954, placed an order through the Ministry of Supply for a substantial number of wireless sets, at an estimated total cost of £219,730. The order was placed to meet an urgent need for a new wireless set for the Royal Armoured Corps, pending production of a more advanced set which was being specially designed for this role. The set ordered was not a standard proprietary set, but the design had been conceived by the manufacturer as a private venture, and had been offered to the War Office to meet what the firm believed to be a forthcoming Army requirement. It was ordered on the basis of trials carried out by the War Office and the Ministry of Supply in 1952-53, subject to certain alterations agreed by the Departments and the manufacturer in June, 1953. Delivery was expected to be completed early in 1955-56.
- Q. 2017.
93. In March, 1954, only two months after the order had been placed, the War Office were warned by the Ministry of Supply that the cost per set had risen by nearly 50 per cent., and that delivery was unlikely to be completed until 1957-58. This information was not, however, communicated to the War Office finance branch until September, 1956, when the Ministry notified a further increase in the estimated

total cost to £459,040, later revised to £455,000. The War Office informed the Treasury of the position in October, 1956. In April, 1957, in reply to Treasury inquiries, the War Office stated that, in their view, the increase in cost had largely been caused by improvements to the set, not of their seeking but in order that it would match up to the claims made for it, and also by the delay in delivery.

94. Your Committee were informed that the Ministry of Supply had, in the past, often made technical alterations to War Office specifications without War Office knowledge and consent. In the present instance co-ordination between the technical branches of the War Office and the Ministry was adequate, but liaison between the finance branches of the two Departments on the question of the financial implications of the alterations was not. The War Office explained that the reason why the War Office finance branch did not become aware of the sharp increase in cost until so long after the event was the failure of the War Office technical branch to pass on the information. The War Office thought that the set would have been ordered in January, 1954, even if it had been known at that time that the cost would be £455,000 and that delivery would not be completed until 1957-58. Nevertheless Your Committee express their concern that liaison arrangements were inadequate to ensure that the War Office finance branch was given an opportunity to review the order in March, 1954, when the warning of increased cost was given. They note that the Ministry of Supply have undertaken that correspondence between their production and finance branches will be copied to War Office finance branches as well as to technical branches. Your Committee were also informed that a thorough inquiry into the whole range of the War Office procurement organisation, including the Department's relationship with the Ministry of Supply, is now being made. They await with interest the outcome of this inquiry, which they trust will result in closer liaison between the two Departments.

Q. 1992.

Q. 1984-8.

Q. 2008-9.

Q. 1991,
2006.

Q. 1996.

Q. 1991.

Q. 2008.

Q. 2009.

95. Your Committee were informed that the set failed to come up to the claims made for it by the manufacturer, and that the improvements incorporated were required in order that it would match up to those claims. There was however no contractual basis for claiming that any part of the increased cost should be borne by the manufacturer. The Ministry of Supply explained that because of the urgency of the War Office requirement the order for the set was placed in some haste before the final specifications were available. The contract, therefore, took the form of an instruction to manufacture the set to the satisfaction of the Ministry, and was not itself related to a firm specification. The absence of a firm specification, the Ministry added, made the contract a weak point for the purpose of negotiating on deficiencies in performance. Your Committee agree, and in view of the financial consequences that may follow departures from sound contract procedure they note the assurance of the Ministry that care will be taken to avoid similar situations in the future.

Q. 1988-9.

Q. 2002,
2022-3.

Q. 2024.

EATON HALL

C. & A. G.'s
Army
Report,
Paras. 14-17.

96. In 1947 the War Office sought Treasury authority for negotiating a 99-year lease of Eaton Hall, near Chester, which they intended to use either as a Boys' Technical School or as an Officer Cadet School. It was stated that there was an urgent requirement to house both these units, but the construction of new accommodation for either would have cost about £750,000, and there was no possibility of undertaking a building project of this size for the Army in 1947. The Hall and its 915 acres of ground, containing 89 huts erected during the 1939-45 war, had been used during the war as a Naval Cadet College, and it was hoped that the proposed lease would in addition defer for a long time the cost of reinstatement. The property was to be rent-free during the lifetime of the then owner, and the rent was not to exceed £2,000 a year thereafter. The cost of adaptation was estimated at £66,000 and maintenance works services at £9,000 a year. Treasury approval was given and the War Office agreed a lease for 99 years from October, 1946, with a break at 50 years. It was a condition of the lease that the Department would remove all temporary buildings by 1961 unless otherwise agreed by the lessor. The War Office decided to use the Hall as an Officer Cadet School.

97. In 1955 the War Office decided that the time had come to replace the majority of the wartime huts by permanent accommodation and to provide the unit with the amenities appropriate to peace conditions. They asked the Treasury to approve, in principle, a project involving expenditure of £800,000 on adaptation of the Hall and construction of barrack blocks to replace temporary buildings. The Treasury, who had understood that the leasing of the Hall was an alternative to such a large expenditure on new construction, were surprised at this request, but they gave their approval after being assured by the War Office that replacement of the temporary buildings was necessitated by their condition as well as by the terms of the lease, and that there would be a military requirement for Eaton Hall whatever might happen about National Service. In November, 1956, the Treasury approved the first phase of the project at an estimated total cost of £396,600, after again being assured that the Hall would be required for officer training, or as a headquarters, even if National Service were ended. In 1957, however, the War Office decided, in view of the pending abolition of National Service, that Eaton Hall would no longer be required for officer cadet training, and it has not been used for any purpose since March, 1958. The capital works approved by the Treasury in 1956 have been held up, except for items costing £31,500 which had to be carried out under the lease or had been started before the decision about National Service was known. Maintenance works services have cost about £21,000 a year over the past eight years, and are estimated by the War Office at about £22,000 a year in the future. In addition, a contribution of nearly £3,000 a year, in lieu of rates, has been paid by the Treasury. The cost of repairing extensive damage caused by

Q. 2129-30.

recently discovered outbreaks of dry rot has been provisionally estimated by the War Office at £15,000 to £20,000.

98. The War Office explained that the main consideration which led them to decide in 1947 that this expensive property would be required for at least 50 years was the expectation that National Service would go on indefinitely. There was also a strong desire not to discriminate between the National Service officer and the Regular officer and to provide, for the National Service officer, cadet accommodation which would ultimately compare with that at Sandhurst. The assurances given to the Treasury in 1955 and 1956 (about the continuing need for the Hall if National Service ended) did not take account of the quantity of more suitable accommodation that in fact became available within the Services after 1957 as a result of the reduction in the numbers of the Armed Forces. The War Office admitted that they had failed to warn the Treasury in 1947 that the huts in the grounds of the Hall would have to be removed after a time, and that it would be necessary to spend large sums on additional premises to replace them. They also admitted that they had seriously under-estimated the cost of the maintenance works services. The Treasury stated that it was difficult to say what their decision would have been had they known that the huts would have to be replaced, and had they known the cost of providing the accommodation necessary for the purpose the War Office had in mind, but they certainly were persuaded at the time that there was a long-term requirement for this type of property.

Q. 2174-5.

Q. 2176.

Q. 2168.

Q. 2152-3.

Q. 2170.

Q. 2178.

99. Your Committee appreciate the difficulties faced by the War Office in 1947 in providing suitable accommodation for the Officer Cadet School, for which there was an urgent need. They are not, however, convinced that the circumstances then obtaining justified the lease of Eaton Hall for so long a period as 50 years, and are therefore especially concerned to find that the Treasury were not made fully aware of all the relevant factors when their authority was sought for the proposal.

100. Your Committee were informed that no decision had yet been taken as to the future use of Eaton Hall, but that it was hoped to reach a decision shortly. Your Committee note that the Hall has not been used since March, 1958; meantime the State is spending £22,000 a year on upkeep for which it gets no value. They therefore think that the War Office should lose no more time in reaching a realistic decision either to put the Hall to economic use or to face the financial liabilities arising on the surrender or disposal of the lease.

Q. 2122-3.

GREENWICH HOSPITAL ACCOUNTS

FORM OF ACCOUNTS

101. Your Committee examined the accounts for 1957-58 of Greenwich Hospital, presented to Parliament in accordance with the provisions of the Greenwich Hospital Act, 1865.

H.C. 127 of 1958-59.

Accounts
pp. 2 & 3.
C. & A. G.'s
Greenwich
Hospital
Report,
Para. 5.

102. The capital held for the benefit of the Hospital consists of land and other property and securities. Since 1954, when the scope for investment was widened, an increasing proportion of the funds has been invested in preference and ordinary stocks and shares. The capital account contains little information about the lands and property held, as these have not been valued in recent years. It records only in broad outline the transactions in, and balances of, investments. Your Committee consider that, particularly in view of the change in investment policy, more detailed information should be presented of purchases, sales and balances of investments and other assets.

Accounts
pp. 4 & 5.

103. The income account for 1957-58 showed that of the expenditure of £315,000, £187,000 related to the Royal Hospital School, Holbrook, £69,000 to pensions and £38,000 to estates and property. The published accounts include a detailed trading and profit and loss account and a balance sheet for the Hospital School Home Farm, which has a turnover of approximately £15,000 a year. They provide; however, no details of the expenditure and receipts of the Royal Hospital School. Your Committee consider that the high proportion of the Hospital's income expended on the School would justify the presentation of that expenditure in the accounts in greater detail.

Accounts
pp. 6 & 7.

104. Your Committee recommend that the Greenwich Hospital authorities should consider, in consultation with the Treasury, the presentation of more informative accounts, with particular regard to the defects to which attention has been drawn.

INDEPENDENT TELEVISION AUTHORITY ACCOUNTS

REPORT AND ACCOUNTS FOR 1957-58

105. The Independent Television Authority was set up under the Television Act, 1954, with the function of providing, for the period of ten years from July, 1954, television broadcasting services in the United Kingdom additional to those of the British Broadcasting Corporation.

106. The main provisions in the Act governing the finances of the system are as follows. Under Section 5 the Authority are required *inter alia* to do all they can to secure adequate competition between a number of programme contractors independent of each other both as to finance and control. Section 10 requires the Authority to earn revenues at least sufficient to meet all sums properly chargeable to revenue account and to make provision for necessary capital expenditure. Section 13 provides that any excess revenue may, if the Postmaster General, with the approval of the Treasury, so directs, be paid into the Exchequer.

107. The Independent Television service is provided by means of contracts between the Authority and the programme companies, under which the companies receive the advertising revenue, provide the programmes, and pay rentals to the Authority for the broadcasting facilities.

108. The rentals embodied in these contracts were not arrived at by competition. At an early stage in their operations the Authority made an estimate of the total income that they would require in order to discharge their statutory functions and leave a reasonable margin. This figure was then translated into rental charges to be paid by the contractors, the distribution between the companies being based on the population in the areas served by each. The rentals so calculated were embodied in contracts which run for the whole period to 1964 without any break clause.

Q. 1077,
1099, 1100,
1152.

109. Substantial losses were made by the programme contractors when Independent Television started. Their losses in the first two years (1955 and 1956) were £10 million. The system became profitable in the following year. By the summer of 1957 the initial losses had been paid off, and by the end of 1958 the accumulated trading profit was of the order of £30 million.

Q. 1074.

Q. 1136-7.

Q. 1071.

110. In 1958 the net income from advertising revenue coming into the system was £40 million. The annual cost of maintaining the transmission and producing the programmes was £20 million or less. Hence the system was making an annual trading profit before tax of over £20 million in 1958 and the indications are that trading profits of the same order will continue in 1959.

Q. 1072.

Q. 1174.

111. It is the deliberate policy of the Authority that their income should not be associated with the profits of the programme contractors. They point out that there is nothing in the Act requiring them to seek from programme contractors terms which would be calculated to provide excess revenue for payment into the Exchequer. The Authority hold that they have met the statutory requirements by fixing a rental for each area at a figure that will cover their costs over their statutory life, and then selecting the company that offers the best television service at that figure. This policy is embodied in the terms of their contracts with the programme contractors which cover the statutory life of the Authority to 1964 without a break. The contracts contain provisions for increasing to a limited extent the rentals originally fixed. These provisions have already been, or are about to be applied; but the increases are relatively small and of little significance in relation to the profits now being made by the programme contractors. In addition, three of the earlier contracts include a letter in which the Authority declared that it was not part of their financial policy to plan for, or to try to build up a significant surplus balance over and above, such expenditure as they felt proper in carrying out their duty under the Act, and stated that if for some reason it proved that in fact a significant surplus was accumulating, they would be willing to enter into discussions with the programme contractors.

Q. 1077.

Q. 1078,
1112, Appen-
dix 5, Para.
6.

Q. 1057,
1060.

Q. 3104,
3126, 3164.

112. It was suggested in evidence to Your Committee that, given the requirements of Section 10 of the Act, the Authority had done well to conclude contracts which gave them financial security at the outset of their operations, when it was very uncertain whether television

Appendix 5,
Para. 5,
Q. 1082.

would be profitable. In support of this contention it was stated that in 1956, when the programme companies then operating were making heavy losses, the Authority was pressed to reduce the rentals but this pressure was resisted and reductions were refused.

Q. 1136-7.

113. Your Committee note, however, that a number of substantial contracts were not let till 1957 and after, by which time there was no doubt about the profitability of the system, and that these later contracts embodied the same rental formula as the earlier contracts.

114. Your Committee recognise that the Television Act does not in terms require the Authority to earn excess revenue, but they regard it as unfortunate that opportunity was not taken for more frequent review of rentals. They also consider that, as experience has shown that programme contractors could undoubtedly afford to pay higher rentals, future contracts should take full account of capacity to pay.

Appendix 5,
Para. 9,
Q. 1150.

115. Your Committee were informed that the Authority have from the beginning taken the view that, in the selection of programme companies, they should pay sole regard to those qualifications that bear upon the relative ability of applicant groups to provide the best possible television programmes, subject to the assurance that the companies are financially secure. The Authority considered that it would be difficult, if not impossible, to reconcile this duty with the selection of programme companies by competitive tender. Your Committee cannot accept the validity of this argument. They consider that in future contracts the rentals, representing the contractors' capacity to pay, should be arrived at by competition, provided that the Authority judge the highest bidder to be of standing and technically and financially competent to provide the service. Your Committee consider furthermore that particular regard should be paid to the requirements of Section 5 of the Act that contractors should be independent of each other.

THE COMPTROLLER AND AUDITOR GENERAL

116. During the present Session of Parliament, Your Committee have had the assistance of the new Comptroller and Auditor General, Sir Edmund Compton, K.B.E., C.B. They wish to record that his assistance has, in accordance with the high traditions of his office, been of the greatest value to them.

9th July, 1959.

PROCEEDINGS OF THE COMMITTEE.

THURSDAY, 20TH NOVEMBER, 1958.

Members present:

Mr. Arbuthnot.
 Sir George Benson.
 Colonel Crosthwaite-Eyre.
 Mr. Hall.
 Mr. Hannan.

Mr. Hoy.
 Mr. Cledwyn Hughes.
 Mr. Pentland.
 Mr. Stevens.
 Sir Colin Thornton-Kemsley.

Sir George Benson was called to the Chair.

The Committee deliberated.

Ordered, That, when 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 Officer of Accounts.

[Adjourned till Thursday, 11th December, at Four o'clock.

THURSDAY, 11TH DECEMBER, 1958.

Members present:

Sir George Benson, in the Chair.

Mr. Arbuthnot.
 Mr. Chetwynd.
 Mr. Hall.
 Mr. Hannan.

Mr. Hoy.
 Mr. Cledwyn Hughes.
 Mr. Stevens.
 Mr. Thornton.

The Committee deliberated.

Letter* from the Treasury on Army Estimates, Vote 4, considered.

Sir Edmund Compton and Mr. W. Armstrong were examined.

Ordered, That the Treasury be informed that the Committee have no objection to the proposals contained in the Letter.

Memorandum† submitted by the Treasury on Superior Authority Certificates considered.

Sir Edmund Compton and Mr. W. Armstrong were further examined.

Ordered, That the Treasury be informed that the Committee have no objection to the proposals contained in the Memorandum.

Revenue Departments Appropriation Accounts, 1957-58; Vote 2, Inland Revenue, considered.

Sir Alexander Johnston and Mr. W. F. B. Smith were examined.

Sir Edmund Compton was further examined.

[Adjourned till Thursday, 5th February, 1959, at Four o'clock.

* See Appendix 1.

† See Appendix 2.

THURSDAY, 5TH FEBRUARY, 1959.

Members present:

Sir George Benson, in the Chair.

Mr. Arbuthnot.
Mr. Chetwynd.
Mr. Hall.
Mr. Hoy.
Mr. Cledwyn Hughes.

Mr. Pentland.
Mr. Peyton.
Mr. Stevens.
Mr. Thornton.
Mr. Thornton-Kemsley.

Draft Special Report, proposed by the Chairman, brought up and read.

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

Paragraph 1 read and agreed to.

Paragraph 2 read, amended, and agreed to.

Appendices agreed to.

Resolved, That the Report, as amended, be the Special Report from the Committee to the House.

Ordered, That the Chairman do make the Report to the House.

Statement of Excesses, 1957-58 (Civil Estimates, Class II, Vote 1, Foreign Service), considered.

Civil Appropriation Accounts, 1957-58; Class II, Vote 1, Foreign Service, and Vote 2, Foreign Office Grants and Services, considered.

Sir Frederick Hoyer Millar, Mr. E. S. Jones and Mr. L. J. Hooper were examined.

Civil Appropriation Accounts, 1957-58; Class II, Vote 9, Development and Welfare (Colonies, &c.), considered.

Sir John Macpherson was examined.

Statement of Excesses, 1957-58 (Civil Appropriation Accounts, Class X, Vote 4, National Insurance and Family Allowances), considered.

Civil Appropriation Accounts, 1957-58; Class X, Vote 4, considered.

Sir Edmund Compton and Mr. J. Macpherson were also examined on all the Accounts considered this day.

[Adjourned till Thursday next, at Four o'clock.

THURSDAY, 12TH FEBRUARY, 1959.

Members present:

Sir George Benson, in the Chair.

Mr. Arbuthnot.
Mr. John Hall.
Mr. Hannan.

Mr. Stevens.
Mr. Thornton.

The Committee deliberated.

Civil Appropriation Accounts, 1957-58; Class V, Vote 5, National Health Service, England and Wales, and Vote 11, National Health Service, Scotland, considered.

Sir John Hawton and Mr. J. Anderson were examined.

Sir Edmund Compton and Mr. J. Macpherson were also examined.

[Adjourned till Thursday next, at Four o'clock.

THURSDAY, 19TH FEBRUARY, 1959.

Members present:

Sir George Benson, in the Chair.

Mr. Arbuthnot.
Mr. Pentland.
Mr. Peyton.

Mr. Stevens.
Sir Colin Thornton-Kemsley.

Draft First Report, proposed by the Chairman, brought up and read.

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

Paragraphs 1 and 2 read and agreed to.

Resolved, That the Report be the First Report of the Committee to the House.

Ordered, That the Chairman do make the Report to the House.

Ministry of Defence Appropriation Account, 1957-58, considered.

Sir Richard Powell was examined.

Sir Edmund Compton and Mr. J. Macpherson were also examined.

[Adjourned till Thursday next, at Four o'clock.

THURSDAY, 26TH FEBRUARY, 1959.

Members present:

Sir George Benson, in the Chair.

Mr. Arbuthnot.
Colonel Crosthwaite-Eyre.
Mr. Hannan.
Mr. Hoy.
Mr. Cledwyn Hughes.

Mr. Pentland.
Mr. Stevens.
Mr. Thornton.
Sir Colin Thornton-Kemsley.

The Committee deliberated.

New Towns Acts, 1946 and 1958; Accounts, 1957-58, considered.

Dame Evelyn Sharp was examined.

Mr. J. Anderson was further examined.

Civil Appropriation Accounts, 1957-58; Class V, Vote 12, Housing, Scotland, considered.

Mr. J. Anderson was further examined.

Sir Edmund Compton was also examined on all the Accounts considered this day.

[Adjourned till Thursday next, at 4 o'clock.

THURSDAY, 5TH MARCH, 1959.

Members present:

Sir George Benson, in the Chair.

Mr. Arbuthnot.
Mr. Chetwynd.
Colonel Crosthwaite-Eyre.
Mr. Hall.
Mr. Hannan.

Mr. Hoy.
Mr. Peyton.
Mr. Stevens.
Mr. Thornton.

The Committee deliberated.

Revenue Departments Appropriation Accounts, 1957-58; Vote 3, Post Office, and Post Office Commercial Accounts, 1957-58, considered.

Sir Gordon Radley and Mr. K. Anderson were examined.

Sir Edmund Compton and Mr. J. Macpherson were also examined.

[Adjourned till Tuesday next, at Four o'clock.

TUESDAY, 10TH MARCH, 1959.

Members present:

Sir George Benson, in the Chair.

Mr. Arbuthnot.
Mr. Chetwynd.
Colonel Crosthwaite-Eyre.
Mr. John Hall.
Mr. Hannan.
Mr. Hoy.

Mr. Cledwyn Hughes.
Mr. Pentland.
Mr. Peyton.
Mr. Stevens.
Mr. Thornton.
Sir Colin Thornton-Kemsley.

Television Act, 1954, Account, 1957-58, considered.

Sir Gordon Radley was further examined.

Independent Television Authority Annual Report and Accounts, 1957-58, considered.

Sir Gordon Radley was further examined.

Sir Robert Fraser was examined.

Sir Edmund Compton and Mr. J. Macpherson were also examined on all the Accounts considered this day.

[Adjourned till Thursday, at Four o'clock.

THURSDAY, 12TH MARCH, 1959.

Members present:

Sir George Benson, in the Chair.

Mr. Chetwynd.
Mr. John Hall.
Mr. Hoy.
Mr. Cledwyn Hughes.

Mr. Stevens.
Mr. Thornton.
Sir Colin Thornton-Kemsley.

Civil Appropriation Accounts, 1957-58, Class VI, Vote 1, Board of Trade, Vote 2, Board of Trade (Assistance to Industry and Trading Services), and Vote 3, Board of Trade (Strategic Reserves), considered.

Sir Frank Lee was examined.

Sir Edmund Compton and Mr. J. Macpherson were also examined.

[Adjourned till Tuesday next, at Four o'clock.

TUESDAY, 17TH MARCH, 1959.

Members present:

Mr. Arbuthnot.	Mr. Cledwyn Hughes.
Mr. Chetwynd.	Mr. Pentland.
Colonel Crosthwaite-Eyre.	Mr. Stevens.
Mr. Hoy.	

In the absence of Sir George Benson, Mr. Hoy was called to the Chair.
Civil Appropriation Accounts, 1957-58 ; Class IX, Vote 5, Ministry of Power, considered.

Sir Dennis Proctor and Mr. E. J. Meadon were examined.

Sir Edmund Compton and Mr. J. Macpherson were also examined.

[Adjourned till Thursday, at Four o'clock.

THURSDAY, 19TH MARCH, 1959.

Members present:

Sir George Benson, in the Chair.

Mr. Arbuthnot.	Mr. Hoy.
Mr. John Hall.	Mr. Stevens.
Mr. Hannan.	Sir Colin Thornton-Kemsley.

The Committee deliberated.

Civil Appropriation Accounts, 1957-58 ; Class IX, Vote 2, Roads, &c., England and Wales, and Vote 4, Civil Aviation, considered.

Sir Gilmour Jenkins was examined.

Sir Edmund Compton and Mr. J. Macpherson were also examined.

[Adjourned till Tuesday next, at Four o'clock.

TUESDAY, 24TH MARCH, 1959.

Members present:

Sir George Benson, in the Chair.

Mr. Arbuthnot.	Mr. Hoy.
Mr. Chetwynd.	Mr. Pentland.
Colonel Crosthwaite-Eyre.	Mr. Peyton.
Mr. John Hall.	Mr. Stevens.
Mr. Hannan.	

The Committee deliberated.

Civil Appropriation Accounts, 1957-58 ; Class V, Vote 5, National Health Service, England and Wales, and Vote 11, National Health Service, Scotland, further considered.

National Health Service Acts, 1946 to 1952, Summarised Accounts of Regional Hospital Boards, &c., for England Wales, 1957-58, and National Health Service (Scotland) Acts, 1947 to 1952, Summarised Accounts of Regional Hospital Boards, &c., for Scotland, 1957-58, considered.

Sir John Hawton was further examined.

Mr. T. D. Haddow was examined.

Sir Edmund Compton and Mr. J. Macpherson were also examined on all the Accounts considered this day.

[Adjourned till Tuesday, 14th April, at Four o'clock.

TUESDAY, 14TH APRIL, 1959.

Members present:

Sir George Benson, in the Chair.

Mr. Arbuthnot.
Mr. Chetwynd.
Mr. Hannan.
Mr. Cledwyn Hughes.
Mr. Pentland.

Mr. Peyton.
Mr. Stevens.
Mr. Thornton.
Sir Colin Thornton-Kemsley.

Army Appropriation Account, 1957-58, considered.

Sir Edward Playfair and Mr. W. Strath were examined.

Sir Edmund Compton and Mr. J. Macpherson were also examined.

[Adjourned till Thursday, at Four o'clock.

THURSDAY, 16TH APRIL, 1959.

Members present:

Sir George Benson, in the Chair.

Mr. Arbuthnot.
Mr. Chetwynd.
Mr. Hoy.

Mr. Stevens.
Mr. Thornton.
Sir Colin Thornton-Kemsley.

Navy Appropriation Account, 1957-58, considered.

Sir John Lang was examined.

Sir Edmund Compton and Mr. J. Macpherson were also examined.

[Adjourned till Tuesday next, at Four o'clock.

TUESDAY, 21ST APRIL, 1959.

Members present:

Sir George Benson, in the Chair.

Mr. Arbuthnot.
Mr. Chetwynd.
Mr. John Hall.
Mr. Hoy.

Mr. Cledwyn Hughes.
Mr. Pentland.
Mr. Stevens.
Sir Colin Thornton-Kemsley.

Navy Appropriation Account, 1957-58, further considered.

Sir John Lang was further examined.

Greenwich Hospital and Travers Foundation Accounts, 1957-58, considered.

Mr. R. Millar was examined.

Sir Edmund Compton and Mr. J. Macpherson were also examined on all the Accounts considered this day.

[Adjourned till Thursday, at Four o'clock.]

THURSDAY, 23RD APRIL, 1959.

Members present:

Sir George Benson, in the Chair.

Mr. Arbuthnot.
Colonel Crosthwaite-Eyre.

Mr. John Hall.
Sir Colin Thornton-Kemsley.

Civil Appropriation Accounts, 1957-58; Class VI, Vote 10, Ministry of Supply, considered.

Mr. W. Strath was further examined.

Sir Edmund Compton and Mr. J. Macpherson were also examined.

[Adjourned till Tuesday next, at Four o'clock.]

TUESDAY, 28TH APRIL, 1959.

Members present:

Sir George Benson, in the Chair.

Mr. Chetwynd.
Colonel Crosthwaite-Eyre.
Mr. Hall.
Mr. Hannan.

Mr. Hoy.
Mr. Cledwyn Hughes.
Sir Colin Thornton-Kemsley.

Civil Appropriation Accounts, 1957-58; Class VI, Vote 10, Ministry of Supply, further considered.

Civil Appropriation Accounts, 1957-58; Class VI, Vote 11, Ministry of Supply (Purchasing (Repayment) Services), considered.

Mr. W. Strath was further examined.

Sir Edmund Compton and Mr. J. Macpherson were also examined on all the Accounts considered this day.

[Adjourned till Thursday, at Four o'clock.]

THURSDAY, 30TH APRIL, 1959.

Members present:

Sir George Benson, in the Chair.

Mr. Arbuthnot.
Mr. John Hall.
Mr. Cledwyn Hughes.

Mr. Peyton.
Mr. Stevens.
Sir Colin Thornton-Kemsley.

Civil Appropriation Accounts, 1957-58 ; Class VI, Vote 10, Ministry of Supply, and Class VI, Vote 11, Ministry of Supply (Purchasing (Repayment) Services), further considered.

Civil Appropriation Accounts, 1957-58 ; Class VI, Vote 12, Royal Ordnance Factories, considered.

Mr. W. Strath was further examined.

Mr. P. J. Curtis was also examined on all the Accounts considered this day.

[Adjourned till Tuesday next, at Four o'clock.

TUESDAY, 5TH MAY, 1959.

Members present:

Sir George Benson, in the Chair.

Mr. Arbuthnot.
Mr. Chetwynd.
Colonel Crosthwaite-Eyre
Mr. John Hall.
Mr. Hoy.

Mr. Cledwyn Hughes
Mr. Pentland.
Mr. Stevens.
Mr. Thornton.
Sir Colin Thornton-Kemsley.

Air Services Appropriation Account, 1957-58, considered.

Sir Maurice Dean was examined.

Revenue Departments Appropriation Accounts, 1957-58 ; Vote 3, Post Office, and Independent Television Authority Report and Accounts, 1957-58, further considered.

Sir Gordon Radley was further examined.

Independent Television Authority Annual Report and Accounts, 1957-58, further considered.

Sir Gordon Radley was further examined.

Sir Robert Fraser was further examined.

Sir Edmund Compton and Mr. J. Macpherson were also examined on all the Accounts considered this day.

[Adjourned till Thursday, at Four o'clock.

THURSDAY, 7TH MAY, 1959.

Members present:

Sir George Benson, in the Chair.

Mr. Arbuthnot.
Mr. Chetwynd.
Mr. Hall.
Mr. Cledwyn Hughes.

Mr. Stevens.
Mr. Thornton.
Sir Colin Thornton-Kemsley.

Civil Appropriation Accounts, 1957-58; Class VIII, Vote 2, Agricultural and Food Grants and Subsidies, considered.

Mr. A. J. D. Winnifrith was examined.

Sir Edmund Compton and Mr. J. Macpherson were also examined.

[Adjourned till Tuesday next, at Four o'clock.

TUESDAY, 12TH MAY, 1959.

Members present:

Mr. Arbuthnot.
Colonel Crosthwaite-Eyre.
Mr. John Hall.
Mr. Hannan.

Mr. Pentland.
Mr. Peyton.
Sir Colin Thornton-Kemsley.

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

Draft Second Report, proposed by Mr. John Hall, brought up and read the first and second time.

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

Ordered, That Mr. John Hall do make the Report to the House.

Sugar Board Accounts, 1956-58; Sugar Board Annual Report and Accounts, October 1956 to June 1958, and Sugar Act, 1956, Account, 1957-58, considered.

Mr. A. J. D. Winnifrith was further examined.

Sir George Dunnett was examined.

Civil Appropriation Accounts, 1957-58; Class VIII, Vote 2, Agricultural and Food Grants and Subsidies, further considered.

Civil Appropriation Accounts, 1957-58; Class VIII, Vote 3, Agricultural and Food Grants and Subsidies considered.

Mr. A. J. D. Winnifrith was further examined.

Sir Edmund Compton and Mr. J. Macpherson were also examined on all the Accounts considered this day.

[Adjourned till Thursday, 4th June, at 4 o'clock.

THURSDAY, 4TH JUNE, 1959.

Members present:

Sir George Benson, in the Chair.

Mr. Arbuthnot.
Mr. Chetwynd.
Mr. Cledwyn Hughes.

Mr. Stevens.
Sir Colin Thornton-Kemsley.

Civil Appropriation Accounts, 1957-58; Class I, Vote 22, Miscellaneous Expenses, and Class IX, Vote 7, Atomic Energy, considered.

Sir Thomas Padmore was examined.

Revenue Departments Appropriation Accounts, 1957-58; Vote 1, Customs and Excise; Civil Appropriation Accounts, 1957-58; Class I, Vote 1, House of Lords, Vote 2, House of Commons, Vote 3, Registration of Electors, Vote 4, Treasury and Subordinate Departments, Vote 5, Privy Council Office, Vote 6, Charity Commission, Vote 7, Civil Service Commission, Vote 8, Exchequer and Audit Department, Vote 9, Friendly Societies Registry, Vote 10, Government Actuary, Vote 11, Government Chemist, Vote 12, Government Hospitality, Vote 13, The Royal Mint, Vote 14, National Debt Office, Vote 15, National Savings Committee, Vote 16, Public Record Office, Vote 17, Public Works Loan Commission, Vote 18, Royal Commissions, &c., Vote 19, Secret Service, Vote 20, Silver, Vote 21, Tithe Redemption Commission, Vote 22A, Repayments to the Civil Contingencies Fund, Vote 23, Scottish Home Department, Vote 24, Scottish Record Office; Class II, Vote 3, British Council, Vote 4, Commonwealth Relations Office, Vote 5, Commonwealth Services, Vote 6, Oversea Settlement, Vote 7, Colonial Office, Vote 8, Colonial Services, Vote 10; Development and Welfare (Federation of Rhodesia and Nyasaland, and South African High Commission Territories), Vote 11, Imperial War Graves Commission; Class III, Vote 1, Home Office, Vote 2, Home Office (Civil Defence Services), Vote 3, Police, England and Wales, Vote 4, Prisons, England and Wales, Vote 5, Child Care, England and Wales, Vote 6, Fire Services, England and Wales, Vote 7, Carlisle State Management District, Vote 8, Supreme Court of Judicature, &c., Vote 9, County Courts, Vote 10, Legal Aid Fund, Vote 11, Land Registry, Vote 12, Public Trustee, Vote 13, Law Charges, Vote 14, Miscellaneous Legal Expenses, Vote 15, Scottish Home Department (Civil Defence Services), Vote 16, Police, Scotland, Vote 17, Prisons, Scotland, Vote 18, Approved Schools, Scotland, Vote 19, Fire Services, Scotland, Vote 20, State Management Districts, Scotland, Vote 21, Law Charges and Courts of Law, Scotland, Vote 22, Department of the Registers of Scotland, Vote 23, Supreme Court of Judicature, &c., Northern Ireland, Vote 24, Irish Land Purchase Services; Class IV, Vote 1, Ministry of Education, 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, Tate Gallery, Vote 8, National Maritime Museum, Vote 9, National Portrait Gallery, Vote 10, Wallace Collection, Vote 11, Grants for Science and the Arts, Vote 12, Universities and Colleges, &c., Great Britain, Vote 13, Broadcasting, Vote 14, Public Education, Scotland, Vote 15, National Galleries, Scotland, Vote 16, National Museum of Antiquities of Scotland, Vote 17, National Library, Scotland; Class V, Vote 1, Ministry of Housing and Local Government, Vote 2, Housing, England and Wales, Vote 3, Exchequer Grants to Local Revenues, England and Wales, Vote 4, Ministry of Health, Vote 6, Medical Research Council, Vote 7, Registrar General's Office, Vote 8, Central Land Board, Vote 9, War Damage Commission, Vote 10, Department of Health for Scotland, Vote 13, Exchequer Grants to Local Revenues, Scotland, Vote 14, Registrar General's Office, Scotland; Class VI, Vote 4, Services in Development Areas, Vote 5, Financial Assistance in Development Areas, Vote 6, Export Credits, Vote 7, Export Credits (Special Guarantees), Vote 8, Registration of Restrictive Trading Agreements, Vote 9, Ministry of Labour and National Service; Class VII, Vote 1, Ministry of Works, Vote 2,

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Sir Edmund Compton and Mr. J. Macpherson were also examined on all the Accounts considered this day.

[Adjourned till Thursday, 9th July, at Four o'clock.]

THURSDAY, 9TH JULY, 1959

Members present:

Sir George Benson, in the Chair.

Mr. Arbuthnot.
Colonel Crosshwaite-Eyre.
Mr. John Hall.
Mr. Hoy.

Mr. Stevens.
Mr. Thornton.
Sir Colin Thornton-Kemsley.

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

Ordered, That the said Report be read a second time, paragraph by paragraph.

Paragraph 1 read and agreed to.

Paragraph 2 read, amended and agreed to.

Paragraphs 3 to 5 read and agreed to.

A paragraph brought up, read the first and second time, and inserted.

Paragraph 6 read, amended and agreed to.

Paragraph 7, read and agreed to.

Paragraph 8 read, amended and agreed to.

Paragraph 9 read and agreed to.

Paragraph 10 read, amended and agreed to.

Paragraph 11 read and agreed to.

Paragraph 12 read, amended and agreed to.

Paragraphs 13 to 29 read and agreed to.

Paragraphs 30 and 31 read, amended and agreed to.

Paragraphs 32 to 34 read and agreed to.

Paragraph 35 read, amended and agreed to.

Paragraphs 36 and 37 read and agreed to.

Paragraph 38 read, amended and agreed to.

Paragraphs 39 to 42 read and agreed to.

Paragraph 43 read, amended and agreed to.

Paragraphs 44 to 47 read and agreed to.

Paragraph 48 read, amended and agreed to.

Paragraphs 49 to 56 read and agreed to.

Paragraph 57 read, amended and agreed to.

Paragraphs 58 to 60 read and agreed to.

Paragraph 61 read, amended and agreed to.

Paragraphs 62 to 74 read and agreed to.

Paragraph 75 read, amended and agreed to.

Paragraphs 76 to 80 read and agreed to.

Paragraph 81 read, amended and agreed to.

Paragraphs 82 to 89 read and agreed to.

Paragraph 90 read, amended and agreed to.

Paragraphs 91 and 92 read and agreed to.

Paragraph 93 read, amended and agreed to.

Paragraphs 94 to 97 read, amended and agreed to.

Paragraph 98 read and agreed to.

Paragraph 99 read, amended and agreed to.

Paragraph 100 read and agreed to.

Paragraph 101 read, amended and agreed to.

Paragraphs 102 to 108 read and agreed to.

Paragraph 109 read, amended and agreed to.

Paragraphs 110 to 112 read and agreed to.

Paragraphs 113 and 114 read and disagreed to.

Another paragraph brought up, read the first and second time, amended, and inserted.

Another paragraph brought up, read the first and second time, amended, and inserted.

Paragraph 115 read and agreed to.

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

Ordered, That the Chairman do make the Report to the House.

Ordered, That the following Papers be appended to the Minutes of Evidence taken before the Committee:—

Letter from the Treasury on Army Estimates: Vote 4.

Memorandum from the Treasury on Superior Authority Certificates.

Memorandum from the Board of Inland Revenue on Stamp Duty—Avoidance by nominee holdings.

Memorandum from the Post Office on Telephones—Black and Coloured.

Memorandum from the Independent Television Authority on the Contracts between the Independent Television Authority and the Programme Companies.

Memorandum from the Ministry of Health on Payment for Lenses and Frames.

Resolved, That certain Questions and the Answers thereto should not be reported to the House.

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

The Committee deliberated.

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NOTE.—In the Minutes of Evidence a long dash indicates either that the name of a person or place or that a figure has not been reported by the Committee, and a row of asterisks that part of a question or an answer or a part thereof, or a question and the answer thereto or several consecutive questions and the answers thereto have not been reported.

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THURSDAY, 11TH DECEMBER, 1958.

Members present:

Sir George Benson, in the Chair.

Mr. Arbuthnot.
Mr. Chetwynd.
Mr. John Hall.
Mr. Hannan.

Mr. Hoy.
Mr. Cledwyn Hughes.
Mr. Stevens.
Mr. Thornton.

Sir EDMUND COMPTON, K.B.E., C.B., Comptroller and Auditor General; and Mr. W. ARMSTRONG, C.B., M.V.O., a Treasury Officer of Accounts, called in and examined.

Letter from the Treasury on the Army Estimates: Vote 4*.

Chairman.

1. First we have the letter from the Treasury on the Army Estimates: Vote 4. Sir Edmund, do you see any objection to the proposal?—(Sir Edmund Compton.) No, there are no audit difficulties or objections to the proposal.

As the Treasury letter indicates, the staff details for each group of establishments will continue to be shown separately in Part III of the Estimate.

2. So you are perfectly satisfied?—Yes.

Memorandum by the Treasury on Superior Authority Certificates†.

Chairman.

3. May we now turn to the Memorandum from the Treasury on Superior Authority Certificates? It is, I am afraid, a pretty complicated point. Again, Sir Edmund, what is your view on this?—I should like to support the proposal. I can assure the Committee I do not regard this Certificate as necessary for the purpose of my audit. I think there are two points to be made about it from the audit point of view. The first is to confirm that it is an anachronism. As the Treasury Paper says, it goes back to the days when the Comptroller and Auditor General's audit of the Service Departments was a restricted one. As things are now, under his letter of appointment the Accounting Officer of the Service and other Departments has a clear responsibility for ensuring that expenditure is covered by Treasury authority, and I should bring to the notice of the Committee in my Report any failure to obtain the necessary superior authority; in fact, that has been done from time to time. The second positive advantage I see in removing the Certificate is that by doing so it will bring out the full significance which should be attached to the Accounting Officer's signature of the Account. This is a point to which my predecessor some time back, in 1923, Sir Malcom Ramsay, drew

attention when the idea of extending the Certificate to other Accounts was under consideration. He opposed it, and, if I might, I think it is worth putting on the record the reasons which he gave, because they are good today. He said: "On the ordinary Account there is no Certificate by the Accounting Officer, but simply his signature, and I have always taken the line in conducting my audit that the mere fact that the Officer signs the Account makes him responsible for its correctness, and I do not want to introduce special Certificates which may imply that the signature of the Accounting Officer by itself is not a thing on which you can depend as a Certificate." In other words, the removal of this Superior Authority Certificate really brings out the point that the signature of the Accounting Officer on the Account is fully valid.

4. It strengthens the responsibility of the Accounting Officer, in fact?—To my mind, it does.

5. Rather than weakens it?—Yes.

Mr. Hoy.

6. I thought there was one difference between the Service Departments and others, Sir Edmund, and that there is a considerable amount of virement allowed in the Service Votes which is not allowed

* See Appendix 1.

† See Appendix 2.

11 December, 1958.] Sir EDMUND COMPTON, K.B.E., C.B.,
and Mr. W. ARMSTRONG, C.B., M.V.O.

[Continued.]

in any other Department?—Yes, but I do not think that really is covered by the Superior Authority Certificate such as we have on the Service Departments. I think the difference that there used to be but which we no longer have is that the Service Departments had much greater delegated authorities in the past, but as things are now the difference between them and the Civil Accounts on delegated authorities, as I think the Treasury have said, has virtually disappeared.

Chairman.] As a matter of fact, we shall have the problem of virement by the Service Departments arising on a Treasury Minute on housing later on.

Mr. Hoy.

7. Yes; I am not objecting. In my view, there was that big difference between the Service Departments and others. Of course, I have no knowledge of what happened in 1923, but I just wondered if that was one of the things

which was responsible for the heads of the Service Departments in fact having to give the special certificate?—I do not think so. I am not sure that that is not a question the Treasury might answer much better than me, but I am pretty confident that that is not so.

Chairman.

8. Has the Treasury anything to say?—(Mr. *Armstrong.*) As far as we have been able to find, Sir, from the records, there is nothing to show that those concerned were thinking of that point in 1923, and I would suggest that this Certificate has really nothing to do with virement, which has got its own procedure, as you know, and is dealt with separately.

9. Mr. Armstrong, on behalf of the Committee I would like formally to welcome you. This is your first appearance, is it not?—It is indeed, Sir; thank you very much.

REVENUE DEPARTMENTS APPROPRIATION ACCOUNTS, 1957-58.

VOTE 2.

INLAND REVENUE.

Sir ALEXANDER JOHNSTON, K.B.E., C.B., Chairman, and Mr. W. F. B. SMITH, Accountant and Comptroller General, Board of Inland Revenue, called in and examined.

Chairman.

10. Sir Alexander, this is, I believe, your first appearance before the Public Accounts Committee, is it not?—(Sir *Alexander Johnston.*) It is, Sir, yes.

11. I offer you a welcome from the Committee?—Thank you very much, Sir.

12. Will Members turn to the Revenue Departments Appropriation Accounts, 1957-58, Vote 2, Inland Revenue, to paragraphs 12 to 14 of the Comptroller and Auditor General's Report? Sir Alexander, can you give us any reason for the increase in the amount outstanding in profits tax of some £7 million?—Yes; due primarily to the increase in the charge in the year, which amounted to £60 million. The charge went up by 26 per cent. over the previous year due to the increases in profits tax imposed in the April, 1956, Budget. There was also a considerable amount of the charge which became due

in the last few months of the accounting period, and if one had seen the position a few months later it would have been much better.

13. In other words, the increase in the outstanding amount is smaller than the increase in the assessment?—Yes.

14. And on surtax there is an increase of £2 million?—Surtax is more difficult. It is due to a number of causes. The main one is back duty arrears, which, of course, are constantly coming to notice relating to back years. The back duty has been going up fairly steadily; we think it has now reached a stable figure, but it is primarily due to back duty. If I may give an example, the arrears for the year 1951-52 were £2½ million higher at the end of this 1957 Account than at the end of the 1956 Account due to arrears which had been discovered and were being claimed. These, of course, are difficult cases, and clearance of them takes some time.

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SIR ALEXANDER JOHNSTON,
K.B.E., C.B., and Mr. W. F. B. SMITH.

[Continued.]

Generally, of course, there is also the difficulty that there is an increase in the number of surtax payers, the cases seem more difficult, and there is a greater number of appeals; but although that is the explanation I would ask you to believe, we are also looking at the position in relation to the Special Commissioners' Office. We have been in touch with them, and we are making various changes with a view to improving the procedures. The real cause, as I say, is back duty.

15. On paragraph 13, the total amount outstanding for the past four to five years or more was fairly substantial?—The amount outstanding?

16. The total of the four years and more?—Yes. A considerable amount of that one would find had been provisionally discharged. A great deal of it is charges that will have to be discharged on the ground that they were provisionally assessed, which on further examination have been shown to be too high. For example, if one takes five years or more, £41 million has been provisionally discharged and in due course will be completely discharged.

17. Does that mean that in future Accounts that figure will show a decrease?—Yes.

Mr. John Hall.

18. I was just going to ask whether that £41 million to which you refer means that that reduces the figure of five years or more income tax to £3 million, actually?—No, I am sorry, it is a figure covering the whole £82 million. I could give you the income tax figure. The income tax figure is £21 million.

Mr. Chetwynd.

19. How do you account for the improved position on income tax excluding P.A.Y.E.? Is it due to better administration? Paragraph 12 shows that there has been a steady decline over the past six years. Is that better machinery, or what?—Yes, there has been a clearance of a number of large cases; but we also are steadily reducing the amount, yes.

Mr. Arbuthnot.

20. Sir Alexander, you told the Committee that next year the figure given in paragraph 13 is likely to show a decrease. Is that really so? Is not the

point that next year you will merely be one year further back and you will be dealing with a year later, and therefore the figure you will show next year as being outstanding for five years or more will be probably just round about the same?—No. I think, if you look at paragraph 12, the last column, you will see that we are getting the total of arrears down steadily.

21. I was thinking of paragraph 13. I am coming to paragraph 12 in a minute?—I quite agree that next year the four to five years will move back, but we have been improving the position. The five years and more last year was £88 million, which has come down to £82 million.

22. But a certain amount of this is not really due at all because a certain amount of it you have had to write off; is that not so?—Yes, they are provisional assessments which on further investigation are found to be too high.

23. How does it come that you make these assessments that are too high?—You get the case of a man who is not making returns or failing to make correct returns, and there comes a point at which you have to make a provisional assessment on him for a certain amount. In order to get the machine working you have got to say to him: "In my judgment you are due £1,000 income tax in respect of the year 1953-54." Then the machinery comes into operation by which we can argue on that and, if necessary, appeal.

24. What I am trying to get at is that this figure really includes those purely hypothetical assessments you have made to sting the chap up in order to make him produce returns?—Yes.

25. In that case it may well be very far from the truth?—Well, our provisional calculation is that of this amount of £565 million we shall eventually collect £210 million.

Mr. Arbuthnot.] Less than half.

Mr. Thornton.

26. Sir Alexander, on paragraph 12, the column under "Income tax excluding P.A.Y.E." shows a steady decline?—Yes.

27. But under "Surtax" the trend is the opposite way?—Yes.

28. What is the explanation for that?—The explanation is that on income

11 December, 1958.]

Sir ALEXANDER JOHNSTON,
K.B.E., C.B., and Mr. W. F. B. SMITH.

[Continued.]

tax we have been clearing off a lot of the excess profits tax cases, primarily concerning companies; and therefore it may be that if one could divide the income tax figure between companies and individuals you would get a figure which was much more comparable to the sur-tax figure.

Mr. Stevens.

29. Sir Alexander, in the Table given in paragraph 12 there is one column headed "Excess profits tax" to which you have referred. In respect of what year was excess profits tax last charged?—It was last charged in 1946.

30. Was that not an excess profits levy?—No, the excess profits levy was in the time of the Conservative Government.

31. And this is, then, not a misprint; it is the excess profits tax?—Yes, it is the tax.

32. Is it not an unconscionable time a-dying? You have just said that the last year in respect of which it was charged was 1946, and yet here we have £21 million still outstanding eleven years later?—If you will look, Sir, at paragraph 13, you will see that the £16 million is a very old charge and the rest is much more recent. If you look at a more recent one, for instance, less than one year, the fact is that in looking at these tax cases which the Chief Inspector and his staff are looking into now and going back, they do find currently excess profits tax liabilities which have not been charged which ought to have been charged.

33. Can you give the Committee some idea of what is causing this delay? Eleven years does seem to be a very great delay?—It is not delay so much as that you get a case which is currently under investigation in connection with an impression that not enough tax is being paid in the last few years. In the course of that investigation you discover, on going further back, that the profits were not sufficiently returned right back possibly to the war years. But it is a diminishing factor now. By and large excess profits tax is now cleared off.

34. It seems to me, I am bound to say, that twelve years is a long time, with £16 million of that £21 million outstanding for more than five years. Is there no way of bringing these cases forward?—Of that £16 million £10

million has been provisionally discharged, and there is another £4 million that is not collectable because it is being discussed. There is only about £2 million which one could collect at the moment in that.

35. But there are some hopes of collecting the balance?—Of collecting something between £2 million and £4 million, yes.

36. Then, turning to the next paragraph, paragraph 14, in the middle there is the statement that of the £423 million recorded as outstanding in the Balance Accounts, £142 million had been removed provisionally from the Accounts. What are the hopes of collecting some of that £142 million?—None at all.

37. If there are no hopes at all, why is it only provisionally removed? What is the reason for it not being formally discharged, if you make so positive a statement that none will be collected? Why not discharge the liability?—I think the answer is that you may get a case where you are claiming £1,000 from a man, and on further investigation really you find that £300 was not justified as an assessment. You are left with £700 which you are still arguing about, and it is very difficult finally to dispose of the £300 until you have finally settled what to do with the £700 and what the final charge is.

38. That would account for the bulk of this?—Yes.

39. Later on in the same paragraph, and you have, I think, just referred to this, we see that of the £423 million, £210 million is accounted for by the £77 million actually due and the £133 million estimate. What are the difficulties in the way of collecting the balance of £213 million?—Those are cases which again will eventually be discharged.

Mr. Cledwyn Hughes.

40. To go back to the question of hypothetical assessments, could you say, on the basis of your past experience, Sir Alexander, roughly what percentage of the total you will be writing off?—We are dealing with arrears, and I think it comes to about 40 per cent.

41. As much as that?—Yes, or more.

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[Continued.]

Mr. Arbuthnot.

42. Sir Alexander, you have told the Committee, referring to this figure of £16 million of excess profits tax that was still outstanding, that profits had not been sufficiently returned. Do you mean that the firms concerned had returned false figures, or how did it come about that they had not been sufficiently returned?—I am not sure that they are necessarily false figures. There would be disagreement about stock valuation and other things. I am not suggesting for a moment in these arrears that there is a large element of fraud or wilful concealment. You can have an honest difference of agreement between the Tax Inspector and the taxpayer as to how various things are to be shown in the balance sheets.

43. You are still in this disagreement lasting over five years?—Yes.

44. What is likely to solve it in the year? This looks rather like the irresistible force and the immovable object?—We have already provisionally discharged £10 million of the £16 million, leaving £4 million that is under discussion and £2 million that is collectable. It is £4 million that is under discussion, and I think that will be fairly soon cleared up. There is a great drive just now to clear excess profits tax out of the way, and the Chief Inspector is bending his energies to that.

Mr. Hoy.

45. You are not suggesting that you are cutting the liabilities so that you can get a quick payment or a quick clearance, are you, Sir Alexander?—No, we are merely trying to get on and get it cleared up.

Chairman.] Will Members now turn to paragraph 15? I have no questions.

Mr. Thornton.

46. Sir Alexander, what percentage of P.A.Y.E. do you fail to collect?—05 per cent.

Mr. Hoy.

47. The last line of that paragraph, Sir Alexander, says that employers have still to remit to collectors in the period £2.3 million. Have they been left with this money in their hands? Have they collected the £2.3, and what has been the difficulty in the collector collecting it

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from them?—They have collected it. It is cases involving insolvency, people who have vanished, of whom you have got to have a small number in 1 million employers, and late delivery of returns.

48. Would there be any considerable sum, £200, £300 or £400, or is it a large number of very small sums?—It is a large number of very small sums.

Mr. Chetwynd.

49. Paragraph 15 shows the amount still to be remitted by employers to collectors. Is there a reverse process of amounts of rebate due by the Inland Revenue to individuals?—Yes, there is.

50. About what figure would that be?—I do not think I could give that figure. There is a figure.

51. But there is a figure. I am wondering if it is likely to be more, for instance, than that which is owing you, the other way round?—It might very well be.

Chairman.] Would you like to see the figure?

Mr. Chetwynd.] I would like to see it later, if I may.

Chairman.

52. Perhaps you would let us have a note, Sir Alexander?—Yes.*

Mr. Hannan.

53. Further to the question which was asked just now, that some of this is due to some of the employers disappearing, insolvency, and so on, even taking account of that, what proportion of this £2.3 million is still to come? How much is due to insolvency and how much is outstanding?—I think I had better get you that information as well.*

Chairman.] If you will.*Mr. Hannan.*

54. This gives the total charged in the 1957 accounting period. When does the Department's accounting period end? When is your date for 1957?—This period was at the end of September, 1957.

55. So that this is over a year old now?—Yes.

56. How long does the employer have to remit this money?—He has to remit it every month, fourteen days after the end of the month. So, every month he

* Information supplied: not printed.

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is sending what is due, and then he sends at the end of the year a complete statement showing what he has deducted from each employee.

57. You think this fourteen days is a reasonable period?—Yes, it works very well.

Mr. John Hall.

58. Is it a fact that a number of small employers would perhaps find it a burden to prepare and return these P.A.Y.E. returns, and would a number of those be late in sending their returns, so that they are excluded from the end of your own financial year?—What happens in a number of cases, we will say farmers or small shopkeepers, is a failure to send a return in fourteen days after the 5th April, but, of course, they have been sending the money month by month. It is an accounting difficulty rather than a financial one. We have their money, although they have failed to send in their returns.

59. So the fact that they have failed to send in returns does not affect this figure of amounts outstanding?—No.

Chairman.

60. Paragraphs 16 to 18. The total of the amount of remissions, approximately £3 million, is pretty well what it was last year?—Very much the same.

61. Have any individual items varied to any extent?—No, only by very small amounts.

62. That looks as if the figure has more or less stabilised, then, at round about £3 million?—Yes.

63. "Taxpayer gone abroad." Could you tell me what type of taxpayer goes abroad and avoids his income tax?—Last year 960 individuals went abroad, or those cases were outstanding, involving £220,000.

64. What type of people were they—entertainers, or people who were temporarily here earning sums here?—Yes. We are hoping we shall be able to reduce the figure. The Committee recommended some years ago that something should be done about this type of case, and we took powers in 1956 to require persons giving employment to people who were not in their regular employment to make returns where we asked for them, and that, of course, particularly applies to the entertainment industry; and also we centralised the

work of a number of tax districts, and with that and with arrangements for speedy assessment we hope we may be able to reduce this somewhat.

65. Do these people receive their gross fees or are they subject to the standard rate of income tax deduction?—They would receive their gross fees.

66. What is the objection to putting them on a P.A.Y.E. basis?—They are not employees.

67. If you employ a person at a fee, is he not an employee? Anyhow, irrespective of whether he is an employee or not, could you adapt your machinery to deduction at source, because, so far as I remember, for years we have had this item of leakage. Year by year we have reported to us that artistes come and earn high fees and then just go again?—It would, I am sure, require legislation.

68. It might do. What is the objection to legislation if it will save you money? How far are these deficiencies due to inadequacy of your present existing tax machine, or is there a deliberate desire to avoid tax?—In the case of people going abroad?

69. Yes?—I do not think that any obvious improvement in the tax machinery, apart from what we are doing now, would improve matters.

70. Unless all fees were paid subject to deduction?—Yes.

71. So there is nothing you can do except alter the law?—Yes.

Mr. John Hall.

72. Following on that point, I believe I am right in saying that before you can leave America, on a visit to that country, you have to show on an exit visa, in effect, that you have paid all tax that is due to the United States before leaving the country?—Yes.

73. Is it not possible to do something of that kind over here?—Again I take it it would require legislation.

74. Oh, it would require legislation, yes, but would it be practicable, do you think, from your point of view?—From our point of view I think it would be quite practicable. It would just be, I think, a general difficulty about imposing restrictions on movement.

75. Could I ask a question on another point? I notice under paragraph 17

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the amounts remitted on grounds of equity. Is that in relation to assessments which had been correctly raised under the existing law but which you thought perhaps imposed injustice or hardship?—Most of those cases arise in this way: an assessment is made and is finalised, and after it is final and there is no possibility of further appeal some fresh fact is brought to light which shows that the assessment was excessive, not on grounds of hardship but in fact.

76. Under the law as it stood?—Yes.

77. Not a question of being allowed any leeway at all?—No. The taxpayer has failed to show certain factors in the case. The kind of case can be one in which he just has refused to answer any questions. He has refused to appeal, the thing has been made final, and then at the last stage he comes along and explains the facts. There is another minor factor in these cases in which the owner of premises is charged under Schedule A because the occupier has failed to pay, and then you find out that the occupier has vanished, the owner is in poor circumstances, and you may remit because of loss of rent.

Mr. Chetwynd.

78. May I just ask, "on the grounds of poverty", how is poverty defined in these circumstances? It does not seem a great lot of money to have written off for poverty. Is that a change in circumstances between a year of assessment and the year of payment?—Yes, this is real poverty. I think it is illustrated by the fact that the average amount is £15.

Mr. Arbuthnot.

79. Sir Alexander, what comes under the heading "Realisation of Securities"?—If a foreign Government or a foreign company chooses to pay a dividend in the form of capital shares, we may sometimes take tax by taking a proportion of these shares. Where we do we take them at their par value. Afterwards we sell, and, of course, we sometimes lose on these sales, and these are losses arising out of the realisation of securities where they are sold at less than their par value.

80. What is the difference between a bonus issue, which is what this amounts to, I take it, in foreign shares, and a bonus issue in shares of a United Kingdom company?—I think the difference

is this. In the case of a foreign company you have no means of investigating their affairs, and therefore the House of Lords has said if the share value remains at its previous figure and you get further shares being issued, then you must regard them as income; in other words, you have the share capital of the foreign company and you ask yourself the simple question, has it been increased or decreased. If it has not been decreased and other shares are being issued, you say that they are income. But may I say that this, as I understand it, has not arisen on bonus issues as such. This has arisen in cases where what was definitely regarded as a dividend was paid in the form of a security.

81. Remissions of law costs amounted to £6,670. Are these cases where you have unjustly chased a taxpayer and have had to pay up the costs that he has incurred, or what has happened?—They are mainly cases where the taxpayer proves after the commencement of proceedings that there is no liability to tax, or where a summons has been taken out and then the tax is paid before the summons can be served.

82. But in that case why should you be liable for reimbursing the law costs at all?—I think there are cases where, as I say, the thing goes against the taxpayer in a sense, but he has taken action at an early stage of paying, and the Courts then will not award costs. It is that type of case.

83. But because he did not pay on time you took a case against him?—Yes.

84. In that case, surely, the liability is his because he did not pay on time?—Well, it is for the Courts, you see, to say.

85. In fact, the Courts have found against you?—Yes.

Mr. Stevens.

86. To return for one moment to this question of applying P.A.Y.E. principles to theatrical artistes, would you agree that one of the reasons why the P.A.Y.E. system works so well generally is that in particular terms the weekly or monthly rate of remuneration remains fairly constant? Would you feel that there would be any practical difficulty in the case of the theatrical artiste who may very possibly work at a very high rate of remuneration for three

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months, and then, I understand the official term is, rest for six months or a year subsequently? Do you feel that that would be a practical difficulty?—Yes, there would be difficulties, I agree. I think what was meant was where one had deducted the standard rate and left him to recover.

87. In a case of that sort where the remuneration for short time is at a very high rate the following income tax repayment claim for the period of rest for the next six or eight months might take nine months or even a year to settle?—Yes, I agree.

88. Could you tell the Committee what the theatrical artiste is to live on during that period? It would be difficult?—It would be difficult.

Mr. Stevens.] So far as surtax is concerned, of course, that question would not arise.

Mr. Cledwyn Hughes.

89. Remissions on the grounds of equity were £361,987. Could you tell us, Sir Alexander, what is the commonest case which comes under this heading?—I think the commonest case is the one I mentioned where the assessment is put into final form and is not, therefore, capable of being discharged, and it is then found, because the taxpayer may have been recalcitrant and refused to deal with us, that he comes and reveals circumstances which show it ought to have been less.

Chairman.

90. Paragraph 19. The number of cases of fraud and evasion seem to be stabilising at somewhere about 15,000 a year?—Yes.

91. What is the reason why there has been such a sharp decline of anything up to 20 per cent.?—The main reason is that we had a great increase in cases arising out of the requirement on the banks to give particulars of bank interest. As you know, the great majority of those cases were handled by inspectors not in this field at all and without any penalties and simply by the tax due being paid over, but there were a good many cases where, of course, the failure to return interest in the return led to further inquiries for one reason or another, and therefore those cases were greatly swollen—this is three or four years ago—and now we are getting that out of the system and

we are getting back to what will probably be a fairly stable figure.

92. There has been some increase, about 7 per cent. increase, in the total charges raised, but there has been a very sharp increase in the penalties. Does that mean you have had bigger cases and therefore you have come down more heavily?—Yes, it is the bigger cases which are leading to the bigger penalties, and the penalties, as you know, include old arrears as well as current ones.

93. Yes. How many of these cases are old and complex cases? Are you getting rid of those?—I am sorry, I have not got with me any break-up of these cases by age.

94. Do you estimate you are going to have a smaller number next year?—Two months ago the new cases coming along were about 12,000.

95. That will end in 1959?—Yes.

96. That is a very sharp decrease again?—No, these are new cases. There will be continuing cases, but I think it means that as far as we can see for the moment we are going on at the rate of about 15,000 a year.

Mr. Cledwyn Hughes.

97. Out of the total number were any involved in criminal proceedings at all in the Courts?—Yes.

98. If so, how many?—There were 85 prosecutions in the year, of which 16 related to back duty cases.

Mr. Arbuthnot.

99. Could you divide that figure of 14,593 as between individuals and companies?—I am sorry, I have not got that figure.

100. Could we have a note about that?—Yes.*

101. Now, on the question of penalties, I think there was a recent case in the courts where you tried to extract a penalty for an avoidance of a small amount of tax on a marginal part of somebody's income, and you tried to extract a penalty applying to the whole of the assessment of the individual and the courts found against you on that. Are you proposing in future to deal with this only in relation to the part of the income on which there has been P.A.Y.E. Tax?—We are almost certainly appealing against that decision.

Mr. Arbuthnot.] In that case, it is *sub judice*, and I must not mention it.

* Information supplied; not printed.

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Mr. Chetwynd.

102. In the case where you have taken proceedings and a prison sentence arises do you lose the penalty or do you get that as well?—Oh, we get that as well.

Chairman.

103. They gain on the swings and the roundabouts. Now, paragraphs 20-27. Do you think you could explain simply to us what a public officer is?—It is a very difficult question. What is quite clear, of course, is that an officer appointed by the Crown is a public officer, probably also the servant of a local authority, and probably also the registrar of a public company; but one gets into difficulties when one gets beyond that and you may even be in difficulties in that field. It is not clear what is meant by a public officer.

104. Where does the phrase arise?—It goes back I think, to a Stamp Act of the eighteenth century. But, I understand that the phrase "public officer" can mean different things in different fields of legislation.

105. Do you have power to inspect the records of such gentlemen as you have managed to identify as public officers?—We have.

106. Do you use that power?—We only use it on special occasions. We do not use it regularly. We inspected the books of a company in about 1927. We asked another company in about 1942 to produce share transfers for our inspection and explained that if they did not we would come and inspect. We carried out a series of inspections of the books of unit trusts following on legislation in 1946 under which the secretaries of unit trust companies were expressly said to be public officers for this purpose. But we do not use it often.

107. Is a bank manager a public officer?—No. I should say definitely not.

108. Your powers are rather complex, are they not? You have got a penalty and duty and fine?—Yes.

109. Could you explain simply exactly what you can impose on a person?—The Stamp Act of course, assumes that the tax collects itself, in effect. It belongs to a rather different order of things from income tax and the rest. It is very old, it dates from 1694, and in

effect the Stamp Legislation says for the most part that you ought to get a stamp and if you do not you will find yourself under a number of liabilities such as that your document will not be received in evidence in the court; and in fact the Act goes further and says it cannot be used for any purpose whatsoever. The largest penalty we have is if someone comes along with something within a limited class of documents and asks for it to be stamped after the time when it has been executed. You have thirty days for most documents, conveyances, leases, and so forth, to get the documents stamped. If you come along after that then you have to pay a penalty or part of a penalty of £10. Then, in respect of certain documents again in the field of conveyances, leases, mortgages and so on, there are express provisions that if you have failed to get a document stamped within thirty days you get fined and a further penalty imposed. Now, the Stamp Act distinguishes between a penalty which, in effect, is the price of doing a thing late and a fine in those limited cases which is, of course, imposed on an individual and which we can then sue for in the High Court.

110. What is the amount of the fine?—£10.

111. Then what about additional stamp duty?—If it is an *ad valorem* stamp you can be charged as a penalty the amount of the stamp duty.

112. In addition to the stamp duty itself?—In addition. So you have, first of all for the late stamping a penalty of £10, and then in a limited class of cases you have in addition the possibility of having a penalty of an amount of the stamp duty and a fine of £10, which is personal to the individual as well.

113. So if you fail to stamp a document you pay first of all the stamp duty then you pay possibly £10 and then possibly a further £10, and then possibly another sum in relation to the stamp duty you have already paid?—That is so, yes.

114. How frequently do you extract your full penalty, or how frequently do you extract any penalties?—The first penalty for late stamping we take quite frequently but only to a modified amount. That is to say, we rarely take more than 10s. 0d. to £1. The fact that

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we have modified the main penalty to that extent makes it, of course, very difficult to start thinking of the fine and the further penalty. We have imposed the fine in a case in 1956 where there was a misrepresentation of the consideration of money, so it was a form of fraud. We did in that case impose a number of fines.

115. I would think that the most common stampable agreement that is not stamped is a tenancy agreement, is it not?—By and large. Many local authority tenancy agreements are not stamped.

116. I was thinking of private tenancy agreements. I certainly will not disclose it, but I happen to have a letter from a constituent who drafted his own agreement and I am quite sure it has not been stamped?—I think on stamps our main safeguard is the fact that so many of these duties have to be paid by responsible people like the stockbrokers on the Stock Exchange, or solicitors in the case of those deeds relating to property and they, by and large, pay the stamp. You then have further safeguards, that if you are sending a deed of covenant up to a tax inspector in the case of exemption, of course, he says: "Is it stamped?" and we get a lot of cases referred by tax inspectors to the Stamp Duty Office. Then if you are in the field of the Land Registry, they would not deal with a document unless it was stamped and the courts, by and large, insist on documents being stamped and, of course, are under statutory obligation to do so. The effect of all that is that we get about 600 documents a week for late stamping so that there is a certain number always being forced to get the stamps.

117. Roughly, what do you collect in the way of penalties as a result of that, have you any idea?—In 1957-58, we collected £18,000.

118. It is a trivial amount really?—Very small, yes.

119. Paragraph 25. Would you explain what nominee companies are and their function?—Nominee companies exist to enable shares to be held in the hands of these companies when the real ownership lies elsewhere and there are many cases where that is quite legitimate and proper, where someone has gone abroad or where there are changes of

ownership for quite legitimate reasons. But as the Report says there is, of course, the possibility of evasion. There are two cases going to the House of Lords in which the point at issue is whether the effective means by which a transfer has been made is an oral agreement or the documents which have then got to be made consequent on that agreement. We are saying that the documents and not the oral agreements are the effective thing and therefore that stamp duty ought to be charged on those documents. When we get a decision we shall probably issue something on this to banks and companies.

120. I take it you take your stand on the grounds that it is rather difficult to stamp an oral agreement?—I was told when I came to the Department that the favourite First of April joke was for a solicitor's clerk to go into the Stamp Office and ask what was the duty on an oral agreement.

121. Do you feel that you have adequate powers to stop the major leakages or are they difficult to enforce?—It is very difficult to know, but we think that most stamp duty that ought to be collected is collected. It is impossible to be absolutely certain because one is dealing with documents which in the ordinary way do not come into the hands of a Government Department.

Mr. John Hall.

122. Sir Alexander, would you agree that the transfer of beneficial interest within a nominee company is fairly rare and confined to a fairly few transactions?—Yes.

123. It is not a very important item?—No.

Mr. Chetwynd.

124. On paragraph 21, how do you account for the very small number of cases where duty is paid as a result of the action of the courts? Is it because very few unstamped documents are put in or is it because of laxity, as it were, from the courts' point of view?—I think it is three causes. One is that if you have to go to the courts with a document you will find a solicitor saying at that stage: "This is unstamped; you had better go and get it stamped." Secondly, the courts themselves, both the county courts and the High Court, tend to say to the solicitor in the case: "Will

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you give an undertaking to go and get this stamped? ”, and therefore you only get a very small number of cases where the courts are using their statutory power to levy the stamp duty and the penalty.

125. None have slipped through the net; once they get in the hands of the Court they are found out, are they?—Well, Lord Goddard, at the beginning of this year, had a case before him which had reached the Court of Appeal in which a document was not stamped, and he asked why it had not been stamped, and he made a statement, which was reported in the newspapers, to the effect that the Courts ought to remember to ask, and in that case the first Judge had never asked, to see the document itself. He had worked on a copy. So there are bound to be some cases.

126. On that very point, has your Department had consultation with the Lord Chancellor’s Department on this issue?—Yes, we have.

Mr. Hoy.

127. On paragraph 25, Sir Alexander, are the Banks the principal operators of nominee companies?—I am not sure what the proportion is.

128. What do you know of their practice, as regards the stamping of instructions to transfer the ownership of nominee holdings?—I am not sure about that.

129. It is very difficult to understand what this last sentence means, if it means anything at all. The sentence says: “The Board of Inland Revenue have become aware that in certain cases the motive for nominee registration is the avoidance of duty”. Could you give us a few examples of cases in which you have become aware that the motive of the nominee registration has been the avoidance of duty?—There are the two cases that are before the Courts at the moment.

130. These are the two which you are founding on, are they?—And there are others, no doubt, but they are the two cases in which I think it is clearly the case.

131. You have some record, have you, as to who these nominees are and who acts for them, as between the Banks and others? If not, I am not pressing it?—I have not any with me.

Chairman.

132. Have you material on which you could send a note?—I will try to, yes.*

Mr. Hoy.] It would be interesting.

Mr. Arbuthnot.

133. How, apart from these two cases, can you say you have become aware that the motive for nominee registration is the avoidance of duty?—I think I had better cover that in our reply.*

Chairman.] Actually, that is a statement of the Comptroller and Auditor General.

Mr. Arbuthnot.] Surely it is a statement of the Comptroller and Auditor General that the Board of Inland Revenue have become aware?

Chairman.] One assumes it is.

Mr. Arbuthnot.] It is rather a broad and airy statement which strikes me as possibly being on foundations of sand.

Chairman.

134. Have you any knowledge of this, Sir Edmund?—(Sir Edmund Compton.) I can only say I thought it right to put on record in my Report this fact which was communicated to me by the Board of Inland Revenue. (Sir Alexander Johnston.) If I may give an example, a record is being kept, according to our papers, of transfers from a nominee company to itself, that is, A to A transactions which are submitted for adjudication. They come, as you know, to us and ask what is the stamp duty payable and for it to be adjudicated. I think it is from those cases that we are getting the impression that there is a loss of revenue from this cause.

Mr. Arbuthnot.

135. But it does not follow that if there is a transfer to itself the object is necessarily the avoidance of duty. I can imagine other objects for doing it than the avoidance of duty; can you not?—Oh, yes.

136. You say that you sue in the High Court for a fine of £10. Is that not rather taking a sledge hammer to crack a nut?—Well, it is what the Statute says; we have to go to the High Court.

137. In fact, it would be simpler, from your point of view, if you did not have to go to the High Court but could do it in some other court?—Yes.

* See Appendix 3.

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Mr. Hoy.

138. You do not think the penalty ought to be increased to mark the severity?—We are looking at that. Following this having been raised by the Exchequer and Audit Department, we are looking at the penalties, and I think we will, in cases where the duty is over £10, increase our present penalties, which have not been very large.

Mr. Arbuthnot.] You will come to Parliament to increase them?

Chairman.

139. You have already the power of imposing three separate penalties?—Yes; I am thinking of the first.

Mr. Thornton.

140. When was the penalty of £10 fixed?—In 1891.

141. There has been rather a considerable change in values since that date?—Yes.

Mr. Cledwyn Hughes.

142. On paragraph 24, Sir Alexander, can you say what the practice is with regard to tenancy agreements amongst big landlords, that is to say, landlords who, like local authorities, have a very large number of properties?—Our impression is that they are stamped. We have a list of about twenty local authorities which show a reluctance to stamp. We deal with them by imposing the full penalty of £10, if they come along with the tenancy agreement which they want stamped, in order that they may take proceedings in a County Court.

143. Would you not think, in the case of these tenancy agreements by large firms and large landlords, that the stamping of tenancy agreements is the exception rather than the rule?—That is not our impression. Certainly the larger local authorities do.

144. What machinery have you got for checking that up?—None, and under the stamp legislation in effect you do not have. It is a field in which you say that a certain document must be stamped. If it is not stamped, certain consequences follow, and you rely on these consequences to keep a fairly large measure of compliance with the law.

145. If you say that, in your view, the majority of them are stamped, what grounds have you for having that impression, as you say?—In the local authority field we only know of twenty

who do not stamp. In the other cases, if there was ever any difficulty involving litigation they would have to stamp.

146. In the same paragraph "certain other agreements" are referred to. Can you say whether there is any failure to stamp leases at all? What is your view about that, apart from tenancy agreements?—We are not aware of any widespread failure to stamp leases.

147. You are not aware of any. On paragraph 27, to come back to this question of the public officer, do you think it would help at all if the term "public officer" was more clearly defined?—The difficulty I feel about that is that if you have inspections I think you have got to consider what you are going to get out of them. There are two points of view. Take the case where you can impose a fine or require compliance. The amounts, of course, are not very large. These tenancy agreements attract something between 10s. and £1 on each agreement. The other is that, of course, as the law stands at the moment, if you have a power to go and inspect these local authority records, where tenancy agreements are not being stamped you would not get very much further. The fine and the further penalty falls not on the lessor but on the lessee. It is the tenant who would be liable and, therefore, having found that this was happening, you would be unable to do very much more about it. That is the difficulty.

148. You do not think, then, that if you began to use your powers of inspection more widely the personality of this public officer would be clarified?—On the problem of inspection, which we have been thinking about, I am troubled about our position as a tax collector. Are we going to get more out of it than the cost of these inspections and, secondly, I do think that you would have to change a lot more of the law. In the case of tenancy agreements, as I say, these fines and further penalties fall not on the person who has given the agreement but on the lessees under the law, which makes it very difficult.

Mr. Hannan.

149. May I ask one question on paragraph 27? Sir Alexander, you did say earlier that the Department was reviewing the case for imposing heavier penalties. Do you think it would be an advantage also to look at the problem of instituting proceedings before the

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Sir ALEXANDER JOHNSTON,
K.B.E., C.B., and Mr. W. F. B. SMITH.

[Continued.]

lapse of two years? Proceedings for the recovery of a fine or penalty must be started within two years. Would this not, in short, help to overcome not only this problem but that which we have already discussed of insolvency? By leaving an interval of two years, you are running a risk of the person dying or going abroad. Do you think any advantage would be gained?—This provision is that if you are going to impose a fine or penalty, other than a penalty for late stamping, you must start these proceedings within two years.

Chairman.

150. What is your datum line, the date of the document or the date when you discover it?—The datum line is 30 days after the date when the document was executed. You have two years after that. We did find a case two years ago which was a case where there had been misrepresentation and unfortunately we were not able to proceed in respect of the fine, because we were out of time. But, frankly, there is so much that is archaic in the stamp duty legislation that there are other things that one would have to put right, if one were amending the legislation, as well as this.

Chairman.] Now, may we go to the accounts themselves? I have no questions.

Mr. Stevens.

151. I have one question. On page 12, under: "Securities accepted in satisfaction of tax liabilities", the word "nominal" is used in three cases. Could we know what the word "nominal" means?—The nominal value of the securities.

152. But what is the nominal value?—The par value.

153. £1 shares which may be standing on the Stock Exchange at 10s. each?—Yes.

154. A figure of £1 is given?—Yes.

Mr. Stevens.] Surely that is grossly misleading, is it not?

Mr. Hoy.] They might stand at 1s.

Mr. Stevens.] If, indeed, that is what is meant by "nominal", these figures are completely meaningless. War Loan is given at £100 per £100 nominal, yet the market price for many years has been well below that.

Chairman.] Would you like a note on that?

Mr. Stevens.] I would, yes.

Chairman.

155. You might let us have a note, Sir Alexander?—Certainly, Sir.*

Mr. Chetwynd.

156. Under Subhead B, on page 8, you spent £42,000 more than was granted for travelling and removal expenses, and I see from the notes that the excess was "provision for removal expenses (£26,000)". Does that mean that you are moving people about too much and too often? It seems rather a lot of money to have to pay for removals of your staff. Is the policy to move them too much?—No. I think it is merely the difficulty of estimating this figure, which is a very real difficulty.

Mr. Arbuthnot.

157. On page 10, what were the services rendered by Inspectors of Taxes to local authorities?—(Mr. Smith.) These are cases where the local Inspector supplies certain information to the local authorities under Schedule A, and particularly in Scotland where the Inspector is appointed as an assessor for local authority purposes. That is the main head which will, I think, disappear after this year, because I believe the arrangement has come to an end.

158. I thought all information disclosed for tax purposes was confidential?—They are acting for the local authority, as appointed officers for local authority valuation purposes.

159. And they disclose to the local authority the information they obtain?—No. They are doing the job for the local authority.

Mr. John Hall.

160. Coming back to page 12, the value of the securities, I am not quite clear in my mind whether the nominal value there is the amount which is taken in full or in part discharge of a tax liability, or whether you offset against that tax liability the eventually realised figure when they are sold. To give you an example of what I mean, if you take 100 £1 shares against a tax liability of £200, would you merely offset the nominal value, the par value, or would you offset the market value, which might be, in fact, £200?—(Sir Alexander Johnston.) I think we had better cover this in a note.*

* Information supplied: not printed.

THURSDAY, 5TH FEBRUARY, 1959.

Members present:

Sir George Benson, in the Chair.

Mr. Arbuthnot.
Mr. Chetwynd.
Mr. John Hall.
Mr. Hoy.
Mr. Cledwyn Hughes.

Mr. Pentland.
Mr. Peyton.
Mr. Stevens.
Mr. Thornton.
Sir Colin Thornton-Kemsley.

Sir EDMUND COMPTON, K.B.E., C.B., and Mr. J. MACPHERSON, a Treasury Officer of Accounts, called in and examined.

STATEMENT OF EXCESSES, 1957-58, CIVIL ESTIMATES.

CLASS II.

VOTE 1.

FOREIGN SERVICE.

CIVIL APPROPRIATION ACCOUNTS (CLASSES I-V) 1957-58.

CLASS II.

VOTE 1.

FOREIGN SERVICE.

Sir FREDERICK HOYER MILLAR, G.C.M.G., C.V.O., Permanent Under Secretary of State, Mr. E. S. JONES, M.B.E., Finance Officer, Foreign Office, and Mr. L. J. HOOPER, C.B.E., Establishment Officer, Government Communications Headquarters, called in and examined.

Chairman.

161. Sir Frederick, I believe this is your first appearance as a witness before this Committee?—(Sir Frederick Hoyer Millar.) Yes, Sir.

162. On behalf of this Committee I offer you a welcome?—Thank you very much, Sir.

163. Will Members turn to the Statement of Excesses, pages 2 and 3, Foreign Service, and to the Civil Appropriation Accounts, Classes I-V, to paragraphs 12 and 13 of the Comptroller and Auditor General's Report on page v, Class II, Vote 1, Foreign Service? When the Supplementary Estimate was presented in February, 1958, did you take the opportunity to revise the Estimate of the Vote as a whole?—Perhaps I should say first of all, the main reason for the excess Vote occurring is because of the overspending on Subhead A.2, the salaries and allowances for staff

abroad. That is the item which has caused most of the discrepancy. When the Supplementary was put in we knew that an increase would have to be made because of certain increases in salaries which had been made for everyone. At the same time we knew that it would be possible to make certain economies on the original figure because, for example, our Missions in Egypt and Saudi-Arabia were still going to be kept shut. Unfortunately, I am afraid we miscalculated. We over-estimated the savings we should be able to make, and we under-estimated the amount of increases which would have to be made. As I have admitted, it was a miscalculation.

164. What proportion of your expenditure on this Vote is incurred abroad, approximately?—Of this whole Vote?

165. Of this part of it, salaries?—All of it. The Subhead I was talking about, this particular one.

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Sir FREDERICK HOYER MILLAR,

[Continued.]

G.C.M.G., C.V.O., Mr. E. S. JONES, M.B.E., and Mr. L. J. HOOPER, C.B.E.

166. The whole of it comes from abroad, does it?—(Mr. Jones.) Sub-head A.2, the one we are referring to, Sir, covers primarily expenditure abroad. A certain amount of the salaries provision is paid in this country at the end of the quarter when the officers abroad send in what we call their life certificates, but the bulk of the expenditure is incurred abroad in advances in local currency.

167. How frequently do you get forecasts of the variation in expenditure?—(Sir Frederick Hoyer Millar.) That is one of our great difficulties, and that is, perhaps, not an excuse but an explanation of why these discrepancies and mistakes in estimating occurred, because we are dependent to a large extent on the accounts which we get from our Missions abroad. Until a couple of years ago they were rendered only every quarter; now they come in every month. But even so, with over 200 Missions, some of them quite a long way away, there is inevitably a time lag, and that is the difficulty, that when we have to make up the calculation for the Supplementary, which has to be done at the end of the calendar year, we are handicapped by not having accounts much beyond, perhaps, November, and in some cases not even beyond September. So, whereas normally, if one had been an ordinary Department in Whitehall, one would be able to take six months' expenditure—

168. You are only halfway through the year when you get your accounts, so to speak?—We are lagging behind. It is an explanation, though not an excuse.

169. And you cannot get later estimates?—We do our best to hurry them up. It is again, perhaps, rather peculiar to the Foreign Office, but the difficulty is that we not only have a little difficulty in getting the accounts in as quickly as we should like, but when they come in they inevitably have to be processed, and there we have some difficulty in getting enough competent staff to do it, and our real difficulty is that when we have got competent staff and trained them up we very often have to send them abroad to be accountants to some of our Missions abroad.

170. In that case, then, they ought to be doing the job abroad that they had hitherto been doing at home?—Yes;

but it does make it more difficult to overcome this time lag.

171. Are you satisfied with the progress you are making in speeding up your accounts?—I will not say we are satisfied, but we have made a very definite attempt, both before and since the Report, to hurry things up. We do everything we can to improve liaison between the various administrative departments inside the Foreign Office. We are doing our best, of course, to improve the efficiency of the actual people who deal with them, and we are doing what we can to hurry up the accounts. It should get better, because this system of monthly accounts has only been in force for about two years. It is complicated in our case, particularly as regards the estimating, because so much is dependent on foreign rates of exchange or alterations in the cost of living in some foreign country. It is difficult to be as accurate as one would like to be.

Sir Colin Thornton-Kemsley.

172. Sir Frederick, on page 69 the Explanations mention "belated charges in respect of the previous year" as one of the reasons for the excess in Sub-head A.2. What did those belated charges amount to?—The actual total, or what did they refer to?

173. What did they refer to, first of all?—They referred primarily to charges in respect of the Diplomatic Wireless staff abroad, who, though they are part of the Foreign Service, run their own administration. They had, I understand, a sort of retroactive increase in pay, the assessment of which rather disorganised all their accounts procedure about a year ago, and it was largely because of back pay which had not been paid at the time that these charges accumulated; and unfortunately, whether it was at our own or the Treasury's suggestion I am not sure, we made rather a drive to get all these back charges into these accounts, and they turned out again, I am afraid, to be rather larger than we anticipated. Essentially, I think I am right in saying, the bulk of them arose because of these Diplomatic Wireless Service increases in salary. (Mr. Jones.) That is right; we had, as a matter of fact, a communication from the Comptroller and Auditor General asking what we were going to do about these accounts. We had already, or, rather, Diplomatic Wireless Service had, started

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[Continued.]

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a drive to get them in the 1957-58 Accounts, and the Auditor's query added impetus to that effort, with the result that all the arrears were cleared in the 1957-58 Accounts. They related to 1956-57 charges which had been not booked in the proper year.

174. Were there other similar belated charges on the other subheads, or was it only on Subhead A.2?—There were one or two. It was A.2 and D.2 primarily, the big Subheads, Travel and Salaries; the others were just marginal amounts.

175. Sir Frederick, I am not quite clear about these dates. I think the Foreign Office presented its Supplementary Estimates about ten months after the close of the previous financial year. Ought they not to have known of these belated charges and allowed for them in those Supplementary Estimates?—(Sir Frederick Hoyer Millar.) We did, but I am afraid the difficulty is we did not allow enough. In fact, we were trying to bring them into the Account, and I do not think we expected that we should be able to bring quite so many in. It was again an error in calculation.

176. To what extent are the belated charges due to delay in bringing to account expenditure actually incurred in the previous year?—(Mr. Jones.) They were due entirely to that, Sir. They were due to a system which has now been altered whereby there was a delay in getting the accounts to the Diplomatic Wireless headquarters, and as a result they were behind with booking all their accounts. That has now been rectified, and, as I said earlier, they got all the 1956-57 arrears cleared in 1957-58.

177. So you think this kind of thing can be largely overcome in future?—(Sir Frederick Hoyer Millar.) Largely, I hope. I think this was rather exceptional owing to the fact that the Diplomatic Wireless Service salaries were made retroactive. They have a pretty small staff, they keep their own accounts, and I am afraid they got rather behind-hand.

Mr. Hoy.

178. May I just take this a little further? You did tell the Committee that one reason why the Supplementary Estimate went wrong was that the savings you expected were offset by these increases in remuneration. Can you tell the Committee what the increases were?

—They were not peculiar to the Foreign Office. As an example, during the year the senior Branch A staff received roughly £100 per annum as from the 1st April, 1956.

179. That does not take me any further. I would like to know the total sum involved. You give on page 69 the reason for it, and may I point out the largest excess was in Subhead A.2, but the provision under that Subhead was reduced by £154,000 in the Supplementary Estimate. Then you go on to say that the reason it did not quite work out was because of these wages increases. What I want to know is, what was the total sum which threw you out?—I have the figures here. I think they would be more intelligible if I could ask Mr. Jones to give them to you?

180. Certainly?—(Mr. Jones.) The error, Sir, was definitely a miscalculation in surrendering £154,000. We had no right to do it; it was a mistake. What actually happened was that the main Estimate as originally presented turned out to be £30,000 overspent. We surrendered £154,000 making £184,000. That £30,000 was made up roughly of savings on devaluation of about £310,000; the closed Missions that Sir Frederick referred to, Egypt and Saudi-Arabia, about £130,000; and on the other side of the account, pay increases over nearly all the Foreign Service during the year, about £159,000; pay for locally engaged staff, about £45,000; and foreign allowances increased for various reasons, such as cost of living increases and recommendations by the Inspectors, £104,000. Then we have the belated charges of £163,000, and the net total is an increase of about £30,000. We surrendered £154,000, so we were on the wrong side by £184,000.

181. With regard to the question you were asked about date, what was the date of this increase?—The increases for pay and allowances were on various dates throughout the year. They did not occur after the Supplementary had gone in. We are not saying that we did not know of these things. We knew what the factors were, but we misinterpreted them.

182. Now, what I would like to find out is the date between even the last increase and the date of your Supplementary Estimate. I am told there was a very wide gap. Is that so?—I can

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only speak for pay increases. The last pay increase was notified in September, 1957.

183. What was the date of the Supplementary Estimate?—We prepared the Supplementary in December, 1957, to meet the 1st January, 1958, deadline. The increases in foreign allowances occurred throughout the year.

184. In any case, there was some interval, at least four months, between the last date of increase and the date of the Supplementary?—Yes.

185. All I was going to suggest was that it seemed to be long enough for you to include it in the Supplementary?—We did include it. (Sir Frederick Hoyer Millar.) We did include it, but we did not calculate it quite rightly, I am afraid.

186. That is all I am saying. It seemed to me that there was a long enough interval to find out?—(Mr. Jones.) Yes, Sir, I agree entirely. We had all the facts in our possession. We misinterpreted the figures. (Sir Frederick Hoyer Millar.) I do not think it is perhaps the fault of the machine but the way the machine was worked.

Mr. Chetwynd.

187. This £154,000, naturally, throws the whole of your figures out on where you expected to be, and in the Explanation you said that the anticipated saving did not materialise?—(Mr. Jones.) Yes.

188. Is there in fact more to it? Things just do not materialise without good reason?—No. What we conveyed there was that we in the Department anticipated, wrongly, on this Sub-head a saving of £154,000. We anticipated wrongly, and it just did not turn out that way. It arises from these figures that I gave just now.

Mr. John Hall.

189. I want to clear my mind on one point. I rather gathered, Sir Frederick, from what you and Mr. Jones have said that this miscalculation has arisen not really through a fault in the machine, if I may use the word, but rather in the way the information was used, which seems to indicate at least a fault in your staff and not in the machine itself. Am I right in that, and, if so, are you sure that this kind of miscalculation is not likely to arise again?—(Sir Frederick Hoyer Millar.)

We do our best to see it does not. The difficulty is getting efficient people these days, to a certain extent, and enough of them. As I said, our difficulty very often is that, when we get some good chaps well worked in, we have to send them abroad to be accountants in, say, Germany or the United States. Do not think we are satisfied; I do not think anyone is very satisfied, really, with the recruiting generally. It is a problem.

190. Do you find great difficulty in obtaining suitably qualified staff on the finance side in competition with industry, because industry has the same problem, and they would be in a very difficult position if they miscalculated to the same extent?—We are having difficulty in recruiting, certainly, in the higher ranks, for very obvious reasons. I do not want to draw any comparison with industry, but taking some of the bigger firms, the average firm hardly has over 200 branches abroad which are dealing with varying currencies which we do not quite know about. I do not think many of them have branches in Laos, Cambodia and places like that, from which by the time we get the accounts a long time has elapsed. It is quite a long way away. (Mr. Jones.) May I add a point to this, and that is that the officers dealing with these problems in finance departments are not necessarily finance experts. A man who is dealing with this might have been a Vice-Consul in his post abroad at his last posting. He has a certain amount of financial knowledge, but he is more of a general administrator than a financial expert. In this particular case might I say that for the people dealing with the Supplementary Estimate at that time it was a first effort at Supplementary Estimates, because the people who were dealing with it in earlier years had retired simultaneously, so the present staff were new to the job.

Mr. Cledwyn Hughes.

191. But surely a miscalculation of £154,000 would not be the mistake of a clerk? That calculation would be scrutinised, surely, at the highest level?—Yes.

192. Therefore the mistake is not a clerical mistake of a member of the junior staff, it is a mistake of one of the senior officials?—(Sir Frederick Hoyer Millar.) I do not think anyone denies that there was a mistake. The difficulty is to get enough data on which to form

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[Continued.]

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a view. Really, the difficulty is to have adequate data to come to a right decision. We are always going to be in this difficulty, and we made a bigger mistake than we ought to have.

193. I appreciate that, but, with very great respect, the major part of the money involved affected two Missions, one in Egypt and the other in Saudi-Arabia?—That was only part of the economy. You see, in the original Estimate we made provision for each. By the time the Supplementary came to be prepared it was obvious we were not going to restore them, so we had to take something off. We had to make a rather special effort because we were under particular pressure then to cut down as much as possible, but we were rather too optimistic in the economies which we could make.

Mr. John Hall.

194. I am rather interested in this point, because from what I gather Mr. Jones to say you are still likely to put on to the work of the financial department people who have no specialised training in finance, who might be very well qualified in other directions but not in this. If that is continuing, are you not likely to find the same kind of miscalculation continuing to arise?—We are always faced with this difficulty in the Foreign Service, where you have to keep people moving around, because if you keep them too long in one particular branch they feel they are being badly treated, or if they are kept abroad they say, why cannot they be at home. But certainly the seniors move pretty regularly. (Mr. Jones.) They are still liable to postings abroad after their normal tour of duty in the Foreign Office.

195. In the same or different departments?—Not necessarily in the same department, in a different department of the Foreign Office.

196. With different types of responsibility?—(Sir Frederick Hoyer Millar.) Well, administrative.

Chairman.

197. Paragraphs 14 to 16. What type of stores are these that are accounted for here?—They are largely stores required in connection with the Foreign Office communications, such as cypher machines. I thought I might be asked that kind of question, and I had a little inventory made.

198. Can you give us some picture of what they consist of?—Cypher machines and cypher office things like Typex—they look rather like a sort of ticker tape machine—and teleprinters, radio equipment and valves, things like that, and various electronic components, equipment for the workshops for making or mending those machines, and a certain amount of raw materials for making the machines themselves, but primarily electronic equipment, and business machines really.

199. How many items have you to account for in your Stores Account?

—(Mr. Hooper.) We have 30,000 different kinds of items, Sir, covering these various fields that Sir Frederick has mentioned, but they are divided between seven stores, and they appear under some 52,000 different vocabulary headings. We have been trying to reduce the duplication between these stores. (Sir Frederick Hoyer Millar.) If I may say, I think one of the reasons again for this failure to keep the Stores Account correct has been the absence of a proper vocabulary.

200. It is a bit late in the day not to have had a proper vocabulary, is it not?—I think it should have been done before, but there was a good deal of confusion caused, of course, when they moved the whole establishment down to Cheltenham.

201. Presumably you moved the bodies along with the materials?—Unfortunately, a large number of the bodies declined to go with them, and I think that was quite a real difficulty, that when they did move they lost some of their more experienced staff, and they have had some difficulty in recruiting adequately trained or the right type of person in Cheltenham.

202. How far are the errors due to the lower grades who handle the stores, the people who go actually to the bins or to the stores, and how far to your system?—I do not think it is fair necessarily to blame the actual chaps who count the things. It is the fact that they had no very clear instructions on which to act, I think, also an absence of centralisation, which has now been put right or is now in process of being put right. I think it would be inefficient control or inadequate control from the centre plus, possibly, rather insufficient staff.

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[Continued.]

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203. You have some 30,000 different items. The Services will run into 600,000 different items in their Store Accounts. Has it occurred to you to consult the Services as to whether they can give you any advice?—We would be very glad to have advice, particularly as to what extent they make a 100 per cent. check of their stores every year or whether they make a 100 per cent. check of the obviously valuable and easily removable stores, and perhaps a slightly lower scale for the other things.

204. They have gone very carefully into the problem of common vocabularies, and they must have a great deal more know-how than you have?—Oh, yes. The Ministry of Supply might be a great help on that, I think.

205. The Ministry of Supply or one of the three fighting Services?—We are in process of drawing up a vocabulary now, and perhaps it would be a good thing if we checked our proposed vocabulary with the other Departments.

Mr. Stevens.] I do not think I heard Sir Frederick's answer to the last question. I think the question was, did the Foreign Office in fact consult with any other Service.

Chairman.

206. I think the answer was "No", but I did not hear the answer?—Could I ask Mr. Hooper, who is in fact drawing up a vocabulary? (Mr. Hooper.) May I answer that by saying we did not specifically go to the other Services and consult them, but when we were trying to put the stores situation right in headquarters we did in fact bring in a stores officer with years of experience from the Air Ministry. (Sir Frederick Hoyer Millar.) We ought, I think, perhaps to accept your advice and consult the other Departments about our proposed vocabulary and see if they can improve it.

207. Vocabularies can be very important?—Yes.

208. To avoid overlapping of different articles?—That is the reason why the overstocking to which reference is made has occurred.

209. Exactly. You have the same article indexed under seven different names. How far is your assumption correct that the troubles were due to previous stocktakings and not your

latest stocktaking? Are you satisfied that that is so?—I think the first one was wrong and the second one, too, but the difficulty is getting it right. I think it is a process of gradually bringing the two things together, but we have got this new system of control which should be fully in force by the middle of this year. The vocabulary, subject to any alterations we may have to make now, also should be ready, and we do feel confident, I think, that the position should be right by the end of the year. (Mr. Hooper.) I feel confident that we shall have the system right by the end of the year. I can state that we have in 1958 carried out a 100 per cent. stocktaking. We are now on a sound basis from which to start for the future, but this 100 per cent. stocktaking that we have now done has revealed some further discrepancies, and I think we shall continue to show discrepancies for at least one or two more years.

Chairman.] You have got your system right, but you cannot work it. There are two different factors.

Mr. John Hall.

210. I was struck when you were reading out the list of items by the similarity to the items and the stores used, say, by the Ministry of Supply. If I could follow up the suggestion on this, is there any reason why your stores should not be kept and looked after by one of the other Services or Ministries? Let us take, for example, the Ordnance, who had probably one of the most efficient storekeeping services in the country for many years. Could they not control your stores for you?—(Sir Frederick Hoyer Millar.) Yes; ours are very technical, of course.

211. So are theirs?—We have to have them on the spot.

212. You keep them at Cheltenham?—Yes.

213. They could administer them for you without any trouble. They have been doing it for many years. They have a vocabulary system which is absolutely first class. It could probably be done more cheaply, and would it not be done more efficiently?—It might be done more efficiently. I do not know necessarily that it would save a great deal of money.

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[Continued.]

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214. Could I go on to another point? In one store no complete stocktaking had been carried out, and further the internal auditors were unable to carry out a satisfactory audit for the reasons stated in the Comptroller and Auditor General's Report. Does the fault lie there with the control in that particular department, and, if so, have there been any steps taken to change the control? —Yes. If I might just read this out, even before this Report was made, G.C.H.Q. had realised there were shortcomings and had decided to improve matters under five different headings. First of all, all the stores and the stores staff and their records are being brought under single control in the central establishment. The actual stores, although they are physically located next to the divisions which they serve, some of which are in different parts of the country, are all coming under the same control as the central store, and the central controller will now be responsible for the distribution of the headings between the central stores and the divisional stores. All the stores records are now being centralised to enable the stocks to be identified more rapidly, and in order that at any given moment the size or value of the stockholding can be calculated more quickly than previously. All these arrangements should be completed in the next few months, by the middle of this year, and when that is done the Establishment and Finance Division of G.C.H.Q. will have the responsibility in one branch for all the stores, provisioning, stocktaking and accounts; and at the same time a comprehensive catalogue or vocabulary is being prepared, which we hope will be ready again within the next three or four months, and we hope that as a result of having this vocabulary and the central control not only will it make it easier actually to take the stocks but also to avoid what has happened in the past, duplication of orders and perhaps some excessive stockholding.

215. I think that is a good instance, but can you really assure the Committee that you would not have the same readiness of availability of stores with a still worthwhile saving in overheads if these stores were held by some other Service which already has a store system?—It is difficult because some of these Missions are working abroad. I should doubt very much if from the

point of view of the efficiency of the Service that would be a good idea. They are rather technical stores, but, certainly as regards the keeping of them, we should be only too glad to profit from the advice of the Service Departments.

Mr. Chetwynd.

216. Am I right in understanding, then, that the position is that records and accounts are held centrally but stores are physically located in different places to meet your convenience? Are they mainly abroad or in this country? —In this country mainly.

217. Are they all?—(Mr. Hooper.) No, there are some small holdings abroad. (Sir Frederick Hoyer Millar.) But the bulk are in this country.

218. Is there any reason why they should not be centralised in one place in this country?—They are to a large extent, but some of them, the spare parts for the radio stations for example, cannot be put together. (Mr. Hooper.) The vast bulk of these stores is in fact at Cheltenham now. We have some fixed stations in this country which hold very small stocks, and they are constantly topped up from the centre, but at Cheltenham we are operating on two sites, and our workshops are divided between those two sites, so we have local stores serving each of the workshops now centrally controlled and fed from the central equipment store which feeds through all the common items.

Mr. Hoy.

219. Sir Frederick, stocks and stores have given this Committee considerable trouble for a number of years, not only the Foreign Office ones. They can involve considerable sums of money, I think you would agree. I notice one of the reasons you have given for this difference is lack of experienced staff. Now, it does not matter what system you have which might ease it, there would be no guarantee unless you have competent staff. Can you now assure us that you have competent staff to undertake this?—(Sir Frederick Hoyer Millar.) One can never be absolutely sure. They are making every effort to recruit competent staff now that they have settled down in Cheltenham. There was a considerable turnover, I understand, in the first year or two because some people who came to Cheltenham did not like the neighbourhood, and there

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[Continued.]

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was a good deal of competition, I understand, from light industry and that sort of thing; but I understand now that Mr. Hooper is reasonably satisfied and doing everything possible to increase the efficiency, not only of the staff itself who do, so to speak, the lower grade work, but of the controllers, too.

220. Are you getting sufficient staff, and may I add to it, if you are not getting sufficient staff what is the reason for your not getting it? Is it because you cannot find them or because the Treasury will not allow you to engage a larger number?—(Mr. Hooper.) We have got, I think, sufficient staff now for this job. We have difficulty in holding them because there are three large firms locally who also employ storekeeping staff, and they do offer a rather better rate of pay undoubtedly than we can. The result is that we tend to get the less good of that particular kind of people coming to us, and they are rather a floating population too. They come to us, and then leave and go to one of the local firms. But I think it would be wrong to leave any impression that we have not got enough posts. It is filling them with the right sort of people that is the difficulty.

Mr. Arbuthnot.

221. Is it not a little unfair to blame the staff? You yourself said that the chaps who count the things had no clear instructions on which to act?—(Sir Frederick Hoyer Millar.) Again, it is the lack of a proper machine, and such machine as there was was not operated very well.

222. It could not be expected to if it had no instructions on which to act, could it? Those were your words. Is it Cheltenham which is referred to in paragraph 15: "At one store no complete stocktaking had been carried out since the introduction of the new store accounts". That was Cheltenham, was it?—Yes.

223. "Since the introduction of the new store accounts". What period was that?—1954.

224. From 1954 to 1958 no stocktaking was carried out?—I am not sure that it is true to say, no stocktaking.

225. That is the Comptroller and Auditor General's Report?—(Sir Edmund Compton.) The new accounts

were introduced in 1955, and the statement in paragraph 15 is that at that date, 1958, no complete stocktaking had been made.

226. No complete stocktaking, yes?—(Sir Frederick Hoyer Millar.) I think it was inadequate.

227. Further on in the next paragraph we are told: "A newly introduced system of central procurement and a scheme to centralise the control of stores accounting and provisioning should remove the major cause of excessive stockholdings." Has the system of procurement been one of the difficulties that you have been up against?—My understanding was yes to some extent, in so far as it was not centralised. I think there was a certain amount of duplication, and I think that one object of the present measure of centralisation is to avoid the previous duplication of orders.

228. It is expected that the stocks will be reduced to an economical level within two years. Why is it going to take two years before stocks are at an economical level?—That was the hope when this was written. The bulk of the excess stores consists of about £20,000 worth of radio valves, I think. We are now going with the Ministry of Supply into the possibility that they may be able to market them.

229. So you think it is going to take longer?—No, we will sell them.

230. You are going to sell them?—Or explore the possibility of selling them. Instead of, so to speak, using them up, we will try and sell them through the Ministry of Supply.

231. When do you think that an economic level will have been reached here?—I do not quite know. The total overstocking error is about £20,000 worth now, I believe. I do not know what the average inventory for the year ought to be. (Mr. Hooper.) I think that we ought to be able to complete a sale, if that is the only means of disposing of them before the end of this year.

232. At Cheltenham you have got two sites, I gather, some distance apart on which you have workshops, and somewhere else you have got a central control. Is that really an economic way in which to run matters?—(Sir Frederick Hoyer Millar.) I think it probably is an economic way, unless you give us a new building altogether. I have

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[Continued.]

been there; the buildings are modern and very well equipped, and they are no great distance apart, I think. (Mr. Hooper.) Could I say, Sir, that in fact the central control of procurement and stores is on one of these two sites adjacent to the largest of the stores, which is the one to which reference was made in an earlier paragraph as the one which has given the greatest trouble. The stores on the other site are under good control and have been completely stock-taken in each year.

Mr. Stevens.

233. Mr. Macpherson, to what extent has the Treasury any authority in these matters to advise Government Departments as to their systems of financial records and stores accounts?—(Mr. Macpherson.) As you see from the Comptroller and Auditor General's Report, we did agree with the Foreign Office in 1954 and the beginning of 1955 that they could reconstitute their record from a physical check of the stock. I think we have probably not been as helpful in this case as we might have been. In fairness we might have spotted from the requests that were put to us since 1955 for the writing off of stores that the system was not working too well, but it is something that we are aware of now. We have a general responsibility to help, and in fact the Treasury at one stage did suggest that the Air Ministry, for example, might be consulted as being a Department with a good deal of experience in this field. But now that we are fully alive to this we will try and help as best we can. We have obviously, as the central financial authority, a responsibility to see that systems are working properly and that they are good systems.

234. I think that this Report shows very clearly that the Treasury did not know, for example, that there was no vocabulary or that there was no proper stocktaking. How is it that the Treasury did not know?—I think there was a vocabulary. It was that there was no common vocabulary. There were vocabularies in the various stores.

235. There was no adequate vocabulary. That is clear. That is stated here. How is it the Treasury did not realise that?—I admit we did not realise that.

236. And the Treasury not only authorised the abandonment of an old system in 1955, but, apparently,

authorised the introduction in 1955 of another system which itself was not satisfactory?—We were told at the time that the build-up of the new system would be on the basis of a 100 per cent. check of each item, and probably we assumed, wrongly as it appeared, that that meant that there was a common vocabulary of the items.

237. Is it possible, then, that in other Government Departments there are stores accounts systems which do not account for the stores?—I would hesitate to say that. As a Member said earlier, this is a problem which has given the Committee and the Treasury a good deal of concern, and it is one which we are trying, and I hope trying successfully, to get right.

238. Sir Frederick, what would be the approximate total value, the aggregate value, of these stores?—(Sir Frederick Hoyer Millar.) Of these stores now, more or less?

239. Yes, all these things you have mentioned?—About £½ million. They are mostly electronic machines and things like that.

240. On £½ million there were surpluses of £30,000. It is a very high percentage, is it not? Do you not think so?—I suppose it is, yes.

241. So far as all these surpluses are concerned, are you now exploring the possibility of selling them? You referred just now to valves?—All the excess, yes.

242. Are the surpluses, then, only of marketable goods? How does one sell a surplus Typex machine?—I think the surplus of £30,000 was not £30,000 worth of excess stores there which we did not require, but that there were more there as compared with what the inventory suggested. So I do not think it follows that because a thing was excess it was surplus, but the surplus equipment is almost entirely radio valves, and those are the ones which I referred to earlier. Having begun by hoping we might be able to use them up in the normal course of operations, that is going too slowly, and we are trying now to get the Ministry of Supply to market them for us.

243. So far as the other things are concerned they are not types of stores which will deteriorate because they are going to be held for longer than they should be?—I do not think so. The

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[Continued.]

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reason why there are these large figures is that your requirements do change from time to time, and you have to be able to answer the requirement pretty quickly. So, to some extent you have to carry what looks like a pretty big stock. But I do not think it is fair or right to say, except for the radio valves, that there is anything, so to speak, wasted there.

Mr. *Cledwyn Hughes*.

244. I just wanted to ask a question on page 74 on stores losses. I wanted to ask whether the deficiencies there of £6,450 and the surpluses of £7,120 are included in the £30,000 and the £8,500 in paragraph 14?—I rather think this is different. This is not G.C.H.Q. This is Foreign Office.

245. So they are not quite the same?—No—I am sorry, I am wrong. It is.

246. It is included in this?—Yes. (Mr. *Hooper*.) The £6,000 deficiencies, yes.

247. I see. Could I be told what are these 108 cases which are written off under delegated powers? What exactly does that mean? That is on page 74 under "Stores losses"?—(Sir *Frederick Hoyer Millar*.) We have authority from the Treasury under Standing Rules to write off minor things, as occasionally a sum of money gets lost, people occasionally, I am afraid, take a few stamps, and things like that, but I do not think we are allowed to write them off under delegated powers above £25 each time—or a little more than that. The Treasury have been a little more liberal recently in giving us delegated powers.

248. What is your ceiling?—(Mr. *Macpherson*.) It varies according to the loss, but for this particular type of thing it is £25, and there is another limit of £200. (Sir *Frederick Hoyer Millar*.) I think this is petty cash.

Mr. *Pentland*.

249. In regard to these radio valves which have been referred to, you said the surplus is £20,000, and you will turn these over to the Ministry of Supply. How will the Ministry of Supply dispose of them? Will they seek quotations from private industry?—I do not know.

250. What part of your £20,000 do you expect or anticipate getting back?—We are in touch, as I understand it, with the Ministry of Supply now as to the best methods of marketing. We will certainly be guided by their advice. They

may be able to use them for some of their other customers, the Service Departments.

Mr. *Chetwynd*.

251. On this question of the disposal of the valves, is there not a standing Government instruction now that where one Department has a surplus they should offer them to other Government Departments before disposing of them to the public? I think that is so?—I presume that is what they are doing in the Ministry of Supply.

252. In the meantime are you going ahead ordering new valves, incurring additional expenditure? I know these may become obsolete and you may need new types and so on, but are you watching the point that you are not ordering new valves when you can replace defective ones from your existing stocks?—We are watching that we do not order any more valves of a kind that we have already in stock, but there are some new types of valves which are not covered by this.

Mr. *John Hall*.

253. Could you give me the total number of staff which are engaged in store-keeping, including your head office element, and is it possible to say also what is your total cost, including the cost of buildings, general administration and staff salaries, in maintaining your store-keeping?—(Mr. *Hooper*.) The headquarters controlling staff of the stores is at the moment 12 strong, but a lot more staff are engaged in controlling the stores out where they are physically located next to the workshops they are serving. Those amount to another 40 or 50 staff. Most of those are storekeepers. I cannot give you offhand what the total salaries are.

254. I think, Sir *Frederick*, you said that the total value of these items, the 30,000 items was about $\frac{1}{2}$ million?—(Sir *Frederick Hoyer Millar*.) Yes.

255. I come back to the point I made earlier, that it does seem to me that if you were to take advantage of the facilities offered by existing storekeeping services you would save money, and if I could follow it up with a point about your sub-depots, are none of your sub-depots near Ministry of Supply or other Service depots?—I do quite see the point there. There is, of course, a security angle to all this. This is special equipment.

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256. I appreciate that; but, of course, many of the stores which are held by the R.A.F. and the Army are also security, and they hold the same kind of technical

stores?—(Mr. Hooper.) Our out-station stores are not near to any large Service depots.

VOTE 2.

FOREIGN OFFICE GRANTS AND SERVICES.

Chairman.

257. Paragraphs 17 to 19, Grant in Aid to Jordan. Are you making any progress in this matter?—(Sir Frederick Hoyer Millar.) With the Jordanians, yes, we are, actually. Since the Report was written we have had through our people in Amman accounts for both the financial years 1955-56 and 1956-57. It is fair to say that we have only extracted those after quite a lot of effort. On the other hand, it is equally fair to the Jordanians to say that they have had rather a busy year. But we have got these accounts. 1955-56 seems more or less all right as regards the totals. In 1956-57 there is an odd £100,000 which, according to our ideas, they seem to have transferred from one heading to another; but we are going into the accounts now with the Treasury and the War Office, and I think it looks as if, as usual, we shall have to get some further information from Jordan. But I think there is no reason to believe that we shall not get the information we want or not eventually be satisfied with these accounts. It takes some time, but the Jordanians have made an effort, they do understand the necessity of producing properly audited accounts, and I think the situation has improved. Of course, we shall go on watching it, because we know it is a thing which has got to be got straight.

258. Mr. Macpherson, are the Treasury satisfied with the progress that has been made?—(Mr. Macpherson.) We have not seen the accounts in detail, Sir, but I understand from Sir Frederick

that he thinks that the recent statements by the Jordanians largely satisfy the requirements. There may be some points which need following up. At the moment it is too early to say whether we are satisfied or dissatisfied. I think we are nearer satisfaction than dissatisfaction. (Sir Frederick Hoyer Millar.) We have at least got the accounts, which we had not got before.

Chairman.] That is something.

Mr. Chetwynd.

259. It does not necessarily follow, because you have accounts, that they are accurate, of course?—Oh, no.

260. What machinery have we got out there for checking up on the submission of accounts to us?—Our Embassy is continually chasing up the Jordanians.

261. Do you have a special investigation, for instance, as regards this £100,000?—I do not think it is our practice with other countries to check their accounts. We have to accept them. We do not put our own accountants into their Ministry of Finance.

Mr. Arbuthnot.

262. You said, so far as the 1955-56 accounts were concerned, they appeared to be all right as regards totals, but are they all right as having been expended for the purpose for which they were made?—That is exactly what we are looking into now with the War Office and the Treasury. As I said, it looks as if in some respects we shall have to go back and ask for further information. But on the face of it, on first impressions, they do not look too bad.

CIVIL APPROPRIATION ACCOUNTS (CLASSES I-V) 1957-58.

CLASS II.

VOTE 9.

DEVELOPMENT AND WELFARE (COLONIES, &c.).

Sir JOHN MACPHERSON, G.C.M.G., Permanent Under Secretary of State, Colonial Office, called in and examined.

Chairman.

263. Will members turn to paragraphs 22 to 24 of the Comptroller and Auditor

General's Report on the Civil Appropriation Accounts (Classes I-V)? This is a rather melancholy tale, Sir John?—

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[Continued.]

(Sir John Macpherson.) I agree, it is not a happy story.

264. When you do work of this kind what adequate supervision is there available?—It depends on the Colonial Government and the method by which the work is being done.

265. Was this scheme carried out by direct labour or by contract?—By direct labour.

266. Who was responsible for the administration of it?—The Principal of the school using some of the students on the work.

267. Does that mean they were all amateurs?—They are students. It is not an uncommon practice where you have a technical school to get the students to do some of the bricklaying or whatever it may be that they are learning.

268. Was there no experienced practical professional builder on the job?—The project started originally as a Nyasaland project in 1949, and the first building was carried out by the Public Works Department, and that was mainly building the Principal's house and some staff houses. Then a Principal for the school was brought to Nyasaland from Basutoland, where he had shown himself to have a very considerable capacity and capability for this kind of building. The Director of Education in Nyasaland had known him in Basutoland, and it was proposed that he should be responsible for the building. To begin with he had a works supervisor with him, but after some time the works supervisor retired, and from that point he was solely responsible.

269. Was he an Englishman or a native?—A South African.

270. South African; what does that mean?—White, in this case.

271. Can you give us any explanation of how this happened, or why?—I would like just to explain a little. We have had further reports from the Governor since the Comptroller and Auditor General's report was written. The Governor concedes that the standard of work is not up to that of the Public Works Department, but there was a slightly wrong assumption drawn by the Comptroller and Auditor General about the £12,000 which was said to be required for rectification and repair. In point of fact, much the greater part of

that was for completion of unfinished work and for fittings and furniture, and the Director of Public Works reckons that the nugatory expenditure is under £2,500.

272. But what about this building, the underground brickwork with mud mortar instead of cement?—The Public Works Department's specifications until 1952 allowed that, so even if the Public Works Department had been building it before 1952 they themselves would have used this mud mortar.

273. Irrespective of the fact that it was not ant-proof?—Yes. What we really think is that this Principal from Basutoland had underestimated the capacity of the termites of Nyasaland.

Mr. Peyton.

274. Was there anybody in Nyasaland to tell you about the powers of these white ants in Nyasaland?—I am bound to say I think there should have been more continuous checking by the Public Works Department while the work was going on, but I know the Director of Public Works did visit and remarked about the absence of this white-ant-proof course, and the Principal seemed to reckon that it was not likely to cause trouble.

Chairman.

275. When you start on a thing like this have you not got a proper specification?—When the application comes in it tells you how they are going to carry it out, but we would not have working drawings or actual construction plans of the building, necessarily.

276. You would just assume?—No, the Governor in making the application has to say how the work will be carried out, if materials and staff are available, whether it is to be done by contract or otherwise, and then we take advice from our expert advisers, building advisers, or road research people, if necessary.

277. What advice can your building advisers give you if they have got no specification?—The Colonial Government tells us about the type of building and whether it is within the capacity of the Department, or if tenders are going to be called for. In this case, the Secretary of State's then Adviser on Technical Education, a very distinguished man, Dr. Harlow, had visited Nyasaland just before the application came in, and in-

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[Continued.]

deed the application arose out of the advice he had given to the Governor. I am talking about the type of institution now, and when we referred the application to him he spoke in terms of considerable praise for this Principal, whose work he had seen.

278. What reply have you had from the Governor with regard to the possibility of meeting this nugatory expenditure from local funds?—The Governor and the Government of Nyasaland have agreed not only to spend £12,000 for rectification and repairs but also to refund the nugatory expenditure, which is mainly on the wiring.

279. That is the £12,000?—That has already been met by the Nyasaland Government.

280. And it will effectively make the place ant-proof?—I do not think I could declare that. The point is that the building will be usable. It is not up to current Public Works Department standards. It may cost more to maintain because of the standard of workmanship and the absence of ant-proofing, but that additional maintenance cost will fall, of course, with the other recurring cost, on the Nyasaland Government.

Mr. Hoy.

281. Before we go any further, could we have one point clear, which I am sure many Members of the Committee find it difficult to understand? First of all we are told that the remedying of the defects will cost £12,000, and Sir John says that the Comptroller and Auditor General has been misinformed and that in fact this £12,000 includes £10,000 for new work and only £2,000 of nugatory expenditure?—I said he had drawn a wrong conclusion from the Report of the Director of Public Works.

282. No, you said the Comptroller and Auditor General had?—Yes, had drawn a wrong conclusion from the Director's Report.

283. And then you went on to say, Sir John, that it would only take about £2,000 to rectify the bad work?—For the nugatory work, the work which has been badly done and has to be replaced.

284. That is right, and the £10,000 would be for new work?—Completion of unfinished work, fittings and furniture.

285. I see, not actual work but fittings and furniture?—There may be some structural completion; I have not got actual details.

286. I think before we go any further that ought to be cleared up. Perhaps the Comptroller and Auditor General would tell us why he drew these deductions that it would cost £12,000?—(Sir Edmund Compton.) It is not I who am referred to, it is the Comptroller and Auditor General of the Federation of Rhodesia and Nyasaland.

287. Then I presume, Sir Edmund, when you got this, because it is in your Report, that at least someone in your Department would cast an eye over it. Did they or did they not?—No. This is in fact a quotation of the Comptroller and Auditor General of the Federation's Report and the reply that was given to his Report by the local Director of Public Works.

Mr. Hoy.] I see.

Mr. John Hall.

288. I gather that the Principal of the school was directly responsible for supervising this work, but there must have been someone, surely, above him who would take the final responsibility? Was the Director of Public Works in any way responsible?—(Sir John Macpherson.) I think the Principal was given the responsibility. I am inclined to think that there was a weakness. There was not a fixed procedure whereby Public Works officers would check up, but the actual responsibility was fixed on the Principal.

289. With reference to paragraph 24, why did the Governor take such a long time to reply to a request for information?—I think we ought to have checked up on him a bit sooner. We got the report from the Comptroller and Auditor General of the Federation and we sent it to the Governor. We should have noticed earlier that he had not replied on this particular point. What happened was that there was a series of items on which we wanted the Governor's comments. We sent a communication to him asking for his comments and went on to specify in detail one or two, but we did not pick this out as demanding a special report. We should have noticed earlier that in his replies he had referred to these other matters and had not taken up the most important of them all.

Mr. Chetwynd.

290. This seems a very slap-happy way of going about building schools, I must say, but was the Colonial Office satisfied

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[Continued.]

that the Nyasaland Government had qualified staff available to supervise the scheme in the first place?—We were satisfied from the report given to us by the Colonial Secretary's adviser on technical education that this Principal in charge of the school was a man who had demonstrated his capacity for carrying out building in Basutoland.

291. It was the responsibility of the Nyasaland Government, I take it, to see that the school was built. If this man had not been a suitable man, in their opinion, I assume they would have taken the job over themselves, or at least supervised it? In this case, was there not any supervision from the Nyasaland Government at all, or did they just allow this man to go along with it until the finished thing came along and all the defects were found?—I have not records about actual supervision during the construction of the building.

292. Have all these things now been put right? As I understand it, it would have cost £63,000. It actually cost £61,000 and, on top of that, you had to spend another £12,000, so now you have got a school which has cost £73,000 which still is unsatisfactory. Can we be sure now that as far as possible the repairs have been carried out effectively? Have we had any report on that from the Governor, again?—The school is perfectly usable although it may need more maintenance because the standard of construction is not up to the full Public Works standard. It is not unusual to have a Principal of a school doing the building. I myself have had experience of a Principal like this building a house very well and very cheaply. I have often teased the Public Works Department about such cases. The Public Works Department said: "If we could have a man of that quality continually on one job, not costing his salary, we could also do as well". So I do not think it was an unusual way of carrying on, but there should have been better arrangements for checking up by the Public Works Department.

293. Are you making further inquiries to see how it stands up to future use, to see whether the maintenance actually does become too heavy?—I do not think so. It would be rather more expensive to maintain than a full standard Works Department building, but we have no reason to think that it will become unusable or not have a reasonable life.

Mr. Hoy.

294. Sir John, the Report says that nothing short of complete demolition would put it right. There is a great difference between that and patching it up over a period of years?—I should imagine that a Director of Public Works, visiting a school which had been built by, perhaps, in his view, somewhat of an amateur, might be inclined to be rather tough in his criticism.

Mr. John Hall.

295. To bring it up to the Director of Works' own standards, presumably?—Yes.

Mr. Hoy.

296. Even to bring it up to the Director of Works' own standards. You remember that the greatest criticism, Sir John, if I read this aright, is against the foundations, and, if the foundations are rotten, it seems to me that it cannot stand for very long?—It is a question of what happens to the foundations by termite damage. By using insecticides they can control that, but it costs money.

297. What is the life of the school? How long do they estimate these buildings will stand?—I would not know the answer on this particular building, but I should have said 30 or 40 years. That, I admit, is a guess.

298. One has got to make some estimate of what it is going to cost to maintain it, if it can be maintained, against what it would take to build a decent school, and I presume that has been gone into?—According to this arrangement, that extra cost will fall not on the United Kingdom Government but on the Nyasaland Government. They will pay for everything from now on.

299. May I then ask you two other questions? When it was decided to build this school there would be certain estimates taken out, especially with regard to bills of quantities and with regard to materials. Was it mud that was specified, do you know, in the original estimate?—I do not know, but I think the reference in the Report is to mud mortar. I take it that is a brick building, and the point is that the mud mortar was used in place of cement in the brick course below ground.

300. I think we are talking about the same thing. What I want to know is, in the original estimate was it cement or

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[Continued.]

mud mortar?—It would be mud mortar, because the Public Works Department themselves used mud mortar up to a time after the beginning of the construction of this building, and only in 1952 changed their specifications to insist on cement.

301. You were telling us that there was no supervision outside of the Principal himself?—To the best of my knowledge the Principal was given the job of supervising the work and would send in his reports. The Director of Public Works obviously visited the building later. I do not know whether it was within the period of the building.

302. In other words, the Principal would be responsible for the ordering of the materials and the erection of the building?—Yes.

Mr. Arbuthnot.

303. Have they no white ants in Basutoland?—I do not think there is any part of Africa without termites. I looked up this man's reports and he had very glowing reports in Basutoland, and the Director of Education in Nyasaland had been in Basutoland himself and knew of his reputation, but the reference is to very fine buildings in stone for which he has been responsible, and perhaps it was the different building methods in a different part of Africa which got him on the wrong foot.

304. Have you improved your organisation for hastening replies which are outstanding for a very long time?—Yes, I have. I am not making excuses, but the particular department was understaffed and has been strengthened. The delay is certainly very much better. I should hope to complete the staffing of it—

305. When do you reckon a reply should be hastened? What do you give it now, with your improved organisation?—From the time we get these reports by the Department?

306. No. As I see it, you did not get a reply from the Governor as between August, 1957, and October, 1958?—I think we reminded him, yes.

307. How long now do you give a letter of that kind before you send out a reminder or ask him whether he had your question?—I mentioned before that we had had replies from him on this series of queries, but this one was left out. If it had been a single odd query

and we had sent out for a report, I should expect the file to be brought up for a check in two months at the latest.

Sir Colin Thornton-Kemsley.

308. Sir John, I want to be clear about this procedure. I am not quite clear at the moment. When you originally decided to have this school built, did you do it before you knew what the cost was going to be, or did you say, first of all: "We will have the school built and we will pay for it", without knowing what the cost was going to be?—No, we knew what the cost was. No scheme is made until a very full application and costs have been sent in to us.

309. How detailed are those costings at the stage that it is sent on to you? Is it in the stage of an estimate from, say, the Public Works Department?—Yes.

310. Or the actual competitive tenders?—An estimate. For example, there will be staff houses specified separately, dormitory blocks, workshops, ancillary buildings, and a price for each.

311. Was the estimate based on direct labour?—Yes.

312. Was any charge made for the student labour?—No.

313. Or the supervision of the headmaster?—No, both were unpaid, as I understand it.

314. And the cost was estimated by the Director of Public Works?—I cannot say. I regret that I cannot say so, but I would imagine that when the costs were put in they would be referred to the Public Works Department for a check of those estimates.

315. And he is an official appointed by the Federation Government, I suppose, is he?—Not the Director of Public Works.

316. Is he a Colonial Office man?—He would be a territorial officer.

317. So his qualifications are a matter of your responsibility?—That is so.

318. Presumably, the Director of Public Works was satisfied that the estimate was a reasonable one and, presumably, he would have supervised the work in the course of its construction?—Not necessarily supervised it, unless arrangements were made to that effect. I suggested earlier in my examination that there should have been more regular inspections.

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Sir JOHN MACPHERSON, G.C.M.G.

[Continued.]

319. Is there any procedure, such as there would be in this country, for certificates to be issued by whoever is supervising, or by whoever is responsible for the building, certifying that work has been done to a satisfactory stage, and an instalment of payment can be made?—That would be the normal procedure for, perhaps, bigger projects than this one.

320. But this is a fairly big one, is it not, a £63,000 estimate for one school?—We get teaching hospitals going up to £5 million.

321. Without any charge for labour? So you think that no cheques were sent or payments made without any certificate?—I take it that the Principal would have certified that the progress of work had been done to his satisfaction. He was the person given responsibility for it.

322. Who would have done the electric wiring? Would that have been done by direct labour too? That was one of the things that went wrong, was it not?—I would expect skilled labour would have been employed for that.

323. That was condemned almost at once, was it not, if the report is correct, as were the foundations, “footings” they are called here. That was rather a serious thing, was it not?—No. At the time when the foundations were started the process that was used by the Principal was similar to that used by the Public Works Department.

324. As to the use of mud mortar?—The use of mud mortar instead of cement.

325. But we are told that they were inadequate?—So, too, by that standard would have been any Public Works building done at the same time.

326. Inadequate only because of the way that they were bound?—For guarding against termites.

327. May I ask the Comptroller and Auditor General: that is how you interpreted the use of the word “inadequate”, is it? They were inadequate, not because they were not deep enough but because they were bound with mud mortar instead of cement?—(Sir Edmund Compton.) That is how I understood the report, Sir.

Mr. Peyton.

328. Sir John, I do not think this is worth labouring at all, but can you say now that you are satisfied, so far as it is humanly possible to be satisfied, that this

sort of thing will not happen again, that adequate arrangements have been made for supervision in the future?—(Sir John Macpherson.) I think I would be frank and say, if this application came in again now, we would write out at once and say: “We see this is supposed to be carried out by the Principal. What assistance will he have and what supervision will there be during the course of the work?”

329. Do you not think it would be wise to instruct the Colonial Governments that it is their duty and their responsibility to see that in any works there is adequate supervision?—This matter was taken up by the equivalent of the Public Accounts Committee in Nyasaland, and they made recommendations to discourage departmental building or, where it is unavoidable, to ensure that it is adequately supervised. So we put a good deal of trust in the Governments to do what is right. I would not want to needle them too much.

Mr. Pentland.

330. The building operation, I assume, has been carried through by direct labour, but you did say that the electric wiring installation had probably been carried out by experts?—Craftsmen.

331. Is there some sub-contractor brought in?—I am talking now without full knowledge. If you ask me, I could not answer from knowledge, but I would expect some electricians to be on the payroll at a higher rate than ordinary labour to carry out the work.

332. What about the sub-station? Would you bring in sub-contractors for that? Is that specified for?—A sub-station for what?

333. For electricity, where you generate electricity?—I think they would take electricity probably off the grid.

334. Generate their own off the grid?—I do not think they generate themselves.

335. So we may take it that there is no sub-contractor brought in at all?—No.

Chairman.] We will turn now to page 112, Subhead A.4, and page 114, the various grants. I have no questions.

Mr. Chetwynd.

336. I would like to know something more about the Jamaican position, the

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Sir JOHN MACPHERSON, G.C.M.G.

[Continued.]

Mona Dam?—Yes. The Mona Dam is written on our hearts. I think my recollection is that this Committee dealt with it last about February, 1955.

Mr. *Chetwynd*.] I was not on the Committee then.

Chairman.

337. There was no water in the reservoir then, if I remember rightly. Have they succeeded in making it waterproof? That is the really important matter?—They have sealed the bottom of the dam. That was all right, but they still had some worry with the walls, and every time the Jamaican Government asked us for any more money we refused. They have now handed over the whole dam to the Water Commission, and there were two methods on the advice of the consulting engineers, either to induce natural silting or to seal the sides. They are using some sort of fibreglass to seal the sides.

Mr. *Chetwynd*.

338. But it is being used now, I take it, for water supplies?—I do not think I can put my hand on my heart and say it has been proved to hold water yet. I think it is still under test as to whether the walls are satisfactory.

Mr. *John Hall*.

339. On page 113, in note 3, under the heading "Claims Waived", there is a reference to a total of £6,906 arising from the fact that probationers resigned before having completed a minimum of three years?—Yes. A man is

appointed on probation and he signs an agreement probably, I think, for one tour of eighteen months—it depends which territory you are in; I am inclined to reply on a Nigerian basis. But if he does not get confirmed or resigns, he has signed an undertaking that he will refund to the Government the cost of training and passages out, and so on.

340. And they did so in this case?—Well, sometimes it is written off because a very good case can be made out. A man may find he cannot stand up to tropical conditions, and it would be pretty brutal to insist on him paying back the sum spent on training.

341. I see there is an amount written off, for the loss of a deck watch, of £64. It must have been a very good deck watch?—It was one used in a ship. In Tanganyika, a deck watch—a chronometer, used as a guide to navigation—stolen from an office.

342. The last point I have is on page 114, the grants to the various territories. I was interested to see the grant to British Guiana of £1,200,000 approximately, as opposed to the grants to Sierra Leone and Somaliland. Are the sizes of those grants related to the direct needs of the populations?—Yes. A grant given in any one year does not give a measure of the help that has been given to any one territory because grants are approved over a whole period, which may have been, for some territories, over a three-year period. These are the grants that are given in the year under reference—1957-58.

STATEMENT OF EXCESSES, 1957-58, CIVIL ESTIMATES.

CLASS X.

VOTE 4.

NATIONAL INSURANCE AND FAMILY ALLOWANCES.

CIVIL APPROPRIATION ACCOUNTS (CLASSES VI-X) 1957-58.

CLASS X.

VOTE 4.

NATIONAL INSURANCE AND FAMILY ALLOWANCES.

On this Account no questions were asked.

THURSDAY, 12TH FEBRUARY, 1959.

Members present:

Sir George Benson, in the Chair.

Mr. Arbuthnot.
Mr. John Hall.
Mr. Hannan.

Mr. Stevens.
Mr. Thornton.

Sir EDMUND COMPTON, K.B.E., C.B., and Mr. J. MACPHERSON, called in and examined.

TREASURY MINUTE ON PARAGRAPHS 2-7 AND 8-11 OF THE THIRD REPORT OF THE COMMITTEE OF PUBLIC ACCOUNTS, 1957-58.

Sir JOHN HAWTON, K.C.B., Permanent Secretary, Ministry of Health, and Mr. J. ANDERSON, C.B., Secretary, Department of Health for Scotland, called in and examined.

Chairman.

343. Will members turn to the Treasury Minute on paragraphs 2-7 of last year's Report? Mr. Macpherson, I tend to get the impression from the Treasury Minute that the Treasury is a bit scared of the Universities. Is that so?—(Mr. Macpherson.) No, Sir.

344. You are not?—We are not scared of anyone.

345. Well, that is comforting news, though hard to believe. Are you satisfied that you have got adequate control now over hospital building?—We think so, Sir. From what we know of the system the Ministry are now employing for this control, in terms of giving prior sanction and in getting reports while the work is in progress, we think that the system should be adequate.

346. What machinery have you for preventing a hospital from running ahead of its authorised amount?—For the major schemes, as I understand the position, the Ministry get reports on the actual expenditures, and these ought to reveal whether, in fact, more money is being spent than is warranted by reasonable progress on a particular project.

347. Have you tightened up your control since the Oxford fiasco?—The Ministry have, Sir.

348. Are you satisfied that you have control now, Sir John?—(Sir John Hawton.) I think so, Sir. The main salient point is, on the face of this scheme which you considered so fully

last year, that the total looks like working out at the round £800,000 which we said it would a year ago; and for future stages we have a completely new procedure of quarterly returns showing how each part of the scheme is going, and we keep in complete touch. Also, no alteration in the works can be undertaken without our consent.

349. So it is going to work out at just double what the original estimate was?—Well, that is not quite a fair summary, because it is not quite for the same works, but we did go into that last year. Since the situation as you understood it last year, the position is held.

350. Mr. Macpherson, in the event of this being repeated, is the Treasury prepared to withhold grants?—(Mr. Macpherson.) I would hesitate to go as far as that, Sir. It would depend on the circumstances.

Mr. John Hall.

351. Sir John, this is a little new to me, so you will forgive me if I am asking questions you may have answered before. I am a little puzzled at the actual figures of the scheme. As I see it, the original scheme was going to cost £434,000, and the scheme, as completed, is costing slightly more than £1 million. Then we go on to refer to the total cost of the scheme, which includes professional fees and cost of equipment, bring the total cost up to £1,400,000. What I would like you to tell the Committee is whether the original figure of £434,000 included an element of professional fees and equipment, or not?—

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[Continued.]

(Sir John Hawton.) No. They are not comparable figures. This scheme is being taken in stages, and what we discussed last time was the way in which the first one had been conducted, and it was there that most of the figures showed these discrepancies. The estimate for the whole scheme has so far been roughly put at £1.4 million. Now, all the remaining stages of the scheme are in their planning stage and cannot proceed unless they are approved by us with the Treasury.

352. But I thought that when the scheme was originally approved, the additional costs which would have to be met were also considered at the same time. Now you knew, for example, that professional fees would have to be paid and that the place would have to be equipped?—Yes.

353. So, from what you have told me, you were prepared to see the total final figure in excess of £434,000?—We knew, of course, that those fees would have to be met, yes. May I just point out, if it is helpful, that there is, of course, the Memorandum submitted to you and published by you after our evidence, setting out the whole of the explanation of this scheme.

354. Could I make one point on the Treasury Minute, and that is this: it would appear that there has been some slackness, to put it no higher, on the part of the Board of Governors, in not carrying out the instructions given them. Is that correct?—That was the position. It is not now.

355. But it was at the time?—Yes.

356. I assume, therefore, that there has been a change made, either in the Board of Governors or in the administrative staff advising them, because this is a very serious matter?—I would not ascribe this entirely to them, of course. There is a change of Chairman of the Board of Governors and other changes of that sort, of which you are well aware, I expect, but the main changes are the changes we have made in the light of what has happened in requiring all these additional controls.

357. So you are fully satisfied that this kind of thing cannot happen again?—As far as I can see. I cannot see how it can happen, but I am always frightened of saying it cannot in case something goes wrong.

Mr. Arbuthnot.

358. Sir John, I see you have given an assurance to the Treasury that you are being informed of any tenders invited for the larger hospital building projects. What exactly do you mean by "larger"?—There are two separate things. I am not quite sure of your question?

359. On the Treasury Minute, the last paragraph but one, so far as the Minute on paragraphs 2-7 is concerned, the first two sentences?—There are two parts to that answer, quite shortly. One is that anything over £30,000 at tender stage has to be submitted to the Minister and approved. The other thing is the quarterly progress returns which I mentioned just now, when the schemes are in progress, not only one but all the schemes in each Region. The quarterly progress returns come in and there it is a mass return for the Region's schemes, unless the scheme is so big that it would be something like a quarter of a million pounds, and then we pinpoint that and say: "We want a special return for that".

360. So that the only difference, as compared with what we were complaining about before, is that you have tightened up your control, in order to provide yourselves with a quarterly progress return which operates on a Regional basis and not an individual basis?—An individual basis on a big scheme such as this one.

361. But is that really an adequate tightening up of control?—I think so, because, you see, each Region has a very definite and limited amount of capital allocated to it, so that as long as we know what is happening we can see that that amount is running to schedule, that they are not overspending. When you get a big scheme which assumes the proportions of the Radcliffe and has special interest, therefore, we want to know more.

362. Were the returns being rendered before?—A return was used but this is a better and fuller one; and, indeed, we are about to try and improve it still more in collaboration with the hospitals.

363. In fact, you are not satisfied with it at the moment?—That does not follow, Sir. We always try and improve everything.

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[Continued.]

364. You have gone to a quarterly return now. You had a return before. How frequent was that earlier return?—This quarterly return is a quite recent innovation. It is only about a year or two old. We were not getting it from the Radcliffe soon enough. We are now tightening up to get it from everybody; and another feature which is important from your point of view is that alterations in the scheme cannot be made without our approval, which would have affected the Radcliffe quite a lot.

365. Can you pinpoint the improvements that you have made since these criticisms were made on the last fiasco, and what further improvements do you intend to make, so as to set at rest the disquiet that you yourself have expressed as to the efficacy of what you are doing now?—First, it was not, in effect, a fiasco, although, as the Committee's Report quite rightly says, it could have been. It was not because, in fact, it finished with something we would have approved, anyway. Secondly, the main trouble was that the works went ahead without conforming with any of the even then existing instructions about notification of alterations, or tendering, or anything else. Now, the main changes are in our whole tightening-up attitude to this thing, which not only applies to the Radcliffe but to every hospital in the country.

366. But what sanction have you got now that the new instructions are going to be observed any more than the other ones were?—We are going to watch it. Having learned a lesson at Radcliffe, we shall watch it more closely.

Mr. Stevens.

367. Mr. Macpherson, is the reason why their Lordships are unable to concur in the Committee's view—this is the first part of the last paragraph of the Treasury Minute—because the expenditure from the Health Service Vote to meet this commitment was not actually illegal? Is that why you found yourself unable to agree with the Committee's view?—(Mr. Macpherson.) Yes, Sir. I think we are rather relying on the provisions of Section 12 (3) that the Minister had this authority to do this work. It may be we are relying too much upon the fact that it was not illegal rather than considering whether it was proper.

368. That is the point I had in mind because the Minute—we cannot refer,

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I know, to the Committee's Report but we can refer to the Minute—says that the Committee's view was that there was improper use—not illegal use but improper use. Would you still say that you would not agree that there was improper use?—At the time, Sir, we had not worked out the formula which we have now; and, I think, in the circumstances at the time, we would have thought that this was quite proper. To try and get a balance between what should be in the Vote and what the University should bear has resulted in the formula, but this is a very difficult field in which to determine how much is appropriate to the University and how much is appropriate to the Ministry.

369. Well, if you apply the new formula you would agree that the expenditure would now be deemed to be improper?—Yes, I think that is fair.

370. You have changed your view, in accordance with the new formula?—Yes. If we had considered this project, in accordance with the new formula, I think probably some part of the expenditure might have been improper. I do not know whether the Ministry would wholly agree with that? (Sir John Hawton.) Yes, I agree, but I think it is very important to make it clear that before the new formula it was regarded as the proper relationship, not that the University should provide a portion of the capital but that they should provide some kind of rental by arrangement; and on the legality I think it is quite clear that the Minister, under the Act, has the duty to provide facilities for teaching, and the way in which he does it is left to him. So that at the time when this happened, it was not only, I think, perfectly legal but it was perfectly proper because it was the only system then in operation. Now, we would not call it proper, with great respect, to go back and say: "We know that when this happened it was a perfectly proper thing to do but we are just brushing that aside. We now want something else". But for the future we have the new formula.

371. You do not want to make it retroactive, in other words?—I do not think it would be proper, to use the hon. Member's words, to do it.

372. Would you agree that there is now a better demarcation between expenditure on clinical teaching and research, which is properly borne by the

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[Continued.]

Health Service Vote, and other expenditure which should properly be borne by the University?—I think the new formula is a great improvement in that respect.

373. There is clearer demarcation now?—Yes.

374. So that for the future, and here I would like to ask Mr. Macpherson again, you have got a better yardstick against which to judge the use of the Ministry's discretion, which may well come into it?—(Mr. Macpherson.) We think so, Sir. The new formula has been used on several occasions since it was instituted and, as I understand it, has worked quite well. There has not been great difficulty in determining what bit of the work was proper to the University and what to the Ministry.

375. You feel confident that there should not be another Radcliffe?—Confident, as far as it is possible to be confident, bearing in mind what I said, that this is a very difficult field in which to draw the demarcation line.

Chairman.

376. May we now go to the Treasury Minute on paragraphs 8-11? Mr. Macpherson, are you satisfied that this reduction of £380,000 in the remuneration of chemists is anything like adequate?—We think it is certainly a step in the right direction. We could not say it goes as far as we hope it will go when we have got the results of the next stage of the process; but it represents quite a substantial forward movement. In all, in the case of England and Wales, it is about six per cent. of the cost of the standard drugs. I am subject to correction on that. It is, I see 6.2 per cent. of the reimbursement price of all standard drugs.

377. What are the proposals about further cuts? Can you give us some light on this?—I cannot throw any light on immediate further cuts, Sir, no. The next stage is a further examination of returns by the chemists over a fairly protracted period. I am not quite sure how soon this will start, but I understand the expectation is that they will start, if not this month, next month, but probably Sir John can confirm that. (Sir John Hawton.) The position on that Sir, is that the chemists' smaller representative body, with whom we have

been discussing, have agreed to the starting of this, but they have to get ratification from their larger body, and there is going to be a meeting on February 26th. So, I hope to get an early start on this.

378. Is this going to throw any light on what the chemists are actually paying and what discounts they receive?—Yes, that is the object.

379. How long is that going to take?—There you have a difficulty. The whole inquiry will take anything up to a year, because you have all kinds of variants like the times of year, epidemics, and the things which it is not fair to estimate or assess on one single month. But that does not mean that if, in the process, you find some glaring example of anything really wrong, you cannot take that one up in the meantime. But if you mean the total result of the yield of the whole inquiry, I should think you really will have to take the practical results of each kind of month in it.

380. Mr. Macpherson, are you satisfied with the speed at which this is going?—(Mr. Macpherson.) We have agreed with the Ministry, Sir, that it is reasonable to carry out this further inquiry over a twelve month period, because of the various factors Sir John has mentioned. But we are also heartened by the provision that we are not inhibited from taking intermediate action if results, after three or four months, suggest that that should be done.

Mr. Stevens.

381. Sir John, Mr. Macpherson said, referring to the estimated savings to the Exchequer of £380,000, that the Treasury regarded that as a step in the right direction. Now, so far as England and Wales are concerned, the estimated saving is £320,000. Can you give the Committee some sort of idea how big a step that is, in other words, approximately what sort of percentage the £320,000 is?—(Sir John Hawton.) It is an overall percentage of six per cent.

382. On the total drug bill?—On the standard drugs, yes, not the proprietaries. Perhaps I ought to explain a little more what has really happened on that. You remember last year, Sir, that we were confronted with evidence of 30 drugs on which it looked as if there was a discount of something like 14 per cent.; it was approximate. There was a discussion then as to whether we could

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[Continued.]

take those 30 and cut those and just go on inquiring into the others. What we did instead was that we went to the manufacturers who agreed, after negotiations, to make cuts in the list prices, and we ourselves negotiated larger packs for a number of standard drugs, which itself reduces the Drug Tariff price. We applied that not simply to the 30, but to the whole field and got a yield of six per cent. As a matter of interest, of 24 of the 30 where there seemed to have been something wrong up to a measure of 14 per cent., the changes produced a 12 per cent. cut, but six per cent. for the whole field.

383. That is on proprietaries only, is it?—No. It is on standard drugs, not proprietaries.

384. With regard to proprietaries in this inquiry you are carrying out, what proportion of the total drug bill would proprietaries represent?—Certainly it gets bigger every year, and it is a very large part. I am just wondering whether I have the figure here. May I send that figure in, because there is a little delay in turning it up, but it is very large?

385. A large and growing proportion?—A large and growing proportion. I can give you that now. It is 73 per cent.

386. In regard to list prices, I heard you say, I think, that part of the £320,000 was due to reductions in list prices of some of these proprietaries?—Yes.*

387. Have you any means of knowing whether chemists are getting special discounts on these list prices, unknown, perhaps, to the Ministry?—It is a reduction, in order to cut out those discounts, which has resulted in this yield. That was the starting point.

388. I just wondered whether this phrase in the Minute: "Inquiries are to be made . . . of a representative selection of manufacturers and wholesalers about the terms of trade in relation to such preparations" had anything to do with special terms to chemists, or anything of that sort?—No, Sir, we were confronted with evidence that they were getting a discount. We took the steps I have described which resulted in a cut of six per cent. We are now starting on a big inquiry which will enable us to

* Note by witness: The answer should be No. The £320,000 is the estimated saving from the measures so far taken in regard to standard drugs. The replies to the following two questions also relate to standard drugs.

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judge how accurate that is and whether we can go further. That is the straightforward position.

389. Mr. Anderson, are you making independent inquiries in Scotland as to what chemists actually pay for drugs?—(Mr. Anderson.) Yes, We have a separate inquiry in progress, and perhaps I should tell the Committee at this stage that even since the Treasury Minute was prepared, as a result of a further meeting with the chemists in Scotland, we have reached agreement on further savings which increased the figure for Scotland from the £60,000 mentioned in the Treasury Minute to rather better than £85,000. We have also reached agreement in principle on the basis of a further and continuing inquiry, the nature of which I can explain if the Committee wish.

390. Can you give for Scotland a figure similar to the one which Sir John has just given for England of six per cent?—Yes, the Scottish figure is round about five per cent. on the standard drugs.

391. £60,000 is five per cent., so the £85,000—?—No, that is the £85,000.

Mr. Arbuthnot.

392. What percentage of your drug bill does the £60,000 estimated saving for Scotland represent?—The ingredient cost in the total Scottish drug bill is about £4.6 million.

393. Then there is a fee on top of that?—Yes, that is the ingredient cost with the fee on top.

Mr. Arbuthnot.] So it is £60,000 out of £4.6 million.

Chairman.] £4.6 million plus.

Mr. Arbuthnot.

394. Yes?—I wonder if I am following the question properly?

395. You said you had an estimated saving for Scotland of £60,000?—Yes.

396. What percentage of the total drug bill does that represent?—I am afraid I do not have the figure actually worked out in that form.†

† Note by witness: The savings to the Exchequer (apart from oncosts) are now estimated at about £85,000 in a full year, which is 1.8 per cent. of the estimated total payments for all drugs, standards and proprietaries combined, in the current year. The savings on the estimated ingredient cost of standard drugs works out at about 5 per cent. and that on proprietaries at about 1 per cent.

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[Continued.]

397. Can you let us have it?—I can easily get it, yes.

398. How do your estimated savings compare with the 19 per cent. so-called "concealed" profit on standard drugs and 10 per cent. on proprietaries mentioned in the evidence last year?—In fact, in a later discussion with the Scottish chemists we agreed that the 19 per cent. on standard drugs was overstated, and the final settlement on this was 13 per cent., the proprietaries remaining at 10 per cent. The comparable figures for the present exercise are these: for standard drugs, those on which we have now completed examination with the Scottish chemists, the percentage saving is eight per cent. On proprietaries we are not quite so far on, in that we have more that have not yet been looked at, but, so far as we have got, the saving is six per cent. on those examined.

399. What has been the difference between your system of pricing proprietaries and that of the Ministry of Health?—The difference, I think, has been basically this, that until this last round we did not assume that the chemist in Scotland was buying his proprietaries in such large pack sizes as had been taken in England. We based our drug tariffs on smaller pack sizes, relatively more expensive. As a result of this review, we have been able to assume purchases in larger and therefore cheaper pack sizes for proprietaries.

400. So you are now on all fours?—We are now on all fours.

401. Sir John, I see in the Minute that the Treasury say: "A system of agreed pack sizes is going to be applied to a further range of proprietary preparations". How is that going?—(Sir John Hawton.) We are always trying—it is a long process—to get improvement in agreed pack sizes which will result in economy. It is a sort of gradual process.

402. Have you made any progress since last year?—We have sent a number of proposals of our own to the chemists to see if we can get any further.

403. They are merely in the proposal stage?—On the proprietaries.

404. You have had no adjustment?—On proprietaries, no. Of course, there is not the same scope for it because proprietaries tend to be already made up in their own sizes anyway.

405. In the inquiry that you are now in the middle of what sort of proportion of proprietaries do you find have no standard equivalent?—About 4 per cent.

406. 4 per cent.?—I beg your pardon, I thought you said, have a standard equivalent. Only about 4 per cent. have an exact standard equivalent. You see, then you get this next range of those where there may be some other drug which some people think is equally efficacious and which others—I am talking of medical people—do not. There you are in the realm of opinion, but on the complete equivalent it is only about 4 per cent. of the drugs.

407. Do you find that in any of those cases the proprietary is cheaper than the standard equivalent?—It could be, yes. Sometimes the proprietary is the cheaper of the two articles.

Mr. Hannan.

408. Mr. Anderson, I also am new to the Committee. Could I return to the question of the £60,000 saving which I think you said in answer to an earlier question has now gone up to £85,000?—(Mr. Anderson.) Yes.

409. Is that increase due to the action which has been taken as suggested in paragraph (c): "In Scotland, as a further measure, the introduction of revised rates of reimbursement where large packs of proprietary preparations are used". Is the increase in saving due to that action?—Partly due to that and partly due to the action mentioned in the other two paragraphs in the Treasury Minute. Both (a) and (b) of the Treasury Minute apply in Scotland, too. (c) is unique in Scotland.

410. Can we really expect that there may be further savings even yet?—I think so, very possibly. We still have a number of proprietaries that we should like to examine, and we do hope that the further inquiry which we have running, on which we agreed in principle with the chemists, will either produce savings or make it quite clear that savings are not justified. At any rate, it will settle the matter one way or other.

411. Could I follow that up by asking this: if there are agreed pack sizes from chemists, is that likely to come into conflict in some way with the doctors' prescriptions?—No, I do not think so, Sir. These are the pack sizes in which

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[Continued.]

the chemist is presumed to buy from the wholesaler or manufacturer. He in turn will break up the large pack and dispense it in smaller quantities.

412. To make the point clearer in my own mind, there are statements made by those who are sick, for example, that doctors, far from prescribing too little, on occasions prescribe too much. The usual one is cotton wool, pills or something. When the patient has recovered, half of these things are still left lying about unused. Will these particular packs help do you think? Can you suggest whether they would help in any way to overcome that?—I do not think the pack sizes will help. If there is an element of over-prescribing from time to time I think we have got to tackle it through the doctor rather than through the chemist.

413. What is the latest average price per prescription in Scotland now?—It is about 7s. 6d.

Chairman.

414. Before we leave the Treasury Minute, might I just ask: have you any idea what discount the chemists are still getting off the new price list?—(Sir John Hawton.) Are you talking of standard drugs or proprietaries?

415. All drugs?—The net prices of the standards?

416. Yes?—No, that is what the new inquiry is intended to find out.

417. So your new inquiry will let you know exactly what the chemists are paying net for their drugs?—That is what I want to get at, but we have no reason to think that we are now really overpaying very much.

418. Mr. Anderson, have you any knowledge as to what the Scottish chemists are actually paying?—(Mr. Anderson.) No, not as yet, Sir.

419. But you will have?—We hope to get it through our further inquiry.

CIVIL APPROPRIATION ACCOUNTS (CLASSES I-V) 1957-58.

CLASS V.

VOTE 5.

NATIONAL HEALTH SERVICE, ENGLAND AND WALES.

VOTE 11.

NATIONAL HEALTH SERVICE, SCOTLAND.

Chairman.

420. Will Members now turn to the Civil Appropriation Accounts (Classes I-V), to paragraphs 25-28 of the Comptroller and Auditor General's Report on pages vii and viii? Despite your attempt to reduce costs, I gather there has been a rise of about 11d. per prescription over the past year or two?—(Sir John Hawton.) Is it 11d.? It is now 6s. 6d. It is 11d., I understand, between the years 1956 and 1957. That, it is relevant to point out, is after the revised charges to the patient.

421. Are you satisfied that that is reasonable?—Well, as you know, Sir, from previous years, I am never satisfied with this drug bill at all, but it is fair to make one general point on it, that there is one very big factor which affects the drug bill which is nothing to do

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with the Health Service, and that is inflation. That is, the ordinary price of goods and services. That is affecting the drug service enormously the whole time, and one is apt to forget it when one takes, say, ten years or whatever the number of years is, and compares figures, because it affects not only, of course, our Service but everything else; but it is always overlooked.

422. In paragraph 28, the second and third lines, the Comptroller and Auditor General refers to the Interim Report of the Committee on Prescribing?—Yes.

423. What are the main recommendations of the Committee?—I will not list them all, but, broadly speaking, they fall mainly into one class. They are recommendations that doctors should be made more aware of costs, that there should

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[Continued.]

be more exhortation of doctors and more enlightenment of doctors as to what they are doing in terms of money when they prescribe. Now, there is a whole series of recommendations which fall in that group.

424. That was the main gravamen of the Report?—That is almost the whole of the Interim Report.

425. What steps have you taken to implement the Interim Report?—We have accepted the lot and are implementing the lot so far as these recommendations are concerned.

426. Have you started implementing them yet?—Yes.

Mr. Hannan.

427. Just a quick glance at paragraph 28, Mr. Anderson. The Committee's main suggestions did seem to lie with regard to prescribing in hospitals?—(Mr. Anderson.) Yes.

428. Could I ask—I am sorry I have not read the Report and I do not know whether this question is strictly in order or not—what were the recommendations with regard to the hospitals, and have you taken action?—Yes, we have. The recommendations were directed almost entirely, again, to making the doctor, in this case the hospital doctor, cost conscious. The Committee thought that the hospital doctors should individually get copies of Prescribers' Notes, that there should be consultation between doctors and pharmacists, and so on—a range of recommendations. We sent all this at once to the Regional Hospital Boards. We discussed them with the senior administrative medical officers in the Boards, and according to latest reports the Boards are putting these recommendations into force.

429. In Scotland what is the total number of drugs supplied as against last year? Has the number increased as well as the cost?—No, the number has fallen. In 1957 the figure was 20.9 million, which was a fall from the 1956 level of just $\frac{1}{2}$ million.

430. Has that figure been falling consistently or is it just over, say, the last three or four years?—The figures for the last four years are: 1955, 21.2 million; 1956, 21.5 million; 1957, 20.9 million; and 1958, still an estimate, around 20 million.

Mr. Arbuthnot.

431. Sir John, when are you expecting the Final Report of the Committee?—(Sir John Hawton.) We are told we may expect it in the spring.

432. On proprietaries, how would you say your costs compare with other countries?—Well, our general information is that it is by no means true that other countries' are cheaper than ours—indeed, rather often the opposite. But I have not in fact got figures here.

433. I have some figures which suggested that for nine proprietaries I have taken at random, with the United Kingdom taken at 100, the cost in Germany was 122, in France 131, in Italy 150, in the U.S.A. 205, and in Switzerland 151. Would you have any reason to disagree strongly with that general picture of the thing, that the U.S.A. is just about double ours?—No, I have no reason to disagree with that at all. I have not got the figures, but I have no reason to disagree. It does not surprise me enormously.

434. Are you preparing comparative figures for a wide range of proprietaries as between the United Kingdom and other countries to make sure that your system is better than that of other countries, or worse?—We have not done a lot recently on this. We are mainly concerned, of course, with the price we ourselves are getting the thing at. If you will remember, one of the criteria in that agreement made with the A.B.P.I. which is running for three years at the moment was the export price, and there was some criticism at the time, I think, in this Committee as to whether that was a fair criterion. We did at the time, I think, give some examples. Certainly I did say that we had compared the figures, and it was by no means true to say that we were not running under the price abroad.

435. Are you having all the co-operation that you could wish from the A.B.P.I.?—We are having, I think, a very genuine co-operation. Obviously, one can never say we are having all that we would wish, but we are having a very genuine co-operation. I think the Treasury will agree.

436. Would you confirm that, Mr. Macpherson?—(Mr. Macpherson.) That is fair, Sir, yes.

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[Continued.]

437. How does it apply to Scotland?
—(Mr. Anderson.) That is also true.

Mr. Thornton.

438. Sir John, the last sentence of paragraph 27 says: "Over half the prescriptions of drugs in 1957 were for proprietary medicines"?—(Sir John Hawton.) Yes.

439. You quoted the figure of 73 per cent. Was that the number of prescriptions or value?—No, this percentage that you are mentioning is of numbers, and the figure of 70 odd per cent. which I mentioned was of value.

440. So that confirms really that the average cost of prescriptions in proprietary medicines is higher than in standard medicines?—Not in all cases, but it is bound to be in the new proprietary because the new proprietary comes out from a firm which has put a lot of research in and is going to do more research and has got to get its money back.

441. I take it the trend is definitely for doctors to prescribe more proprietaries, is that so?—Well, it seems to be.

442. Are you taking any measures, or do you think it is possible to take any measures, to alter this trend?—We take every measure to tell doctors and make them aware of the difference in price between proprietaries and standards and of the comparisons between them, but I would not like to say that it is wholly a bad trend—not wholly—because most new drugs come out in the first case as proprietaries. So, if you carried that discouragement too far you would perhaps be depriving the patient and the doctor of the latest drugs of a quite new kind. Under the scheme as it is, rightly or wrongly, we cannot do that.

443. No. I understood you to say earlier that there was only 4 per cent. of these proprietaries in which there was complete equivalent in standard drugs?—Yes, about 4 per cent.

444. So in so far as a doctor has some particular reason for prescribing a proprietary it is difficult to challenge him except on the under 4 per cent. sector?—We can really only under this scheme bring all the information we have to his notice and then he must judge.

445. Mr. Anderson, is there the same tendency in Scotland to favour proprietary preparations?—(Mr. Anderson.) Yes, I am afraid there is. The percentage in Scotland for 1957 was about 56 per cent. of proprietaries. If I may say so, I think the same general considerations apply, that the prescribing of proprietaries is not necessarily and in all cases a bad thing.

446. No. Are there any special restrictions in hospitals against prescribing proprietaries?—There are no restrictions, no. The doctor, whether in hospital or general practice, is allowed to prescribe whatever he feels his patient requires.

Mr. Stevens.

447. Sir John, can you give any indication as to why there is this tendency on the part of doctors to prescribe proprietaries?—(Sir John Hawton.) Well, one could give several reasons, some cynical and some genuine.

448. Did you say "cynical" or "clinical"?—"Cynical" or genuine; but I think the genuine reason—let us take that and concentrate on it—would be that, as I said just now, very often the newest and latest thing to achieve an object better than the one before comes out every time as a proprietary. In clinical practice—I said that time "clinical", Sir—I suppose one is normally bound, faced with a patient, to give him that. It is very difficult to say how far there is an element that it is easier, that the name usually is so beautifully shortened, it is all so easily recognisable, and the patient has probably heard of it. There is an element of that, but I think there is a very genuine element of the kind I mentioned just now.

449. You say the patient is familiar with it. Advertising may have familiarised the name?—It should not be theoretically through advertising to the public, because that is now one of the things that doctors are supposed not to use, a drug advertised to the public. When I said "supposed", it is still true that there is no power in the scheme to stop them. Indeed, there is no power in this scheme whatever—I think I have said this for several years—by which you can in any way in the last resort interfere with what a doctor prescribes. I am not expressing an opinion, of course, as

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[Continued.]

Accounting Officer, as to whether you should or should not, but that is the scheme under the Ministry.

450. I wonder if you can help a little bit further on the question of the cost to the Exchequer in prescribing proprietaries rather than standard drugs. At the end of paragraph 27 there has already been reference to it: "Over half the prescription of drugs in 1957 were for proprietaries", and a little earlier: "Many of these proprietaries cost more than the standard drugs", from which I presume that that sentence implies that some drugs do not. Can you give any idea as to what proportion cost more than the standard drugs, and, arising out of that—it is a very difficult thing, I know—what has been the extra cost to the Exchequer of prescribing proprietaries?—I would awfully like to help there, but I am afraid I not only have not the figure but it would be very difficult to get an exhaustive figure for all proprietaries in those two classifications. But one thing is perfectly clear, I think, as a general impression based on operating the scheme, that generally the proprietary costs more, but sometimes it does not. I think those are the best words to use. Generally, it does, sometimes it does not, but I am awfully sorry, I cannot give you a broken-down figure.

451. Would it not be worth while doing some research on that? I have in mind, for example, a selective examination of prescriptions over a modest range, almost like a Gallup poll. Would that not give some indication as to what the additional cost might be?—You see, at the moment I cannot see any way of setting about it. One would presumably start with a list of every proprietary drug of every kind there was, and all that, but then you say you want to know out of that list how many are dearer or cheaper than the standard, but then you have not a standard to compare them all, so I do not really see how you can do it. You can only generally in the sense that one knows in practice that perhaps the bulk of them are dearer.

452. You are taking some steps in the preparation of this Prescribing Handbook. How is the work of preparing that Handbook going? How soon do you expect to have it ready?—It is going on at the moment. I have not got a date for its issue, but, of course,

we have for some time been issuing more of what you might call pamphlets for doctors showing comparative prices for a number of drugs.

453. But you are hoping for great things from this comprehensive handbook?—Well, the Hinchliffe Committee have recommended and we shall try to do it.

454. Do you think it will be ready this year?—Well, of course, I hope so, but, as the Committee knows, I am terribly frightened of giving dates; but I should hope so. It is a very big job.

455. When it is ready what do you propose to do with it, to issue it free to all doctors in the profession?—Give it to the doctors, yes.

456. The cost of that will fall on the Exchequer?—Yes.

457. Have you any idea what the cost of that comprehensive handbook will be?—No, I have not at the moment.

458. You have no idea whatever; no estimate has been obtained?—Well, I have not made an estimate of the cost of that particular thing, but obviously there will be a lot of set-offs in the sense that a lot of things we do now more piecemeal will be absorbed in that.

459. It will take the place of pamphlets?—They will be absorbed in that. But I cannot give you an estimate.

Chairman.

460. Sir Edmund, have you any comments to make?—(Sir Edmund Compton.) Only perhaps to add, on this question of proprietaries, that one of the recommendations of the Hinchliffe Committee on which, as Sir John has said, action has been taken has not been specifically mentioned and is, I think, rather relevant here. I mean the recommendation that the British Pharmacopoeia Commission should review the principles on which the selection of approved names is based. I mention that because the Committee do say that they believe that economies will follow if simple approved names for new drugs could be available quickly and gain the widest possible publicity. They go on to say that under present arrangements it may take a year or more before such an approved name—that is, for a standard drug—is recorded, whereas the proprietary has the advantage of getting known

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[Continued.]

and used at once. If I might just quote the sentence from their Report which is telling, I will do so.

461. If you will?—They say: "During this period doctors get into the habit of prescribing the new preparations by their trade names, which are coined immediately in the case of larger drug firms by staff employed specifically for the purpose and are deliberately designed to be easily written and memorised. As a result of high-pressure salesmanship these branded names become household words in the general practitioner's vocabulary very soon after the preparations are placed on the market".

462. The fact that it is worth while these drug firms employing special persons to invent attractive names I think does show, Sir John, how important the provision of a vocabulary for standard preparations is?—(Sir John Hawton.) I quite agree. In the earlier days it was a bigger difficulty than it is now. On this recommendation we have been in touch with the manufacturers, and we gather now that most of the manufacturers do seek approved names in this way. They have appreciated the point. But it is very important.

463. The point is that your standard preparation ought to have an equally simple and to the doctor equally attractive name. It is not the patient, it is the doctor, who is influenced by the

name?—That is what we are trying to do internationally rather than nationally, to get things named. I am entirely agreeing with the need for that objective. We are trying to do that.

Mr. Arbuthnot.

464. The increase in patients' charges in 1956 seems to have led to fewer but larger prescriptions. Have you evidence that the prescribing of larger quantities has led to waste in the form of half-used bottles of medicine and boxes of pills?—I do not think I have got specific evidence of that. As you are aware, the prescribing of larger quantities can under the charging system be a necessary or a desirable thing, and indeed Ministers have said so, in the case of chronic patients; or with substances like insulin and others it is necessary. Whether there has also been sheer wastage, unnecessary prescribing of large quantities, is a matter up to a point of opinion; one cannot measure it. I personally would say that it is likely.

465. Have you considered whether any limit should be put on the quantities prescribed?—I do not think you can, because of the duration of the various diseases or illnesses which you are treating. You cannot put the same limit for a common cold as you would for perhaps a thing which will last five or ten years. You cannot put the same limit on a common cold as for diabetes.

THURSDAY, 19TH FEBRUARY, 1959.

Members present:

Sir George Benson, in the Chair.

Mr. Arbuthnot.
Mr. Pentland.
Mr. Peyton.

Mr. Stevens.
Sir Colin Thornton-Kemsley.

Sir EDMUND COMPTON, K.B.E., C.B., and Mr. J. MACPHERSON called in and examined.

TREASURY MINUTE ON PARAGRAPHS 61-67 OF THE THIRD REPORT
OF THE COMMITTEE OF PUBLIC ACCOUNTS, 1957-58.

Sir RICHARD POWELL, K.B.E., C.B., C.M.G., Permanent Secretary, Ministry of Defence, called in and examined.

Chairman.

466. Will Members please turn to the Treasury Minute on paragraphs 61-67 of the Third Report? Mr. Macpherson, the Treasury Minute apparently agrees with the Committee on the need to ensure realistic Estimates. What steps have the Treasury taken to enforce the observation of this recommendation which the Committee has been making for years?—(Mr. Macpherson.) I do not know if the Committee know, Sir, but it is the Treasury practice to look at the Committee's Reports and consider what matters there are of general application; those subjects selected are dealt with in a Treasury Circular which goes out with the Treasury Minute to all Departments. This is a point to which we have drawn the attention of all Departments. If I may read a piece from the Circular: "In this connection my Lords wish to direct attention again to their views expressed in the Treasury Minute of 1955 and 1958", bringing out this same point. In addition to that, Sir, we are drawing this recommendation to the attention of the divisions within the Treasury concerned with supply work so that they, too, may pay particular attention to this point raised by the Committee.

467. It is difficult to look back over a long period and say whether there has been any improvement or not, but this excessive estimating crops up with the utmost regularity?—I am afraid it does, too frequently, Sir, but I think the causes vary quite substantially.

468. They do, obviously?—Some are less reprehensible than others.

Chairman.] That is true.

Sir Colin Thornton-Kemsley.

469. I should like to ask Mr. Macpherson whether the Treasury has yet had a Report on the Ministry's review of the Hertford Hospital?—We have been in fairly constant touch with the Ministry, Sir, following the discussions in the Committee last year, and I understand Sir Richard has now got figures covering the running costs for the first year, which ended in May, 1958. (Sir Richard Powell.) 3rd May, 1958.

470. Can you tell the Committee what the Ministry's proposals are?—(Mr. Macpherson.) In respect of the hospital it is the running costs which have been examined and, in fact, certain economies have been brought about. As mentioned in the Treasury Minute, there has been a reduction in the staff—actually from 100 to 87, but so far we have been unable to make any further economies on the hospital as it now exists.

471. We are, perhaps, at cross purposes. What I had intended was to refer to the second paragraph in the Treasury Minute, which says: "The Ministry of Defence are therefore carrying out a review of the whole future of the hospital". My question was directed to you to ascertain whether you had yet a Report on the Ministry's review of the future of the Hertford Hospital?—I am sorry, I was confusing two things. I think our minds have been tuned to the fact that the agreement with the civilian Management Committee does not have a break in it until autumn 1959, and we were concerned to see what could be done in the interim. Looking separately at the longer term future of the hospital,

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[Continued.]

if is fair to say that the Ministry have been reviewing the future and there are various alternatives which they have been considering; but so far they have not come to us with any firm plan.

472. Do you know when their Report can be expected?—Perhaps Sir Richard could answer better, but fairly soon, I think. (Sir *Richard Powell*.) I think within two or three months, I would hope, Sir.

473. What view, Mr. Macpherson, does the Treasury take on the need to find some less expensive method of providing hospital treatment for troops in Paris?—(Mr. *Macpherson*.) That is one of the considerations we shall have in the forefront of our mind when we hear the plan that the Ministry produce, because it does seem on the evidence so far that it is a pretty expensive means of providing hospitalisation.

Mr. *Peyton*.

474. How many foreign nationals are there usually in this hospital?—(Sir *Richard Powell*.) A fair number. I could not tell you offhand, but there are a certain number of French patients and a certain number of allied military patients now as well.

475. What would you expect to be the normal proportion? If you went in there and found that half the people were French, would you be surprised?—No, I should not.

476. It might be more than half?—It might be more. I should say, in order to assist the Committee of Management, we have authorised them to widen the field of non-entitled patients in order to increase the use of the hospital.

477. What is the actual cost per day?—About £7.

478. What is paid by patients?—It is not really what is paid by patients, it is what the Committee of Management pays us under the agreement, which was 27s. 6d. a day to the 3rd May, 1958, and now 55s. which we are claiming, but the Committee have said that their financial position will not permit them to pay so much.

479. So, what is the amount of the subsidy on each bed?—The amount of the subsidy is about £5 10s. 0d., or just over that.

480. Per day per bed?—Per day per bed, yes.

481. Do you regard this as being a proper use of British taxpayers' money, to subsidise the hospital treatment of foreign nationals in their own country?—I think this goes back to the original policy, to have the hospital on this basis at all. It was agreed in 1953 to have the hospital divided as to 35 beds military and 25 beds civil, and I think the use of the hospital flows from that.

482. I have never really understood the exact purpose, the real justification, for having foreign nationals in the hospital at all?—In order to increase the use and get something back for the costs. I think the less it is used the more expensive it is per day.

483. Even with £5 odd after the subsidy per bed per day, that would be substantially the same whether there were a patient in the bed or not, is that right?—Oh, yes. The overhead, of course, would be more. The less it is used the higher the overhead cost of the hospital.

484. What effort is made by the Committee of Management to extract from foreign patients the full rack-rent, so to speak?—I think I would say, knowing that their finances are not in very good shape, the maximum effort is certainly made, but they are restricted in what they do by the terms of the French Social Security Scheme, which puts an upper limit on what a patient can be required to pay.

485. So far as a French hospital is concerned that puts the Government under some liability?—It does. The French hospitals are subsidised from taxation.

486. Has any approach been made to the French Government as to the possibility of making a contribution where French citizens are concerned?—No, certainly not by the Ministry of Defence; nor has it been suggested by the Embassy or anyone in Paris that that would be a fruitful thing to do.

487. Without regard to whether it would be fruitful or not, and I rather share your pessimism there, would it not be a proper thing to do to say to the French Government: "We are looking after your citizens here. We are inhibited by your rules from charging more than so much"?—I would guess that their answer would be: "There are plenty of our hospitals supported by the

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[Continued.]

French Government which these people can go into. Let them go there instead of going to the Hertford Hospital."

Mr. Pentland.

488. Mr. Macpherson did refer to staff reductions. Could you tell the Committee what further staff reductions are contemplated?—None.

489. I understand that Mr. Macpherson said the reduction was from 100 to 87?—That is so.

490. There is no further reduction?—No. I have been further into this, and I have satisfied myself, so far as I feel competent to satisfy myself on a professional matter of this kind, that so long as the hospital is run and provides the facilities it now provides the staff of 87 is the minimum on which it can be efficiently run. We shall continue to watch this, but I do not feel hopeful myself of securing any further substantial reductions.

491. Do you think you could tell the Committee what, in your opinion, are the staff reductions that would be needed to have a significant effect on the running costs?—On a staff of 100 at the start, and now a number of 87, the annual cost of the staff is just about £75,000; so I would guess if you cut it by half you would get a really worth while large saving, but it would have to be something pretty sweeping, involving a complete reorganisation of the hospital, to achieve that; and indeed, as Mr. Macpherson said, we are restricted until 1959 by the terms of the agreement with the Committee of Management.

Chairman.

492. Just one further question: could you tell me the number of British nationals in the hospital at the moment?—I could not at the moment. I could let you know very quickly, but I am afraid I cannot say offhand. There would be about 8 military, I would think, and there are 21 civilians, of which I would guess—but this is a guess, I am afraid, and I will confirm this—about half would be British.

493. That is the normal user. That means you have got on an average, then, we can take it, 18 British citizens in this hospital?—That, I would think, would be about right.

494. Surely there is only one possible solution, is there not, that the hospital be closed down at the earliest possible moment?—That, I think, may be so, but we have got to provide alternative arrangements, and the Service doctors are quite firm that some British facilities must be provided in France, and that they are not prepared to depend upon local facilities. The reason for having the hospital in the first place, as perhaps you will remember, Sir, from last year, was the dissatisfaction of the Service medical authorities with the service they got out of French hospitals, and they retain the same view on that subject now. I have been into this very closely with them.

Mr. Peyton.

495. What arrangements have the Americans got? I suppose they have a splendid hospital of their own?—They have a magnificent hospital which we were able to use until their numbers built up so much that they were no longer able to provide any beds for our people there. We would have liked to go on with that, of course.

496. Apart from the economics for the moment, would you regard it as a very considerable blow to our forces in France if the hospital were to be closed, or not?—Yes, I would, and I think not only to the forces but to the British community generally in the Paris area, who have a very strong sentimental attachment to this hospital and were very distressed when it was closed down in 1952.

497. I do appreciate that, but the British community are there in one way or another on Government business?—Of course.

Chairman.

498. What is the total annual cost of the hospital?—The running costs are £128,000, which includes about £15,000 interest on capital, and against that we get back something like £5,000, or we did get back something like £5,000, in receipts from the Committee of Management in the last year; so I think the net cost to public funds would be about £108,000.

499. £108,000 to provide for 18 patients at any one time?—Yes, it is very expensive.

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[Continued.]

500. I should have thought it would have been cheaper to fly English nationals over to a British hospital where necessary?—Yes, but you have got then the problem of providing some sort of sick quarters on the spot to take

care of people who are not sick enough to be flown back or who have to be taken care of on the spot for other reasons.

Chairman.] The position is certainly not very satisfactory.

MINISTRY OF DEFENCE APPROPRIATION ACCOUNT, 1957-58.

Chairman.

501. Will Members turn to the Appropriation Account of the Ministry of Defence, 1957-58, to the Report of the Comptroller and Auditor General, page 6, Outturn of the Account? You seem to have consistently large surpluses year after year, Sir Richard?—(Sir Richard Powell.) I agree, Sir, that they are large, but I think they have been reducing.

502. Yes, going forward, £7 million, £2 million, and now again this year, even after allowing for the Supplementary, nearly £4 million. It is a fairly large consistent surplus considering the smallness of the total Vote. The percentages are very high?—Yes. The percentage of the Ministry of Defence Vote, I agree.

503. Why is it that you cannot estimate more accurately?—Very largely, Sir, because we are not our own masters in this estimating. This work, as you know, is not done, except to a very small extent, in this country. It is done in eleven other Continental countries under their control, looked after by them, and we depend for our estimating on information we receive from the international staff of N.A.T.O. in Paris about the volume of work likely to be done in the following financial year. On the particular year which this Estimate covers the figure which we were originally given by the international staff of the likely volume of work was £126 million. When we heard that figure, in the light of our past experience we based our own estimating on a figure of £90 million, so we put a pretty slashing cut on it to start with. In fact, the achievement during the year was £66 million, and not only did we have that shortfall, but as countries ask for money on their own forecasts of what they will need and not on work actually done and paid for, we found after the financial year had started that they had got very large sums in hand, £18 million, in fact, that they had claimed but not spent in the previous

year; and of that they used up £13 million during the year, thus reducing their call on new funds to £53 million. So, that is an illustration of the kind of problems which we are up against in trying to get our Estimates right on this. Though I cut back the figure for this year to 8½ million we shall have another underspending on this year's Estimate, and I have cut it back still further in the Estimate which has just been presented to Parliament in order to try to get still nearer to the figure than we have done in the past. I think it is really, Sir, a measure of the difficulty of the problem that we have these variations and underspendings.

504. When do you first get wind that you are going to underspend or overspend?—Not really until about November or December, Sir.

505. You have time then to introduce a Supplementary Estimate?—But you cannot introduce a Supplementary, can you, to reduce your original Estimate?

506. No, what you can do is to reduce your original Estimate and then produce a Supplementary Estimate if you are going to overspend it?—Yes, working the other way round. That is what I am trying to do this year, or to get a bit nearer to that practice.

507. That is the correct financial procedure?—Yes, but I think the Supplementary Estimates have not been greeted with cheers in recent years, and though I think your doctrine is very sound and one I would like to follow, I am not sure that the Treasury would agree that we should adopt that practice.

508. Mr. Macpherson, what do you say?—(Mr. Macpherson.) Yes, the Treasury view is that we get the Estimate as accurate as we can. I think there is a pattern here as shown in the Comptroller and Auditor General's Report. As you see, Sir, in 1954-55 and 1955-56 we were getting the Estimate more accurate,

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[Continued.]

and then in 1956-57 we cut it too far and had to take a Supplementary. In 1957-58 for the reasons Sir Richard has given there was the underspending.

Mr. Peyton.

509. Would you be more inclined to ask Sir Richard out to lunch if he came to you and said he had overspent, in other words, under-estimated, or if he said that he had underspent, in other words, over-estimated? In which case would you be more glad to see him?—First of all, we should have to review his conduct to determine whether he was blameworthy in either situation.

Mr. Peyton.] In general, other things being equal, would you find Sir Richard a more welcome visitor to the Treasury if he had overspent or underspent?

Chairman.] I do not think Mr. Macpherson can sit in moral judgment on Sir Richard.

Mr. Peyton.] It arises directly out of the question that you have asked yourself, Sir George. I have always been puzzled because I know the Public Accounts Committee has frequently castigated Accounting Officers for having overestimated and asked for too much money, and I am rather anxious to know what the Treasury view of this is.

Chairman.

510-1. I think it is for the Treasury to ask what our view is. I do not know whether you agree with that, Mr. Macpherson?—Our view is to get as near as we can at Estimates time. We do not want the Estimate to be under-provided, in other words, to ask Parliament for less money than we know will be spent. Equally, we do not want the Estimate to have a lot of fat in it to escape coming back for a Supplementary.

512. In 1956-57 where you say you would have to have a positive Supplementary Estimate, you did in fact get nearer than you did in either of the two previous years or in this current year. The final Estimate was under £1 million out after the Supplementary?—If I may say so, Sir, that would have been even more accurate but for a peculiar feature of that year, when there was a bill which was not presented as expected.

513. That, surely, is confirmation of the advisability of what has been the

Public Accounts Committee's policy for some time, that the outturn should be as accurate as it can be made and it is better to have a Supplementary and a fairly accurate result than no Supplementary and an excessive Estimate?—But, Sir, in 1957-58 the figure we put in the Estimate was actually a figure that we thought would be spent.

514. I presume that applied in 1954-55 and 1955-56, too?—True, but 1956-57 shows that the use of our experience in 1954-55 and 1955-56 resulted in our cutting too far.

515. There is no reason why you should not strive for accuracy?—We are constantly striving for accuracy. We share Sir Richard's view on this, and it is rather disconcerting that we cannot get this right.

516. I have no doubt it is an extremely difficult thing, because you have got some thirteen other countries to consider, and you are paying your tranche, I believe, of the expenditure of some thirteen different countries?—(Sir Richard Powell.) That is so. * * * It is entirely dependent on the progress of work in the other countries and the speed and accuracy with which they make their claims for repayment.

517. I realise you have a difficult problem?—It does show up, as you said just now, because it forms so large a part of the total Vote.

518. What information do you get from Infrastructure on which you found your Estimates?—It works on annual programmes, and the information on which we depend for the estimating of what we should provide in the following year comes from the international staff of N.A.T.O. in Paris, who put together estimates sent in by all countries about the amount of money they would expect to spend on approved projects in that year.

519. On the whole, the bulk of the countries seem to over-estimate their probable expenditure?—Very much, Sir, and I think the particular year to which the Comptroller and Auditor General's Report relates showed that up very badly. As I explained, there was really a 50 per cent. over-estimate.

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[Continued.]

520. I realise you have a very difficult problem. Now, paragraphs 5-8. This problem of allocation of projects started originally by the Brussels Treaty countries and continued now, I think, under N.A.T.O. Have you arrived at a general agreement as to the allocation of costs of earlier work?—Yes, and in fact this particular problem is now within sight of solution. It relates solely to the financing of airfields in France, and I was informed yesterday that an understanding has now been reached. * * * So I hope that this one will be out of the way before very long.

521. What is going to be the future trend of these N.A.T.O. programmes?—Of infrastructure as a whole, do you mean, Sir?

522. Yes?—I think it is likely that they will go on very much as at present, because as old types of work go out new types of work come in. We are at the moment considering a request from the military authorities of N.A.T.O. for additional programmes * * * to be financed in future years, mostly covering new requirements, the N.A.T.O. atomic stockpile and sites for anti-aircraft missiles in Europe. There are difficult questions on that, first of all about the eligibility of these projects for international financing, and, secondly, the question whether it is right to provide additional funds when out of the total of £961 million already provided only £476 million has been spent. Those arguments are in process at the moment in Paris on the N.A.T.O. Infrastructure Committee and the North Atlantic Council. But my guess would be that, at any rate for the next few years, expenditure on infrastructure is likely to remain at about the current level. I think experience has shown that you can only get a certain volume of work done per year from European resources and that, as you said before, has been over-estimated very much in the past, and there is certainly enough in the pipeline and enough new things coming along to keep them going for some time.

523. Have you any idea what our share of the new proposed work is going to be?—In this country, do you mean?

524. In infrastructure?—Our percentage contribution I would hope would not be more than it is to the present slices. * * *

525. The Comptroller and Auditor General in the last sentence of paragraph 7 says: "Some progress has, however, been made towards settling other important questions of cost allocation". What are these questions?—I think the most important questions, Sir, are these: one was the liability to tax on work done in foreign countries, which has now been settled, and a tax rebate has been agreed. All Governments have agreed to waive taxation on all projects, and there will be a great deal of refunding and recalculation of costs to be done for that, which will increase the pool of money available. The other one was the reimbursement of overheads. That is the other main problem which has also now been settled.

526. How is that going to work as far as we are concerned, to our advantage?—We shall be a net gainer, yes.

527. Have you any idea to what extent?—I am afraid I could not tell you at the moment. I do not think anyone really knows.

Sir Colin Thornton-Kemsley.

528. Sir Richard, you spoke about our share, * * * and yet I see in paragraph 6 of the Comptroller and Auditor General's Report that the common financing of infrastructure programmes up to 1960 is thought to have a maximum cost of £961 million, of which our share is estimated at nearly £119 million, which is surely more than our fair share, is it not?—Yes, that is because on past slices we have made a heavier contribution. * * * Before Germany came in, for example, there was one less country to contribute, and similarly with Turkey and Greece, the later arrivals in N.A.T.O., and they have all been added, so that the 100 per cent. has been spread among more countries and has reduced the other countries' contributions. So, our average over the whole programme is more than our present share.

529. I have a question or two I want to ask on paragraph 8. Have the agreed adjustments which have already been made involved substantial sums?—Not, I think, very large sums, marginal adjustments. I am not aware of any really big adjustment that has been made as a result of this audit.

530. Can you tell the Committee what, roughly, is the amount involved in the outstanding inquiries by the Board?—

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[Continued.]

The Board is working on a selective basis. It is not intended to conduct a 100 per cent. audit of the whole of the £476 million worth of work which has either been completed or is now in progress. As you see, the aggregate expenditure audited was £152 million, and they are doing that, I think, by selecting typical projects, and then they will check the cost of similar projects done in other countries against that, and only conduct a full audit if some obvious discrepancy appears from that comparison.

531. You cannot give the Committee any guidance as to roughly the amount involved in these outstanding inquiries?—I think the total that is under audit at the moment is something—I would not like to guess—like £152 million. They do not work very fast, and I should not think they have got more than £30 million or so under audit at any one time.

532. Then, what about these other matters of principle which are still under discussion? Do you know roughly how much is involved there?—No, Sir. Those were the two principal matters that I described earlier, and I am afraid I cannot say what sums are involved in them. They will be pretty substantial, I should think, on taxation rebate, but not being familiar with all the details of the taxation in all the thirteen countries I am afraid I would not like to make a guess.

Mr. Stevens.

533. Sir Richard, did I hear you say just now that out of the £961 million, which is the total invested on infrastructure up to 1960, £476 million have been spent?—That is right.

534. That includes the £64 million which is our share?—Yes.

535. So that means that £412 million has been spent by the other member nations?—That is so.

536. Now, £64 million out of our total share of £119 million is about 55 per cent., or just over half. £412 million out of £961 million less £119 million, £842 million, is less than half. Why are we paying up faster than other members?—I think that is a legacy of the past. We were in it from the beginning, from the first days of Western Union, when there were only three countries in it at that time, and I think it is natural that that should be so.

537. We started paying earlier?—We started paying very much sooner than many other countries.

538. I presume some endeavour is being made to ensure that we do not pay up faster than the other nations now?—That is controlled by the agreed contributions to each slice.

539. So that everybody will keep in step?—It will even itself out.

Mr. Peyton.

* * * * *

542. How often are these shares reviewed?—Every three or four years, I would say, every time a new slice is agreed or a new series of slices is agreed. The last one, I think, was in 1956.

543. Have you got the figures to show how much up to date has been spent in France and in Germany?—Yes. I can give you only a rough idea of that. Of the total spent, very nearly half has been spent in France. Over £200 million has been spent in France, but very little as yet in Germany because she arrived late and, of course, a good deal of the facilities that the German forces require are being provided by releasing facilities now occupied by other countries and re-providing for them somewhere else. Of the other countries, the second largest is Turkey, which has over £40 million, and then after that Italy with over £40 million, and Norway with over £30 million and after that the Netherlands and Greece and Belgium.

544. How much has actually been spent in the United Kingdom?—Oh, quite small sums. The latest figures I have got are about £3 million only, but there is work to be done in this country which will eventually cost over £40 million, to be completed. We have only just begun the projects in this country.

545. Those, I take it, are mostly airfields?—They are all sorts of things. They are submarine cables, war headquarters, airfields—not very many, two, I think—and a considerable base organisation for the Atlantic Fleets, the N.A.T.O. Fleets up in the Clyde area, with ammunition storage, petroleum storage, and every kind of thing.

546. To what extent are communications facilities which are provided by infrastructure available for civilian use, pipeline or telephone systems? Are they available at all?—Quite a lot of the

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[Continued.]

communication systems are available for civil use, and account of that fact is taken when the cost sharing is done. In fact, countries actually do make a contribution on account of economic benefit now under the agreed procedure.

547. I should think that is fairly difficult to work out?—It is a difficult one to argue, yes.

548. In paragraph 8 reference is made to the £152 million, which is a fairly small proportion of the total?—Yes, it is.

549. What is the reason for the slow progress of the audit?—First, I think it started rather late; it was not introduced until, I think, 1955 or 1956, I would guess—I am not absolutely sure about that—and I think it has been difficult to find enough good people to take on the work.

550. Has anybody suggested paying them more?—That I do not know. I am sure that that would not have been overlooked.

551. Are there any other reasons besides this one, that you just cannot get enough honest people of sufficient skill to take on the work of an audit of this kind?—I think that would be a fair assessment. (Mr. Macpherson.) There is one other reason, I think, Sir. The £152 million out of the £476 million will represent audit of completed projects only. The £476 million may include quite a lot of expenditure on uncompleted projects. (Sir Richard Powell.) That is true.

552. I see. It is not as bad as it looks?—(Mr. Macpherson.) No. The same point did occur to us.

553. Would it be fair to say that, at any rate, half remains? Where projects have been completed there is still over half not audited?—(Sir Richard Powell.) Yes, I think that is so, but, as I said before, it is not intended to do a 100 per cent. audit, it is to be a selective audit, and I imagine they will take typical works of different kinds and then check by comparison with the result of one audit.

554. Does the Board itself ever complain about obstacles being put in its way?—No, I think they have had, as far as I know, a very smooth passage.

555. They are quite prepared to accept entire responsibility for the delay?—Yes, I think so.

556. If the Board raises any question about which it feels uncertain, it has not got sufficient information, who answers? Who settles that?—They would go to the country, of course, in the first place where the work had been done, which was responsible. If they failed to get satisfaction there, they would certainly raise it in the North Atlantic Council through the Infrastructure Committee.

557. The final settlement takes place in the Council?—Yes. Any questions that were in dispute as a result of the audit and the country was not prepared to settle of its own would come to the Council for discussion.

558. Who appoints the United Kingdom representatives on the Board?—The Treasury, I think, appoint the British auditor. (Mr. Macpherson.) The present British member is someone seconded from the Comptroller and Auditor General's Department. (Sir Richard Powell.) But, I think, on Treasury sponsorship.

559. I suppose, as he comes from such eminently respectable surroundings, he can be relied upon to see that this work goes on at the best possible speed?—(Mr. Macpherson.) Clearly, he is from a respectable stable.

560. I am saying, it is hard to imagine a more respectable stable?—I agree.

561. I suppose it would be thoroughly unreasonable and quite excessive to ask any questions about him. He can be relied on absolutely to see that the work is pressed forward?—Perhaps that is more properly addressed to Sir Edmund than to me. (Sir Edmund Compton.) All I would say is that this member of the Audit Board is a senior and extremely competent member of my staff.

562. Is he still on your staff?—No, he is seconded.

563. You do not control him?—No.

564. He does not take instructions from you?—No, the Audit Board reports to the Infrastructure Committee, not to me.

565. In so far as he gets any instructions from this country, they would come through the Treasury, would they?—(Sir Richard Powell.) He would not get any. It is a purely international body. Their instructions would come from the Council through the Infrastructure Committee.

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[Continued.]

Chairman.

566. Just with regard to the structure of the Audit Board, you supply one or two members, is that so, Sir Edmund?—(Sir Edmund Compton.) Yes.

567. He, I presume, will be a member of the Audit Control and not a direct auditor?—The Audit Board is responsible, as I understand it, for the actual audit, for the process of audit. The Report of that Board goes to the Infrastructure Committee.

568. What I mean is this: this is an enormous problem, and the Audit Board must have a fairly large staff underneath it, must it not?—Yes. I cannot, I am afraid, enlighten the Committee on the staffing of the Board itself. (Sir Richard Powell.) I can give you the information about the composition of the Board, if you wish. I have just turned it up. There are five full-time members, one from the United Kingdom, one from Italy, one from the United States, one from Turkey and one from France, and

two part-time members, one from Norway and one from Belgium.

569. That is the Board. Now, what kind of staff have they beneath them, have you any idea?—I have no idea myself. I do not quite know what they have.

Chairman.] Are there any questions on the Account itself? I have no questions.

Sir Colin Thornton-Kemsley.

570. Sir Richard, just one very minor question which is purely inquisitiveness, really. Could you tell the Committee why your Ministry makes a contribution of quite a small amount, £1,500, to the Scott Polar Research Institute?—Because it provides information of value to the Intelligence machines, the Joint Intelligence Bureau and the Intelligence Divisions in the Service Departments, which we should have to get by other means if we did not pay this Institute to provide it.

THURSDAY, 26TH FEBRUARY, 1959.

Members present:

Sir George Benson, in the Chair.

Mr. Arbuthnot.
Colonel Crosthwaite-Eyre.
Mr. Hannan.
Mr. Hoy.
Mr. Clédwyn Hughes.

Mr. Pentland.
Mr. Stevens.
Mr. Thornton.
Sir Colin Thornton-Kemsley.

Sir EDMUND COMPTON, K.B.E., C.B., called in and examined.

NEW TOWNS ACTS, 1946 AND 1958, ACCOUNTS, 1957-58.

Dame EVELYN SHARP, D.B.E., Permanent Secretary, Ministry of Housing and Local Government called in and examined; and Mr. J. ANDERSON, C.B., Secretary, Department of Health for Scotland, called in and further examined.

Chairman.

571. Will Members turn to the New Towns Acts Accounts, 1957-58, to page iii, paragraphs 1 to 5, of the Comptroller and Auditor General's Report? On paragraph 2, Dame Evelyn, last year the Committee were told that auditors were instructed to report informally on expenditure of an extravagant and wasteful nature. Have you had any such reports?—(Dame Evelyn Sharp.) No, Sir.

572. Is that an indication that there is no expenditure of an extravagant and wasteful nature?—I think so, none of an extravagant and wasteful nature that the auditors hit on.

573. They are not your auditors, of course?—No, they are independent auditors.

574. What relationship have you with them?—They are appointed by the Minister on the Corporations' recommendation.

575. I know. What relationship have you with them, any reasonably intimate contact?—We have informal talk with them, and they have reported informally a number of cases of expenditure incurred in advance of authorisation, but nothing of an extravagant and wasteful nature.

576. They realise that they ought to?—Yes, I had some talk with their spokesman a year or so ago on this matter, and we wrote out to them reminding them all of this.

577. So that they really realise they have a responsibility to you?—Yes; I think it is fair to them to say that

when we had some discussion with them over a year ago about their duties they did feel at that time that what we were asking them to do then was more than was reasonable to ask an auditor. We were asking them to report to us anything which seemed to them wrong so far as public policy was concerned. They said they could not do that. They fully understood that they must report anything of a wasteful and extravagant nature, but they did point out to me in return that, since all expenditure requires the approval of the Department and in many cases also the approval of the Treasury, and is very thoroughly gone over by the Department and the Treasury before it is incurred, they would not expect to find wasteful or extravagant expenditure at the end of all that process.

Mr. Hoy.

578. May I ask Mr. Anderson a similar question: was there a similar instruction in Scotland, and if so what has he to say?—(Mr. Anderson.) The accounts of the Scottish New Towns are audited in the ordinary commercial way by auditors accustomed to commercial developments. We meet the auditors annually for an informal discussion, but we have had no reports from them of any untoward happenings.

579. I wonder in this connection, if you had an incident such as took place in Southern England where the roofs disappeared off the houses in one night, would that come under wasteful expenditure? It is an interesting question, because somebody eventually has to pay for it. Would you have thought, Dame

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[Continued.]

Eveiy, that that would have been wasteful expenditure?—(Dame Evelyn Sharp.) I do not think that is quite how you would describe it. We had a Report on it, as you know, and we were advised that there had been mistakes by the architect and by the contractors, and the great bulk of that expenditure is being paid by the architect and contractors. I think if we had not noticed that the roofs had blown off, the auditors might have told us, but we did.

580. Perhaps even the tenants might have noticed it?—Yes.

Mr. Arbuthnot.

581. Dame Evelyn, the last two columns in paragraph 5 are columns of deficiency, one for the year ended 31st March, 1958, and the other accumulated at the 31st March, 1958. Why have we got deficiencies here? Is there no opportunity of ancillary undertakings making a surplus?—You are on the Ancillary Undertakings Account?

582. Yes?—The Ancillary Undertakings Account is wholly an account of expenditure incurred by the Corporations on the provision of services. I think it is wholly taken by provision of sewerage, or in two or three cases also by the provision of water. Sewerage, of course, is not a service on which you can make any money. What in the end will reduce these losses is the transference of the undertakings to the local authorities, a process which the Corporations have started and which we hope to see completed soon.

583. Is interest paid on this money?—The money is advanced to the Corporations by the Treasury, and the Corporations must pay the Exchequer the current rate of interest over a period of sixty years for the money advanced to them for this work.

584. The current rate of interest is what at the moment?—At the moment for the New Town Corporations, 5½ per cent.

585. What guidance is given to the Corporations to enable them to plan their development programmes?—I am not sure that I know quite what you have in mind.

586. What guidance do you give to a Corporation as to the rate at which it

should develop, or do you give no guidance as a Ministry?—Apart from the initial guidance when the Corporation starts of the order of urgency of the job, our guidance has mainly been of a kind to check the rate of development. The Corporations, naturally, are usually anxious to go ahead full crack on development. In particular, in the last year or two when rates of interest have been so high, our guidance to the Corporations has been, slow down your rate of development as much as you can without harming the scheme. It has not always been possible for them to slow down, but you will have noticed in the Accounts that the rate of advances has slowed down; less was advanced in the year of account than the previous year, and less again is being advanced in the current year, because we have been trying to slow them down a bit.

587. Do the Ministry decide the size of the population to be accommodated in the New Town?—Yes.

588. And do you also decide the rate of development? You said you were checking it; checking it in the sense of slowing it up, rather than in the sense of keeping tabs on it?—Checking in the sense of slowing up. I should explain that all the Corporations' proposals for development have to be agreed with us and also with the Treasury, and therefore when a Corporation comes to us and says: "We hope to build so many houses this year", that has to be agreed.

589. The initiative lies with the Corporation, is that it?—The initiative lies with the Corporation. On your first question, do we settle the size of the population, yes, all the Corporations started with a target population. In the last year or so we have been discussing those figures with all the Corporations and with the local authorities, who are very much concerned in this, mostly with a view to increasing the ultimate population, but at the same time to settle the point at which the Corporations themselves should stop development somewhere below the target; because room must be left for the subsequent natural increase of the town with the second generation, and so on.

590. Do you know if any of the Corporations have had any difficulty in letting the houses that they have built?—

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and Mr. J. ANDERSON, C.B.

[Continued.]

None whatever in letting standard houses. Some of them have some difficulty in interesting people in the better class houses. They do not build them unless they know they have a clientele. They have a difficulty in getting a clientele, but with the ordinary weekly rented houses, no difficulty at all. There are waiting lists.

591. Do the Ministry lay down rent policy, or is the Corporation free to use its discretion in the matter of rent increases?—The details of rent policy are entirely a matter for each Corporation, but we have laid down to each Corporation that the housing account must balance taking one year with another, allowing naturally for the fixed subsidies and grants.

592. You gave us the rate of interest as 5½ per cent. Is that over the full period, or if interest rates increase or decrease is there a variation in the rate of interest?—There is no variation. The rate of interest applicable at the date on which the advance is made is the rate that is payable over the full sixty years.

Sir Colin Thornton-Kemsley.

593. Would it be true to say that about eight of the New Towns are primarily intended to deal with London's overspill?—Yes, certainly.

594. Has not London still got an enormous overspill problem?—It has, yes. I hesitated because, as you will know very well, it is extremely difficult to arrive at statistical accuracy about future overspill. It has an enormous current housing problem, and it has a considerable long-term overspill problem.

595. The question I was really leading to was, that being the case, and since, as you have just told the Committee, the New Towns themselves have long waiting lists for tenants and have no difficulty in letting houses, why should your Ministry want to check the rate of development of these New Towns?—We have wanted to check it in the last year or two because rates of interest were very high, and because the Government policy was, until the last few months when things are changing again, to keep down the rate of investment as part of the battle against inflation; and so we have said to the New Town Corporations that, although it is true they could have filled

up their houses from Greater London immediately, on financial grounds and following the Government's general policy in relation to investment they should slow down if they could without damage to their industrial prospects.

596. What about your prospects of housing these unfortunate people who are on waiting lists? That could be damaged, could it?—The people wanting to move out to the New Towns must wait longer if one is slowing down. It has not been a dramatic slowing down, we have very slightly slowed down, or rather have asked the Corporations to do so. One of the thoughts very much in our minds was that if rather less work was put out to contract in the New Towns the Corporations might get keener prices, and they have.

597. Are you still trying to slow up the rate of development?—We do not want, I should say, the New Towns to accelerate at the moment. We are very much impressed by the improvement in prices the Corporations have had for their contracts, and that long-term has an enormous importance, not only generally to our interests, but, of course, also to the tenants who must pay the rents for these houses.

598. You have told us that you do not want the New Towns to accelerate their rate of expansion. What I really asked was, do you still want them to check their rate of development?—Apart from those who are coming near the end, like Crawley and Hemel Hempstead, who are naturally running down, I should say they have levelled out.

599. No, what I want you to answer really, if you will, is what your Ministry wants to happen. Do you still want them to check their rate of development?—To go on at their present rate; not to check further, to go on at their present rate, except for those who are necessarily checking because they are coming to the end.

600. Because you want to leave room for the natural rate of expansion because you are near the target figure?—Yes.

601. Mr. Anderson, what about Scotland? Do you want to check the rate of expansion of Glenrothes and East Kilbride?—(Mr. Anderson.) I think I must distinguish there, if I may. Glenrothes was in the doldrums some years ago, if you remember, because the development of the Rothes Pit, which it was

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[Continued.]

intended to match with housing provision, was running heavily behind programme, and for two years I think we had to control the Glenrothes housing output very considerably. Now that the Rothes Pit is in production Glenrothes is going ahead again, and we have agreed with them on a programme of new housing development which should match the development of the Rothes Colliery. So, Glenrothes is now back in production at the old and accelerated rate. Cumbernauld, of course, only having just begun, is certainly not subject to any restriction.

602. No brakes on there?—No brakes on there. East Kilbride also we have not attempted to restrict beyond the natural restrictions of their own caution. They are still working to a programme agreed with us, but we have not tried to hold them back.

603. Have you had these difficulties that Dame Evelyn has told us about with high contract prices because there was such an urge to get on with the work in New Towns?—There is always that danger, but we have to rely on the financial acumen of the Corporations to get over it as best they can. There has been until recently a tendency for prices to become a good deal keener.

604. We are coming later to a discussion of the Scottish Special Housing Association, but I suppose one means would be to put them in as a sort of Commando force to compete with the private contractors?—Certainly, the Scottish Special Housing Association has that effect through the country as a whole. We have not used them in the New Towns, and I do not think we should want to, but I think their effect is certainly to intensify competition.

Mr. Stevens.

605. Just one question, Mr. Anderson: what is the special reason for the very much larger deficit in the case of East Kilbride than any other of the New Towns?—That is a sad story, Sir, deriving from the Scottish rating system. I do not want to weary the Committee with a dissertation on this, but for some years until the Rating and Valuation Act of 1956 there was a system in Scotland of owners' rates: rates were payable in part by owners and in part by tenants, and the rent

actually passing represented the valuation of the house. So that meant in brief that the higher the rent the higher the proportion of owners' rates you had to pay, and you ended up with the ridiculous situation of paying rates on rates. Until 1956 it was impossible, owing to that system, to charge rents even approximating to a realistic level, and it is only since 1956 that the Development Corporations have been able to increase their rents, albeit not by much, and come nearer to the economic level. The deficit in East Kilbride is very largely on the Housing Account. The figures are not shown separately, but we reckon that probably 80 per cent. of the deficit there is due to the Housing Account situation.

606. You say that rents could be increased from 1956, but presumably only in respect of new tenancies; in other words, existing tenancies carried on at the old rents?—No, the rents have been increased for all tenancies.

607. Then why should the deficiency in the year ended 31st March, 1958, be so substantial?—The accumulated deficit in the second column—

608. I was not thinking of the accumulated deficit, I was looking at the deficit for the year, a year in which you told us the rents have none the less been increased?—Yes.

609. Why is it so much in that year?—The increases which were made approximately doubled the rent revenue obtainable in the New Towns, but even so they are still short of the economic level.

610. Why is that?—A number of reasons, Sir. The local authority rents in Scotland are generally very low, and it is impossible for the New Towns to charge very much higher rents than are payable in the surrounding local authority areas. They are in fact above the local authority level now, and it may be that in due time they can go further, but there are limits to which they can exceed the local authority rent.

Mr. Hoy.

611. But are they not substantially higher, let us say, than the Lanarkshire rents?—Very substantially, yes. Lanarkshire is particularly low.

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[Continued.]

612. I would have said they are substantially higher, not just a little higher?—The average local authority rent in Scotland is about £19 net at the moment, and the average New Town rent is about £33.

613. That is, twice as much?—It is very nearly twice.

Colonel *Crosthwaite-Eyre*.

614. Is that based on the same figure as Dame Evelyn gave, of 5½ per cent. overall?—The rate of interest is the same, 5½ per cent., yes.

615. It is still double at 5½ per cent.?—The rate of interest which the Corporations pay on advances is 5½ per cent.

616. Exactly, and they still have to charge double the rent of anybody outside their own area?—Yes, that is so.

Mr. *Cledwyn Hughes*.

617. On paragraph 4, the expenditure in 1957-58 was £28 million, and that compares with £32 million in 1956-57 and £31 million in 1955-56. Why was the expenditure so much less in 1957-58?—(Dame Evelyn Sharp.) I think it was partly because one or two of the English towns are now getting towards completion and therefore beginning to slow down on expenditure, and partly because, as I said in reply to an earlier question, we did ask our Development Corporations where they could without damage to slow down the rate of investment.

618. Was that because of the credit squeeze?—Yes.

619. Was the reduction made on housing or on factory building or on both housing and factory building?—Primarily on housing. There was a certain amount of natural reduction on factory building, that is so; it was not booming as it had done, and in the towns which were near completion, like Crawley and Hemel Hempstead, it was very much slowing down. The Corporations were having to say they did not want any more factory building; they had got nearly as much as they could accommodate.

Colonel *Crosthwaite-Eyre*.

620. Dame Evelyn is talking about a credit squeeze, which is a very nice term which we all understand, but exactly what does it mean in relation to the question that was asked?—When I was

asked about "credit squeeze", I took that as a term covering the whole Government policy of reducing the rate of investment as a method of combating inflation.

Mr. *Cledwyn Hughes*.

621. Would you say that the demand for factory accommodation is keeping pace with housing accommodation?—Oh, yes. The difficulty is more the other way, that housing accommodation has quite a job to keep up with the demands of the industrialists. Industrial provision is not going so fast now, or the demand is not so keen now, as it was two years ago, and the towns that are not so far forward, Basildon is an example, are a little anxious at the present time about where the future industry is coming from. But previously housing has been chasing industry more than the other way round.

622. What would you say the trend was during the last twelve months?—Industrial building has been quite steady during the last twelve months, but looking forward we have a bit of anxiety in the towns that are still young. But we have had no employment deficiency in the last twelve months.

623. But in relation to Basildon, for example, are you saying that the applications for industrial sites are disappointing, or what is the situation?—The applications for new industrial development are very much less than they were a year or so ago.

Mr. *Pentland*.

624. May I ask, what activities do the ancillary undertakings cover?—Only sewerage, water, and some items, I think, for main roads.

625. Do the Corporations receive annual contributions for services from the local authority who, presumably, collect the rates from the Corporation houses?—They do, yes.

626. When you say "Yes", could you tell me why the deficiency on Revenue Account is so large?—Because the Corporations have had to provide main sewers in anticipation of the ultimate population far ahead of the population being there. The local authorities will contribute in relation to the population they already have which the sewers are serving, but the Corporations

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are at the moment carrying what is still dead expenditure in relation to sewerage which is there for the population which will come in the next few years.

627. Have you made any plans for reducing these ancillary undertakings' deficits? Have you made any plans in that direction?—The expenditure is incurred; the deficits are the interest due each year to the Exchequer on the money that has been advanced. What we want to do and have started to do is to get the local authorities to take over the sewerage undertakings. That is a question of agreeing the price with them, and there will continue to be a deficit on those undertakings. That is inevitable.

628. Has any decision been taken yet as to the time when these sewerage services, and so forth, should be transferred to the local authority?—We would be happy to transfer the whole lot immediately, but it is a question of getting a reasonable price.

629-30. What do you think should be paid for the capital works?—I would really rather not say, because the best we can get out of them is the answer. If I were to tell you what terms I would accept, then I would have no hope of getting better terms from local authorities.

Colonel Crosthwaite-Eyre.

631. May I ask Dame Evelyn one question: these towns were constructed as a matter of policy. It is not our object to inquire in any way into their establishment. That was a matter of Government policy, but do you see actually any final solution in agreement with the local authority which will make these Corporations solvent in the normal term? I would agree, you may have many bargains which you can make, and you were able to quote one, or were willing to quote one, but on the whole do you think any of these New Towns will be something your Ministry can pass to the local authorities to manage on a profit-making basis?—I think there are two points included in that question. The first is, no matter where the towns go whether they will pay their way. In time I think most of them should. In that answer I exclude any consideration of the housing subsidies and grants. Excluding those, I think in time most of them should. How quickly depends a great deal on how much the Corporations

are going to have to pay for their money in the years to come.

632. When you say "in time", what is the period you have in mind?—I think the whole answer is contingent on what happens to the rate of interest, but assuming that does not go up—

633. If I may, I am going to ask you a few questions about the rate of interest in a moment, but your Ministry must have some idea?—Yes. I think Crawley, which should be the first town to be substantially completed and to be ready for passing over to whatever body is going to inherit it in two or three years' time, should then be breaking even near enough. I cannot say to an exact figure, but it should be breaking even, near enough.

634. I want to press you a little bit on this. You say Crawley?—I have only taken that because it is the first.

635. You take it, if I may say so, as your best in answering the question?—Yes.

636. You say that will be in three years. Now, take the most disadvantageous from your point of view. How many years will that be?—The most disadvantageous town?

637. Yes?—I should think that will be Basildon, but it will be eight to ten years, I think, before Basildon is substantially completed. What its financial situation will be then it is extremely hard to estimate.

638. The object of this Committee, as you know, Dame Evelyn, is not to challenge the expenditure of public money that has been agreed by Parliament. Our job is to see that the money has been well spent to a proper end?—Yes.

639. Let us take your own case. The money has been spent. When do you expect to see a return for the money?—For the whole of the money on all twelve towns?

640. No, on the case you mentioned, Basildon, I think?—On Basildon, I could only hazard a guess that we shall not be seeing a return on that money until well after the town is substantially completed, and that, I think, will take a further eight to ten years, so may be the time for a return could be ten to twenty years. But I am obviously hazarding a guess for a town which

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is still in process of building, as Basildon is.

641. Taking one in between the two cases I have asked you about and taking all the rest of the towns, do you see a return on the money that Parliament has invested in them?—In the long run, I think so.

642. I am sorry, I hate these phrases like “long-term”. What do you mean by “long-term”?—It is hard to press me on that, because it could be fifteen, twenty, twenty-five or thirty years. It is not possible for me to get closer at this stage.

643. I only want to clear this because I am going to ask you some further questions, if I may. As far as capital transactions are concerned, this is a very long-term programme which must depend on many factors which are out of the control of your Ministry, and, if we may say it, of private industry or the private individual who may or may not wish to live in the town to be created. Is that correct?—I am sorry, I have not followed the question.

644. What I was trying to get is this: I thought you said within two or three years we might see the result of one New Town. You then quoted Basildon?—As perhaps the furthest off.

645. That is why I asked you for that. You then said that obviously for the whole range of these New Towns it was a programme of adventure, if you like, by Parliament, but certainly your Ministry would not be prepared to say at what stage a commercial return from the money invested by Parliament would be achieved?—We could not say that at this point.

646. That is what I thought. Then I would ask you this: I think 5½ per cent. was mentioned as the rate?—Yes.

647. Do you know of any private industry that could borrow money for building at 5½ per cent.?—5½ per cent. at the moment?

648. At the moment?—Yes, or more cheaply.

649. I would not challenge you, except that I hope you and I might afterwards discuss where you could find that money. May I put it this way more broadly: it is fair to say you are borrowing money for these projects at rates which are not on the whole available for private enterprise?—The Corporations believe that

they are having to pay more than private enterprise.

650. I beg your pardon, we are talking about the Corporations?—The Corporations believe they are paying too much for money which they have to borrow over sixty years. This is, of course, the Treasury’s business.

651. No, I have listened to you, Dame Evelyn, and you have talked about credit squeezes and the rest of it, but I should have thought that anybody responsible for big undertakings like the New Town Corporations, if they could borrow their money at 5½ per cent. today, would be very lucky, and I do not understand why, if I may say so, by implication in your answers you thought that is possibly a burden?—The 5½ per cent.?

652. Yes?—It is a relatively high rate of interest.

653. No, I am not asking whether it is relatively high or not. I was merely asking you this: is there anybody else who can borrow cheaper? Your answers gave the impression, if I may say so, that the New Towns Corporations have been rather penalised by the rate of interest?—I had no intention of giving that impression. All I was saying was, when I was explaining that we had reduced the rate of building, that currently for economic reasons the rate of interest is high. It is higher than it was in the past. It is higher than local authorities normally expect to be able to get their money for. I am not making any complaint about it, it is an economic fact, and it is based on economic facts.

Colonel *Crosthwaite-Eyre*.] I must take you up on this. I have only one more question to ask.

Chairman.] You are getting rather hypothetical.

Colonel *Crosthwaite-Eyre*.

654. Yes. You actually said in one case it was a long-term project?—Yes.

655. Whereas your local authority, which I think you are now quoting, is always borrowing on a short or medium term. I would like you, Dame Evelyn, obviously to answer that question, and I will leave it at that?—You would like me to answer what?

656. At one stage you were saying the rates of interest you had to pay were

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[Continued.]

high in relation to a long-term borrowing. Then you were quoting local authorities, who borrow obviously on a short-term basis, and, of course, you cannot make any comparison between the two?—No, but local authorities who borrow from the Public Works Loan Board, and many of them do, are borrowing for sixty years at $5\frac{1}{2}$ per cent. at the moment.

657. You are $5\frac{1}{2}$?—We are $5\frac{1}{2}$. I was not complaining about the rate of interest. I was only saying it is higher than we should hope it would be necessary to pay throughout the life of the Corporations, and it seems sense, if you can avoid it, not to undertake your peak rate of development when the rate of interest is relatively high. The rate might come lower. It has been lower in the past; it might come lower again.

658. You think 5 per cent. is too high a rate of interest to pay?— $5\frac{1}{2}$ per cent.

Colonel *Crosthwaite-Eyre.*] $5\frac{1}{2}$ per cent.?

Chairman.] I hardly think we can press Dame Evelyn to express an opinion as to what she thinks is a proper rate of interest.

Colonel *Crosthwaite-Eyre.*] May I apologise? I will not ask anything further.

Mr. *Arbuthnot.*] Mr. Anderson, I do not think the Committee can let you get away with the answer you gave about East Kilbride, because you tried to explain, as I understood it, that the nigger in the woodpile was the Scottish rating system which was put right in 1956. If you look at the ratio between the East Kilbride figures and the total for the accumulated period to the 31st March, 1958, you have £1,053,000 to £2,573,000, whereas if you take the figures for the year ended 31st March, 1958, the ratio is £318,000 to £639,000, that is to say, 1 to 2 as opposed to 1 to $2\frac{1}{2}$ in the first case. It would seem to me, therefore, that it is quite impossible to say that matters were put right in 1956 because the ratios—

Chairman.] I really cannot allow you to argue with the witness. You can ask him questions.

Mr. *Arbuthnot.*] May I ask him, can he think up a more convincing reason?

Chairman.

659. Yes, you can ask him that question?—(Mr. *Anderson.*) May I reply, Sir? I think you will remember that I did say that while the initial reason was the rating system, the current difficulty in increasing rents any further is the general low level of local authority rents, particularly in the East Kilbride neighbourhood. As I think was pointed out, the local authority rents in Lanarkshire are only about £10. So, although the Development Corporation were inhibited from raising their rents until the rating system had been corrected, even now they are able to raise their rents they cannot raise them sufficiently to eliminate their annual deficiency. They are still running their houses at a loss even with the increased rents now being charged.

660. So that East Kilbride is thoroughly uneconomic?—East Kilbride is operating at a substantial loss.

661. When do you hope to get it right?—I do not think I can put my hand on my heart, Sir, and say that we shall ever get it right. It has developed over a number of years with this millstone of the Housing Account around it. It has now built up this staggering deficiency of over £1 million. Even if it were possible tomorrow to raise the rents even further, I am not sure that the time will ever come when they will be able to wipe out the deficit. I am sorry to be pessimistic, but I do not want to mislead the Committee by appearing to be too cheerful about it. It is a very unfortunate situation, I admit most frankly.

Colonel *Crosthwaite-Eyre.*

662. Are you really saying that for your houses you cannot charge an economic rent?—At the present time, yes, taking the comparison which must inevitably be made with local authority rents in the vicinity.

663. That is something Parliament has got to bear?—In the ultimate, yes.

Mr. *Hov*

664. I want to ask a question about this on two points. First of all, Mr. Anderson, you said in connection with one of the New Towns that you were now working to an agreed programme. I think those were the words you used?—Yes.

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[Continued.]

665. Agreed in the sense that you restricted what the New Town wanted to do, is that correct?—No, I think I used those words in relation to Glenrothes, and what I had in mind was this, that we discussed first with the National Coal Board the rate at which they expected the Rothes Pit to develop, the number of new men who would be coming in to work there, and we then discussed with the Development Corporation the number of houses which should be able to accommodate the incoming miners and the other balancing industries and other employment that we expect will come. It is agreed in that sense and not in a restrictive sense.

666. Then the directive was issued, and I think that is probably where the hon. Member went off, because he was not in at the beginning when the question was asked whether some directive was given. Did you issue the same directive as the English Ministry, saying that because of certain financial considerations you wanted to restrict their output or slow it down?—We have not asked the Scottish New Towns to slow down.

667. You never issued one in that sense in the way the English Ministry did?—We certainly did not issue one.

668. You did not issue anything at all?—No.

669. Dealing with rents of houses, and this is what I think is important if I gather it aright, when these New Towns started I am told that you were paying approximately 3 per cent. for the money you borrowed, and it went up substantially. I think that in 1958 you were not only paying 5½ per cent. but you were in fact paying 6 per cent.; is that correct?—(Dame Evelyn Sharp.) Yes, it is.

670. And as a consequence of this, between 1951 and 1957 the interest charges on a house repayable over sixty years, if I take the figures from the Scottish Department, then moved up from £1,700 to £4,000, or rather a little more than £4,000, per house. Interest charges I am talking about, not the cost of the house. Was that the thing that increased the burden as far as East Kilbride and the other New Towns were concerned?—(Mr. Anderson.) Oh, undoubtedly, it is a very substantial increase.

671. So, in some way, if you can through Government action or otherwise

get these interests charges down, that would be the most substantial contribution you could make towards the financial return from these New Towns?—I think it would undoubtedly help.

672. I think that ought to be made quite clear?—Yes.

[Chairman.] May we pass on now to pages 1 to 7, the Foreword and the Accounts? I have no questions.

Sir Colin Thornton-Kemsley.

673. In paragraph 5, Dame Evelyn, of the Foreword to the Accounts, you make the statement jointly with Mr. Anderson, the Accounting Officer for the Scottish Department of Health, that the potential Exchequer commitments are estimated to be in the neighbourhood of £400 millions. Does that include or exclude the housing subsidies?—(Dame Evelyn Sharp.) I think that relates only to capital expenditure. It does not relate to the housing subsidies, which are a contribution to the annual cost of the Corporations.

674. Is it after taking into account the possibility of local authorities taking over the sewerage installations, and so on?—No, I think it is a gross figure, the gross capital expenditure envisaged for the towns.

675. So that is capable of reduction by the amounts that you may receive from the local authorities in respect of the sewerage installations?—It might be, yes, or should be.

676. Well, it must be, must it not, if you are going to sell any of the sewerage installations?—It must be, yes.

677. So that would be the gross figure, and it might be reduced, I suppose, by a fairly considerable amount?—Fairly, but expensive though these sewerage works have been, housing is the very big item in this capital figure.

678. Bearing in mind that you can, of course, with the Committee's permission, sideline any answer you would not want to get about, what sort of figure would be the total you might hope to get in England and Wales from the sales of sewerage installations, and so on, to local authorities?—I am afraid I cannot answer that, because I do not carry in my mind what the gross cost of all the sewerage undertakings has been. The very heavy sewerage undertaking, as the Committee know, has been the Middle Lea, and that will cost of the order of £6 million. Nothing else has been like that.

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[Continued.]

That deals with four New Towns. So, you see, although we regard that as a terribly heavy burden, it is not an enormous capital sum.

679. It is not a very large proportion of the £400 million?—No. (Sir *Edmund Compton*.) According to my information—the Accounting Officer can check it—the total written-down part of the sewerage works provided by the nine Corporations amounted to £7 million, exclusive of the Middle Lea scheme, on which capital expenditure less depreciation incurred by Stevenage, Harlow and Welwyn—that is, to 31st March, 1958—amounted to nearly £4 million. (Dame *Evelyn Sharp*.) Yes.

680. Can Mr. Anderson supplement that with any Scottish figures?—(Mr. *Anderson*.) Not in quite the same way. I can give you a Scottish figure for the Scottish share of the £400 million, the total potential Exchequer commitment, which we put at a figure of £85 million. There is no offset for that in the case of sewerage schemes, because those have been financed in Scotland on a different footing. They have in fact been constructed from the start by the local authorities, who received a deficiency payment towards their outgoings in the early years of the New Towns before the rate revenue starts to develop. So there is no capital contribution to be looked for. Our £85 million remains as the target.

681. So it looks as if in England and Wales out of something like £315 million potential capital expenditure only at the most £12 million or £15 million might be got back, if you are lucky, or something of that order?—(Dame *Evelyn Sharp*.) At the most, yes.

682. To what extent is it thought that the accumulated deficits will be made up as rents from the commercial lettings in the newly developing Town Centres begin to flow into the Development Corporations?—I think they will in time be wholly made up. They will be wholly overtaken.

683. You would agree, would you not, that the commercial rents of the Town Centres will provide an immensely valuable source of revenue to the New Towns because they have got a ready-made population all the way round the Town Centres? It would be true to say, would it not, they are not yet fully developed in many cases?—In most

cases they are not yet. I quite agree they are potentially very valuable.

684. And it is your view that in England, at any rate, these accumulated deficits will be made up in due course partly because of the high rents from the shops in the New Town Centres?—And from the factories, yes.

685. Mr. Anderson, you were answering some questions about Glenrothes?—(Mr. *Anderson*.) Yes.

686. Is it not possible that the commercial rents from the Town Centre there may bring in a very useful source of revenue to the Corporation as the town develops?—I would certainly expect that in East Kilbride, Sir, where the Town Centre is now being developed. The first stage, about one-fifth of the total of the Town Centre, is nearly completed, and the return there will be very handsome, and we hope that the further stages will be even better. But I think it would be a bold man who would look for the return from that to eliminate a deficit of the kind that we carry in East Kilbride.

687. With regard to Cumbernauld, of course, it is early to say yet?—Cumbernauld, of course, is planning its Town Centre, but it will be many years before any return can be achieved there.

Colonel *Crosthwaite-Eyre*.

688. Dame Evelyn said that there was potential in these Town Centres. What is the estimated potential?—(Dame *Evelyn Sharp*.) I could not give a figure.

689. If I may say so with great respect, it is so easy, you know, in an argument such as we are having at the moment to say there is a potential, but in your accounts which you must have in view of the money you have spent on behalf of Parliament there must be some idea of what you might get back from this?—I should say there is not. The accounts show what the Corporations are getting now, split between the Town Centres and the Neighbourhood Centres, and the return they are getting on their industrial estates. They have in their commercial lettings in many cases adopted a policy of relatively short leases because they are quite confident that as the population builds up they can in seven years, ten years or fifteen years get higher rents. They may have in their minds an estimate of what

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[Continued.]

they may be able to get, but they have never given it to us and we have never asked for it.

690. May I put it this way: it is our job as a Public Accounts Committee, when there may be an element of surplus rent or excess rent; whatever you like to call it, in these Centres, and that has not been realised to ask if the Ministry still thinks it can be achieved. Would that be correct?—We think that improved rents can be achieved and will be achieved as the populations increase.

691. Let me put this, because I want this to be absolutely clear, that at the moment, apart from what you believe, there is nothing definite in the sense of leases or otherwise to show that what you think will be achieved will actually be achieved?—Not yet. The figures have not been negotiated.

Sir Colin Thornton-Kemsley.

692. Just following on that, is it not true, broadly speaking, to say that the pattern of the New Town is to build one neighbourhood unit with its local shops,

then another and then another, and as that is going on you finally develop the big shopping centre with its public buildings, cinema, and sites and departmental stores and the multiples?—That is true, yes.

693. In very few cases are these commercial centres yet built. Therefore, it may not be possible—am I right in saying this—for the Development Corporations themselves, and certainly not for your Ministry, to assess what departmental stores or multiple traders will come for sites which are not yet available to them?—That is true in the towns that have not yet got there, but it is fair to say that some towns like Crawley, Stevenage and Hemel Hempstead, have their Town Centres largely completed; but even they, I think, could not estimate and would not (even if in their minds they are doing it, they would not do it publicly) what figures may be obtainable in five or ten years' time. So much depends on what happens to values in the country at large apart from the values in the particular town.

CIVIL APPROPRIATION ACCOUNTS (CLASSES I-V) 1957-58.

CLASS V.

VOTE 12.

HOUSING, SCOTLAND.

Chairman.

694. Will Members turn to the Civil Appropriation Accounts, paragraphs 54 to 56 of the Comptroller and Auditor General's Report, Financial Results? Mr. Anderson, these deficiencies are growing at a rather alarming rate, are they not?—(Mr. Anderson.) Yes, but, of course, the growth in the deficiency does not indicate any decline in the operational efficiency of the Association, if I may put it in that way. It is due rather to a change first in the statutory position and later in the accounting arrangements. The Association now do not receive the Exchequer subsidy in lieu of the statutory rate contribution which they used to get, and the terms on which they start to repay their advances from the Exchequer have been stiffened up, both operations increasing their paper deficiency.

Mr. Stevens.] May we have a note of the relevant dates of the changes?

Chairman.

695. I have no doubt Mr. Anderson can supply us with that?—Yes, certainly.

Chairman.] What exactly have you in mind? What information would you require?

Mr. Stevens.] I heard Mr. Anderson say that the growth in the deficiencies was due to two causes, one, change in the nature of charge, and the other in the nature of presentation. I just wondered from what dates those changes were effective, to see the effect year by year upon the deficiency.

Chairman.] Would you like a short memorandum on the subject?

Mr. Stevens.

696. Mr. Anderson may have it available. He had some similar information about East Kilbride a few moments ago?—The change in the arrangements for

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[Continued.]

repayment took effect in November, 1957, and the other one rested on the passing of the Housing and Town Development Act, 1957, and came into effect in May, 1957.

Mr. Hoy.

697. With what result, Mr. Anderson?—With the result which is broadly brought out in paragraph 55, the reduction of £305,000 in receipts from Exchequer subsidies.

698. And an increase of £232,000 in loan charges, is that it?—Yes.

Chairman.

699. That is, roughly $\frac{1}{2}$ million?—Yes. The effect of both changes, if I may say so, being to present more factually the Association's true trading position.

700. Now, what is going to happen as a result of the increase in rent charges which is mentioned in paragraph 56? How far is that going to meet these increased charges?—It will help to some extent, of course. The new rents, as in the case of the New Towns, are very roughly double the other ones, and to that extent they will help. I do not think, again, that one would expect them to eliminate the deficiency.

701. Then there will always be a deficiency?—No, I think the rental policy may have to be revised again as time goes on. The deficiency will be cancelled annually as from 1959-60. It is intended to write off the deficiency annually in the Vote so that Parliament will see precisely.

702. That is the accumulated deficiency, I take it?—The deficiency as it exists at that date.

703. You expect to break even, then, soon?—I would not like to anticipate that, Sir, no.

704. Then you will be writing off the old deficiency and accumulating a further deficiency, is that the position?—The write-off would take effect only if in fact there were a deficiency at the end of the year.

705. I see. You would write off the future recurring deficiency?—Yes.

706. What about the deficiency which has already accumulated?—That would be taken care of in the Vote for next year.

Mr. Arbuthnot.

707. By "taken care of" do you mean written off?—Yes.

Chairman.

708. It is, in fact, a subsidy?—Yes.

Sir Colin Thornton-Kemsley.

709. Mr. Anderson, you told the Committee just now, I think, that the fact that the Scottish Special Housing Association has deficiencies does not reflect upon its operational efficiency. Did you say that, roughly?—The point I was trying to make was that the increase in the deficiency was not due to a decline in the efficiency of the organisation.

710. It was upon that point of efficiency that I wanted to question you, because, of course, it is our concern if the Exchequer is subsidising this body, as we see that it is, to be sure that it is efficient?—Yes.

711. Have you any reason to believe that it is not efficient?—No, Sir, none at all. Our view is that it operates on a very efficient footing, and certainly that it compares very well with the general local authority operations through contractors.

712. Have you had complaints from local authorities who have employed the Scottish Special Housing Association?—No, none at all.

713. Not recently do you mean?—No.

714. You cannot remember any?—I remember none.

715. The next questions I wanted to ask were arising from paragraph 56, about the revised rent schemes?—Yes.

716. The effect of these schemes, of course, is to increase rents. Can you tell the Committee what the average rents of Scottish Special Housing Association houses now are?—Yes. The scheme was designed to achieve an average rent of about £35. The rent, of course, varies as between houses of different sizes.

Colonel Crosthwaite-Eyre.

717. When you say £35, for a house of how many bedrooms?—That was to be the average.

718. But a house of what size?—Four-apartment.

Chairman.] That is two bedrooms and two rooms downstairs, two up and two down? I am not quite sure what the Scottish housing arrangements are.

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[Continued.]

Mr. Hoy.

719. I think you will find it very much different from the type you are thinking of. In the main, Mr. Anderson, do you not build three-apartment houses?—Generally three, a certain amount four, and a few five.

Mr. Hoy.] One living room and three bedrooms?

Colonel *Crosthwaite-Eyre*.

720. And that is the £35 which you are referring to?—Yes.

Sir *Colin Thornton-Kemsley*.

721. So that the average rent now, not, as I understand it, for three-apartment houses but for all the houses which the Scottish Special Housing Association have built and let, works out at £35 a year?—It will be slightly less owing to the operation of the rent rebate scheme, which is an integral part of the new rent structure. The target was £35, I think. In realisation it comes down to about £33.

722. Now, can you tell us, to compare with that figure, what is the average annual cost of providing and maintaining one of the Association houses?—I am afraid that is not a figure I carry in my head, and I cannot at the moment find it.

Chairman.

723. Sir Edmund, can you give us any information?—(Sir *Edmund Compton*.) On my information, 30s. a week.

Sir *Colin Thornton-Kemsley*.

724. That is what, £78 a year?—Say, £78 a year.

Chairman.

725. Do you accept that figure, Mr. Anderson, of £78?—(Mr. *Anderson*.) I think it might be a little on the low side, Sir.

726. It might be even up to £80?—Yes.

Chairman.] That is near enough, I take it?

Sir *Colin Thornton-Kemsley*.

727. Yes. Then, what would the average housing subsidy be; can you add that to the £35?—The subsidy of £24 for the general needs houses or £42 if they are building for overspill.

728. So, for the general needs house, the average rent plus the subsidy would come to about £59, that is to say, £35 and £24

for the average subsidy?—Yes. I have the figure here, Sir. Assuming the average cost of a house at £1,800, loan charges at 5½ per cent. over sixty years come to £103, maintenance and management is reckoned at £11, making a total of £114.

Sir *Colin Thornton-Kemsley*.] The site cost you have not added so far, have you?

Mr. Hoy.

729. Is that included in the £1,800?—That is included in the £1,800, yes.

Sir *Colin Thornton-Kemsley*.

730. So, it is £1,914?—In total, yes. I am sorry, £1,800 capital and £114 revenue.

731. Now, what is that equivalent to? Have you a figure to tell the Committee what that is equivalent to in the annual cost of providing and maintaining an Association house for a year? Does it confirm the £78 which the Comptroller and Auditor General gave us?—(Sir *Edmund Compton*.) I think the figure I gave must have been based on loan charges at a lower rate of interest and that the comparable figure to the £78 I have mentioned is £114.—(Mr. *Anderson*.) I think that is as near as we can get it, Sir.

732. So, just to summarise, the average Scottish Special Housing Association house is costing £114 a year, and by the recent increase in rents you are now getting in £35 a year, on the average?—Yes.

733. There is just one other question I want to ask, and that is about the three districts where difficulties have arisen about increasing the rents. Will you tell us what those districts are?—Yes. One was Midlothian, where the County Council in fact took the Association to Court, alleging that their rent scheme was illegal, and where clearly while the matter was *sub judice* the rents could not be raised. The second was Dumfries, where the situation was somewhat similar, in that the County Council themselves were in Court at the instance of their tenants, and where also no increases could be made. The third is Leven Burgh, where, peculiarly enough, tenancies are on an annual basis and will not take effect until May, but in all cases action is now in process. The missives have been issued in Midlothian and Dumfries and in Leven.

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[Continued.]

Colonel *Crosthwaite-Eyre*.

734. Is that Loch Leven?—No, this is Leven Burgh, in Fife.

Sir *Colin Thornton-Kemsley*.

735. And in all those cases you now expect to get in rents which will bring you up to the level of the average throughout the rest of Scotland?—Yes, subject to the rebate scheme, of course.

Chairman.

736. May I ask what the legal actions were about?—Midlothian attacked the basis of the Association scheme, alleging that it was *ultra vires*, but the Court did not uphold them. The case was dismissed.

Mr. *Arbuthnot*.

737. Mr. Anderson, does the same argument apply here that you used in connection with the New Towns Act, that you cannot get nearer the £114 that the house costs you to maintain than £35 because the local rents are so low?—Yes, that is basically the reason.

738. Why, in those circumstances, did the Scottish Special Housing Association build houses in these areas where the demand for them was so low that you could not get an economic rent or anywhere near it for them?—It is not a question, I think, of demand. The Association only build where there is a claimant demand, but the demand is not in all cases matched by an equivalent rental payment.

739. How do average wages in Scotland compare with average wages in England?—This is a little beyond my beat, Sir, but I think the wage rates are generally similar, if slightly lower in Scotland.

740. But not to the extent of the equivalent ratio of £114 to £35?—No, probably not.

Colonel *Crosthwaite-Eyre*.

741. Do you pay any interest on the money that the Association receives from the Government?—Yes. The Association pay interest at 5½ per cent. on their loans.

742. And following what the last questioner said, are you able to control where you put these houses?—Entirely, yes.

743. It is entirely your own—funeral would be the wrong word; it is entirely your own responsibility where you put

them?—Yes. We have an agreement with the Association under which we decide where they are to be entitled to build.

744. Therefore, what results is entirely your responsibility?—Yes, that is so.

745. And you do it, if I may say so, with full responsibility for what you have to pay back by way of interest and the rest of it and therefore it must be rather unfortunate to feel, unless I am mistaken, that you may year after year have to ask for a deficit to be written off in the account?—The need for the Association's work, of course, is the very serious housing situation which still exists in large parts of Scotland, and in part too the help which the Association are now giving in the early stages of the overspill operation.

746. I want to be clear on this. Are you a charitable organisation building houses where you think they may meet some, shall we say, local urgent need, in which case I can understand it? You borrow money from Parliament and you have to pay interest. What rather puzzles me is that in answer to previous questions you have said that year after year you will have to ask for your losses to be written off, and yet at the same time I thought you were an Association designed to meet the special needs of Scotland, by which I thought you meant, building up Scotland. Are you a lifebelt or are you trying to do something for the benefit of Scotland?—Yes, I am not sure that there is any inconsistency, Sir. I think the Association has an essential part to play in the housing development of Scotland both in meeting the very real housing need and, as I said, in helping with the housing part of the overspill operation. It is, I agree, unfortunate that through circumstances beyond their control they cannot at present secure rents which will allow them to operate on an economic basis. That, one hopes, will improve, but I can only explain the situation as it exists now.

747. Would it be true to say this, that you are doing, and I would not quarrel with this, something that is of value to Scotland? It is certainly not going to make any return, but you believe in your own mind that you are doing something to help, be it the immediate purpose or the overspill, but you cannot say what you are doing is going to lead to an

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[Continued.]

economic return on the money you have spent?—Not at present, no.

Mr. Hoy.

748. Would it be true to say that this Association have to go and build in parts of the country where they could not otherwise have had housing?—Yes. The areas in which the Association build are defined according to a formula which takes account both of the housing needs of the area and the housing finance of the local authority.

749. But would it not be true to say that there are certain places where houses have been built by the Association which otherwise would not have been built at all?—I think that is true, yes.

750. And that was one of its functions?—Certainly.

751. Was it not also one of the functions of this Association to experiment in different forms of building, practising what is known as the “no fines” technique?—Yes, that is true.

752. So to that extent the whole industry benefited?—Yes.

753. When you were talking about the costs, what did you say was contained in this £114? What were the annual charges, did you say?—(Sir Edmund Compton.) £103.

754. £103 out of £114, is that right? That is the annual charge for interest?—(Mr. Anderson.) Yes.

755. Let me ask you one other question about cost. I think you said there is an item of £11 for repairs to houses?—That was for maintenance, yes.

756. Maintenance. What is the figure for the normal Council house that was included in the last Act you passed?—It was £8 for repairs and £3 for management.

757. And that is the highest you have put it at?—Yes.

758. May I ask you this, then: how did it actually work out? What was the actual charge against it? I know what items are in this charge, but what was the actual outturn of the account?—£6, for the Special Housing Association.

Chairman.

759. But that is, of course, I take it, when the house is new?—Yes.

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Mr. Hannan.

760. Mr. Anderson, you have already said that the Scottish Special Housing Association goes into areas in order to help the local authorities. These houses are supplementary to houses which the local authorities themselves are building?—Yes.

761. And they bring a certain amount of financial relief to the local authorities as a matter of policy, of course, because the costs in Scotland, particularly in northern areas, are extremely high?—Yes.

762. Now, can you give the Committee any idea of the management costs of this Scottish Special Housing Association, whether the management costs have been going up or down?—Their Annual Report gives a figure for 1957-58 which is slightly up on the figure for 1956-57, but not very materially.

763. Earlier one of my colleagues was intrigued by the high capital cost in East Kilbride in relation to the change-over in rates. Has this made any very great difference to the Scottish Special Housing Association in respect of their dealings?—I am not sure if I am following the question.

764. When a question was asked earlier about East Kilbride you pointed out that the change-over in the rating system in Scotland had, of course, accentuated East Kilbride's problem and had in fact been responsible for increasing the cost?—Yes.

765. Has that change-over in the rating system affected the Scottish Special Housing Association in a similar fashion?—Yes, in very much the same way.

766. Does the Association build houses for organisations other than local authorities in Scotland?—Yes, they build for Government Departments but not for any other type of body. They are building a number of houses at the moment for the Atomic Energy Authority, and they have built for bodies like the Forestry Commission, but that is all.

Sir Colin Thornton-Kemsley.

767. I am so sorry to come back on this, but looking at these figures that Mr. Anderson told us about, I just want to make quite clear that the £35 that he told

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[Continued.]

the Committee was the average rent was exclusive of rates?—Certainly, yes.

Chairman.

768. Paragraphs 57 to 59, the direct labour organisation. I am rather interested in this. I see it has been going for about twelve years, but despite the fact that it has been going for twelve years it is still experimenting with a costing system. This is a bit lackadaisical, is it not?—No, I do not think so, Sir. They had a costing system quite early on, but in 1954, being a little discontented with it, they called in a firm of consultants, who presented them with a new one. In fact, the system which is now in operation is a modification of that.

769. I see from paragraph 59 that apparently you experimented on one large scheme. Is that an adequate basis?—It has since been extended to the whole of the organisation, Sir. It was modified in trial and is now in full operation.

770. How far have you got with your investigation?—The costing scheme is in full force and the Association are finding it very helpful.

771. Have you any idea whether it has enabled them to reduce their costs of building?—Well, we believe so, but it is not possible to put a figure on it. The effect is rather to eliminate difficulties during the course of building and to improve matters in that way.

772. That should reduce your cost. Do you mean to say you have not yet finished any houses under the new costing system?—Oh, certainly, yes.

773. Then you ought to know your cost?—The Association reckon to improve on their initial tender prices in all ways. Since they began they reckon to have effected savings of over 6 per cent. on their initial tenders.

774. When you say initial tenders, I thought they were a direct building association themselves?—Yes, I am using the word in a loose sense. The direct labour organisation in fact presents a tender to the Association. It is not a public tender.

775. You mean they have beaten their own tender?—This is within the organisation. They have beaten their own estimate, yes.

776. How does their net building cost compare with the building costs of contractors?—Very favourably, Sir. The 6 per cent. represents the measure of the improvement since they began, and in five schemes which they selected specially for trial after the costing system had been perfected they showed a saving of over 11 per cent.

777. That is on their original idea?—On their original estimate.

778. Now, how do they compare with private contractors?—Broadly, Sir, their initial estimate one would expect would correspond pretty closely to a contractor's price.

779. Well, would it? That is what I wanted to know?—That is our belief, yes.

780. So, you estimate they are building about 11 per cent. more cheaply than the private contractor?—I would not like to claim the 11 per cent. as being the general one. That was taken over sample cases and perfectly realistically within that sample, but it may be less over the average.

781. Are you using their prices to influence your contractors?—Yes, it works both ways, Sir, of course. The Association do a great deal of their work by contract, so that they can use the direct labour organisation as a check in both directions.

Mr. Hannan.

782. Mr. Anderson, do the Scottish Special Housing Association make arrangements with local authorities for factoring houses?—In some cases, yes.

783. What percentage do they allow the local authority for that?—I am not sure that we have that offhand—about 2½ per cent., my colleague believes. Perhaps we could check that*?

784. Now, how many local authorities have in fact discontinued factoring?—From recollection, I think ten or a dozen, but I would not like to be tied to that. Could I give you the figure?

Mr. Hannan.] Yes, thank you.

* Note by witness: Generally local authorities are allowed 33s. per house which is approximately equivalent to 5 per cent. of rents collected. 15 out of 67 local authorities have recently discontinued factoring S.S.H.A. houses.

THURSDAY, 5TH MARCH, 1959.

Members present:

Sir George Benson, in the Chair.

Mr. Arbuthnot.
Mr. Chetwynd.
Col. Crosthwaite-Eyre.
Mr. John Hall.
Mr. Hannan.

Mr. Hoy.
Mr. Peyton.
Mr. Stevens.
Mr. Thornton.

Sir EDMUND COMPTON, K.B.E., C.B., called in and examined.

TREASURY MINUTE ON PARAGRAPHS 102 AND 103 OF THE THIRD
REPORT OF THE COMMITTEE OF PUBLIC ACCOUNTS, 1957-58.

Sir GORDON RADLEY, K.C.B., C.B.E., Director-General, and Mr. K. ANDERSON, C.B., C.B.E., Deputy Director-General and Comptroller and Accountant General, Post Office, called in and examined.

Chairman.

785. Will Members turn to the Treasury Minute on paragraphs 102 and 103 of the Committee's Third Report? Sir Gordon, when can we expect this

White Paper on capital expenditure? —(Sir Gordon Radley.) Within the next two or three weeks, Sir, in the normal process of the publication of the Estimates.

REVENUE DEPARTMENTS APPROPRIATION ACCOUNTS, 1957-58.

NOTE 3.

POST OFFICE

Chairman.

786. Will Members now turn to the Revenue Departments Appropriation Accounts, to paragraph 28 of the Comptroller and Auditor General's Report? Sir Gordon, how many factories have you in the Post Office now?—(Sir Gordon Radley.) We have three large factories, Sir, London, Birmingham and Cwmcarn, near Newport, and a very small one at Edinburgh.

787. That is four?—Yes.

788. What is the total labour force?—There are about 3,000. It has varied over the last ten years between just below 2,500 and just over 3,000. The figure at the end of 1957-58 was 2,697, excluding packers and porters.

789. What is the general trend, upwards or downwards?—Downwards at the moment, Sir, but it varies from factory to factory.

790. Is there any reason for that trend?—The volume of repair work has been running down, due to two reasons. Taking the period of the last five years or so, firstly we had overtaken the arrears of repairs accumulated from the war; secondly, we are doing a lot more of what we call "wiping up" in

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the Regions. The practice is that when a bit of apparatus is recovered in the field, whether it is a telephone or switchboard, it goes back into service unless it requires repair. If it requires repair it goes to the factory, unless the repairs are only minor; in which case we are doing a lot more of the minor repairs locally. Actually, we treated that way apparatus worth £1.6 million in 1953-54 and £3.8 million in 1957-58. That is, really, £2 million worth of apparatus that did not come back to the factories.

791. What do you mean by "locally"?—In local workshops.

792. You have local workshops in all large towns?—Repair shops. It is just done by a mechanic. It is for example the replacement of the cord of a telephone or the finger stop on a dial; it is not really factory work.

793. What is your Headquarters staff so far as factory control is concerned?—I am afraid I could not give you the number exactly. I will put in a note* if you like, Sir.

794. You might also say if it is increasing or decreasing in proportion to

* Information supplied: not printed.

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Sir GORDON RADLEY, K.C.B., C.B.E.,
and Mr. K. ANDERSON, C.B., C.B.E.

[Continued.]

your staff employed?—It has been increasing slightly during the last two or three years because we have employed more engineers to modernise our factory processes. It is only a matter of a half dozen or so.

Mr. John Hall.

795. Would you say that all the factories which are employed on this work are fully employed, that is, their production facilities are fully employed?—Not entirely; because, for example, during the War period we did undertake a great deal of construction work. In the last year or so of the War about 70 per cent. of the factory effort was on new construction which has more or less been closed down; so that you do find, in the London and Birmingham factories in particular, unemployed capacity but not unemployed staff, if I might distinguish between the two.

796. What percentage of the capacity is in use, would you say? A rough approximation will do?—Taking it factory by factory, at Cwmcarn, where we do our telephone repairs, we have now got four flow lines running where we had five. At our London and Birmingham factories we probably could increase the volume of work by about twenty per cent., or something like that.

Mr. Hannan.

797. In view of that, have you considered at any time whether it would be helpful to concentrate the work in a fewer number of factories?—What we have been trying to do, Sir, is to modernise our repair processes, and that has meant the starting of one new factory, the Cwmcarn one, in 1950. We have changed some of our processes altogether. Whereas, for example, under the old methods a telephone mechanic was given a batch of, say, 100 telephones to repair and he did as much or as little to them as was necessary, now under the new process at Cwmcarn the telephone is dismantled and entirely rebuilt from new or re-conditioned parts. But there we are employing female semi-skilled labour instead of skilled labour.

798. I do not think that has answered my question?—I am sorry.

799. I am asking whether, in view of the depleted numbers—you are evidently not working at full capacity in all

of the factories—have you considered any advantages there would be in telescoping your activities into a fewer number of factories?—Yes. For example, merging the London factory and the Birmingham factory into one?

800. Yes?—Yes. It is something that we have considered but it is not a very practical proposition. You cannot move the staff.

801. But all the factories are not at present fully employed?—No, Sir.

Mr. Chetwynd.

802. I understand that some of the work, as well as being done in your own factories, is let out to outside contract for repairs. Could you give us some idea how much?—We have not put any very large amount of work or any useful amount of work out to outside contract during the last few years. I do not think, Sir, it would have been appropriate to do so at a time when we have had or been threatened with redundancy in our own factories. But we did, going back to 1950, 1951 or 1952, put out some work then. For example, I have a note here of repair of 60,000 bell sets in 1952 by an outside contractor at a price, incidentally, of 17s. 9d. per bell set against the factory estimated cost of 9s. 3d.

803. That answers my question. That was the point I wanted to get. On the point of the distribution of your factories I see you have nothing north of Birmingham except a small one in Edinburgh?—Yes.

804. What happens to all the things that go wrong in the North East, for instance?—They come back to either London or Birmingham, depending on the type of apparatus.

805. Would it not be better to have a local workshop up there where you could do those?—I do not think so, Sir.

Mr. Hoy.

806. In that case, then, why should they not go north to Edinburgh?—We have not the facilities at Edinburgh.

807. Have you not got a fair amount of ground still going spare around the new exchange at Macdonald Road?—Yes we have got the ground but not the factory in existence.

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Sir GORDON RADLEY, K.C.B., C.B.E.,
and Mr. K. ANDERSON, C.B., C.B.E.

[Continued

808. You will not overlook the fact that the Government are looking for work for Scotland when you are considering it?—No, Sir.

809. May I ask you what governs the amount of work? You said in reply to an earlier question that you had changed somewhat the methods of repair. In that case what governs the amount of repair work that you would undertake?—First of all, Sir, the load is determined by the amount of apparatus recovered from use and which it is worthwhile to repair.

810. If you do not put out any of this work to private contract, how do you estimate that you are doing it economically within your own factory?—Our practice has been to cost all our repair work and to compare the cost of the repair with the cost of the new article. We have also from time to time attempted to compare our own factory costs and methods with those of other organisations undertaking repair. Some years ago, for example, we sent a team to study the railway repair shops at Crewe and York, the London Transport repair shops and also a number of R.E.M.E. repair depots in an attempt to get an idea as to how other people tackled this problem.

811. Have you ever had an opportunity of testing it, say, against the purely private contractor?—Only by putting out equipment for repair by private contractors and that is not at all easy. I quoted a case just now of putting out bell sets. Some years ago when we were very badly stuck for dials we did endeavour to put out a large number of dials for repair. We put it to the telephone contractors and we had a letter back from the secretary of the contractors' committee saying: "I am desired to say that while they are always willing to help the Department in every way possible, they feel it is not a practical proposition for them to undertake this type of work. Their factories, unlike the Post Office factories, are not organised for it and it would necessitate the setting up of special departments and the engagement and training of suitable staff." They asked to be excused.

Colonel *Crosthwaite-Eyre*.

812. Do these factories all do identical work or does one specialise in dials and another in bell sets, and so on?—

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They do not all specialise but, for example, telephones are repaired at Cwmcarn but the dials from the telephones are repaired at Birmingham. Switchboards are repaired in London and Birmingham and some of the other items at one or two factories.

813. I think you said in answer to a previous question that you were relying as the years went on, more on unskilled labour than on skilled labour?—Yes.

814. If that is so, why is it not possible to increase the efficiency of the total telephone repair work done in these factories? Surely it is easier to get the unskilled labour than the skilled labour, is it not?—Yes. The changeover from skilled to unskilled labour is a little difficult and may be a little lengthy. For example, I have mentioned that whereas we used to repair our telephones on an individual basis, that is, a skilled mechanic was given a number of telephones and dealt with all of those telephones, now the telephones are repaired in this new factory in Wales. They start by being broken down into their component parts and then passed along a line of girls each one of whom performs a specific operation on them. But one cannot change over to that kind of organisation very quickly because one has to find alternative employment for one's skilled mechanics; it is really a problem in labour re-deployment.

815. There seems to be quite a big margin in the figures. The figures given in paragraph 28 would suggest that you could increase your repairs by at least a quarter, as I see it. The value of telephone apparatus repaired was £4.4 million out of £5.6 million?—What those figures mean is that out of a total of £5.6 million worth of apparatus repaired, £4.4 million was telephone apparatus. The other £1.2 million was stamp selling machines, scales and all sorts of things.

Colonel *Crosthwaite-Eyre*.] I am sorry, I misread it.

Mr. *Arbuthnot*.

816. Are the factories administered by a separate department of the Post Office?—Yes, the Factories Department.

817. Would you think that its size really justifies a separate administration?—That has always been a question which we have given a lot of thought

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Sir GORDON RADLEY, K.C.B., C.B.E.,
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[Continued.]

to. The Factories Department was at one time part of our Supplies Department. It became a separate Department as a result, really, of recommendations made by the Select Committee on Estimates just after the start of the War which set up our Contracts Department for our contract work, and also resulted in the creation of the Factories Department as a separate Department. In technical matters it comes under the Engineer-in-Chief.

818. You have not really answered the Question, Sir Gordon. Has the recommendation of the Estimates Committee proved to be sensible in practice?—Yes, I think so, taken by and large.

819. So you think that the size does justify the separate administration?—May I put it this way: it justifies a separate head, but it was really a moot point as to whether the head of the Factories Department should not be under the wing of another Department.

Colonel *Crosthwaite-Eyre*.

820. How can it be separate and yet under the wing? Or is it a broiler station?—For example, our Engineer-in-Chief has his Engineering Department but he has his Research Department which also reports to him, and a Submarine Department which does likewise. There is no reason, really, why the Factories Department should not do the same.

Mr. *Arbuthnot*.

821. You told us that you were trying to do some of the telephone work in local workshops?—Just the superficial repairs.

822. Do you put any of that out to private contractors at all?—Oh, no.

823. You also told us that you were threatened with redundancy in your own factories. Why is that?—For a number of reasons. Firstly, it was redundancy of the skilled telephone mechanics; the reasons were firstly the introduction of the flow-line methods using the semi-skilled female labour. Secondly, the increased amount of apparatus being wiped up locally. Thirdly, that during the War there was a very considerable accumulation of apparatus requiring repair and we had worked through that; and lastly, we had restricted the amount of new construction that we were doing in our factories.

Mr. *Hoy*.

824. On instructions?—On instructions.

Mr. *Thornton*.

825. Sir Gordon, in reply to an earlier question you said that your Headquarters staff had increased by about six due to the increase in the number of engineers engaged in modernising the factories?—Yes. I am sorry, may I put it quite clearly? I said that we had got about six additional engineers at Headquarters.

826. Six additional engineers at Headquarters. I should think from the type of work that your factories do, which I should think is very largely repetitive work, that you should have some opportunity of measuring the increase in the level of productivity. What is the trend during the last five years under review in paragraph 28?—I think the answer to the question, Sir, is that where the method of repair has been changed from the old individual repair to the flow-line method, there is no real way of measuring the increase in productivity because, for example, one is producing a vastly superior article. But if you put it another way, you can say that the cost of repairing a telephone on the flow-line method is about 20 per cent. less than it was by the old method.

827. Has your Department studied conditions in the United States of America? Do they pursue this policy of repairing apparatus?—We have not made any detailed study of repair work in the United States.

Mr. *Stevens*.

828. Sir Gordon, is the flow-line method of repair limited to telephone instruments?—No, we are doing dials that way now; we are doing some small items, I think one variety of lever key. We are trying to modernise the repair of switchboards more or less on similar lines, and so on. We have actually plans for modernising the repair of various types of apparatus which will take us on until about 1962, tackling them one by one.

829. Those items are also repaired at London and Birmingham, not merely at Cwmcarn?—Cwmcarn is almost entirely telephones and bell sets. All these other items are mostly at London and Birmingham.

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[Continued.]

830. Yes, but do London and Birmingham also repair telephone instruments?—Only coloured telephones, which are still handled on the individual basis.

831. But the flow-line methods could none the less be installed in the London and Birmingham factories?—Yes; for instance, we are doing dials on the flow-line method at Birmingham.

832. I understood you to say that those methods have not been installed in London and Birmingham because it would make for redundancy in skilled telephone mechanics?—I am sorry, Sir, I had said that one could not always move very quickly in installing those methods because one had to re-deploy one's skilled mechanics as one introduced the semi-skilled labour necessary for the flow-line.

833. But you did say, of course, that the flow-line method has resulted not merely in economy but also in turning out better instruments?—Yes.

834. I just wondered from what you have said whether, in fact, the flow-line methods were being fairly rapidly incorporated in the London and Birmingham factories, and you would confirm that that is so, would you?—Yes, fairly rapidly. As I say, one has this staff problem, one has to carry one's Trade Unions with one, and so on.

835. That is obvious. In the last few years there has been a very great shortage of skilled mechanics of various kinds in outside industry. I should have thought, including telephone mechanics, and I wondered whether the Post Office, in order to incorporate more efficient and cheaper methods, had tried to find alternative employment outside the Post Office for some of these skilled telephone mechanics?—We have not found alternative employment outside the Post Office, but during the last year, I think, about 100 of them have been transferred from the Factories department to ordinary telephone work and some of them have gone into non-technical work, but within the Post Office.

836. You would agree that it is of great importance to have these modern methods installed as soon as possible?—Absolutely, Sir.

Mr. Peyton.

837. Sir Gordon, why do coloured telephones need special treatment?—There are very few of them, Sir, and you

get into other difficulties, such as getting a mouthpiece of the same shade to match the handle, and so on.

838. Why are there so few?—We have not provided many coloured telephones during the last few years. We hope to provide many more in the near future.

839. There is quite a big demand for them?—There is a big demand, yes.

Mr. Hoy.

840. What do you charge for them as compared with the ordinary black one?—I am afraid I cannot give the present price. (Mr. Anderson.) £1 extra.*

Mr. Hoy.] I am thinking of the red as against the ordinary one?

Mr. John Hall.

841. Or the blue. Why should they cost more? As a matter of interest, are you capitalising on the fact that people like them better?—(Sir Gordon Radley.) There might be an element of that in it, Sir.

Mr. Peyton.

842. They are no more trouble to produce, are they, really?—(Mr. Anderson.) They do cost a little more to produce; using the coloured powders, and so on, puts the cost up a little; but the other problem, of course, is that using them on a relatively small scale they cost a lot more in book-keeping and storage, and so on. If you are to have them suitably stocked round the country, you have to run a bigger float.

843. I have always rather wondered about this with a certain amount of interest. There is a good deal of evidence that the public really like coloured telephones and are prepared to pay for them. Why should it be difficult for the public to get them?—(Sir Gordon Radley.) Might I say, Sir, we are introducing a new telephone. It is an improved design.

844. I know, I have seen it?—It is improved physically in design and improved electrically, and we are introducing that new telephone initially in colours. Actually, we are only providing the new telephone in black where we want those new telephones because of the improved electrical performance.

* See Note on Q. 849.

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[Continued.]

Chairman.

845. And you get your improved telephone thrown in with the charge you make for the colour?—No, Sir.

Colonel *Crosthwaite-Eyre.*] I would like to know—I think Sir Gordon has not been quite as generous with information as he might be—what is the actual cost of the coloured telephone against the black one?

Mr. *John Hall.*] The cost of making it?

Colonel *Crosthwaite-Eyre.*

846. Yes?—The difference is very small.

847. I would like to know, is it $\frac{1}{2}$ d. or $\frac{1}{4}$ d.?—No, a matter of shillings.

Mr. *Chetwynd.*

848. And yet the rental is about £1* more?—It is a down payment.

Colonel *Crosthwaite-Eyre.*

849. I thought 'his was a public service. Could I ask that we have the actual figures? I should like to know the cost of the black telephone against the coloured one, together with the relevant charges made to the public for their use?—Yes, I will let you have that.†

Chairman.

850. I think we ought to know, as Mr. Anderson pointed out, how much it is because this is a nuisance to the Post Office, and how much it is due to the higher cost?—I think it is fair to say, Sir, that there is a small additional cost. It is only a small cost, but the additional price that the Post Office charges it really has to charge at the moment in order to control the demand.

Mr. *Peyton.*

851. Sir Gordon, really, does that last answer mean that you wish to damp down the demand?—Until we have an adequate supply of coloured telephones.

* See note on Q. 849.

† Note by witness: Black telephones of the present design cost about £6; the coloured one has cost between 15 and 20 shillings more than the black. The public pay a once for all charge of £2 for colour. We expect the new design, whether in colour or black, to cost little more than the present black instrument. As announced in the House on 14th May 1958, the charge for colour will be £5, or £3 if in replacement of a coloured instrument of the present design.

852. How long has there been considerable evidence of a demand for coloured telephones? Since the War, fifteen years?—There has never been evidence of a very large demand.

Mr. *Peyton.*] You have not ever advertised coloured telephones. I am suggesting to you that there is an immense demand for coloured telephones, that it is in fact very deliberately damped down, because you have to fill in a form applying for a special one, and then you are consigned to a waiting list, and the waiting list in its turn is consigned to some forgotten limbo, and very often does not see the light at all. I have no objection to the Post Office thinking they can make a little extra money.

Mr. *John Hall.*

853. I am shocked to learn I have to pay more for my coloured telephone, not because it costs more, but because it is in order to damp down the demand?—As the Committee knows, Sir, for the last few years we have been faced with the problem of meeting what I might term the straightforward demand for telephones—

Mr. *Peyton.*

854. I am sorry to interrupt you, but have you any grounds for telling this Committee that the straightforward demand for a telephone does not, if given half a chance, resolve itself into a passionate desire to have a coloured telephone?—Might I tell the Committee, Sir, that it is the Postmaster General's intention to be much more liberal in the provision of coloured telephones.

Mr. *Peyton.*] I hope you will pass on to the Postmaster General the congratulations of many Members of this Committee.

Mr. *Chetwynd.*

855. May I get this quite clear: it now seems that the bulk of telephones now in use will be of recent origin, they will be fairly new, and therefore with this new kind coming along the necessity for repairs will be correspondingly smaller. Is it, therefore, your intention to reduce these establishments which you have, or do you think they are adequate now to meet the demand which is likely to come?—I think, if I might answer that

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question, Sir, in two parts, firstly, with regard to the telephones, I think that our repair capacity for telephones is round about right. It may be that during the next few years we shall adopt a rather more extensive scrapping policy of old types as they come back; but, on the other hand, the size of the system is increasing so that the number coming back is also increasing.

Mr. Hoy.

856. And you do not want to scrap, I presume, all the thousands of black telephones which are out now? It would be too costly for the Post Office, I imagine?—We do not want to, Sir.

Chairman.] So you keep the demand up for black telephones by making a higher charge for coloured telephones; is that it?

Mr. Hoy.] It keeps them in use.

Colonel Crosthwaite-Eyre.] You remind me, Sir Gordon, of Mr. Ford, who said: "You can have your motor car in any colour you like so long as it is black."

Chairman.

857. May we pass on now to paragraphs 29 to 35? Would you explain to the Committee what Factory Balancing Statements are?—Yes, Sir. It is a statement that is prepared quarterly which shows the factory repair costs for the individual factories and for classes of items as against the Rate Book value of those items. It really is a relative statement of factory repair costs.

858. Really, it is a question of the relationship that your repair cost bears to the new instrument?—That is right, Sir, yes.

859. You suggested to the Comptroller and Auditor General that the increase in repair costs since 1954-55 is mainly due to "variations in the content of repair and conversion programmes from year to year". What exactly does this mean? That is in paragraph 29, the last two or three lines?—That has reference, Sir, to what I have already mentioned, that is, a greater proportion of items which are repaired in a minor way in the field which do not come up to the factories. With regard to conversion, in addition to repairing your telephones you very often have to do other work on them, for example, converting them from an exclusive line instrument to a shared service line instrument.

860. That is, the whole apparatus involved?—The telephone instrument, yes.

861. With regard to the increasing costs, how far are overheads responsible for this?—Might I say, Sir, with regard to that Table in paragraph 29, the question that I asked myself is, why were costs in 1954-55 so low, and the answer to that is really that in 1954-55 factory labour rates were low compared with those outside. Factory wages did not move much from 1952-53, 1953-54 and 1954-55, but they went up 10 per cent. from 1954-55 to 1955-56.

862. Were those labour costs?—Labour costs, yes. Overheads are calculated in advance as a percentage on labour costs. The calculations are made individually for each factory for the various types of work. Actually, the overhead figures vary from about 130 to 200 per cent, but there has been no very great variation in the overhead percentages. In addition, the 1954-55 figures were helped by the fact that the output from the factories in 1954-55 included about £300,000 worth of work where the factory repair cost had mostly been incurred in the previous year. They benefited that way.

863. How is it that Cwmcarn is so much cheaper than the London and Birmingham factories?—It specialises on one kind of work, telephones and bell boxes, and all on the flow-line method.

Mr. Stevens.

864. Sir Gordon, in paragraph 29 the Comptroller and Auditor General defines Rate Book value as "the average cost price of existing stock." Then in paragraph 33 he makes a criticism of the costing system. He says that equipment recovered, whatever its condition, unless it was scrapped, is credited at the Rate Book value. But he says that includes items which were obsolete. If they are obsolete, surely they were not in stock, and if they were not in stock how could there be a Rate Book value, or if they were in stock why does the Post Office hold obsolete items in stock?—May I pick up the reference, Sir?

865. In paragraph 29, in the second line, the statement is made: "The total cost of repair work as a percentage of the total Rate Book value (i.e., the average cost price of existing stock)". Immediately opposite in paragraph 33 it

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is stated that credits come in at the Rate Book value, including credits in respect of obsolete items. Surely the Post Office does not hold obsolete items in stock? If they are not in stock how do you have a Rate Book value?—May I explain the accounting system, Sir? First of all, the Rate Book value represents the book value of that particular kind of item at the time. It is made up by averaging the prices at which the stocks held were purchased, plus the—

866. If I may interrupt for one moment, is the Comptroller and Auditor General wrong, then, when he says “the average cost price of existing stock”?—(Mr. Anderson.) I think this is on a technicality, really. There could be the cost of an old item which was no longer held in stock but which had been thrown up from a recovery work in the field. There will still be a Rate Book value for that item, and in that sense I do not think the Comptroller and Auditor General meant to use the word “stock” as necessarily implying that we held a large quantity of these things. It might well be something which was simply on its way to being scrapped, but it would still have a Rate Book value, and indeed it must, because you have to know what value to put on it when you recover it.

867. I quite agree. With respect, when it is stated that this is a purely technical point, the statement is quite clear, “the average cost price of existing stock”, yet Sir Gordon has just said that is not so, the Rate Book value is the average cost of purchase of items of a similar nature, which is entirely different?—(Sir Gordon Radley.) I am sorry, Sir, the Rate Book value of an item is the book value as determined at the average price paid for the stocks held, brought up to date annually by new purchases. Now, it may be that if there had been no purchase of that particular item for many years, the Rate Book value would then reflect the price that was paid for that item many years ago.

868. And there would not be any existing stock?—There may be no stock. But if an item comes back from the field it still has its Rate Book value until it is recovered and scrapped, and then it is written off at that value against depreciation provisions.

Chairman.

869. Does that mean that Rate Book value is replacement value?—No, Sir

The replacement value would be the current price that you were paying for the item. At a period when prices are going up the Rate Book value is generally below the current replacement value.

Mr. Stevens.

870. I have one other question, Again, in paragraph 33 the Comptroller and Auditor General says: “Fresh efforts were being made to devise a more effective system”. Have those efforts resulted in an improvement?—That has reference to the Audit comment on the fact that when, say, a switchboard is repaired we do not take into account the cost of repairing some of the small items which may be on that switchboard. For example, you may replace a relay that requires repair by another one that has been repaired. Now, we have addressed ourselves to the problem of bringing to account the cost of repairing that particular relay. It means rather an elaborate system by means of which you can identify the item with the main equipment from which it came. Now we have two alternatives, the first being to attempt to cope with that sort of problem within the framework of our existing accounting system, and a rough look at that suggests that we would want, roughly, to double the number of people on this costing work. The other alternative is to seek expert advice from outside on our accounting system as a whole, and that is the course which we are beginning to take.

871. So that at the moment there is nothing to report about how the work is proceeding?—There is nothing to report.

Mr. Thornton.

872. It occurs to me, Sir Gordon, that these figures given in paragraph 29 show such wide fluctuations that they are not very useful for comparison purposes. Would it not give you a better guide to the relationship of cost of repair to cost of new equipment if you related it to the current replacement cost? Might I just clarify that point? You gave one example where a 10 per cent. increase in wages was responsible for this distortion from 54.9 to 60.5 at the London factory. If that had been related to current replacement cost, that wage increase would have been reflected in the new instrument sector too, would it not?—Not quite, Sir, with respect, because 1954-55 showed up in this way

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because factory wages had lagged behind those outside. Then they took a big step up, whereas other costs outside had been going up in a straight line more or less progressively over the three years.

873. But, you see, if you take the Cwmcarn factory, you get two increases of 10 points, do you not, in 1954-55 from 31 up to 43, and then the following year up to 52?—1956-57 was a year of high costs. We know some reasons why our costs at Cwmcarn were high during that year. It was largely due to the rejection of an undue quantity of mouldings due to chipping, crazing, and so on, which added to the materials cost.

874. The fluctuations in these figures, though, rather indicate to me that it is not a reliable system for making a comparison of repair costs in relation to the cost of new instruments or equipment?—I agree, Sir, that you cannot really judge anything by comparing the figures for one factory with those for another factory, but that is really not intended because you have got a different type of apparatus.

875. No, that is not really reliable, because in each column you get these fluctuations, do you not?—You get these fluctuations. I must agree, Sir, that whereas we have observed these figures and these returns very carefully and with very meticulous care, perhaps we have not paid enough attention to comparing one year with another. I did draw attention to the fact that the figures in 1954-55 showed up advantageously, due to a carry-over of work from one year to another.

Mr. *Arbuthnot*.

876. Sir Gordon, had not your efficiency shown rather a lapse for the Comptroller and Auditor General to report that "as a result of the full procedure described in paragraphs 30-32 above, repair was found to be normally economic in 15 out of the 28 cases", which he had cited?—No, Sir, with respect. Might I say that our procedure is designed to give a number of what one might term warning signals of increasing significance and at higher levels. As the system works, comparison is made first with the Rate Book value, because that is the figure that is most readily available. If that particular limit is exceeded comparison is made

with the current replacement cost of the item, and if the limit is still exceeded a report and an investigation is made. But you must remember, Sir, that the point where that report is called for is at 10 points below the economic repair cost for that general kind of apparatus.

Colonel *Crosthwaite-Eyre*.

877. Ten points above, is it not?—No; if, for example, the economic repair cost for a particular item is 70 per cent. of the Rate Book value, these signals come in at 60 per cent., when the repair cost has got to 60 per cent.

878. I see, yes. What conditions would obtain when it is worth while to repair to the tune of 95 per cent. of the Rate Book value?—In 1957 we did review the whole of our costing methods. We realised that comparison with the Rate Book value was not always a very good indication. We recognised that the current replacement cost was the true criterion, but we felt that a refinement was necessary, and we broke our items down into three categories: what we term the mechanical, that includes stamp selling machines, certain telegraph apparatus, scales, and so on, where there are more or less mechanical parts. The cost limit for repair is set at the lowest figure there, which is at 65 per cent. The bulk of the apparatus, telephone switchboards and so on, come in the next category where the corresponding figure is 70 per cent. The 95 per cent. figure only includes a very few items which we classify as non-mechanical; they are things like cable drums, boxes for fuses, and so on. Actually, the amount of apparatus coming in the 95 per cent. category last year was only £150,000, which was about 3 per cent. of the total. The actual repair cost of that apparatus was only 50 per cent. of its Rate Book value.

879. In paragraph 34 the Comptroller and Auditor General draws attention to the fact that the figures you give in your Tables in paragraph 29 are probably not sufficient, and he quotes Cwmcarn, from which it would appear that the figures could well go up from 52.3 to 57.5 and from 46.7 to 55.4 for the years 1956-57 and 1957-58 respectively. Have you any comment to make on that, Sir Gordon?—Yes, Sir. That really is another aspect of the problem which we discussed earlier, which is referred to in paragraph 33. This particular comment

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refers to the repair of telephones. Now, telephones are repaired at Cwmcarn, and let us assume that a batch of 100 telephones arrives at the factory with dials on them. The dials are removed, and those that are not condemned for scrapping are sent to Birmingham for repair there. The repair of the telephone is undertaken at Cwmcarn. When the telephone has been repaired, a new or repaired dial is fitted. Now, what we did was to express the repair cost of the telephone as a percentage of the Rate Book value of the telephone plus dial. We ought, I suppose, to have removed the dial cost from the denominator of the fraction. It is when the dial is added in again that the figures go up.

880. The Comptroller and Auditor General, unless I am misreading this, says: "If the value of automatic dials were excluded in making the comparison?"—I am sorry, Sir, I have got it round the other way. If you take the dial out of the denominator you get the higher figure.

881. Yes. That, surely, is the crux, is it not, of the Comptroller and Auditor General's complaint, that the cost of repairs is very much higher than would appear from your Tables, because to get it down you are using some new equipment?—Not necessarily, Sir.

882. That is what I am asking you?—The dial itself may very well be a repaired dial which has been repaired in another factory, and it has been the subject of a cost statement where you get the repair cost of the dial expressed as a percentage.

883. This is terribly complicated. I do not want to get into it too deeply. Can I put it this way: you have taken the cost, so to speak, from another factory, or alternatively the cost of the replacement of part of the repairs; that has, as a result of that, brought down the cost in a particular factory. Therefore, you have brought the cost in a particular factory down by taking in extraneous elements?—Yes. I was attempting to put it round the other way, that is, looking upon the telephone and the dial attached to it as two separate items.

884. Following up what you were asked about paragraph 35, where you have proved that 15 out of the 28 cases were in fact economic, have you merely done that by raising the ceiling between the time the Comptroller and Auditor

General looked at it and made his comments and the time you came to write the reply?—No, Sir.

885. It looks like it?—No. These 28 cases here which the Comptroller and Auditor General quotes were cases where the repair cost was above the economic ceiling, but on examination it was an economic proposition still to repair the item.

886. By raising the ceiling, which is what I asked you?—Not necessarily. It may be economic to repair an item which is over the ceiling. (Sir *Edmund Compton*.) I think the answer, perhaps, is a reference back to paragraph 32 of my Report, which describes the procedure. As is there stated, if something goes over the economic ceiling the Post Office really consider whether there are other factors which justify repair, in spite of that.

887. Are you now satisfied that although they were above the ceiling it was economic to do the work?—It is not for me to be satisfied of that. It is the Post Office themselves who should have satisfied themselves on that.

888. On the figures given to you, you would not know, I suppose?—It is really based, as I understand it, on the view the Post Office themselves take about the expected life of the article as repaired. These percentages, whether they be 70 per cent. for semi-mechanical equipment or less for mechanical equipment, really rest on that factor.

889. Could you tell me, Sir Gordon, what is the extreme limit you have ever gone above the ceiling? Have you ever reached 140 per cent. of the economic ceiling?—(Sir *Gordon Radley*.) It would depend entirely, Sir. At the risk of being misunderstood, may I, in referring back to these 28 cases noted, say that in a number of them, 10 out of the 14 cases considered economic on review, the repair cost ranged from 41 to 82 per cent. of the current replacement value, but there was an item which had not been purchased for many years which we actually repaired at nearly three times its Rate Book value.

890. That is perfectly clear, because I imagine replacement value would have been much higher still?—Yes, if you could have got it.

Mr. *Chetwynd*.

891. On paragraph 29, what is the point of the Engineering Department

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inspection? Why was it not included originally, and why is it included now?—May I start by explaining what are the normal inspection arrangements in a manufacturing factory? In a factory manufacturing telephones the manufacturer will have his own inspecting staff in the factory who will look at the components which go into the telephone and will very likely inspect the completed telephone, so that the Post Office when it accepts the goods as a purchaser very often only has to do a sampling inspection of the goods that it purchases. Now, when we come to factory repair, on the old method before we had the flow-lines, telephones were repaired on an individual basis, the mechanic doing what he considered was required to each one of them. That meant that they had to be inspected individually and meticulously, so that the inspection costs were much higher than they would have been for an equivalent number of new telephones. When we came to put our repair on to a flow-line basis we built inspection into the flow-line, and you will note, Sir, that at Cwmcarn there is very little difference between costs with and without inspection; but with regard to the other factories we thought that the exclusion of inspection costs was in a sense an unfair subsidy to the factories, so what we have added on in paragraph 29 is the difference between the costs incurred by the Post Office in inspecting 100 repaired items and the cost they would have incurred in inspecting 100 similar items purchased from outside. Have I made myself clear?

892. Yes, but is it a fair comparison? There is a world of difference between inspecting a number of repaired items and inspecting a number of mass-produced ready-made items?—It seemed to us that it was fair that you should not subsidise the repair items by having a hidden cost, as it were, of a lot more inspection than you would have for new items.

Mr. John Hall.

893. I am rather fascinated by this Rate Book value on which you work. As I understand it, this is really the average cost of all items in stock, which may include items made a very long time ago at a very low price, and include other items made more recently at the current values?—That is right, yes.

894. As you base your repair value on that, and as the decision as to whether or not your repair is related entirely to that past value, other things being equal, that will only apply effectively, surely, all the time that your Rate Book value tends to remain more or less static or averaged out or in a time of rising prices? In a time of falling prices you would be more correct, surely, in relating your repair cost percentage to a replacement value rather than this Rate Book value, would you not?—Yes. We do make our initial test with reference to the Rate Book value because it is a figure which is easily accessible to everyone for every item, whereas the current replacement value is not always easily available. But when the test made against the Rate Book value throws doubt on the repair being economic, we immediately repeat the test using the current replacement value.

895. How do you value items which have been repaired which go back into stock?—They remain at the Rate Book value. Our practice is to have one value for every item until it is written off as scrap, and we charge the repair cost to revenue.

896. Some of the items going through your factories might have been repaired more than once, might they?—Yes.

897. But you still use the same percentage figure in deciding whether or not it is economic to repair them?—Yes, there would be considerations like obsolescence coming in.

898. Obsolescence is an example. I take it that is in the lowest rate that is, in the 65 per cent.?—Telephones are in the 70 per cent.

899. When it comes in for its first repair it might be reasonable to say: "We will repair that as it is costing only 70 per cent. of the Rate Book value"?—Yes.

900. If you thought you had to repair that two or three times in the course of the next few years, would it still be economical?—It would depend entirely on circumstances. It would depend on the type of the telephone; if it was a type that was on the way out you would not repair it on the second or third time.

901. Do you consider whether a telephone is likely to have to be repaired fairly frequently after its first repair and

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whether it might be better to replace it with a new instrument which might last a long time before repair?—A telephone repaired on the flow-line process is functionally as good as a new telephone.

Mr. *Chetwynd*.] What goes wrong with telephones? I have had one for years, and nothing ever goes wrong with it. It never needs any repairs.

Mr. *John Hall*.] You drop them.

Mr. *Chetwynd*.

902. Then you would want a new one, I should have thought?—I should say, we repair about 300,000 telephones a year out of a population of about 7 million. It is not a very large percentage.

Chairman.

903. About 5 per cent.?—Yes.

Mr. *John Hall*.] I must say, my telephone has gone wrong three times in three years.

Mr. *Hannan*.

904. Under the heading of Factories and, of course, Cost of Repair, the item I had in mind is not mentioned in the Report, but it is the kiosks, the telephone boxes?—The coin collecting boxes?

Chairman.] The repair of the apparatus in the boxes, is that what you are after?

Mr. *Hannan*.

905. The fact is that these factories, of course, do not manufacture the boxes, but I think I am right in saying that the Minister intimated that a new type of box was to be constructed?—Yes.

906. Have you had any complaints from outside firms with regard to the construction of these boxes, and who will in fact make them?—The new box?

Mr. *Hannan*.] The new type of telephone kiosk.

Chairman.] Are you referring to the structure or the coin box?

Mr. *Hannan*.

907. Not the coin box, the kiosks?—The coin box, or the box you go into?

908. The box you go into, the kiosk itself, the structure. Who makes those? Is it outside firms?—It would be put out to competitive contract.

Chairman.

909. Now, paragraphs 36 and 37. You estimated your stocks at April, 1958, would be worth £850,000, and in April, 1959, nearly £2½ million. Do you still stand by those figures as likely to be accurate?—The figure for excess stocks at 1st April, 1958, the £850,000, is an actual figure. The latest estimate for the figure at 1st April, 1959, is about £2,020,000.

910. Just over £2 million?—Yes, running down to about £950,000 at 1st April, 1960.

911. I see; you will be able to absorb them?—Yes.

912. What is this apparatus which you have repaired in advance of requirements?—That really, Sir, results from two quite separate causes: firstly, the excess stocks foreseen as a result of a deliberate policy decision; secondly, the excess stocks resulting from a fall in the rate of user, principally of telephones, and our inability to adjust our repair rate and our purchase rates sufficiently quickly to take the fall in user into account. Taking the first of those, I did, early in 1957, appoint a group of officials to report to me on the stores position, and gave them as a target that we should reduce our working stocks to the equivalent of eight months' user by the 1st April, 1959. That group drew my attention to the fact, due to the causes which we have already mentioned this afternoon, that there was a threatened redundancy of skilled telephone mechanics; and in order to relieve the immediate situation I agreed to the repair in advance of requirements of certain items totalling about £400,000, and subject to certain conditions: firstly, that there was no chance of the items becoming obsolescent, secondly that the purchase of new items was scaled back as rapidly as possible to take the advance repair into account; and lastly, I agreed, as was only fair—because I had set this target of a working stock not exceeding eight months' user by the 1st April, 1959—that these excess repairs should be listed separately. They will amount by the 1st April next to about £460,000 worth out of the £2,380,000. But the decision to list separately items repaired or purchased in advance of immediate requirements brought into the list the excess repair of telephones. We were running

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along repairing telephones at a slightly falling rate, but our user of telephones dropped very rapidly indeed. From 1955-56 to 1956-57 it fell by 47 per cent., and from 1956-57 to 1957-58 by about 60 per cent.

913. What do you mean by "user of telephones"?—Use in the field. I am afraid I can only explain it by giving yet more figures, and I do apologise for the number of figures this afternoon.

Mr. *Chetwynd*.] It does not mean that 60 per cent. have given up the telephone?

Chairman.

914. No, when you say, 60 per cent., surely your telephone subscribers are continually increasing in number?—In 1955-56 we had demanded from our Supplies Department 830,000 new or repaired telephones for use in the field. We had returned to our Supplies Department that is, recovered from people who were giving up the telephone, 314,000, giving a net demand on us of 516,000. In 1957-58 the demand from the Supplies Department fell to 656,000 that is, a drop of 200,000 but we had 558,000 back, that is, 200,000 more back, so that the net demand on the Supplies Department fell from 516,000 to 98,000.

915. That means that you only had new subscribers to the tune of 98,000?—Not exactly, Sir.

916. Additional subscribers?—Yes. Actually, the additional subscribers if I remember the figure exactly, was just over 100,000 but there are certain telephones that do not come back to headquarters.

917. So, the increase in the number of additional subscribers per annum is dropping, is that it?—It dropped during those two years; it is now increasing again. We just could not adjust our factory repair rates quickly enough to take that sort of fluctuation into account.

918. At the present moment it is increasing?—Yes.

919. What is the position of your stocks with regard to the rate of increase?—We have addressed ourselves to the problem of setting a factory repair programme and a purchase programme which would reduce holdings of telephones to a small level by the end

of 1961-62. I have some figures here, if they would be of any interest at all to the Committee.

920. Roughly, what do you expect your holding to be? I take it these are spare telephones?—Yes.

921. What do you expect it will be by the end of 1961?—By the end of 1960-61, about 440,000. These are repaired, good telephones as distinct from telephones awaiting repair.

922. And that is about half a year's absorption?—Roughly that.

923. So you have got six months' stock in hand?—Yes.

Mr. *John Hall*.

924. I am not quite clear about this, Sir Gordon, I must confess. Looking at paragraph 37, if we take the monthly rates of demand and recovery as being reasonably accurate your annual demand is 660,000 and your recovery, as I see it, is 564,000, if my arithmetic is correct?—Yes. These figures relate to the monthly demands and returns on the central stocks. Actually, if you add in the figures for the telephones turning round locally that are just wiped up and various other adjustments, you get to a monthly usage in the field of about 72,000.

Chairman.

925. Might I just intervene at this point to clear a point up? Were those figures which you gave repaired telephones only?—Repaired and new ones.

926. I see. That is your total demand?—As distinct from just awaiting repair.

Mr. *John Hall*.

927. That rather throws the calculation out which I was making on this paragraph 37 because it seems to me that if you take the order which was placed for 1958-59 you were left, really, after taking into account your recovered telephones during the year, with an addition to your existing stock of—I made it—142,000, but even with the figure you have given me I think you will still be left with an addition to your existing stock, will you not?—I am afraid, Sir, I have not followed the point.

928. Could I repeat what I said? If you take into account the figures as shown in paragraph 37 and you calculate

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[Continued.]

the monthly demand, offset by the monthly rate of recovery, and take into account also the total new telephones coming in during 1958-59, which is given here as 238,000, you will have at the end a net addition to your stock and not a reduction in it?—I am sorry, Sir, I have got rather lost. But may I pass round these figures showing how the stock position will go as we see it?

929. Does that show the stock position as it is now and how your usage is going to absorb it?—It shows the total good stock held which, I am afraid, differs from the figures in the Report in that these figures include both central stocks and local stocks whereas the Comptroller and Auditor General's Report only includes central stocks.

930. On that point, may I clear up one other matter? What are the 553,000 old telephones? Are they recoverable and repairable?—Those are telephones which have been recovered and are waiting for repair or scrapping.

931. So, a proportion of those might still come on to the total of good telephones?—That is quite right, Sir, yes, when they have been repaired.

932. I am a little at a loss to see how you are going to get your stocks down by 1960-61 to 441,000?—Perhaps I might quote the end of the year stock figures for good telephones?

Chairman.

933. The end of which year?—I was going to take a few years in succession. 1957-58, 888,000; 1958-59, 725,000; 1959-60, 605,000; 1960-61, 442,000; 1961-62, 256,000; and if we go on at that rate, 1962-63, 47,000, and then we have to place new orders.

934. Then, you must be anticipating, if these figures for new orders are correct, either very considerable increase in user demand or a considerable amount of scrapping of obsolescent telephones, or both?—No, we have taken, I think, a fairly conservative user demand, actually dropping a bit this year but increasing slightly the year after, and the scrapping of about 150,000 telephones a year on type, that is, because they are obsolescent.

935. These figures in paragraph 37, perhaps, are a little misleading as they are presented, then, are they, because that does not agree with the calculation

one can make on this?—It is very difficult to reconcile these figures, but you have got certain telephones turning round in the field in addition.

Mr. Hannan.

936. If the monthly rate of recovery is 47,000, does that not mean that the stocks are rapidly going to increase?—No, because you have to set against that the monthly rate of use.

Mr. Chetwynd.

937. Let me see if I can get it clear. There is a demand for 55,000 a month. There are 47,000 coming back?—That is right.

938. At some stage the bulk of them, I take it, will be repaired and available for service again. That leaves in a year 96,000 telephones wanted more than you have. You are putting in an order to the manufacturers for 225,000. Now, where does that difference come in? Why do you want to do that?—If I might come to the order, the position that we found ourselves in was that at the beginning of 1957-58 we had outstanding orders at the manufacturers for 696,000 black telephones, which was a quite reasonable outstanding at the then level of user. What we did was this: we found it possible to cancel absolutely the orders for 89,000 and by three successive deferments we put back to 1958-59 delivery about 300,000; and a further deferment to 1959-60 left us with 279,000 in 1957-58 and 252,000 in 1958-59 which we more or less had to take as part of our outstanding contract.

939. But you do not want them?—We do not want them immediately, but as I tried to explain to the Committee just now, our combined repair programme with the intake will run us down to a reasonable stock in 1960-61 and 1961-62.

940. But this is a familiar story, not with your Department, but other Departments. Have you got to take these because of existing contracts? Must you take them all or is there some escape clause whereby if a policy decision were taken to cut the ones you do not want you could do so?—I do not know that we really want to cut many of these telephones. We are managing to alter some of the contracts so as to take in the new type telephones when we want to.

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[Continued.]

Mr. *Chetwynd*.] It still seems to me that we have not got the answer clear as to the number you have, the number you want and the number on order.

Mr. *John Hall*.

941. It might help if we could have a copy of that document?—If I could be allowed to hand this round I feel it would do more good than harm.

Chairman.

942. Is it a fairly complicated document?—It is reasonably simple.

943. Or is it a thing you could let us have a memorandum on?—I could let you have this for printing* Sir, if you wish. (*Document handed to the Committee.*)

Mr. *Chetwynd*.

944. It seems that you are carrying substantial stocks even now, in 1959-60 and 1960-61. You are getting them down, admittedly, by 1961-62, but that brings terrible problems surely, of accounting, store keeping and all the rest of it?—Well, the future programme has been planned so as to keep a fairly level factory output, and I must stress that repair in advance of requirements is not uneconomic. There is no additional cost for storage, and so on, because you have got to store the telephones whether they are awaiting repair or whether they have been repaired; and the saving from keeping a fairly level load on your factories far outweighs the other considerations.

Mr. *Chetwynd*.] I have got a telephone maker in one part of my constituency so I am quite happy from a local employment point of view to see this, certainly.

Mr. *John Hall*.

945. May I ask one more question? These figures do not tie up in any way, do they, with the figures which are given in paragraph 37? It is awfully hard to see exactly where you get your stock figures from, and what does "field stock" mean, exactly?—We have our central stocks and then we have in each telephone Area what we call our section stores which may hold 100 telephones, or something like that.

946. Which you will now keep at a static figure of 58,000?—Yes.

* Not printed.; see Q. 954.

947. And your repair output is presumably an estimate of the recovery you will get from this average return rate of 47,000 a month? You will not get 564,000 telephones in a year, but will only expect to get a repair output of 280,000 or 300,000?—That takes into account the scrapping of obsolete types and the wastage of about 15 per cent. on repair, because when you come to repair a telephone, although it is of a current type it may not be worth repairing it, and so on.

Chairman.

948. On this paper, I see that in stock at the end of the year, in 1957-58, you had practically 900,000. In 1962 you are estimating to have 47,000. How came it that you were so heavily stocked in 1957-58 and are still so heavily stocked?—I was trying to explain that the large holdings at the moment are due to the fact that we have been taking in telephones from the contractors, our repair rate has been kept reasonably uniform and there has not been the user demand on us for installation in the field.

949. So, in effect, what has happened is that you over-bought?—Well, that our orders were related to the level of user at around the time when the orders were placed.

950. And that meant that you had a very, very sharp falling off of user?—Yes.

Mr. *Chetwynd*.

951. What is the reason for it, is it the increase in charges?—Yes.

Mr. *Stevens*.

952. I would just like to ask Sir Gordon if there ought to be any relationship between the figure of 926,000 shown as stock at the end of 1958 on the paper which has just been passed round and the figure of 735,000 shown in paragraph 37 of the Comptroller and Auditor-General's Report? Should there be any relationship between the two? I do not see any particular reason why there should be?—I think there should be but I cannot do the reconciliation on the spot. (Mr. *Anderson*.) We should need to know the stocks outside the centre.

953. Both are referred to as central stocks. Surely that cannot be the answer. They are both referred to as

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central stocks. Could Sir Edmund help?—(Sir *Edmund Compton*.) I wish I could help. But these are new returns compiled by the Post Office.

Mr. *Stevens*.] I wonder if it would be possible for us to have a reconciliation?

Chairman.

954. Yes, if Sir Gordon can help the Committee?—(Sir *Gordon Radley*.) If I may, I will put in a note*, if that will help the Committee.

955. Thank you. Just one further point: how many telephones are you scrapping a year?—About 150,000 on type because they are obsolete types that are coming back, and about 15 per cent. of those which would otherwise be repaired, because they are not worth repairing.

956. So that your scrapping is almost entirely due to obsolescence?—Obsolescent types.

957. And not to the condition of the instruments?—Yes, that is largely true.

Mr. *John Hall*.

958. If you are only scrapping 150,000 a year, I must confess I find it extremely hard to see how you arrive at this low stock figure. I take it in your reconciliation you will provide for us we shall get some idea of the number of telephones that will be recovered each year and what you estimate will be scrapped from that recovery?—Yes, I could put in a full Table. I did not think I should burden the Committee with all the figures, but I have corresponding Tables for the movement of old recovered telephones as well as new ones.

Mr. *John Hall*.] I find it so hard to reconcile this with the Report.

Chairman.

959. I should be very glad, Sir Gordon, if you would put in a paper, because I find it extremely difficult to follow the figures, and the new figures you have given only make confusion worse confounded in my mind?—I am very sorry, Sir.

960. It is very complicated. If you would let us have a paper, you will see the Minutes showing what the Committee really would like, and we shall be very much obliged. It can, if necessary, be

* See Appendix 4.

confidential if you want it?—No, there is no point in that, Sir.

Mr. *Stevens*.

961. There are other figures which will also need reconciling. The Comptroller and Auditor General says: "Orders on manufacturers for new telephones amounted to some 238,000 in 1958-59", and yet we have on this piece of paper "Bought, 1958-59, 257,000", so there is a 19,000 difference there. In other words, "The above balance sheet is correct except for the figures". I am sure there must be something wrong there?—Yes. I think the explanation there is the heading to the Table here. One figure refers to black telephones, and this sheet that I have circulated refers to black and coloured.

Mr. *Stevens*.] There is nothing about that in the Comptroller and Auditor General's Report. He says "new telephones". He does not say "new black telephones".

Chairman.] Will Members turn to pages 13 to 31, Vote 3, Post Office? I have no questions.

Mr. *Chetwynd*.

962. The only one I did want to ask was on Subhead E.1, Conveyance of Mails by Rail and contract work, and so on, on page 17. That is showing some slight decrease. Is that because the general traffic is falling or costs are falling, or what is it?—(Mr. *Anderson*.) I am sorry, did you say decrease?

963. I am sorry, there is a surplus?—Expenditure is £1 million up. Traffic is up.

964. And charges?—Charges are also up in the year of account, I think. Rail charges went up, and, speaking from memory, some of the air transport charges went down. (Sir *Gordon Radley*.) The railway rate was adjusted on the 1st August, 1957, Sir.

965. That is a flat rate, is it not?—(Mr. *Anderson*.) There is a different rate for parcels and for letters, but it is related to the quantity carried.

966. Distance does not enter into it, does it?—Only on a bulk formula.

967. I wanted to be sure that the railways were getting enough out of you, not the other way round. There is one other small point. On page 20, I am a bit intrigued by the figure you give as Ordinary

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[Continued.]

Counter Losses, £122,000. What is that, giving wrong change, and things like that, in Post Offices?—(Sir Gordon Radley.) Yes, it is giving wrong change, like giving a two shilling piece for a half crown, and things like that.

968. Do you have a corresponding figure coming in where you overcharge by mistake?—Yes. We altered our procedure two or three years ago, and we now show the gross losses and the gross gains at the counter. There is a little note at the top of the page which says: "Ordinary counter losses were also partially offset by gains of £49,893, which have been credited to Appropriations in Aid."

969. So it is not all a one-way traffic?—It is not all a one-way traffic.

Mr. John Hall.

970. Could I ask what percentage this figure of £122,000 is of the total turnover; very small, I take it?—(Mr. Anderson.) The turnover is between £4,000 million and £5,000 million. (Sir Gordon Radley.) I have actually got the figure here. The average loss was £1 5s. 6d. and the ratio of counter losses to counter transactions 1 to 41,780.

971. Could I ask one point on page 19 on Subhead H.2, Compensation for Accident, etc. Is that £431,000 odd paid out mainly in respect of vehicle accidents?—Yes. (Mr. Anderson.) The motor vehicles accounted for £175,000 out of the £400,000 odd.

972. That is the road accidents in which they are involved?—Yes.

POST OFFICE COMMERCIAL ACCOUNTS, 1957-58.

Chairman.

973. Will Members turn to the Post Office Commercial Accounts, to page 50, the Comptroller and Auditor General's Report? How is it that you finished the year with a deficit of £½ million on the postal services and you were expecting, apparently, a surplus this year of nearly £2 million?—(Sir Gordon Radley.) Yes, Sir, but might I make the point that that revised forecast given there was based on data, in the case of the post, up to December, and actually we somewhat over-estimated the effects of the yield of the tariff changes.

974. In other words, you find that your increased charges have reduced your business?—No, we found that they did not yield us quite as much as we had anticipated, but it is only a difference of £1 million or £2 million in something like £180 million.

975. Telegraph is still a Cinderella, with a £2 million loss. Have you any ideas of ways in which you can reduce that loss?—The Postmaster General appointed an outside Committee, the Sinclair Committee, a year or so ago. They reported, and I think they really endorsed the present Post Office policies

with regard to the telegraphs. If you are going to keep the service going as a public service you must expect a loss. The only way that you can decrease that loss is by putting up the tariff very heavily.

976. Would you decrease that loss if you did that?—We have temporarily decreased the loss that way before. The last big tariff increase did that.

977. But, of course, you have lost on the telegraphs for half a century or more, have you not?—I think for far longer than that.

978. You regard it as an essential public service?—We regard it as a public service, and it is really a question, I think, of determining what is the magnitude of the loss that one is prepared to stand for the service.

979. How far do Press telegrams pay their way?—I do not think we have a separate cost figure available, but the great bulk of Press traffic now goes by private wires.

980. For which you charge a rental?—For which we charge rent, yes.

Mr. Chetwynd.] I think we should say how good the presentation of this is.

TUESDAY, 10TH MARCH, 1959.

Members present:

Sir George Benson, in the Chair.

Mr. Arbuthnot.
Mr. Chetwynd.
Colonel Crosthwaite-Eyre.
Mr. John Hall.
Mr. Hannan.
Mr. Hoy.

Mr. Cledwyn Hughes.
Mr. Pentland.
Mr. Peyton.
Mr. Stevens.
Mr. Thornton.
Sir Colin Thornton-Kemsley.

Sir EDMUND COMPTON, K.B.E., C.B.; and Mr. J. MACPHERSON, called in and examined.

TELEVISION ACT, 1954, ACCOUNT, 1957-58.

Sir GORDON RADLEY, K.C.B., C.B.E., Director-General, Post Office, called in and further examined.

Chairman.

981. Will members turn to the Television Act Account, 1957-58? I see that no advances were made in 1957-58. Is that because the Independent Television Authority required no additional advances?—(Sir Gordon Radley.) Yes, Sir. Advances were made in 1954, 1955 and early in 1956. They were to provide some working capital for the I.T.A. and help with the construction of the first stations. Since then no money has been required.

982. I see that the advances are repayable by terminable annuities. The I.T.A., presumably, will be acquiring fairly heavy surpluses. Is there any reason why they should not pay off any advances?—No. We have given quite a lot of consideration to the question of inviting the I.T.A. to pay off their debt before 1964, but we decided this year that the first requirement under the Act was for them to constitute a reserve fund and you will see from their accounts that they have put £ $\frac{1}{4}$ million into the reserve fund this year.

983. Mr. Macpherson, what are the Treasury views on this?—(Mr. Macpherson.) This was done, Sir, in agreement with the Treasury. The Treasury share the Post Office views on this approach, at least for this year.

Mr. Pentland.

984. Sir Gordon, could you tell the committee if the Postmaster General has given any directions about the establishment and management of the reserve

fund?—(Sir Gordon Radley.) Yes, sir. We agreed that the reserve fund for this year should be set up at £250,000. But perhaps I have not quite got the point of the question?

985. I was just wondering whether there had been any direction given by the Postmaster General about the establishment of the reserve fund?—May I put it this way, that when the Authority consulted us as to the way in which they should dispose of the profit after tax in 1957-58, we did, in effect, direct that the £250,000 should be put into reserve fund.

Chairman.] I think that matter will come up rather better when we have the I.T.A. before us.

Mr. Cledwyn Hughes.

986. Can we be told how this liability of £456,718 at the 31st March, 1958, is likely to be cleared, and in what period of time?—It is due to be cleared by 1964, the termination of the present Act.

987. It will be cleared in total in 1964, or will it be cleared incrementally?—Progressively until 1964. It will be finally cleared by 1964.

Sir Colin Thornton-Kemsley.

988. Sir Gordon, do you provide any services directly for the programme contractors?—Only by way of hiring to the programme contractors certain, what I might call, tail-ends of television links. The Post Office hires primarily to the Authority links for transmitting

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[Continued.]

the programmes from the studios to the transmitting stations of the I.T.A., and I think there are some small hirings of links to the programme contractors but nothing of any magnitude.

989. Are those services provided under contract?—Yes.

990. What percentage do you provide in your contracts for profits?—With regard to the links generally, between $2\frac{1}{2}$ and 5 per cent. But might I emphasise the point that the links, in the main, are hired to the Authority, not to the programme contractors?

991. You know, Sir Gordon, that programme contractors are making large profits?—Yes, Sir.

992. That being the case, what prevents you charging them what the traffic will bear, that is to say, as much as they can reasonably afford to pay for these services?—Might I make a point, Sir, that our charges are to the Authority. I am sure that I am right, that there is nothing of great substance that we charge the programme contractors, because it will only be for very short bits of link. The main charges are all to the Authority.

993. And you charge the Authority $2\frac{1}{2}$ to 5 per cent.?—Profit on the rentals for the links, yes.

Mr. Arbuthnot.

994. I gather you provide substantial services for the I.T.A. You were referring to the links, and you also provide cables, I think, do you not?—They are links.

995. Cables and links are the same thing?—Some of the links are cable, some are radio.

996. These are provided under definite contracts on which you gain between $2\frac{1}{2}$ and 5 per cent. Is that right?—Yes.

997. That is, to the I.T.A.?—Yes.

998. But there is not anything to the programme contractors at all?—If there is anything, it is small.

999. I take it then that your charges fully cover your costs, is that right?—Yes. May I make a point, Sir? If the Committee is interested in the matter of charges in that respect, we charge first of all a rental to the Authority. The Authority also accept an indemnity liability in case they do not use the facility for a full period of twenty years.

The indemnity is in respect of the Post Office plant which is provided, and which could not be otherwise used.

1000. How did you arrive at the figure of $2\frac{1}{2}$ to 5 per cent. as a reasonable profit to charge?—Well, it appeared not too badly out of line with the profit one makes on one's services generally. Some make more, some make less; but I might make the point, Sir, in answer to a question which was put to me earlier, that if we doubled the rentals which we charge for our television links it would make a difference of much less than 10 per cent. to their total profit.

Chairman.

1001. What total profit?—The total profit of the programme companies, if it was passed on to them.

Mr. Arbuthnot.

1002. What is the total sum of profit which you make now on the $2\frac{1}{2}$ to 5 per cent. that you are now charging?—Our total charges, sir, are about—

1003. No, not charges, profit?—Our charges are about £400,000 and 5 per cent. on £400,000 is £20,000, so it is somewhere between £10,000 and £20,000.

1004. So, if you quadrupled the item for your profit that would not hit the contracting companies very much, assuming it was passed on to them by the I.T.A.?—No.

1005. Why have you not done so?—I am not quite sure that I have got the point. Why have we not increased our charges?

1006. Why do you not gain £80,000 rather than £20,000?—Well, we might. I do not know whether that would be the way in which the Post Office should normally set its charges to a customer. May I, with your permission, Sir, put in a figure here? You asked me just now with regard to our hirings to the I.T.A. and to the programme contractors. The proportions are roughly £70,000 to programme contractors and about £330,000 to the Authority.

1007. Is there anything other than the sense which you appear to show that it would be immoral to do so which prevents you from making considerably higher charges?—One has always regarded the question of the rental for a link as being approached in the same way as one would approach the question of the rental charge for any other private telephone line, and in fact our scale of

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[Continued.]

rentals to the I.T.A. is exactly the same as the scale of rentals to the B.B.C. for the same facilities.

1008. You referred to hiring the tail end of television links. What exactly do you mean by the "tail end"?—The bit which goes from the studios of a programme company to a central point.

Mr. Hoy.

1009. Sir Gordon, is the charge you make to the I.T.A. passed on to the programme contractors by the I.T.A.?—Yes.

1010. What do they charge?—With respect, Sir, might I suggest you ask the Director-General?

1011. I will certainly ask him. I only wondered if you knew?—No, I do not know exactly. The details of the contracts between the programme companies and the charges are a matter for the Authority.

Mr. Hoy.] Are you saying you do not know?

Chairman.] I think we will raise this when Sir Robert Fraser comes, as to actually what the I.T.A. do.

Mr. Hoy.] I am perfectly willing to do it then. I thought Sir Gordon, who makes it his business to look after these matters, might know.

Mr. Chetwynd.

1012. How frequently do you review your charging arrangements with the I.T.A.?—For the links?

1013. Yes?—We have completed a review in the last year or two.

1014. Do you not make it an annual review?—No. We have set the rentals at the last review, but if costs change they would be automatically reviewed.

1015. Is the money you are getting now the same as you were getting when it was set up in 1954-55?—No, for the first links our charges were more or less worked out link by link, and it is only comparatively recently, as the result of this review, that we have adopted a standard set of charges. They are at the moment, for two-way main links £10,000 per annum, plus £370 per radial mile.

1016. That brings you in roughly, you said, £400,000?—£400,000.

1017. If you were to wish to change this, would you have to change the whole basis of your contract both with the I.T.A. and with the B.B.C., or could you work separately?—At the moment the contracts are the same with the B.B.C. and the I.T.A.

1018. Is there anything to prevent you charging a commercial firm more than you charge an independent non-profit making body?—There is nothing legally that I know of, Sir.

1019. Would it be policy to do so?—It has not been the practice of the Post Office hitherto to discriminate between its customers, and in this sense the B.B.C. and the Authority are customers of the Post Office.

Mr. Hannan.

1020. These contracts go on until 1964, is that right?—The contracts between the programme contractors and the Authority, yes.

1021. If the Post Office did wish to revise these charges is that provided for in the contract at all by any notice on either side?—Do I follow you correctly, Sir, to mean, could the I.T.A. pass this on to the programme contractors?

1022. Presumably they do at the moment?—They do at the moment, and I think they could make the change.

1023. If you wished, between now and 1964 you could revise the arrangements; is that possible?—Between the programme companies and the Authority?

1024. No, between the Post Office and the I.T.A.?—The Post Office has entered into contracts with the I.T.A. to provide certain links at certain definite rentals which are subject, I believe, to adjustment in relation to cost, but they are contracts for a twenty-year period with an indemnity payable to the Post Office if the Authority ceases to use the link before that period is up.

Mr. John Hall.

1025. Sir Gordon, would you refresh my memory as to the rate of interest which was fixed by the Treasury on the advances to the I.T.A.?—They were funded. The advances in 1954 were at 3½ per cent. The advances in 1955 were £90,000 at 3½ per cent., £65,000 at 4½ per cent., and £250,000 at 5 per cent., and in March, 1956, £100,000 at 5 per

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cent. They were the same rates as local authority loans at the time.*

1026. So, the way in which that has been funded makes it impossible to increase the rates of interest, to alter the earlier low interest loan, I take it?—No, we cannot.

1027. Certain questions have been directed to you suggesting that you might be able to obtain for the Post Office a greater percentage of profits. I think it has been said that you might quadruple the profit, for example. Would you regard it as in any way immoral to take advantage of the possibility to put up your profit in that way? Would you regard it as equivalent, say, to charging Lord Nuffield more for his telephone wire than you would charge me?—I think it would come very nearly in the same category, Sir. I would like to think about this a little, but that is how it would appear to me at first glance.

Chairman.

1028. Sir Gordon, you referred to a twenty years' contract. Does that mean that there is no break clause?—Yes, as between ourselves and the Television Authority. You will appreciate, Sir, that in many cases we have had to provide co-axial cables for the transmission of these television programmes, and if they are no longer wanted for television some of them may be no use for telephony.

1029. No, I am not concerned with that. Have you no power to raise the rental for the user of these services?—I do not think so, Sir, except in relation to cost, but might I put in a note† about that? I would like to be accurate about this.

1030. If you will. What particular services do you render apart from radio and cable links?—I cannot think of any, Sir.

1031. Is there a twenty-year contract on both?—No, Sir. The studio links for the programme contractors are a shorter-term.

1032. What term?—I could not say at the moment. The very nature of the plant that is hired would make it so. It is not a case with the programme contractors of constructing a co-axial

* Note by witness: I overlooked the fact that, at the time of the March, 1956, advance, the Nationalized Industry rate was $\frac{1}{2}$ % lower than the Local Loans rate.

† Information supplied: not printed.

cable, say, between London and Birmingham.

1033. It is not that?—It is not that for the programme contractors.

1034. Will you let us have the details of all the contracts that you have for the services which you give to television?—Yes, Sir.*

Mr. Hoy.

1035. May I ask the Comptroller and Auditor General one question as to rates of interest? Was there a 5 per cent. rate of interest in the Public Works Loan Board during this period in 1956? Was it all 5 per cent.? I was under the impression that at the beginning of 1956, in fact, the charges to the Public Works Loan Board were a little more, perhaps $\frac{1}{2}$ per cent. more?—(Sir Edmund Compton.) I cannot offhand give a strict comparison between the two rates, but it is possible that the Treasury may be able to do so. (Sir Gordon Radley.) May I answer that question, Sir? There was a brief period from the 4th January to the 24th March when the rate was $5\frac{3}{8}$ per cent.

Mr. Arbuthnot.

1036. To the Public Works Loan Board?— $5\frac{3}{8}$ per cent., yes. This loan to the Authority was on the 28th March.

Mr. Hoy.

1037. So that by some chance the I.T.A. took a loan just before it went up and just after it came down, is that what you are saying?—Well, just after it came down.

Mr. Hoy.] And just before it went up.

Chairman.

1038. Was there any advice to the I.T.A. that the rate was about to be increased?—Not that I know of, Sir, and I should think it most unlikely. (Mr. Macpherson.) I think I could give a firm assurance on that. There would not be any advice given of that nature.

1039. Well, there has been an instance that has come before this Committee, not with regard to the I.T.A., on which the Treasury allowed forestalling?—(Sir Edmund Compton.) Perhaps I should put in a supplementary point. My understanding is that the rates I.T.A. are charged are the same as the nationalised industries, that is, gilt-edged rates, but,

* Information supplied: not printed.

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[Continued.]

of course, the local loan rates are the rates the local authorities can borrow at in the market.

Mr. *Hoy*.] That is my recollection. There was one case which was raised before where we found the Treasury were charging $\frac{1}{2}$ per cent. more to local authorities than to the I.T.A. I was a little bit surprised that these Nationalised Boards and the I.T.A., and so on, were getting it, and I raised it.

Mr. *Chetwynd*.

1040. Do I take it that the I.T.A. have

given an indication that they do not wish to avail themselves of any more of the £2 million which they could borrow if necessary?—(Sir *Gordon Radley*.) They have not said so in so many words, but contrariwise Sir Robert Fraser has discussed with me informally their willingness to repay in advance some of the £550,000 which was advanced to them.

1041. So we can be pretty sure that they do not want any more money from the Post Office?—That is so.

INDEPENDENT TELEVISION AUTHORITY ANNUAL REPORT AND ACCOUNTS, 1957-58.

Sir ROBERT FRASER, O.B.E., Director-General, Independent Television Authority, called in and examined.

Chairman.

1042. Will Members now turn to the Independent Television Authority Annual Report and Accounts, 1957-58? Sir Robert, will you tell us broadly what the I.T.A.'s operating income is required to meet, how do you function and how do you spend your money?—(Sir *Robert Fraser*.) What we are required to meet?

1043. What is your operating income, what have you to meet out of it, and what are your expenses?—You are speaking of revenue expenditure? Would it be convenient if I answer in terms of revenue expenditure or are you asking about capital expenditure?

1044. Both?—In capital expenditure there is really no significant outlay whatever, except on the construction of television transmitting stations, and equally, it is almost as true that there is no significant revenue expenditure, except on the operation and maintenance of television transmission stations. In addition to which, of course, there are the annual rentals paid to the Post Office for the hire of the co-axial cables or microwave links.

1045. I see according to the Act that the duty of I.T.A. is to "secure that their revenues become at the earliest possible date and thereafter continue at least sufficient", and during the debate in the House of Commons the then Home Secretary used the rather significant phrase: "And I repeat, at least", in other words, he was hoping for more than that. Are you proposing to earn excess revenue over and above your expenses?—Well, of course, we have a

great excess of income over revenue expenditure as it is, Sir. I do not remember this remark of the Home Secretary, but I think he would be delighted if in the light of it we had a look at this balance sheet and these operating accounts. Roughly speaking, the Authority out of every £3 of income—a position which it has reached in its fourth year—spends about £1 in fulfilling its operational executive duties, pays a second £1 in taxation, and either puts the third £1 away against capital expenditure obligations that will arise in future, or else spends it now in the creation of physical assets. Very roughly speaking, you may say that the income of the Authority is three times its revenue expenditure, and, of course, as you saw from the last accounts, we have reached the position in which every penny of capital expenditure is being found from income.

1046. I see according to the financial press, that the profits of the Independent Television Companies are running at somewhere between £60 million and £75 million a year. Do you see their accounts?—Only when they are published.

1047. I see. You have no access to them?—We could require their production. They are, of course, sent to us, but they are generally available. There is no difficulty about access to them.

1048. I see that you have still at least six stations to allocate?—Two stations come into operation at the end of this year, but the programme companies for those have been appointed and there are remaining, I suppose, perhaps three

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appointments before we have completed and filled in the first programme.

1049. On what terms have you let those two, and on what terms do you propose to let the three?—The rentals paid by all the programme companies, except for one difference to which I will come to in a moment, if I may, all rest on the same basis. Their relationship one to the other reflects the relationship between the populations in their service areas. The only departure from that is that the rentals attached, I think to the programme companies appointed after the first six are rather higher.

1050. Rather higher?—I think about 20 to 25 per cent. higher; I would not be quite sure.

1051. You have seen this statement as to the profits that they are making, I imagine?—Well, I was surprised at the figure which I think I heard you use.

1052. That is a quotation from the financial press. At any rate, you have access to their accounts, so you can easily find out what profits they are making?—I think their aggregate profits are not anything like the dimensions of the figure which I thought I heard you use.

1053. This is a quotation. The figure was between £60 million and £75 million a year?—That is even greater than their gross income, but, still, their profits are very large.

1054. They are. Have you taken steps to find out what they are?—Yes, we have always known from the beginning both what their losses and their profits are.

1055. Do you propose to take those profits into account in the rentals you charge for the future stations?—I think the answer to that must be No. There are difficulties, I think, in making a change of any significance now in rentals. Firstly, if one may look at it in this way, we are bolting the stable door after the horse has gone.

1056. After some of the horses have gone?—Well, practically the whole of the horses really, Sir, because the first programme companies appointed have very large service areas indeed and we are now appointing programme companies with much smaller service areas. The last company to be appointed has a service area one twelfth the size of London; and it is my own view that,

profitable as the centre of this operation is, I am not at all sure that the margins—and in this particular case I am talking of Ulster, actually—are going to be very noticeable. I think there would be difficulties in raising the rentals against these smaller companies. The other difficulty, it seems to the Authority, is that it would involve a discrimination which, I suppose, if it was in any way to reflect—may I take it?—this line of thought, would have to mean a sharp increase. It would involve a sharp discrimination in the way in which we are treating the older and larger and more profitable companies who would find it not impossible to pay higher rentals, supposing the Authority thought it could justify higher rentals.

1057. On that point, have your contracts with the companies up to 1964, I think it is, any break clauses? Have you fixed the rents to 1964 and have you no power of alteration?—The rents were determined in the initial contracts right through until 1964. There are built into the contracts a number of clauses—opportunities—for raising the rentals. They have risen with the increase in the cost of living index and there is also a discretionary power to raise the rentals by a percentage over the initial level after a period of time. That period has now expired, or is about to expire, in the case of the older companies and the rentals are in fact being increased. But I would not like you to think that the increase is arithmetically a large sum when placed against either their income or their profits, any more of course than the income of the Authority itself is very large when put against the income of the programme companies.

1058. Exactly. I think the Committee would be interested to see the contracts you have with the companies. Will you produce them?—I would be at your direction of course, Sir. So far the contracts have been regarded as confidential contracts except, of course, that copies have, in fact, been made available to the Post Office. They have been regarded as confidential contracts between the Authority and, I suppose one might say, private enterprise contractors.

1059. Sir Robert, this Committee is in the habit of receiving very confidential information. It would be very glad if you will let the Comptroller and

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Auditor General have a copy of the contracts?—Indeed.*

1060. In effect, I gather that you have pretty well tied yourself up until 1964 within a very narrow margin. Is that correct?—That is so. (Sir *Edmund Compton*.) Before you pass on may I mention one point? There was some query about the figure you mentioned, Sir, on the profits of the programme contractors. I have looked up the reference in the financial press and I see that the figure you quoted was an estimate of their advertising revenue. (Sir *Gordon Radley*.) I have the figures here, Sir, the last figures publicly announced for the profits. I do not know whether you would like to have them?

1061. I gather that these are only for certain of the companies?—They are for all of the big ones. I have not the figures for those that have recently started up.

1062. Yes, let us have them?—Taking Associated Rediffusion, Sir, the Chairman announced to the Annual General Meeting on the 25th November that the company had made a profit for the year ending April 1958 of £4,800,000.

Mr. *Chetwynd*.

1063. Is that before taxation?—That would be before taxation.

1064. I have a figure of £5 million?—£4,800,000, which is roughly the same. That was, of course, after the company had made losses up to £3½ million in previous years. Associated Television Ltd.; there was a profit of £4,053,000 for the year ending 30th April 1958. A.B.C. Television Ltd. serves the Midlands and the North for the week-ends; we have not the figures for the actual television company but the parent company, Associated British Picture Corporation, made an increased profit of £3,490,000 for the year 1957-58. Granada do not publish separate accounts for their television activities but the Chairman announced a profit for the year 1957-58 of £1,110,000 compared with £332,000 for the previous year.

Chairman.

1065. I am sorry, I confused the gross revenue with the profits?—I thought

* Copies supplied: not printed.

it would be useful to have the actual profit figures.

Chairman.] Yes.

Mr. *Stevens*.

1066. Before we leave that, might I just ask if Sir Gordon or Sir Robert can give us some idea of the taxation liabilities attaching to those untaxed profits? In percentage is it 60 per cent., or something?—(Sir *Robert Fraser*.) Of that order, yes.

1067. Something of the order of 60 per cent.?—Yes.

Mr. *Hoy*.

1068. May I ask one more figure? You did not give any report of the operations of Scottish television so far?—(Sir *Gordon Radley*.) I did not give it because it is only just, as it were, starting up; but in Scottish television there is a profit of £162,926 for the first period of operation in 1957.

1069. What period was that? How far did it cover?—I think Sir Robert can tell us when they came into service. (Sir *Robert Fraser*.) I think it probably relates to the financial year now; at the end of March last year, I would think. (Sir *Gordon Radley*.) Yes, but when did they start? (Sir *Robert Fraser*.) In the late summer of 1957. (Sir *Gordon Radley*.) It is only a part year, then.

Mr. *John Hall*.

1070. What I was going to ask has been answered, the difference between the actual revenue and the profits, but there is one point on the profits on which I wanted to be quite clear. You quoted, for example, in the list of profits a profit of approximately £5 million, but you also mentioned that losses had accrued over previous years of about £3½ million. So, am I right in assuming that the profit to be carried forward is really £1½ million as the accumulated profit to-date, or is there £5 million after taking into account the previous losses?—No, not after taking into account. I think Sir Robert can answer this more precisely than I can, but there were the initial losses to offset against the profits now being earned. Whether it is a straight subtraction of £3½ million from £4.8 million I would not like to say.

1071. Sir Robert, can you tell the Committee what is the total accumulated profit which has been earned so far, after taking into account the losses which were earned at the beginning of

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the development of Independent Television?—(Sir Robert Fraser.) This would be a guess, but I would say it was of the order of £30 million.*

1072. After taking into account losses?—Yes. Now I see the line of these questions, I think I could perhaps help the Committee if I were to describe very simply just what the present relationship is between income and expenditure throughout Independent Television. What I am saying really applies accurately enough to the programme companies taken as a whole and also to the Authority itself, because we are all about equally profitable. The Authority happens to be rather the most profitable element in the situation, though of course its income as a whole is much smaller, if we interpret profitability as meaning the rough ratio between income and outgoings. In the last calendar year, and the position, I think, will not be very different this year, the net income of Independent Television was of the order of £40 million. The gross income would be about £50 million, but you understand that that is a calculation of advertising expenditure and one must deduct from that various discounts which are retained by agencies and which do not actually reach Independent Television itself. The gross advertising expenditure is about £50 million which, by the time it is discounted, becomes £40 million now coming into Independent Television. I would think that the present annual cost of maintaining the transmission every day and producing the programmes is perhaps of the order of £20 million or less. It therefore follows, of course, that the excess of income over expenditure is very considerable indeed.

1073. Could I come back on that? You gave an estimated figure just now of £30 million as the accumulated profit after deducting losses to date. The figures you have just given show a figure of £20 million plus as the estimated profit which might be enjoyed now by a company which has been established for a little while and has not quite got into its full stride. What I

* Note by Witness: This estimate of £30 million refers to trading profit—that is, before charging depreciation, interest on loans, fees, etc., and before tax. Net profits after tax would be about half this estimate. All subsequent profit estimates are on the same basis of trading profit.

find difficult, therefore, is to find out how you arrive at a figure of £30 million now, as the losses in the first few years were quite considerable. The figures given by Sir Gordon would only give a carry forward figure of £1½ million or rather less, although this year they have been about £5 million?—I would have looked up these figures with greater care if you had not said two years ago, if you will forgive me for reminding you, that you were not quite sure whether, perhaps, programme companies were the concern of the Committee.

Chairman.

1074. With all respect, I did not say that. The Committee may have done?—So I did not look at the figures as closely as I should have. My own rough figures would be something like this, that in 1955 and in 1956 I think the accumulated losses can hardly have fallen short of about £10 million. Perhaps they were a bit less, but they were moving towards that figure, I would have thought. Then the corner was turned with great speed, almost overnight—in a few weeks, as a matter of fact—in the autumn of 1956, and in 1957 and 1958, taking the two years together, I would be surprised if the excess of income over revenue expenditure before tax fell short of about £40 million. That is how I got my rough mental arithmetic figure of £30 million.

Mr. John Hall.

1075. But you are taking revenue expenditure only in arriving at that?—I am leaving out of account taxation and I am leaving out of account, of course, the very, very heavy sums of money that have had to be expended in the construction of additional studios, and so on. That is to say, I am not speaking of surpluses that can be distributed in dividends.

1076. Or any amortisation?—I am including* depreciation as a revenue expenditure. I would like those figures to be regarded as very rough. They are not misleadingly inaccurate. They just reflect some mental arithmetic performed at this table now, but they are not far out.

Mr. Hannan.

1077. Sir Robert, how were the annual charges to the contractors in the pro-

* Note by Witness: As the figure of £30 million refers to trading profits, depreciation is excluded, not included.

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gramme contracts arrived at? What method did you adopt?—If you will allow me a moment or two, and since I see the interest of the Committee in this, I would very much like to answer that question, not by making a very long speech, but perhaps you would allow me to give an answer which might take me a minute or two. In the very early days the Authority came to the view that it must determine its own income in the light primarily of the statutory obligations placed on it by the Act. There they were in the Act in black and white. One could express them in different terms arithmetically, but there they were, and they were, of course, in Sections 10 to 14 of the Act, which the Authority had to examine long before it knew what independent television was going to be like or before a single programme company existed. There they were in the Act, and there were roughly four of them. There was first of all the requirement to meet as soon as possible revenue expenditure, which had therefore to be estimated for the whole of the period as accurately as we could. There was, secondly, the requirement to create a reserve fund. There was, thirdly, the requirement to build up reserves for normal capital expenditure, apart from the specifically mentioned reserve fund; and, fourthly, there was the obligation to clear the Authority of the whole of its debt to the Exchequer by 1964. Well, there could be some argument about the size of one of these, the reserve fund, but the rest it was possible to estimate with a reasonable degree of accuracy. The Authority then simply did some arithmetic. It said: "We have to provide ourselves with an income which will give us with a reasonable margin the ability to discharge these statutory obligations", and as a result of these calculations a figure emerged of what the authority required over the period as a whole as income, and that figure then having been established as an income was, as it were, distributed in the form of rentals over the programme companies in relation, as I was explaining, to the relative size of the populations in their service areas calculated down in rental terms and made payable to the Authority. That was the rough calculation, and you can see, roughly speaking, what the result is going to be so far as the Authority is concerned. At the end of ten years of life,

when the Act expires in 1964, it will be holding as written down debt-free physical assets property worth about £3 million. It will have as well total reserves of about £3 million. It will have paid, I was estimating this afternoon, something like a total of £6 million in taxation. It will have cleared its debt to the Exchequer, and there it will be, so far as the Authority is concerned, at the end of this period a highly prosperous public Corporation; in fact, if I am allowed to say so, easily the most prosperous of all the public Corporations. Now, could I say just one more word? The Authority did consider in the very early days whether or not it should introduce any system which would build a relationship between the income of the programme companies and its own income, and it decided that it would not in fact do so, that it would allow its own income to be, as it were, a function of Sections 10 to 14 of the Act. It would comply with those, and, as I have said, has complied with them by an ample margin, but it would not relate its income to the profitability of the programme companies. Now, there are two clues to that decision. The first is the line of thought which I have already developed, that the Authority saw itself, hoping it was interpreting the Act correctly, as a public Corporation with these specific responsibilities enumerated in Sections 10 to 14 of the Act, and, secondly, an argument of quite a different kind, that that, of course, would mean that it would be quite wrong to let the income of the Authority ebb and flow with that of the programme companies. We should have gone out of existence in 1956 had we done that. There were statutory requirements to be fulfilled, and therefore we must have, at any rate as a minimum, and it would be a high minimum, a fixed income. But there was another reason, and to me I think it is still a very relevant one, that although Independent Television plainly will not work unless there is an effective co-operation between the parties, the governing and planning body on the one hand and the programme companies as the executives on the other, it also seems to us to be true that the Authority under the Act is expected to maintain real independence from the programme companies; and that it would be a great mistake for the Authority to place itself in a position where, taking its responsibilities of securing the impartial observance of the Act, the qualitative

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and other criteria of the Act, taking those responsibilities on it, it should, in fact, then create a system under which it shared the same financial interests as the programme companies. It seemed to the Authority that it might well be said of us: "Well, it is perhaps not to be wondered at that you interpret the Act in this way or make these particular regulations or take this particular line, because, of course, if you do it is profitable for you, as profitable as it is for the programme companies." So, rightly or wrongly, having provided ourselves with what we think is an ample income, we did deliberately and as a matter of policy disconnect our financial situation from the profitability of the system.

1078. It is a little difficult, as Sir Robert will appreciate, to take all that long answer to the simple question that I asked as to how the annual charges were arrived at. But, arising out of that, it is provided for by Section 13 (2) of the Act, is it not, that excess revenue should be paid into the Exchequer. Can you, in view of what you have said, say that it is I.T.A. policy to try to obtain excess revenue when fixing their charges to contractors? Shortly, is Section 13 of the Act being observed?—Section 13, really, as I read it, gives the Post Office and behind them the Treasury Ministers very substantial powers over the disposal of the Authority's surplus; but I think they would not, perhaps, take the view that it gives them powers over the factors which determine that surplus. That, of course, under the contracts was left to the Authority. The Postmaster General and the Treasury Ministers in the ultimate resort, if they wanted to use their powers, can do what seems to them good with the Authority's surplus—with the whole of it—because, although the reserve fund once created as a reserve fund cannot be touched, it is also true that the size of the reserve fund can also be determined by Ministers. So, they have it really in every way and can require the Authority to dispose of its surplus, as Section 13 says, as seems to them good. (Sir Gordon Radley.) Might I attempt to answer the question also, Sir, because this is, I think, very much a matter for the Post Office? Whereas the arrangements between the Authority and the contractors are not a matter for the Post Office, the Post Office having taken the view that the Act made it quite clear that the securing of programme contractors and the financial arrange-

ments with them were a matter for the Authority. But the Authority's finances are a matter for the Post Office and for the Government; and the Post Office in discussion with the Treasury did give quite a lot of thought to the Authority's profits for the year of account. We decided that the first thing to do was to enable the Authority to meet the obligations on it under Section 10 of the Act by setting up a reserve fund. We agreed that it should put aside a capital expenditure reserve, and so on. It is, I think, only after these things have been done that the question arises, as I think inevitably it must arise, of creaming off some of the excess for the Exchequer under Section 13 (2).

Mr. Chetwynd.

1079. That is precisely the point we are on. Is not the interpretation, Sir Robert, that you gave as far as Section 13 (2) is concerned much too narrow? Surely you have to take into account the question of making an excess to pay into the Treasury. Is it not a fact that you stated you had had no direction to do this because you had not got an excess after you had made your reserve fund, and all the rest, and is not the reason you have not got an excess because you have not set out to get one as a matter of policy?—(Sir Robert Fraser.) But there is a very substantial excess which is being actually created. You see, I have said already, putting it very simply, that of every £3 of income £2 are in fact, in the simple sense of the word, excess, or £1 after taxation has been paid; and this is a fairly substantial sum of money, of course, every year, because the Authority's income is £2½ million.

1080. If you had £4 of income instead of £3, you would have £1 more in excess which could go to the Treasury. I think that is the point we are discussing. Why are you not getting the excess £1 from the contracting companies in order to do this? That is the real point. Would I be right in assuming you underestimated the profits the companies were going to make when you first made your charges?—No one could, of course, know what the profits were going to be, and I think they have taken everybody by surprise. Whether in the light of the requirements of the Act it would have been right to fix higher rentals or not depends, I think, very much on how one interprets Sections 10

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to 14 and what Parliament was expecting of the Authority at the time. You see, you can read the Television Act from beginning to end, and you will not find in it, it would seem to me, any suggestion that the Authority is much concerned, if concerned at all, with the financial operations of the programme companies so long, of course, always, as it is fulfilling and, perhaps, amply fulfilling its own statutory obligations under the Act. For example, it would have been very easy to give the Authority power to control the income of the programme companies. For example, the income of the programme companies really reflects the price at which advertising time can be sold on television—the tariff. Now, it would have been possible for the Act to have conferred upon the Authority the power to control tariffs. So far from doing so, the Act explicitly says that the price of advertising in television, which is itself the determinant of income, shall be within the discretion of the programme companies. I find it very difficult in reading the Act, Sir, to know what at the time Parliament did have in mind on this particular point.

Mr. Hoy.

1081. If you found it all that difficult, Sir Robert, did you ever think of asking the Postmaster General?—I cannot recall having asked him.

1082. Why did you not, even if it was only for a little advice?—I suppose because it seemed to us that this was a responsibility of the Authority; and I very much doubt, you know, if I may say so, whether at that time anybody could or would have reached a different decision. At the time it seemed to most people, and certainly it seemed to the programme companies in 1956 when they were nearly bankrupt, that our rentals were extremely high. They are, of course, as was pointed out to us in the bad summer of 1956, far more than the Authority actually needs for its own purposes and for a full response to the requirements of the Act.

1083. But they can hardly say that if, in fact, any excess expenditure should be paid into the Exchequer; even although the Chancellor of the Exchequer budgets, say, for £100 million in income tax and gets £120 million, he does not say: "You can have this £20 million back because it is more than I

thought I ought to have." Section 13 (2) lays it down, if there is an excess revenue, that you should pay into the National Exchequer?—Not, I think, that we should, Sir; it is liable to be called on for the Exchequer if the Postmaster General and the Treasury so decide.

1084. Yes, certainly, that is what we are saying. I am not quite clear yet. You fixed the rents, but let me ask you what exact arrangements have programme contractors got to take each other's programmes? Do they pay each other for those programmes?—Yes.

1085. It is a little difficult to follow some of the workings of this. I wonder to what extent programme contractors in practice are not formally independent of each other as to both finance and control. I was thinking, for example, to what extent is Granada financially linked with Association Rediffusion through its networking arrangements?—None at all, Sir.

1086. There is no link at all?—None at all, that is to say, not of a kind that would prejudice the independence of either company. There are, of course, continual daily programme transactions between the programme companies, because, of course, the whole system does, in fact, rest on an exchange of programmes up and down the network between the various producing companies.

1087. In both finance and control of the company they are quite independent of each other, is that right?—All the programme companies are financially quite independent one of the other. The Act itself says that there must be enough different programme companies to provide adequate competition. It does not, in fact, say that every programme company must be independent of every other one, but enough of them must be independent to give adequate competition. In fact, the Authority has required every one of them to be entirely independent of all the others right down the line to the smaller companies now being appointed.

1088. I shall leave that just for the moment, because I do not know that I would go as far as you have gone, Sir Robert. You may be correct. I was wondering if any interest in a contract between a programme contractor and the Authority had been assigned without

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the Authority's written consent. Do you ever find that happening?—No. I am being asked the sorts of questions I find it very difficult to reply to briefly, but you must tell me if I am answering them at too great a length. It would, of course, entirely frustrate the Authority's selection and appointment of programme companies—because, after all, the Authority is supposed to select the programme companies which it thinks will produce the best programmes—ii, let us say, the day after one is selected it is then bought by somebody who did not apply, or even by one of the rejected applicants; and so, into our contracts, in forms that vary according to the nature of the company, whether it is a private company or whether it is a public company, whether its shares are voting shares or divided into non-voting shares and enfranchised shares—of course, in some cases it is very difficult, with public companies with quoted shares in particular—we have tried to carry through provisions which give us continuous control over the ownership and direction of the companies; so that at any rate in private companies neither voting shares nor even non-voting shares can change ownership without the prior approval of the Authority. There are a number of companies, as Associated Television has done, and as Television for West and Wales has just done, which have divided their capital into voting and non-voting shares. In that case we retain control over the ownership of the voting shares, but after agreement has been made about the first distribution of the non-voting shares we really do, of course, lose control over what then happens to them, because any one can then go and buy them. To us the important distinction is that they are unenfranchised shares, they are non-voting shares. We are reaching a position of greatest difficulty, of course, with a company which is public, the whole of whose shares are voting shares, the whole of those shares being purchaseable on the Stock Exchange—companies that are not in themselves proof, shall I say, against a take-over bid. Well, in most cases we have included in the contract fairly formidable powers, into the details of which I will not now go unless you wish me to, which allow us to give notice to terminate the contract if changes take place that we do not find it possible to approve.

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1089. So you are assuring us, Sir Robert, that under subsection (4), I think it is, of Section 5 of the Act, your written consent is always obtained before any of these changes take place?—Yes, that is so. Could I perhaps say that I think it is the view of the lawyers that Section 5 (4) does not in fact—although I must say, not being a lawyer myself I would have read it differently—cover the transaction about which I am now being questioned; but whether it does or not is in a sense outside the point, because even if we do not regard ourselves as operating under that clause, we are doing exactly the same thing.

1090. If you have an opinion in law, this obviously must have been raised and you have taken legal opinion on this view of it, or has some programme contractor taken legal opinion?—No. I remember asking myself for a legal opinion on this, because I was not sure whether it would, in fact, cover this particular case or not. Had it covered this kind of change in ownership it might have been unnecessary to take certain other steps that we took.

1091. But arising out of that opinion, may I ask you one further question on this point? Did you then communicate with the Postmaster General on this, saying that some doubt had arisen as to this section of the Act and perhaps a further Act or amending legislation might be required to make it clear?—No, I do not recall doing so. I am sure we did not do so.

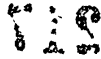
1092. If it does not cover it, I have no doubt that Sir Gordon Radley will now be prepared to give it a little attention. May I ask you, Sir Robert, if the Authority has ever had to levy any penalties on any contractor at all for breaking that provision?—No.

1093. May I turn now to a very small question which interested me before you arrived. I understand that the contracting companies rent certain cables from the Post Office and that the Post Office then send the account to you?—Yes.*

1094. I am told by Sir Gordon that the Post Office charges you the cost plus something between 2½ per cent. and

* Note by Witness: The main cables and links are rented by the Authority. Certain shorter ones are rented directly by the companies from the Post Office.

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5 per cent. Do you know that to be true?—That is my own memory. I cannot say I would be sure.

1095. If we have got that right, I am then informed that you then charge the contracting company, is that right?—Well, it is indirectly, but not directly, right. In making this first calculation of what the Authority's expenditure would be, and therefore what its income must be, we of course took into account that part of the expenditure would be on the payment for the lines and links to the Post Office; and therefore there is a sense in which it is true that out of the rentals paid to us by the programme companies the Post Office is, in the end, paid for the lines. But it is not passed straight through to them as an invoice, as it were; it is incorporated in the rentals.

1096. What do you pass to them? Supposing the Post Office charges you £100,000, what do you then charge the contracting companies? If you take it into account, you must have taken some figure into account?—Yes, but it has not arisen in that way. We make an estimate of what it is that we will be paying the Post Office for the rentals. This becomes one of the items that we write down on our piece of notepaper when we decide what our expenditure is going to be. We therefore know the minimum income which we need to have to meet revenue expenditure and this, of course, is revenue expenditure, and if we were relating our rentals to revenue expenditure only then, of course, there would be a direct invoice relationship between the rentals and various other items, including the cost of the Post Office lines. But, in fact, as I explained, having reached an estimate of what our expenditure would be, we virtually trebled the figure before we reached the rentals.

1097. May I ask you a question about Scottish Television, because there has been a change there? I wonder if this position was foreseen when the contract was arrived at? There has been a substantial change in the set-up of this company which, in fact, is not now Scottish Television in that sense, but the owner of national and other newspapers. I am told that as the result of this change certain losses which may be on the newspapers have to be borne by television. Did you foresee a position

of this kind when the contract was entered into?—No. I think it was not foreseen. There has, of course, been no change in the ownership of Scottish Television. Had there been it would, of course, have been of primary concern to the Authority. But, of course, as the programme companies have found their feet and have started to do well, not only Scottish Television but some of the others have acquired other interests. Whether the point which has just been raised comes into the change in Scotland, I would not know. What has happened really, of course, is that the same company, or the same man, used to hold a great majority of the shares both in Scottish Television and "The Scotsman" and unless I am wrong, and perhaps you will correct me if I am, Scottish Television in fact now owns "The Scotsman".

1098. That is right. May I then put this point to you and I am sorry to take this on quite so long: when you come to fix the rentals on contracts for these things may I assume that you take into consideration these other ramifications which might be at present being paid for out of the revenues of television?—Well, Sir, first of all, of course, it will not arise as a practical question until 1964. Secondly, really, at this stage I would not like to say that I think the Authority would be likely to charge programme companies different rentals for the same thing, according to the nature of the different interests of those programme companies.

Colonel Crosthwaite-Eyre.

1099. Sir Robert, am I right in thinking that the basis on which you have worked is that before you settled any contract with a programme company at all you made some overall appreciation of the revenue that you would want?—Yes.

1100. You then split it on the basis of the number of people that probably would be within any given area which a programme contractor would serve?—Yes.

1101. Therefore, putting it this way, before you started even giving the first contract out you had a global sum in your mind which you wished to recover by way of revenue?—Yes.

1102. Would it be right to say that in that global sum you had taken no

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account of Section 13 (2) of the Act, which is the one about excess revenue?—Oh no, Sir. Had we not taken account of the need for an excess of income over revenue expenditure, which is the excess with which Section 13 is concerned, the rentals would have been one third of what they now are.

1103. I fully appreciate that you have given us the breakdown of the £3, £1 by way of expenditure, £1 by way of taxation and £1 by way of paying out of revenue for capital?—I hope that it was found helpful.

1104. This is what I am getting at: Section 13 (2) says, if you have excess revenue give it to the Exchequer. In making your global sum did you consider how much money you should have, if things went well, to be able to pay the Exchequer?—Is that, sir, the responsibility of the Authority under Section 13?

1105. May I come back then to my original question which you rather indignantly denied, that you had taken no account of this in making your global sum?—Yes.

1106. What figure did you then take into account in your global sum, so far as Section 13 (2) is concerned?—As a proportion?

1107. Yes, as a proportion?—As a proportion for revenue expenditure?

1108. Yes?—About two-thirds of total income.

1109. Have you actually, then, paid anything under Section 13 (2)?—You see, it is not an obligation, as I read it, on the Authority to pay anything to anybody under Section 13 (2).

1110. May I put it this way to you: you have, as I understand it, signed with the major programme contractors throughout the United Kingdom up to 1964, that is, you have committed the Independent Television Authority to contracts for that period?—Yes.

1111. And as far as I understand from what you answered earlier, apart from minor deviations you have no hope of increasing substantially the amounts you receive?—Yes.

1112. Therefore, what I am asking you from this Committee is that we would like to know what provision you have made to see, if things went really well, that subsection (2) came into action and the Exchequer benefited?—I confess I did not read this as imposing any obli-

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gation on the Authority whatever to make a contribution to the Exchequer, only under Sections 10 to 14 an obligation to conduct its financial affairs in such a way to comply with these provisions. That compliance produces an excess which Section 13 empowers the Postmaster General with the consent of the Treasury to take, or any part, if they so wish.

1113. May I ask the Post Office; when you were acquainted with the total sum that Sir Robert was expecting to get by way of revenue from all contractors, were you aware that there was no leeway, as it were, for giving something to the Exchequer under Section 13 (2)?—(Sir Gordon Radley.) I have already, Sir, stated the Post Office view at the time, that these arrangements between the programme contractors and the Authority were primarily the responsibility of the Authority. The Post Office, and I think it is fair to say the Treasury at the time, were very much concerned to ensure that as far as possible no expense fell on the Exchequer. It is fair to say that we did not foresee these vast profits arising.

1114. Might I remind you, along with Section 13, that the Postmaster General is the authority responsible for giving directions to I.T.A.?—Yes.

1115. You cannot just say that it was not any business of yours, with great respect. Section 13 only comes into action when the Postmaster General does something?—I am sorry, I meant to say that the actual contracts between—

1116. I am not talking about contracts?—I am sorry, I misunderstood you.

1117. I am asking, when you were told by Sir Robert the total global revenue he expected to get so as to meet his commitments, both revenue, capital and repayment of sums borrowed, did you ask him what leeway he had got to make contributions to the Exchequer under Section 13?—At the time?

1118. At the time?—So far as my recollection goes, that question was not put, but frankly, I was not concerned at the time, and I would like to check up on that.

1119. Sir Robert, as I understand it, the actual sum that any contractor is asked to pay is notified in advance. There is no question of competition, is

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there?—(Sir Robert Fraser.) I beg your pardon, I did not hear that?

1120. When you notify that a certain area will be open to grouping, I believe that the rental to be charged by you is known beforehand?—Yes.

1121. There is no question of competition?—There is no question of competitive tendering.

1122. Why not?—Because the first requirement, as it seems to the Authority, which the Act places on it is to choose, not necessarily wealthy, but suitable programme companies selected because of what the Authority takes to be their suitability on the basis of their relative ability to do their job properly under the Act and produce good programmes.

1123. I fully appreciate that, but is there any reason to believe that you would not get better prices if it was competitive, and at the same time have satisfactory people tendering?—I think that if we could go back to the beginning now in the light of present knowledge we could have secured, had the Authority thought it right, higher rentals. I am pretty well sure I could not have got higher rentals than I did when I was doing these negotiations in 1954 and 1955.

1124. One last question. Is it true that in the case of some of these programme contractors—let us take Scotland, which has been quoted, for which the Post Office gave the figure of £162,000 for a period of roughly six or nine months—would that not in fact mean that their profit was now practically equivalent in any year to the amount that they pay you for the licence?—Their profits are a great deal greater.

1125. Than what they pay you?—Yes.

1126. I am talking about the net profit?—Their net profit is greater.

1127. They are making over 100 per cent. in other words?—Income to expenditure or on their capital?

1128. I am talking about their trading profit?—Yes, over 100 per cent.

Mr. Arbuthnot.

1129. You have told the Committee that there was no question of competitive tendering. You are not suggesting, are you, that the I.T.A. would sacrifice its independence if there had been a

question of competitive tendering?—It would, I think, have seemed to the Authority, given always that the rentals we secure are large enough to discharge our obligations under the Act, to have introduced rather an irrelevant qualification. It would not ever have seemed to the Authority a qualification for entering television that you were prepared to pay more for this privilege than someone else was.

1130. That was not quite the question. You put to the Committee that one of the reasons for the arrangement that you made was that you as an Authority would be in danger of sacrificing your independence which the Act laid down that you ought to hold if you were to associate your financial prosperity with that of the companies. Now, if you go to competitive tender, are you suggesting that that would sacrifice your independence?—No. In saying that, Sir, I only had in mind the earlier suggestion that there might perhaps have been some established relationship between the companies' profits and the Authority's income. It would, for example, have been possible to consider the introduction into the contracts of a profit-sharing scheme, and that was the point I had in mind when saying that I thought it would be a pity for the Authority to get into the position where it could be shown that it itself profited by one rather than another interpretation of the Act itself.

1131. So, from the point of view of losing your independence, there is no reason why you should not enter into competitive tendering now for the future?—In my view, none under that head.

1132. At what figure do you estimate your income ought to be to discharge your statutory obligations?—Through the whole period; perhaps the simplest way of answering, if it is an adequate one, is simply to take the published accounts of the Authority, because—

1133. Sir Robert, you told the Committee that you prepared an estimate of what the figure ought to be for you to discharge the obligations that you had?—Yes.

1134. What was that figure?—It would have to be expressed as a series of figures for separate years, what the Authority needs for year 1, what it needs for year 2, and what it needs for

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year 3. The figure of the Authority's income in these accounts in fact shows what the Authority assumed to be the income it would need in this particular year, and it would be perfectly possible, if it would interest the Committee, to produce a series of figures* each one relating to a series of financial years.

1135. Could we have the figures, first of all, of your estimate of what the figures ought to be for the years in which you have been operating, and also the figures of what the income actually was? It would seem to me that the crucial point came in the autumn of 1956. A contractor who went into television before the autumn of 1956 was going into a very speculative proposition. After the autumn of 1956 he was pretty well on a safe bet. Was there any difference between the contracts which you arranged before the watershed, so to speak, and after it?—There was some difference by and large, but I would not say it was a difference of any great significance. I would not, I think, agree that it was absolutely visible until at least nine months later, if not a year later, that is to say, the autumn of 1957, that Independent Television was going to be extremely profitable. Those who saw the ledgers knew what was happening in the summer of 1956, but it was not generally known.

1136. How would you say profits had increased from the autumn of 1956 until today? What is the sort of rate of increase that has taken place?—The answer is rather confused, of course, by the increasing number of programme companies. I would think that Independent Television in fact came out of the red into the black in about October or November of 1956.

1137. Having paid off their past debts, or not?—Oh, no, having at that time accumulated debts of £7 million, £8 million or £9 million—of that order. Then I would guess—this would not be true of every individual company, but generalising over the system as a whole—that these had been paid off in the summer of 1957, and that in the latter half of 1957 the profits before tax were probably of the order of £5 million or £7 million to £10 million, and I think last year they must have been £20 million. That is roughly speaking.

* Information supplied : not printed.
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Chairman.

1138. Could you tell us the capital involved?—In the programme companies?

1139. Yes, in the programme companies?—I should be guessing if I gave a figure now. It would not exceed £10 million.

Mr. Arbuthnot.

1140. So that is 100 per cent. profit now?—It is more.

1141. Out of which you are not obtaining a substantial share to make available under Section 13 (2) to the Exchequer?—I hope this does not sound pedantic. We do not regard ourselves as having a share in the profits at all, of course. We regard ourselves as having an ample and handsome income, but it is true, as I have perhaps said too often, that there is no contractual relationship between the income of the Authority and the profitability of the companies.

Sir Colin Thornton-Kemsley.

1142. Sir Robert, if you were running this show as a private enterprise concern and not as a public Corporation, would you not have regard, in fixing the rents that you charge the programme contractors, to what the traffic would bear?—Well, if I was thinking of my shareholders, yes, I would.

1143. When these opportunities arise for raising the rents which, as you told the Committee, are built into your present contracts, will you not, in spite of all you have told the Committee, have some regard at any rate to the ability of the programme contractors to pay increased rentals?—You are now looking forward to the 1964 position, Sir, are you?

1144. No, I am looking forward to the opportunities which, as I understand you, are built into the contracts to increase the rentals between now and 1964?—No, that power we have already exercised to the full.

1145. Then, let us look forward to 1964. Do you not anticipate that inevitably you will have some regard, in spite of all you have told us, to the ability to pay?—I would agree at once, Sir. There is one great unknown in the 1964 situation, of course, which is going to have a decisive effect on the calculation

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of the rentals: are we in 1964, if the Act itself is renewed, going to be fixing rentals to be paid into a public Corporation by programme companies enjoying as near a monopoly as not to matter, or are we going to be fixing rentals for two competitive Independent Television services? Now, it is true that even if the Authority doubles rentals, which it cannot do, but even if it did, it would virtually make no impact on the profit pattern of Independent Television. If there were introduced a second service carrying advertising, never mind whether it is the existing B.B.C. service or a new B.B.C. service or quite a third service or a second Independent Television service, if it comes into the field selling advertising time, then this admittedly immense problem which we have been talking about this afternoon vanishes. But I cannot see it vanishing in any other way. If Parliament decides to continue with only one television service selling advertising time, then, of course, we shall face in 1964 not only the existing situation but the existing situation multiplied twice; but not, of course, if there is another service breaking the monopoly by selling advertising.

1146. Of course, between now and 1964, Sir Robert, you will presumably be allocating three more areas?—Yes.

1147. Would you anticipate that your policy which you have announced to the Committee would be modified to any great extent, with regard to the policy of fixing rents, in fixing the rents of those three new areas?—No, Sir, I think we will fix the rentals for those three remaining companies on the same basis as the existing ones, and for the reason I gave, that they are in fact three relatively small areas, the South-West and Wales and the Highlands—well, North-East Scotland. It is my own view that those operations will not in fact stand rentals higher than the existing ones. You see, the trouble is that as you come down in size of programme companies so the rental you pay, even if it is scaled down in relation to your population, becomes a more and more serious factor in your calculations and a larger and larger proportion of your total expenditure.

1148. Let us take one of those areas, for example, the one that I know best,

North-East Scotland, where I personally hope you will be able to give us a service quite soon. Do I really understand that you are not proposing to invite any sort of competition for contractors to bid against each other for the privilege of serving that area?—That is right.

1149. Sir Robert, is it not true that in Section 5, subsection (2), of the Television Act your Authority is required to do all that they can to secure that there is adequate competition to supply programmes?—Yes.

1150. Do you not consider that your omission to secure financial competition from the programme contractors is really inconsistent with your Authority's statutory duty as set out in Section 5 (2) of the Act?—I have never, I must admit, thought, nor, with respect, do I now, that there is any implication in Section 5 (2) that the Authority should take into account in the selection of programme companies what they are prepared to pay the Authority for the right to supply programmes. I have read "competition" in a much wider sense than that. Within the horrible rigidities of only having four channels available and so not being able to have a directly competitive service anywhere, I have read it as meaning that the Authority must try to bring into existence not as few but as many independent programme companies as possible, and that is why, whereas it would have been perfectly possible to conduct this system with one programme company or with possibly two—because, after all, there is only one B.B.C.—or to comply with this requirement to which you draw my attention by appointing, shall be say, three or four, the Authority has in fact appointed ten, of whom eight are transmitting programmes and the others will be at the end of the year, and with three more, as we have been saying, to appoint, will have at any rate managed to bring into existence thirteen independent programme companies, and that has been more our line of thought. Of course, the real trouble is that nobody can make a reality of Section 5 (2) of the Act unless there are directly competitive services in each area. The Section is kind enough to say: "the Authority to do all that they can", but then if you have only enough channels to have one transmitting station and one programme in London, what can you do except think up some dodge like

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our weekday-weekend division, which at any rate manages to inject a little competition into the system.

1151. Would I be wrong, then, in thinking that section 5 (2) would suggest that where you have a new area to allocate you should ensure that there is, and I quote the words of that section again, "adequate competition to supply programmes"?—Yes, Sir, and the interpretation which we would put on that is that when we come to the appointment of a programme company in Aberdeenshire in North-East Scotland or in the South-West we do, in fact, not offer the programme contract to an existing company but advertise for independent applications from new companies, then choosing between them, not on the basis of what they offer financially, but on the basis of what we think they have to offer in terms of good television. Of course, there may well come a point where this policy will exhaust itself economically. There are plainly some areas so small, shall we say the Isle of Man, where an independent television operation would not make ends meet and where a satellite status is the only possible one, but not until, I think, we have found independent services for the South-West and Northern Scotland, where, for example, technically it would be possible simply to extend the service area of Scottish television. But that would be inconsistent with the Authority's policy.

Mr. *Cledwyn Hughes*.

1152. You arrived at your present interpretation of section 13, I presume, shortly after the Authority came into being, and you arrived at that interpretation, as I understand it, on the basis of the opinion of counsel, is that the case?—No, I am sorry, I have misled you. The calculation of the income which the Authority would need involved, of course, an operation in accountancy, not in law. It was necessary to read the requirements of Sections 10 to 14, but I do not think it needs a lawyer to read those. I think they are plain enough. I was trying to say that the Authority coming into existence in 1954, and having to plan the whole system and to draft skeleton contracts with programme companies, found itself in a position in which before offering contracts for signature it had,

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of course, to enter a figure into them. Therefore, while it was not necessary for a programme company, shall we say, to make a ten-year budget and to determine in advance what its income must be, it was so necessary for the Authority. Therefore, all the fundamental financial calculations and the decision in principle not to relate the Authority's income to the profitability of the companies all goes back to 1954, and the fundamental process was then completed, say, in early 1955.

1153. So, am I right in saying that you do not regard it as your duty in any way to relate your policy to any change in the profits of the programme contractors? There has been a phenomenal increase in those profits. Am I right in saying that you do not regard it as your duty to seek to increase your income in relation to the increase in profits of the programme contractors?—I would not quite say that. If the contracts were being revised now in the light of what we know four years later, and if we were also told that we should assume for the purpose of drawing the contracts that the present monopoly of the existing companies was to continue, if all those conditions were to be fulfilled, there would be different figures in the contracts.

1154. You indicated, as I understood it, that you did not think that competition was a desirable thing, the important criterion was that you should be satisfied that the contractors would produce an acceptable programme. Is that correct?—Well, I would not like to accept it in that form. I do not really regard competition as being of any great significance if it is simply competition in length of purse. Competition in another sense of the word I think absolutely vital, and my earnest hope about Independent Television is that one day it will become a great deal more competitive than it can be on the basis of one service. But I am quite clear, and I would not like to leave any doubt in the Committee's mind, Sir, about this, that it would be quite inconsistent with the way in which the Authority has approached its responsibilities to think that the Authority would be affected one way or the other by a financial offer.

1155. Am I right in saying that you said at an early stage that it would be unfair to increase rentals because that

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would discriminate against smaller contractors operating in areas where the population was less and where their profits would be smaller? Is that correct?—I think it would be (a) unfair and (b) I am not at all sure that these smaller companies can in fact bear higher rentals.

1156. What is there against charging a lower rental in cases of that kind and increasing rentals in the case of companies who are operating, for example, in London and Manchester, where there are big populations and where, therefore, their opportunities are greater?—Of course, I suppose the first answer is, it is too late now anyhow. I am not sure that I do not think that the second answer is that I am not sure that the Authority might not find itself in a number of difficulties if it had to give reasons for what would be called discrimination in the fixing of rentals. At present it looks pretty fair that your rentals should be related to your population, because, of course, your income is going to be directly related to your population. If you are in a service area with 2 million people you will in fact have an income twice, other things being equal, that of a programme company with a population of 1 million. I can quite see that there might be a case, in the colourless sense of the word, for discriminatory rentals, but it has not seemed to us as strong as the case for flat rentals.

1157. I would prefer the terms "differential" rentals; where you have a smaller population then the emphasis on public service is increased. Would you not agree?—Yes. There is, of course, to some extent a discrimination in favour of the smaller companies at the moment, because, of course, many of the operational costs of television for the programme companies are the same whether their areas are small or large. A transmitting station which has to be paid for, whether in a rental to us or in any other way, costs about the same whether it is in a big area or in a small area. In fact, we do on the present flat tariff to some extent discriminate against the larger companies in that what they pay us much more greatly exceeds what it would cost them to do it themselves than in the case of a small company, for example, Northern Ireland.

Mr. Pentland.

1158. Sir Robert, I notice you still owe the Exchequer £415,000 for outstanding

capital advances. You did say earlier in reply to a question that one of your concerns was to obtain a handsome income. Is there any reason at all why you do not complete the repayment of this amount out of income?—More quickly?

1159. More quickly, at once?—I am not sure that we are so handsomely placed that we can do it at once. *Prima facie*, I would say there was no reason why the repayment should not be speeded up. I am not sure that I see any strong reason for speeding it up. It is a loan, of course, which is earning interest.

1160. But in view of this handsome income do you not think it should be speeded up? Would you not agree?—I would not like to say without working out the calculation with some care.

1161. On the Balance Sheet on page 28 I see that you have created a reserve fund of £250,000?—Yes.

1162. Here again you did say at an earlier stage that it was anticipated by 1964 that you would have a £3 million reserve fund. Is that the target?—Yes, it is an approximate target. The reserve fund is only part of the Authority's reserves. There is a specific statutory requirement under the Act for the creation of something called a Reserve Fund—capital "R" and "F"—as against ordinary reserves. I would not like to say what the distribution of the Authority's accumulated surplus at that stage would be between the reserve fund and provision for future capital expenditure outside the reserve fund, but that, I would hope, would be the overall reserve available.

1163. £3 million?—By the end of the Authority's life.

1164. May I come back to the question I put before Sir Robert entered the room to Sir Gordon, and it may be more clear now. Could you tell us, Sir Gordon, if the Postmaster General has given any directions at all about the establishment and management of this reserve fund?—(Sir Gordon Radley.) I think I see more clearly what you mean now, Sir. If I might perhaps go over the ground a little fully, for the years 1955-56 and 1956-57 the profits made by the Authority, after providing for loan redemption and tax equalisation, and so on, were required substantially wholly for capital purposes, that is, for the building of new stations. This question

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did not arise until the year of account 1957-58, when there was—I quoted the figure earlier—a surplus of about £850,000. We considered this, and the Postmaster General, after consulting with the Treasury, directed that £250,000 of that should go towards the starting of a reserve fund. We agreed that the I.T.A. should put £470,000 to capital expenditure reserve. Now, next year the problem will probably be greater. We shall have to consider then to what extent we agree with the Authority that they should build up their reserve fund, what should be the limit of it, whether it should be £½ million, £1 million or whatever figure, and after that whether we should invite the Authority to repay the loan before 1964 or cream off some of the excess under Section 13 (2). Have I been sufficiently clear?

1165. Yes, thank you. One last question, Sir Robert: is there any reason at all why the I.T.A. should not make provision on a much bigger scale than it is at the present time to the capital cost of future development?—(Sir Robert Fraser.) The only answer to that is that it is not possible because it is not any longer possible for the Authority to influence its income significantly between now and 1964, or, of course, its expenditure.

Mr. Hoy.

1166. You have so tied your hands that there is nothing you can do until 1964 even if you wanted to; you have no freedom of operation. Is that what you are saying?—We have signed contracts which do not give us the kind of freedom you have in mind. (Sir Gordon Radley.) Might I supplement, Sir, what Sir Robert has said by saying that the fact that the Authority may in future be faced with quite large additional expenditure, either for colour or for additional programmes and so on, has been a very big factor that we have had to take into consideration when we have thought about inviting them to repay the outstanding loan or the building up of a capital reserve?

Chairman.

1167. Sir Robert, might I ask you what is the capital of the television companies?—(Sir Robert Fraser.) I made a guess a little while ago; let me think it out again.

1168. In round figures?—We think it might be of the order of £15 million at the moment, but I am bound to point out to you that significant parts of that consist of capital, as it were, recently created out of profits.

1169. I am concerned with the actual capital. How much was subscribed originally in round figures?—Subscribed originally, about £8 million, we would think.

1170. So they have paid off all the losses they have incurred and have increased their capital by about £7 million?—Yes, by about £7 million.

Chairman.] I am not sure whether I heard you correctly, but did I understand you to say that in 1957 they made a profit of about 100 per cent.? Is that correct, or was it more? Two figures have floated about. There was a £30 million profit?

Mr. Hannan.] I wonder if I would be in order here in saying, as estimates of various figures have been given here right from the very beginning of our meeting, would it be right to ask Sir Robert to provide a note* to give us some information on most of these questions that are merely being estimated?

Chairman.

1171. Yes, we will have that. We can ask for any information that the Authority possesses?—The figures are all actually published, Sir, of course.

1172. We will decide what we want. At any rate, approximately £15 million. Did I understand you to say that they made a profit of about 100 per cent. in 1957?—I may prove wrong when we go into these figures, but for the moment I would say that was about right.†

1173. What did they make in 1958?—Perhaps 130 per cent.

1174. So it is going up. Is there any estimate of what they are going to make in 1959?—It would not surprise me if the figures were about the same, only because I do not myself foresee a very large increase in advertising expenditure this year over last year, and I am afraid in this situation one of the worst things that is happening is that costs are absolutely galloping upwards the whole time.

* Information supplied: not printed.

† Note by Witness: The true figure (trading profit in relation to funds employed) was about 65 per cent.

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[Continued.]

1175. Now, you have certain fresh lettings—three, I think, or is it more—and you say you are not prepared to offer those by competition?—Well, they are offered by competition, Sir, in the sense that when the Authority opens in a new service area it advertises for applications to supply programmes, and then, of course, allows time for these applications to come in, and considers these applications competitively, and chooses and offers the contract to the applicant which in its view is most suitable. It is competitive in that sense as it would not be competitive, for example, supposing we offered North-East Scotland to Scottish Television, but it is not competitive in the sense that we asked for competitive tenders, that is to say, competitive offers of income.

1176. That I am fully aware of. Now, it is perfectly true that the areas which you have are not likely to be anything like so profitable as the areas you have already let, but if it is for you to choose which of the groups you select it puts an immense power of patronage into your hands?—Well, Sir, of course, indeed, if that is the right word to use.

1177. Is it not the right word to use?—It is a word which, I think, has perhaps certain historical associations which the Authority would only accept restlessly. As I explained, Sir, when we were on this point two years ago, it is undoubtedly an essential part of this system that the Authority has immense power to decide not only who shall come into television but who shall in fact stay out. It is a selective process. All one can say is that it is a job which some governing agency, in this case the Authority, has to do in every country in which broadcasting exists, because in every country there are more people anxious to come into the operation than there is room for because of the limitation of frequencies. It is not possible to have ten television transmitting stations in London at the moment, it is only possible to have one. So there must be some process of selection. Now, it seems to me that there can be only two criteria one applies to selection, either suitability or length of purse, and the Authority has thought that suitability is the right one.

1178. They are not necessarily exclusive, are they?—No, I see that they are not necessarily exclusive.

1179. Then, if they are not exclusive, why use only one basis?—And choose the lowest tenderer if thought the most suitable?

1180. Yes, to weigh one against the other. When you have got two criteria you can surely weigh one against the other? At the present moment you are excluding entirely the question of revenue. That, it seems to me, is as indefensible as entirely excluding the quality of the tenderer?—Well, the Authority has not really, I suppose, seen itself as a trading corporation with something to sell. It has seen itself as an executive public corporation responsible for the provision of a television service, and therefore, overwhelmingly concerned with the suitability of those with whom it was making contracts for the supply of programmes.

Mr. Hoy.

1181. And the contents of the programmes?—Well, that is what I meant by "suitability". When we build a television transmitting station we build it by competitive tender.

Chairman.

1182. In view of the profit figures you have given us, I find it difficult to understand, I must say, why you do not take the view that you are entitled to charge what the traffic will bear. Why should you give a contract which will mean a profit of infinitely more than is the normal profit in industry?—Well, it is done now.

1183. Yes, but I am talking about the contracts which are not done. If you have tied yourself up for six or eight years, you have tied yourself up, but there are at least three contracts yet to be given?—Well, for more nearly four years, really.

1184. They have been going some time?—Yes.

Mr. Hoy.

1185. On the programmes, when you talk about there being other programmes now, there is not any real competition in that sense, I think you would agree, because even if you were giving a new contractor a licence, say, for the North-East of Scotland, he would in fact just be showing on the television screen the old films that are retailed to Scottish television from contractors south of the Border, would he not?—Well, you are

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[Continued.]

really saying that a regional television company cannot produce 60 hours of programme a week itself, and indeed it cannot.

1186. No, you must not put that question that way. I think that the regional contractors could produce a lot more than they are producing, and so you must not twist the question around. All I am saying is that I think they could produce a lot more and not content themselves with sending through the same old cowboy films that, quite frankly, had they been under the Insurance Act would have been retired when they got to seventy years of age, they would not have been fit for further exhibition or for work. The same with children's programmes, the same old films are being trundled out and shown all over the country, and not for the first time, either?—I misunderstood the question. I still do not follow it. I cannot see that the system is more or less competitive according to whether a regional company enjoying a monopoly in its own area produces all its own programmes or 20 per cent. of them and imports the remaining 80 per cent. It still does not seem to me to be a competitive system.

1187. No, it is you who are saying they are competitive programmes and I am saying they are nothing of the kind?—You know, I did not say that they were competitive programmes. I said there was competition to become programme companies. It is my complaint about the existing system that the elements of competition in it are so slight, but nothing can be done to make them greater except direct competition between two programme companies in the same place.

Mr. Chetwynd.

1188-9. I was going to ask on that point: is it not the fact that the only way you can get competition on a commercial basis between two commercials as against one commercial and the B.B.C. is to have another channel?—Yes.

Mr. Chetwynd.] On page 18 of your Report you are talking about British matter in programmes, and I regard this as a very important part of your responsibilities, to ensure that an adequate amount of British music, for instance, is

played in your recorded programmes. Could you tell the Committee what is the dollar expenditure on royalties that go from here over to America?

Chairman.] You are referring now to I.T.A.?

Mr. Chetwynd.

1190. Yes?—It is a two-way traffic, but there are more dollars which go out of this country.

1191. Referable to music, we spend more dollars in America than come in?—Yes. That would not be true of all programmes.

1192. Music particularly, I am thinking of?—That would not be true of the expenditure as a whole by any means, and I am afraid I do not have the figure available.

1193. As far as you are concerned as an Authority, do you do your best to encourage British music?—Yes.

Mr. Hannan.

1194. Would the natural break clause not come up for review until 1964 either?—Parliament is the master. It would be perfectly possible, of course, to amend the Television Act if Parliament so chose and to change the actual wording of paragraph 1—or is it paragraph 2—of the Second Schedule.

1195. Is it a fair question to ask you, Sir Robert, to put an estimate as to the financial cost to the contractors if that were so advised?—I do not think it is possible to give a reply. It could very well make extremely little difference, because if it were a prohibition that there must be no advertising in natural breaks there would be a natural tendency for the advertising to go elsewhere, and although many of us think that that would produce less attractive programmes with the advertising more concentrated, it does not necessarily follow that it would have any immediate effect on income at all, in my view. In fact, I do not think there is any effective line of approach to the income of Independent Television by trying to ration advertising. We shall be stuck with this problem until there are two programme companies in each area selling advertising, and then we are all right.

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[Continued.]

Mr. *Hoy*.] No, what we are suggesting was that you might get a little more of it, and under Section 13, subsection (2), you might use the Act to pay something in to the Exchequer.

Mr. *Hannan*.

1196. That is principally what we have been trying to put. If it is not to be done on the income side, by greater observation of Section 13, then what indeed about limiting advertisements to, say, six minutes or four minutes in the hour? Could something of that kind be done, or do you still answer that nothing can be done until 1964 or the institution of another Authority? Is that your answer?—No, that is not the case so far as the actual quantity of the advertising is concerned. At the moment the quantity of advertising is limited to an average of six minutes in the hour, and in fact it does average about 20 to 25 per cent. less than that. The advertising comes to about 4½ minutes in the hour. But it does not necessarily follow, Sir, that a

reduction even in the amount of advertising is going to bring about a reduction in income, because directly there is less advertising to sell the price of the advertising will rise. If I may say so, with respect, I do not think that the central problem of Independent Television can be attacked along the line of advertising controls. If they are necessary, they are necessary on some other ground. (Sir *Gordon Radley*.) Might I add, Sir, that there is no necessity in any case to wait until 1964 if one was quite clear what should be done, because in Section 4 (4) the Act says: "After consultation with the Authority the Postmaster-General may make regulations by statutory instrument amending, repealing, or adding to the provisions of the Schedule."

Mr. *Hoy*.] And you will be giving that great thought?

Chairman.

1197. The Schedule refers to advertising?—The Second Schedule, "Rules as to Advertisements."

THURSDAY, 12TH MARCH, 1959.

Members present:

Sir George Benson, in the Chair.

Mr. Chetwynd.
Mr. John Hall.
Mr. Hoy.
Mr. Clédwyn Hughes.

Mr. Stevens.
Mr. Thornton.
Sir Colin Thornton-Kemsley.

Sir EDMUND COMPTON, K.B.E., C.B., and Mr. J. MACPHERSON called in and examined.

TREASURY MINUTE ON PARAGRAPHS 12-16 OF THE THIRD REPORT ON THE COMMITTEE OF PUBLIC ACCOUNTS, 1957-58.

Sir FRANK LEE, G.C.M.G., K.C.B., Permanent Secretary, Board of Trade, called in and examined.

Chairman.

1198. Will Members turn to the Treasury Minute on paragraphs 12-16 of the Third Report? Mr. Macpherson, when do you expect the amending legislation that is referred to to be introduced?—(Mr. Macpherson.) I hesitate to make a firm forecast now, Sir. The more we have gone into this problem the more apparent it is that there are some pretty complex aspects of it. What I prefer to say is that it might be this Session, but I think much more likely next Session.

1199. Do you mean in the autumn?—Yes, but it is something that we, with the Board of Trade, have been examining.

1200. What period will the first account cover?—I do not think we have taken it as far as that.

Chairman.] You have not thought about that.

Mr. Stevens.

1201. Is there any authority, Sir Frank, for investing not merely in Treasury bills and long-term Government securities, but in equities?—(Sir Frank Lee.) The relevant legislation, I think, says "Government securities".

1202. Experience, certainly of recent years, would indicate that, had investment been in equities and not in long-term Government securities, these heavy capital losses would have been avoided, would it not?—Certainly, in our experience of recent years that would have been so. In the experience of certain others it might have been the other way. You are raising a very wide issue, are you not?

Mr. Stevens.] Oh, I agree.

CIVIL APPROPRIATION ACCOUNTS (CLASSES VI-X) 1957-58.

CLASS VI.

VOTE 1.

BOARD OF TRADE.

Chairman.

1203. Will Members turn to the Civil Appropriation Accounts, Classes VI-X, to page vii, paragraphs 9-11 of the Comptroller and Auditor General's Report, Empire Cotton Growing Corporation? Sir Frank, why was this assistance granted by the rather unusual method of of a capital sum?—(Sir Frank Lee.) I think that the answer is that when this

was done in 1921 there was a capital sum available. It did not have to be raised by taxation. There was a sum which had come as the result of the United Kingdom share of the profits from the combined United Kingdom-Egyptian arrangement for selling cotton in the First World War; and this capital sum was hypothecated for this worthy purpose.

12 March, 1959.]

SIR FRANK LEE, G.C.M.G., K.C.B.

[Continued.]

1204. Your latest contribution is £5,000 per annum now as against an original £100,000?—That is the latest contribution of the United Kingdom cotton industry, yes.

1205. What exactly does that imply?—I think it implies two things. The first is that the United Kingdom cotton industry's requirements of cotton have fallen very substantially indeed, with the regrettable decline of the industry since 1921. The industry uses now about one-third of the cotton which it used in 1921, and meanwhile world production of cotton has increased, and the number of places where cotton suitable for Lancashire spinners is produced has also increased. There is no longer what was thought in 1921 to be an excessive dependence on United States sources of supply. Therefore, there is less anxiety in the Lancashire industry both about the overall availability of cotton and the excessive dependence on the United States. I think that a second argument is that with the unfortunate contraction of the cotton industry, the Cotton Board itself has certain anxieties about its income. The compulsory levies which sustain the Cotton Board are, understandably, not popular in an industry facing difficulties, and insofar as their levies are geared to production, the Cotton Board's income and resources tend to become straitened.

1206. Mr. Macpherson, this assistance granted in the form of the yield of a capital sum is a most unusual method of assistance. Is it not desirable, now that the assistance has been reduced so much, that you might consider an annual grant instead of the interest on a capital sum?—(Mr. Macpherson.) I agree, Sir, it is a very unusual arrangement, but, as Sir Frank has said, it arose in rather fortuitous circumstances in that this capital sum was available at the time. We and the Board are both conscious of the need to review these arrangements, and, in fact, some consideration has been given to them. It is true to say that the work the Corporation is doing is much more in the Colonial Office field than it is in the Board of Trade field.

1207. Yes; I am not concerned at the moment with the question which Department is responsible so much as the way in which it is financed?—One of the considerations in this review would be whether we ought

to go on to a more usual form of assistance.

1208. On to an annual grant?—Yes.

1209. Is this present arrangement unique?—I know of no other similar, Sir, but that is speaking off the cuff; I have not checked it up.

Chairman.] I cannot remember any coming before us.

Mr. John Hall.

1210. I am a little puzzled as to whether or not there is a continuing need for this particular Corporation. I rather gathered, from what has been said so far, that the circumstances have changed very considerably and, therefore, the importance of the work of this Corporation is by no means as great as it was; although the Board of Trade, I see, did express the view when they were asked about this that there was still some purpose in the Corporation continuing in existence. What I would like to ask is whether or not it is thought that there is a useful purpose to be served by the continuance of this Corporation?—(Sir Frank Lee.) I think that the objects of the Charter of the Corporation are as stated in the Charter, "to promote the production of cotton within Our Dominions", and "The Corporation is established and incorporated with the object of extending and promoting in the interests of Our Empire the growing and cultivation of cotton in Our Dominions, Colonies", etcetera. Now, I think from the standpoint of the Colonial Office the work which the Corporation does in the eight Territories in which it functions, (seven of them Colonies and the Sudan), is of very considerable value in supplementing the work on cotton of the local Departments of Agriculture; and therefore it could be said that this basic objective of extending and promoting the growing and cultivation of cotton in the Dominions and Protectorates is still a good thing, a useful thing, which should not be truncated. If you ask me whether, from the standpoint of the Board of Trade, if one can make that distinction, and from the standpoint, perhaps, of Lancashire, it is as necessary to do this as it was in 1921, I think that my answer would be more qualified. But it is only from that narrow—if you like, parochial—standpoint that I would give you the parochial answer.

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[Continued.]

1211. I am interested to hear you say that, because at the beginning of Paragraph 11 the Comptroller and Auditor-General says that the Colonial Office came to the conclusion that the original purpose of the scheme had been largely fulfilled?—I do not want to take refuge in bandying phrases. It is a question to my mind as to whether there is a distinction between saying that the original purpose for making the grant has been fulfilled and saying that it is still desirable to extend and promote the growing and cultivation of cotton. But I would say this, that in the review to which Mr. Macpherson has referred and which I have asked should take place immediately rather than be left until 1960—I had a discussion with the Colonial Office on this earlier in the week—obviously the Colonial Office will have to consider whether, from their standpoint, this work is of such importance (despite the statement which they made cautiously or incautiously in 1957 to which you have referred), that there is a case for a continuing contribution from public money in the form of an endowment or by way of voted grants.

1212. If I understand the paragraph correctly, when it is decided that there is no further purpose in keeping this alive, then, presumably, the Board will be entitled to reclaim the grants. Is that right?—We shall be entitled to reclaim the grant, certainly. We are, I think, technically, entitled to claim the grant back now; in fact, we have been so entitled, I think, ever since the initial voluntary levy was replaced by a compulsory levy in 1923. We have had a technical right but a right that we have never thought it proper to endeavour to exercise.

Mr. Chetwynd.

1213. May I ask about the expenditure of this Corporation last year? Could you tell me how much was spent, say, in Antigua and the West Indian Islands, where I gather this is probably a greater problem than in Africa?—I can tell you that from their accounts, for which, of course, I have no responsibility. The cost of specialist staff in the West Indies in 1957-58 was £1,777.

1214. Was that the total expenditure by the Corporation in the West Indies?—Yes, as I understand it.

1215. Is there anything that this body can do, for example, that the Colonial Development and Welfare Corporation cannot do?—This body has to act within the ambit of the Charter; the Colonial Development Corporation has to act within the statutory limits setting it up. I have not made any comparison between the two bodies. I should imagine that probably this Corporation can do direct expenditure on research, and, of course, it has its own nucleus of staff, its own research station. As I understand the Colonial Development Corporation, it does not function in that way.

1216. This seems a roundabout way of doing something which is a normal function of Colonial development?—Yes. It is, perhaps, a curious survival supplementing, as I said earlier, the ordinary work of Colonial development in agriculture.

Mr. Hoy.

1217. Sir Frank, is the Corporation limited to spending the interest on the capital, or can it spend the capital as well?—No, it cannot spend the capital. That is provided for in the Charter itself, and in the original agreement with us. It is under an obligation to keep the capital intact.

1218. Who is on the Board of Trustees of this Cotton Corporation?—It is almost like the Board of Trade itself, which, as you know, contains the Speaker, the Archbishop of Canterbury and the Speaker of the Northern Ireland Parliament.

Chairman.] All the experts!

Mr. Hoy.

1219. The Cotton Board does?—No, I was saying that this is like the Board of Trade. The Trustees include the President of the Board of Trade, the Colonial Secretary, the Foreign Secretary and, I think, two officials, one from the Board of Trade and one from the Colonial Office.

1220. Do they ever meet?—Not in recently recorded history, at any rate so far as Ministers are concerned.

1221. Who looks after the money?—There is an administrative council on which many worthy Lancastrians sit, and this council looks after the money. There is a special body that looks after the investments on which we have a representative; there is the

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Sir FRANK LEE, G.C.M.G., K.C.B.

[Continued.]

executive committee and a staff committee. I am sorry, I ought to have said that the President of the Council is the Rt. Hon. the Earl of Derby.

Sir Colin Thornton-Kemsley.

1222. Sir Frank, you decided in 1923, according to paragraph 10 of the Comptroller and Auditor-General's Report, not to withdraw the grant so long as the proceeds of the levy continued to be paid to the Corporation. Why did you not withdraw it when the levy fell from £100,000 a year to the contemplated nominal sum of £5,000 a year?—First of all, if I might just take a point on your last sentence, it did not fall to the sum, which you call "nominal", of £5,000 a year until 1958. It was fluctuating but in excess of that in earlier years. It was £15,000 in 1957, £32,000 for five years before that and £18,000 in 1949, 1950 and 1951. I think the general answer to your question is that we had the technical right to withdraw the grant once the levy was no longer a voluntary one, but we felt, for the reason that this body was doing good work in accordance with the provisions of the Charter which I read out, that we ought not to withdraw it on technical grounds related to the levy. We, perhaps, gave much more attention to a clause in the agreement which said that we would have the right to withdraw the money if the objects for which the Corporation was established should have substantially ceased to exist. Now, from one point of view you can argue in relation to what was said by the Colonial Office and what is reported in the first sentence of paragraph 11, to which reference has already been made, that that state of affairs has been reached. On the other hand, you can argue that, insofar as the broad purpose of this Corporation is to promote the growing of cotton within the Commonwealth, that object has not ceased to exist.

1223. To what extent would it be true to say that the objects of the Corporation in respect of which financial assistance was required have ceased now to exist?—I think that the argument would be this, that at the moment the income on this capital is about £63,000 a year, which is about one-third of the Corporation's resources. It gets about £115,000 a year from other Government grants—mostly from Colonial Governments—and £5,000 a year from the Cotton Board. Now, I

think that to withdraw the capital sum and, therefore, to condemn it to have no income instead of £63,000 would probably cripple or so gravely impair the work of this Corporation that I think that you would probably be bringing its work to a standstill.

1224. If the Corporation still deserves financial support but for different objects would it not be wrong to give that support by maintaining the original capital grant?—May I say this: I feel that in the review which we are going to make there are various courses we could consider. One is that, broadly speaking, we should say: "The United Kingdom Exchequer need not assist this at all. We can regard this as a finite operation which has indeed done very good work, but you draw a line at some point." Another possibility would be to say: "This sum, the £979,000, should be voted by the Colonial Office as an endowment and, as it were, be repaid to the Board of Trade," and close one chapter that way. You might pass it through Parliament as an endowment for which the Colonial Office would be responsible. I suppose a third possibility would be for the Board of Trade to withdraw the grant, but for Parliament to vote annual grants for the maintenance of this body equivalent to about £60,000, or whatever sum might be thought appropriate.

1225. And all those possible developments will be reviewed in the review which you have brought forward from 1960 to the present time?—Yes, indeed.

1226. What was the original significance of the date of July, 1960?—I believe that it had no real logical significance, except that I think that was a possible date contemplated for the independence of Nigeria. This would be yet another anomalous element in this curious picture, and I think that that date was selected for that purpose. It is because I can see no logical grounds for selecting July, 1960, that I have, with the agreement of the Colonial Office, brought the examination forward to the present time.

Mr. Thornton.

1227. You said earlier, Sir Frank, that the Colonial Governments' contributions were about double that represented by the interest on this capital sum. Has the trend of Colonial Governments' contributions in recent years been up or down?—It has been increasing.

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1228. Would it be true to say that this £60,000 annual income represents a smaller proportion of the Association's finances than it did, say, ten or twenty years ago?—That would depend on two things; that would depend on the size of the contributions from the Governments supporting it, and it would also, of course, depend on the yield on the securities making up the capital sum. I am afraid that I have not got an analysis of past years with me. I could tell you that the contribution from Colonial Governments has shown, in the last three years, say, a very substantial increase; for instance, the contribution of the Government of Uganda went up from £27,700 in 1957 to £53,000 in the following year, and that from the Government of Nigeria from £9,000 in 1957 to £24,000 in the next year. In 1957 income from interest and dividends was about £62,300 out of a total of £137,000. It is now, as I said, £63,800 out of a total of £184,200. So, taking that two-year period, your point is completely valid.

1229. What, in the main, is the income of the Corporation spent on?—It is spent on the maintenance of a large research station in Uganda at a place called Namulonge, and it is spent on specialist staff in seven other territories, plus relatively small expenditure on overheads, passages, pensions, and that sort of thing.

1230. I do not think that there can be any doubt but that this body has done remarkable work?—I think it has done extraordinarily fine work.

1231. But in recent years it has been more to the advantage of Colonial territories than to the Lancashire industry?—Yes, I think that that is so.

1232. At the end of paragraph 9 reference is made to the decline in the Cotton Board's contribution from £32,000 to £15,000, and then recently to £5,000. Would you say that that was a measure of the Cotton Board's growing financial difficulties, or a measure of the decline in interest?—I think it is both. Which has been the predominant element, I would not be quite sure; but I would have thought, probably, the growing financial anxieties of the Cotton Board since there is no doubt in the Cotton Board of the value of the Corporation's work and if they had the

resources I think that they would have been glad to have kept their subventions up to a higher figure.

1233. There are two Empire cotton Associations and I usually manage to get them mixed up?—So do I.

1234. But I have an idea that this is the body in which firms in the industry and trade unions were asked to take out shares in the immediate post-World War I period. Is that the organisation?—I do not think so. I think that you must be referring, as I so often refer in error, to a body called the British Cotton Growing Association.

1235. That is quite right. I usually get them mixed up. Has the Corporation power to restrict growth?—None.

1236. None whatever?—None whatever.

Mr. *Cledwyn Hughes*.

1237. Sir Frank, why was the Board of Trade originally made responsible, rather than the Colonial Office?—I do not think that I can answer you categorically. I was at school at the relevant time, but I think largely because the element of interest and concern really came from Lancashire at that time rather than from the Colonies themselves. As I understand it, there was concern about the overall availability of cotton, and concern at what was thought to be the preponderance of our supplies which had to be imported from the United States. Therefore, I think the real element of concern at the time came from Lancashire, and it was appropriate that the Board of Trade and not the Colonial Office should be in the lead and have the responsibility for this.

1238. Would you say that at the present time the Colonial Office is the Department most interested?—Yes, I would, certainly. There will be a certain complication there when Nigeria becomes independent. There is already a complication insofar as the Corporation spends money in the Sudan, which is independent.

1239. Would it not be more appropriate to withdraw the grant and replace it, if necessary, by a grant from the Colonial Office Vote?—I have already said that that is one of the courses that we shall want to consider in a review. I do not want necessarily to

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prejudice the review, but certainly my answer would be that I think it would be appropriate (a) that the Board of Trade should no longer continue to have direct financial responsibility in this field and (b) that in some more appropriate way the Exchequer should continue a measure of assistance for the work of this Corporation. (Mr. Macpherson.) May I say, Sir, we have regarded this arrangement since 1957 as purely an interim one pending the review, because we feel with Sir Frank that we need to turn a fresh eye, not only on the activities of the Corporation, but on the way any contribution by Her Majesty's Government is made to it. (Sir Frank Lee.) Perhaps I should just add one thing: In this review, if we make changes on the lines that Mr. Macpherson and I have been indicating, there will have to be a complete revision of the Charter of the Corporation which is framed entirely, as it were, in the circumstances and the context of 1921. Reviewing a Charter is, no doubt,

rather a tedious matter, but I see no reason why that should hold us up once we are clear on the given policy.

Chairman.

1240. When will your review be completed?—I should hope, within the next six months; before the summer.

1241. Will the Committee be informed of the result?—Certainly, if that would be its desire. I think that what will happen is that at official level we shall have to make up our minds with the Treasury and the other Departments what we think should be done and we will have to put that to Ministers. If we make a change on the lines which I indicated as possible that will have to go before Parliament and then the necessary funds will have to be voted. If the Committee would like to be informed separately, I can arrange for that to be done in due course.

1242. If you think it necessary or desirable?—Certainly.

VOTE 2.

BOARD OF TRADE (ASSISTANCE TO INDUSTRY AND TRADING SERVICES).

Chairman.

1243. Will Members now turn to Paragraphs 12-16 of the Comptroller and Auditor General's Report, Assistance to the Motor Car Industry? Sir Frank, to what extent do you consider motor car racing is an advantage to and an advertisement for our motor industry?—I think that it is a very substantial advantage from three broad standpoints. The first, and perhaps least important, though not noticeably, is that we have got a certain export trade in some of these racing cars. Two firms in particular, making the smaller racing cars, Cooper's and Lotus, have sold overseas a quite substantial proportion of their output.

1244. Take, for instance, paragraph 15, where the Comptroller and Auditor General says fifty cars were sold in this country?—Yes.

1245. How many cars of that make were sold abroad, have you any idea?—I can only, I am afraid, if you will forgive me, give you the 1958 figures for the company in question.

* * * * *

1248. You allowed the industry the large sum of about £50,000 for selling — cars abroad, is that it?—I was only at the beginning of my exposition, if you will forgive me. I was making three main points, and the first was that there was a not inconsiderable export trade in these cars themselves. The second main point relates to the prestige which, I think, undoubtedly British cars in general get from international successes in car racing. This is not by any means a negligible factor in, for instance, the quite remarkable success of our car exports in the United States. For instance the Jaguar successes at Le Mans and elsewhere do, I think, have a direct effect on American opinion. I was shocked to read only recently, as a lover of baseball, that more people watch motor racing in the United States than watch baseball. I do not say that it is an absolutely irrefragable deduction, but I do think that there is a connection. Thirdly, there is the direct lesson that can be learned from the testing of these cars under racing conditions in relation to components and parts of cars. I think

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that it is generally accepted in the industry that independent front wheel suspension and disc brakes both really came from lessons learned on the racing track. The development of using ordinary commercial fuel in very high compression engines, which is now being done very much more extensively than it used to be, also, I think, has a very real effect on the consumption and fuel arrangements of the ordinary car. Finally, a racing car is not, of course, an ordinary car. It does not carry passengers on the road, and I think that almost from the start of paying purchase tax on motor cars it was thought it was accidental that this tax applied to racing cars. In essence what has happened ever since 1950 is that the Chancellor decided that purchase tax should not apply to racing cars, but that he has not been able to ensure that in the ordinary way—which would be to take racing cars out of the range of purchase tax. This is because the Customs have been unable to find a watertight definition of a racing car for that purpose. Therefore, we have had to adopt the somewhat roundabout way of a refund of tax for racing cars, which if it had been possible to do it simply by exempting such cars from purchase tax, would have been done that way.

1249. You referred to Jaguar cars, but the main beneficiaries were a different firm?—Yes. I was only referring to the Jaguar car as a car our export of which to the United States has been very successful, and which has been helped by the prestige attached to our success in motor car racing, including Jaguar successes; but Jaguars do not make this type of racing car at all, and they have not therefore been part of this scheme at all.

1250. Why should it, therefore, help the sale of Jaguars in America if other cars are successful?—I am only using it as an illustration. The Jaguars, of course, are raced as Jaguar cars, but are not raced as racing cars. I was trying to make, and I still think that it was completely valid, the general point that the prestige of British cars in motor racing has, as I think, a very real effect on the ability of the industry to sell cars abroad.

1251. Even the mass production cars, which comprise by far the largest of our exports?—Well, obviously I could not

prove that the sale of the small mass-produced car in, say, the United States, is as influenced, if indeed it is influenced at all, by prestige from motor racing as is the sale of cars like the Jaguar or the M.G. or the Lotus sports cars, which, although not racing cars, may have directly evolved, as the Lotus have, from a racing car, or to which, at any rate, shall I say, the prestige of speed attaches, and which have got a very great appeal for youth in the United States as in other countries.

1252. But do you not think that the connection between the few racing cars we make and export and the great mass of the mass-production cars that we export is rather tenuous?—I do not think so. I think, with respect, that these prestige factors have a great effect, and particularly in certain markets. I would not want to say that the dour Swede—I do not necessarily want to criticise the Swedes—would be as influenced as somewhat more mercurial nations like the Americans, but just as I think that the prestige of Scotch sells Scotch whisky in competition with other quite delectable drinks like bourbon and rye, so I think that prestige helps to sell our cars in the United States.

Mr. *Chetwynd*.] But you do not take tax off Scotch at home, do you?

Mr. *Stevens*.

1253. You did say, quite correctly, that Jaguars, of course, do not make racing cars?—No.

1254. Yet, in point of fact, they have had many successes at Le Mans with sports cars. Now, I see, according to the last sentence but one of paragraph 12, that the tax refund is in respect of cars "fulfilling certain conditions as to construction and intended use." Could that not be applied to the Jaguars, which are, in fact, specifically prepared for the Le Mans race?—I am afraid that I do not know enough about the degree of speciality, if I can use those words, which has to be applied to the Jaguar cars which are raced at Le Mans, but I think that my answer to you is that they are much closer to the ordinary car and could be driven on the roads—with some adaptations—as ordinary cars, whereas the cars made in accordance with the accepted international formulae are really quite different animals. These cars are quite definitely racing cars, and

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can never be mistaken for anything else. It is because they are different animals that it has not been thought appropriate to subject them to purchase tax.

1255. As intended use is one of the fundamental conditions, the purchase tax rebate could be applied to specific cars, could it not? In other words, those intended for the Le Mans race?— I do not think that those Jaguar cars have just got that finite purpose and no other. I imagine Jaguar could sell those cars that are raced at Le Mans to the ordinary owner, and then there would be the complication of pursuing the tax with him.

1256. I do so agree with what you say about prestige value, and I was going to ask you if you are familiar with the Vanwall motor car?—Yes, I am.

1257. And if you are aware that no Vanwall car has been sold for export?—I did not know that.

1258. Arising out of that, would you none the less agree that the Vanwall Grand Prix successes have helped to sell not only Jaguars but also Morris Minors?—I would agree.

Sir Colin Thornton-Kemsley.

1259. Sir Frank, has it ever been suggested that the assistance might be provided to the motor racing industry by provision of help for the establishment of a first-class racing circuit in this country?—I think that there have been proposals that the Government over a period of years should help in establishing that, or in improving Silverstone, or other places. I do not think that it has ever been specifically put forward, and certainly never specifically put forward to the Board of Trade, as a substitute for this scheme. Indeed, in the last two or three years I have not heard of any such proposals being seriously canvassed in the industry.

Mr. Hoy.

1260. Sir Frank, who gets the subsidy, is it the manufacturer or the purchaser?—The tax of course is collected from the manufacturer at what is called the wholesale point, so to the extent that he can sell a car which perhaps he would not otherwise sell, he gets an advantage. The racing motorist who buys a car from him buys it so much more cheaply, of course.

1261. Is the theory of all this that if they can cut this tax off, it will encourage more amateur motorists to go in for motor racing; is that the idea behind it?—I think that the theory, if you like to call it so, is that first of all these are, as I say, very specialised animals which should not be subject to purchase tax. Secondly, if purchase tax is levied on them—incidentally, of course, it is 60 per cent., a very high rate—less of these cars will be built and will be bought. These cars, as I say, are specialised animals. They can presumably have an accident on the track the first day they are on it. If I take a specimen Formula I car, the wholesale value would be about £6,250, the purchase tax payable on which would be about £3,750. I only mention those figures as an illustration of the disincentive, as I think, that would operate if purchase tax had to be levied.

1262. Would it not come into the Rolls-Royce class for taxation, where it starts to go down as the price goes up?—I am not sure that I follow that.

1263. I thought there was a special rate for a large, more expensive car. Is that right?—I do not think so. I think that it is a standard rate of 60 per cent. I have no experience of buying Rolls-Royces.

1264. Could I ask you this about the racing of these cars: is it a fact that most of these honours which are won overseas on the courses are won by teams run by commercial enterprises? I am not seeking to quarrel about it, I want to know if it is the fact. I know at Le Mans it was done by a private stable, David Murray's, but in the main I should have thought they were sponsored by businesses. Is that true or not?—It varies. Sometimes firms run teams, as Vanwalls have done, but sometimes these cars are bought by individuals and run by an individual for the fun of it, as it were, as you and I might have gone in for a cycle race in our youth. But the prestige of winning by an individual, of course, appertains not only to him but also to the car that he has driven, whether it is a Connaught or a Vanwall.

1265. That was not the question I asked. I was asking, is it in fact not the case that most of these are sponsored by large commercial enterprises? Is that true, or is it not?—I do not think that I would say "most". It varies. If you

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have Formula I cars which are the very big, very expensive cars, then most of those are sponsored by firms, as indeed the BRM car is sponsored by the Rubery Owen organisation. It is much less true when you get down to the Formula III, which are the smaller cars like Coopers and Lotus, and it is here, incidentally, where the bulk of the tax remission has taken place, which are much more run by individual entrants.

Mr. Chetwynd.

1266. Would we not be right in confining our attention to these small cars? Do the larger manufacturers really enter into this business at all?—I think that the answer is that the motor car industry is, of course, very largely an assembly industry. It is perfectly right that the larger manufacturers, Fords, Vauxhall, the British Motor Corporation, do not make racing cars or operate them, but the chief interest in racing cars tends to be on the part of the people who make components, Turner and Newall for Ferodo brakes, Dunlop's for tyres and brakes, Girling for brakes, and the sparking plug people, Lodge, Champion and K.L.G.

1267. Is it not a fact that the larger continentals have pulled out of the whole business of racing cars now?—I think that it is perhaps more accurate to say that everything is in a state of flux, partly because of the difficulties about the proposed new formula. But you are right in saying that one or two large firms have pulled out.

1268. Could we assume that these smaller companies would go out of business if this concession were withdrawn?—I could not say that they would go out of business, but what I do think is that fewer of these cars would be sold than would otherwise have been the case, with the incidence of tax. That would be regrettable for the broad reasons that I have stated, and the firms concerned would probably be the less able to make sales abroad, as I said at the beginning of my statement.

1269. I think, if I remember aright, the proportion of sales abroad to sales here is roughly fifty-fifty?—It is rather less than that. I was only giving some illustrative figures, which I got out this morning, for 1958.

1270. The point is, what would you say the base figure for home sales would

have to be in order to maintain a healthy export market?—In these specialist cars?

1271. Only the specialist cars I am speaking of?—I do not think that I could answer that, because I think that this is not like an ordinary market, it is not like selling an ordinary car or a ton of steel or so much piece goods. This is selling something that an individual owner or would-be owner in Hamburg or Paris wants to race and, therefore, I do not believe that any formula that I might try to produce in answer to your question would be worth anything.

1272. Has the Board of Trade made any effort to see that the Purchase Tax concession is passed on to the actual purchaser of the car?—There is a wholesale price on which the tax is paid. What happens is that the would-be purchaser pays the net price without tax. The manufacturer has the tax refunded to him.

1273. So that the tax goes to the purchaser, not to the wholesaler?—Yes. There is not a wholesaler usually in this.

1274. So he gets the whole benefit of the concession?—Yes.

Mr. John Hall.

1275. Am I right in assuming that a manufacturer, racing his own cars, as a works team, would not be paying purchase tax on his cars, or would he, just as soon as he puts it on the racetrack? As soon as he puts it on the racetrack he has to pay tax on these cars?—Yes.

1276. Am I also right in assuming that, apart from the prestige value of the victory of British cars, whether they are specialised, individually produced cars or whether they come out of the stable of a bigger mass-producer, it is also essential for the technical development of special steels, brakes, tyres, and so on, and the car industry does look to the experience gained in this very testing form of sport in order to develop the industry?—I hesitate to use the word "essential"; I would prefer to say, "most desirable". I think that there would be a great loss and a great retardation in the application of lessons if there were no racing and if there were a dis-incentive again because the tax had to be paid.

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1277. I believe it is true that some of the mass-producers, like the Nuffield Motors Group, for example, do race cars, though not as specialist racing cars. They put Austins and M.G.s on the track, for example, but they do not get this Purchase Tax concession?—They do not actually race them. They may test their cars on a track, one of their own tracks or the track of the Research Association but, of course, those are cars which are not specialist cars. They can be sold to the ordinary purchaser.

1278. I appreciate that. But, in fact, they do race them; I have seen many of them actually on the race track engaged in races for that class of car in the same way as Jaguar do. That brings me to the point. Although I appreciate the difficulty of giving a purchase tax concession to cars which can be sold to the ordinary consumer and run on the road, nevertheless these cars are serving the same purpose, are they not, and also playing their part in the export trade and testing out equipments, metals, tyres, and so on, which give the same sort of advantage to the industry as a whole?—Yes. I imagine the answer to that depends on the degree to which they are used exclusively or substantially for racing and those purposes as distinct from ordinary purposes. I would only say that we have never had any pressure, as far as I know, in the period since this concession has been

made to extend it to that type of car, to move it away from the specialist car.

* * * * *

1280. Did I understand you correctly to say in answer to a previous question that that was an example of a car which was sponsored by a firm?—Raced as a firm.

1281. But, in fact, it is not raced by the firm that make their money out of the motor car industry?—Not at all, no.

1282. It merely happens to be a firm prepared to put money into this for the better prestige of British racing?—Yes.

Mr. Stevens.] Arising out of that, surely the Vanwall is sponsored by C. & A. Vandervell, Ltd., who make thinwall bearings for motor cars?

John Hall.] They do make ball bearings but not principally for motor cars?

Mr. Stevens.] That is their principal line.

Mr. Hoy.

1283. I wonder if Sir Frank can tell us who are our best customers for these cars? Can you say off-hand?—I cannot.

VOTE 3.

BOARD OF TRADE (STRATEGIC RESERVES).

Chairman.

1284. Will Members now turn to Paragraphs 17-19, Disposal of Stocks? Sir Frank, how does the size of your reserves relate to the normal consumption of the country? I suppose they vary, but broadly?—(Sir Frank Lee.) I can only, I think, answer this by saying, if you mean the remaining stocks that we hold, they are very small.

1285. When you dispose of them I presume you have, from time to time, to avoid competitive tender in order to avoid disrupting the market?—Yes, we made a public statement early on in the operation that we would seek to avoid disrupting the market and that in the last

few years has seriously impeded the disposal of some of these materials. Rubber, for instance, we have not sold at all. In copper we held off, tin and other non-ferrous metals, also.

1286. That is because those items have been depressed?—Yes.

1287. When you do dispose of stocks and you do not go to competitive tender, what method do you adopt?—We have a variety. We have public auction in the case of wool; we have public tender in certain cases, timber being perhaps the most outstanding. We have public tender followed by negotiation; if the bids are not good enough for us to take we then seek to negotiate. We

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have what may be called straight negotiation; where there is only one consumer or one distributor in the country in some of these things, we negotiate with him. We have negotiation through agents, for example, in the case of castor oil where public tender, we were advised, would not be appropriate; and finally we have had negotiations with the United States in two cases, namely, mercury and cobalt, which we have sold through agents to the United States Government.

1288. You take the total output of cobalt in this country, do you not?—No, we do not, I think.

1289. You did at one time, did you not? I was under the impression that at one time you took practically all the cobalt?—We may have done in the war. I do not think, since the war, we have traded in cobalt at all.

1290. Possibly it is an echo of the war. As regards rubber, how much have you to dispose of? What proportion of your stocks do you propose still to dispose of?—It is a difficult question to answer simply because I am in some trouble about notation. These stocks vary so much.

1291. Can you give us some rough idea?—Yes.

* * * * *

1293. What do you assume you are likely to retain as strategic reserves, any?—The Board of Trade as such will not retain any as strategic reserves.

1294. Who else does retain them?—It is possible that the Ministry of Supply will. There may be one or two particular commodities we have held in past years which the Ministry of Supply may wish to retain.

1295. How long do you assume it will take you to get rid of the balance you have?—I wish I knew, because some of these will stick very badly indeed. I have already referred to pyrites, which is in glut now in world markets. We have got tungsten ore for which we have really got no sort of adequate offer at the moment. * * * Therefore, my answer to you is that in many of these commodities, but particularly, perhaps, in rubber, we are constrained to feel our way. And, of course, if commodity prices remain low in others, we might equally be held up. * * *

1296. So you have a problem for some considerable time ahead?—Yes, but fortunately a substantially diminishing problem in terms of overall responsibility, storage and turnover costs.

Mr. John Hall.

1297. I am not quite sure whether I heard the major figures you gave correctly. You said, I think, that the original stocks were valued at cost at about £—million?—This was the estimated value. I would not want to swear that it was accurate.

1298. Was it not worth that when you started this operation?—It was the estimated cost when we started the operation.

1299. Then, did I understand you to say that since then you have disposed of about £81 million worth?—Yes.

1300. I notice in paragraph 18 the Comptroller and Auditor General says: "Market conditions, together with such factors as the location and quality of the reserves . . . make disposal more difficult than had been hoped". What do you mean exactly by "the location and quality of reserves"? Why does the location make it difficult to dispose of some of these stocks?—Some of them, because of the pressure on storage, and so on, are, frankly, in not very attractive places, such as remote airfields in Northern Ireland, and that does not make them as readily saleable, particularly in time of falling demand, as stocks elsewhere.

1301. As to quality, does that mean to say that the quality has deteriorated whilst they have been in store, or, alternatively, that we bought qualities which were below those normally required by the market?—It normally means the first, deterioration in store.

1302. On softwood, you say you entered into an agreement to dispose of the balance of softwood on credit arrangements spread over twelve months, and in the last sentence of paragraph 19 the Comptroller and Auditor General says: "In view of the large quantities involved, and in the light of their knowledge of the trade, they considered that no useful purpose would have been served by inviting competitive tenders". It is the "light of their knowledge of the trade" which interests me a little. Why do you suggest it was not worth while inviting competitive tenders?—Because of our

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[Continued.]

experience in the attempted disposal of a large stock of timber over a number of years. We originally held, I think I am right in saying, 234,000 standards of timber which we endeavoured to sell by inviting public tender for portions of the total holding. We usually got a very poor initial response, and then there ensued a period of negotiation in which we tried to bring the tender price up and get a reasonable price for whatever holding we were selling. We had an expert from the trade, who was then in the Board of Trade's service, who did such negotiations for us. By January, 1957, we had sold something under 100,000 standards; we were down to 140,000 standards. In the next twelve months, that is to say, until January, 1958, we had got down to 55,000 standards. We had sold the balance in that period by tender or by the process of tender and negotiation which I have described. It was that experience, which was, quite frankly, a somewhat harrowing and difficult one for my officers and sometimes for me, which had given us quite a substantial experience of how to sell timber and what would be the likelihood of our getting reasonable prices if we had gone on with this process with the residual balance of the stocks in our hands—some of that residual balance, of course, being pretty poor stuff.

1303. Would you say that the difficulty of obtaining reasonable competitive tenders is due to the peculiar construction and organisation of the trade?—I do not think so. I have never heard that. There may have been some degree at some time of concerted abstention, but I have never heard it.

Mr. Chetwynd.

1304. Is it possible to put a figure on the loss in the transactions between what you have paid and what you have sold at?—No, it really is not, and, indeed, when the then President made the announcement in the House of Commons about the intention to sell the stock, he was at pains to make it clear that this could not really be regarded in the light of a normal commercial transaction. Nor did we at the time, as it were, do a costing of the value of the stock. In other words, we have never really prepared a trading account on this, writing the things in at proper value, adding notional interest, storage charges, and so on.

1305. Was there any excess buying, looking backwards?—I would not wish to say, if we were asked to start another exercise of this sort at this time with the knowledge that we have, that we should buy the same things in the same quantities; and, indeed, some of these things were almost, as it were, fortuitously put in the stockpile. They were the residual amounts left over from public trading; when the Board of Trade did public trading, or they were the tail end of stuff coming forward under contract. Therefore, they were put in the strategic reserve and held there. * * *

1306. Have you been buying any further quantities of these materials which you have been holding in stock during this period?—Only when we have turned over rubber, for instance. We have replaced the rubber that we have had to sell to prevent deterioration. We have replaced that, that is all.

1307. Has there been any deterioration in the stocks?—Yes, a certain amount, partly because of the usual effluxion of time, though we try and correct that by turnover, partly because of some of the conditions in which the stocks had had to be stored, partly because we were storing amounts for much longer, I think, than anyone had ever stored before.

1308. Have you reached a point now with any of these materials which are left where it is better to hold on to the stocks rather than to try to dispose of them?—Not better in any economic terms, except this, that if you—

1309. More expedient, shall I put it that way?—Certainly, from the broader standpoint of not disrupting the market and not upsetting Commonwealth Governments. It is more expedient to hold on and hope for better times than to try and push the stocks on the market pell mell, which would in any event be contrary to the pledges we gave at the time.

Sir Colin Thornton-Kemsley.

1310. Sir Frank, how did you arrive at the original book value of these commodities?—This is a somewhat complicated story. The total sums that were expended on the purchase of raw materials—this is including turnover of raw materials—were about £—million, that is in the period from 1948-49 to the end of the year of account. We have to take away from that what we received

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[Continued.]

from the turnover sales which were made during that period, which was about £30 million. Then, before the disposals operation started we did make some outright sales, that is to say, disposals of things that people did not wish to keep in the strategic reserve, and it is by that process of arithmetic that you get down to the opening figure of about £— million which I quoted.

1311. Of course, I think you told the Committee that you have not subsequently made any additions for notional interest, for cost of storage, or for anything like that?—We have not tried to do a trading account, even a sort of mock-up of a trading account, believing it not to be an ordinary commercial transaction. We have not been unmindful in selling materials and in particular, for instance, in the transaction to which I was referring about timber, of the element of notional interest or storage costs in trying to get an appropriate price.

1312. Is the £81 million which you have subsequently realised a net sales cost after paying any commissions, and so on, or is that a gross realisation figure?—That is a gross receipt.

1313. You spoke about fertilisers as being one of the commodities, I think, which you are still holding. What fertilisers are you in fact holding at the present time?—Chiefly phosphate rock.

1314. Are we importing any of that now?—Yes, I believe there is some imported annually.

* * * * *

Mr. Thornton.

1316. Paragraph 19 says: "The Board received an offer to purchase the remaining balance"—this is softwood—"on terms providing for payment over twelve months instead of the six months normally specified in tenders". It would appear that that was rather a big purchase?—Yes, indeed.

1317. Who made the offer?—It was a firm called Montague L. Meyer, Ltd.

1318. How much money was involved?—* * *

1319. As you changed from a six months' payment period and extended the period to twelve months, might it not have been advisable in that particular case to invite tenders on these different terms of twelve months instead of six

months?—We gave this transaction long and anxious consideration, and that question was one of the considerations which we took into account in deciding whether, on a balance of considerations, it was right to conclude this transaction. The advice which I received was that if we endeavoured to sell this very substantial amount of timber, as I said, in very mixed qualities and some of it in very unattractive places, on the basis of inviting tenders for payment over twelve months, certainly we could not have got any comparable offer for the whole of our remaining stock. And, of course, it was attractive to us in many important respects to get rid of the whole of our remaining stock. Equally, if we tried to dribble it out by individual tenders, I think that would probably have meant that we would have sold the really good stuff out of this amount, the eyes would have been picked out, as it were, and we should have been left with, frankly, a great deal of poor, very inferior timber on our hands. * * *

I would only repeat that we did an extremely careful analysis of this whole transaction as to the best course, taking everything into account, the possibilities of selling it either in total or in lots or in other ways, the charges that we should have had to meet on it by way of staff, storage and other expenses, the notional interest and the fact that we should be standing out of our money, particularly as we had no belief that we could have sold it all in twelve months. After all, we did get rid of this in twelve months; at the end of the day we were clear. We were quite satisfied on balance that we were right to sell in this single transaction, and I think the course of timber prices, which fell 10 per cent. during the twelve months period, really confirmed that.

1320. I take it that a sale of this magnitude would not go unnoticed in the trade. Did you receive any representations from other traders on this issue that they had not had an opportunity to tender?—No formal representations. At a very late stage, if I remember rightly, one single individual said that he might be able to get together a consortium and have that consortium make an offer to us, but it was really very vague. As far as I know, that was the only representation we had. We had already, I may say, offered the whole of this timber for sale by tender at least twice.

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[Continued.]

1321. But on a six months period?—On a six months period, that is quite right.

1322. That is really the thing that I am questioning, seeing that you altered the period of payment from six months to twelve months, which in itself must have been an attractive proposition. Would it not have been better for you to attempt to confirm your own views by inviting competition even if the final result had worked out the same?—We were offering the whole lot in one transaction to be bought “as is, where is,” wherever it was, in whatever quality it was. We were clear that no other firm in the trade would have been able to make us a comparable offer.

Sir Colin Thornton-Kemsley.

1323. May I, arising from that, ask the date of this transaction with Montague Meyer’s?—Yes, indeed. The actual agreement with them is dated the 18th March, 1958.

Mr. Stevens.

1324. Sir Frank, are storage charges payable in respect of those stocks which are held by commercial agents?—Yes. If we occupy commercial storage we pay appropriate commercial rates.

1325. In respect of those stocks which are held, for example, in remote airfields in Northern Ireland, there will, no doubt, be the wages of maintenance men, and so on?—Yes, but normally no rent. If we were doing this as a strictly commercial transaction there would be a notional rent payable to the Ministry of Works.

1326. The actual out of pockets?—The actual guardians (and the Alsatian dogs they employ for guarding these stocks which have to be fed) are a direct charge on us.

1327. Can you give the Committee any idea of the outgoings which have to be met in order to maintain these stocks which at the moment are proving difficult to sell?—In the year of account, 1957-58, we paid £756,000 for rent, storage costs and the direct charges, that is to say, depot costs, staff, and that sort of thing. The cost of handling of the goods when we were turning over stocks, moving them to the selling place, and so on, and for handling stocks, was about £204,000, so it cost us in the year of account nearly £960,000.

1328. I imagine phosphate rock and rubber are not the only types of these stores which deteriorate in store?—No; but, of course, that will only manifest itself financially when we come to sell them.

1329. Exactly, but that is your problem, is it not, to dispose of these stocks at a reasonable price, and at the same time to balance the delay against the continuing cost of not selling them on the market?—Certainly, and the fact is that for some of these commodities we can get no price offered to us at all at the moment. For others we are offered a price which is so derisory that we think it pays us to hold on to them in the hope of better times. But you are quite right, in every case there is this balance of judgment which has to be made.

1330. Even a derisory price would be better for phosphate rock than no price at all, which, from what you have just said, looks as if it is going to be the case. It is a very difficult problem?

—* * *

Mr. Cledwyn Hughes.

1331. Are we importing pyrites now into this country?—I think not. I think one of the difficulties is that sulphuric acid making has changed so much that scarcely any pyrites is used for making it. I speak subject to correction, but I think none is brought in.

1332. Am I right in saying that pyrites is generally imported from the Rio Tinto mines in Spain?—It used to be. Whether it still is I do not know; and from Cyprus and other sources, too.

1333. I understood that the main source of pyrites is the Rio Tinto mine in Spain. I am under the impression that they are still importing it into this country, because it is used in Anglesey in a very modern factory to make sulphuric acid. I am far from being an expert; I do not know anything about it, and I know you cannot possibly be an expert in this matter, but is it not a fact that it is still the basic product for the production of sulphuric acid, which is vital in all fields of industry?—I think perhaps I should add, in correction of what I said earlier, that it is certainly still used in production here, although other materials—anhydride, for instance, produced in Cumberland—are being increasingly used. I think you

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[Continued.]

are right, there are still imports, and the availability of our supplies, in effect, competes with those imports.

1334. What is the present market price of pyrites, and if you sold at that price what would be the nature of your losses?—I think the present price is about £5 a ton.

1335. If you sold at that price would your losses be substantial?—No one has offered that price for our pyrites.

* * * * *

1338. You in the Board of Trade are in touch with the whole range of industry, both in the public sector and the private sector in this country. What approaches have you made to the firms and industries, to the firms you know, who produce and manufacture sulphuric acid, in an effort to dispose of this enormous stock of pyrites you have got?—We have approached everyone who we thought might be disposed to buy it, as I hope any prudent seller would.

1339. That is something I fail to understand, because pyrites is still being imported into North Wales from the Rio Tinto mines in Spain by very significant industries?—If the particular concern in North Wales that you have in mind would care to make us an offer for our pyrites in substitution for that which they are buying from Rio Tinto, we would be glad to consider it.

1340. I would prefer to be assured that in fact the Board of Trade is in touch with the private sector of industry, not only with regard to pyrites, but for all these other accumulated stocks that they have got?—I do assure you that we are. This has been carried out as a major selling operation. We have done everything we can to bring to the notice of British industry, both in the private and the public sector, the availability of this material, and certainly, now you have given me this idea, we will make a special approach to the firm in question.

1341. The firm in question operates in Amlwch in Anglesey and is the Associated Ethyl Company, which produces bromine from sea water, and needs large quantities of sulphuric acid, and they do import the pyrites from the mines in Spain?—I will check on this, but I am under the impression that we have already approached them on this matter. But we will do so again.

Mr. John Hall.

1342. I have another question arising out of this paragraph, on timber. At what price was this timber sold when the agreement was finalised; was it the market price at the time?—It was sold, at £— a standard. Of course, this was a completely mixed bag of timber, and therefore, as it were, there was not any comparable market price.

1343. I appreciate that. You did mention in justification of this action that the market price had gone down 10 per cent. later on. That is only of value if one knew the price at which you were selling it originally?—We were selling a range of timbers, and £— a standard was thought by the experts whom I had to be a fair weighted average price. I was only saying that timber prices as a whole did fall in the next twelve months by 10 per cent.

* * * * *

1345. I appreciate that. I was interested to hear you say the firm in question was Montague Meyer's, one of the wealthiest firms in this field in the country, I imagine. I was rather interested that you gave them twelve months' credit, or was it that they would only take it on those terms?— * * *

Chairman.] Paragraphs 20 to 24. I have no questions.

Mr. Chetwynd.

1350. Could you break down the reserve stocks as to how they are held, how much in departmental depots and how much in commercial stores?—I do not think I could. I could let the Committee have a note* on that.

Chairman.] If you will?

Mr. Chetwynd.

1351. The point I want is, you cleared 200 store depots, which I take it are your own depots?—Some would be Board of Trade depots.

1352. Is it possible, in order to save costs, to transfer from private commercial holders into your own store depots some of the remaining stocks?—The way, I think, I prefer to put it is that, subject to the cost of moving stuff about, which can be very expensive,

* Information supplied : not printed.

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we try to concentrate the rest of our holdings at the most economical and advantageous places of storage.

1353. Could you put a figure to the saving to your Department on stocks and storeholding through the amount of disposal you have taken already?— Yes, we can give a figure. The rent figures, for instance, fell. Payments for rent fell from £1,234,090 in 1956-57 to the figure which I quoted earlier of £756,000 in the year of account, and it has fallen again since then. I have not got the actual figure for 1958-59.

1354. I notice that you do not have a proper stocktaking, as it were, but you are satisfied, are you not, that there is no sort of pilfering?—I think that the record of pilfering, seeing the magnitude

and diversity of these stocks, has been extremely small over the years. It is very minor. We have stock records for the whole of our holdings which are reconciled each quarter against the standard form of certificate which the storeholder supplies. On more detailed physical inspection we do our best. In the year of account we had 1,100 inspections by non-technical officers of these stocks up and down the country. We employed eleven full time inspectors during the year, mainly on timber, an assignment which, of course, came to an end when the timber stocks were sold, and one on wool. I just mention these figures: 3,800 inspections were made by timber wharfingers in the year of account, and just over 1,700 by the ten inspectors to whom I have referred.

TUESDAY, 17TH MARCH, 1959.

Members present:

Mr. Arbuthnot.
Mr. Chetwynd.
Colonel Crosthwaite-Eyre.
Mr. Hoy.

Mr. Cledwyn Hughes.
Mr. Pentland.
Mr. Stevens.

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

Sir EDMUND COMPTON, K.B.E., C.B., and Mr. J. MACPHERSON, called in and examined.

CIVIL APPROPRIATION ACCOUNTS (CLASSES VI-X) 1957-58.

CLASS IX.

VOTE 5.

MINISTRY OF POWER.

Sir DENNIS PROCTOR, K.C.B., Permanent Secretary, and Mr. E. J. MEADON, Under Secretary and Accountant General, Ministry of Power, called in and examined.

Mr. Hoy.

1355. Sir Dennis, I understand this is your first appearance before the Public Accounts Committee?—(Sir Dennis Proctor.) Yes, Sir.

1356. I would like to welcome you to the Committee on behalf of all the members?—Thank you very much, Sir.

1357. Will Members turn to the Comptroller and Auditor General's Report on the Civil Appropriation Accounts, Classes VI-X, paragraphs 101-105, Fuel and Power—Research and Development? Sir Dennis, on paragraph 101, what other bodies were represented on the 1948 committee?—I am not sure that I can answer that question offhand. It was set up by the Electrical Research Association, as is said here. Could I let you know about that? I am afraid I have not got the information.

1358. Perhaps Sir Edmund can tell us?—(Sir Edmund Compton.) According to my information there were representatives of the electricity supply authorities, the electrical manufacturers, the Department of Scientific and Industrial Research, and the National Physical Laboratory. There may have been one or two others, but I think those were

the main representatives, in addition, of course, to the Ministry. (Sir Dennis Proctor.) Thank you very much.

1359. Perhaps you could tell us who was the moving spirit, then, behind the setting up of this committee? Do you know?—I could not say who was the moving spirit. In the Ministry, of course, this is handled by our Chief Scientist's Division, and the person principally concerned at that time at the Ministry would have been our Chief Scientist.

1360. Was the main attraction of the scheme a substantial saving of coal?—That was the object of it, yes.

1361. Would it be true to say that, perhaps, the main benefits of successful experiments accrued to the electricity undertakings?—If it is a success, that is so, Sir, yes.

1362. Arising from that, I would like to know, did the electricity undertakings contribute to the cost of the experiment?—Yes, through their membership of the Electrical Research Association who, as you know, contributed towards the cost of these schemes. Perhaps I should add that if it becomes an economic success, it would, as you say, Sir, be the electricity supply authorities who would benefit; but the object of the Government in taking part in this scheme and

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[Continued.]

in bearing quite a substantial share of the cost of the research and development work was to promote anything that seemed to hold promise of saving coal in the generation of electricity. (Mr. Meadon.) It might be relevant to add that during the period that the Ministry were doing work on this subject, the electrical supply authorities were also working independently on wind power in Scotland, and also the Central Electricity Authority were doing separate projects at their own expense.

Mr. Chetwynd.

1363. What is the extent of Government financial assistance to this body, the Electrical Research Association?—(Sir Dennis Proctor.) It is grant-aided by the Department of Scientific and Industrial Research, on, I think, much the same basis as most of the research associations. I think they get a grant-in-aid of something like 25 per cent. of their income.

1364. Is it a non-profit-making body?—Oh, yes.

1365. Could I ask, on paragraph 102, was the £23,000 expenditure borne by the Association contributed to the Association by the Government, then, from other sources?—In that sense it must have been. That was borne by the Association from its funds.

1366. Which they got, I take it, from other Government Departments?—This grant of which I speak, the grant-in-aid given by the Department of Scientific and Industrial Research, is on a formula related to their total income. It is on some percentage basis on their income received from the contributions of their members in the industry. That is part of their general funds. There was no other special grant towards this particular £23,000.

1367. So the £23,000 was provided by the members of the Association from their own resources?—It was provided by the Association from its general income, of which about 25 per cent. is D.S.I.R. grant.

1368. Turning to paragraph 103, did the contract which you placed with the E.R.A. involve any profit or remuneration for this Association? Did they make anything on it?—I would not like to answer that question categorically, as to whether it created a profit.

They are not a profit-making body. (Mr. Meadon.) The items into which this is divided do not provide for profits. They provide for salaries, overheads, materials and apparatus.

1369. It is purely on a cost basis?—Yes.

1370. Has the work referred to in paragraph 104 been carried out by your own staff or by sub-letting it?—(Sir Dennis Proctor.) Almost entirely by contracts—in fact, I think entirely by contracts.

Mr. Arbuthnot.

1371. Sir Dennis, can you co-ordinate the two statements, first in paragraph 103 where the Comptroller and Auditor-General says: "The Ministry's contract with the Association was terminated in May, 1956" with the other statement in paragraph 104 that up to the 31st March, 1958, the expenditure on that part of the scheme amounted to £53,890?—Yes, I think I could explain that. The £23,850 in paragraph 103 is related to the third of the (i), (ii) and (iii) in paragraph 102. Then, in paragraph 104: "Work has, however, continued on the second part of the programme", that is the (ii) in paragraph 102. The expenditure on that, that is excluding the £23,850, amounted to £53,890 by the 31st March, 1958; that is, for a period altogether of roughly eight years, from the 1st April, 1950, to 31st March, 1958.

1372. Would it be correct to say that all of these schemes, in effect, have been disappointing?—I think it is a little difficult for me to offer an opinion on that, and pronounce judgment on it. May I put it this way, that we are bringing them to an end in this coming year.

1373. In that case, then, they cannot have been very successful?—Well, it might have been either way. It might have been that they have been so successful that now they can be floated off and taken over by industry.

1374. Which way is it?—We think by the end of this year we shall have done all that we ought to do, and that will be the end of it.

1375. What I am really trying to get at is, which way is it?—I do not think, frankly, they will go into industrial production in the generation of electricity to any substantial extent, such as to save

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[Continued.]

any substantial amount of coal, which was the original object of it.

1376. You do not think they will?— I do not think they will turn out to be an important commercial or economic contribution to the economy of the country. The experiments themselves may, nevertheless, have been worth doing.

1377. What, as a matter of interest, would be the cost of a unit to produce the capacity of 25 kilowatts?—I think about £5,000, or perhaps a little more. I think £6,000 or £7,000 is about the cost of the 25 kilowatt windmill.

Mr. Stevens.

1378. Did I understand you rightly to say that the experiment for the 25 kilowatt windmill is regarded as a failure, and there is no intention to proceed with the larger 1,000 kilowatt installation?—I would not like you to understand me to have said it is a failure; by no means. The previous question was a general question, as I understood it, about the total effect of the whole programme. I said that my own judgment is that it will not make a substantial contribution to the economy of the country in the sense of saving substantial quantities of coal, which was the main underlying object of it. But I would not like to be taken as saying that I think that the 25 kilowatt windmill is a failure. Far from it, because we are hoping that the development and experimentation with that will be carried forward further in this coming year in either the Isle of Man or the Scilly Isles. So, I certainly would not like to be taken as writing that particular scheme off as a failure.

1379. The committee was set up in 1948, but when was the first 25 kilowatt windmill completed?—Not very long ago. It was about two or three years ago. The 25 kilowatt windmill has hitherto been at Cranfield, the station of the Electrical Research Association, and has since been moved to the Isle of Man.

1380. At least one of them has been in operation long enough to enable the committee to form some sort of a view, surely, as to whether or not a 25 kilowatt wind generator is worth further experiment?—It is now being operated by the Isle of Man Electricity Board. Technically it is working quite successfully, and our feeling is that it has got to the point at which we can now leave it to this Electricity Authority to carry on the experiment after the end of this coming

year, and find out whether it is an economic success as well.

1381. "25 kilowatts," I am afraid, gives me no idea of the physical size. Can you give me some idea, for example, of the diameter of the sails?—I have a photograph here. (*Photograph handed to the Committee.*)

1382. That does not give the dimensions. This is "31 kilovolt-amps". Is that the same as 25 kilowatts?—(Mr. Meadon.) That is the manufacturers' description of its performance.

1383. What would be the diameter of the sails?—They are 30 feet in diameter.

1384. What would be the size of the 1,000 kilowatts windmill?—I could not say. I do not imagine it would go in arithmetical proportion.

1385. No, I should not think so, but it would be so much larger, and the thought that was in my mind was that the technical and engineering problems concerned with a wind generator of 40 times the capacity would be so different in size from those of a very much smaller generator that one wondered if the experiments with the very much smaller generator were really of much help in connection with the bigger one?—(Sir Dennis Proctor.) We are not intending to go forward to the bigger one at all now.

1386. That has been abandoned, has it?—As far as we are concerned, yes.

Mr. Cledwyn Hughes.

1387. When you embarked upon these experiments were you aware of similar successful experiments in other countries?—I cannot give you full details about that, but I am sure that our Chief Scientist at that time would have made it his business to familiarise himself with the practice in other countries. One thinks immediately of Holland, and I have no doubt that he would have, as I say, made it his business to find out what was the state of development of windmills for the generation of electricity. But I have no further technical knowledge of that myself.

1388. Is it the case that the Electricity Authority were carrying out similar experiments on wind electricity generators?—Not similar. This was a particular design which was developed under the Ministry's contract, but the British Electricity Authority, as it was

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[Continued.]

then, did carry out some tests with a mill of about the same size, or a little larger, I think, and there was close exchange of information and results of experiments between them and the Ministry and the Electrical Research Association.

1389. Why did you carry out these experiments independently of the Electricity Authority? Why, in order to save effort and money, did you not combine with them?—I do not think they were quite independent. As I say, they were fully in contact with each other. I think the idea was, well, this is to some extent a new field of research and experiment, it is worth trying out more than one single type of design. I understand that the particular design that the British Electricity Authority had did not prove very successful, and that they are not proceeding with it. I think there is something to be said for having one or two, or two or three, different lines of different kinds of designs being tested in a small way.

1390. Is it not a well accepted principle that if you concentrate your resources when you are experimenting, then you are more likely to get beneficial results? How did the object of your research differ, if it differed at all, from the object of the British Electricity Authority?—The object was the same but they were trying different methods of reaching it.

1391. Different methods; is it not the case that they were merely trying with equipment which was slightly different?—Yes, a different design.

1392. When did the Central Electricity Authority abandon their experiments?—I think it was in 1954 or 1955.

1393. How did their abandonment affect your plans? Did you then review your plans?—Yes, and the results showed that the design had got to be simplified. Our design studies then continued after that under our contract with the Electrical Research Association.

Mr. Pentland.

1394. Sir Dennis, have you kept your programme under review in the light of the changed coal situation?—Yes.

1395. Would you like to tell the Committee then, if you have come to any definite conclusions about the cost of

wind generation of electricity?—The coal situation, as you have suggested, has changed very much since the programme was originally initiated. The actual cost of generating electricity by windmill, I would think, is a further stage after demonstrating that the large scale generation of electricity by windmills is possible. We have not gone into technical costing studies of windmills on a commercial scale because we have not reached the stage of producing windmills on a large commercial scale. As I have said, we do not intend to go forward with the 1,000 kilowatt windmill.

1396. Would it be true to say that you have not reached a definite conclusion yet with regard to the cost of wind generation of electricity?—No, but our feeling is that we shall have carried our experiments with this far enough by the end of this year, and then, if the electricity supply authorities, the Area Boards or any other electricity authorities feel that there is something in it, it is for them to take it up and put it to further tests on a commercial scale. We should not propose to do that ourselves.

1397. Sir Dennis, paragraph 105 suggests that in spite of the past failures with smaller models a larger experimental windmill might be undertaken with support from some other authority. Given the past record, do you intend to go on at all, having regard to that past record?—We do not intend to go on to the 1,000 kilowatt one at all, which is, I think, what is referred to there.

1398. The larger experimental one?—I beg your pardon, the larger experimental one. We have one design for a 100 kilowatt one and that might be taken up by some authority. It might be the Isle of Man, which seems one of the likely ones. The Scilly Isles in the South Western Board is another possibility but it seems more likely to be in the Isle of Man. We have agreed, with Treasury approval, that in this coming year we will make a financial contribution towards getting such a mill built and put into experimental operation. If that is taken up we feel that is as much as we should do.

1399. Given the record of technical failure and the diminishing economic prospects would you like to tell us why you let this scheme go on for as long as ten years?—I would not quite agree

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[Continued.]

with the "technical failure". My information is that the purely technical results have been quite successful and that they are working well; and indeed there may be quite a lot of applications for small windmills in various small uses, not on the scale of producing electricity for distribution through the electricity mains. One can think of quite a number of small applications in which it might be quite a useful piece of work. I would not like to be quoted as saying—in fact, I do not think I have said—that it is a failure technically.

Mr. Cledwyn Hughes.

1400. Are you thinking in terms of providing electricity for remote rural areas, for example, where it is not perhaps an immediate economic proposition to connect that area to the main grid?—Yes.

1401. If that is so, what sort of coverage would a 100 kilowatt mill have in terms of farms and houses, or is that a question I should not ask?—I am afraid I cannot answer that; it is a bit too technical for me, I think. A 100 kilowatt mill we would regard as a commercial sized mill, as being something beyond the pure laboratory size; so that it would be capable of supplying an area with electricity, but I am afraid I could not say how much.

1402. Would the price of the electricity be competitive without subsidising?—That, I am afraid, I cannot say. That I regard as the commercial economy side of the thing which is where we stop and the Electricity Board takes over. It must be for them, I think, to satisfy themselves about that.

Mr. Chetwynd.

1403. Would it be true now to say that the whole object now has changed from being one to remedy a shortage of coal? Anyone now thinking of this is thinking purely in terms of servicing remote areas, islands, and so on, where it may be difficult to transport coal?—I think that is a very fair comment. I think the emphasis has changed in that way.

1404. In that case, is it not now purely a matter for commercial firms, such as the ones whose booklet you have distributed, to consider as to whether it is worth their while to go ahead with it, or not?—I think so, yes.

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1405. You have mentioned something about a contract with the E.R.A. Could you give us some information about that?—There is a series of contracts for different specific things, but there is a main contract which has been running since about 1954 which is a contract, I think, for "testing and recording"; that is the general description of it. It is mainly of control mechanism.

1406. Are you committed in the contract to any further financial expenditure to them after, say, this year?—We are committed until the end of this coming year, 1959-60.

1407. But after that you need not incur any further expenditure?—No, after that it will come to an end. There may possibly be some payments which may spill over into the following year.

1408. From you to them?—Yes, when the contract will be terminated. (Mr. Meadon.) It is not a very substantial sum in any event. In 1959-60 the provision in that respect is of the order of about £4,000.

1409. On the other side of the balance sheet, I take it, you have accumulated certain information in research which may be useful to commercial firms?—(Sir Dennis Proctor.) Yes.

1410. And to the Electricity Board. Now, what is the procedure for disseminating that to them? You say, if they are interested they will come along, but are you not taking any positive steps to let them know what you have got and charge them for it?—It is disseminated through the scientific journals, and so on, but it has not been published in any formal way. On the other hand, nothing that we have so far is patentable, so I am advised.

1411. Do you think that there is any commercial return to you in giving the information you have?—There might be, but only if a firm really goes into manufacture on a very substantial scale. Then I think we can claim design rights.

1412. The question then is, is there any commercial production at the moment of the 25 kilowatt plant? Is anyone producing it?—I do not think there is any commercial production except to specific order. It is not manufactured for stock.

1413. Not a saleable plant?—No, except on a specific order.

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[Continued.]

Mr. Hoy.

1414. Sir Dennis, just two further questions: when this experiment was first started it was thought that you would develop from the 25 kilowatt, if this proved successful, on to a 1,000 kilowatt windmill. Is that not correct?—Yes.

1415. If you have not got positive results from the 25 kilowatt windmill as to what it is producing electricity at, how do you feel justified in going ahead or even subscribing money to a further experiment on a 100 kilowatt mill, which is only one-tenth of the one you originally envisaged?—The 100 kilowatt brings it up, as I said, on to a commercial scale; and it may be of use in certain areas, of which the Isle of Man may be one.

1416. What are you prepared to subscribe by way of a further sum to this experiment?—£4,000 or £5,000.

1417. You have the consent of the Treasury to do this?—The Treasury have agreed that we should make some contribution to a 100 kilowatt mill if there is an agreed scheme. If there is such an agreed scheme then we shall go back to the Treasury and give them a submission on the particulars of the scheme and say: "this is what we propose to do". Our idea would be if there is a live proposal put to us by, say, the Isle of Man Electricity Authority to put up a 100 kilowatt mill we should say: "well this is the outcome of a good deal of work which we have done. We will give you a helping hand with this to get it started", and our idea would be to subscribe £4,000 or £5,000. As I say, we should go to the Treasury on the specific scheme if it comes up, but we have actually made provision for that in our Estimates for 1959-60.

1418. With the approval of the Treasury, Mr. Macpherson?—(Mr. Macpherson.) Yes, Sir, we have said that we hope that this work would come to an end in 1959-60 except insofar, as Sir Dennis has said, that there may be a little spill over into 1960-61, after the contracts have actually terminated.

1419. Who is going to subscribe the rest of the cash, Mr. Macpherson? Some other Government Department?—No. The Government are contracting out of this field.

1420. What about D.S.I.R.?—As far as I know, no. (Sir Dennis Proctor.) No, this would not be a contract with

the Electricity Research Association; this would be with a commercial organisation.

1421. So that the Committee can be assured that this contribution will be the total Government contribution, is that right?—(Mr. Macpherson.) I think that is right, Sir. I would hesitate to say absolutely categorically but I can confirm that. My understanding is that that is the position. Certainly it is true in respect of the Ministry of Power.

1422. You would certainly let us know if it were otherwise?—Yes.

1423. Would Members now turn to paragraphs 106-110, Fuel-Saving Equipment—Loans? Sir Dennis, what is the total number and value of the loans that you have approved?—(Sir Dennis Proctor.) Up to 31st December there were just about 1,100 loans, and the total amount granted was just over £5 million.

1424. What sort of range do they cover?—In amounts?

1425. In size, yes?—The average, as you see from these figures, is about £5,000, but that is purely an average. The range is a good deal wider than that. Of course, at the moment the scheme has ceased altogether, but in the last period we had restricted loans to a maximum of £25,000; but before that there had been an earlier limit of £30,000 and then that was extended. We had one or two large applications and the Treasury agreed that that limit might be extended, but in fact we never went over £100,000. The highest figure we ever had was a loan of £100,000. We had two loans of £100,000, in one case towards a scheme costing £350,000. Up to the 31st December last there were 16 cases of loans of more than £30,000, so that the big ones have been pretty few in number.

1426. Have you made any estimate of the annual fuel saving that has been achieved?—Yes, we have, Sir. Our estimate is, in fact, that about 600,000 tons of coal a year have been saved by these schemes.

1427. Do you follow up these cases to see whether the estimated saving is, in fact, realised?—Yes we do.

1428. Why have you discontinued the scheme?—Credit has become very much easier. The scheme was designed

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to enable industry to finance fuel efficiency measures at a time when it was not easy to obtain credit from normal sources. Also, since the oil conversion loans were stopped at the time of Suez the tap had not been running very fast and we felt that with the progressive relaxation of credit restrictions during 1958 the real justification of this scheme had disappeared.

Mr. Pentland.

1429. Sir Dennis, how long, on average, does it take to recover the capital cost by savings in fuel costs?—I think less than seven years, roughly, on average.

1430. Would you like to tell the committee why inducements are needed to persuade people to make such a profitable outlay?—Inducements were needed, I think, in the early part of the scheme. I can only say they were needed as originally, when the scheme was first floated, it was not very successful and the Government had to improve the terms to attract applications. When they did improve the terms of the loans the applications did come in in quite a big way. I think perhaps the answer was that, anyway at the time when the scheme was first floated, there were very big demands on the capital resources of many of the firms concerned. They probably had building schemes or extensions or other forms of re-equipment and they did not give a very high priority to capital outlay in this particular direction. It was because the Government was trying to stimulate measures of fuel economy by every means it could that it was decided to give this as an inducement. Certainly, it was intended as an inducement to achieve the saving of fuel consumption.

1431. What is the normal period of repayment on the loans?—The maximum is the estimated life of the plant, subject to a maximum of 20 years; but repayment is going on at a faster rate than those figures would suggest. The repayment periods vary but for the largest group of loans totalling about £2½ million the repayment period is something between 6 and 10 years. For other loans aggregating about £1½ million the repayment periods are 2½ to 5 years.

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1432. The normal period, we will say, on the larger plants is for the life of the plant, is that correct?—That is the maximum. The maximum is the life of the plant subject to an overriding maximum of 20 years.

1433. You would say that the normal period would be from 6 to 10 years?—I have got the figures here broken down into four categories. The shortest is a repayment period of up to 2 years, which accounts for loans of about £300,000. The next category I have got is 2½ to 5 years, which accounts for about £1½ million of loans. The next is a bracket of 6 to 10 years, which accounts for £2·3 million of loans; and the last is 11 to 20 years, which accounts for £800,000 of loans.

1434. Could you tell us why you make loans repayable over long periods when the capital outlay can be recovered so quickly? Why do you make these long repayments?—I think I said less than seven years on average, and that is not far off the mean of the range of repayments.

1435. I notice that the capital outlay, though, is recovered fairly quickly. Is there any reason why the loan repayments should be over long periods?—I do not think the loan repayment, on average, is very much longer than the period within which the capital will be recovered.

Mr. Cledwyn Hughes.

1436. Sir Dennis, when you were giving the reasons for discontinuing the scheme you did not mention the present availability of coal?—No.

1437. When it became apparent to your Department that the coal industry was in difficulty and that large and increasing surplus of stocks of coal existed, did that in any way influence your policy or did you amend your policy in the light of that new situation?—Yes, the scheme was modified, I think, early in 1958. We agreed to give loans for schemes which were for a conversion to oil only where there was a saving of large coal. Previously, before the Suez crisis, loans had been given for conversions to oil. Then the Suez crisis came and that was stopped. Then, afterwards, in pursuance of the general policy of freedom of choice for consumers between fuels, the bar on loans for oil conversions was removed and

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loans were made available for that again, but only if the saving of coal was large coal; because at that time it had already become apparent, as you have suggested, that the general supply of coal was getting into surplus, but there was still a shortage of large coal.

1438. So that the change in your policy was specifically influenced by the changed situation in the coal industry at that time?—Yes.

1439. Did you consult the National Coal Board at the time you made this change or did they approach you in connection with this?—No, I do not think so.

1440. On the general question of the loans, have you mentioned what rate of interest you charge?—Yes, there again, there are varying rates of interest really settled by the Treasury, I think, at the dates when the loans were made. The last rate from December until February this year was 6 per cent., but varying rates have been charged at varying times, the rate, of course, being settled for the duration of the loans—a fixed rate on each loan for the life of the loan. The first amount of loans at any one rate of interest is £1.8 m. of loans altogether at 7 per cent.; then there are 6½ per cent., 6¼ per cent., 6 per cent., 5½ per cent. and 5 per cent.

1441. What would be the normal commercial rate for loans of this type?—I would not like to say. I think this is intended to be a commercial rate, it is not intended as a preferential rate. I think at each of these times for a loan of that character in that period this was intended to represent the commercial rate.

1442. I see from paragraph 106, line 10, your loans were made free of interest for the first two years. This would make the Ministry, surely, more attractive as a source of finance than any commercial lender?—Yes, that was why that was done. It was to attract applications. That was one of the inducements which the Government agreed to give to attract applications after the original flotation of the scheme had not been very successful.

1443. Have you had any bad debts at all?—Very few. At the present moment we have three on which we are about to go to the Treasury for write-off.

1444. How much do they amount to?—£47,000. There may be one or two other cases which look as though they will be bad, but they are smaller than that.

1445. Have you any security or prior charge for the loan?—In a few cases we have, but in general we do not take security.

Mr. Stevens.

1446. Sir Dennis, did you say just now that your estimate of the aggregate saving of coal as a result of the installation of these fuel-saving devices was 600,000 tons a year?—Yes.

1447. Did you also say that the loans advanced were approximately one-third of the total cost of those installations?—No, I think more than that, Sir. I think it is more like £5 million of loans and the total cost of the schemes is, I think, about £6½ million. That is about the ratio.

1448. I am sorry, could we have those figures again?—(Mr. Meadon.) £5 million loan, £6½ million schemes.

1449. The total cost is £6½ million?—(Sir Dennis Proctor.) The total cost of the schemes?

1450. The schemes as a whole, and £5 million was advanced?—Yes. (Mr. Stevens.) If 600,000 tons of coal a year were saved by an expenditure of £6½ million, my arithmetic may be faulty, but I do not understand how it could take seven years to recover the £6½ million. How much is coal a ton?

Mr. Hoy.

1451. I wonder if you will just check that figure? I was not very certain either. Did you say there had been a total saving of 600,000 tons of coal or 600,000 tons of coal per annum?—600,000 tons per annum.

Mr. Stevens.

1452. Then the capital cost would be recovered in under one year, not seven years?—600,000 tons a year.

1453. What would be the price of coal, £10 a ton?—Less than £10 a ton.

Mr. Chetwynd.

1454. That could only be in your last year, surely?—Our reckoning is seven years, which is rather a rough figure as an estimate of the time in which the

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borrower or the applicant would have amortised his installation. This is what he would save, but he is going to burn the fuel.

Mr. Stevens.

1455. He may burn the fuel, but he burns 600,000 tons less than he would have done, you have just told the Committee?—Yes, but in some cases these were conversions to oil. When I said 600,000 tons of coal were saved, it is true that we reckon—

1456. This is rather a dangerous half-truth, surely?—Well, I was answering the question how many tons of coal had been saved, and that is what we reckon as a fact.

1457. You could not complete the sum by telling us how many tons of additional oil were consumed?—If you would allow me to put the tons of oil into coal equivalent of oil, it would come down to a saving of coal equivalent tons of about 360,000. The 600,000 would come down to about 360,000.

1458. That would be the true net saving?—That would be the true net saving of the fuel consumption in terms of coal equivalent.

Mr. Stevens.] Can we take £10 a ton as a reasonable figure to work on?

Mr. Hoy.

1459. I would have thought nearer £6, for commercial purposes?—For the price of coal delivered?

Mr. Hoy.] Yes, for commercial purposes. I should think £10 was too high in any case.

Mr. Stevens.

1460. Even then that would be only 3½ years against your seven years. The net saving in fuel cost to those who instal these plants would be the equivalent of 360,000 tons of coal a year at £6 a ton, that is, about £2,150,000 a year. The total cost of the installation was £6½ million, so it seems to me that they get their money back in three years?—Three years.

Mr. Stevens.] Where does the seven come in?

Mr. Arbuthnot.] But then into the bargain there are tax concessions on this, are there not?

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Mr. Stevens.

1461. Sir Dennis must have given the figure seven from some document or information he had?—I frankly have not got any solid figure for the seven years. (Mr. Meadon.) The seven years is one of the figures we use in examining applications. If it runs for more than seven years we tend to exclude schemes of that kind. That is the only virtue of the seven years, but it is not a published figure.

Mr. Hoy.

1462. Perhaps Sir Edmund could help the Committee in this respect. Do you know how this period of seven years came to be fixed?—(Sir Edmund Compton.) I think all I can say on this is to confirm what the Accounting Officer said, in that, as I understand, when the scheme was revised and the terms made more attractive, the rule about recovery of capital costs, which before had been that they must be recovered in five years, was extended to seven years. I do not think that the seven years was an estimate of when they would be recovered, but was a kind of yardstick of the efficiency return that the scheme might produce.

1463. Would it be true to say that in the first two years, of course, they did not pay anything at all, so that it would be the five succeeding years which completed the repayment?—I think there is a contrast here between a forward estimate of what might happen and what the actual experience was. As I understand it, the figure of saving is an estimate of the saving that actually took place, which apparently was considerably more than the saving expected when the rules were made at the start of the scheme.

Mr. Stevens.

1464. It does seem to me, Sir Dennis, that if the users have saved the capital cost in three to four years and they are only being required to repay over terms as long as twenty years, they are being very generously treated?—(Sir Dennis Proctor.) It may be why they are repaying much more rapidly.

1465. They are?—Yes, they are, much more rapidly. You see, both this year and next year the receipts are quite a bit larger than the outgoings. The repayments are larger than the loans.

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[Continued.]

1466. You have no power, of course, to shorten the term in view of the unexpectedly beneficial results which have been achieved?—No, Sir. But I think it is in the lenders' own interests to repay as quickly as possible, because in most cases the interest rates they are paying are fairly high by today's conditions. Indeed, I rather look at it the other way about, that one of the attractive features of the terms of the loan to the borrowers is that they are entitled to repay at par whenever they like. That is quite a concession, I think, and many of them are taking advantage of that. The repayments are coming in much more quickly than the stipulated period.

1467. It looks as though you could afford to encourage them to pay much more quickly still?—Yes.

1468. So far as the employment of the Industrial and Commercial and Finance Corporation is concerned, they performed different services for you. They vetted the applications and they collected the interest on the loans and the repayments?—Yes.

1469. The Comptroller and Auditor General makes a vague reference to their remunerations when he says they received a fixed fee for each application and a percentage of the amounts collected for interest and repayment?—Yes.

1470. Could you tell the Committee what the fixed fee is and what is the percentage?—Yes. They get a fee of £20 per application for their advice in negotiating the loan. That is the fixed fee for each application, £20. They receive 2 per cent. on the amounts collected, the interest and repayment.

1471. The fixed fee does not vary in accordance with the size of the application at all?—No.

1472. Is there any provision for varying those rates at all?—Yes, there is. The 2 per cent. is agreed to be subject to variation by either side, but it has not been varied. We thought it was quite reasonable.

1473. How was the 2 per cent. originally fixed on the repayments?—It was fixed in agreement with the I.C.F.C. in January, 1957, in consultation with the Treasury. I think we thought it was quite a fair deal on both sides.

1474. Why should the Ministry find it necessary to employ an agent to collect the interest on and the repayment of the loans? Could the Ministry not do that for themselves?—We employ the I.C.F.C. to make the enquiries and to negotiate with the firms, and it is, I think, very useful for us to have them to do that. That puts them in close touch with the firms who are obtaining the loans in the first place. They have been into their affairs and have satisfied themselves that they are good borrowers and that we can properly lend to them. So I think it is useful, as they are in that relationship with the firms, for us to keep them to collect the amounts from the firms. In that capacity they have a watching brief on our behalf, because they receive the annual accounts and reports of the firms.

1475. They do?—Oh, yes. They watch our interests, you see.

1476. They actually receive the annual report and accounts, do they?—Yes, and there may be some action which they have to take to see that a charge is not taken in priority to our own. So we think it is a useful arrangement for us to have the services of an experienced commercial banking institution to watch this and to collect the repayments on our behalf.

1477. Yet if their original investigation is thorough and they do form the view that the borrower is credit-worthy, then the collection of interest and repayment should, surely, be more or less routine, unless their vetting has been lax?—I think it is a good safeguard for us to feel we have got their services on this.

Mr. Arbuthnot.

1478. Sir Dennis, it would appear from paragraph 107 that your policy has varied from time to time according to the availability of various types of fuel?—Yes.

1479. Have you turned many schemes down because they did not fit into your current policy?—Yes, quite a few, I think.

1480. Does this mean that there are many people with inefficient apparatus who have been unable to replace it because it would involve conversion to oil?—At the time of the Suez crisis and afterwards we did not entertain any applications for conversion to oil, natur-

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ally, and then, when that was accepted again in May last year, we did entertain applications for conversion to oil, but only if the saving of coal was a saving of large coal. In general, we have had quite a lot of applications which the Ministry has thought were not good enough for one reason or another, or not sufficiently giving effect to the Government's policy to accept them as valid applications for loans.

1481. You say "giving effect to the Government's policy", but as I see it, from paragraph 106, you have the duty of "promoting economy and efficiency in the use and consumption of fuel and power." How do you reconcile the answers that you have just given with that duty?—I do not think we would interpret that as being the Ministry's duty at any cost.

1482. So that throughout cost has been the governing factor entirely?—No, not entirely, but I think we have had to form a judgment as to whether the value of the scheme in improved fuel efficiency was worth the outlay. One of the rough measuring rods that was used in assessing the merits of individual cases was to see how quickly there is going to be a return on the capital outlay, as has been mentioned.

1483. But you told me just now that your policy had varied according to the availability of the various types of fuel?—Yes.

1484. That is not quite the same thing as the return on the capital outlay, is it?—No, that is another factor.

1485. Now, which one have you uppermost in your mind?—Both, perhaps one at one time more than another.

1486. So that you have not really held the duty of promoting economy and efficiency always uppermost, regardless of other considerations?—Oh, yes, I think that economy in the use and consumption of fuel and power must be judged, and the emphasis must shift from time to time, according to the supply of fuel and power in the country. That is part of the Minister's duty, I think.

1487. Have you any schemes for publicising the financial advantages of installing up-to-date apparatus?—The general publicity for doing that is in the hands of a body which we call

N.I.F.E.S., which is the National Industrial Fuel Efficiency Service, which is a very active institution indeed, which has an expert staff and will pay visits to firms and issues its own literature. It is the Minister's policy to encourage the development of that and to encourage N.I.F.E.S., the National Industrial Fuel Efficiency Service, to the maximum. While the fuel loans scheme was in existence, it marched very much step by step, or hand in hand, with the National Industrial Fuel Efficiency Service.

Mr. Chetwynd.

1488. May I ask what kind of staff you had in your Department to deal with this when it was working at its full?—We had a Chief Fuel Engineer, a Deputy Chief Fuel Engineer, and Fuel Engineers under him.

1489. Are they still on this work, or have they been transferred to other duties?—No, we have a Chief Fuel Engineer on our scientific technical staff responsible for quite a number of things.

1490. Then, was the bulk of the work done by the I.C.F.C.?—No, the technical examination was carried out by N.I.F.E.S., the body I have just referred to, the National Industrial Fuel Efficiency Service. The I.C.F.C. did not investigate the technical efficiency.

1491. Do you make a contribution to N.I.F.E.S.?—No, we do not.

1492. It is purely self-supporting?—Yes.

1493. At the end of paragraph 106 the Comptroller and Auditor General states that certain non-industrial premises could also be included?—Yes.

1494. Could you give us some idea of what those were? Would they be hospitals?—Hotels, and hospitals, I should think, yes.

1495. Have you got any information on that, any records of any of those kinds of bodies which have applied and been granted facilities?—No, I have not got the figures broken down between industrial and what you might call non-industrial.

1496. Do you think it would be possible to have that?—I am sure it would*.

*Information supplied : not printed.

THURSDAY, 19TH MARCH, 1959.

Members present:

Sir George Benson, in the Chair.

Mr. Arbuthnot.
Mr. John Hall.
Mr. Hannan.

Mr. Hoy.
Mr. Stevens.
Sir Colin Thornton-Kemsley.

Sir EDMUND COMPTON, K.B.E., C.B., and Mr. J. MACPHERSON, called in and examined.

TREASURY MINUTE ON PARAGRAPHS 45-51 OF THE THIRD REPORT OF THE COMMITTEE OF PUBLIC ACCOUNTS, 1957-58.

Sir GILMOUR JENKINS, K.C.B., K.B.E., M.C., Permanent Secretary, Ministry of Transport and Civil Aviation, called in and examined.

Chairman.

1497. Will Members turn to the Treasury Minute on paragraphs 45-51 of the Third Report? Sir Gilmour, could you tell us who the interested parties are who are considering the Blackpool aerodrome?—(Sir *Gilmour Jenkins.*) The Blackpool Corporation and ourselves. We have offered it to them. They are actively considering now whether they will take it over as a municipal airport. We have said that we are not prepared to carry it on as a Government airport.

1498. What is the prospect?—They have shown a very lively interest; I cannot go further than that. They have asked for a great many particulars and there is every indication that they are very interested in the project. I think they may be contemplating some other developments besides the air development there. It is one of the main places,

of course, for the services to the Isle of Man; that is the main air interest, but I think they have some other things in mind, possibly. I do not know.

1499. You regard the prospects as favourable, then?—Yes, I think so, at the moment.

Mr. Stevens.

1500. These discussions have apparently been going on for over two months—the Treasury Minute is dated 30th January—and I just wondered if you can give any indication as to when a decision is likely to be reached?—No, I cannot say at all when we shall get an answer, Sir. We wrote to Blackpool on the 23rd December setting out the general proposition. Since then, as I say, they have asked for a good many more particulars and details, and are showing a very lively interest, but there is no conclusion yet.

CIVIL APPROPRIATION ACCOUNTS (CLASSES VI-X) 1957-58

CLASS IX.

VOTE 4.

CIVIL AVIATION.

Chairman.

1501. Will Members now turn to the Civil Appropriation Accounts, Classes VI-X, to paragraphs 86 to 87 of the Comptroller and Auditor-General's Report, the cost of operating aerodromes? Of these 24 aerodromes mentioned in paragraph 86, how many cater for international traffic?—(Sir

Gilmour Jenkins.) I could not say definitely offhand, but it is something of the order of six to twelve.

1502. Presumably, however, the bulk of the international traffic is concentrated at a much smaller number than that?—The international traffic, of course, is generally speaking, at the big airports, and the airports where the

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amount of traffic would justify putting in a Customs service; that is the critical point. Of the 24, of course, a number are small ones that are for special purposes, such as the Scottish aerodromes, those in the Highlands and Islands, and in between are medium sized aerodromes which are of interest to a locality. I have got the figure now, Sir; ten* are international.

1503. Of those, how many are really large aerodromes, three, are they not?—It depends how you count them. Gatwick is an international airport and a big one, but of course it is not handling a great deal of traffic yet. There are London Airport, Gatwick and Blackbushe, which are all in the London area, Birmingham, Prestwick and Renfrew; those are the really big ones. From them, of course, I have left out Manchester which is a municipal aerodrome and is a very big international airport.

1504. How much of this expenditure of approximately £5 million net has been spent on the local aerodromes that do not take international traffic? Have you any figure?—I have not got it classified in that way.

1505. If you have not got it perhaps you might let us have a note on it?—We can add that up, and hand you in a figure.† I will give you that as early as possible.

1506. If you please. With regard to the local aerodromes that do not take international traffic, what is your policy with regard to ownership?—The policy—this does not apply only to those that do not take international traffic, it applies also to those that do—is to try as far as possible where there is a large municipality in the neighbourhood, to induce the municipality to take over the aerodrome. That has been done at Manchester already with great relief, at any rate, to Government finance. We are well on the way in our discussions with Birmingham, who may take over the aerodrome there. Liverpool are now taking a much more lively interest in taking over Speke and, generally speaking, that would be our policy.

* Note by witness: In addition Liverpool, although primarily a local aerodrome, has one international service.

† Note by witness: The total cost of the 14 aerodromes which do not take international traffic is £1,150,000.

1507. Might I put it the other way round then: I do not know whether you can answer it, but how many of the large aerodromes do you propose to retain under the control of the Ministry?—As a policy for retention, I do not think any, but obviously nobody is going to take on the responsibility for the four London airports. Those are the very big ones.

1508. There are two or three that you realise you will have to retain?—And Prestwick. It is a matter of practicability. There is no local authority near Prestwick that could possibly take it over.

Mr. Stevens.

1509. Are the amounts of landing fees fixed by international agreement?—No, they are fixed nationally. We made considerable increases in landing fees in 1957. We are at this moment proposing another stiff increase in landing fees to come into effect on the 1st April. You cannot altogether ignore what is being done elsewhere for the reason that, of course, our own aircraft have to pay landing fees all over the world, not only in this country. The new fees, when the new increases are made, will make London far and away the most expensive airport in Europe, and the second most expensive in the whole world.

Mr. Arbuthnot.

1510. Is there any reason why you should not make a differential charge in favour of British companies, bearing in mind, if I understand the position, that B.O.A.C. is the only operating company that is not subsidised in some form or another?—Well, to make a differentiation on the basis of flag, I think, would be completely disastrous to us. We are international carriers—not quite to the same extent as we are at sea, but to a very great extent—and if we were to set the fashion for charging our own aircraft less than other people's aircraft, we should be very much in a bad position in other countries. We could lose far more.

Mr. Hoy.

1511. Sir Gilmour, did any of the airports show a surplus before bringing in the overheads, depreciation, and so on?—No, I do not think any of them, even if you leave out the depreciation cost. I do not think any of them would show an operating surplus yet.

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1512. Then, in addition to what you have already said about increasing charges, are you taking any other steps to bridge this gap between the income and expenditure?—We are looking, of course, continually at all our sources of revenue, landing fees, rent, concessions and passenger service charge, which we have also raised at this moment. More than that we cannot do. On the whole of our sources of revenue we try as far as we can, within reason, to get the maximum, but, of course, as I have said before at the Committee, in this business where you have got a continually expanding demand you are bound to be planning ahead and you can never make the full use of all your resources. If at any moment a particular airport is getting to the stage where it is fully used, you have got to build another one which will take the excess the next year or the year after. So, you are always behind the band.

1513. Gatwick is a brighter prospect than any of the others, would you say?—Long term, yes, as soon as some of the services which are now using London Airport can be transferred to Gatwick. We shall lose the fees from London, but it will be a net gain.

1514. I was thinking of Gatwick alone. When those are transferred and Gatwick is in full use, do you think Gatwick will then pay its way?—It is very difficult to say. If Gatwick were handling the amount of traffic which would be needed to pay its way, we would have to be thinking about another runway, which would again increase our charges and our expenses. We would have to be thinking of completing the building: only half the passenger building is there at the moment. It is the same answer that I gave generally, that is, once Gatwick has got into the position of beginning to pay, you have got to expand, until you come to some time in the future when air travel is more or less stable and is not going up at a great rate all the time.

Mr. John Hall.

1515. I hope you will forgive me if I ask what may be one or two rather elementary questions, but I am not quite sure how the Ministry in fact operate these airfields. Are they responsible for all the manning of the airfields, other than maintenance of aircraft and aircraft operation? Do they provide all the quarters and administrative staff for

those airfields?—Broadly speaking, yes. Everything that is not the concern of somebody else is done by us. We provide all the technical services there, and for the whole country, for controlling flying in the air and for the operation of the aircraft on the ground. We provide all the services for the buildings, except such as are provided by the people who are using them. In London, which is different from most airports, we provide the apron services and charge for them—the services between the aircraft and the passenger building, for example, the steps up to the aircraft, and all those other things. That is to avoid congestion and that is a repayment service which we supply. But the job of looking after the passengers is the job of the airlines.

1516. I see here is an assessed net cost of over £4 million made up of depreciation, interest on capital, and administrative costs incurred other than at the airports themselves. Can you break that down? What is the amount of interest and what are the administration costs?—The running costs, that is including the costs on the landing area, the hangars and workshops, insofar as we are concerned with them, the terminal and other buildings in the public areas, total just over £4 million. This is in 1957-58.

1517. That is the cost of the airport. I was thinking of the administrative costs incurred other than at the airport?—Yes, headquarters and divisional administration is £405,000 over the whole area, but there is a proportion of the aerodrome technical services which are applicable to the country as a whole.

1518. Which is included in that figure?—No, it is a separate figure. The aerodrome technical services, that is, the services for the control of aircraft in the air, over the country, cost £1,700,000. They are not all at the aerodromes themselves.

1519. No, I appreciate that. And the interest on capital?—Is £2½ million, roughly, or a little less—£2,220,000.

1520. I notice that the largest deficiency is at London Airport, over half the amount, in fact?—Yes.

1521. Do you see any prospect of that paying its way?—Yes, I should think that London Airport will probably be the first of the big airports to pay its way, but that is not in the very near future.

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1522. Is it likely to pay its way by reason of the increased charges that you are going to impose?—No, by increase in traffic. I do not say we have come to the end of increase in charges, but the scope for further increase of charges is not infinite. But what will make the difference is that by 1970 the estimate is that there will be three times as many passengers there, and that the traffic movement will be up, not right up to double, but perhaps three-quarters more than they are now.

1523. Will you agree that this landing fee which one pays as a separate charge is an intense irritation, really, to most air travellers?—You mean the passenger service charge? The landing fee is on the aircraft.

1524. I see, the passenger service charge?—I think it is. That is partly due to the fact that the international body, the I.A.T.A., will not agree to have that included in the fare. That is a thing we have been pressing for for a long time, but have not succeeded in persuading them to do. That means it has got to be collected separately. The airlines collect it when the fare is being charged in the case of all traffic booked here. They cannot do that overseas, so that anybody who books a return ticket by B.O.A.C. in New York, for example, has got to pay his passenger service charge when he leaves London on the return journey.

1525. There is nothing we can do about that?—There is nothing, I think, that we can do about that.

1526. Have the fullest investigations been made into the operating costs of these aerodromes with the idea of producing economies and cutting down costs?—Yes, that is continually under review.

1527. Have you used any firm of outside consultants in this matter?—No, we have not. It is continually under review by our own people. We have got our own Organisation and Methods Division in the office and we have also called in the Treasury to help.

1528. Would you agree that there is an impression, rightly or wrongly, amongst the public that airports and airways are, perhaps, extravagantly run?—There is an impression that some of the airlines are extravagantly run, not necessarily our own, altogether, but I have not myself heard it applied to the aerodrome management themselves, no.

Chairman.

1529. Paragraphs 88–91. Sir Gilmour, you will remember last year that the Committee raised the question of increasing land values and you gave the answer in Question 2144 to the effect that an escalator clause had been agreed, as you said, “the rent going up by stages during the course of the tenancy”?—Yes.

1530. Which appeared to meet what the Committee was asking for, an increase in the rental as the value increased. On the other hand, the Comptroller and Auditor General, in paragraph 90 of his Report, says that these escalator clauses are nothing more than “mathematical conversions of the ‘straight’ open market rents”, which were agreed with the prospective tenants in or before 1957. So, in effect, you are getting exactly the same rental over the period, and if I read it aright it does not take into consideration at all the increasing value of the sites?—Well, Sir, I think that is a misunderstanding. We have since replied to the Comptroller and Auditor General’s query about that and given him greater detail. He raised it on two particular pieces of land. Now, it is quite true that the escalator clause, the increased rent, was a mathematical or, rather an actuarial conversion of the flat rent which was first worked out, but the flat rent itself took into account all the increases, amenity and such, that we could foresee for the future. As I said last year, when the rents were first determined in the early days, it was very difficult to guess what developments there would be which would at a later stage justify higher rents. But I said then that we are now in a much better position to see where we are going and to see what developments there are likely to be, and so to put a figure on the kind of increases in rent which should be imposed in order to take account of future development. Now, in fixing those flat rents, from which the escalators were calculated, all that was in fact taken into account; so that the escalators in these two cases which the Comptroller and Auditor General was referring to in fact do take fully into account all the increases which we could foresee.

1531. Looking at the evidence, you appeared to be meeting the Committee on the feeling that the Committee had that there should be an increase as traffic developed, and the Committee took that line with full knowledge that you

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had practically fixed these two rents?—
Yes.

1532. You offered to them, apparently, something that would meet that. Well, as a matter of fact, you offered them nothing?—No, Sir—

1533. What has happened is that you have over a certain period of years had an asset which would accrue to you. It was accrued at a flat rate on your original scheme. The same asset will accrue to you by a rather different method, it will be an increasing receipt, but in the end you have only got exactly the same value as you had before the Committee pressed you for increasing rents?—Yes, Sir, that is quite true, but that is only a method of calculation.

1534. The Committee were not concerned with the method of calculation, Sir Gilmour. They were concerned with taking more as the traffic would bear it?—That, Sir, is precisely what we have done. We have done precisely what you said, but first of all we calculated what, taking into the account the future development, which was the thing you are concerned with, we should charge for the added rent which ought to be paid because of development in the future. That was taken into account not to make the first escalator, but as a matter of calculation to get a figure per annum over the whole period; and then that was converted into an escalator. Now, to take the Gatwick maintenance area—I am taking now the flat figure before doing the escalation, because it is easier to handle, and that is why it was done that way—we got an open market ground rent of £— an acre. That was for B.E.A. at Gatwick. The economic rent as we calculated it over the whole period was £—; so we have in hand — per cent. more than the economic rent in making that calculation. That means that, over the whole of that Gatwick maintenance area, the capital development expenditure would have to be further increased before the economic rent overtook the open market rent which we are charging.

1535. My complaint is not as to whether you got the right, or the wrong, figure. What I suggest, Sir Gilmour, is that you gave the Committee an answer which made them think that they were getting something, that you were meeting them, whereas in fact you were merely rearranging your figures to give exactly the same result?—I do not think that is

quite so, Sir, is it? We have got the escalation, it is true, by a process of calculating it from a flat rent, but the flat rent itself has done precisely what you asked us to do, that is, to take account of future development.

1536. The Committee seemed to be somewhat sceptical about it, anyhow. At any rate, you apparently offered the Committee a concession to meet the Committee's point of view, and it turns out, as a matter of fact, to be a pure formality?—Well, Sir, if that is so, and I do not think it is quite true, we had anticipated in the rent we had worked out already precisely what the Committee had in mind.

1537. I am not concerned with what you did. I am concerned with the impression you created on the Committee. However, I have elucidated that point. Mr. Macpherson, what have you to say about this?—(Mr. Macpherson.) I do not think there is any doubt, Sir, that this arrangement does, in effect, give the same result, because it stems from the initial calculation of the market value of the property. It just means that in the earlier years the rent is lower than in the later years. But I think the point Sir Gilmour is making is that the basic calculation is the calculation that matters, because that is the assessment at the time of the market value of that land.

Chairman.] Yes, but the Committee did not realise that. The Committee when they were offered an escalator Clause thought that the Ministry were going to get more.

Mr. Hoy.

1538. I do not understand what Mr. Macpherson has said. When you say that it just gives the same result, Mr. Macpherson, do I understand you to mean that at the end of the day, when the rent has reached the utmost pinnacle of the escalator, it will be exactly the same as when they started?—Over the whole period the two totals will be the same, allowances being made for differences in interest.

Mr. John Hall.

1539. I am a little bit puzzled about this myself. Do I understand it correctly that what you did in the first place was to calculate a ground rent in 1952?—(Sir Gilmour Jenkins.) No.

1540. 1952 is the year to which reference is made here. Those were the

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[Continued.]

leases about which the Committee complained, I think, in the first place, that you calculated a ground rent in 1952 at a figure which took into account the potentially rising values over the period of that lease and then by a mathematical adjustment produced a straight ground rent over that period of time. Is that what I understand you to have done?—No, there are two quite separate things. The 1952 rent took it into account, I think, possibly to some extent; but at that time, as I have said earlier, and for some time afterwards it was not possible to foresee at all what the development would be and it was not possible to take that into account. The rents that have been obtained since are very much higher per acre than they were in the 1952 leases. It is right to bear this in mind that the big areas were let to B.O.A.C. and B.E.A., who were the main people in those early years, at a rent much lower than we are getting now. It would not necessarily then have been placed at a higher figure because a great deal of the increase in the value of the land since has been due to the developments which they, themselves, have done and not to what we have put in at all. They have also attracted there engine-makers, tyre-makers, the oil companies, and everybody else, ancillary operations, to come in and build their own buildings close at hand to B.O.A.C. and B.E.A.; and so by the influence of B.E.A. and B.O.A.C. the value of the area there has increased, quite apart from anything we ourselves may have done. Now, with regard to these two much smaller areas, quite recent ones, one at Gatwick and one at London Airport those have been negotiated in the last couple of years, in 1957. Then, as I said earlier, at that time we had a much better idea of what developments were going on and what the future held and therefore could take into account what the rent ought to be, not at the present value but at values over the whole period. Those rents were fixed, and those rents were then changed, having taken into account these factors, into an escalator rent. If I may go back for a moment to your question, Sir, I think that perhaps a large part of the fault last year was my own, because I was not fully clear in my own mind as to the extent to which those two rents, very largely on a flat basis, took into account the future as well as the present; and it was only when we went into it

quite recently that the full extent of that came out.

1541. So what you did was to adopt the system which you have been explaining earlier for the 1957 leases?—For the later leases, yes.

1542. Can you tell the Committee the lengths of the leases granted in 1952 to B.O.A.C. and B.E.A.?—50 years.

1543. And it is not possible, in your view, to grant leases at these ground rents for a period of, say, 25 years with a review of ground rents after that time?—If you did that you would much earlier come up against the question of the reversionary interest which we would have as ground landlords in the buildings which were put up; and it is one of the arguments, if I may say so, against any system which would leave the ground rents undetermined at the initial stage, to be determined at a later stage. As you get nearer the end of the lease the tenants are bound to take into account the reversionary rights of the landlord, the fact that their buildings are going to become the landlord's property at the end of the period. So, you get a much better deal on a 50 year lease than you would on a 25 year lease and, equally, in making your calculations now you might easily do very much better by increasing the rents later than you would when that factor comes very much more prominently in the mind of the tenant.

1544. Always assuming that your calculation of the rate of increase in market value was accurate in the first place?—Certainly, but I do not think we ought necessarily to assume that what has happened in the past is going on happening. It might easily be that the rents to be obtained in the future might be much lower than they are now. After all, things are going ahead very quickly. At the moment you have got the change-over to much larger machines with jet engines on which maintenance is very much lower and at longer periods than it is on the old machines. That might reduce the demand for space in the maintenance areas. Equally, if we get, as undoubtedly we shall get in the quite foreseeable future, a vertical take-off, it might destroy entirely the value of these maintenance areas because any operator would then be able to lease quite a small area of land outside and put his buildings up there, where our monopoly powers did not come in. So, it might go either way.

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Mr. Arbuthnot.

1545. Sir Gilmour, may I get this clear: Is it the fact that in the new leases there is still no provision for review during the course of the lease but that the price is fixed for the whole of the lease for fifty years?—Yes, that is so; there is no review.

1546. Do you feel that there is any advantage at all to the Ministry in this conversion of straight rent to the escalator clause, then?—Oh, yes, I think there is. I think that you can get a better price from the tenant because he looks much more carefully at his rent in the first few years than he does at his rents for the future, and going in at a lower rent now as compared with the level over the years may easily induce him to go in earlier. That we found to be so in B.E.A.'s case, who did go in earlier because of the advantage of the lower rent. I think it has advantages for that reason.

1547. But we were complaining, if I remember aright, that the rents having been fixed in 1952, by the middle of 1957 those people who were renting were paying no more than half the current open market value for the sites; and it would seem to me that we are exactly back where we started?—No, Sir. You cannot alter those which were let in 1952, but, as I said earlier, it does not by any means follow that, if you were starting afresh now, you would be able to get for the large areas from the big operators at the start the price per acre that we are getting now for the marginal amounts that are left. As I said, the increased value of these areas which we are letting now has been due very largely to the fact that B.E.A. and B.O.A.C. are there. There is, if you like, a scarcity value in land to some extent due to the fact that they are there, that they have their operations there; and that is why we are able to let at much higher rents to the engine makers, to the oil companies and to everybody else ancillary to the main operations of the airport, than we charged to the original tenants.

1548. But you have not given yourself any protection whatsoever against possible future inflation?—No, but that is a matter I do not think anybody is able to do at all, and it would be against Government policy to do that.

Sir Colin Thornton-Kemsley.

1549. Sir Gilmour, would it not be true to say that, going back no further than the beginning of this present century, there has been a noticeable tendency for the value of the pound sterling to fall?—Certainly.

1550. And automatically for land values to rise in terms of monetary values?—Yes, that applies to everything, not only to land values, of course. Everything has gone up in price.

1551. But it is particularly noticeable, is it not, in the case of land values, which have tended to increase progressively over the last fifty years, at any rate, going no further back than that?—I would not like to express any opinion on how the increase in land values has compared with others. I simply do not know.

1552. Would you expect your advisers who, I think you told us before, were the Lands Branch of the Air Ministry, to have a view about that matter which, after all, is one of common knowledge, is it not, Sir Gilmour?—No, I was not saying it was not common knowledge that the price of land had gone up. What I was saying was that I could not say whether the price of land has gone up more in proportion than the price of other things. Of course, the decrease in the value of money has affected everything.

1553. Yes. My question was really directed solely to the increase in the value of land in terms of money?—Yes.

1554. Because, after all, your ground rents are fixed in terms of money, are they not?—Certainly.

1555. Is it clear that we are dealing at the moment with land which is let on building leases? That is to say, part of the agreement is that the lessees shall erect the factories or the buildings, whatever they may be, on the land that you are letting to them?—Yes.

1556. Was the suggestion that the change should be made to escalators made by your Ministry, or did it come from the tenants?—Oh, it came from us. It certainly did not come from the tenants.

1557. Since the changeover to the escalator rents represents no more than the straight rents which had already been agreed, why did you suggest this changeover?—It arose out of the discussion

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with this Committee last year, and we thought, as we said then, that though there were strong objections to doing it in precisely the way that was suggested, there was real value in following up the principle behind it and charging lower rents at the start and higher rents as time went on. But we did not bring into that the question of depreciation in the value of money, and could not do so.

1558. And yet that was one of the points, was it not, that the Public Accounts Committee of that day had in mind?—I do not think so, Sir.

1559. We have had read a question that was put at that meeting, which I think made that quite clear. That meeting was held in March, 1958, but I thought that you told the Committee just now that the rents in these two cases of the Gatwick maintenance area and the London Airport maintenance area were fixed in 1957; I may have misunderstood you?—I think that is right, yes, 1957.

1560. Am I to understand that the escalation arrangements were fixed in 1957?—No, the escalations came in as a result of discussions last year. It was as the result of the Treasury Minute which followed the discussions last year, but what we did, as I said, was to look at the flat rent figure to see whether it did include provision for future development—and that is the point we were on, not the depreciation of money—and we found that it did, and in our view, adequate provision for increased value due to possible developments on our part in those maintenance areas. That being so, we escalated it.

1561. I think it would help the Committee if we could just follow up one of these cases, which you did offer to do yourself. If we take the case of the B.E.A. maintenance area at Gatwick, could you just give us those figures again? I think you told us that your advisers estimated that the ground rent on a market value basis would have been £— an acre?—That is right, yes.

1562. I think you suggested that that took into account, so far as you were able to evaluate them, the increased facilities which would be available as Gatwick developed?—Yes, that is, the increased facilities which were due to our development and not to other people's development.

1563. That is fair enough, but it did not take into account anything which would arise from inflation or the increasing values of land in this country?—No.

1564. You then, I think, told the Committee that the economic rent in the view of your advisers was £— an acre?—That is right.

1565. Over the whole period of the lease?—No, that is that the current economic rent would be £—. That left, you see, the difference between the two figures as the amount by which the open market ground rent which we are getting exceeds the economic rent, and that is — per cent. more than the current economic rent.

1566. Very well. Then, you start off for the first period of the lease with a ground rent, which is what in this case?—These are the figures: up to July, 1958, £— a year.

Mr. John Hall.

1567. Per acre?—That is for nearly nine acres. It is not per acre.

Sir Colin Thornton-Kemsley.

1568. £— for nearly nine acres?—For nine acres. Then, for the next five years, that is, from July, 1958, which is operative now, £—. Then, for the next ten, £—; for the next ten after that, £—; and for the remaining 25 years after that, £—.

1569. It was a 55-year lease, or something of that order, was it?—It is 50 years.

1570. I think it must be more than that, must it not, Sir Gilmour?—It is 50 years dating back—it would be a little more than 25 at the end.

1571. Let me just check this. You told us, I think, that, for a period of unstated length up to 1958, the ground rent was to be £— a year?—Yes.

1572. Thereafter, the next five years, £— a year?—Yes.

1573. And so on. So, it would be slightly more than 50 years?—I think the answer is that it is for the remainder of the term, which I have put down as roughly 25 years; for whatever period it is, for the remainder of the 50 years.

1574. So, it is a 50-year ground lease?—Yes, a 50-year lease.

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1575. To what extent do these figures reflect interest on capital at the lower rents, rents that fall below the economic rents?—There are not any at Gatwick. This is a Gatwick case.

1576. Gatwick, yes. You have not charged any interest?—There are no old leases at Gatwick.

1577. No, I am sorry, I did not make myself clear. Is there any element of interest on capital in any of these instalments?—Oh, yes, certainly. The calculation is done on an actuarial basis. It is not just a matter of mathematical conversion. It takes into account interest and every other factor operating over the years.

1578. Do you know at what rate of interest these deferred rent payments are calculated?—No, I cannot say offhand. It is the rate fixed by the Treasury at the time, but I do not know what it was. I do not know whether the Treasury does? (Mr. Macpherson.) I do not know the actual figures.

1579. Who fixes the amount of the escalation? Was that fixed by the Air Ministry Lands Branch?—(Sir Gilmour Jenkins.) Yes, that was fixed by our advisers, but on the factors taken into account, such as interest, of course, we naturally take the advice of the authority concerned.

1580. I must do a quick calculation, but the equivalent of the present market value would be £—, would it not, since we are dealing with nine acres?—Roughly, yes.

1581. So it is not until the lease has been running for half its term that you start to exceed the equivalent of the present market value?—Yes, that is right.*

1582. It has got to run for 25 years before you are really getting the market value for the property?—That is so, yes.

1583. Have you allowed at all for the possibility of your tenants breaking the lease during that first vulnerable 25 years?—No, we have not. But this tenant is B.E.A., which is very unlikely to break its lease.

* Note by witness: Further examination shows that the escalated rent is equal to the original flat rent at the end of 15 years.

1584. Are there any breaks in the leases at all, or are they just straight leases without breaks?—No, straight leases without breaks.

1585. So they could not break?—No, there is no break clause. That same criticism, if I might say so, applies equally to the suggestion that rent should be determined ten years at a time. If it was possible to adopt that system, that could not help but depress the rents in the earlier stages. We think it would also depress the rents at a later stage because of the reversionary element. The first part, the depression on the first rent, is incontrovertible.

1586. As a result of these two experiences that you have had, at Gatwick and now at the London Airport, are you proposing to go on with this system of escalation?—I think we would like to keep an open mind on that. We have been in discussion on the specific proposals made by this Committee with the Treasury, the Treasury Solicitor and our advisers of the Air Ministry Lands Branch, and also with the Revenue Lands people, to see what we could do in the direction which the Committee desire, and we have not by any means come to a conclusion about that, except that at the moment we think that the specific proposal of arbitration after relatively short periods would work against us rather than in our favour. But there is no question of closed minds about it, and I think we would like to go on thinking about it as the new leases come up for consideration.

Chairman.

1587. Sir Gilmour, I think it was quite inadvertent, but you did succeed in leading the Committee up the escalator, did you not?—Do I take that as a compliment, Sir?

1588. I am not sure?—I had not intended to. I can say that.

1589. I know, it was quite unintentional. Now, paragraphs 92-94, Heat Charges. Before you decided to stop including capital costs in your charges for heating, did you take into consideration the factors mentioned by the Comptroller and Auditor General in paragraph 93?—What happened about the heating charges was this. When we went into the question of the element in the heating charges to take account of the capital cost of the station we found that our advisers, the Lands Branch, had in

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fact included something for that—and nobody could say exactly how much, because it was a negotiated rent—in the rent charge. We at the same time over the years had been including it also in the charge per unit for heat; and though nobody then could put an exact figure on it, it was clear that they had been overcharged, and they had been charged both in their rent and in their unit charge for heat. For that year, for one year only, we ceased to charge anything for depreciation in the charge per unit of heat. Then, we have looked into it more in detail to see whether we could put a figure on it on the basis pointed out by the Comptroller and Auditor General, and decided that if there had been something wrong, it had, by and large, been put right by what we had done in that one year; and we are reinstating the charge as part of the charge per unit for the future.

1590. You are reinstating?—Yes, that is being reinstated, and I think that rough justice has been done. In future the heating charge will include that element for the depreciation of the building as well as the day to day costs of producing it.

1591. I am not quite clear why you dropped it for the one year?—We dropped it for the one year because it was calculated that we had been charging double for a period of four or five years.

1592. But you retracted and you are still charging double, is that so?—No; as I say, it was not possible to put a figure on what the overcharge had been; but now in the new circumstances having, we think, wiped out that overpayment that our tenants have made, we are going back to put it on the heating, and over the whole period it should be right now, we think.

1593. You will include in your future charges a correct assessment of the depreciation?—That is so.

* * * * *

1595. Mr. Macpherson, have you anything to say?—(Mr. Macpherson.) Frankly, Sir, we find this rather extraordinary. It seemed to us that in assessing the charge for the heating one would have regard to the capital cost involved in providing plant. The ground rent was assessed from a rather different angle.

It seems to us that you approach that from the point of view of the market value of the area you are letting. We do not think there is any connection between the two and that the proper basis is to get the ground rent at the market value of the ground, having regard to the development there and likely to be there, and separately in a charge for the heating you ought to include in the price the amount necessary to cover the capital costs.

1596. Are you satisfied that the charges now are adequate?—As the Ministry told us, they are now approaching it, as I understand it, on the basis I have described.

1597. So the new basis is for the future, not for the current year?—(Sir Gilmour Jenkins.) It is for this current year, but not the year under discussion.

1598. Not the year of account?—No. I will accept what Mr. Macpherson says, of course, as regards what we are going to do for the future, but I cannot accept what he says, if we go back to our discussion of a few minutes ago, that it would be right, in fixing a rent for a development in a maintenance area, to leave out of account the fact that you are also providing a heating station there and so relieving the tenants of the expense of putting up a station themselves. On the previous discussion that you should take into account development for which we are paying, surely that is an element which was quite rightly included by our advisers when they were fixing rents at the start. It certainly was taken into account, and the fact that we are now going to make them pay the whole charge through their heating charge is not, I think, any reflection on what they did in the earlier stages. (Mr. Macpherson.) I am sorry, Sir, I do not quite see where this element of double accounting comes in, in the heating charge and in the rent.

1599. I do not either?—(Sir Gilmour Jenkins.) The Committee have said, and so have we, and I think there is no difference of opinion about it, that where you are letting a piece of ground on which somebody is going to build a maintenance area, you take into account the facilities which are provided at our expense and which therefore increase the value of the job which is being done for the tenants. Now, I cannot see why you

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should leave out, when you are making that calculation, a development which happens to be a heating station any more than you should leave out of account a development which is in the form of putting a large slab of concrete on which they can run their aircraft, or any other expensive item; and it seemed to me that our advisers were perfectly right in the start in saying: "We are providing a heating station. That is one of the factors we will take into account in assessing the rent that you will pay". I think they would have been very remiss if they had not. They did so, so they advised us, and the tenants have paid additional rent on the basis that they have had that. * * *

1600. But you are not going to take it into account in the future?—We are not going to take it into account in the future.

* * * * *

Mr. Stevens.

1602. Are you familiar with commercial practice in this matter at all?—No.

1603. You would not know, for example, whether, if the Electricity Authority were also a ground landlord, they supply electrical power to their tenants at a special low price by reason of the fact that the ground rent includes capital costs?—No, I have not an idea. But that is not the point, Sir. We are not supplying heat at a low price. They are paying the full cost of the production of the heat. What they have been paying also is an element for depreciation of the building, the heating station, both in their rent and in their heating charges. I should doubt if that is commercial practice.

1604. You would not know, in the case that I suggested where the Electricity Authority is in fact the ground landlord, if the ground rent fixed by the ground landlord is based upon the principles which the Treasury has just outlined, the value of the land, and has no connection whatsoever with the capital costs of the electricity supply undertaking? You would not know that?—No, I do not know that, Sir, but if I understand it aright it cuts clean across everything that this Committee has said over the years, that when you are assessing what the rent should be you should take into

account costs of development in the future which will enhance the value of the land.

1605. Could you tell the Committee how it was that when fixing these heating charges the part of your Department which fixed them did not know the position of the ground rent fixed by another part of your Department?—No, I do not know that.

1606. There was a lack of co-operation, surely?—I think what happened was that our advisers who were fixing the rents were not consulted about that particular point.

1607. That was unfortunate, really?—That was unfortunate; it was unfortunate for the tenants, it was fortunate for us.

1608. I am not quite so sure. These paragraphs 92 to 94 refer, I think, to London Airport. Do these considerations apply to any other airports as well?—I do not think anywhere else to areas on ground leases. They apply to London only, to one particular place, the No. 1 Maintenance Area, which is the only place where we supply heat.

1609. The Ministry does not supply heat in the case of any other area?—Not as far as I know. Certainly not in any place in London.

1610. But there are a great many other areas?—The tenants, normally speaking produce it themselves. In No. 1 Maintenance Area it was done as a single venture in order to save space and to avoid congestion in an area which was going to be very crowded.

1611. There does seem to me to be some doubt about this. I have in mind your evidence earlier on in regard to the other large airfields, and I wonder if some enquiry could be made to see if similar circumstances do apply elsewhere than at London Airport, and if so, what the basis is of the heating charge, just to make quite sure that this kind of difference has not occurred at other places?—We will look at that, Sir. I am almost sure that we do not supply heat anywhere else, but I would not say that categorically*.

* Note by witness: I have confirmed that we do not supply heat to any other areas let on ground leases.

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[Continued.]

Mr. *Arbuthnot*.

1612. Sir Gilmour, did you tell the Treasury that the assurances given to them, those that the Comptroller and Auditor General mentions at the end of Paragraph 93, would not be fulfilled?—No, I am sorry, Sir, that was not so. When we were doing this review, we ought to have notified them that we were making this change for the current year and, in fact, did not do so.

Mr. *John Hall*.

1613. I find it a little difficult to understand why it was not possible for the Lands Branch to separate this element which you say they took into account for heating, because I rather find myself accepting the Treasury view on this. I would have thought that the ground rents would have been established just by the market value of the ground rent as such, rather than by any element which was going to be added to it to take into account amortisation, interest on heating plant, buildings, and so on. It would have been easy to do and one would have known full well what that amount was in arriving at the total ground rent. I find it hard to understand why they could not separate this?—I am, naturally, not an authority on the way they work, Sir, but as I understand it they would take into account in considering the economic rent all the expense that we had been put to, everything, if you like, that had to be got back to make sure that we did not make a loss. And they must have taken into account then in making that calculation the cost of putting up the heating station.

1614. I quite agree with you. That is why they ought to know what it is?—That is the economic rent. Then they go and negotiate an open market rate with the tenant, having this knowledge of the economic rent in their minds, and knowing that their job is to get something substantially more than the economic rent. How much in that open market rent, which is a higher rent than the economic rent, is attributable to that particular factor, I do not think anybody can say.

1615. I find it difficult, then, to follow your argument that you believe that your earlier tenants had been paying double for their heating, partly through an unknown figure which they had paid in the ground rent and partly in the charge

that has been placed on them for heat, which until recently, as I understand it, has excluded the capital charge?—(Mr. *Macpherson*.) It included it.

1616. I see; it included it?—(Sir *Gilmour Jenkins*.) I think the answer is, as I say, that you cannot put a figure on it; but if we have any success in fixing a rent by negotiation, it will take into account a whole lot of imponderable factors such as the probable future expenditure which we shall make on the area, which is what the Committee have asked us to do. It is surely easier to take into account an expenditure which has already been made than to negotiate a rent which contains an element for that as well as the other much more imponderable factors which we are enjoined to take into account.

1617. May I go back, because I am getting a trifle confused about this? In the first place, the rent which was charged was charged to a tenant and was to include heating facilities which were there and available?—Yes.

1618. And a calculation was made of the amortisation and interest charges involved in the building and services provided?—Yes.

1619. But nobody knows what that is?—No.

1620. Although it must have been taken into account in the original calculations in some way?—It is taken into account in the original negotiation, but when you get a rent which is not on the basis of a specific calculation of how much for each of your items—and if we are going to get a higher rent it must be on that basis—you can only say that that element was taken into account.

1621. The second thing is that they then had to meet a heating charge which was the cost of the actual fuel and the heating provided plus—or is it excluding—a further sum for amortisation and interest charge?—They paid a sum which included capital and amortisation charge as well.

1622. Fully covered?—Yes, fully covered. That is why they have paid twice. They were let off for one year which on rough justice, as I say, may put the thing straight; and from now on they will be paying in their heating charge the full amount required by the capital cost of the station.

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Chairman.

1623. Before we leave this, Mr. Macpherson, if you had known before it happened that there was this rebate granted for one year, would you have agreed?—(Mr. Macpherson.) I am no expert in this field, Sir, but I think we should have required a good deal of convincing that this was a proper point to take into account in determining the charge for heating. It seems to us, and again I qualify it by saying I am no expert, that if you are negotiating a ground rent for a piece of land you will try to get the best terms you can, and will say to your prospective tenant: "We expect there will be developments here". To take a simple example, "We expect you will benefit from having a bus service near here", but it does not seem to follow then that you could expect the tenant to pay a reduced charge in the buses. The two things are really unconnected, and that is why I find it difficult to say that there has been any injustice at all in this. We think the present method is fair and is the answer.

Chairman.] Yes, I think that gives the Treasury point of view. I have no questions on paragraphs 95 and 96, Profit Element in Charges for Heat Supplied.

Mr. Arbuthnot.

1624. Did the Treasury know that no provision for profit was being made in the Ministry's assessment of charges?—I am not absolutely sure, but I do not think we did.

1625. Would you have approved it if you had known?—I think we might, Sir, because this again is a field in which you can negotiate. As I understand the contract terms, it is not a requirement of the lease that the tenant must take the heating provided. Provided he has got an alternative source which is acceptable to the Ministry, I think he may use it. Therefore, in determining what the charge should be, presumably one has regard to how far you can push your claim before he adopts an alternative method of heating and probably nullifies to some extent the cost you have incurred in providing the heating plant. It is a matter of negotiation.

1626. Would you subscribe, Mr. Macpherson, to the view which the

Ministry have expressed to the Comptroller and Auditor General, that to take an element of profit is the equivalent of exploiting a monopoly position?—Subject to correction, I do not think this was a monopoly position. That is how it differed, as I say, because there was the possibility that the tenant could make alternative arrangements. But if I may say so, I am speaking off the cuff; it is not something we have considered.

1627. Sir Gilmour, I fail to follow why the judging of a profit should in the one instance be amoral as exploiting a monopoly position and in another instance be a perfectly proper thing to do, because the Treasury tells you that you should?—(Sir Gilmour Jenkins.) I think the real distinction is that where you are providing services to somebody who is there in order to carry out the functions which the airport is there to do, when you are supplying him with telephones and other necessities for the carrying on of his business in the maintenance area, there is a different situation from the one which arises where you are letting a concession to the people who are running the restaurants, who have shops and the like, where it is proper on a commercial basis to make a profit. These are services supplied; and we have always taken the view that it is reasonable to supply those at cost, not to try to make a profit.

1628. No wonder these services are run at a loss?—No, Sir, I do not think that is so.

Mr. Stevens.

1629. Sir Gilmour, I take it that these words in paragraph 96 about not setting out to secure a profit are a quotation from a letter of yours?—Yes.

1630. Could you say then what you mean by "profit"?—It is something in addition to the reimbursement of your costs of all kinds in giving the service, surely?

1631. Including depreciation, and things of that sort?—Certainly.

1632. So, if you never set out to make a profit, and in one year you have an exceptional item of expense, you have a loss that year, do you not?—If you have an exceptional item of expense that

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[Continued.]

is included in the whole range of years. You would not put up the charges in that particular year.

1633. Let us try and keep it as simple as possible. Supposing in the case of the heating installation the boiler does not last as long as the depreciation calculation provides; in the third year it blows up and has to be replaced. You have an exceptional expenditure in that year. If you have never made a profit on that particular service you have no reserve of profit out of which to meet this exceptional expense, so you have a loss, have you not?—I am not a valuation expert.

1634. There is no question of valuation?—I should be surprised if that contingency were not taken into account in calculating the total cost of the station. We are doing far more than providing for a boiler explosion. At the moment there is a temporary station there, and that is being replaced gradually; and I think after 1972 the whole of the heat will be supplied from an entirely new station. Now, the whole of that is taken into account in the charges over the years, over the whole period.

1635. So that, in fact, the charges do include an element of profit?—No, they include a return for the actual expense of the present station, and the replacement of it by a new station. Those are costs; that is not an element of profit. They are repaying the capital cost of the station which supplies the heat, as well as the day-to-day charges for the heat.

1636. To come back to the point I made a moment ago, if the amounts provided in the charges based on depreciation during the normal life of the heating installation prove insufficient, then you make a loss, do you not? Who meets that loss if you never make a profit? How is that loss provided for?—If that turns out to be the case on experience that can be carried forward and adjusted as the years go by.

1637. Out of a higher charge?—Yes, certainly.

1638. In other words, a charge with a profit element?—No, Sir, it is a charge in respect of something that you have actually had to pay, and that is not profit.

Chairman.

1639. Just one further question: Presumably your tenants are hoping to make a profit on their activities?—Well, no, Sir, not in that way. B.O.A.C. and B.E.A. do not make a profit on the operation of a maintenance area.

1640. No, they are running a business, and they are presumably running the business with the idea of making it a profitable business?—Yes.

1641. In that case, then, why should you, who are offering them facilities, take such great care that you do not make a profit out of it? It only increases their profit if you take no profit, surely?—Well, I think we are not letting a shop to somebody who is going to make profits by selling goods, or a factory where somebody is making goods for sale where the profit element comes in. This is a maintenance area for the airlines themselves who are not, as you know, profit-making organisations anyhow, and for the ancillary people, only a part of whose business it is to supply B.E.A. and B.O.A.C. It is not a profit-making organisation in that sense, I think. In the terminal area where we have got shops and concessions, and all that sort of thing, they are profit-making concerns and I think it is required there; but to supply gas and water, telephones and heat and those elementary necessities, I think, is part of the job rather than a job to make a profit out of.

Mr. John Hall.

1642. I would agree with you that the provision of services of that kind would normally be accepted as something one would supply without a profit element, and it is normal commercial practice in many cases to do so. But the thing that interests me is that you state you cover in your charges the total capital and other expenditure for which you are liable over a period of years, including, presumably, the capital expenditure in the early period when probably the service is not fully used by the tenants?—Yes.

1643. That means, does it not, that in the early years probably the tenants are paying a fairly heavy charge in excess of the charge they could normally expect to pay if the service had been fully used?—Well, Sir, we have tried to deal with that by avoiding putting into the charge the full cost in those earlier years when the whole of the area is not

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let, so that at later stages when the whole area is let, over the whole period of years, we shall get the whole of the money back. We are not loading on to the people who start with perhaps one small building in a large area the whole of the capital cost.

1644. So, in effect, the capital charges are loaded on to the future years?—Yes.

Chairman.

1645. Paragraphs 97-100, Purchase of Fire Tenders. In paragraph 100 the Comptroller and Auditor General says he asked "whether, and if so, at what stage, consideration was given to the possibility of purchase by competitive tender." Have you replied to that question?—No, Sir, we have not got the complete answer for the Comptroller and Auditor General. He asked for a good many more details which we have not been able to answer completely, in consultation with the Ministry of Supply. I think I can answer the question as far as these paragraphs are concerned.

1646. You say you can answer?—I think I can answer the points in the paragraphs here, Sir, yes.

1647. What is the date of the Comptroller and Auditor General's inquiry?—December, Sir.

1648. How long will it be before he gets his reply?—I am informed it is almost ready to go now. It will be going in the next few days.

1649. How many fire tenders are you requiring in all?—The total number, including three for Bahrain, is 41, plus another 15, for which competitive tenders have been invited.

Mr. Stevens.

1650. Paragraph 98 indicates that there were quite considerable delays between the end of 1954 and delivery in 1956 of these fire tenders, and during that time the standards of your fire rescue services seriously deteriorated. Is that not rather alarming for the passengers who use your airfield?—Yes, Sir, we have been apprehensive about this over all the years from 1947. We have been able to make stop-gap arrangements, which have in fact held the situation. We took over from the Royal Air Force a number of vehicles which they had been using. They have gradually gone out of service. We have replaced those by vehicles on an Austin chassis, which were

surplus to Royal Air Force requirements. We fitted on them a different form of foam pump and they have filled the bill up to the present time. We want something much better, and have wanted it over the years because of the special requirements of a fire fighting service at the airports. We have, naturally, been very anxious to get this improved equipment.

1651. Are the special requirements of the fire tender for a civil airport very different from those of a Royal Air Force station?—I could not answer that, because I do not know what the requirements of the Royal Air Force would be, but the need is a greater need to the extent that the number of people in a passenger aircraft is very much greater than the number of people in an R.A.F. machine. To that extent the anxiety, naturally, is enhanced.

1652. You said you do not know what the requirements of the R.A.F. may be. Does that indicate that ever since 1947 there has been no co-operation between the Ministry of Transport and Civil Aviation and the Air Ministry in the design of fire tenders and no discussion of any kind?—No. Our discussions have been with the Ministry of Supply, who have full knowledge, of course, of the requirements of the R.A.F. as well. But our requirements I should think in size of vehicle, and that kind of thing, are different from the R.A.F. requirements. These machines were specifically designed by the Ministry of Supply contractors and the requirements worked out in consultation with us for civil purposes; but they certainly know what the R.A.F. have got.

1653. I do not quite know what the etiquette is, but do you not think it a good idea if your Department had personal conversations with the Ministry of Supply or the Royal Air Force to see what similarities there were, let alone what differences there may have been?—I think it is much more practical for the Ministry of Supply, who are the agent authority for supplying both of us, to do that, rather than that we should go to the R.A.F.

1654. Yet you are the user, you are the person who should know exactly what you want?—Yes, certainly.

1655. Do you not think that the experience of the R.A.F. would be valuable to you? I entirely agree that the size of some of the aircraft—only some of

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the aircraft—is different, but the R.A.F. in Transport Command is using almost identical aircraft with similar passenger accommodation as B.O.A.C. and B.E.A.?
—Very largely for that purpose, of course, they are using civil airports.

1656. That may be, but they have their own stations as well?—Yes.

1657. Did you consult the oil companies at all? They have enormous fire risks. Did you have any consultation with them?—We have, as I say, through the Ministry of Supply consulted everybody who can give us any help, but the requirements of the oil companies are quite different from our requirements. The problem of fire equipment for an airport is to have something which can get to the fire very fast, which is, of course, identical with that of the oil companies, but also across any sort of ground; that is the real difference, that they should be very fast and should be able to traverse rough ground, whereas, of course, an ordinary fire in a town or a fire even at a refinery is accessible by road.

1658. That I agree, but I was thinking of one essential point of similarity, which is the liquid fire nature of the conflagration in each case?—That is why we use the foam extinguisher.

1659. That is why I asked you if you had consulted the oil companies, who must be dealing with that, which is precisely the point on which they might have some useful information to offer?—I think that the requirements for dealing with an oil fire are perfectly well known. It is the special requirements that require working out by ourselves with the Ministry of Supply. There is the other factor, you see, in an aerodrome fire that your fire-fighting appliance has got to have all the water and all the foam in it. It cannot rely on main services or, really, any services at all in the time available. If an aircraft crashes and starts to go on fire, if you are not there within a minute it is finished, and it is quite a different proposition.

Mr. Arbuthnot.

1660. Sir Gilmour, do I understand that you have been in this awkward predicament for twelve years?—Yes.

1661. And that all the resources of your Ministry have not been able to do something effective about it?—We had

not got until quite recently what we regard as a satisfactory answer, but we have had appliances which have been reasonably satisfactory for the job. Now we are getting these Thornycroft machines which I think do answer our problem.

1662. In paragraph 97, towards the end, the Comptroller and Auditor General mentions the orders in 1953 and 1954 for the two prototype Douglas chassis and for the development of prototype fire fighting superstructures. Have they been delivered yet?—I think the Douglas chassis have not been completely delivered. They were wanted for our purposes and for general purposes as well, and they have not been completed. They are expected in May of this year, May, 1959. Because of the delay there we have gone over to the Thornycroft chassis, which is slightly smaller, and the numbers which I gave as the numbers which we have ordered apply to that machine.

1663. What are the Douglas chassis going to cost?—The two Douglas chassis will cost us £26,000, that is, £13,000 each.

1664. How and when do you expect you are going to get value from the expenditure on this development work? Will there, for example, be production contracts on the Douglas chassis?—We shall get a value in using these two which we shall use, of course. I do not know a great deal about this, but the Ministry of Supply, I understand, will get value from the chassis because they want it for other purposes as well.

1665. Do you not feel that your experience in this instance suggests that there ought to be some improvements, so far as your Ministry are concerned, in the machinery for translating technical ideas into usable equipment?—I would answer that, perhaps, in a different way by saying we should have liked these things very much earlier, of course; but I gather from the Ministry of Supply that the great difficulties in the earlier years arose from the fact that the industry was tremendously overburdened with Defence orders for this sort of equipment, and other makers were fully engaged on military matters, with Korea and all the other things going on, so this was rather pushed into the background by these other matters.

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1666. Are you telling the Committee that you were perfectly prepared to allow those people who travel as civilian passengers on services coming into London to run risks because Defence orders had priority?—No, Sir, I would not say that at all. As I say, we had made arrangements which, while not as good as we should have wanted, were satisfactory and have been satisfactory up to now in dealing with this problem. But we were not in a position, and I think the Ministry of Supply were not in a position, to force manufacturers to go into development work at that time when they had got other development work on hand.

Mr. Hoy.

1667. Sir Gilmour, you do agree that this has given you considerable trouble, do you not, since 1947?—Yes.

1668. Would you agree that it was in 1947 that you told the Treasury that immediate action would have to be taken to replace the fire tenders that you had taken over from the Royal Air Force?—Yes.

1669. How, then, was it that it took another seven years, and I am thinking of Korea as well, but it still took another seven years, although you were badly in need of replacements for the United Kingdom? Did you ask the Ministry of Supply to give you a single tender to meet your requirements?—I do not think that anybody would suggest that the Ministry of Civil Aviation, as it was then, were content with that situation. They were naturally very perturbed, as you say. They met the situation when it became urgent by devices of which I told you just now. They took over some R.A.F. vehicles, they fitted foam pumps on to them, and those have been working since then and giving very good service. All the time we have wanted better and better machines and are in the way of getting them. Nobody is satisfied.

1670. But, apparently, you did not have what was efficient in 1954, because you said to the Ministry of Supply: "We are in such a desperate plight, let us have 18 of these from a firm without any tenders at all", did you not?—No, Sir, that is not quite the situation. There are two things. There is the chassis and the superstructure. The chassis which Thornycroft's had was, so we are advised, the only chassis of the

kind which would fill our requirements, not quite so well, because it was not quite so large, as the Douglas which we wanted, but which would fulfil it in a very reasonable manner; and development work on that was ordered by the Ministry of Supply on that knowledge. As regards the superstructure, we produced our requirements, not a detailed specification but a detailed list of requirements, and that list of requirements was put up by the Ministry of Supply to tender. They got six competitive tenders returned, and they awarded the production of the prototype superstructure to the Sun Engineering Company Ltd., who in fact have gone on with the work since. Having given them the job of producing the prototype, they naturally had then to order from the company which had won the competitive tender to start with, and the 41 which I mentioned earlier have in fact been ordered from them. Now, we having got a detailed specification as well as a detailed list of requirements, have put the next lot, the 15, out to competitive tender.

1671. If my reading is correct, and let us get this clearly understood, in 1954 you did order these 18 by single tender?—No, Sir, they were ordered from the people who had won the competitive tender for the prototype in answer to our requirement. It is true there was not a new competition when we placed the order, but there had been a competition for the production of the prototype.

1672. I must say it does not read in this way in the Comptroller and Auditor General's Report. In any case, if that were so, when did you expect delivery? Was not delivery expected about 1955?—Yes. We expected them at the end of 1955. We in fact got them towards the end of 1956.

1673. You got them; is that so? Did they not begin to deliver to you about then?—Yes, there were some delivered at the end of 1956.

1674. You were beginning to receive deliveries in December, 1956?—Yes.

1675. It is a little bit difficult to understand, if that was the case, when you must have known of the delay, why you then gave the same supplier another order for a further 26?—If we had given them to somebody else, Sir, it certainly would have taken him very

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much longer. All the development work and the design work had been done by these people. When you are in a situation when you want things urgently you must then go to the people you know can supply it.

1676. I am finding it a little difficult to understand this word "urgently". They were urgent in 1947, and we are now talking about deliveries being expected in 1955 which you did not start to get until 1956, and you said it was because you wanted them urgently that you gave the same firm orders for another 26. What do you mean by "urgently"?—I can only say to that that the urgency did not diminish with the lapse of time.

1677. That is obvious to us all?—Nobody, least of all myself, would defend the delays. We did our best to minimise them by pressure, but we were certainly very anxious about the delays.

1678. These are substantial contracts, and even if we make allowance for all the delays in the earlier stages, in 1955 when you expected deliveries you were well past the date of Korea by that time and so was the Ministry of Defence. Even then you did not get deliveries until December of the following year, and only the beginning of them?—Yes, it was a year late.

1679. In starting to deliver, not completing the deliveries, remember, only beginning to deliver?—That is so.

1680. Surely that is a very long delay? Did you ever get on to the Ministry of Supply and say: "What are you playing at? What is the reason for this?—Oh, of course.

1681. Because they were the agency you were using?—Yes; of course, we were in touch with them and pressing them all the time. There were considerable difficulties, we understand, in translating the requirements into a specification, but all that work having been done, and having been done by a company which had won the contract for producing the prototype in a competitive market, it was only reasonable to give them the first run of the orders. We were quite sure we should get them quicker, and apart from that it was only right that they, having done the work, should get some orders as a result. Now we are in a position to go out to competitive tender and have done so.

1682. But they had orders; they had got orders for 15? I do not want to take this any further, but I find it difficult to understand. They had done the prototype, and I think there is a lot to be said, having done that, for you to give them the order for 15. You were desperate, and you said to them: "Here is an order for another 26". That certainly did not ease their production problem and it did not give you delivery of these very necessary things any quicker?—Well, Sir, we and our advisers, the Ministry of Supply, had no doubt whatever that these people, having produced a machine and being on the way to delivering the 15, were the only people who could produce the 26 in any reasonable time. Other people would have had to start right again from scratch and would have taken years, possibly. That is the consideration there. Now we have got a complete specification, we have gone out to competitive tender for the next lot.

1683. Have you got the tenders back, and how do the prices compare?—I understand we have got them in but they have not been opened yet.

Mr. Hannan.

1684. May I turn to another aspect: you would feel, no doubt, Sir Gilmour, that you have to take the responsibility for safety of passengers and the rest?—I do.

1685. In view of the considerable delay in these matters, were any representations made to the Home Secretary or any other people in the Government about the aspect that your Ministry could be in fact sued, or was in danger of being sued because of lack of these facilities?—No, Sir, there was not a lack of facilities. We wanted something a great deal better than we had. What we had did do the job. One of the things we wanted the better equipment for was to reduce the number of men that were required. We can run the fire service with better equipment with a smaller force, and that is one of the considerations we have got very much in mind, but we were not without resources at all.

1686. I appreciate that, but what is the full establishment; what number of machines are in this section, how many to an aerodrome? Is there only one fire tender?—Oh, no, it varies. Offhand, I could not give it. I could get for you

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what the total number is, but it will vary, of course, very much with the size of the airport.

1687. Earlier you did mention the difficulty of the vehicle having to travel over rough ground?—Yes.

1688. Have any steps been taken to provide fire plugs at vantage points scattered over some area from which a tender could work?—No, that has never been done. I think that that would be quite impracticable. The number that you would have to provide would be so great and the benefit that you would derive from them would be so small comparatively, for the reason that an aircraft fire is a thing that happens at once and it is finished at once. It is not like a fire in a building in a city which may go on in a bad case for days, where you want all the pumps available.

1689. You have got to carry this material with you, foam for example, and make the foam on the spot?—Yes, that is carried in the tender, and also the water.

1690. Paragraph 98 shows that delay was due to one supplier being overloaded with orders. Why did you not wait and at that stage get competitive tenders?—Because it is a highly specialised machine. It is quite certain that nobody else could provide it. They are not things you can take off the shelf. They are a very special design, and it is quite impossible to get them quickly.

Mr. John Hall.

1691. I am rather interested in the information given in paragraph 97. From 1947, when you first informed the Treasury of your need, trials were carried out for a period of up to four years before placing an order through the Ministry of Supply in 1951. Who carried out those preliminary trials?—The preliminary trials, the Ministry of Supply and the Ministry of Civil Aviation between them.

1692. Why the delay of four years before you made up your mind that the proprietary was not appropriate to your need?—I think it was a long time. It probably should not have taken so long, but the need at that time, of course, had not become the urgent need that it became later, and experiments were made with the kind of fire appliance that you could get off the shelf; that is much the quickest way of getting them, of course, if you could do that.

1693. Then a further eighteen months to two years went by before an order was placed through the Ministry of Supply for a prototype chassis?—Yes.

1694. The R.A.F., as has been mentioned by other Members of the Committee, have similar problems of their own. They have to deal with the same kind of fires, they have also to be prepared to travel at speed over all kinds of ground?—Yes.

1695. They have, as far as I am aware, fire tenders which are adequate for the purpose. Did you have no liaison with the R.A.F. to see that the tenders that they, presumably, were already obtaining were suitable for your purpose?—Yes, and in fact it was their tenders which we took over and were using for years.

1696. They are older tenders?—The actual R.A.F. tenders.

1697. Are they the ones they are now using?—I do not know at this stage. After that we were developing our own to our own requirements, but, as I said earlier, these requirements were being done by ourselves with the Ministry of Supply, who had full knowledge of what the R.A.F. had, too.

1698. Was the delay due to pressure of other work on the Ministry of Supply or was it due to the fact that your own requirements were so high that you were not prepared to accept, perhaps, anything less than the best?—We were trying to get the best we could, but I do not think the delays arose from that so much. The delay was due to overpressure on the industry rather than on the Ministry of Supply and ourselves.

Chairman.

1699. Will Members now turn to the Accounts, to pages 214 to 216? I see that you have provided us with the information that the Committee asked for last year, these details of variations?—Yes.

1700. Thank you very much for that. Have you considered the possibility of doing it for the Road Account as well?—Well, Sir, we have discussed that with the Treasury, as I promised last year, and we have got out specimens. Our conclusion very strongly is that they are not really informative.

1701. If you are not doing it I will not press it. Just one other point, Prestwick. What was the "bigger aircraft"?

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[Continued.]

—The first is to accommodate the Britannia, and the next coming on, of course, will be the Boeing 707 and the D.C.8, but this had to be done anyhow before the Britannia could land, which is immediate. The others are a bit further off.

Mr. Arbuthnot.

1702. Sir Gilmour, does item (c) on page 216, "Works Services for Technical Installations" cover civil aviation radar stations?—Yes, it does.

1703. Are you aware that the Air Ministry have recently closed down St. Margaret's Bay Radar Station in Kent?—Yes.

1704. Have you been offered or have you considered the use of the station for civil aviation purposes?—Yes, we have considered all of them, and one we are in fact adopting, not the machinery but the actual station, and are going to use that.

1705. You are going to use the radar station at St. Margaret's Bay?—No.

1706. Why not?—I think the Minister has explained that himself, but very shortly there are two reasons. The first, which is less important, is that the apparatus there is not suitable for our purposes at all. What the R.A.F. want for Defence purposes is an apparatus which will spot an aircraft at a very great distance and will determine its position there and watch it coming in. What we want is an apparatus which will pick up an aircraft at a moderate distance and follow it through, which is an entirely different requirement, and I am told by the technical people that they are quite different and the one will not serve the other purpose. That is the less important factor. The conclusive factor in the case of St. Margaret's Bay is that St. Margaret's Bay station is in the wrong place. It is immediately under an airway, and that means that you are watching an aircraft coming in and your angle of elevation is a relatively low angle of elevation to watch it. As it gets higher than that and gets overhead you have

lost it until it comes in somewhere or other, undetermined, on the other side. Therefore, at the most critical time crossing the coast here and coming up in a crowded airway the station at St. Margaret's Bay would have lost contact with all the aircraft coming in over this approach airway. You must site your station outside the airway itself so that you can watch everything on the airway, and St. Margaret's Bay is plumb in the middle of Green 1, which is the airway serving Brussels and the whole of Central Europe.

1707. How far distant from St. Margaret's Bay is the station that you are proposing to use for this purpose?—The station we are going to use is near Manston Aerodrome, which is south-east of Herne Bay, south-west of Margate.

1708. 12 miles away?—Yes, but there from outside the airway you can watch every aircraft in the airway. From inside the airway you cannot possibly do that.

1709. You do realise that here you have got a station the value of which is over £2 million, which is no longer required for the Air Ministry, and you are making no use of it at all, purely and simply because it is 12 miles out of position, apparently?—It is because for our purpose, for the purposes which we want, for watching the aircraft coming in and controlling it coming in, it is quite useless; and the fact that it cost the R.A.F. a lot of money for quite a different purpose is not conclusive that we should use it for something that it cannot do, I think.

Chairman.

1710. Sir Gilmour, I believe this is your last appearance before this Committee?—Yes, Sir.

1711. I am sure the Committee would like me to express our thanks for the help you have given us in the past, and also to express our good wishes for the future?—Thank you very much indeed, Sir. I am very grateful.

TUESDAY, 24TH MARCH, 1959.

Members present:

Sir George Benson, in the Chair.

Mr. Arbuthnot.
Mr. Chetwynd.
Colonel Crosthwaite-Eyre.
Mr. John Hall.
Mr. Hannan.

Mr. Hoy.
Mr. Pentland.
Mr. Peyton.
Mr. Stevens.

Sir EDMUND COMPTON, K.B.E., C.B., and Mr. J. MACPHERSON, called in and examined.

CIVIL APPROPRIATION ACCOUNTS (CLASSES I-V) 1957-58.

CLASS V.

VOTE 5.

NATIONAL HEALTH SERVICE, ENGLAND AND WALES (continued).

VOTE 11.

NATIONAL HEALTH SERVICE, SCOTLAND (continued).

Sir JOHN HAWTON, K.C.B., Permanent Secretary, Ministry of Health, called in and further examined; and Mr. T. D. HADDOW, C.B., an Under Secretary, Department of Health for Scotland, called in and examined.

Chairman.

1712. Mr. Haddow, I understand you are deputising for Mr. Anderson, who is ill?—(Mr. Haddow.) Yes, Sir.

Chairman.] Will Members turn to paragraphs 29-31 of the Comptroller and Auditor General's Report on the Civil Appropriation Accounts, Classes I-V, Dental Services? I have no questions.

Mr. Arbuthnot.

1713. Sir John, to what do you attribute this large increase in the number of treatments that we read about at the end of paragraph 31?—(Sir John Hawton.) I think, partly to the recovery in demand after the discouragement due to the introduction of charges.

1714. If people are seeking treatment more frequently, would you not expect that the work required and the cost per treatment would decline rather than increase?—No, because there have been two increases of remuneration to take into account, one, what we call for convenience the restoration of the ten per cent. cut. That was not entirely the reason for it, but it happened to restore the ten per cent. cut. The other is the

advance given pending the Pilkington Royal Commission report.

1715. Mr. Haddow, the figures for Scotland show a similar increase in total treatment?—(Mr. Haddow.) Yes.

1716. Is it due to the same causes as in England and Wales?—I think it must be, Sir. There are no special factors.

1717. I see that the average cost per treatment in Scotland has regularly been lower than in England and Wales. To what do you attribute that?—I think the main factor must be somewhat greater reluctance on the part of the Scottish population to accept the more elaborate and comprehensive forms of treatment, a reluctance which is perhaps somewhat diminishing; and that is one of the reasons why the average cost in Scotland has gone up just a little more than one would expect by reference to the increase in remuneration.

1718. Do you therefore expect that in a comparatively short time the Scottish figures will be as high per treatment as those in England and Wales?—I can see no reason why they should not, Sir.

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* [Continued.]

Mr. Chetwynd.

1719. Could you explain what is meant by "treatment"? Is it just one visit or is it a number of visits until whatever is wrong is put right?—(Sir John Hawton.) No, it is what the dentist discovers when a patient goes to him is the total that needs doing, and it may include several items, but he discovers it on the occasion of the visit and puts it on a form.

1720. Have you any idea as to what would be the average number of visits per treatment to the dentist?—I am afraid I have not. I do not think I have got it myself, and I doubt if one could readily get it. It must vary, of course, enormously.

1721. The only point is that the average cost is £3 11s. and that is excluding, I take it, the contribution of the person himself?—I do not think so.

1722. Does it include the £1 paid by the patient?—That is gross; that represents the total cost. From that is deducted the payment by the patient.

Chairman.

1723. Turning now to paragraph 32, Sir John, the 1956 Regulations provided for investigation of excessive treatment by dentists. Presumably there was evidence that there was excessive treatment for you, to bring in that Regulation. Could you tell us what the evidence was?—That is not quite true, Sir. We thought that we ought to take steps to find out if we were in any way at fault, and it was not based on a belief that there was excessive treatment. It is really an experimental regulation to enable us to get some information which we had not otherwise got.

1724. What use have you made of this power of investigation?—We got the Dental Estimates Board—with which I take it the Committee are familiar—to select 31 cases where there was, on the face of it, a lot of treatment. I personally do not say "excessive", but "a lot of treatment", and we then examined those in great detail, and we boiled them down to five possibles in the sense of possibly excessive treatment; and on investigating those we have, in fact, so far found only one of those five cases which has justified going through the machinery of the Regulation in order to find out whether there should be a penalty or not.

As it is, in fact, going through that machinery, it is a little difficult for me to comment on its merits, but the picture is a first selection of 31 by the Dental Estimates Board, a short list, if you like, of five by us, resulting as yet in only one thought fit to go through this machinery. But we intend to go on. This experiment is purely an early experiment and we intend to go on with it.

1725. I am interested in this dentist who had 90 per cent. of his patients radiographed. Do you regard that as normal?—Dental practice varies enormously in that X-ray problem. A lot of dentists do believe in the need for doing it in the great majority of the cases coming before them, and we, certainly, as laymen should not be able to say that that was a wrong or a right belief. It is a genuinely held one.

Mr. Hoy.] You do not depend on laymen, do you? You get some expert advice?

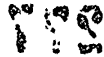
Chairman.

1726. Ought not the Board to know?—Yes. It depends whether this is a prior approval case or not. The Board would know before the thing started in a prior approval case, and those are the minority. They would know in other cases afterwards when a claim for payment came. The Board, if they thought it was unnecessary, would investigate it, but they have not reported these cases.

1727. What does the average dentist do?—I am really not evading this, but I do not think there is an average dentist; I am sorry.

1728. Have you got any data as to excessive use of radiographs?—We have not got data justifying us in thinking that there is excessive use in any individual case. If we had, we should follow it up.

1729. Sir Edmund, have you got any data?—(Sir Edmund Compton.) As my Report mentions, the proportion was high in a number of these cases selected. I found 90 per cent. in the case of the one dentist, of claims analysed. I see from the facts I elicited that another in this list had 82 per cent., another 74, another 73, and another 71; and I understand that these could *prima facie* be compared with an area average of 5½ per cent.



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[Continued.]

1730. Sir John, what do you make of these figures?—(Sir John Hawton.) I have those figures here.

1731. If the average number of radiographs is 5 per cent., and you have got five dentists who have 90 per cent., 82 per cent., 74 per cent., 73 per cent. and 71 per cent., surely they are using this radiography far more frequently than the great majority of their colleagues think necessary?—We are trying to find out, more importantly, whether they are using it excessively, no matter what the opinion of their colleagues is.

1732. Did they have the radiographic apparatus themselves and decide to use their own apparatus and charge for it themselves, or did they send to somewhere outside?—I really do not know in these cases whether it is their own apparatus or not, but they decided it was necessary to use it.

1733. As against an average of 5 per cent., throughout the whole area?—In that particular Region, yes.

1734. It seems to me that there is a great deal of room there for very intensive investigation?—Yes, we are investigating, but I understand there is a great tendency for diagnostic purposes to increase the use of this apparatus, and it may, of course, be a saving in the end on subsequent treatment.

1735. It may be?—Yes, I quite agree. I am not suggesting for one moment that everything here is justified. I am saying that we are trying to find out whether it is, but I would not like the opposite impression to get around, that there is quite irresponsible use of this apparatus.

1736. Perhaps you will find out whether there has been excessive use?—We are trying to find out.

1737. Some of the dentists' claims for treatment are about three times as high as the national average. What have you done about that?—It is precisely part of the same problem. What we are discussing is how you detect really truly excessive treatment, not justified by the case. I have told you what so far has been the result of our efforts to detect it. We are going on trying, but you must remember on this—I have not mentioned it, and I do not want to take too much time before you—that we are living in a period in which there is growing up a

much younger generation of dentists, much keener on new techniques, much keener on new methods. The period of extraction and dentures is gradually giving way to much more skilful technique and it is the young people who are keen on it. It may tend to put the cost up, but it produces better conservative dentistry than the old extraction.

1738. That one would expect to show gradually, not an enormous jump between the great majority and this group of five or six who were using radiography 20 times, or thereabouts, as frequently, as the normal average?—No, it may not explain the five or six, and that we must look into, and are, but it does explain a new pattern in the method of approaching treatment.

1739. That may be, but it does not explain the 31 cases?—In that case there may be another 31 where we shall draw better luck, but we have to start with this.

Mr. Peyton.

1740. On this point, you have a very great divergence in the practice here, between 90 per cent. and 5 per cent., and 90 per cent. are the exceptional cases. Therefore, there is bound to be a very adverse impression getting about that indiscriminate use is being made of this rather expensive technique, unless a reasonable explanation is forthcoming; and I do not really see why, after this lapse of time, a reasonable explanation is not really available?—I make two comments on that, apart from the fact that we are trying to find the explanation; that as in doctoring so in dentistry, individual techniques will vary enormously. The other one is that if you have a very low figure and one rather high figure it does not necessarily follow that the high figure is the one that is wrong. One could equally say that the conclusion to be drawn from it is that the person with the low figure is not doing enough of what he should do.

1741. Yes, I agree, but that would be true, surely, if an equal number of people were in the 90 per cent. class as were in the 5 per cent. class, and you might deduce that somewhere in the middle was the right one. But when you get only a few people on the 90 per cent. level, one is driven to one of two conclusions, either that they are being unwarrantably extravagant, or,

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[Continued.]

alternatively, that they are the wise pioneers, if you like?—But you will never in either profession, with respect, get a large number of people doing exactly the same kind of thing at the same level. It is like doctoring, an individual decision.

1742. But surely you will admit that this divergence is really rather more extreme than that?—This divergence is precisely the kind of divergence one wants to go into, and that is what we are doing.

1743. When do you think you will be able to produce an explanation of what is happening?—Why it takes time, and has taken time in some of these cases, is that you have got to follow a person's practice as recorded through the Dental Estimates Board and otherwise in a number of cases over a long period. You see, I do not know this particular gentleman, but some of these cases may well be practitioners who would need to use X-ray a great deal more than others. I am not saying they are, because I have not, frankly, got the particulars of each individual case at the moment.

1744. Have you got any subsequent information about any of these people, about what these cases involved?—We are still getting it. When I said we short-listed the 31 to five, that did not mean we were excluding the rest of the 31. It meant we are starting with those and we are going on.

1745. Incidentally, how were the five selected? Were they just the extreme cases?—They seemed on the face of it the most worth looking into first.

1746. You have not got any information now which you can give to the Committee about their subsequent conduct?—I have not information at the moment to give the Committee on that, no.

1747. When you say you thought they were the most promising for investigation, what do you exactly mean by that? What did you look for? What made you think that they were the most promising?—We have to be guided, of course, by our professional advisers, but they were the ones that they would advise us to look at first.

1748. Are you reasonably satisfied in your own mind, assuming that something was wrong before, that it would not still

be going on now?—No. If it is, I want to detect it and stop it, and that is what I am trying to do. I cannot do more than that.

1749. The ultimate sanction that the Minister can take is to refer the matter for consideration to the local dental committee, is that right?—It is a little bit more complicated than that. First, he would refer to the local dental committee, and then, I think, if there were an appeal, it would go to a referee. I can explain more fully, but it is a little complicated. (Sir Edmund Compton.) In fact, the procedure is set out in paragraph 33 of my Report in the last two sentences. Shortly, I think, looking to the conclusion, if the case is proved, the sanction is that the dentist in question is, as it were, put in tutelage. As required by the regulations he is required to get prior approval for his estimate before he can give treatment. (Sir John Hawton.) Which is the one thing he would most dislike.

1750. I was looking at that. That is all part of one action, is it not? The worst that the Minister can do, the fullest extent of his powers, is to refer it to the local dental committee, and following that the dentist may or may not be put under tutelage?—There is an appeal.

1751. Subject to the right of appeal, yes. That is the full extent of the Minister's power?—Under that Regulation, yes. That would be the biggest deterrent to nearly every dentist.

1752. What are you intending to do about the remainder of the 31 cases here referred to?—The same as we are doing for the five, only we took the five first.

1753. When do you expect those investigations to be complete?—I cannot give you a date now, but we are in fact following up all their records with the aid of the Dental Estimates Board. It is obviously impossible to give you a date, that at a certain date of a certain month those investigations will be completed.

1754. I do not want to be unreasonable, but this is a matter which was referred to the Ministry in May 1957, and I am certainly not asking to the nearest week or month when you will be able to give the information, but what I am asking really when you expect, and when you hope, this investigation may be completed, that is all?—I really cannot

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[Continued.]

give a date for that at all. I wish to goodness I could, but it will be as soon as we can make it; but if I give you a wrong date, and it is even an approximately wrong date, I should be misleading the Committee.

1755. I am not asking for anything precise at all. I am merely asking, let us put it as broadly as possible, when you hope it will be completed?—I am sorry, I am pausing because I really do want to try and help the Committee. I do not think I can give a date for cases of that kind. You see, the whole of this Regulation is new. It is experimental. We are trying in particular this one case. We are trying out how it works. I do not know, it might be that the thing will not work at all, and we shall have to think of another machine. It might be that we can see ways of speeding it up. We are at the moment experimenting with this new Regulation, and it would not be fair for me to say—indeed, I am not in a position, I am afraid, to say—what that date will be.

1756. Then, my last question to you would simply be this: is it a fact that the experience which you are now going through with this new Regulation is singularly painful and most unsatisfactory?—The test case is the one which is *sub judice* in the sense of this Regulation, and I am really, therefore, not in a position to comment on that.

Mr. Stevens.

1757. Sir John, though the inquiry is not complete, your dental and statistical advisers have come to a conclusion, so the Comptroller and Auditor General states here, that the information provided does not constitute *prima facie* evidence of excessive dental treatment. If the evidence does not provide *prima facie* evidence, what grounds are there for proceeding with the inquiry?—I think I said right at the beginning of this subject, Sir, that we did not bring in this Regulation and we did not try this experiment under it because we believed there was any evidence for thinking of excessive dental treatment as at all general. Indeed, as a matter of common sense, I would not rely on this. We have got to make every test we can, but as a matter of common sense there is every reason to assume that the danger would be inadequate treatment, because there are far too few dentists for the population. The

number is slowly rising, but it is not nearly enough, as the McNair Committee showed; so one would hardly expect a situation with a shortage of practitioners to result in any degree in excessive or unnecessary treatment.

1758. But would you not think that 90 per cent. of radiographs in one case compared with a 5 per cent. national average was *prima facie* evidence?—I would want to know what kind of work the dentist is doing.

1759. I quite agree. I did not say conclusive evidence. I said, would you not regard it as *prima facie* evidence?—I would not go as far as that, but I think it may well be the kind of evidence which is certainly well worth looking into. But if you mean, by "*prima facie* evidence", evidence which has got such a strong flavour that one can almost assume it is true, and only proceed to the process of proof, I would not.

1760. I am a little puzzled by this reference to £15 or more for fillings, which seems a little vague. How many fillings would that be? I feel that that comment would be more useful if it said, so much a filling. Can you give us any idea how many fillings would be covered by that figure?—Probably up to 20 fillings.

1761. And that would be much above the national average, would it?—It depends entirely on how regularly people go to their dentists. I am sorry, that is not evasive, but, you see, this is just our trouble. We are dealing first with a clinical judgment, which up to a point, a pretty big point, we must respect, and second, we are dealing with the kind of practice and the kind of treatment which is involved in every individual case. Now, we are not working through clinics. We are not working with dentists under observation. We are working with individual practitioners in their own premises not under observation, which is one of the inherent difficulties—if I may say so, without any criticism of this Scheme other than a factual one—in operating the Scheme.

1762. As the analyses which are presented to you by the Dental Estimates Board do not enable you to come to any *prima facie* conclusion, do you feel that the form in which the analyses are presented to the Ministry is a helpful form,

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or could be usefully revised?—We are always trying to improve it with the Board. We have the closest relations with them.

1763. That does not quite answer my question. I said, do you feel that the form in which the Board presents the analyses to you is helpful, or do you think it could be improved?—At the moment I think it is helpful, but I do not say that it could not be improved. I should never say that of anything.

1764. It does not seem to enable you to come to any concrete *prima facie* conclusions, does it, as at present drawn?—It gives us information, which is what we want.

Mr. *Arbuthnot*.

1765. Sir John, have you any information about the ages of the 31 dentists?—No, I have not. Whether we could get it* I do not know. If we can get it, would the Committee like it?

1766. I think that would be helpful. I understand that doctors can be fined for over-prescribing. Can dentists?—Yes. Money can be withheld. It is a quibble to the term, I agree.

1767. Is there a flat rate payment for diagnoses as opposed to treatment by dentists?—No. One of the items of service can be an inspection in which nothing is found wrong, but if things are found wrong, then, as I explained to one hon. Member earlier, that becomes part of the dentist's total service for which he is paid.

1768. The thing that I am trying to get at is that it occurs to me that the Committee may be barking up the wrong tree in attacking the considerable use by some dentists of X-rays, because it may be the dentist who employs the quicker method of X-rays may balance up by the speed at which he gets through his patients against the rather slower methods of the dentist who keeps the patient half an hour fiddling round his mouth trying to find out whether there should be a stopping?—This is one of the points I tried to make earlier, which is that X-ray properly used in the long run expedites proper treatment, and therefore saves money.

1769. But, surely, in those circumstances it would be wrong, would it not, for the Ministry to lose financially

* Information supplied: not printed.

because the dentist is employing a quicker and more efficient method which allows him to get through more patients, and therefore make up some of the gap between the number of patients who are seeking dentists and the number of dentists that are available?—That would be our last objective, and if we found that that was the underlying cause of the figure when we investigated, I should agree with you entirely that that would not be what we wanted.

Mr. *Hoy*.

1770. May I ask Mr. Haddow a question on the Scottish system? If you will turn to paragraph 30, you know that the Scottish chemists are always being blamed for charging much more than the English, but in this case it appears that the Scottish dentists charge much less than the English and Welsh dentists. But what troubles me a little is that between 1952 and 1953 the average cost per treatment in England and Wales has risen by 8s. and in Scotland it has risen by 11s. Is that correct?—(Mr. *Haddow*.) Yes.

1771. Is there any good reason for that?—I think it can only be the point I made earlier, that some of the Scottish people are now readier than they once were to accept the more elaborate and more costly forms of treatment. I cannot think of any other reason.

1772. Do you mean they had a reluctance before in accepting this better treatment though they were not paying for it?—Yes.

Mr. *Chetwynd*.

1773. Sir John, could you tell us what you meant by "excessive treatment"? I would have thought if you had a tooth out you could not have anything more excessive than that, or if you have it filled, what is involved? Is that a different standard?—(Sir *John Hawton*.) I would not agree that having a tooth out is necessarily excessive. It might be very necessary, but what we mean is simply treatment which is in excess of what is required or necessary.

1774. How can you tell, unless you have a fairly lengthy survey of the case beforehand, what is an excess and what is unnecessary?—We have particulars from the Dental Estimates Board with charts of the mouth and everything else showing exactly what is done, what you might call a before and after, and we

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have Regional Dental Officers who can go down when called upon with permission, and they usually get permission, to see the patient's mouth.

1775. My experience is that the complaint is usually the other way round, from the patient, that is, of not enough being done. Have you two standards, one which is adequate, and one which is excessive because it is too good?—Certainly not excessive because it is too good, no.

1776. I am glad of that. Now, on the question of the 31 dentists, you said that they were taken at random. Surely you did not mean that?—No, they were produced for us by the Dental Estimates Board from their records of all dentists in the country.

1777. The other point is that, although in these individual cases, the 90 per cent. and so on, the claims represented a significant increase, have you taken the figure of what that dentist's annual income was from his practice, because may it not be that his annual figure may not necessarily be too much as compared with other dentists?—I have not got his total annual earnings here, no. I do not know whether we could get it very easily. I think it would be a little difficult.

1778. The only point is, following the earlier answers you gave, that by treating people in this way he may, in fact, be saving the country money rather than costing us money?—He may be, and that is one of the points that the hon. Member and I made earlier.

1779. Are we dealing under this Regulation with the unscrupulous dentist who is putting in claims for work not done, or is that dealt with in another section?—No, that is dealt with in another procedure.

Mr. Hannan.

1780. Sir John, doctors are supplied periodically with particulars of their prescribing costs compared with the area average. Is that procedure followed out in respect of dentists, too?—No, we have not done that yet, but, you see, the whole procedure for dealing with a doctor is different from that of a dentist. We do not pay every item of service or examine and approve by a Dental Estimates Board as in the case of dentists. The Board are able to pick up what may look to be a bad case of,

not excessive prescribing, but excessive treatment, and they can tell us, as they did in these 31 cases.

1781. That was my next question. In the Report, the Comptroller and Auditor General says: "Where it appears to the Minister after an investigation . . . there is a *prima facie* case for considering that he has regularly provided treatment in excess of what was reasonably necessary . . . the Minister may", take action. Now, who draws the Minister's attention to these things in the first place?—It may come from the Dental Estimates Board whose job it is to examine what treatment is given in detail before they pass it, or it may come by way of a complaint from the patient.

1782. I should like to follow up this matter of the machinery, because your Department may be, as was suggested, suffering from a disability in dealing with this. The Estimates Board seem to me to give approval, according to the Report, after the treatment has been given?—In most cases.

1783. Except in the case of dentures?—There are one or two exceptions. There are extractions leading to dentures and orthodontic work, which we come to later.

1784. What are the difficulties in having these estimates examined before approval is given?—First, there would be interminable delays, because it is quite an elaborate procedure involving charts of the mouth and, indeed, everything else. It would all have to be done while the patient waited until his bureaucratic form had been duly stamped and returned, and possibly for that reason both the patient and the dentist, who is not enamoured of too much office bureaucracy, would say there is no need for it.

1785. Have you considered laying down limits of costs beyond which prior approval should be obtained from the Dental Estimates Board before the treatment is given?—That is the penalty which would be imposed in the event of establishing that a dentist was excessively treating. I find it difficult to avoid the words "excessively prescribing", but it really amounts to the same thing.

1786. How far would you agree with me that the terminology of an Estimates Board is not an exact description of this Board at all, insofar as they are not

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having estimates made to discuss or decide? They are in fact approving?—It may well be that the terminology is bad. I agree with that, but that is how it works.

1787. Mr. Haddow, have you any procedure in Scotland for drawing the dentists' attention to costly aspects as distinct from what happens in England and Wales?—(Mr. Haddow.) As paragraph 35, I think it is, points out we do not in fact have this exact sieve procedure, which is only a preliminary sieve procedure, that the Ministry are now trying. As Sir John emphasised once or twice, it is an experimental procedure. When it was introduced in England we discussed the matter with the dentists in Scotland, and we were not sure that it was necessarily the best way of proceeding in Scotland where the Dental Estimates Board, I think, know their dentists a little better as there are fewer to know. The fact that we do not have this procedure does not mean that there is no check on what we might call excessive prescribing by the Scottish dentists, because the Scottish Dental Estimates Board does in fact go straight to the second stage when the occasion arises, which is not dealt with in this Report. On a study of estimates and overall averages, we have always found it extremely difficult to hold that fault has been established. In order to establish real fault we have always felt it necessary to get down to the particular case and be able to establish in the particular case that there has been more treatment proposed or given than was necessary. The Scottish Dental Estimates Board are always on the look out for particular cases of this kind, and when they get them they refer them not to us but direct to the Executive Council for investigation, from the point of view of whether there has been a breach of the terms of service. The terms of service require the dentist to give—I think it is—all proper and necessary treatment, and if he is proposing or has given a bit more there may be a breach of the terms of service. There have, in fact, I believe, been five references of that kind. There may have been more than five, but in five references of that kind in the last two years breach of the terms of service has been established to the satisfaction of the Dental Service Committee and of

the Executive Council, and the result has been to withhold sums from their remuneration in those five cases, ranging from £50 to as much as £250. On top of that, there is the additional alternative safeguard, the tutelage that Sir John mentioned. One of those five, in addition to having money withheld, was told to submit all estimates for prior approval until further notice. In a second case the recommendation was that the Dental Estimates Board should have all a particular practitioner's estimates examined by the Regional Dental Officer before approval.

1788. Have you considered applying to dental treatment the same procedure as you apply in Scotland, and here I am only making a passing reference to it, in orthodontic treatment, where approval is given stage by stage?—I do not think it really arises. You see, there is a schedule of treatment which requires prior approval before the treatment can begin.

1789. The difficulty would be, as Sir John has said, on the question of delay and hold-up and bureaucracy and the rest?—Yes. We have in Scotland, as in England a common schedule of treatment which comes for prior approval, and it does catch most of the expensive stuff. (Sir John Hawton.) Could I intervene for a moment, merely to tell the Committee, in case they are not aware of it, that we in England and Wales have exactly the same procedure as described by Mr. Haddow by which individual cases of this kind may be investigated. The whole of that we have as well as this Regulation.

Chairman.

1790. In view of the very small number of cases in Scotland as compared with England, you have got five and they have got none, does that mean the dentists in Scotland are worse, or your control is worse?—It means we have no central record kept of the number we catch. I can tell you, for example, that a recent case occurred in which the result was the withholding of £500 and the requirement of a submission for prior approval of all cases, but we have not had so far any complete record of the result of cases at headquarters.

1791. But that was for dental treatment?—For the procedure which Mr. Haddow has described.

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1792. How do you apply that?—As long as we get the result, we have not gone to the length yet.

1793. I thought you said you had already applied this treatment in England and had withheld £500 in fees in one case?—Yes, I beg your pardon, I must have misheard you. We have had that. What I said is, I could not tell you the total number of cases, because you did say in Scotland with such a small population they had managed to bag five fish and in England and Wales we apparently had not. My reason for that is that we had not an angling record, but our recent case is, I think, very comparable with the kind of thing that Scotland is doing.

Chairman.] We have investigated this matter for an hour and this is the first hint we have had that you have any control or use any control. However, it is interesting to have the information that you have.

Mr. John Hall.

1794. Are the officials who make up your Dental Estimates Boards with your Regional Dental Officers taken from the most highly skilled dentists?—Well, they are chosen from what we should regard as skilled dentists, perfectly competent to do the job, yes.

1795. Would you agree there is a considerable, and indeed, wide variation in the skill and experience of members of the dental profession?—Yes, I think that is why we could explain the number of variations we have, as the Chairman has said, been discussing for an hour.

1796. Is it not rather difficult sometimes to decide what constitutes excessive treatment, because you may get a really first class dentist who might, say, by giving certain treatment prevent a great deal of trouble in the future which would not have been given by a less experienced man?—That is why we have a Board and not one individual.

1797. Do you think the cost of carrying out all these investigations is justified by the amount of money you recover?—I think if we did not have it we should have absolutely no control or possibility of control, and I do not think I ought to come here and suggest that solution.

1798. Would you say that the dental profession as a whole was gravely under-manned?—It is not only my opinion; the recent McNair Committee did say that it is under-manned, and indeed it is increasing. It is increasing rather slowly but steadily. It has now, I think, reached about 10,500 members for the whole country.

1799. Would you say that handicapped you in any way in your investigation of excessive treatment?—Yes, except that, as I personally think, it would point to the probability of the opposite of excessive treatment if there is an abundance of patients and a scarcity of dentists.

Mr. Hoy.

1800. May I ask Mr. Haddow, when he talks about five cases, he, of course, means five, does he, in one year, or since when?—(Mr. Haddow.) It is five in the last two years, Sir.

Chairman.

1801. Paragraphs 36 to 41. Sir John, perhaps you might just tell us exactly what "orthodontic" treatment consists in?—(Sir John Hawton.) I should not like to tell you exactly, Sir, because I am not a dentist, but it does consist particularly of the kind of treatment which straightens out and regularises the proper formation of the mouth, which can be disfigured by teeth in the wrong place, crowded teeth and that kind of thing. That is a terribly layman's description, but it is that kind of thing.

1802. I see from paragraph 37 that before treatment is commenced the Board has to be satisfied that it is essential?—Yes.

1803. Have there ever been any cases where they have rejected the treatment?—I am sure there must have been, Sir, but I have not statistics for it. The whole point of the early submission is to make sure that nobody starts this skilful and obviously, not dangerous, but a treatment which could go wrong, before it has been thoroughly vetted by the dental side of the Board.

1804. Has this new Standing Committee referred to in paragraph 40 made any recommendations yet?—No, it is still sitting.

1805. Are you expecting a Report fairly soon?—I am sorry, I have rather shorthanded that. The Standing

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Committee itself is of the Board, but what is sitting with us is a Working Party composed from the Standing Committee and the Ministry.

1806. Mr. Haddow, what about orthodontic work in Scotland?—(Mr. Haddow.) I hesitate to say it is something of a mystery, but we have tried our best since the Report was published to see if we could anyhow get out Scottish figures which would be in any way comparable to the English figures quoted in the Report. We have not been altogether successful, for two reasons: one, I think, is that, as I said earlier, there has been a greater reluctance to embark on orthodontic treatment in Scotland, with the result that the number of lengthy cases—and an orthodontic case can take years to complete, a couple of years or more—the number of lengthy cases coming to completion is still a relatively small part of the total number of orthodontic cases coming to completion. The result is that our average cost of completed cases at the moment seems to be somewhere round £12. That actually compares fairly reasonably with the English 1952 figure, which has since worked up, but we expect ours to work up as the statistics advance. In the second place, we are not, I am afraid, confident that we will ever get fully comparable figures, because rather as a matter of policy we have encouraged orthodontic treatment through the School Dental Service with the specialist dental service provided by the hospitals behind it, and therefore a good deal of orthodontic work is done there; it may be some of the most difficult and potentially most expensive work is done there.

1807. By the School Dental Service?—By the School Dental Service, advised by the hospital specialist. That is not dealt with on a case basis, it is done on a salary basis, and therefore we cannot offer you figures on which you could place the slightest reliance as to the overall cost of orthodontic treatment in Scotland. But such as we have, I have no reason whatever to think that the average cost of an orthodontic case in Scotland, when everything is allowed for, is significantly lower than the English rate.

1808. Sir John, do you do any orthodontic work through schools?—(Sir John Hawton.) Yes, indeed.

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1809. And that is charged on a salary basis?—That is Mr. Haddow's point.

1810. Apparently, orthodontic work is not quite so fully developed in Scotland as in England, or did I misunderstand you?—(Mr. Haddow.) No, I think it has been slower to develop.

1811. On the other hand, you have a tighter control?—I am not sure that it is tighter so much as a little different. Our Dental Estimates Board have made a practice, in dealing with proposals for orthodontic treatment, of not, so to speak, giving the all clear to the dentist for a long period of treatment ahead, but to say, if I may take an example: "Now, the first task is to get the proper space established between the teeth. Go away and do that. That will take you six months with the proper instrument to wear and push the teeth about. The fee for that stage will be £8 or whatever it is. Then, when you have completed that stage, come back and we will look at the proposals for the next stage, whatever it may be". So, it is closer in that sense. There is a more constant contact between the dentist and the Board. Whether it is tighter is quite a different matter.

1812. Sir John, have you considered this method of control over a period?—(Sir John Hawton.) Yes, we have, Sir, and I am afraid we disagree with it. We think it is better to look at the whole job considered necessary, approve it, and even if it takes three years let it then be carried on, with some facilities for giving advances to the dentist to tide him over while he does it. (Mr. Haddow.) I should, perhaps, say it is not a matter of departmental decision; it is a matter of practice adopted by the Scottish Dental Estimates Board in their wisdom.

Mr. John Hall.

1813. I am a little intrigued by the way the dentists calculate their payments. I gather they calculate the amount of chairside time plus the cost of appliances which might have to be used, and as you have said, the course of treatment might take up anything to three years. Is it possible to calculate chairside time over a long case of that kind, and also possible to calculate the cost of appliances which might have to be used in that period?—(Sir John Hawton.) It is possible to assess it, and it does have to

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be approved before you start by the Dental Estimates Board.

1814. Would a dentist in making this estimate not give himself a certain allowance in case there were certain adjustments in the amount of work required in that period?—The Dental Estimates Board have their own sort of manual of guidance, if you like, as to the sort of standards to start from and the kind of extras which may be permissible.

1815. Would you tell me what would happen in a case like this, of which I speak with some personal knowledge: a boy had to have a long series of treatments, and three times in the course of the series of treatments they considered that there had to be changes involving more costly or different appliances, making the final cost, I should think, considerably in excess of the first estimate. Is the dentist able to go back on several occasions and revise his estimate?—He would be able to go back to the Dental Estimates Board and explain what had happened, and if they agreed it was reasonable they would revise the estimate.

1816. What would happen if he had over-estimated the amount of the time?—Is this in the original estimate or the revised estimate?

1817. The original estimate?—Well, we hope he does not, as a result of the precautions taken.

Mr. *Hannan*.

1818. May I return to this question? Previously you did answer that you dealt with orthodontic treatment stage by stage. Is there any recognised fee per stage, and do you process them, and do the dentists know beforehand what these fees are?—(Mr. *Haddow*.) There is no published fee, because in each particular case the first stage probably may be something quite different.

Mr. *Chetwynd*.

1819. Paragraph 39 mentions the concentration of the more costly and complicated cases in the hands of a few practitioners. Is it a very highly specialised job?—(Sir *John Hawton*.) It can be very highly specialised indeed, and that is why you will always get a few doing the more complicated and costly cases.

1820. Is it the normal practice for a general dental surgeon to refer cases to a specialist, as it were, in this field?

—I am not quite sure what happens in the profession. I should imagine it would be, but I cannot answer that definitely because I am not a dentist.

1821. Then the Board allow a higher payment per hour for this work?—They would take into account special skills in these few cases.

1822. Could you give us any estimate of how much higher this is than the normal case?—No. It would be essentially an individual case, and there are very few of them.

1823. Do these few, like the man who does orthodontic work, earn a very much larger remuneration than a normal dentist? Have you any figures on that?—I do not know whether I can give you figures on it. I should undoubtedly say it does enable the few really specialised orthodontic people, the extremely skilful ones, to earn a substantial amount more than the ordinary dentist, but I cannot tell you how much.

1824. Could you say whether this service is spread fairly evenly over the country, and do the charges vary from various parts of the country to the London area, for instance?—I am not quite certain now whether you are talking of the very limited few or the ordinary person who practises orthodontic surgery.

1825. Is there much of a difference?—Oh, I think so. Some of the very few, as in medicine, will be absolutely leaders in it, but orthodontic surgery and the practice of it has increased, as the figures show. It is not increasing in cases so much now, it has steadied down; but the reason for the increase is this growing habit of getting the younger dentist in, the dentist who practises the newer techniques, and the gradual passing out of the old practitioner.

1826. Do you think it would be possible to let the Committee have a paper* showing the earnings of the top ten people, say, as compared with the average general dentist?—May I investigate that, and certainly, of course, anything we have we will let the Committee know.

1827. Is there a growing tendency, as in the Medical Service, of going to see a normal dentist, and as soon as you mention this word he pushes you off to

* Information supplied: not printed.

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a specialist? Is that being watched?—That is why I asked you about the two kinds. It is a growing tendency for the more ordinary younger dentist to be able to do orthodontic work for ordinary purposes. No doubt if it was something highly complicated he would refer you to a more specialised practitioner.

Mr. Hoy.

1828. If I have got these figures correct, am I right in saying that this service which cost £1,151,000 in England and Wales cost £34,000 in Scotland? Is that right? I get these figures from paragraphs 35 to 41. Is it right, Sir John, that the service cost you £1,151,000?—Yes.

1829. Mr. Haddow, it cost you £34,000?—As a matter of fact, I think the Comptroller and Auditor General would agree that there has been some alteration in those figures owing to an error in them. It rather tends to be not quite such an elastic range. I can, of course, submit the correct figures. I am afraid they were done after the drafting of this Report, but we have given them directly to the Comptroller and Auditor General.

1830. Something later than these?—Yes. In 1957, you are talking about?

1831. Yes?—In 1957 it would be £861,000.

1832. That is £300,000 less?—Yes.

Mr. Chetwynd.] Does the average cost remain the same?

Mr. Hoy.

1833. What about the average cost at £19 3s. 0d.; does that remain the same?—That has gone down. It is now £17 9s. 0d. (Sir Edmund Compton.) I confirm that. I have had that subsequent information. I think the earlier one was really worked out from a sample which has not proved wholly reliable. (Sir John Hawton.) It was worked out from too small a sample.

1834. In any case, it is £861,000—it is just as well to have that figure—against £34,000 in Scotland. Mr. Haddow, I heard you say that one of the reasons might be that a considerable amount of this particular type of work was carried out under the School Service?—(Mr. Haddow.) I think that is part of the reason.

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1835. But then you heard Sir John say that this was also done in England and Wales?—To what relative extent I do not think either Sir John or I know. (Sir John Hawton.) In England and Wales 27,000 cases were started through the School Dental Service in 1957. I take it we are now talking about orthodontic cases?

1836. Yes, indeed I am. Mr. Haddow, you have this figure for England and Wales, so when you say you cannot give us a figure you cannot make any comparison, obviously. We cannot make a comparison because you cannot provide a figure, is that right?—(Mr. Haddow.) Because I have not got a figure. There may be a figure somewhere, but I have never seen it.

1837. So, when you made your last reply you were simply having a guess at it?—It is rather more than that. There was a little bit of deliberate policy in stimulating orthodontic work through the School Service with hospital specialist backing. We did set out deliberately to do that. I should say that there is some doubt about the validity of this figure of £34,000. It appears here to be the total cost of treatment approved in 1957, and that undoubtedly is the figure which the Board supplied for this purpose; but in going into the thing from exactly the point of view you have put, I am perfectly convinced that they have given a figure relating only to the total cost of first stages approved in 1957, and that the actual cost is much more like double. The ratio is still far out of proportion, but it is not just quite so tiny as it looks here.

1838. It is a bit difficult to understand, even if I take the figures which you have supplied to us. What did you say the average cost was in Scotland?—The average cost of cases completed in 1958 was about £12.

Colonel Crosthwaite-Eyre.

1839. No, could we have it for 1957, because that is the one we are arguing about?—I am afraid I cannot give you 1957, because this was done as a special sample check. It was probably a little less than £12, because the figure of £12 itself is altogether, I must say, hopelessly distorted, because 80 per cent. of the

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cases coming to completion in 1958 were cases that had involved one stage only, it is not final at all.

Mr. Hannan.

1840. Could we be quite clear, the £12 refers to orthodontic treatment?—
Yes.

Chairman.

1841. I think you perhaps might let us have a memorandum on this. You probably will be able to dig up some more figures for us?—We might be able to get some more figures*, Sir, yes.

Mr. Hoy.

1842. I think I would like some figures. It is very difficult on the figures presented to us really to make head or tail of them?—Whether the school people will be able to produce any, I doubt. We do not run that service, the education authorities do.

1843. I was not going to take this any further, but I do know, in addition to the School Service itself, which is administered by a full-time service, you also have visiting dentists?—Yes.

1844. Who in fact send the children to dentists outside the service. I can think of many such schools in Scotland?—Not, I think, for orthodontic work, Sir.

1845. If you want proof of it, I will have a word with you and I will produce one or two cases for you?—They will send them to hospital for specialist orthodontic treatment, certainly.

1846. Mr. Haddow, may I ask you if there are not certain secondary schools in Scotland which are visited by these dentists, and rightly so, in the course of their work, and treatment of this kind is recommended, and they then go to their own dentist?—That is, visited by the ordinary school dentist?

1847. Yes?—Undoubtedly. The parent, I think, has a choice whether his child has treatment by the School Service or prefers to go to his own dentist.

1848. It does not follow that it is done by the school dentist but by the private dentist?—Some cases of that kind certainly do arise. Whether they cover orthodontic, I should rather doubt. It would be a little difficult to get the figures, but we will try.

Chairman.

1849. We would like a memorandum if you can produce one?—Certainly.

Colonel Crosthwaite-Eyre.

1850. I am rather shaken by the fact. Sir John, that you have amended your figures for 1957 on the ground that you had taken too small a sample. Could you tell me what was the size and nature of the sample on which you based these figures which you gave the Comptroller and Auditor General, and, secondly, what is the differential in the sample you have now taken to make you alter your figure?—(Sir John Hawton.) The sample which we are now correcting was based on a 2 per cent. figure provided by the Dental Estimates Board. We have now amended it to a 10 per cent. figure.

1851. All done by the Dental Estimates Board?—The sample provided by them.

1852. Are the conditions of the sample laid down by you?—They are agreed with us.

1853. May I know how they are agreed, then? What is the agreement, is it so many from the town, so many from the country, so many from the North, so many from the South, or how is it done?—I am not quite sure now what the answer is, but I think it is a simple arithmetical thing of taking every tenth case, or whatever it may be.

1854. Yes, I think we have heard enough from the evidence today to know that figures can prove a lot of things. I wanted to know what was the basis on which the sample was taken. You say it is agreed by your Ministry?—I am afraid I cannot at this moment tell you whether it* allows for factors like country practice and others, but I will, of course, do so. I am sorry not to have that.

* Information supplied: not printed.

* Information supplied: not printed.

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[Continued.]

1855. Are you not rather surprised to have to come to this Committee and say that figures you have given the Comptroller and Auditor General to publish are out by this tremendous margin?—It seemed to us and to the Dental Estimates Board that it was a reasonably good sample, and it was at the time, I think, so accepted by the Comptroller and Auditor General, and then it was we who drew the attention of the Comptroller and Auditor General to the fact that it ought to be amended.

1856. I have been a Member of this Committee for a number of years now. I think you are the first witness, to the best of my knowledge, who has ever appeared before this Committee and admitted that a figure given to the Comptroller and Auditor General was 25 per cent. out?—Of course, I would not know whether I was the first or not to do that, but the Comptroller and Auditor General and ourselves have been, I think, in full touch. (Sir Edmund Compton.) This is a statistical figure, it is not a figure which is derived from my audit, and therefore I have necessarily had to rely on the figure as communicated to me.

1857. I am not blaming you for one moment?—I would like to go on to say that changes of this magnitude would certainly be very remarkable if they were made in audited figures, but when it is a question of a statistical sample they are perhaps more understandable. I also felt when it was communicated to me that although it was a considerable change it did not really affect the magnitudes that were being dealt with in these paragraphs; in other words, that the case which was being supported by these figures was not materially changed by the alteration in the last one.

1858. It may be. May I ask the Comptroller and Auditor General this: I think if you will read the opening sentences of paragraph 36 there is no question there that the average reader would take it as a statistical calculation. It is given as the actual fact, and I, certainly, reading that paragraph, would take it as something you were given definitely by the Ministry?—These are facts that were communicated to me by the Ministry. They are the facts derived from this sample inquiry.

1859. I want to get clear. If I may ask you again, reading your paragraph 36, I read it as facts given to you by the Ministry; therefore, it is right for me as a Member of the Committee to ask the Ministry how such a change in the facts presented to you has arisen. How accurately can we take these figures now?—(Sir John Hawton.) As accurately as we can make them for you.

1860. Surely the Ministry is responsible for reporting to this Committee accurately on the expenditure incurred?—To the best of its ability.

1861. No, I cannot accept that. You are in charge of public money, and the expenditure of that public money is a matter for our investigation?—Yes.

1862. Surely you are not going to tell the Committee that all you can do is as accurately as possible to estimate?—How can we possibly, Sir, if I may ask a question, do it more accurately than is possible for me to do it?

1863. Well, this is two years old, surely; this is 1957?—This figure was produced, and the methods by which it was produced were all explained, as I am sure the Comptroller and Auditor General will agree, to the Comptroller and Auditor General. There was no misleading, and you used the word "facts". There are no facts in that sense of the word. We are told: "Here is a statistical sample". We said how that sample was arrived at and the amount of it—I hope there is nothing I am saying which is disagreed with so far—and, of course, he takes it from us on that basis. But I am afraid, Sir, that I shall be liable to make mistakes. I hope they will not be serious ones.

1864. I am only going to ask you one more question on this. As I understand it, you have had to alter these figures, and yet the Comptroller and Auditor General has quoted them to us as facts. Could I ask you that in future any figures of a similar nature ought all to be shown as a statistical estimate, whatever may be the phrase you would use, because otherwise I do think it is very misleading, not only to this Committee but to the public who read these Accounts?—I am sorry, while I think the Comptroller and Auditor General must depend entirely, and does, on us for the information given him, I cannot, and he would not wish me to do so, undertake how he should present his Report.

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[Continued.]

1865. Then may I ask you one further question? Could I please have a note on the basis on which you have agreed these estimates, so that this Committee at least will know what right they have to expect an accurate figure?—That* I think I have already promised, Sir, and will be only too happy to provide.

Mr. *Arbuthnot*.

1866. Mr. Haddow, we have already established the fact that these figures are suspect in the extreme, but you told the Committee earlier on that so far as general dental services were concerned Scotland was considerably behind England and Wales. We read from the Comptroller and Auditor General's Report in paragraph 41 that the proportion, so far as the orthodontic services are concerned is considerably smaller, so that, therefore, Scotland is still further behind so far as orthodontic services are concerned as compared with the already backward state of the general dental services. Is that a fair statement?—(Mr. *Haddow*.) I think the backwardness in orthodontic care is one of the elements that enter into the average backwardness for the overall service; but just how backward we are I confess I am not clear, and I hope the studies we shall do in the light of the hon. Member's request will show that we are not quite as backward as these figures suggest.

Mr. *Hannan*.

1867. In the light of the previous question and of these figures, I wonder is there any estimate of a figure which can be given as the proportion of orthodontic costs to general dental costs?—In Scotland, you mean?

1868. In Scotland?—In terms of the general dental service alone it is very small. It is less than 1 per cent. (Sir *Edmund Compton*.) If £34,000 may be taken as the figure, the proportion for Scotland is about .8 per cent; and on my figures that compares with the proportion for England and Wales, that is, on this revised figure of £861,000, of 2.12 per cent.

Chairman.

1869. Paragraphs 42 to 47. Sir John, what about the new fees that have been

agreed with the opticians? Are you satisfied that they are reasonable in the light of present costs?—

* * * * *

1872. Costs have risen by about 6 per cent, according to paragraph 47, since 1956, and the new fees are 5 per cent higher than the old ones. Can we deduce from that that the old fees were right in 1956?—(Sir *John Hawton*.) They were settled on quite a different footing. Like other professions, the opticians were dealt with at the beginning of this scheme on the footing of finding out what their situation was before the scheme, properly upgraded, and what they should be earning in a public service based on that, so that they should not in any case lose. That was the criterion as it was in the Spens Report on doctors and others. Now, the whole point of this protracted negotiation has been to get right away from that and work on a quite normal criterion of what should an optician earn irrespective of the past, what should he earn in this service, including what should his rate of profit be and all the factors that come into that, and it has been that which we have been bargaining about and on which we feel we have got a very fair deal. I wish I could say the same for the opticians, who are being extremely vocal and extremely angry and have already written to me saying that they propose to put in a further claim.

1873. But I am talking about the opticians?—Yes.

1874. You say that you are satisfied but the opticians are not?—Yes, far from it.

1875. But in the past the opticians have had a very good deal?—I should not say so necessarily, because you must take these figures in relation to turnover. If you take them in relation to the very initial stages when the turnover, as you remember, was extremely big and the service costing a lot, they may have had a good deal then, and indeed most people think they did. But in all recent years that turnover has been very much smaller and cannot be compared.

* Information supplied: not printed.

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[Continued.]

1876. Sir Edmund, what is your view? I did not quite gather that impression from reading these paragraphs?—(Sir Edmund Compton.) The question that I raised in this paragraph was this, that if the fees in force in 1956 were about right, given the rise in costs up till that date, then the fees as enjoyed during the seven years up to 1956 might have been too much in favour of the opticians and unfair to the Exchequer. That is not a matter on which I can produce facts to show whether that is right or not one way or the other. It is, I am afraid, no more than a *prima facie* inference from the recent settlement.

1877. Mr. Macpherson, has the Treasury any view on the agreement arranged between the Department and the opticians?—(Mr. Macpherson.) On this particular question on which you have asked the Comptroller and Auditor General to express an opinion?

1878. Yes?—I think he prefaced his answer by saying "If". I think it is very difficult to be sure that the basis was satisfactory earlier on because, as I understand the position, the opticians did put in a claim in 1952 which seemed to be an indication that at least in 1952 they were not satisfied that they were being properly remunerated.

1879. The Ministry of Health proposed a reduction of £250,000 in 1958, and they have eventually agreed an increase of £450,000, which means that there is about £700,000 difference between their original idea and what they finally settled for?—(Sir John Hawton.) That was all part of the bargaining which produces this result, I agree, but I would emphasise this turnover point. It is not fair to compare a particular figure, whether it is 5 per cent. or whatever it may be now, with the days of smaller turnover, and I have the figures for every year from 1952 on turnover. I will not bore you with them all, I can send them* in, but in 1952 the sight tests by opticians, which is a measure of the turnover, were 2,800,000 odd, and in 1957 it was a little over 4 million. So, you cannot really say that the same fee would have been applicable to both those figures or the range in between. Indeed, I have a feeling that if I had come to this Committee with a proposal that we should now be paying

* Information supplied : not printed.

opticians twice as much this argument would be demolished.

1880. Do you ever manage to get any adequate information out of the opticians as to their real earnings?—We got what we were told by the Government Actuary and others was adequate information for this negotiation on the new basis, and then this rather close haggling, if you like, began, and we got on with it, not with any pleasure to the opticians.

Mr. Pentland.

1881. Sir John, how long have opticians been enjoying the benefit of the 5 per cent. settlement discount mentioned in paragraph 46?—I think it is January. I will correct it if it is wrong, but from memory it is the 1st January. I cannot at the moment among all these papers turn it up. I am sorry, there are several 5 per cents. in this. Which 5 per cent. is this, the discount?

1882. The 5 per cent. settlement discount mentioned in paragraph 46?—That, I am sorry, is a different figure. It is a bit confusing, because there were two 5 per cents.

1883. "The standard rate of discount allowed for settlement in one month was 5 per cent. off the list prices." How long have they been enjoying the benefit of that?—I do not know the extent to which they have enjoyed it, but they have been free to get it from the beginning of the Scheme, which was 1948.

1884. From the beginning?—Yes.

1885. Were you not aware of this, Sir John?—We were aware that there was such a thing as a discount in some cases, but not that it was so generally taken up.

1886. Would that be when the Board of Trade accountants brought it to your notice in 1957?—Yes.

1887. You were not aware of it before that?—No.

1888. Why had you not taken earlier action to secure the benefit of this discount to the Exchequer?—Before 1957?

1889. Yes?—Because we were not aware of it except as an incidental thing, not as a general thing.

1890. This 5 per cent. cut off the list prices represents £170,000 a year at present. Had this cut operated since the

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[Continued.]

start of the Health Service how much would the Exchequer and patients have saved in total? Could you give us that?—I find it difficult to work that out immediately as a matter of arithmetic.

1891. Could it be got for the Committee, do you think?—I think we should have to get it* specially. May we see if we can do that?

1892. Yes, by all means?—I am very sorry that I cannot offer that straight out; it is rather complicated. May I also say that I do agree at once that it would have been much more advantageous if we had been smart enough to see what was going on and the extent to which it was going on, but I am afraid we did not.

Mr. Stevens.

1893. Sir John, the opticians are represented on the Optical Whitley Council, are they not?—Yes.

1894. Their representatives are known as the Staff Side?—Yes.

1895. The Comptroller and Auditor General at the bottom of paragraph 44 says that the improved offer of £450,000 per annum has been accepted by the Staff Side. I heard you vaguely suggesting a short time ago that there is some kind of change, or have the opticians repudiated their representatives?—No, they have accepted under great protest, and we have since received an increasing number of protests, not only from headquarters but from the branches.

Mr. Arbuthnot.

1896. Sir John, you were talking earlier about the 5 per cent. settlement referred to in paragraph 46. Would you tell us about the higher rates of discount allowed on some of the transactions, also referred to in paragraph 46, lines 7 and 8; what were they? Would you like to put in a memorandum?—I was trying to avoid that. I am rather offering too much of that, and it does not fulfil your purpose. Are you now referring only to that 20 per cent. discount?

1897. No, it is the "higher rates of discount"—"For some transactions even higher rates of discount were allowed"?—All I can tell you outright, but I will give you any figures* we have got,

* See Appendix 6.

is that they were, for your present purpose, very minor variations, but I obviously must amplify that.

1898. Would you also put into your amplification why the "even higher rates of discount" were allowed?—Yes.

1899. Going further down in the same paragraph, could you not have obtained from representative prescription houses or representative opticians the actual net prices paid for lenses and frames?—That is what we have been obtaining from them, or trying to, as a basis for this inquiry.

1900. Is the information, then, that was given to the Comptroller and Auditor General incorrect, that "the Minister has no means of obtaining full particulars of the prices charged by individual prescription houses to individual customers"?—I am sorry, that may be badly worded. That means from each individual house. The keyword there is "individual". We could not do it on that scale.

1901. The implication here is that you are meeting with obstruction from the individual houses in giving you the prices. Is that so?—That is not meant to be the implication at all.

1902. Would it be fair to say that you still do not know whether payments which are only supposed to reimburse costs do in fact exceed the sum required to do so?—I think in some cases they may, but in the majority of cases we are working on a settled figure with the Association concerned, which represents, I think, about 60 per cent. of the whole field, and others are following it. There may be odd cases, but they would not justify us in bringing down the reputable majority because there may be some odd cases.

1903. Are you proposing to refuse to deal with the disreputable minority?—We do not directly deal with them. They are dealt with by the opticians. They are not necessarily disreputable. They may in fact be giving rather less service of a different kind and cutting prices for that reason.

1904. What steps were you proposing to try to overcome the cases in which the amounts that are being received in fact exceed the sum which reimburses the costs?—We are regarding them as so small proportionately in amount that

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we are concentrating on our agreement with the main houses and are not doing anything additional about it.

1905. Mr. Macpherson, as the Treasury representative, are you satisfied that this small number of black sheep should be allowed to get away with it?—(Mr. Macpherson.) We have not been consulted on this. If the Ministry's judgment is that these are so small and if there are different factors, as Sir John has said in his reply, it is not wildly wrong.

1906. Is it the attitude which you adopt with a small number of black sheep in regard to payment of taxation?—It is an entirely different relationship, Sir, if I may say so. This is a relationship between the houses themselves and the opticians.

1907. Public money, none the less, is involved?—To a minor extent, a very small extent in this case.

Colonel Crosthwaite-Eyre.

1908. Could I ask you, Sir John, about paragraph 45? You will remember that a previous Committee raised this question about the profits on private frames. Could you tell us anything more about that? You were going to look into the question of what happened to the charges that an optician could take into account where the patient himself provided the lenses or frames?—(Sir John Hawton.) That under the settlement which we are discussing, this main settlement, has been reserved failing agreement as to what we should do about it. It is in Whitley and still remains to be settled. We have not included that in the deal.

1909. I do not wish to press you on this, but would it be in any sense convenient to tell the Committee the attitude of the Ministry at the present moment on this, or would you rather not say anything?—No, I think it is perfectly proper. What we, that is to say, the management side, but in this case, perhaps, it is almost the same thing, are proposing is that there should be a 20 per cent. reduction in such cases, but that is not agreed with the opticians.

1910. Have you any idea when you would expect this to reach a final solution?—This thing has got to go to Ministers, and it will go to them fairly soon, and it should not be too long

before we settle it. We want to settle it quickly, but it has got to go to Ministers rather beyond Whitley and beyond me. I cannot give you a date, but I hope it will not be long.

1911. You would at any rate be hopeful that it would be concluded in the course of the current year, 1959?—Oh, yes, I hope so.

Mr. Hoy.

1912. Mr. Haddow, what is the position in Scotland? Have you made progress with the opticians?—(Mr. Haddow.) This is a case where the negotiations are conducted entirely on a Great Britain basis.

1913. So that we are entirely dependent upon Sir John, are we?—(Sir John Hawton.) No, I must interrupt, Sir. It depends on the Management Side of the Whitley Council, with an ultimate appeal to Ministers.

1914. Sir John, the 1956 inquiry which was held only gave you the average overhead cost of the opticians, did it not?—Overhead cost was what we were after, yes.

1915. Did not that handicap you with regard to the amount that you could assess the optician was making out of the fees that you paid him?—What we tried to do was, and I think it is normal in these cases, to try and cover his proper overhead charges and then give him what we thought was a reasonable profit.

1916. Now, the number of jobs per week was one of the difficulties you ran into, I think. I do not think the opticians ever gave you these figures, did they?—The number of sight tests?

1917. Yes?—We certainly have got information about it. Whether it was obtained in this particular operation I do not know.

1918. Did they ever produce any evidence to support the figures they gave you?—No, they sent this return in. In this form they entered the number of people engaged and the number of hours of people in attendance. They obviously could not in each case prove it. This was only the first step in a deal, and we had to judge how far we thought we were getting a reasonable deal.

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[Continued.]

1919. In any case, between your first offer and your final agreement with them there was a difference of £700,000?—
Yes.

1920. Whether you regard that as a good settlement or not is just outside the point for the moment. That is the actual figure. What I was going to ask you was, would you be prepared to concede them any further increases in fees without further information as to what the margin of profit was on the sum you have now agreed to pay?—
We are not proposing to concede any further increase in fees, as at present advised. What will happen in future years is another matter.

1921. You would want a much closer analysis of the current fees as to what the profit margin is, surely, would you not, before you decided to make any changes?—I think we hit on a profit margin which they certainly would regard as much too low.

1922. Mr. Haddow, how can we be sure in Scotland that we are paying opticians the right price, because you are accused of paying too much to the Scottish chemists. The Scottish dentists apparently are not getting quite as much as the English dentists, and in between you have pushed the opticians in a general agreement. Why did you accept that if you negotiated different settlements for the other two professions?—(Mr. Haddow.) There are not different settlements for the dentists, Sir; there is a common scale of fees. It operates in such a way as to give the Scottish dentist rather less per case. On the chemists, certainly, there is a separate scale of fees for historical reasons, the difference in the character of Scottish prescribing, and that kind of thing. In opticians, again, like the dentists, we have the common scale of fees. Whether we can be absolutely certain that the element in the fee that is supposed to represent costs is in fact accurate I cannot say with any greater precision than Sir John can say. One cannot hope to get an element of that kind absolutely right in every case, because one is prescribing a fee which is payable to all of them, and individual opticians may be able to make better bargains with particular prescription houses.

1923. You have, of course, your direct representation from Scotland on

the Whitley Council in these negotiations?—Certainly, yes.

Mr. John Hall.

1924. May I refer again, Sir John, to the 5 per cent. mentioned in paragraph 46? As I see it, what you have now done is to reduce the amount payable to the opticians for the lenses and frames so as to take into account that 5 per cent. discount which you think they get automatically as a settlement discount?—(Sir John Hawton.) We have knocked it off, yes.

1925. Does it mean, then, that if an optician does not settle his account monthly and loses that 5 per cent. discount, he is that much out of pocket?—Yes.

1926. Could you tell me how the optician himself is remunerated? I gather it is partly by direct payment from the patient and partly by payment from your Ministry. Am I right in that?—
Yes, we pay him for dispensing and for the lenses, the patient pays towards the lenses 10s. for each lens and the whole cost of the frame.

1927. When will the optician be remunerated for his expenditure on the lenses and frames? Does he get a monthly settlement from the Ministry?—I think it is monthly—yes, about monthly, near enough for your purpose.

1928. Is it near enough for his purpose?—I beg your pardon, it is about monthly.

1929. As far as his patient is concerned, in a large number of cases, no doubt, the patient would be on a monthly account, or be an account customer, if I may put it that way. That probably would be so, I would think?—I do not think they have made that complaint to us. It would not be usual in that class of professional business.

1930. You do not think a case might arise where an optician himself was incapable of collecting his money in that month and therefore financing the operation, whereas he has to pay his accounts monthly in order to get the 5 per cent. you take from him?—I have not observed this. I do not really know of any evidence to that effect.

1931. There has been no complaint about that?—Not to my knowledge.

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[Continued.]

Chairman.

1932. Paragraphs 48 to 50, Super-annuation. Sir John, on page 303 there is a note to the Account to the effect that the deficiency in March, 1955, according to the Government Actuary, is approximately £80 million. Have you any approximate idea of what the deficiency is at this date, or at a nearer date?—I cannot add anything to what the Comptroller and Auditor General has himself said. In fact, the deficiency at 1955, we are taking it would have been about £105 million. What it actually is at the moment I am afraid I do not know.

1933. You agree with that, or do you rely on him for the information?—We would agree that. If I may respond to an earlier exchange, we would accept that from him.

1934. Is there any reason why we should not have these figures regularly?—We do, at intervals of seven years. You mean every year?

1935. An estimate, yes. Some years ago the Committee thought they would like it more regularly, not necessarily a complete actuarial statement but an estimate of the situation?—We have discussed that a lot and with the Actuary himself, and it would in England and Wales mean an enormous amount of work in proportion to the result and staff. It would mean about 600 employing authorities being brought in. It would mean all the consequential things of checking the contributors and their ages, and so on, every year. I know it is done up to a point in Scotland, but it is not quite on that scale. Of course, if you feel that in spite of all that it should be done, we will try and do it.

1936. No, I did not want to throw all that burden on you. I thought it was possible that you might be able to make an interim estimate which would be reasonably accurate?—It would not be of any real validity without the work I have described according to the Government Actuary.

1937. I think that answers my question, then. Mr. Haddow, what is the present position with regard to the Scottish scheme? Have you any figures?—(Mr. Haddow.) I have no figures that I can add to those in the Comptroller and Auditor General's Report.

The original estimate of the Scottish deficit was £6 million. Bringing it up to date for 1956-57, that brought it up to £8.5 million. I cannot bring it beyond that. Sir John did say we did a little more to this end in Scotland. That is not just strictly true. What we do is that our contribution records are kept centrally in Scotland, not by the separate authorities, and therefore the material is one stage less removed from the Government Actuary for the calculations he would need. We do not ourselves attempt to calculate deficits, which is a highly skilled operation.

Mr. John Hall.

1938. Sir John, could you tell me why it takes so long for these actuarial reviews to take place? I see the first scheme was reviewed as at 31st March, 1955, but it was not until September, 1957, that the first Actuarial Report was received by the Minister of Health and later indeed by the Secretary of State for Scotland. Is there any particular reason why it should take such a long time before any action should be taken on it?—(Sir John Hawton.) The general reason is that it is highly complicated. The second is that it does involve a number of people, the Treasury, the Government Actuary, ourselves, and so on. As to the particular reasons for the time taken stage by stage in this, I feel perhaps the Treasury might help you more than we can.

1939. Could I ask you, Mr. Macpherson, then, what action is likely to be taken to meet these deficiencies, which already are mounting up to quite considerable figures?—(Mr. Macpherson.) That is a question now which is under consideration, and we hope soon to get an answer to it, but I am not able to say at the moment what will be proposed.

1940. Could I ask you, then, what action could be taken to stop this type of very grave deficiency arising in future?—The obvious one is increasing the contribution of the employer and employee.

1941. That is true, but when they made the original calculation presumably they thought they had covered future liability. Do you think there ought to be more frequent reviews?—I think, Sir, that that is a common

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feature of these schemes, that they have to be reviewed to see whether they are working out on a sound basis.

1942. Can you tell me how it is that schemes of this kind which are run by the Government service so often run into this difficulty, whereas it is quite common practice in industry for self-financing schemes of this sort to be run without running into this trouble? Is it because they are so large in nature?—I do not think I can answer that. (Sir John Hawton.) I think the trouble about this kind of scheme is that you can only do one of two things. You can put this deficit right by putting the whole cost on the employer, in this case the Exchequer. You can put it partly on the employer and partly on the employee. You then depart from the percentages of contribution paid by the employee which I think are common—subject to the Treasury—to practically all public schemes at the moment, and to carry it beyond that would have all the consequences which a larger weekly contribution on the employee would entail. That means that there are a whole lot of Ministers and Departments concerned. In other words, this is not a Health Service question, and it has to be thrashed out with its repercussions elsewhere on pensions and other schemes, and that is precisely what is happening at the moment. But the common sense of it is that you can only do one of these two things. You cannot find the money and keep the contributions as they are.

1943. That is true, but the problem has to be faced in the end. It becomes worse as one puts it off?—There is a redeeming feature here, that there is some £30 million here due to the take-over of employees at the inception of the Health Service from other hospital fields. That, I think, comes to about £30 million. That is a once and for all transaction.

1944. It is not really your province as much as it is a Treasury province?—I think it is all our problem, but it is very much at Ministerial level because of the effects on other things.

Mr. Hannan.

1945. Technically, Sir John, is it quite fair to refer to a scheme of this kind as a superannuation scheme? I am likening it to teachers' pension schemes, for example. Are they not more benefit

funds than superannuation funds?—But surely this, in all essentials, is exactly comparable to the education scheme, with the difference that, of course, the employer's contribution comes wholly from the taxpayer and not partly.

Mr. Arbuthnot.

1946. Sir John, did the Government Actuary make any recommendations as to what would be necessary to redress the balance of the scheme?—I think his function is not to say how he would recommend this situation should be put right, but only to say: "If you do so-and-so, then the amount of money needed is so much", to give you the facts so that others can judge what the policy should be. It is not his function.

1947. What did he say, if you do what?—I think from memory, if you adjust contributions and all the other alternatives.

1948. He gave you a series of alternatives?—I forget the Report at the moment. Perhaps the Treasury could help me, but I think it is that he took the most obvious alternatives and suggested what they would involve. (Mr. Macpherson.) I have not the figures here, but I think that was his suggestion, that if it were brought on to a proper actuarial basis there would need to be an increase in contributions.

1949. How long has the discussion been going on between the Ministry and the Treasury with a view to reaching a decision as to what action should be taken on the Actuary's Report?—Several months.

1950. Sir John, would it be true to say several years, as well?—(Sir John Hawton.) "Several months" was the answer given, Sir.

1951. When, Sir John, did the Actuary make his Report?—In 1957, towards the end of the year—September, 1957.

1952. So that several months is a euphemism for from the end of 1957, is it, Mr. Macpherson?—(Mr. Macpherson.) Not entirely, I think, Sir. There have been considerable to-ings and fro-ings between the two Departments, but I think we must stress, as Sir John has said, that this is a particularly difficult time at which to reach a decision.

1953. Mr. Macpherson, I was not asking you about the difficulty of time,

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[Continued.]

I was asking you about the length of the time?—They are not unconnected. Had there not been the other difficulties there might have been a settlement on this particular one a good deal sooner.

1954. Mr. Haddow, were the Actuary's recommendations on the Scottish scheme similar to those for England and Wales?—(Mr. Haddow.) I have not seen the English Report, Sir. The Scottish Report does not contain what one might call recommendations. The Actuary merely says: "If you increase contributions by so much over such a period you will have the scheme in balance". That is not a recommenda-

tion, that is a finding in actuarial fact, I think.

1955. Have you come to a decision yet as to what action is required, arising out of the Actuary's recommendations?—No, Sir, we are in the same difficulty on policy and principle as our friends.

1956. Would it be correct to say that the Treasury has not yet made up its mind what should be done to bring these schemes into balance?—(Mr. Macpherson.) I think I correctly described the situation, Sir, by saying that Ministers are currently considering what should be done.

NATIONAL HEALTH SERVICE ACTS, 1946 TO 1952, SUMMARISED ACCOUNTS OF REGIONAL HOSPITAL BOARDS, ETC., FOR ENGLAND AND WALES, 1957-58.

NATIONAL HEALTH SERVICE (SCOTLAND) ACTS, 1947 TO 1952, SUMMARISED ACCOUNTS OF REGIONAL HOSPITAL BOARDS, ETC., FOR SCOTLAND, 1957-58.

Chairman.

1957. Will Members turn to the National Health Service Accounts for England and Wales and for Scotland, paragraphs 1 to 7 of the Comptroller and Auditor-General's Report in the case of the English Accounts, and paragraphs 1 to 5 in the case of the Scottish? In paragraph 7 of the English Report I see that the annual cost of the new system is expected to be somewhere between £250,000 and £500,000. What has been the cost for the first year?—(Sir John Hawton.) I am afraid we do not yet know.

1958. Have you formed any rough idea?—No, we have not got a separate costing account.

1959. Have you taken into consideration the Treasury suggestion that the failure of hospital authorities to co-operate in this matter should be taken into account in the annual allocation of the sum available for their running costs?—Yes, very much so, but we do not feel we should carry it quite as far as that. There is already some weighting involved in allocations to hospital authorities in the light of how economical they have been the previous year. We, of course, go as far as that, but we do not think that this costing has proved itself so accurately that it would be fair in all cases to have some

automatic relationship between the result in any given hospital and the amount of money they get next year.

1960. You hold it up your sleeve, though, I hope?—If we can get this thing on a really accurate footing, yes, but, of course, the inaccuracies are quite obvious.

1961. Are they improving?—I think the value of the thing is not so much in the avoidance of all inaccuracies, which we shall never achieve, but in the comparative values, in other words, in making hospitals all over the country look at the same kind of figures for the same kind of thing and enquire of themselves why they are different. There may be a difference, due partly to an element of inaccuracy, but that is the value of it, and that is why we call for a return that is required from them all as to what the result of that reflection is.

1962. Are you getting the hospitals to take these facts into consideration?—Oh, I think so. I think they are now much more cost conscious and this is helping enormously. Earlier on, of course, a Public Accounts Committee had something to say about the teaching hospitals.

1963. We have had quite a lot to say about them in the past?—I think it is fair to say that not all, but a fair proportion of the London undergraduate

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[Continued.]

teaching hospitals have on their own initiative set up a Working Committee to look jointly at these things to see whether they can learn anything from it. We shall help them, of course.

1964. What about Scotland, Mr. Haddow?—(Mr. Haddow.) As the Comptroller and Auditor General has briefly set out in his Report here, we have been working this up, and we are now at the stage of securing that the big hospitals do in fact get a costing system going, certainly not later than in the course of the financial year that is about to begin. I think that is right. We have 122 hospitals earmarked as due to be covered by our scheme, representing, as I say, 75 per cent. of the expenditure. 96 of those will have the Departmental costing that they are to operate in full effect by the beginning of the financial year, that is, by the beginning of the next month, and the balance of 26 will bring it in in the course of that year. I should say a word, I think, about the rather different form of costing that we are adopting in Scotland for the moment. Our costing scheme concentrates on what we call prime cost, bringing out a figure for each departmental head which represents the cost of the services for which he himself is responsible. We are not at this stage laying quite such emphasis on getting a completely composite figure of all-in costs to a particular unit. I think we are agreed that there is value in the two Departments working along somewhat different lines, and we will see at the end of the day which is the better line, or whether there is some marriage between them to be achieved. I think it is fair to say that they flow in some respects from two different sets of recommendations that were made when the problem of hospital cost was studied by the King Edward Fund on the one hand and the Nuffield Trust on the other. The King Edward Fund recommendation, broadly, is the basis of the English scheme, the Nuffield Trust is at the moment the basis of the Scottish scheme. It would be very interesting to see in a few years' time which in fact pays the greater dividends in cost consciousness and in economy.

Mr. Stevens.

1965. Mr. Haddow, for reasons which seemed good and sufficient to you, your Department adopted a different system

of costing from the one installed in England and Wales. Would you not agree that it is a drawback that, therefore, you do not get direct comparison between hospital costs in Scotland and hospital costs in England and Wales?—I am not sure that I should regard that as a particularly serious disadvantage from the point of view of getting economy in Scotland. It is probably easier to do comparisons the validity of which is accepted between Scottish hospitals than between a hospital in Scotland and a hospital in England.

1966. I heard Sir John mention just now, and I entirely agree with him, the importance of being able to compare costs between different hospitals of a like character. I should have thought the ability to compare Scottish hospitals with English and Welsh hospitals would be an advantage. You do not think so?—I think the difficulty there would be to persuade the Scottish hospital that the English hospital, about which it knew little or nothing, was in fact a comparable unit. That is the trouble.

1967. Is there now any liaison between the Department of Health for Scotland and the Ministry of Health in this matter of costing? Do you exchange notes?—Oh, certainly.

1968. I heard you, Sir John, say that the English system is proving itself not entirely satisfactory at the present time. You hope to iron out some of those inaccuracies. Are you at the same time watching the Scottish system to see what you can learn from there?—(Sir John Hawton.) As a matter of fact, the two Departments, not only in this but in everything, have in their own interests to keep absolutely in step on everything. We are certainly in touch.

1969. So it would appear that both systems are in a trial period?—It was a recommendation of the Guillebaud Committee, as I remember, that it would be a good thing to have two systems in the two countries for a time to see. We are operating two systems at once, not just one.

Mr. Hoy.

1970. Does the costing system show why it costs £10 per week more to keep a patient in hospital in England than it does in Scotland, Sir John? If Sir John cannot answer that, may I put it the other way to Mr. Haddow? If I read the figures correctly, it would appear that

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[Continued.]

a patient in hospital in Scotland, an in-patient, costs about £12 a week, in England about £22?—(Mr. Haddow.) I am not just sure which figures are being compared, Sir, because there are the most frightful pitfalls.

1971. That is what I wonder. For instance, if I look at page 6 of the English Foreword, the Accounting Officer says: "The national average net in-patient cost per week and per case respectively for all Acute hospitals in England and Wales, whether operating the Main Scheme or the Alternative Scheme, were £22 12s. 5d. and £46 6s. 0d". Do you see that? Am I comparing the same thing, Sir John?—(Sir John Hawton.) No, I do not think so. I think Mr. Haddow would agree that the classification of hospitals for the purpose of costing is not the same as ours, and therefore their costs per bed are not in respect of the same classification. (Mr. Haddow.) Yes, I think in terms of the national average there are further major points. I think the English calculation includes an allocation for specialists; ours does not. That is a big factor straight away.

1972. What I would like to have, if I may, is just a comparative cost including the same thing, because it is very difficult, if I may say so, when one is reading. If one reads these two things it is inclined to be misleading. I think you would agree?—(Sir John Hawton.) Yes, but I was looking worried because I cannot think of any means by which we can get the material for comparison in England and Wales.

1973. I was thinking, if the Scots have cut all this out, they might put it back in?—That I always agree with. (Mr. Haddow.) I am not sure that I may not have misled the Committee there. Specialists used to be out, but I believe they are now in. If one compares as near as one can like with like, one sees that there is not such a great difference. Let us compare maternity in Scotland with maternity in England. Maternity in Scotland brings out a national mean cost per patient per week of £24 3s. 3d. The English figure is £23 2s. 4d., weighted up, I admit, for teaching hospitals, but it will not be £10 out of line.

1974. No, I will take these two figures. It is a little misleading, but if in fact you are going to do that, then I would

be entitled to ask if the paragraph underneath each of these columns of figures was referring to the same thing. Surely I would be entitled to do that, would I not, Mr. Haddow?—Yes, remembering that the make-up of the Hospital Service in Scotland is probably rather different from the make-up in England.

1975. I am suggesting if we can get the two make-ups the same we will be able to make a comparison of the costs. I just want to ask you one further question. Referring to paragraphs 3 to 5 of the Comptroller and Auditor General's Report regarding the Scottish Account, have you looked into the wide variations of costs of physiotherapy treatment mentioned in paragraph 5?—Yes, it is a most interesting example of how far one can go wrong through working with an inappropriate unit of cost. The reason for this tremendous disparity is that the unit of cost basically taken here is cost per patient-hour of treatment given. In the hospital with the very low figure, £5 odd, this was possibly because of the character of the treatment given, giving a large amount of physiotherapy in groups, and therefore one got a large number of patient-hours of treatment for a relatively small expenditure in physiotherapy staff. Conversely, the high figure related to a geriatric unit with chronic sick patients, where the therapy was individual attention to the patient. Therefore, if we are going to make anything of this at all we need to find a new unit for comparison.

1976. Have you thought about the comparative cost in England for the same types of treatment, one a large hospital with group treatment and the other individual treatment; have you compared it with England?—I confess I have not, Sir. I am not sure if there is an English figure.

1977. Is there an English figure, Sir John?—It is probably a different unit. (Sir John Hawton.) That is the trouble. I am afraid we are talking of two quite different things most of the time, but I will try and solve it if I can.

Mr. Hannan.

1978. Mr. Haddow, where the costings show great differences between hospitals, does your Department investigate these,

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or do you leave it to the members themselves?—(Mr. Haddow.) We circulate figures. We expect a Board of Management to have a look at them itself, and we expect a fair amount of follow-up by the Regions.

1979. Turning to another point, I am looking at paragraph 3 of the Comptroller and Auditor General's Report for Scotland and the recommendations that the Working Party made in 1955. You had this experiment in 30 hospitals. Is the system that you are now following the result of those recommendations?—Yes, it is.

1980. I see from paragraph 4 that by April, 1957, some 40 hospitals had agreed, but then later the Department had concluded, apparently, that participation in the scheme had not been a success. You go on to mention, and whether it is a euphemism or a nicer word I do not know, specific instructions. Have I to read those words literally, or would I be right in interpreting that that there was pressure? How was this scheme finally adopted?—It is a euphemism, if you like, but they are now requested to do it. In other words, they have got to do it.

TUESDAY, 14TH APRIL, 1959.

Members present:

Sir George Benson, in the Chair.

Mr. Arbuthnot.
Mr. Chetwynd.
Mr. Hannan.
Mr. Cledwyn Hughes.
Mr. Pentland.

Mr. Peyton.
Mr. Stevens.
Mr. Thornton.
Sir Colin Thornton-Kemsley.

Sir EDMUND COMPTON, K.B.E., C.B., and Mr. J. MACPHERSON, called in and examined.

ARMY APPROPRIATION ACCOUNT, 1957-58.

Sir EDWARD PLAYFAIR, K.C.B., Permanent Under-Secretary of State, War Office, and Mr. W. STRATH, C.B., Permanent Secretary, Ministry of Supply, called in and examined.

Chairman.

1981. Mr. Strath, this is your first appearance before the Committee?—(Mr. Strath.) That is correct, Sir.

1982. And I understand that you wish to get back to the Ministry of Supply as soon as you possibly can?—I would, if it is convenient to you.

1983. In that case we will take first what you are concerned with, the purchase of wireless sets. Will Members turn to Paragraphs 10-13 of the Comptroller and Auditor General's Report on the Army Appropriation Account, the Purchase of Wireless Sets? Sir Edward, did you order this set subject to alterations agreed with the Ministry of Supply?—(Sir Edward Playfair.) I think we agreed every one of them, Sir.

1984. Who ordered the improvements which were not of your seeking, to quote the Report?—They were all the result of technical examination, mostly by the research and development establishment concerned, but they were all for the purposes of bringing the set up to the specification originally given by us.

1985. If you did not seek them, who did?—We sought no more, Sir, than we originally had sought, that is to say, what the firm claimed to be able to do, and this is common ground between the Ministry of Supply and ourselves. I think it would be wrong to say that there was a separate seeking; some things were very definitely for us, such as ease of maintenance, some things such as the result of bench tests by electronic experts were very definitely by the Ministry of Supply and some were by

co-operation. Would you confirm that, Mr. Strath?—(Mr. Strath.) That is correct, Sir.

1986. Was it the Ministry of Supply, then, who ordered these improvements?—The Ministry of Supply is responsible for conveying the requirements on modifications to the firm.

1987. What puzzles me is this phrase: "The War Office informed the Treasury . . . that the increase in cost had largely been caused by improvements to the set, not of their seeking". Now, who gave the order for these improvements, that is what I want to know?—(Sir Edward Playfair.) As it was our letter, could I answer that, Sir?

1988. Yes?—The position was this—I think we possibly put it rather badly in that letter: the manufacturers of this set said: "Here is a set which can do this, that and the other". We tested it. It was like taking a house subject to survey. On test it did not quite come up to the manufacturers' specification and we said: "It needs to be got back into the proper shape", and they said it could eventually be done. Who actually says what changes should be done is a matter of technique, some of them by us, some of them by the Ministry of Supply, but in all cases it would be agreed between us and the Ministry of Supply and passed on by the Ministry of Supply to the manufacturer, really in the form: "Remedy this fault. Bring it up to what you said the instrument could do."

1989. Does that imply that the claims of the manufacturers to begin with were excessive?—Yes, they were over-optimistic. By the time we had finished

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[Continued.]

it did all we wanted and it remains, I may say, extremely good value. It is a good set.

1990. It is; but it costs double what you originally estimated?—Yes, but only about half of the better instrument which we hope to get later on. For a less exacting role it is taking the place of an equal number of those. It is good value.

1991. How is it that the Ministry of Supply warned you there would be a very sharp increase in cost and it did not come to the notice of the War Office Finance Branch for a very, very considerable time?—Human error, Sir. There is no doubt about that, it should have been passed straight on, and it was not passed on.

1992. The last sentence says: "Equipment accepted by the War Office after trials should not be varied without War Office agreement". What exactly does that mean, and what exact change does it imply in your method of ordering? I should have thought that that would have been the standard requirement of the War Office?—Yes, you would think it, Sir, and it came to me as a surprise. What has happened in the past, I understand, is this: the establishment which finally puts the seal on the thing and says "This is all right", is one of the Ministry of Supply's Research and Development establishments, and in the past it has very often made technical alterations. It has not changed the whole nature of the thing, but it has said "This needs a technical alteration" and it has in the past done so without our knowledge and consent. That, I think I may say, will no longer happen.

1993. In other words, the Ministry of Supply will consult you before it alters your specifications?—That is so, and our bills.

1994. It strikes me as rather late in the day that you have only just arrived at that position?—Yes, Sir, I think we would probably both admit that. All I can say is, that we were, owing to the antediluvian state of our wireless equipment before that, entering into what was a fairly new field of development for us. The whole thing is a lot clearer now, and you may well complain that the Working Party's results are glimpses of the obvious, but sometimes we need reminding of the obvious.

1995. It is not the first time that this has happened before the Public Accounts Committee?—No, Sir, alas.

Mr. Pentland.

1996. This apparently was only an interim set. Would you have ordered it in January, 1954, had you known that the cost was going to be £455,000 and that delivery would not be completed until 1957-58?—It is very difficult to give partial back sight, but I think Yes is the answer, for this reason: in point of fact, we are not going to get the improved set, the C.13, until 1960. That is going to cost, I think, £500 odd. We have been able for the less exacting roles to diminish the orders of the expensive C.13.s by exactly the same numbers of C.12.s we have got three years earlier. What I think has happened is that we have been disappointed on our hopes, which were fluttered in front of us by the manufacturers, of getting something very, very cheap very quickly off the shelf. Obviously, that was an excessive hope to hold out to us. What happened was that we got a perfectly decent basis of development of a medium-capacity, medium-price, medium-speed instrument.

1997. I take it, Sir Edward, that you decided to test it against a modified version of the set it was intended to replace?—Yes.

1998. How does the cost of the modified set compare with the cost of the new set?—We never put it through all the stages, but we tested it at an earlier stage. It came out the same, approximately, but less reliable because it is a mixture of new and old. Had we gone on, I suspect that the same kind of process would have gone on with inflation of price as we discovered more and more things, and all the more so, of course, as that was an attempt to dicker with something old. It was a case of putting rather strong new wine into old bottles because the range had to be rather longer.

1999. Could you tell the Committee when is the new set which is being specially designed for the Royal Armoured Corps likely to come along?—About 1960.

2000. One final question. Will the interim set then become obsolete, or do you see a normal life's use for it in a secondary role?—The one we are talking about?

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[Continued.]

2001. Yes?—We shall use that right the way through. We have actually diminished the size of our order for C.13.s by the number of this. We shall use it in place of those.

Mr. Stevens.

2002. Mr. Strath, in paragraph 11 it is stated that in March, 1954, the War Office were warned by the Ministry of Supply that the cost of the set had increased by nearly 50 per cent., but it was only in January, 1954, two months earlier, that the order had been placed. How comes it that there was that very steep increase in price in so very short a time?—(Mr. Strath.) I think the answer to that, Sir, is that the order was placed rather in a hurry because this was at the time an urgent requirement of the War Office, and had been under discussion for a period. As soon as the order had been placed, discussions continued with the firm on questions of modification and design, and so on, and out of those discussions came this estimate of cost. It would naturally have been very much better if this estimate of cost had come out before the order was placed, but that did not happen.

2003. Have I misread the word “proprietary”? Does not “proprietary” mean a standard form of set?—No, Sir, this was not a set proprietary in the sense that it was ready for purchase, so to speak, off the shelf. It was proprietary, however, in that the design had been conceived by the firm as a private venture and offered to the War Office to meet what the firm believed to be a forthcoming requirement of the War Office. It was not at that stage a set which had been built to a design but, in fact, a proposal.

2004. Would I be wrong in suggesting then, perhaps, that a private venture set would be a more accurate description? I am bound to say “proprietary” to me means something of standard form you can buy in a shop?—I agree, it would be a much more accurate description.

2005. It had occurred to me that if it was a proprietary set there would be a list price, in which case you could have held the contractor to a list price instead of being forced up?—Quite so, Sir. There was no list price for this set for the reasons which you gave.

2006. Sir Edward, you said that the failure of the bad news to get through to the War Office until September, 1956, was a question of human error, and the news should have been passed on earlier, and I gather there is now a system whereby the Ministry of Supply copies letters to the finance branch of the War Office. That new system, I think, was initiated getting on for two years ago. You have had some experience of its operation. Can you say whether or not it is working well?—(Sir Edward Playfair.) Yes, Sir, so far as my experience goes. You realise, Sir, that the test of this system is the ultimate turning up of a case where it has not worked, but we have no reason to believe that it is not working well. It is, you see, a cross-check of the normal system which still applies, that the signal branch in the War Office ought itself to pass on the information. We now get it from two sources and the cross-check seems to be effective.

2007. You are satisfied it is working effectively?—I think so, yes.

Mr. Thornton.

2008. In the middle of paragraph 13 the Comptroller and Auditor General says: “The Ministry of Supply for their part undertook that correspondence between their production and finance branches should be copied to War Office finance branches as well as to technical branches.” Do I take it that it has not been the practice for this to be done in the past?—No, Sir, what happened was that information which the Ministry of Supply finance branch gathered from their production branch was, so to speak, collected up until the right time, when they passed it on. But what this does is to ensure that the War Office finance branch will get all information at the same time that the Ministry of Supply finance branch does.

2009. You are quite satisfied, I take it, that this has been remedied now?—I think so, Sir. “Quite satisfied” is always a strong word when a very complicated arrangement exists, but I see no reason to doubt it. May I say this, Sir: this is a very difficult field. There is, so to speak, a four-square relationship. There are two Ministries, finance branches in each, technical branches in each and on the whole, in all our arrangements of that kind, it is the contact between the two Ministries which is the

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[Continued.]

weak link. We in the War Office are having at the present moment a very thorough enquiry into the whole range of our procurement organisation, including our relationship with the Ministry of Supply, in which the Ministry are kindly co-operating to the full. I have drawn this case to the attention of the Committee who are undertaking that, not as something unique but as an interesting example of what can go wrong, and they no doubt will consider it.

2010. We can take it, then, that this weakness has now been remedied?—I think so, yes.

Sir Colin Thornton-Kemsley.

2011. This is a Departmental Committee which you have appointed at the War Office, is it?—Yes.

2012. Is there a Ministry of Supply representative?—Oh, yes, there is a Ministry of Supply representative. (Mr. Strath.) The Ministry of Supply are being represented by two senior technical officers, an Assistant Controller and a Director General of Scientific Research, both of whom are familiar with this field.

Mr. Arbuthnot.

2013. Sir Edward, I see from paragraph 13 that the War Office is going in for procedure "to ensure that changes in design and specification of equipment shall be brought to the notice of all concerned immediately." What is the set-up at the present moment, do you have a Design Department which designs the equipment and who put out that design to the manufacturer to make? Or do you go to the manufacturer and say: "This is the performance requirement. Make something that will fulfil it."?—(Sir Edward Playfair.) Neither, really, because of the intervention of the Ministry of Supply. Possibly this which quotes our words has been rather clumsily phrased. Changes in design may be originated by us because we asked for a change in function, so to speak, but we do not ourselves design anything. We pass on our requirements to the Ministry of Supply who do the designing in close contact with us. Therefore, I think perhaps I should ask Mr. Strath to elaborate on this. (Mr. Strath.) I think it would be incorrect to say that the Ministry of Supply does the designing. The Ministry of Supply does receive the requirement and, in combination with the War Office,

draws up the broad specification of what is required and may then invite industry to produce detailed designs to meet the performance that this broad specification requires; and out of that eventually comes a final specification of the commodity. In this particular case the firm itself conceived the design and put it forward. It was then examined and found to be wanting in certain respects; and the Ministry of Supply, through their scientific and development staff, suggested and required certain modifications to be introduced to what was basically the design of the contractor.

2014. What does your Design Department do then, or have you abolished it?—This particular case was handled by—

2015. Forget about this particular case. Does your Design Department still exist?—We do not normally design equipment.

2016. The question I asked was, does your Design Department still exist? Have you got one?—As I indicated, Sir, there is no Design Department as such. The technical side of the Ministry, backed up by Research Establishments which the Ministry has, develops requirements and specifications which are worked out by industry under the supervision of the technical development and research departments of the Ministry, but we do not ourselves have a design organisation as such.

2017. You informed the War Office two months after the original placing of the contract of the increase of 50 per cent. Was it also two months after the placing of the contract that you stated that, instead of being expected in 1955-56, which was the original expectation, it would not be available until 1957-58?—Yes, that is the situation.

2018. Sir Edward, what were the alterations agreed to as a result of the trials in 1952-53? Were they of any substance?—(Sir Edward Playfair.) One group of them was agreed and this does lead on to some explanation of the very large increase. We found—I speak with hesitation because I am not an expert—that the power unit was not sufficiently strong. Now the question of range was an important one. One of the reasons why there was this big jump up of nearly 50 per cent. was that we had been intending to use a rotary transformer (which, I understand, is part of the

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[Continued.]

power unit) applicable to the old set which is still in existence, which is made by the same manufacturers. Now, we have plenty of stocks of this in our own stores and consequently that did not appear in the original figure which was put to the Treasury, the one of £455,000, which is perhaps most simply thought of in unit terms of £—. When the power unit had to be designed and a few other things changed, what happened was this: we found we had to have a new rotary transformer which cost £—. Then there were a number of other changes, none of them important or large, but they amounted to £—. That was that change. Now, I think that where we went wrong, was that we should, when we originally put the thing to the Treasury and explained it, first of all have made quite clear what we ourselves did not realise at that point, namely that there might be a lot of adjustments and they might cost money—as production had not started we had no reason to expect that they would cost money—plus the fact that we should have added; “and we are proposing to use a rotary transformer from our own stocks. If that fails we shall have to find another”. But that is being wise after the event.

2019. Why were there no comprehensive field trials?—In this field it is almost impossible. The reason is this: The runs are not enormous and in this country mass production of electronic engineering is a fairly new thing. We have always been advised by the Ministry of Supply, and felt bound to accept that advice, that you cannot have troop trials in the true sense with electronic equipment. No manufacturer will do it. Now, may I define troop trials for this purpose; that is to say, a proper trial of the engineered product off the ordinary production run. To ask the manufacturer to set up his tools, have a short run in this complicated field, then stop it while we have six months' troop trials would be no good. We would have for the short run to pay the full price. It is cheaper, on the whole, to do rather elaborate user trials, that is, trials of the workshop model, and then, if necessary, change it on the production line. In fact, our user trials were successful in this case and the production did not have to be interrupted.

2020. So that you did, in fact, consider that the trials that you actually carried out were adequate for this order?—So it has been proved by the event. We thought they were and they have proved to be. We have the whole order now and it is in use.

2021. You are telling the Committee that it is impossible for you to ensure in the future that full-scale orders are not placed for new equipment until field trials have been carried out?—We have field trials, but we cannot have troop trials in the proper sense, that is to say, of the full production line model, the completely engineered thing. The workshop model is always slightly more delicate and on the whole, if not bashed about by Corporal Bloggs, a slightly more efficient object, but we should in this field be able to tell pretty well. I do not know whether Mr. Strath would like to add or subtract from that. I am not saying it will never be so, but so far we have not found it possible. (Mr. Strath.) What Sir Edward says is perfectly true for orders of this sort and magnitude.

2022. Mr. Strath, I think my last question, really, is properly addressed to you. At the end of paragraph 11 we are told that there was no contractual basis for claiming that any part of the increase should be borne by the manufacturer. We have been told that the manufacturer's product failed to come up to the claims that the manufacturer had made for it. Was there not something seriously wrong with the contract if that failure to come up to the claims that had been made for it could not be recouped from the contractor?—As I said earlier, Sir, the contract, when it came to be placed, was placed in some haste before the final specifications for the set were available. The contract, therefore, took the form of an instruction to proceed to manufacture this set to the satisfaction of the Signals Research and Development Establishment. The contract, therefore, was not itself related to a firm specification. The absence of that specification made the contract a weak point for the purposes of negotiating on deficiencies in performance.

2023. Should it not have been related to what the manufacturer himself said that his equipment would do?—The manufacturer's equipment by then had been found to require modification to correct deficiencies in it. I agree, it

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would have been very much better if at the time the contract had been related to a specification, either the manufacturer's or some interim specification laid down by our technical experts. That, however, was not done.

2024. Have you put your house in order for the future?—We are taking very considerable care to try and avoid situations of that sort, yes.

Mr. *Chetwynd*.

2025. Mr. Strath, I understand that trials were held in 1952 and the order placed in January, 1954. When you had got this estimated cost of £290,000 were your technical people not rather surprised at the low cost of it?—I believe they did feel that the cost was low, but they had no particular information on which to fault it at the time.

2026. Why is it that your experts could not spot these deficiencies almost at once?—The technical deficiencies?

2027. Yes?—They were the result of quite a lot of testing over quite a long period of time. Some of these technical deficiencies in the set did not show themselves until after the contract had been placed.

2028. But is this a case of, shall I put it, excellent salesmanship on the part of the private firm in pushing this set? That is what it seems like to me?—I do not know, Sir. There was a considerable amount of examination made of the set before. It was hoped that the modifications specified would eventually remove those deficiencies. The work that was done of testing within the Ministry of Supply's establishments as those modifications proceeded showed that further work needed to be done. This was something that happened over quite a long period of time, I am afraid.

2029. When you knew that the price was going to be more than you had bargained for, were any efforts made to get the manufacturer to bear any part of that increase himself?—It was

felt at the time that the contract was drawn in a form which precluded the Department from requiring the manufacturer to bear those extra costs, because the contract, as I said, was not geared to a specification of a particular performance.

2030. Sir Edward, I understand that this was a matter of urgency. The reason has been given that this was done rather quickly as a matter of urgency, and yet you did not get it for two years after you wanted it. How did you manage in the meantime?—(Sir *Edward Playfair*.) Badly, Sir.

2031. You managed with the old one?—Badly, Sir, with the old one.

2032. The other point is, would it not be advisable, when there is a problem like this, as well as sending a copy from one finance branch to the other to send one to the Treasury at the same time?—I doubt whether they would welcome that. I think they would be overwhelmed. (Mr. *Macpherson*.) We would be overwhelmed. We regard it as the responsibility of the purchasing Department, if they have an authority which is going to be exceeded, to come to us if the increase is beyond the normal margin which is permitted in such cases.

2033. In this case it was beyond that?—Substantially beyond.

2034. You can have a human error in one department; a man forgetting it for two years, or something; but you could not have it in the Treasury at the same time?—Sir Edward has said the drill existing in the War Office was such that it ought to have been sent across by the Technical people to the Finance Branch. That was the drill. The drill is now being duplicated to the extent that there is going to be a copy sent direct by the Ministry of Supply to the War Office Finance Branch. I do not think a triplication of the drill would be welcomed by us. We would be flooded by correspondence.

TREASURY MINUTE ON PARAGRAPHS 74-80, 81-86, 87-94, AND 98-101 OF THE THIRD REPORT OF THE COMMITTEE OF PUBLIC ACCOUNTS, 1957-58.

Chairman.

2035. Will Members now turn to the Treasury Minute on Paragraphs 74-80 of the Third Report of the Committee of Public Accounts, 1957-58, Welbeck

College? Sir Edward, the cost of Welbeck College has concerned this Committee for some little time. I take it that you will keep a close eye on this and consider the question as to how far it is

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[Continued.]

necessary to keep Welbeck College?—(Sir Edward Playfair.) I will, Sir. I will give you the assurance that we will keep a close eye on it. I am bound to say we feel at the moment more in need of Welbeck College than ever. We have been a little encouraged in that view by the Grigg Committee, which gave it a strong boost.

2036. How do the 1957-58 costs compare with the 1956-57?—They are down, but I would not like to draw too much from that. The works bill obviously fluctuates from year to year. In 1956-57 the cost per boy was £590. In 1957-58, £536, but it will be up again in 1958-59—we have not got the final bills yet—to about £585. There is bound to be a certain amount of fluctuation.

2037. Is it the structural cost that is so heavy?—That is what has varied to a large extent, yes, Sir, coupled with the fact that this is all, as it were, a sixth form in that it is only the last two years of a boy's life, so that the staff-pupil relationship is therefore rather high.

Mr. Arbuthnot.

2038. The cost, you said, was £590, and has now come down to £536?—In 1957-58, £536, but in 1958-59 it will be about £585.

2039. The gross cost before deducting the contribution of the parent was £659. Does that mean that you have been able to get a larger proportion of the cost out of the parent? Is that why the cost has come down?—No, Sir. It is the same, and I am afraid offhand I do not recognise that figure.

2040. It is in paragraph 75 of the Third Report of the Committee?—Yes, Sir. £590 net is the one I was quoting. I beg your pardon, Sir, I am afraid I was hearing wrongly, £659, £60 a boy, that is my figure, yes. No, there has been no increase yet. You will remember that we undertook to the Committee to look into that and to make such changes as seem appropriate, and we are going to make them, which will probably roughly double that; but the question of timing is still under consideration with the Treasury as to when we introduce them.

Sir Colin Thornton-Kemsley.

2041. Sir Edward, when did you introduce this scholarship scheme?—We are introducing it. I do not think any boy has got a scholarship yet.

2042. It is not introduced yet?—No, we have offered the first ones for the coming year.

2043. Have you had any kind of response which indicates to you how the thing is going?—I cannot give you figures, Sir, but I believe the immediate response has been favourable, as you would guess. I think we would want to see the boys first and have them in before we express any judgment. Obviously we shall have plenty of candidates, but will they be the right ones?

2044. How are you getting on with your review of the scale of the contributions made by parents?—We have reviewed that. What we intend to do is to change its shape. Its form was this, that it started at no contributions at all from people with a net income, that is, an income after a certain number of deductions, of £300 up to the maximum of a contribution of £90 for people with from £700 upwards. We are now, taking the change of money all round, starting at a net income of £400 with a contribution of £30, and running that up to a maximum of £180, that is, double the contribution, for people with a net income of £1,200 and over. Obviously, a man's net income is dependent on his circumstances, but we are using much the same kind of system as local authorities, and the like; and roughly speaking you can correlate a net income of £400 with a gross income of £750 for average circumstances, and a net income of £1,200 with a gross income of £1,700. But that is not all we are doing. Could I mention the other things, because they make a difference to the operation? This is the simple contribution. We are also going to make the parents in future look after the pocket money, which is £8 a boy, and more of the clothes than before. Some basic clothes will be provided, but not frills. We reckon that will be about £25 a boy, but we cannot start straight away. When one changes any form of scholarship one must let the existing people work through, which is a quick thing with us because it is two years only; and we are also still a little doubtful—there are prospectuses out, and so on—when we can start, whether we shall start in 1960 or 1961. That is a matter which we are considering and discussing with the Treasury. That is the only thing unsettled so far. The Governors have rather sadly and reluctantly agreed to these proposals.

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2045. The figure you have given the Committee, the maximum contribution of £180, is presumably £180 a year?—Yes.

2046. Is that fixed even if a parent's income exceeds £1,200, which I think was the upper limit you mentioned just now? Their maximum contribution under your new scheme is only to be £180 a year?—That is the idea, Sir, yes. We want some attraction, though judging by the schedule I read of the parents I should think the number of rich parents would be comparatively small.

2047. What is the present maximum contribution that parents make?—£90, Sir.

2048. So you are proposing to double it only for the higher ranges of income?—Yes, that is it.

Mr. Thornton.

2049. How do these scales of contribution compare with the Ministry of Education's scheme for State scholarships?—I cannot give figures, but very similar. We took that into account.

2050. You made reference to the fluctuation in the annual cost per student. Is the fluctuation due to fluctuating costs or to the varying number of students you have?—It is the works bill which varies. The school is always full. There is the natural increase, I am afraid, in teachers' salaries and things of that kind.

2051. What interested me was that you quoted one year when the cost was down?—That is simply works. It is the fluctuation in the maintenance of the fabric.

Mr. Peyton.

2052. Mr. Macpherson, would you exercise all your powers of lucid explanation and tell me what that last sentence means? What do their Lordships really have in mind when they say that they accept our recommendation "that the need for retaining Welbeck College should be kept under review, and they will watch the success of recruiting by the various methods available over the next few years with critical interest"? Are these various methods of recruiting or various methods of watching?—(Mr. Macpherson.) Various methods of recruiting, Sir. We have our standard methods of watching.

2053. What does "critical interest" amount to?—It is the sort of interest that gives the bite to the Treasury's supervision.

2054. Is it a vague hostility?—It can be quite venomous.

2055. It is a hostility then?—It is not necessarily hostile. It is just exercising the function the Treasury regard themselves as having.

2056. They say they are going to exercise critical interest in this case. I was always under the impression that the Treasury existed to watch things with critical interest over the whole field?—That is true, Sir, but here we have a situation where a doubt was cast on the need for this particular method of recruiting that Welbeck supplies. The Committee suggested that the scholarships might be able to supersede it.

2057. I understand that. Would you say it was a very unfair way of describing their Lordships' reaction to this Committee if I were to say that this really adds awfully little to the sum of things?—It adds this, Sir, that the Committee suggested that there might not be a need for Welbeck at all, that it all might be done by scholarships methods. The Treasury have been persuaded that the War Office need both methods. They need Welbeck and they need scholarships. But it also means that the Treasury will watch the success of both of those methods.

2058. Which they were doing before?—Well, there was only one before.

2059. The interest has now become critical, is that correct?—The Treasury is always critical.

Mr. Cledwyn Hughes.

2060. How do you gauge the success of the experiment?—(Sir Edward Playfair.) The quality of the boys, their success at Sandhurst, and their success in the Army afterwards as young officers. They have been doing very well at Sandhurst.

2061. You have got records since 1953 which prove that they have been doing well?—Yes, we watch them as they go through. About two years have gone right through, I think. It is about two or three years, and they have been doing excellently.

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[Continued.]

Sir Colin Thornton-Kemsley.

2062. You watch them with critical interest?—We watch them with interested criticism at times.

Chairman.

2063. Paragraphs 81-86, Territorial Army Reserves. Have you taken any steps, Sir Edward, towards restricting the grants to the wealthier organisations?

—Yes, Sir, we have. We have been, I must admit, a little slow about wielding what you might call the big stick, because we try to persuade here. But we have been discussing with the Treasury, which is always our first step, and we have restricted the people whose increases were both large and growing, and we have been a little gentle to those people whose reserves were large but not growing, particularly, of course, if they could show some particular reason for it, partly because as Territorial Army home recruiting is going up they do not know exactly where they stand. But we are keeping the thought now in everybody's mind that they have got to come down, and hoping that they will so far as possible fix it themselves.

2064. Paragraphs 87-94, Supplies of Boots. Would you explain what "accommodation stores" are?—Furniture, Sir. It is just a complicated word for furniture.

Mr. Peyton.

2065. Why can the word furniture not be used?—Have you ever known, Sir, the Army to use the same word for a thing like that? I do not know why. I can give you no explanation. I am not prepared to defend it.

2066. May I express the pious hope that perhaps under your guidance they might start a new and shining example to others?—I will bring your suggestion to their notice.

Sir Colin Thornton-Kemsley.

2067. But does not "accommodation stores" include all sorts of things besides furniture? It includes all those things which are required in Army accommodation?—Yes, it is broadly that.

2068. Utensils, and things like that?—Yes.

2069. A lot of stuff which is not really furniture?—It does not include kitchen things, I think. It is furniture in a very wide sense, including blankets, for example.

*Sir Colin Thornton-Kemsley.] Yes.**Chairman.*

2070. When do the Defence Administrative Committee begin their study of the possibility of integrated store holdings of these accommodation stores?—Oh, it is going on, Sir.

2071. What progress are you making?—Slow, because difficult. We are trying a good many tricks and various devices. It is really a question of comparing different methods and trying out new experiments. The experiments are taking place in manageable places, such as abroad, where there is a manageable small place, such as Malta, and the like. The experiments are going on there but it is not general yet.

2072. Now with regard to boots, what progress are you making with regard to considering the common stockholding of such things as boots?—That is exactly what the Defence Administrative Committee was about. My hopes of getting a common stockholding of Army boots were dashed by the fact that no sooner did you take it up last year than the Air Ministry decided to stop using Army boots. The Navy never had used Army boots, so there was nothing held in common. They use quite a different kind of thing. The Defence Administrative Committee is looking into this subject generally and chose accommodation stores, as I said last year, simply as a convenient pilot experiment.

2073. But you are proposing to go on and see how far you can hold common stocks?—Yes. I would put it more exactly if I may, to see not how far we can go, but to what extent it is efficient to do it, to what extent and in what circumstances. It does not strike us as being a thing which we ought to strive to do even if it is inefficient.

*Chairman.] Oh, no.**Mr. Arbuthnot.*

2074. When did the Defence Administrative Committee begin its study of the possibility of integrated storeholding?—My recollection, Sir, is, a little less than a year ago. I should think it was about eight to ten months ago. I could not be quite certain. I recollect going to a meeting in pretty high summer.

2075. Have they reached any conclusion as to whether it would be worth while to widen their studies to other

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items?—Not until we have done our pilot experiment with accommodation stores. We have found that big enough as it is; but I would repeat that what you might call local bits of integration, which are a much smaller scale thing, are going on from time to time. They are done locally in Hong Kong, Aden, and places like that.

Chairman.] Paragraphs 98 to 101, Disposal of Property on Abolition of A.A. Command. I have no questions.

Mr. Arbuthnot.

2076. The War Office were going to dispose of these properties as quickly as possible. Have they all been disposed of yet?—Not all, Sir, no. We have been going ahead. It is such a frightfully slow business disposing of anything, as I had occasion to say last year. To take the case of the Operation Rooms, if I may, we thought then that we wanted to retain, or, at any rate, had not yet thrown up, eleven of them out of 35. That was the figure at 1st January, 1958. At the 1st March, 1959, we had thrown up two more since then and we knew we wanted to keep the rest. That is, nine which we are keeping and 26 which we are throwing up. It takes an awfully long time, Sir. We have disposed of eight, we have got 14 which are what is described as "in course of disposal"; that is to say, we know definitely that the bargain is on; and at various stages, which is described in this "machinery prior to disposal," four. There are questions of price and questions of survey going backwards and forwards. It is a very long business.

2077. So that you have got four and you know you want to dispose of two which are not even in course of disposal yet?—Yes, but all I can say is that it

is better than 11 in that limbo state last November or 16 in January of last year.

Sir Colin Thornton-Kemsley.

2078. Could you tell me, is there any real delay caused by such things as having to apply to the Board of Trade for industrial location certificates? Do you find you are held up by any other Departments?—I should not have thought so, Sir. I should not have thought that that would come up. I think, though I may be in error here, that it does not with these things. To take, for example, the A.A. store depots, there is a certain amount of discussion, where it has been agricultural land, with the Ministry of Agriculture; but I do not think that is a very serious element.

2079. I do not know about A.A. or Command Ordnance Depots but I know of one case where I was trying to buy at the time and there was an awful delay, some months of delay, because the Board of Trade allegedly could not make up its mind about the grant of an industrial location certificate?—It could happen, obviously, in theory. I am bound to say I have never had it brought to my attention. I should hope you were unlucky, so to speak.

2080. I hope so, because you missed a good client?—It is awfully depressing when one Government Department is sitting on the back of another.

2081. Frustrating beyond measure. Then, of course, the practice of putting things up to tender, I suppose, really is necessary, stipulating that there should be a three months' wait for prospective buyers to secure planning permissions, and so on. It seems an awfully long time?—I do not think we could get a decent price without giving them sufficient time.

ARMY APPROPRIATION ACCOUNT, 1957-58 (continued).

Chairman.

2082. Will the Committee turn again to the Report of the Comptroller and Auditor General on the Army Appropriation Account, paragraphs 2-7, the Outturn of the Account? I see on Non-Effective Services there is a deficiency of very nearly £3 million due to expenditure on special payments and grants for which no provision was made in the Estimates. Could you give us a little more detail about that?—(Sir Edward Playfair.)

Yes, certainly. These were the golden bowlers, Sir. What happened was—it is set out in paragraph 6 to some extent—that when the Government announced that we were to give special terms to people leaving on redundancy, that is to say, compensation, which is amounts varying from nil to anything up to £6,000 for officers and nil to £1,250 for other ranks, and re-settlement grants during the period of redundancy, £500 for officers, and £250 for other ranks. That meant, of

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course, that there was a quite sizeable sum to find. So far as we were concerned, the total which we had to find was £1.5 million for officers and £600,000 for other ranks. Now, we consulted with the Treasury and other Departments what attitude to take towards that. The Admiralty needed a Supplementary. The Air Ministry did their own redundancy operation very much more quickly than we could or did and therefore they had quite large sums—I am afraid I do not know what they were—which were large both absolutely and in relation to their Vote 10, and so they took a special Supplementary. We, after consulting the Treasury, did not. The thing is noted, of course, and it is mentioned here. Both absolutely and proportionately ours was less big than theirs and the Government as a whole felt that the principle had been sufficiently widely discussed by Parliament, both generally and in connection with the other two Service Estimates. To give you an example, £1.5 million for officers compares with £12.5 million in Subhead A of the Vote. £600,000 for other ranks compares with £9.8 million in Subhead F, which is the corresponding one of the Vote. The total of £2.1 million compares with £26.4 for the total of Vote 10. Does that give you the information you wanted, Sir?

2083. Yes. Mr. Macpherson, the Air Ministry and the Navy both took Supplementary Estimates. Why did you not insist that the War Office should take a Supplementary Estimate?—(Mr. Macpherson.) The Air Ministry Supplementary, Sir, is the one I mentioned to the Committee in another context last year. The question was then raised whether the Treasury power of virement in the case of the Service Departments was automatic. This was the example of a situation in which the Air Ministry could, in fact, have found the money necessary for these payments from savings on other Votes, but because the amount of these payments was large—the figure, I think, was in the order of £4 million to £5 million and was large in relation to the net provision of the Vote, which was about £7 million—the Treasury felt that this was sufficiently important to seek specific Parliamentary authority; and as Sir Edward has said, the Navy had to take a Supplementary for money reasons anyway, so they also took provision for this additional expenditure. We thought that as Parliament had the opportunity in the case

of those other two Departments to approve what was being done and as we felt it was a reasonable exercise of the Treasury's power of virement for the reasons Sir Edward has given—that the amounts were smaller than in the case of the Air Ministry and much smaller in relation to the net Vote—it was not necessary to take a Supplementary Estimate for the War Office.

2084. But the fact that you did allow this expenditure caused a deficit on the Vote?—On the Vote, Sir, but it was covered by the formal exercise of our powers of virement under the Appropriation Act.

2085. Had you realised that it would cause a deficit on the Vote would you still have allowed it?—This was very carefully considered in relation to all three Departments at the time. We felt that this came under the general ruling that we should not unnecessarily take up Parliamentary time by taking a Supplementary when the situation could be dealt with by a reasonable exercise of our powers of virement.

2086. Not only did it lead to a deficit on the Vote, but it is also a new service?—It was a new service because it came under the Command Paper, but it was not technically a new service in relation to the sort of payments being made under the Vote.

2087. Sir Edmund, what have you to say about this?—(Sir Edmund Compton.) I do not think I have much to add to Mr. Macpherson's exposition and his answer to the critical question, namely, is this a new service. If it was a new service in the technical sense, then I think the Committee might have cause for criticism, as it has been covered by virement. But the point is made in reply by the Treasury that it was not a new service in that sense, though I think a question that the Committee might wish to consider is whether the scheme as announced was sufficiently novel and comprehensive in character to be covered by virement or not.

2088. Particularly if it makes a deficit on the Vote?—But I would then go on to endorse the point which was being made earlier on by the Accounting Officer, Sir Edward Playfair. It was this, that in so far as this was a new service, that principle had been observed by the Air Ministry Supplementary Estimate. In fact, the newness of the service

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was laid before Parliament in connection with the Air Ministry Supplementary Estimate. To that extent the point that it was a new service was really covered by the fact that it was common to all three Departments and not confined to the Army.

2089. Paragraphs 8 to 9, Over-provisioning of Brass Tubing. Was the review of 1956 mentioned by the Comptroller and Auditor General ever completed?—(Sir Edward Playfair.) No, it was not. We got bogged down in quite intolerable intellectual difficulties and started all over again to try and find a new and more rational basis for setting out the reserve scales for these L.A.Ds.

Mr. Pentland.

2090. What do you mean by "intellectual difficulties"?—Trying to guess what is the right method over a very large number of objects to set out the amount which is required for each unit for unknown purposes in time of war, taking into account the amount of transport which you might have, the workshops you may have behind it, and working it out appropriately.

Mr. Peyton.

2091. Has anybody thought of which war they were required for?—There have been two quite different wars since these were required. This was the good old Korea war which we were thinking about, but theories of war going on now require a great deal of amending. Now we have started thinking about a rather different war, and we have started again. There seems to have been an intellectual revolution since we started thinking about this.

Chairman.

2092. How did brass tubing come to be involved in this?—May I start by saying that when I give an answer I am not seeking to defend the absolutely appalling blunders which were made in this case. If I could put it in its perspective—

Mr. Peyton.

2093. Have you got to get your white sheet out for this?—I have, Sir. I think the answer is, brass tubing is one item. It is fair to mention in this particular scale which we are talking about here there are 480 items, there are about 8,000 scales, and the total objects going into all the scales are about half a million, and it is quite a complicated process.

Chairman.

2094. I can well believe that. I think your inventory runs to the tune of something like 600,000 items?—Yes, that is about it.

2095. So you have to have quite a complicated system to prevent this sort of thing happening?—We do indeed, Sir, and I am afraid in this case it is just absolutely awful.

2096. I gather what happened was, assuming that you wanted 38,000 feet, that you then ordered 38,000 feet not of all brass tubing but of each specific gauge of brass tubing?—It was an ambiguous scale and, frankly, what its authors originally meant I just do not know. It was a historical one produced for Torch and Overlord, and in an Ordnance sense the actual words written down do not make sense, and I am afraid we interpreted it foolishly.

2097. Apparently you did not realise what had happened until the Comptroller and Auditor General drew attention to it?—When the Comptroller and Auditor General drew attention to it for the first time we did not realise even then, and the present situation was very ably defended by Mr. Way in front of this Committee, you may remember, which shows you the complication. Mr. Way is a highly intelligent man with great experience, and the truth is that one mistake, when you look at it, you can correct, but if you make about three mistakes you really lose your entire frame of reference altogether; and by that time a whole elaborate set of explanations which has nothing to do with the facts has been built up for it which you unhesitatingly sustain, and that is what Mr. Way was faced with here. Then the Comptroller and Auditor General came down a second time, and I am glad to say that, no doubt as a result of interesting conversations down at Didcot, a hasty message came that we had made an error before the Comptroller and Auditor General had sent us a reference sheet. That is the only consolation I can find in this dreadful story.

Mr. Hannan.

2098. What did the over-provisioning due to this wrong interpretation amount to?—It amounted to about half a million feet; in money, about £250,000.

2099. Have you finally reassessed the reserve?—Not finally, no. We have cut it down to the small figure of 30,000

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feet, for this reserve. There was another reserve with which the substance of this is not concerned, a Royal Engineer Reserve which is about 17,000 feet, and contrary to what you might believe, this stuff is actually being consumed by the Army still, and in accordance with our custom when we throw up surpluses kept we have five years' consumption of 67,000 feet. We are eating this at the rate of about 12,000 feet a year.

Chairman.

2100. These instances which are thrown up are not necessarily in themselves very serious, but they are continuously thrown up and they do suggest that your problem is one of extreme difficulty. I think you are probably seized of that?—Yes, there is no doubt about it at all.

2101. Do you feel that there is any steady improvement in your store accounting?—Yes, Sir, I do feel that. I feel no doubt about it. What I have said in the past, if you will allow me to say it very briefly now, is that there are four legs of this, I think. The first is to get the policy settled. We are getting near it, but I am bound to say in this field, particularly the war reserves field, the thing is still a muddle and it will be until we have settled down, which we have been trying to do for the last two years, to the new-shaped Army and determine where we are going. Secondly, there is the management problem. I think we are improving our management techniques continuously and things are very much better, considerably helped by the institution of the Store Auditor, who has gone about his business in a very constructive way. The third is the mechanics of the thing. We have recently, as is mentioned later on in this Report, installed some very good new mechanical accounting machines with mechanical checks against things being posted to the wrong accounts; but most of all, of course, we are looking forward to our A.D.P. installation which I hope we shall get fairly soon.

2102. To what?—The computer, A.D.P., the Automatic Data Processing Computer, which we will get in a couple of years or so. But the most important, the last one and the most important of all, is getting rid of the junk.

2103. You still have not got rid of it?—We are getting rid of it at an enormous pace. I wish you would let

us take you round all this and see for yourselves. I would like you to look at the metal shed in Didcot and see that. One of the questions I asked when I went into this was: "Look at all this stuff. Did you not notice there was rather a lot?" The answer was: "First of all we do not know what a lot is. This is nothing to do with peacetime consumption, it is wartime consumption." Secondly, you really hardly notice it in a place the size of the metal shed at Didcot. I have walked through it from end to end, and it is a very tiring process.

2104. I believe you still use Army personnel for a good deal of the store-keeping?—On the actual storekeeping, very little, Sir, I think.

2105. What I mean is the bins; you still have Army personnel?—Very little, Sir. That is largely civilianised. I have not the figures, I am afraid. We must keep some soldiers for the usual things, training, getting them ready to go out to foreign parts, and things of that kind, but I would have said, simply judging by my recollection of going round, that it was nine-tenths on that level civilianised, and very largely women.

2106. I think that is changed, then?—Oh, this has changed a great deal. When did you last see this, Sir?

2107. Perhaps four years ago?—It has changed a good deal since then. I cannot be sure of my figures, but that is my impression.

Mr. Hannan.

2108. I think I understood you to say earlier that you are getting this down to five years' reserve?—When we are throwing up a surplus on something we always keep in hand five years' normal peace-time consumption. "Always" is not quite exact. There are cases of short shelf life, and things like that.

2109. How frequently, normally, do you review these reserves?—The war reserves or the maintenance reserves?

2110. Both. Is there a different period for each?—The war reserve is a different concept altogether. The actual things in the war reserve are turned over, of course, but for the war reserve you have to keep, sometimes specially packed, things for use in time of war and not otherwise. Therefore, essentially, they are on the shelf until war breaks out. The process of reviewing how

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much of any given thing you want, that is, the scales that we are talking about, is a continuous one. We are always at it, and, I must say, with singularly little effect at times. We have recently, owing to the changes in the Army, been going through a most desperate period in which we feel we have very little to go on, but I am in real hopes that over the next few months we shall get that straight. Now, the peace maintenance reserves are another thing. They may all be kept in the same amount, but it is a question of calculation. Suppose we take boots, that unpopular topic. How many boots should you keep? They are two questions: how many should you keep and how many should you buy? There is a constant issue of boots going out. When it gets down to a certain level, then you must buy some more, but there is a quite different ceiling figure, which is the figure above which you do not sell surpluses, and a surplus can be thrown up not simply because you have ordered badly but because experience changes, or, what is the most frequent thing at the present moment, the size of the Army is changing.

Mr. Arbuthnot.

2111. I see from paragraph 9 that you had a statement within the War Office in December, 1956, that there was no requirement for this tubing. Now, was any decision taken about the reserve in view of that?—No, Sir. What happened about that, and this is one of our blobs and I do not seek to hide it, is that an Ordnance Branch, not, as it happens, the Ordnance Branch which is directly responsible for dealing with Didcot on these things, was trying one of these desperate attempts to work out a revised scale for the use of L.A.Ds., and it was enquiring in various directions. A R.E.M.E. officer said: "As regards R.E.M.E. there is no known use for this brass tubing". That is not an absolutely true statement about the Army as a whole, because, as I say, we do use it, but broadly it is true. Unfortunately, that particular effort ran to ground in the circumstances which I have just described, and the officers concerned were not spry enough to realise—they were not the ones responsible for Didcot—that this had an immediate effect on Didcot's holdings. They lacked the initiative to pass that on to others and say: "Does this make a difference?" I think the phrase,

though absolutely correct, is a statement that gives one a slightly misleading impression. One thinks of a vast Army Council decision. This was, in fact, a minute by a G.2, the right G.2, and a correct one on a particular file which was part of the particular exercise.

2112. So, what has happened in fact is that there was inadequate liaison between the War Office branches concerned?—Yes, that is it.

2113. Are you satisfied that you have got that right now?—I am very worried to know how to answer that question. We have done all we can, but the fact remains that this is, as I see it, not the result of fundamental faulty organisation but of a lack of nous, nothing more, on the part of the particular officer concerned, and I am not sure that I can give any guarantees that I have abolished lack of nous; I do not think, particularly after the trouble that we have had with this inside Ordnance, that this particular mistake will be made again, but some other mistake will be made.

Chairman.

2114. For instance, in all probability it will again happen that your storekeeper adds in the number of the bin on to the number of articles in the bin?—Very likely, Sir, and I have particularly asked Didcot to keep a good sized maintenance stock of white sheets.

Mr. Stevens.

2115. Sir Edward, I did hear you, I think, express the pious hope that there was some progressive improvement in the housing of stores, referring to stores and stocktaking. When do you expect that improvement to show itself in figures, because I see, if I am in order, that the losses written off were in fact £220,000 more last year than the year before. Why would that be?—If you want me to enter into that now, first of all I am not going to claim that our progress is absolutely steady and continuous, but these were losses in general. Are these the stocktaking losses that you are speaking of?

2116. The losses from all causes?—I think one must analyse it a little closely. In fact, our stocktaking discrepancies have gone up this year. That will be dealt with later in the Report, but

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although our losses figure has gone up, you do realise that not all of that refers to storekeeping and it does not refer to losses incurred in a given year. It is when they are brought to account. Some of these are wartime losses, even, which have hung over. It is when they are brought to account. I went through these loss figures, and I am bound to say the general impression left on me was of slight improvement but nothing to speak of, nothing significant. We were just about the same. Would you bear that out, Mr. Macpherson, on losses as a whole this year? (Mr. Macpherson.) Yes. If I might add to what Sir Edward has said, it seems to us in this particular case we are dealing with, the brass tubing, and on the stores, the two important things are (a) that we get a policy on reserves, and (b) that we get rid of as much of the surplus stores as possible. That, we think, should lead to making the War Office task much more manageable, but until we get there I do not think we can look for an absolute improvement either in reducing their holding of reserves or in the accuracy of the storekeeping or accounting. (Sir Edward Playfair.) I entirely agree with that.

2117. I was a little out of order, I think, but it did arise out of something Sir Edward said. I would like to ask another question, and this is rather, admittedly, turning the knife in the wound. I would like to know by what intellectual process of reasoning it appears to have been thought that the issue rate for 33 different sizes of brass tubing in peacetime would be at a number, perhaps 33, of different rates. In peacetime all 33 different sizes of brass tubing would be the same, would it not?—I have asked that question both of myself and other people, and I have not been able to get what seems to me a rational answer. The nearest approach which I got to it was that you just cannot tell in time of war what you will want, but really that is not a sufficient answer. If I may repeat, I think that, faced by an ambiguous phrase in a scale whose original meaning was most unclear, I have found it useless to try and guess what the man who wrote it down had in mind, though I am sure it is not what appears from those words alone. I think they simply made a mistake. They took the easiest, in a way the safest, meaning, and they backed it up by the best reasons they could.

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2118. I am glad to hear you say it must have been simply a mistake, because I should have thought that the same argument would apply to almost every form of warlike stores?—Yes, it is just no way to equip an Army.

Mr. Peyton.

2119. Nobody seems to have wondered what the brass tubing was going to be used for at this stage, do they?—Yes, I think I can give you what it is used for: largely, mending pipes of various kinds, fuel, and so on, in motor vehicles. The reason why it existed, so far as we can guess at all, on this scale, which, as I say, came from Torch and Overlord, is that although you normally use copper tubing, of which we consume a lot for this purpose, for anything where salt water comes in brass is very good, because though more brittle and less easy to work it is more resistant than any of the other common alloys to corrosion.

2120. How much are you expecting to lose? What do you think the cost will be?—Forty-one per cent. on what we have sold, which is the bulk of it.

2121. There is still some to come?—I cannot swear that there is. We have got 100,000 feet in store which I have already mentioned to you under the various heads. My guess is that we will eventually have to throw up a little more. But the bulk has gone and there is a 41 per cent. loss.

Chairman.

2122. Paragraphs 14 to 17, Eaton Hall. Have you come to any decision as to the future use of the Hall?—Not yet, Sir. The Under-Secretary of State gave an answer to a Question only the other day on the subject. We are really down, I think, to the last stages. We have narrowed down the possibilities, and I hope we shall quite soon reach a decision.

2123. What is it that is holding back the decision?—Simply the complications of the calculation. In any given case you have got to work out, if you have a unit X, what changes would have to be made to Eaton Hall to hold that particular unit and what it would cost to house that particular unit elsewhere.

2124. Assuming that you find it rather a white elephant, are you in a position to offer it to any other body, either another Government Department or a

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local authority?—We have, Sir. I would not say there has been more than a tentative shaking of the line, and I think that the fish will probably escape.

2125. You think you will manage to dispose of it?—No, Sir. There is one other Government body making very tentative inquiries, but I do not think anything will come of it.

2126. There is nothing in the lease which restricts your user, is there?—Yes, there is, but it is not in practice much of a restriction. It is restricted to headquarters, hospitals, educational establishments, etc., broadly speaking, the kind of things for which it is suitable.

2127. Institutions, in other words?—Yes, rather than barracks. What we are not allowed to do is to trail tanks all round the lands or have gunnery practice there.

2128. Is there any possibility of your getting rid of the lease before the fifty years?—Obviously there is a possibility, but it would have to be negotiated. That is one of the possibilities which, obviously, one considers and compares with any other use of the Hall.

Mr. *Cledwyn Hughes*.

2129. I presume that the War Office pays the rates?—We pay a contribution. To be precise, the Treasury pay a contribution in lieu of rates. It is nearly £3,000 a year.

2130. In all, between you, what you pay and what the Treasury pay?—No, I think the Treasury pay the whole lot. Under the general system the Treasury pay a contribution in lieu of rates for all Government property, and the total rating bill is something slightly under £3,000 a year.

2131. You have not been paying, I suppose, since March, 1958, have you?—No, I suppose not. We cannot have been. There is a small amount of the house which is occupied but not by us. I think it is quite a small amount which is used as an estate office by the Duke or his estate.

Mr. *Peyton*.

2132. Is he back there? Is he paying for it?—I cannot tell you. I think account was taken of that in the original terms of the lease. It is only a few rooms.

Mr. *Cledwyn Hughes*.

2133. I see that here you have items costing £31,500 which had to be carried out under the lease, or had been started before the decision about National Service was known. What precisely was that spent on? Could you split it up and say what was spent because it was obligatory under the lease and what was spent otherwise?—Yes, I can. What was not obligatory but made for our own purposes, but we had gone too far to stop it, was a guardhouse and medical centre costing £15,000. What was obligatory under the lease was a sewage plant costing £15,000 as last ascertained. It will probably turn out to be slightly more, say £15,500.

2134. Are you liable to carry out any more capital works under the provisions of the lease?—Only of the nature of dilapidations, Sir, which is, of course, something which we inherited when we took it over. We have no further liability for new capital works like the sewage plant.

2135. So you do not visualise any heavy capital expenditure under the lease?—Not under the lease. If we use it, of course, there will have to be capital expenditure of a greater or less amount according to the nature of the units which are put in.

2136. From the Report it seems that you look forward to spending £396,600 on this property. I do not suppose that is so?—It was so, Sir, but it is not now.

2137. What you spend now depends on the use you make of it?—That really is dead now. Neither the Treasury nor I would regard that as being a live authority at all. (Mr. *Macpherson*.) In fact, they surrendered this authority. (Sir *Edward Playfair*.) You are quite right, Sir. It has nothing to do with the present-day situation.

2138. I suppose what you would really like is to surrender the lease, if you could?—I must be quite honest. I would like to see a proper costing first. I should be very happy to reach that end, I think.

2139. I do not want to feel that the War Office are trying to find some function for this place whereas in fact it would be far less expensive to the War Office and the country if the lease could be brought to an end now?—Yes, depending on what terms we can bring it to an end.

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2140. Therefore, are you now in a position of negotiating for the surrender of the lease? Is that the position?—We cannot do that until we know what the alternative uses are.

2141. Why not?—* * * partly because the estate very reasonably say: "We have got a tenant. We should like to be really assured before starting any negotiations that you have not got a reasonable use for it. We do not want it back on our hands."

2142. That is rather an unusual reaction, is it not?—I am not sure that it is. They have got an excellent tenant who is keeping their place going.

2143. Keeping it going when it really is of no use, and at the country's expense?—They will not, I am sure, refuse to negotiate if we go back to them and say we cannot find a rational use for it. But, nevertheless, on the whole it must be an expensive thing to get out of this lease if only because it means that we have got to face now the bill for dilapidations, which is a very heavy one, which really had already been incurred before we went into it—we took it over from the Navy dilapidated, so to speak—plus the fact that we have the obligation to maintain the grounds, and so on, and we should have to buy ourselves out of that. That is only natural.

2144. Are you able to take the Committee into your confidence and tell us what use you think might be made of this place?—I can. If I may put it this way, there are two possibilities. One is to put in a large unit, and a good example was the O.C.S. Another good example would be an infantry, though not any other form of, junior leaders' unit. That involves putting in a lot of building, perhaps £ $\frac{3}{4}$ million, in order to do it. That would use all the facilities of this great building very thoroughly indeed, but, of course, it would mean sinking a lot of capital in a place where we have admittedly got a long lease, and if I may refer to what was said last year, we should be able to see our 99 year lease through, but it will be a very expensive business. The other alternative is to put in a small unit, say a small technical training school of 300 people, something of that kind. That would mean rather a smaller amount of building, shall we say about £200,000, but the cost there

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again would probably be rather higher because it would be an inefficient use of rather heavy overheads. The other alternative is to give it up, and I have really no idea what the figure for that would be. That is a question for negotiation, but obviously when we have made up our mind as between our choices of possible users the next thing will be to go and talk to the estate to find out whether the terms which they would offer us would make it better to get out. Of course, one of the troubles is this: for new buildings, supposing we have to put up a couple of barrack blocks, I can quote firm prices for a standard barrack block. For the dilapidations to an old building I can only get quoted very vague figures, because you have got to see what you find when you open it up, particularly with dry rot about. For the cost of maintenance of building and lands for thirty years or forty years ahead, the thing becomes vaguer still, so you have to make a guess at a certain point.

2145. Is the 915 acres in the lease?—Yes.

2146. What is the income from that? What does the War Office get out of it?—Nothing to speak of.

2147. Why is that?—It is more of an expense to us. I think there is some little income in it from little things, but the wood, which is the main thing, is reserved to the estate under the lease.

2148. Are there no farms there at all?—No, it is not agricultural land; it is parkland. The estate have kept the farmland, and we have vigorously tried to avoid taking over any land that we do not need or which is not simply attached to the house.

2149. The Forestry Commission is not interested in it, I know?—No, that is a matter between them and the estate.

2150. In other words, the lease has made it impossible for you to get an income out of it?—Yes; but, you see, we are not land exploiters.

2151. It seems a lot of land?—That is the kind of place it is, you see. If we wanted that house with those huts which are of advantage to us we had to take the amenity land, but we are not, so to speak, property-holding people and we did not want to take over any land for which we had not got a direct use.

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Mr. Stevens.

2152. Sir Edward, the estimate for the cost of the maintenance works service was £9,000 a year, but it has worked out at £21,000. Why is that?—A bad blob by us.

2153. Another bad blob?—A very bad blob indeed. What happened was, again, as has happened, particularly in the time, 1946, there was a rush. They were asked for a very quick estimate, and they simply put in an estimate which by error omitted certain important items, the ones which we did not do through the estate, as most are done, but which we did directly ourselves. If we had sent in the right figure at that time, and I take this opportunity of apologising to the Treasury some twelve years late for it, it would have been about £16,000, not £9,000, and the difference between £16,000 and £22,000 is really the change in prices since then.

2154. I heard you say the War Office do some of the maintenance yourselves. Who does the rest?—The estate, the Duke of Westminster's estate.

2155. Can you give the approximate split between the cost of maintenance of building and amenity ground?—Yes, if you will give me one moment I can, I am pretty sure. In 1957-58 the grand total was £27,000. £8,000 was the house, nearly £6,000 was our own huts, £10,500 was the grounds, and in that year, it is only fair to say, roads were nil. Normally speaking, we should spend less on grounds and gardens but more on roads. It is a question, really, of where you spend your effort. On another year, 1955-56, I see the grounds and gardens and roads add up to about £11,000, about the same, to which should be added some direct labour on boiler and sewage plant, staff, and so on, to the extent of under £3,500. That is included in the £27,000 I gave you.

2156. In the figures which you gave for last year, I think you said £7,500 was for the amenity lands?—£10,500.

2157. £10,500; that would be the only item which would be done by the estate, would it? They do not maintain the actual building?—No, they do not maintain the house.

2158. So it is only the grounds. Have you any control over the bills they render to you?—Oh, very closely. There is a Standing Committee. They

work it out together, and our people find them very efficient. These are all special staff and they believe they are trying, so far as possible, to minimise the cost to us. For example, and this, I am afraid, is an answer which I should have given to you before, there is one vast enclosed garden that is now being all put down and turned into grazing, and the grazing will be let and the proceeds will come to us, but they will look after it themselves, mechanising a good deal. It is becoming a bit cheaper as it goes on in spite of the rise in the cost of labour.

2159. I heard you say that in 1947 you took over the liability for the dilapidations, as it were, as well as the building. Would you include the dry rot under the heading of dilapidations?—I think it is usual.

2160. Would you include that in your generic heading of dilapidations?—Yes. I am using "dilapidations" in the sense that we have got to turn the place over in good condition. We shall doubtless have to bargain with the estate over the facts; it is a fact, I am quite sure, that the dry rot was there before the Navy ever entered in.

2161. I was going to raise that point. I am no expert in these matters, but I should not have thought that £20,000 worth of dry rot could possibly mature in ten years?—No, and you may have noticed the fact which I think is mentioned here that £9,000 had sprouted up when the place was empty. I asked what was the possible cause of that, were we at fault for that, and I am assured by outside experts that that is not so at all, but it means that the engineers have been able to get at the place for the first time, and a number of experts going about an empty place have discovered what nobody has discovered before, the extent of this dry rot.

2162. The War Office has no redress?—It is a question, frankly, of negotiation.

2163. So you do not think the War Office will have to foot the entire bill?—I hope not. We will have to see what the legal position is, but I should certainly argue very strongly that this had been in it for years before any Government tenant was there. It was

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a very bad period of construction, and this was constructed so as to maximise dry rot.

Sir Colin Thornton-Kemsley.

2164. But should that not have been noticed when you took it over if you had expert surveyors who went over the place, as presumably they did?—I suppose it should, but one of the points about it is that there is a great deal that is very much hidden. They have thick walls, thick plaster, and much hidden up. We took over without too much care for that, because you must remember the bill for dilapidations here was already on the Government, so we did not worry too much about that aspect of it. If it had to be paid, it had to be paid, and whether it is the Navy or ourselves is another matter.

2165. The Report which the Comptroller and Auditor General makes in paragraph 14 says that the house itself was in good condition in 1947?—Well, the answer to that is that it was in good condition judging by criteria which I can give you. The actual amount of works which we had to do on the house in order to have it usefully occupied for eleven years by cadets was £15,000, which is not very much. From that point of view and up to date we have had very good value from this place. It has been a cheap place to house cadets.

2166. Does not the fact that this large amount of dry rot has appeared now suggest to your mind that there might have been failure either on the part of whoever was responsible to take proper care of the premises whilst it was in your occupation or, alternatively, a failure in periodical maintenance and inspection?—It did suggest that to my mind, and I put it to our people. I was particularly worried about the empty period. I was told that if there was a failure of quite a small amount it was likely to be during the period of occupation. As a Sapper officer said when I went up to look at it last week myself: "See that crack, a bit of dry rot fruit came out there. We looked at that with great care and opened up the panelling behind it and dealt with everything behind it; but while the cadets were there if that had appeared the R.S.M. would have had it polished off in two seconds". There is that danger, but at the same time—I do not know, Sir, how familiar you are with these

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things, I am most unfamiliar with them—the attitude to dry rot of these persons is really quite different from mine. I have a horror of it if it appears in my small house. There it is something long-term, slow and endemic which you live with. * * *

2167. But it becomes progressively more expensive, does it not, to eradicate it if you do not deal with it as it appears?—I believe it is ineradicable in this house; that is the advice we have had. The point really is to look for places where it might cause structural damage, and it is such a large heavy house, and there are a great many places where it does not. But we have been advised by the Ministry of Works expert who came up, that you would never eradicate dry rot from that house and that you can live with it.

2168. Going back to the early history of the thing, did you warn the Treasury, or were the Treasury warned in 1947, when you took the place over or when you negotiated for a long lease, that within a few years it would be necessary for you to spend very large sums on additional premises?—No, Sir, and we are quite certainly at fault here. This is a matter which has only just emerged between us, and we relied much too much on their intuitive intelligence. We looked at the records together, and it is quite clear that we did not specifically inform them, and, what is more, they did not ever think we were under an obligation. We just assumed, so far as we can reconstruct the record, that they would realise that the huts had to come down after a time; but we are at fault there, I quite agree. It was not intentional hiding up in any way, it is just a different background, and we were surprised when we analysed this with Mr. Macpherson only the other day to find how surprised he was, but the surprise, he assures me, is genuine. (Mr. Macpherson.) Our record seems quite clear, Sir, that we were not aware of this. (Sir Edward Playfair.) I must take the full responsibility for that.

2169. Yes: of course, without that information it would be very difficult, would it not, for you to compare the cost of taking Eaton Hall as against building somewhere else?—May I just intervene in this to say that the point on which we made our case at the time, which is the case for taking Eaton

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[Continued.]

Hall at all rather than for taking it for ninety-nine years, was the physical impossibility of building the accommodation we wanted in 1946. That was a very strong case. The truth of the matter is, and this is hindsight only and I do not think one should blame people for taking too strong and quick decisions at a time of what was practically a crisis in our affairs, that we rode two horses at once, both how to get the cadets into somewhere at once and how to get a good long-term home for the cadets.

2170. You were not there at the time, but you can imagine the attitude was: "We cannot possibly build. There are not the facilities for building now, with a war just over, and all that sort of thing. This is the only place we can have, we must get it", and you think the attitude was: "We must not talk too much about the things we must do in the future, we have to get it now"?—I think that is so, but on the other hand this was a proposal for a 99 year lease for a mansion, and that the other side of it was in our minds just leaps to the eye, and I do not think the Treasury or anyone can have been in any doubt about that. But what we did not draw to their attention sufficiently was that the huts would have to come down and that would mean that something else would have to go up. (Mr. Macpherson.) Those two factors were important, I think. It is very difficult to say what our decision would have been, whether it would have been to say: "No, this is a bad proposition", but in fact we did not know of the provision in the lease for replacement of the huts nor of the cost of providing the accommodation that would be necessary for the sort of purpose the War Office had in mind. What the decision would have been had this provision been known at that time I cannot say.

2171. When did you first become aware in the Treasury of these factors?—When the War Office came along in January, 1955, with this proposal to spend something like £800,000 on accommodation.

Mr. Arbuthnot.

2172. Sir Edward, you have told the Committee, I think, that before you decided that you would try to get out of the remainder of the lease you would like to see a proper costing first. Are you taking any steps to get that proper costing?—(Sir Edward Playfair.) Yes, Sir.

2173. When are you likely to know what it will be?—I cannot really answer that. I can produce a costing, but it cannot, for the reasons I have given, be very precise—some of the things are unestimable—but I hope within a couple of months or so, six weeks perhaps. But you will understand that the final results must depend on negotiations on important aspects with the estate, not merely for a possible surrender of the lease if we decided on that, but because any modifications to the building or new buildings on the site require their consent.

2174. You also told us why you wanted to go into Eaton Hall, but on what grounds did the War Office decide in 1947 that this very expensive property would be needed for Army training purposes for as long as fifty years?—I think that at that time people were thinking over about 90 per cent. of their visual field of the idea of National Service going on indefinitely. It was not the only possible reason. In 1947, you said, did you not, Sir?

2175. 1947, yes?—That was the major preoccupation, and it was a great preoccupation to them that they should have a place which should ultimately—I am talking always now of the long-term and not the immediate question of the huts—be a place of some nobility, just as Sandhurst is. They had a very strong desire not to discriminate between the National Service officer and the Regular officer. That was in the papers which I read at the time relating to that. It was a strong argument. Therefore, they wanted something, not to put too fine a point on it, rather plush. Hence I think the lands to some extent, but, of course, those times have changed. We always felt that if that fell through we could make some use of it, and I still feel the same. We can put a unit into it, but I do, if I may say so with respect, very much agree with the hon. Member that we ought not to force a unit into it if that is not an economic thing to do.

2176. Did you not assure the Treasury in 1955, and again in 1956, that the Hall would be required for officer training or as a headquarters even if National Service was ended?—Yes, we did, and, frankly, I think that is the really weak point in our train of argument. I think that was a survival of what I might call

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Sir EDWARD PLAYFAIR, K.C.B.

[Continued.]

slightly démodé ideas, but there is something to be said in our favour in this: it is a possible training place, and quite a good one for certain purposes, but you must remember that it was only after 1957 that quite so many useful and eligible military residences have been turned up from all the Services. The smaller forces have turned up accommodation not only inside the Army but inside the Navy and the Air Force, some of which we have in fact been offered as being more up to date, more modern and more convenient than some of our own old things. So I think myself that what was said at that time was unquestionably temerarious but excusable.

2177. What comment have the Treasury to make about this, Mr. Macpherson?—(Mr. Macpherson.) We sought the assurance, Sir, and we were given it.

2178. What is the Treasury's general view about entering into long-term commitments like this?—We did agree in 1947. Whether we should have agreed had we known about the factors that I have just mentioned I do not know, but we certainly were persuaded at the time, as Sir Edward has said, that there was a long-term requirement for this sort of building. (Sir Edward Playfair.) Might I add a word to that, Sir? Reading the papers at the time has brought one thing quite plainly home to me, which is that nobody in 1947, at any rate among the soldiery, had the sense of ducal residences being quite so much a drug on the market as they are now. We thought at the time that to have the combination of a splendid residence in a poor state of decorative repair, though perfectly solid and so on, and a number of huts which could be used for a number of years, was such a dream that we had to close very, very quickly to get it at all. There were, I believe, or certainly stated to be, though they were not named in the papers I saw, other interested people besides the Army in the market. So it is not quite so foolish as it might look. (Mr. Macpherson.) That is borne out by our papers, Sir, that the final Treasury concurrence on this proposition in 1947 was given on the telephone on the 12th April, and that the Minute recording this agreement says: "The Duke has asked for a definite decision by the War Office by the 12th April"—and this is dated 12th April—"as there are other interested parties in the field."

2179. Is the Treasury normally so rash as to jump blind like this?—This was, as I say, the final—

2180. Leap in the dark?— —the final step. There had been some discussion before, and in fact, I think, the Treasury had made suggestions to avoid some of the other provisions. (Sir Edward Playfair.) There had been long correspondence and discussions before that dramatic interlude.

Chairman.

2181. Paragraphs 19 to 21, Stocktaking. We have pretty well covered that already on over-provisioning. There is just one question I would like to ask, and that is why the discrepancies were higher in 1957-58 than in 1956-57?—I do not think that discrepancies between two consecutive years have much significance. The cycle is normally a two-year one. What makes a better comparison is a comparison every other year. On that we come out roughly all right—I can give you the figures—but I am not going to say that there is not going to be fluctuation. I am afraid next year I may have to come and say that there is a slight rise on the year before last. There is nothing significant. We cannot explain it by anything particular. It is mostly outside the C.O.D.s, which is to us the most important thing to get right. Taking the C.O.D.s, 1957-58 is £380,000 against £775,000 two years before. 1956-57, which is admittedly lower, is £325,000 against £445,000 two years before. That figure of £325,000 is very low indeed, and I think we shall not in 1958-59 probably manage to achieve so good a result. We know of no particular reason for this. You have to remember that even getting things right produces a large discrepancy, compared with the last time.

2182. Quite. Have you any idea of your total value of stocks, in very round figures?—Yes. I got out a figure in this connection. This is about 1 part in 2,000; using the same kind of pricing as we are using, however artificial that may be, for comparison's sake, we would say something between £800 million and £1,000 million.

2183. In round figures, £1,000 million?—Yes,

2184. So your errors are not very large?—No, on that basis we reckon that they are 1 part in 2,000.

* * * * *

THURSDAY, 16TH APRIL, 1959.

Members present:

Sir George Benson, in the Chair.

Mr. Arbutnot.
Mr. Chetwynd.
Mr. Hoy.

Mr. Stevens.
Mr. Thornton.
Sir Colin Thornton-Kemsley.

Sir EDMUND COMPTON, K.B.E., C.B., and Mr. J. MACPHERSON,
called in and examined.

TREASURY MINUTE ON PARAGRAPHS 3-10 OF THE FIRST REPORT OF
THE COMMITTEE OF PUBLIC ACCOUNTS, 1957-58.

Sir JOHN LANG, G.C.B., Secretary of the Admiralty, called in and examined.

Chairman.

2191. Will Members turn to the Treasury Minute on Paragraphs 3-10 of the First Report of the Committee for 1957-58? Mr. Macpherson, what has been the effect of these changes that the Admiralty have made? Are their estimates of pay more accurate now?—(Mr. Macpherson.) That is the hope, Sir. The changes which are referred to in the first three paragraphs of the Treasury Minute are changes made internally by the Admiralty which they hope will make their estimating more accurate.

2192. Are you satisfied with the changes they have made?—It is very difficult to say, Sir.

2193. It is a question of wait and see?—We are not in sufficiently detailed contact with the Admiralty's internal procedures to be able to be absolutely satisfied, but we are hopeful.

2194. What is the present position of the production study? Are you in touch with that?—We are, Sir. Nothing final has emerged yet, because I think the Admiralty's internal procedures are, in a sense, related to their requirements to come to the Treasury for authority to spend. We are considering with the Admiralty what provision should be made in the existing arrangement whereby the Admiralty will have to get Treasury authority for certain expenditures which have not hitherto been covered by specific Treasury authority; and it may be that in our consultation with the Admiralty on that we may be able to suggest certain improvements in the internal Admiralty machinery which will lead primarily to better internal financial

control and have, incidentally, I should think, a bearing on the accuracy of their forecasting.

2195. So that really also covers the fourth paragraph of the Minute in reference to the Department's internal financial control which you have been discussing with them?—Yes, Sir.

2196. Are you satisfied with the progress you are making?—We have made quite considerable progress and we hope soon to have further discussion with the Admiralty on the matters referred to in paragraph 4 on the basis of proposals we have put to them.

2197. Sir John, you have sent us a long memorandum* explaining your difficulties. What steps are you taking to overcome them?—(Sir John Lang.) To some extent they are referred to in the Treasury Minute on paragraphs 3-10 of the First Report of the Committee last year. You will remember that when I was giving evidence last year I explained some of the factors which made for difficulties in a precise control of expenditure in some of the Admiralty fields within a fixed period, and I gained the impression a little later that I had not succeeded in making clear to the Committee the special position in which the Admiralty stood. That is why over the intervening months I have prepared, and have submitted to the Committee quite recently, a memorandum* which outlined our position and what we thought were the difficulties of our position in greater detail. But as the Committee will realise from what is said in the Treasury Minute, we have not been complacent about this, even

* Not published.

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[Continued.]

though, as I explained in my memorandum, we thought we had not done so badly in the past. Over the past year we have been quite busily engaged in studying and examining the various procedures that we follow in the interests of control with the object of making them as perfect as they could be. The first paragraph in the Treasury Minute does, in fact, describe certain changes which we have made in the naval personnel field designed to ensure that our calculations of pay and allowances expenditure is as accurate as it possibly can be. Later on in the Treasury Minute there is reference to a study—this is Paragraph 3 of the Treasury Minute—which was in progress at the time of the Minute but which has now been completed, as a result of which we have written to the contractors to the Admiralty seeking their help in watching the progress of expenditure, in other words, making sure that they let us know if expenditure seems to be out-running the original plan; and we have issued a number of instructions to the Admiralty Departments concerned in this field to make sure that they are constantly on their toes. Then on the problem of repayment expenditure, which was the theme on which I spent a good deal of time last year and which is fundamentally one of the more difficult fields to handle because you are dependent not only on the rate at which the expenditure is incurred but you are also dependent on the rate at which you can get paid your expenditure, we have set up a new section in the Directorate of Navy Accounts which is charged especially with watching and tackling this particular problem. On the works side of the house, a side which always does interest the Public Accounts Committee we have set up a new arrangement for programming works, both designed to help us to get a steady programme and at the same time to lead to more realistic Estimates and a more exact forecasting of expenditure. Those are the fields in which we have, in fact, done something positive during the year. We think we have evidence that they are beginning to show their results; at any rate we believe that our out-turn for 1958-59 will prove one that does not worry the Public Accounts Committee very much, and as Mr. Macpherson said, and as Paragraph 4 of the Treasury Minute says,

we are going on to this much more involved problem of the relations between the Treasury and the Admiralty in this field of financial control.

2198. So you feel that you are making progress?—Yes, Sir.

Mr. *Arbuthnot*.

2199. You say that you are going on to it. How long have these discussions been going on?—Six or eight months now.

2200. When do you feel they will be likely to reach a conclusion?—I would hesitate to be precise about that because obviously this is a field in which the initial outlook of the Admiralty is bound to differ a great deal from that of the Treasury and the problem is to find a solution which is acceptable to both parties or, alternatively, to put to the Government for a ruling as to whether the Admiralty view would be the right one or the Treasury view. But we both of us are approaching it in a spirit that here is something that has got to be tackled whatever may be the merits or the demerits of the present situation as it has grown up over a long period. Let us have a realistic look at it in the light of current conditions in the expectation that we shall, in fact, agree with the Treasury certain lines of procedure; but if only because it is a very wide field and potentially a somewhat difficult field, it is not the kind of thing in which it would be right to take a quick decision based on an inadequate argument about the problem. I think it would be safe for me to promise that we shall have solved this problem in the sense of having established whatever the new procedure is to be before Mr. Macpherson and I come back to the Committee next year, and I am not meaning to imply by that that we should only hope to agree a procedure at about the 31st March, 1960. We certainly hope that we will have it established well before the Estimates for the succeeding year are dealt with in the latter part of the current year.

2201. Mr. Macpherson, are you satisfied with the progress?—(Mr. *Macpherson*.) We are, Sir. There is no suggestion that there are any real differences between us in the objective we are after.

2202. It is only the method on which your views diverge?—There are understandable differences of view.

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[Continued.]

NAVY APPROPRIATION ACCOUNT, 1957-58.

Chairman.

2203. Will members now turn to the Navy Appropriation Account, 1957-58, to paragraphs 10-14 of the Comptroller and Auditor General's Report, Conversion of Mine-sweeping Launches? Sir John, could you tell us in what respect these vessels failed to come up to staff requirements?—(Sir John Lang.) Yes, Sir. The original plan when we decided to modify these motor launches into inshore minesweepers was that they should do two tasks, they should be capable of dealing with influence mines, sometimes called pressure mines and they should be capable of dealing with the ordinary moored mine where you reckon to cut the wire mooring and bring the mine up to the top and are able to dispose of it by gunfire or other forms of exploding it. These particular sweepers failed in their second function; in other words they were not fast enough to act as wire-cutting units and the problem was whether we should go ahead with the conversions when we discovered that. Their primary task was, in fact, to deal with the influence mine, the pressure mine, and the view taken was that minesweeping then was of an importance to justify our going ahead with the programme because they would be capable of dealing with their primary task though not with the two tasks.

2204. Apparently you ordered forty engines which were not up to their job. How did that come about? Why did you not find out what the engines would do before you ordered them?—I am not sure that that is quite right, is it, Sir?

2205. That is the implication I put on the Comptroller and Auditor General's Report. Were the engines inadequate and unsatisfactory?—The engines were up to the job of the primary task, but the engines were not in fact powerful enough to meet the dual tasks of the ship.

2206. You surely ordered them for the dual task?—No, we did not order them as engines with which to do a dual task. We had got these ships which we were going to convert into inshore minesweepers and we took an engine which was in the course of development for another purpose because we assessed, according to the description of the engine and its promise, that it would in fact be capable when put into these

ships of doing the double task, in other words, giving us a speed which would be adequate for the double task. But it is not right to believe that the engine was designed for the purpose and then failed. It was being designed for an entirely different purpose. It was being designed for a Ministry of Supply purpose and we believed at the time on whatever checks on description that we could achieve that it would suffice for these ships. As it turned out when they were converted and the engines put in it was found out to be not up to the full requirement.

2207. That is exactly what I said?—Yes, but you went on to say, why did we not satisfy ourselves that the engine could do the task before we went on to order them.

2208. I still repeat that?—The answer was that at that time minesweeping was regarded as one of the highest priorities in the defence field. There were practically no inshore minesweepers at all and the view taken was that we must get some, hence this programme of conversion. If we had waited until we had got a prototype engine, fitted it in a prototype motor-launch and tried it out, we should undoubtedly have lost a year, two years, or perhaps even longer than that in getting the minesweepers; and the view taken then was that the priority was such that we ought not to wait, and we genuinely believed that this engine, which ultimately turned out not to be quite up to its task, would do the job.

2209. What was the size or horse-power of the engine that was originally in the minesweeper? What is the brake horse-power?—I do not know, Sir, nor do I know, in fact, the horse-power of the engine that we were going to fit.

2210. Why did you assume, then, that this engine was adequate?—Undoubtedly the technical people had information about the expected performance of this engine under development. They, presumably, were advised that at certain revolutions it would produce a certain horse-power and they must have calculated from that that, put into the hulls, it would give a speed of whatever the appropriate number of knots was. But in the result, though the engine may well have produced the horse-power for which it was designed,

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when it was put into the hull and the hull had been adapted in the way that these ships were being adapted, it just did not produce the speed wanted. Whether that was because the ships became heavier with all the equipment in them and that affected the speed or whether it was that their hull form would not permit that speed with this particular engine power, I do not know.

2211. These converted vessels seem to have cost about £60,000 each, is that correct?—They cost £60,000 each plus a certain amount of mine-sweeping and similar equipment which was built into the vessels.

2212-3. You sold two of them. What did you get for them?—We got £— for one and £— for the other. The one that fetched the lower price is the one which the Comptroller and Auditor General says contained a good deal of dry rot when it was sold.

2214. The uncompleted vessels, I understand, cost you £43,000 each. What did you get for them?—Again, the £43,000 is for conversion excluding the equipment which was provided for them and which would push the figure up a bit. Of the two which the Comptroller and Auditor General refers to there, one produced a price of £— and the other produced a price of £—. Those prices were, of course, without engines.

2215. You have got 40 engines. Are they in use now?—Some of the engines, of course, are in use in the ships which are still in existence, either those which we are trying to sell, or alternatively the one ship which is still in use. The other engines we are endeavouring to sell and we are in touch with the Air Ministry who have shown some interest in them.

2216. What was the total cost of this complete effort?—The Comptroller and Auditor General's Report in paragraph 14 shows that we spent about £500,000 and a bit on the 10 uncompleted vessels. The 5 completed vessels were another £450,000, so there is the best part of a million pounds in the venture. I think we would have to admit in the Admiralty that the result of what has happened is that the one million pounds has been pretty well wasted, but I do want to emphasize to the Committee that when this conversion

programme was started the provision of minesweepers was regarded by the Government as of the highest possible priority. We must remember the atmosphere was just after Korea when things looked a bit ugly, and there were very few minesweepers from the World War fleet left behind, and the view was that mine-sweeping was really one of the high priority jobs. This priority continued until 1956, as the Comptroller and Auditor General points out, when there was a complete change in the strategic outlook. The strategy of the thermo-nuclear war began to impinge on what had been done and it brought the mine-sweeping priority down to a much lower level. So soon as this occurred the Admiralty took stock of the position and decided to cut their losses rather than go on and spend still more money, hence the fact that this sum of money has in fact gone.

Mr. Stevens.

2217. Sir John, this matter concerns the conversion of war-time motor launches. Were a large number of the motor launches of this type constructed and used during the war; were they the HDML?—I am, frankly, not sure whether they were the HDML's or whether they were part of the tremendous group of Fairmiles. In fact, I think they were Fairmiles rather than the HDML's.

2218. A large number were constructed and used during the war?—Of motor launches, some thousands were constructed.

2219. Of this type?—Yes, but the majority of them were in fact sold off.

2220. So the speed of this type of motor launch that was used during the war was well known and well established in practice?—With its then engines, yes.

2221. Would you agree that a capable Naval architect, even if he has not got past experience to go on, nevertheless can estimate the speed of a hull of given dimensions and displacement to within plus or minus 10 per cent.?—I would not know whether the tolerance is plus or minus 10 per cent. or not, but I would agree with you that a capable Naval architect could take the design of these ships and judge by the horsepower of engines that were either fitted into them or to be fitted into them what

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[Continued.]

speed he would get. But the problem here was that one was not dealing with these motor launches in their original form. They were to be modified for minesweeping purposes as opposed to coastal force purposes. They were to have incorporated in them various forms of equipment which would affect both their displacement and their trim, and although we believed that the calculations of our technical people when they judged this engine that we were going to fit into them would be satisfactory, this is one of the examples where either they did not make their calculations quite properly or, alternatively, in the course of modifying these motor launches into minesweepers changes in the layout or the equipment were introduced which impinged on their calculations.

2222. Surely they should have been informed of any such changes as and when the changes were contemplated and asked for revised calculations?—I would be quite sure that they were consulted about any changes in the equipment to be fitted into them, and equally they would have looked at their speed calculations, and so on, to judge whether they were still valid or not. What I would not be sure of is the extent to which these alterations were made at a relatively late stage when the engine order had progressed quite a long way, and when the attitude may well have been: "Well, this is marginal. We will hope that we shall get the speed". They may even have said: "If we cannot get it in the ordinary way, we would reckon to adjust a bit here or a bit there in order to get the speed".

2223. Can you say what difference in speed was the critical factor?—I cannot tell you the proportion of lack of speed that was critical, but the requirement if they were going to act as wire sweepers was that they had got to tow the sweep at a speed of not less than 9 knots, and in certain conditions of wind and tide they could not be guaranteed to produce 9 knots with this heavy wire sweep out astern.

2224. But for influence mines?—For influence mines the speed is of no importance. In fact, you must not proceed at a high speed if you are going to deal with influence mines, because you only set up your particular sign manual in the water, and the influence mine goes up underneath you.

2225. Can you tell the Committee who were the possible buyers who are referred to in paragraph 11? Incidentally, that would be buyers for the converted hulls, would it not, with the new engines in?—We had quite a lot of inquiries.

2226. I was just wondering whether it was governments or private buyers?—Oh, definitely governments. If the Committee are interested in the names of the governments, I am prepared to give them confidentially.

2227. I was only interested in principle as to whether it was governments or not?—They were all governments.

2228. They lost interest. Why was that?—I think when they came to consider the specifications of the vessels and their performance and that kind of thing, they reckoned that they were not going to satisfy exactly their requirements, probably from the point of view of the speed of the vessel, because by that time, you see, they had come down to a fairly low speed anyhow, and equally from the point of view of cost of maintenance; and we in a sense made it worse for ourselves because not very long after we put these things on the market we equally reached a decision about the future of our own coastal force organisation, and we proceeded to put some vessels called fast patrol boats on the market, which were bigger and better and in every way superior to these. So in a sense we killed our own market by another one of these changes of requirement due to the change of strategy.

2229. Would dry rot have anything to do with the losing of interest?—Well, it would have had an effect, obviously, on a particular vessel, because if there was still dry rot present, as there was undoubtedly in some of these hulls—it had come back, as it were—then no purchaser would want to take a venture on that. But it could not have been a factor over the whole field, because there are still quite a number of these hulls in which there is currently no sign of dry rot.

2230. I was going to come on to that. In one case, apparently, dry rot was found, so extensive as to make the hull beyond economical repair, but as far as the others concerned there is no sign?—No. I would not like to give you that impression, Sir. There are two vessels in the whole of this programme

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which were undertaken for conversion in which we discovered the dry rot was so extensive that it could not be eradicated economically and we cut those two vessels right out. In the rest of the vessels we reckon we had cured the dry rot to such extent as it existed in the original hulls, but in at least one of them since then dry rot has shown itself, that is the one that we sold at a slightly lower price, and almost certainly in one or two of the others there are again evidences of dry rot. It is the kind of thing which you can never be quite sure that you are eradicating. You think you have got rid of it completely, but when you remember that these are smallish vessels with very confined spaces behind the engines, which you cannot get to, and where the ventilation is inevitably cramped, you have always the risk of dry rot showing itself. But I must not give you the impression that there is dry rot in only one of them. It is almost certain that there is dry rot in two or three.

2231. Do you still hope to sell any of the others?—We shall sell the lot eventually, but I would be misleading the Committee if I encouraged them to think that we shall get better prices than the ones that I have reported across the table.

2232. That was, I think you said, about £— less engines?—One of them fetched that. One of them fetched £—. We have now sold four more in the range of prices which lies between those two limits. In other words, perhaps one may hazard a guess that without engines we shall get £—. With engines we ought to get £—.

2233. You think there is a possibility of that?—We sold one at £—. We sold another in which there was dry rot at £—, so for the going concern, I should have thought, we ought to get £—.

Mr. Thornton.

2234. Sir John, I am not sure, have you already told us how many of these engines you have left on your hands?—I had not, because I had not been asked, Sir. Apart from the engines in the craft and the engines which we are keeping as spares, because obviously having got a fair number of engines it pays us to keep a quantity of spares to replace any in ships which are being used,

rather than refitting the engines in ships which are being used, we have got half a dozen on the sale list now, and those are the half a dozen that I was mentioning we are discussing with the Air Ministry whether they will be of any use to that Department.

2235. Have you any other likely outlet for the sale of these six engines?—Not that I am conscious of, but, frankly, I would not have thought that that is going to be a difficulty. This is a comparatively general performance engine and we ought to be able to sell them, or even possibly use them ourselves in some kind of Naval craft.

2236. So it is not a very highly specialised type of engine?—No.

2237. I think the Committee ought to be told, Sir John, where the blame was, insofar as there was a misjudgment or miscalculation. Was it on the part of the technical experts who did the calculation or was it on the part of the re-design of the hull of the ship?—I cannot answer that. If you want the answer to that, I shall have to find it out for you and let you know. There cannot be any doubt at all that the blame here must lie in the technical field, either because some people made their original calculations badly, made a mistake, or alternatively because when some change was made in the equipment or the design which affected the trim and the weight of the vessel, enough account was not taken of the effect that that might have on speed and, therefore, on the secondary task of minesweepers. All I would believe is that the likely effect did not throw itself up until the trials took place with the first one, and I would believe equally that the calculations may well have shown a marginal quality where the view was taken: "Oh, in all probability it will be all right, or alternatively we can adjust it to make it all right"; and against the background of this, which was a high priority thing where the attitude was: "We must get on with this minesweeping programme", and quite properly that was the attitude then, I would suspect that we felt it was impossible to suspend the work on them until we could carry out tests with a particular set of engines.

2238. I still think this Committee ought to have pinpointed to it where the responsibility did rest, even if it were only marginal?—I am perfectly

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willing to find out what the explanation of that is and put in a note* to the Committee, or I might even be able to tell you when I come next Tuesday.

2239. Thank you, Sir John. Did the engine come up to its expected performance?—As engines, yes. It is merely that when fitted into the craft the resultant ship could not produce the performance expected of it.

Sir Colin Thornton-Kemsley.

2240. How much would it cost to build a new influence minesweeper?—We should never, of course, build this kind of ship as an influence minesweeper, but the inshore minesweepers which we have built over the last few years, and let me be frank, they are better ships than these for their purpose because they are designed *ab initio* to be influence minesweepers, are running out at £½ million, or a little more, each.

2241. What is your total strength of inshore minesweepers that are capable of dealing with the influence mine?—I shall have to find that out for you, Sir. It is something of the order of 100 to 125.

2242. Did you decide to complete five vessels as influence minesweepers really because you had a present need for them, or did you do it just to save something from the wreck, if you could?—The particular craft which are the subject of the Comptroller and Auditor General's report were originally a batch of 16, I think it was, one of which we wrote off completely because we discovered that it had got extensive dry rot before we had spent very much money on it, 5 of which were completed, and 10 of which we did not complete eventually. With regard to the 5 which were completed, the decision was taken in the autumn of 1955, when this particular 5 had got so far on that for practical purposes we were committed to finishing them—in fact, had we decided not to go ahead cancellation charges would probably have eaten up the difference—in any event we wanted some of them for peace-time uses. The five that we did complete were all used in service of one kind or another until dates which varied between the latter part of 1957 until even this year, 1959.

2243. You have told the Committee, Sir John, that the expenditure has been of the order of £1 million, and yet you

* Information supplied: not printed.

have only got one vessel in service, have you not, as a result of that expenditure?—We have got one vessel now in service in this country. We have got two vessels in operational reserve and they will eventually be sold, assuming we can find buyers. We have got a number of motor launches that were converted to inshore minesweepers before this particular set, the whole of which to the tune of some 7 or 8 are now out in the Mediterranean, but all except one are in reserve. They have been replaced in the active fleet by the new inshore minesweeper that I told you about subsequently, and undoubtedly in the not too distant future the whole of this motor launch fleet of minesweepers will be out of use.

2244. Looking back on the whole episode you would have been better, would you not, to have constructed four of the tailor built new type of inshore minesweeper for about the money that you have spent on these?—Very much better because we should have had four vessels which could do a respectable amount of work. But the whole approach to this was that an inshore minesweeper programme was starting just at this time. There was no hope of getting any of those vessels into commission for some two to three years after they were started. Here was an opportunity to convert a number of motor launches into vessels that would do an inshore minesweeping job, and minesweeping had this very high priority. We should thus get—the original plan was fifty ships but we never in fact got as far as fifty—a number of inshore minesweepers capable of doing their job quickly, and they would be over and above anything that we could build for quite an appreciable period of time. In those days the inshore minesweeper programme was up in the 300 to 400 figure; in other words, we were aiming at a force of 300 to 400 minesweepers. It is since 1956 that the policy has changed, and we are now content with a very much smaller minesweeping force than that.

2245. In fact, it took you something like two years to get your first minesweeper delivered, did it not?—That is perfectly true, Sir.

2246. Up to the date of acceptance trials?—But it took a lot longer than two years to get the first of the type of new inshore minesweepers.

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[Continued.]

2247. How long did it in fact take from the time of placing the order until the time of acceptance trials?—I think three years at the least, probably nearer four, because we had quite a number of teething troubles with this new unit.

Mr. *Arbuthnot*.

2248. Sir John, you told a member of the Committee earlier that your technical people had assessed, and had assessed wrongly, that the engine would be capable of its task. Then, in reply to another member, you said that you did not really know what your technical people had said, they might even have said that you would not get the speed. In reply to yet another member, and I am paraphrasing it slightly, you said it was anybody's guess. In face of a report by the Comptroller and Auditor General that you lost £1 million with nothing to show for it, would it be unfair to ask you how it comes that you come before this Committee with this critical report in front of you to defend it without really knowing what has happened and what has caused the loss of this £1 million?—I am sorry you should think I have given different answers to what was substantially the same question; I was not intending to do that. What I was trying to say to the Committee is that I personally do not know whether this failure to achieve this performance was due to a miscalculation by somebody or due to the fact that the nature of the ship and its equipment was changed in the process of the conversion, and not enough account was taken of those things in order to achieve the result. I honestly did not expect to be asked that question, or I should have provided myself with the answer. What I think I have admitted is that within the Admiralty there was a miscalculation at some stage. It was undoubtedly a miscalculation, either a positive miscalculation or a failure to appreciate by somebody on the technical side of the house, it could only have been that and I have admitted that to the Committee.

2249. In that case, would you include in the report which you send to the Committee what steps you have taken to put right the miscalculation when you find out what the miscalculation is?—I cannot put right the miscalculation. That is over and done with.

2250. Will you see that a similar thing does not occur again?—Yes.

2251. There is a note on page 20 of the Account which states that £550,000 was spent before the work was completed and that the work was stopped owing to strategic requirements. Does that refer to the uncompleted vessels only?—Yes, it does.

2252. Had it not been for the change in the strategic requirements, would you have completed the vessels?—I think so, yes, because the five that we did complete were perfectly satisfactory as inshore minesweepers within the limited task of their primary requirement. There was nothing unsatisfactory with them as ships, and had the strategic situation not changed, in other words, had it still been a matter of importance to get inshore minesweepers into the Fleet, then we should undoubtedly have finished the last ten.

2253. So, had the strategic requirements not changed, you would not have regarded this expenditure of £1 million on the fifteen dubious vessels as of doubtful value?—No, nor would it have been of doubtful value, because the ships would have been finished, they would have been capable of doing their job. If it so happened that we had just finished them, and then the strategic situation had altered so that we were left with fifteen or so ships on our hands on which we had spent the whole of the money and a bit more, and then they were relatively useless to us, that would have been a situation which would have been differently expressed to the Committee. But it would nevertheless have been a fact that £1 million, or whatever the figure is, would have been constructively wasted, but that is the whole problem of defence. The situation does change when you have bought guns or bought ships or bought aircraft, and you may well be left with things on your hands not of anything like the value you originally thought of.

Mr. *Hoy*.

2254. This is a minor question: Sir John, what is an influence minesweeper?—An influence minesweeper is one which will deal with mines which are triggered off into explosion by hydrostatic influence. In other words, pressure mines, where the fluctuations in the pressure cause explosion as opposed to magnetic mines or acoustic mines, or ordinary mines.

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[Continued.]

2255. I find it a little difficult to understand your reply to the honourable Member who asked if the engines were all right. You said the engines were all right as long as they were not in the ships?—No.

2256. I could not quite gather what that meant?—No, the engines were perfectly good as engines and they produced the rated horsepower, and the rest of it, according to the calculations. The trouble was that when put into the ships they were not powerful enough to drive the ships at the required speed for the second function of the minesweeper, either because of miscalculations, as I have answered already, or because of the various equipments, and so on, had altered the characteristics of the ship which thus could not get the speed.

2257. In other words, they were all right except for the job for which they were built?—That is perfectly true.

Mr. Chetwynd.

2258. Sir John, you said that there were lots of these vessels lying around to choose from. Why was it that you chose some with dry rot?—No, I did not say there were lots lying around to choose from. I said there had been hundreds and hundreds of Fairmile launches built during the war. The vast majority of them had been disposed of in the earlier years of peace and we had something of the order of fifty of these ships which we were going to convert. We obviously picked the better ones. There were some which had lots of dry rot and we did nothing with them at all.

2259. Then, on the timetable of it, I rather gathered that urgency was the reason why you decided on this, and yet it took from the placing of the order, July, 1953, until—when was it that you got the first one delivered?—The first one was delivered, so far as the hull was concerned, in the latter part of 1954, but the engines did not become available until early 1955. We fitted the engines in one of them for trials, and that was when we discovered that the combination of engine and ship would not produce what we wanted.

2260. What date did it actually come into service?—You mean the first of the ships which came into service?

2261. Yes?—November, 1955, was the first of them.

2262. Assuming you had decided not to convert these launches into the mine-

sweepers, but had gone ahead on your own designs for a new one, how long would that take?—I answered that before, at least a year longer, and I would suspect rather more than that.

2263. On the point that by March, 1956, it was decided that someone was not interested in purchasing, but you thought others were going to, in April you halved the order; I take it, that is, down to twenty?—Yes.

2264. Have all those now been delivered?—The engines, yes.

Chairman.

2265. Paragraphs 15-19, Refitting of Algerine Class Minesweepers. Apparently, your Admiralty Dockyards with an authority to spend £45,000 spent approximately £100,000 each on these ships. How did that come about?—That limiting figure of £45,000 was a general limitation placed by the Admiralty on an ordinary refit for any Algerine minesweeper. There were two yards concerned: Gibraltar did one, and Malta did three of these ships. They knew of those limits, took the ships in hand and undoubtedly ought to have reported before they exceeded £45,000 what the likely bill was. Gibraltar did make a report at a date which was definitely before she had spent all her money, though she had spent something pretty close to £45,000. Malta's reports were all appreciably later when they had undoubtedly spent the greater part of their £100,000. They ought not to have gone ahead in the way they did. We told the yards when they made their reports that they were much too late, and we have since issued instructions emphasising that limiting figures mean limiting figures and dockyards are not at liberty to spend more money than they are given in the form of these figures. But I must make one point in excusing the Dockyards from perhaps the whole of the responsibility. It is quite simple for a Dockyard to know from week to week what is being spent in that Dockyard on labour and materials on an individual ship, and if that were the whole of the problem there would be literally no excuse for a yard not reporting both when it senses that the rate of expenditure is going to exceed the limit, and certainly reporting when the total of the expenditure gets within measurable distance of the limit. But what the dockyards cannot assess with any accuracy, though I am not pretending that this is

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excusing the expenditure of figures which are about twice the limit, what they cannot assess with any accuracy is the cost of equipments to be built into the ship as part of the refit which are coming from contractors' yards, or coming from other sources, such as Admiralty depots, because frequently their information about the cost of the equipment will not be available in the Dockyard. But I do emphasise that, although that factor may well impede them from reporting when they are getting too close to a limiting figure to the tune of 20 per cent. or perhaps 25 per cent. of the total cost, it does not excuse excesses of the order of 100 per cent.

2266. Do you feel then that the responsibility is shouldered partly by the Dockyard control and partly by the inadequacy of the Admiralty machinery for advising dockyards of the external expenditure?—It is very difficult to tie this up completely, because the cost of equipments being fitted in may well vary between ship and ship according as to whether you are having to buy a new equipment or whether you can find an existing equipment somewhere in another yard, which you then send along to have fitted. The cost figure to be taken into account may be quite different. You equally get the complications that sometimes you will take out of a ship a certain piece of equipment in order to refit it with a more modern one for the purpose, but you do not necessarily scrap the piece of equipment that has been taken out. It may well be wanted to be fitted into some less important ship, or even wanted to be repaired and then treated as an item in stock for war reserves for one purpose or another. The practice is, and quite fairly, that you give a credit to the ship in respect of any equipment which is moved which has got a usable value in some other way, and quite frequently those figures are not available at anything like the point in time at which you are getting close to limiting expenditure. Also, we have got to recognise that limiting expenditures are guides rather than absolute figures. Admittedly, we want the Dockyard to report when it gets close to the limiting expenditures, but we have got to accept that they cannot be precise as absolute limits within which you are going to control your money.

2267. But when you get an expenditure which is double, or rather more than double, you can hardly say that that is lack of precision?—No, Sir, I did try to say that I was not claiming that this factor of special issues, and so on, accounts for anything like the 100 per cent. excess. It might account for 15 per cent. or 20 per cent. excess; in an extreme case it might account for a bit more than that, but it does not account for 100 per cent. and I admitted that in this example the Dockyards had failed to carry out their instruction and that since then we have emphasised to them that the instructions mean what they say.

2268. Had it not occurred to them that they did mean what they say before this happened?—It should have done but, apparently, it had not on that occasion.

2269. Now, with regard to the further expenditure when you got home, apparently the estimate was in the neighbourhood of £55,000 and your home Dockyards seem to have done the same thing. They seem to have spent again twice what their original estimate was. Did they advise you of the increased cost?—I would not have expressed it in quite that way, if I might, Sir. When they got home, and the decision was to refit them and to put them into reserve, the original estimates made within the Admiralty as to what this was likely to cost was, as you say, £55,000. But it never pretended to be anything else but a very rough indication that there was a good deal to be done and, nevertheless, as they were wanted to go into reserve because they were then operational reserve ships, we ought to go ahead. What happened here was not quite so simple as you have put it, that the Dockyards then proceeded to spend £100,000, or so, on them. All the three ships did in fact go into the hands of contractors. From two of those contractors we got estimates of the cost that these were going to be and the figures were of the order of £200,000 each. It was at that stage that we decided that we would take them away from the contractors, because we were frightened that even at £200,000 there would be a lot more when it finished, and we took them away from the contractors, and we eventually put them into Dockyards.

2270. Had you incurred any heavy costs with the contractors?—It varied.

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[Continued.]

Sir. One of the contractors had spent £28,000, another had spent just over £100,000, and the third had spent just under £100,000. The contractors, incidentally, were not able to give their estimate of what would be involved in this refit until they, too, had, as we term, opened up the ship and really established what was the measure of the defects and, incidentally, until they too had had from the Admiralty fairly precise details of the new equipments, the alterations and additions, and that kind of thing, which were to be worked into the ship. The work on the ships had been going on in the hands of the contractors while this preliminary assessment of cost and so on, was being procured. So, what eventually happened, as the Comptroller and Auditor General has explained in the latter part of paragraph 16, is that the three vessels cost figures of £278,000, £240,000 and £219,000, those figures including the figures of £107,000, £28,000 and £90,000 respectively for work done in the contractors' yards. In other words, the Dockyard expenditure ranged from a total of £129,000 to just over £200,000 which, when added to the expenditure in the contractors' yards, produced the figures which the Comptroller and Auditor General has quoted at the end of his paragraph 16.

2271. Is all this expenditure related to the original estimate of £55,000?—No, Sir, it is not really. The £55,000 was, as I say the first—I must use the word "estimate" because that is what it was in a sense—estimate given inside the Admiralty when it was decided that these ships would have to be repaired for reserve and put in a proper state to go into reserve. But it was an estimate made not after examining the individual ships and their state, but made on reports which related to their condition when they came home from the Mediterranean as they had some months before and before they had been put on one side while their fate was being decided. But when it was decided that they had got to be refitted and made available for putting into reserve for a long period, the Admiralty came to the conclusion that the job ought to be done properly. By that time it was clear that the £55,000 was not the right figure. We did not, in fact, calculate with any exactness what the figure was going to be because we had turned them over to the contractors and we were really waiting for their estimate of what the job was going to cost.

2272. When you find that a Dockyard has a limit for expenditure and wildly exceeds it, do you take any disciplinary action?—It depends on the circumstances in which it was exceeded, Sir.

2273. Have you in this case?—This is in two halves, Sir. On the first half, that is to say, what happened in the Mediterranean, the one which you dealt with in your opening enquiry, we did not take disciplinary action in the sense of reprimand or otherwise dealing with the particular Dockyard authorities. What we did say to them was that limiting figures must be observed. "If it is clear that you are going to spend more than that, you must make a report to the Admiralty at a time when the Admiralty can take stock of the situation before you have reached the limiting figure." In the second example one of the ships did not seriously exceed the estimate given by the yard for the cost of the job, and although it did exceed it, nevertheless it was not of an order of magnitude which would have entitled us to reprimand. In the other example the excess was quite appreciable. There was a big excess and in that example we did say to the head of the Department concerned: "You were given certain instructions here. You have not carried them out. This is a very poor show and we must insist that you do much better in future."

Mr. Chetwynd.

2274. Sir John, I wonder if you would explain how it came about that four minesweepers built in the war and then having a lengthy refit in the dockyard in 1953-54 costing £100,000 each, after a few months' service in the Mediterranean had to have this vast sum of money spent on them to fit them to be put into reserve. Why was that?—I do not think I really would have regarded the spending of £100,000 on these four ships in the Mediterranean as being a big refit in the sense of a very expensive one. These were wartime built ships. There was no galvanised plating and that kind of thing used. Inevitably the rate at which they produce defects is much higher than it would be with pre-war built ships. One has got to face that your wartime building is a fairly expensive form of ship to maintain. What I think you are quite entitled to question, as indeed you have, is why, when they came home after a relatively few months' service subsequent to that refit, then very considerable sums of money were wanted

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[Continued.]

in order to turn them into the right state to put into reserve; and the answer to that is that had these ships remained in the Mediterranean on service and been looked after by their crews, undoubtedly they would have gone on for appreciably longer than they did without any further Dockyard expenditure. But a ship which is being maintained and looked after because it is on service is a much better proposition from the standpoint of decay and wear than a ship which is tied up alongside a buoy and has got either a very small party of men trying to look after it or even, conceivably, none at all at certain times. On top of that, when the Admiralty reached the decision that these four ships should be refitted in order to put them into operational reserve, the principle is that they are then given a very high quality refit indeed. In other words, they are brought up as close as you possibly can to the new condition, and we carry out as many of the alterations and additions to modernise them as we feel we are able, and we then either cocoon them or put in desiccators and that kind of treatment. A prior requisite of that is that you have got to start with the ship in tip-top condition and, in fact, a refit to prepare a ship for reserve is a more comprehensive refit than one to prepare a ship for service where it will be looked after by its officers and men. That is the reason why this particular business of refitting for reserve ran eventually into a cost of some £200,000 a ship.

2275. What extra evidence came to light to change the estimate of £55,000 into one of £120,000?—The £55,000 was—

2276. You have explained that one. What evidence was the subsequent one based on?—The subsequent estimate came from the contractors—

2277. No, I am sorry, perhaps I am not clear. You made an estimate in April, which was £55,000. Then in October, only a few months later, that estimate was increased to £120,000. Now, what was the extra evidence that made that estimate as compared with the first?—That £120,000 is, in fact, the result of the ship in question going to the contractors who estimated that the cost would be upwards of £200,000, and the £120,000 was an estimate we made in an endeavour to get the firm to undertake the work within a fixed price of

£120,000. It was not strictly an estimate based on a calculation of the amount of work to be done, it was rather that we believed at that time that the price quoted by the firm was rather exaggerated and we therefore tried to squeeze them into doing the thing at a cut price.

2278. In other words, that was the amount you were prepared to spend on the ship?—Yes.

2279. Why was the decision made to put it into the hands of contractors to refit and not do it in your own establishments?—At that time because the refitting programme of the Fleet, including the Reserve Fleet refitting, was well beyond the capacity of the Dockyards. We were spending some £4 million to £5 million, perhaps even £6 million, a year on refits at contractors' yards for various kinds of ships.

2280. Then, when you decided to transfer them back from the contractors to the Dockyards, what was the cost of that operation?—The actual transfer back?

2281. Yes?—Relatively trivial. That would have been merely closing up any machinery spaces which had been opened and towing them round to the Dockyard. That would be a mere matter of £3,000, £4,000 or £5,000.

2282. Then, the question is put at the end of paragraph 18, had you known at the end of the operation that it was going to cost so much would you have thought the refit worthwhile. Could we have the reply to that?—Definitely, yes. In other words, we wanted those ships in reserve and had we been far-seeing enough to recognise that they were going to cost us figures of the order of £178,000 downwards, we should still have said: "We want these ships and we are going to spend the money," because it would have cost us a lot more than that to build a new ship. It would have taken us a lot more time to build a new ship and on top of that it was very difficult at that time to get berths in shipbuilding yards in which you could lay down new ships.

2283. The ships are still in reserve, I take it?—They are still in existence, yes.

Mr. Stevens.

2284. Arising out of his last answer, I wonder if Sir John could give some indication of what would be the new building cost of an Algerine minesweeper?

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[Continued.]

—I cannot tell you what the cost of an Algerine minesweeper would be because we are not building Algerines. The place of the Algerine has been taken by the coastal minesweeper and I think I may be able to give you the cost of that. To-day's price for a new coastal minesweeper is of the order of £650,000.

Mr. Hoy.

2285. In paragraph 18 the Comptroller and Auditor General reports you as saying that it is rarely possible to make an accurate assessment of costs before the work is put in hand. I think the Admiralty says that every year, does it not, but you still think the answer is the same?—There is not any doubt about it at all, Sir.

2286. I am not wanting to dispute that for a moment. I accept that, if I may say so, as being right. What I find it a little difficult to understand is that if that is the case, then how are you able to estimate what the life of the vessel is going to be if you do not know what the repair is going to cost?—We cannot estimate the life of a vessel with full certainty. We reckon that the life of a minesweeper with a certain amount of its time spent in commission and a certain amount in reserve, and so on, if it is properly refitted from time to time will be of the order of 16 years. Some of them we have to dispose of at much less than that; some of them go on a bit longer. But the real point is that the life of any one of Her Majesty's ships is determined by, firstly, the need for that

ship; in other words, do you still want the ship in the fleet. Secondly, by the degree of its defects, and, thirdly, by the time and money which will be wanted in order to replace it with a new one. To some extent all those variables work in together and if you are prepared to spend enough money you can refit almost any ship, providing it is not sinking.

2287. That I can well understand, but what I wanted to know was this: You decide to carry out repairs to a ship and you do not know what the cost is going to be?—Not with exactness.

2288. So, you do not know what life you are going to get out of the ship. How can you, if you do not know what the repairs are going to cost, know what will be the life?—You know what life you will get out of the ship in this sense, that you go ahead to refit with the intent to bring that ship up to a certain standard of efficiency and repair.

2289. That I can understand, Sir John, if you spend a considerable sum of money, but that has nothing to do with the estimate. I can well understand it if you say: "Well, it does not matter what this costs, we are going to bring it up to standard"?—I think, frankly, that that is what almost inevitably happens. We have got to have these ships, therefore we have got to repair them. We go ahead to repair, acknowledging that in point of fact it may cost a lot more than a certain sum of money, but, nevertheless, for control purposes we like to have an estimate by the dockyard.

TUESDAY, 21ST APRIL, 1959.

Members present:

Sir George Benson, in the Chair.

Mr. Arbuthnot.
Mr. Chetwynd.
Mr. John Hall.
Mr. Hoy.

Mr. Cledwyn Hughes.
Mr. Pentland.
Mr. Stevens.
Sir Colin Thornton-Kemsley.

Sir EDMUND COMPTON, K.B.E., C.B., and Mr. J. MACPHERSON,
called in and examined.

NAVY APPROPRIATION ACCOUNT, 1957-58 (continued).

Sir JOHN LANG, G.C.B., Secretary of the Admiralty,
called in and further examined.

Chairman.

2290. Will Members turn to paragraphs 20-22 of the Comptroller and Auditor General's Report on the Navy Appropriation Account, 1957-58, which deals with the sale of one of Her Majesty's ships? What type of ship was this, Sir John?—

* * * * *

2292. We heard some of the difficulties of estimating refitting costs last week. Yet you quoted a fixed price for this. That was not very wise, was it?—(Sir John Lang.) We had got no choice but to quote a fixed price, really, because, of the background of all this. The country concerned was * * * one which was very anxious to develop a smallish Navy intended primarily for coastguard and similar work. * * * It was considered desirable politically that we should help them find a ship of a certain size and capacity and that we should be willing to let them have it at the lowest possible price. It was obviously necessary, if we were going to follow that particular policy at all, and the Government were impressed by the arguments which had been put forward, that we should quote a low price, as low as we reasonably could, and a price at which the customer government would know exactly where they stood. It was those political considerations which led us, working rather quickly, to quote a likely cost of refit, firstly, without seeing the ship, because the ship was then in service, but more particularly, without going to any Dockyard and saying "Would you give us

an idea of what it might cost". In other words, that estimate was produced inside the Admiralty and it was obviously not made with the care that might have been expected. It was, of course, recognised that there was a financial risk in quoting a fixed price, recognised both by the Admiralty and by the Treasury when we went to that Department, but the political considerations behind the sale were regarded as the justification for taking that risk. I am not implying that the Treasury are in any way responsible for the fact that the likely cost of refit was an under-estimate. That was entirely an Admiralty responsibility, but the Government endorsed the view that it was right to quote a fixed price, and as you will realise from the Comptroller and Auditor General's Report, ultimately the country concerned said "Yes", they would take the ship.

2293. What I think the Public Accounts Committee will be disturbed about is the fact that you estimated that a refit would cost something like £45,000, and it actually cost £113,000?—I thought the ultimate figure was less.

2294. At least that is the error in your calculations, including the refit and adaptation?—Yes, that is fairly stated. The difference is as between £45,000 and £112,000 or £113,000. Of course, part of that refit was adaptation, and the adaptation was a rather more complete one than we had thought at first, because we could not have made any very accurate assessment of adaptation until we had said to the customer: "This is the nature of the ship. To what extent will

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[Continued.]

it need to be modified to fit it for your purposes". Nobody could have made any real assessment of adaptation costs until then.

2295. So, you offered them a fixed price without the slightest idea of what it was going to cost you to prepare the ship?—I would have preferred to put it, offered them a fixed price without any precise idea of what it was going to cost for refitting and adaptation: that is true.

Mr. John Hall.

2296. On paragraph 21, Sir John, I notice that the Comptroller and Auditor General states there was an unforeseen interval between the end of August and November when the preparatory work . . . was put in hand". Those few months, apparently, involved us in the difference between the estimated cost and the final cost, between the £45,000 and the £112,000. I am not at all sure that I quite understood the gist of your answers on a similar point. How exactly is this difference arrived at?—I think it would be wrong to believe that the unforeseen interval between August and November when the customer accepted the offer of the ship was the explanation of the added cost. Even had their authorities said "Yes" in July when the offer was made to them I think there is very little doubt that £45,000 would have proved to have been appreciably too small. It is perfectly true that the fact that the ship was out of service between August and November did add to the cost, because when a ship is out of service, even though she may have a skeleton crew on board to keep her reasonably clean, she is deteriorating rather than being maintained, and part of that £112,000 is in respect of the period when we were waiting for the overseas government to make up their minds. But even if they had said "Yes" straight away, I am quite sure from my study of the papers that £45,000 would have been very appreciably increased.

2297. So that though this sentence does give the impression that a good deal of this cost was due to deterioration during that short interval of time, that implication is not strictly accurate; in fact, it represents only a very small part indeed of the reason for the difference in cost?—I do not think one should read into the Comptroller and Auditor

General's Report, which is based on an Admiralty answer to an audit query, that the unforeseen interval led to a considerable increase in the cost. The third sentence there says: "This involved some deterioration in the condition of the ship".

2298. That is the only definite reason that is given, is it not, in this paragraph?—Yes, but I am emphasising the difference between "some", which I am admitting is due to the period of non-use, and what I think you were saying, a considerable difference.

2299. In other words, you are saying, Sir John, that there was very little involved in that period in the way of deterioration?—No, if I could quantify it, the extra cost is about £68,000, and a cost of something of the order of £15,000 to £20,000 was probably due to the deterioration which grew during this three or four months; and the other £40,000, £45,000, perhaps even £50,000, was due to an under-estimate in the first place and rather more adaptation to fit her for her new job than could have been allowed for in the £45,000.

2300. Later in the same paragraph the Comptroller and Auditor General states that the possibility of utilising another vessel of the same type from reserve was rejected, because none could be confidently expected to cost less to refit than the one chosen. When we were considering the Algerine class of minesweepers earlier on in paragraph 15-19, we learned that it cost £250,000 to prepare them for reserve. Do I understand that it costs another £100,000 when a ship comes out of reserve?—No, Sir, there is all the difference in the world between the two cases. That £200,000 to fit the Algerines for reserve was to fit them for operational reserve, in other words, a class of reserve from which we can take a ship, and having undone the de-humidification and the cocooning, and that type of thing, can reckon the ship can go to sea in about a week with no more repair. In other words, the Algerines were being refitted to a very high standard. This ship had not gone into operational reserve. If she had, she would, in fact, have been refitted in August or September before being put into operational reserve. She had gone into a lower category reserve with no work done on her and only the barest minimum of men

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to keep her reasonably clean. It is in the latter circumstance that a ship deteriorates in reserve.

2301. How did you arrive at the basic value of £70,000 as the value for the vessel which was included in this price of £200,000 which was quoted? I am referring now to paragraph 20?—We took the original cost of the ship and we allowed for depreciation and thus wrote her down to that figure which was at one stage, I think, £70,000, but which was ultimately slightly modified, because she was a bit older, down to £67,000.

2302. That is not the sum, is it, which is referred to in paragraph 22 as "offset by a reduction of £23,000 in the assessments of the value of the vessel and the cost of the refit"? Is part of that reduction included in the figure of £23,000?—The £23,000 is partly a reduction in the depreciated original cost of the ship, in other words, the capital value of the ship, and partly in the amount of the early refit which was, as it were, charged in the value of the ship, because we had had the ship in our service for much longer and, therefore, the value of her original refit, as it were, wasted itself off.

2303. What was the original value of the vessel before depreciation?—I do not know, Sir, and I am not sure that I can get at it.

2304. Can you give me the age and the percentage of depreciation you worked on?—Not offhand, but I would be quite willing to give you an original cost.* I have not got it here.

2305. You have not got the age, either?—No.

Mr. Hoy.

2306. Sir John, what was the explanation of the under-estimate of £23,000 in the value of the initial outfit of stores?—Largely because the circumstances were utterly different. When the ship was in commission, as she was at the time when the offer was made, the stores were on board and the assumption was that she had an appropriate outfit of stores for which we thought the appropriate charge, having regard to the fact that some of them were not new, of course, would be £50,000. But in between the time when she came out of service in August and

the time when the overseas government decided they would take her, and then she had to be refitted, and so on, quite a lot of her stores had been taken off the ship and returned into the storehouses. That meant that when the ship came back into service, as she was handed over she got an entirely new outfit of stores which clearly had to be charged at rate-book prices. There is a certain amount of accounting loss there which is not necessarily an effective loss.

2307. It might not be, but would you regard it as rather startling if there was an error of £23,000 on £50,000?—No, it was not an error in the sense that we miscalculated the value of the stores. It was that when the ship went out, and she was, in fact, stored up for rather more than her original duties because she had been adapted by that stage, she had a bigger outfit of stores than she ever had to start with.

2308. So you are satisfied that sufficient care was taken in the preparation of that estimate, are you?—I am satisfied that the estimate of £50,000 given as the value of stores when she was in commission was just about right. If there was an error—and I do not think we could have avoided this error except by putting in some kind of margin—it was in assuming, firstly, that the ship would go out with just the stores she had on board and, secondly, for allowing nothing in respect of stores that would be required in consequence of her adaptation to a double duty. That meant a bigger allowance of stores and, therefore, of course, more expensive. We had got nothing in the price for that contingency because, frankly, we did not know of it at the time.

2309. In other words, you did not know?—No.

2310. Mr. Macpherson, I am a little surprised that the Treasury, who apparently were disturbed by the serious under-estimate of the cost of the refitting and adaptation, did not even draw attention to this particular aspect. Had you asked or were you satisfied that this was all right?—(Mr. Macpherson.) My recollection, Sir, is that we were not aware of this stores increase. We knew of the increase in the cost of refitting, but I am not sure that we knew of the increased cost of the stores.

* Information supplied: not printed.

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2311. It is true, as this note says, that the Treasury were disturbed. You were disturbed at the serious under-estimate in the cost of refitting, were you not?—Yes, because of the change from £45,000, which we understood to be the price, to the £112,000 figure.

2312. And you were not disturbed at this because you did not know, is that what you are saying?—It is difficult to be disturbed about something you do not know about.

2313. I am asking you, is that the reason you were not disturbed, because you did not know?—Yes.

2314. Now that you do know, what do the Treasury feel about it?—As Sir John has said, some part of this—I do not know how much, but quite a substantial part of the £23,000—is due to the abnormal situation that arose, that some of the stores were taken off and put into Navy stores. But there were other causes, increased cost was one. I do not know how much that accounts for, but, as Sir John again has said, there was an under-estimating of the stores provision.

Sir Colin Thornton-Kemsley.

2315. Sir John, you must frequently, must you not, sell unwanted or redundant naval vessels to other governments?—(Sir John Lang.) Yes, we do.

2316. How do you do the basic valuation, normally? Do you do it on the basis of the original cost depreciated by of the vessel?—

* * * * *

2320. Had the customers seen this ship before they agreed to buy it?—No.

2321. Where was it in service in the summer of 1956?—I believe, home waters, Sir; in other words, round this country.

2322. Would it not have been wise to send a technical expert at least to have a look at it before you even gave a guess at the cost of refitting and adaptation?—Looked at after the event, yes. I am not at all sure, you know, that even if we had got an accurate assessment of the cost of the refit, in other words, £100,000 or something, that the price we should have charged would have been bigger than £200,000.

2323. Why not?—Because there was a very strong political desire to find a ship for the overseas government at a price that they could pay.

2324. Through what channel did this political desire reach you at the Admiralty?—Through the Ambassador.

2325. Direct to the Admiralty?—Oh no, Sir.

2326. Through the Foreign Office?—Through the Foreign Office.

2327. Is there any arrangement by which, if one Government Department, or, shall we say in this connection, the Admiralty, is required by another Government Department, in this case the Foreign Office, to take considerably less than the proper value for property they are selling, there is some contribution from the other Government Department?—At the time of this transaction there was no such arrangement. I am not absolutely sure of my facts, but I believe there is now an understanding of that kind. Mr. Macpherson might be a bit more knowledgeable than I am.

2328. Can you help the Committee, Mr. Macpherson?—(Mr. Macpherson.) Yes, that situation is unlikely to happen now. I can think of a recent example of the provision of some naval vessels to a foreign government where the cost is being borne on the Foreign Office Vote, and that would be our normal approach. If the particular transaction is being done at the instance of a political Department, then the charge would rest there and not on the Service Department who might be supplying the arms, or whatever the equipment is.

2329. Thank you. Sir John, did you at any stage make representations to the Foreign Office that if they wanted you to sell this vessel for less than it was worth they should pay the difference in cost?—(Sir John Lang.) Almost certainly not, Sir. We would not have done it at that time.

2330. But you would now, under the new arrangements?—Because of the new arrangements.

2331. In what form was the offer made to the customer government? May I put it, perhaps, this way: did you offer this vessel at a named price of £200,000 or did you show them how

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the price was arrived at?—We did not show them how the price was arrived at. We said: “The best we can do for you is to reckon to let you have a ship like this” and proceeded to describe it and then said: “The price will be . . .”

2332. £200,000?—£200,000.

Mr. *Cledwyn Hughes*.

2333. In order to clarify my own mind, is the position this, Sir John, that the figure of £200,000 quoted in June, 1956, was, in effect, an uneconomic figure as far as we were concerned but we were prepared to sell this ship, for political reasons, at a figure which was for us uneconomic?—Yes. I cannot pretend that we knew at that stage that it was as uneconomic as it has proved to be. All we knew at that stage was that we had made certain office calculations about the cost of refit, and that kind of thing. We knew there was a risk in quoting a fixed price of that order; and the Government felt that it was the right thing to take a risk in the interests of getting this vessel into the customer's hands at the figure of £200,000.

2334. But in the event, of course, the figure was even more uneconomic by the sum of £68,000?—The figure would not have been uneconomic had we got £200,000 for it and the refit had cost no more than the £45,000 and the stores had cost no more than the £50,000. The bargain only became an uneconomic one because, in point of fact, the various things all added up to a figure of £68,000 more than £200,000.

2335. What it amounts to, really, in real terms is that we were indirectly subsidising the navy of a foreign government?—As it turned out, yes, Sir.

2336. What concerns me, Sir John, is this: if a similar thing happened now, would we be better safeguarded than we were in June, 1956? Would your Department be rather more careful in finding out what the cost might be than they were then?—Well, we would always aim at being as careful as we can with costs and I think it is fair for me to say that if there were a repetition of this incident within the next few months, or even the next year or two, we should undoubtedly try more than we did on this occasion to put a proper figure on the refitting costs. But, as I

explained last week in regard to the Algerine minesweepers, and, as an hon. Member reminds me, as I explain every year, in the case of ships it is not by any means an exact science to estimate the cost of a refit. In practice, partly because one often does a great deal more in a refit than was originally calculated and partly because until you open up a ship you never quite know how much rust and corrosion and that kind of thing is about, refits do habitually cost a good deal more than anybody first estimates. In that sense, if there were a repetition of this I do not think I ought to try and tell the Committee that the next time the Admiralty would get exactly the right figure as the cost of the refit. They probably would still have a figure that was too low. But on the next occasion, if there were one, then, presumably, on the face of the Foreign Office account there would be a figure indicating the extent to which this country was subsidising an overseas country.

2337. I am very ignorant about all these marine affairs, but it seems to me that, with all the experience you have got in the Admiralty, you should be able, within a reasonable sum, to estimate what it would cost to refit a vessel of this kind?—It is quite impossible, Sir. I would go so far as to say that every ship's refit costs something quite different from what the first Dockyard estimate is. It is usually higher than the first Dockyard estimate. It is just occasionally lower, but when you are looking at a ship which has been in service and has been, as it were, the home of the people living on board, you do not get a full appreciation of the amount of work you will have to do to bring that ship back into condition. It is not until you open up engines that you can discover to what extent you have got to put in new parts, that you have got to refit bearings, and that kind of thing. Our experience is that refitting costs are always much under-estimated to start with. Admittedly, you can take a Dockyard estimate and you can say “add 50 per cent. for luck”; and to that extent if you want to do that you can get a better shot, on average, but that 50 per cent. is very much an average, ranging from quite a small excess to a very big excess; and I can assure you that commercial ships have just the same experience as we do. When tankers and liners go in to have their

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periodical Lloyds surveys and to be refitted sometimes the cost is relatively small and at other times the cost is abnormally high, but the marine superintendents are not in a position to advise their owners with any precision as to how much money is at stake.

2338. Do you add 50 per cent. for luck?—No, Sir, we do not. We do not encourage our Dockyards, as it were, to exaggerate estimates. We would rather that they give what they regard as an estimate based on the appearance of the ship to them, because the moment we start encouraging Dockyards to add 50 per cent. or 100 per cent. for luck that produces a new limiting figure.

2339. I asked that because you said you invariably under-estimate?—I said we invariably find the estimates are under-estimated, yes.

Sir Colin Thornton-Kemsley.

2340. There is one important thing. The witness has spoken not once but many times in reply to the last hon. Member about Dockyard estimates. Now, I had understood that this was a guess made in the Admiralty, this was not a Dockyard estimate?—In this example it was, Sir.

2341. It was a guess in the Admiralty, was it not?—This particular estimate was a calculation made in the Admiralty without reference to a Dockyard.

2342. Or inspection of the ship?—Of this particular ship, but the hon. Member was, in fact, taking up a much wider issue on estimates in general. He was saying, has not the Admiralty got enough experience to get close to the facts, and I was answering over the wider field.

Chairman.

2343. Just one further point, Sir John. From paragraph 20 it appears that you had just recently had the vessel in for a refit at a cost of £35,000. You estimated, presumably, with the knowledge you had gained from that experience of the recent refit that the cost would be £45,000 and it turned out to be £113,000. Why, after a comparatively recent refit, were you so ignorant as to the state of the vessel?—I am not quite sure when the vessel had had that refit, but she had, in fact, been in service with the Fleet for some months after that refit. Apparently, the limited refit she had

was early in 1956. Now, the offer was made in July, 1956, so that was a matter of some five months, perhaps six months, after she had been refitted; and she had, as I have explained, been in service since then.

2344. Does a ship deteriorate to the extent that, having had a refit within six months, you have got to spend another £113,000 on her?—The £113,000, of course, was spent not to keep her in the service she had been doing, it was in fact to refit her for service and to adapt her for a wider function in the service of another country.

2345. May we now turn to paragraphs 23-26, Maintenance of Reserve Production Capacity? What is this material or product which is referred to here, Sir John?—* * *

2346. Who are the two firms concerned?—* * *

2347. You have been paying the sum of between £130,000 and £160,000 a year for the maintenance of idle plant?—That is right, Sir.

2348. Were you paying solely for your own consideration, or did that payment cover the Ministry of Supply?—Well, it covered the Ministry of Supply indirectly, but the Ministry of Supply knew they were free to place orders with either of these two companies and such Government-owned plant as might be in the two companies, which in fact was Admiralty plant, would be used and then, of course, we should have had less to pay for current maintenance. But the plant had been established by the Admiralty in pre-war days when orders for this material were, of course, much higher. The whole of the plant concerned was Admiralty-owned and the Ministry of Supply thus only had an indirect interest in it.

2349. When did you decide that you no longer wanted this reserve?—1957, Sir.

2350. Were the Ministry of Supply consulted or were they advised that you no longer wanted the capacity?—The Ministry of Supply, in fact, were kept in the picture and consulted throughout the years from about 1953 onwards. There had been a joint standing committee set up just after the war, but at the time

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when we were beginning to wonder because of uncertainties in the Admiralty's shipbuilding programme, which is roughly 1954 onwards, we kept the Ministry of Supply particularly in the picture; and, in fact, we were saying to them: "We two departments must get together in order to decide what policy shall be followed."

2351. According to the first two lines of paragraph 24, the Ministry of Supply did not know where they were at this point. Why could they not make up their minds as you did?—Well, it is fair to say that it took us a long time to make up our minds, you see. I think one could divide this period into two parts, a part up to 1954 when the Admiralty expected that there might be quite an appreciable requirement, and a period from 1954 onwards when we were getting more and more hesitant about this, until in 1955 we could see that the requirement would be appreciably reduced; and in 1957 we came to the conclusion that there was no further justification, at any rate, for keeping Government plant maintained at this firm's works. I would have thought that the Ministry of Supply were in much the same uncertain position. * * * I would believe that their programme was probably just about as uncertain as our big ship programme was. They did, in fact, take a little longer to come to the conclusion that they had no requirement, but I do not think you can really argue that they were slower off the mark than we were. There is not any real similarity between the requirements of the two departments.

Mr. Pentland.

2352. On the last sentence of paragraph 25, Sir John, you do not have appeared to have answered the Comptroller and Auditor General's question. Are you in a position to give us the answer today?—Literally the last sentence of paragraph 25, Sir?

2353. Starting from: "I asked the Admiralty whether they had entered into any commitment to meet additional costs arising from the expenditure, and if so, whether they had obtained Treasury approval?"—We did not enter into any commitment of that kind.

2354. And the absolutely last sentence: "I also enquired whether they were satisfied that their provisional payments were

not likely to exceed their ultimate liability". Would you give us the answer to that?—I cannot give you an absolute answer to that, because I might be confounded when the discussions with the company end.* * * I must avoid giving you any positive answer at the moment.

2355-6. Mr. Macpherson, if Treasury approval is necessary for the annual payments, have you not made any enquiries about those that have not been settled for five years?—(Mr. Macpherson.) We were told in 1950 that a claim for this particular firm was unlikely to arise in 1951 and it was not until October 1957 that we were told, as part of a letter about capacity that we had had from the Admiralty, that there was this capacity at one firm but that for many reasons their maintenance claims for 1954-55 had not reached the provisional settlement stage. On reflection, probably the Treasury have been remiss in not following that up. (Sir John Lang.) This is the firm who are mentioned in paragraphs 24-26. (Mr. Macpherson.) But you are quite right to suggest that we, having been dealing annually with the other firm's claim, had not seen a red signal, as it were, on this firm.

2357. Were you told about the capital expenditure on equipment undertaken by the firm?—I am not sure of that, Sir. (Sir John Lang.) I should have thought, frankly, he was not told at the time. He was, of course, told more recently when it came to the stage of an argument with the firm on the extent to which this re-equipment charge should appear in the depreciation claims of the company.

2358. But the Treasury was not told of the capital expenditure?—We did not know it ourselves. We knew they were planning to move. We were expecting the firm to write and tell us details of the nature of the movement, when we would have had a chance either to say to them "Yes, we will bear the capital expenditure", or "No, we will not". In point of fact, we never got any information on that until the movement had taken place completely.

2359. Mr. Macpherson, ought you not to have been consulted before the firm was allowed to go on with that, even if the Admiralty commitment was not specific?—(Mr. Macpherson.) Looking back on it, Sir, it would have been

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usual for a Department to have told us that this liability was going on year by year.

2360. So you agree you should have been told?—We think so.

Mr. Stevens.

2361. Sir John, were these two firms allowed to use this plant and equipment for the manufacture of this product for sale to any other customer than the Ministry of Supply and the Admiralty?—(Sir *John Lang.*) Yes, they were, and in those circumstances we paid reduced sums of money for maintenance of the equipment.

2362. That is not apparent from this Report, I think?—No, but it is so.

2363. So that the Admiralty's commitment has been reduced to the extent to which the two firms have been successful in obtaining outside orders?—Yes. I would not encourage you to believe that there was very much in that.

2364. There was no brake put on by the Admiralty on their efforts to obtain orders?—Definitely not. It was clear to both firms that we were only too willing that they should use this plant for any commercial purposes for which it was suitable on the understanding that when they did so they paid for the use of the plant, and we did not, of course, pay depreciation.

Sir Colin Thornton-Kemsley.

2365. Sir John, you informed the Ministry of Supply in November, 1956, that your potential requirements had been further reduced; and you asked them whether they were interested in the capacity of the firm. It appears that the Ministry of Supply did not answer you until April 1957. Do you think that is correct?—I could not be certain about this, Sir. There was certainly no effective answer until April, 1957, because that was the month in which there was a meeting with them to determine between the two Departments what ought to be done. How far there may have been some interim letters, either asking for more information or outlining the way in which the Ministry of Supply would like to handle the problem with us, I do not know, Sir. (Mr. *Macpherson.*) May I add something, Sir?

2366. Yes?—Following this intimation we had from the Admiralty the Treasury did take up with the Ministry

of Supply what their interest was and the extent of it. We did not get a reply until April, 1958, when they told us that the Joint Standing Committee on Production had visited both the firms and reported on the capacity at present available, that discussions had been initiated with the firms concerned, and when the future pattern of demand and supply began to appear it would be possible to begin discussions on the respective financial responsibilities of the two firms.

2367. Are you sure the date was April, 1958, Mr. Macpherson?—April, 1958, yes.

Chairman.

2368. When was your letter to the Ministry of Supply?—1st January, 1958. (Sir *John Lang.*) A lot had gone on in the meantime, and there had undoubtedly been meetings with the Ministry of Supply and the Admiralty during 1957; and we gave formal notice to terminate our agreements with the companies in November, 1957. It must have been following that. (Mr. *Macpherson.*) It was following the intimation by the Admiralty to us that they were terminating their agreements that we took it up with the Ministry of Supply.

Sir Colin Thornton-Kemsley.

2369. Perhaps I could turn to Sir John and get the dates clear as to his relations with the Ministry of Supply. We have established the fact that although you wrote to them in November, 1956, there was no really effective answer until April, 1957, and at that point a working party was suggested?—(Sir *John Lang.*) That is right, Sir.

2370. Then about four months elapsed before the Admiralty accepted the suggestion of a working party, because that suggestion was not accepted, apparently, until August, 1957?—That is true, Sir.

2371. Why did that take so long, Sir John?—I should imagine, because of the fact that there were lots of other things to be done and this was regarded as something which, although it had an importance, could not be treated as superlatively urgent.

2372. And yet it was costing between £10,800 and £13,300 a month to the firms concerned?—That is perfectly true, but I am still believing that the departments felt that this could not be

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regarded as in the forefront of urgency, and there was a tendency to say: "Well, we will get on with this when we have got time to spare".

2373. Sir John, that would, of course, be understandable if this were a time of war, but the whole resources of the Admiralty cannot surely have been directed to other more important matters? Surely there was someone in the Admiralty who could decide, for example, whether there should or should not be a working party with the Ministry of Supply on a matter which was costing a considerable amount of money a month, at any rate?—I think I have got to put the point to you in this way: the Admiralty has been under pressure, and so has the Ministry of Supply, too, for that matter, for many years now to reduce staffs. Sometimes it is in the form of House of Commons pressure, sometimes it is in the form of public pressure, external pressure, that is, sometimes it is in the form of Government pressure. But throughout all the years since the war there has been a pressure to reduce staff, and every now and then it boils up in an acute form with the demand to cut one hundred or two hundred, or even one thousand of your numbers. In point of fact, the department which is most nearly concerned with the technicalities of this problem, that is, the Naval Construction Department, is quite definitely short, and has been short for many years, of the professional people who deal with these problems. At the same time, they were being pressed by the other parts of the Admiralty to get on with the design work for new ships, and that kind of thing; and I believe that they felt that it was of greater importance to get on with these other things that they were being pressed for than it was to tackle this capacity problem.

2374. Sir John, I just want to revert to the dates again. It is clear, is it not, that from April, 1957, when a working party was suggested, to August, 1957, the Admiralty gave no decision about the working party to the Ministry of Supply, and then from August, 1957, to October, 1957, the Admiralty failed to call a meeting and agree the terms of reference. We can perhaps deal with the reasons for that delay in a moment, but I wanted to establish that there was that delay in both cases?—The dates I confirm, yes.

2375. I understood you to tell the Committee that this was due to shortage of staff in the Naval Construction Department, to pressure of other work in that department and to the feeling that other things were more important than this?—If I could put those reasons in exactly the reverse order, yes.

2376. But in fact these delays were costing your Ministry between £10,000 and £13,000 a month?—Quite true, Sir.

2377. Have the payments now ceased?—The payments have ceased in the sense that we have given notice to terminate and those notices have now expired, but of course we have still got the residual payments to make to one firm in respect of this long drawn-out discussion about our liability covering the last five years. * * *

Mr. John Hall.

2378. Sir John, do I understand that this firm were prepared to spend £570,000 on work which was not apparently essential for their own commercial and economic operation in order to provide this particular capacity which you wanted without any agreement first by the Admiralty that part or all of that cost would be borne by the Admiralty?—No, it was not quite that, Sir. The particular firm who were maintaining this capacity for us were maintaining it within premises in which they were doing quite a lot of commercial work for themselves. Our capacity was merely a proportion of the total factory space and the total plant. For their own purposes they came to the conclusion that they ought completely to reorganise it, and in fact they transferred it from one locality to another. At that time, of course, they were still under this agreement that they would maintain capacity for us, but the expenditure which they incurred was merely a part of the total cost of transferring their works, and they were really influenced by commercial considerations in going ahead far more than they were out of consideration for us. But they did play the game in the sense that in their new premises they provided us with capacity fully equivalent to what we had had in the place where it previously existed.

2379. But in order to do that they were proposing to charge you, as part

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of their total cost, some £213,000, or to take that into account in arriving at the figure?—In arriving at the depreciation figure to be charged, yes.

2380. When they first informed you of this in 1947 what was the reaction of the Admiralty? Did you accept or reject their suggestion?—We did neither, in fact. We said: "We are not in a position to define what will be the requirements for production"; and we were expecting them, because of something which they had said in their letter, to write to us again and give us particulars on the measures which they were proposing to take. In point of fact, they never followed that up with a concrete proposal.

2381. So as you had certainly not accepted their proposal, and as they did not put any further proposals before you in writing and give you details of their proposed move, would you consider that you are not in any way bound to meet any part of the cost of this transfer?—* * *

2382. Although the firm did not follow up their original approach to you with any detailed proposals, presumably you knew that they were carrying out this move?—We did not, Sir.

2383. Was there no inspection of their plant from time to time from 1947 onwards?—From 1947 onwards; yes, from the period in which they first wrote to us until the stage when we discovered very much later that they had transferred it.

2384. Does that mean to say that although you are paying quite a considerable sum to two firms, and this one in particular, for the maintenance of certain production capacity for your possible future requirements, you do not at any time go to inspect the plant or the premises to ensure that what you are paying for is in fact there?—We have got the right to. All I am saying is that I do not think we did.

2385. Over a period of ten years, is that not the period concerned?—I cannot be positive about the ten years. They wrote in 1947, but they did not, in fact, start the transfer within the next year or two. It looks as though they started their transfer somewhere about 1952 and we learnt that it was more or less complete in March, 1956.

2386. From what you said earlier, I rather gathered that, irrespective of the date on which they started their transfer, you do not think there had been any inspection of this plant or machinery in the last ten years or so?—No, I do not think I am entitled to say that. We had the right to inspect, and my belief would be that we reckon to inspect once every so often, but that would probably be about once every five years.

2387. But it unfortunately happened that you had not carried out any inspection during this period of movement between 1952 and 1956?—That is true.

2388. Does it strike you as in any way odd that, although we are paying out this considerable sum over a year for this capacity, there is not a more frequent inspection of the production capacity made available?—Not with firms of this standing, no.

2389. Do you know whether this firm have included any of the expenditure in the claims on which you have made large advances? I think that they have got outstanding claims amounting to £232,000 odd against which you have made provisional payments?—They have undoubtedly included in those figures what they regard as the depreciation element on the cost of transferring the equipment.

2390. It is possible that you have already paid something towards that sum in the provisional payment of £203,000, or thereabouts, which you have made already?—* * *

2391. The sum which you are going to argue is the £213,000, presumably?—The sum that we are in fact arguing about is the whole of the £232,000, and as the Comptroller and Auditor General said, we paid £202,000, and he did ask us whether we were satisfied that our provisional payments would not exceed our ultimate liability. I gave a cautious answer to one hon. Member. I believe that if our ultimate liability is less than £202,000, then we shall get something back.

Chairman.

2392. Will Members now turn to paragraphs 27-29, Repayment Work for other Governments? Sir John, I think the Committee in the past has always assumed on evidence given that when

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you take orders for other Governments you cover yourself first. You see that you have adequate means?—I do not think I could claim that we have said anything which led the Committee to believe that we always got the money before we did this work. What I would have claimed is that the Admiralty have, if you like, led the Committee to believe that we would endeavour to keep ourselves in funds. But when you are dealing with big shipbuilding or ship conversion or ship repairing programmes, and that is where the difficulty really exists which has given rise to this comment by the Comptroller and Auditor General, it is not always easy to do so. What I must admit is that until this particular year we had ended up in March with a balance, either in our favour or only against us to a very, very small extent, whereas in the particular year, as the Comptroller and Auditor General has pointed out, we were substantially in arrear in getting the money back from certain Governments.

2393. In fact, you are about £1¼ million to the bad?—At that time, yes.

2394. Is this a matter of change of policy?—No, Sir, it is rather the machine lagging behind in tackling a problem which was getting more and more difficult. We are now doing repayment work of this nature to the tune of something like £30 million a year. Previously, when it was relatively small figures, the way in which we handled it gave rise to no trouble, but, as I explained to the Committee at my hearing last year, there are particular difficulties in repayment accounting. If you remember, it came out in the Excess Vote hearing way back in March, 1958. We had already sensed or discovered that this thing was getting out of hand some time in the fairly early part of 1958. We had initiated a study into the financial procedure in this particular field and we had decided, even before the Comptroller and Auditor General addressed an audit query to me, to set up this special section in the Navy Accounts Directorate which is mentioned in the latter part of Paragraph 29 of the Comptroller and Auditor General's Report. The work of that section which, admittedly, is of fairly recent introduction, has already enabled us to get a distinct improvement in the situation at the end of March, 1959, although at one time in that particular year I have got to admit that we were

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even more adrift than the Comptroller and Auditor General says in Paragraph 28. According to my information we have ended up the financial year that has just passed with a small balance in hand over all claims which have been made on overseas Governments or payments which have been made on their behalf.

2395. What were the three Commonwealth Governments which were involved in this sum of £2·8 million?
—* * *

2396. You have normally no trouble in getting your money?—We have no trouble in getting our money, provided that we can tell them in good time what the liabilities are. But just as we have difficulty sometimes at the end of the year in making both ends meet within a Navy Estimates figure, so do they, and in extenuation of the troubles of, at any rate, one of those countries, some of the cost figures that we were charging them on certain of their jobs were appreciably higher than they had been led to expect when we said to them at the beginning of the year: "We shall want so much money during the coming year." It obviously put them in a difficult position when we suddenly said: "We want a good deal more." But apart from, as it were, transient troubles of that kind, no, we get our money all right.

2397. Was the £30 million largely confined to those three Governments you have mentioned?—No. The £30 million covers all kinds of fields, some of them quite small.

2398. Mr. Macpherson, what is the Treasury view on this? Are they satisfied with the hold that the Admiralty keep on their debtors?—(Mr. Macpherson.) We are satisfied with the result as it is reflected at the end of 1958-59. May I go back a little, Sir? The Treasury view of sales of this sort is that, ideally, prepayment is the proper approach for two reasons: (a) protection of the taxpayer and (b) we would not like even a technical misappropriation of funds voted by Parliament which might be involved in using Admiralty funds for this purpose. * * * Those were the considerations taken into account in 1952 when we tried with the Department to evolve a set of rules to cover commercial work.

2399. On the whole, are you satisfied with the way you get prepayment?—

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Yes; there have been odd cases, not only in the Admiralty but in other Service Departments, where we have had to make rather special terms but we are satisfied, as far as I know, that there has been no default.

Mr. John Hall.

2400. I take it, Sir John, that the work that you undertake is in respect of contracts placed in this country?—(Sir John Lang.) Yes, Sir.

2401. So, to some extent that deals with the next point I was going to raise, and that is that it must have cost us something to finance this expenditure which we were doing in advance of repayment being received from Commonwealth countries?—It must have, in the sense that we had spent, on these figures, some £1½m. of Government money which ought to have been paid by the Commonwealth Governments, yes.

Mr. Chetwynd.

2402. Arising from that, is interest on the difference added on to the original estimate that you would charge the overseas Governments?—We shall not charge the overseas Government any interest by reason of the fact that they have not paid us as promptly as they ought to have done, but we are charging the overseas Government every penny of the expenditure that we incur on their behalf.

2403. Is there any reason why we should not charge them the interest?—Quite definitely, you will not be able to charge them any interest because to a large extent the failure is on our part in billing them.

2404. Could you explain that, please?—The failure is on our part in not sending them bills for the amount of money we want out of them. It is the Admiralty's failure to collect the money rather than the overseas Government's failure to pay.

2405. Is it the practice, then, to send them an advance bill, as it were, before the work is done?—No, it is not. We give them an idea of the cost of a particular job; but, as I have explained earlier in the day, that idea is not always very accurate. Equally, we tell them in the early months of the year what we think we are likely to spend in the

coming year. But the fault here was that we were not on top of the assessment of the rate at which money was being spent on their behalf and if we do not tell them the amount of money we want we cannot possibly reckon to charge them interest by reason of the fact that they at some times are in debt to us.

2406. What is being done, then, to improve the estimate of the cost?—That is the purpose of this small section which is mentioned in the latter part of paragraph 29 of the Comptroller and Auditor General's Report, and as I mentioned, we at least managed to end up the financial year which has just finished with a small balance in hand over all the payments which we had made on behalf of overseas Governments or of bills that we had sent to them.

2407. Will the contracts be placed with naval establishments or with private contractors in this country?—They are practically all with private contractors. It is not impossible to do a job of work of this kind in a Royal Dockyard, but it is quite a long time since we have done one.

2408. Then, do you pay the private contractors as they render their accounts?—Yes. It is in the form of a government to government contract. In other words, we undertake to refit the ship according to certain requirements on behalf of the overseas Government. We place the contract with the commercial firm in this country. We make the payments to the commercial firm in this country and we get the money for that purpose from the overseas Government.

2409. Does that money include a proportion to cover your expenses and a fixed percentage on it?—Expenses in the sense of overseeing staff and design staff, yes.

2410. What worries me a bit is that I can see the advantage to us of doing this work, but why are not these Governments dealing direct with the ship repairers?—They much prefer to have the Admiralty at the back of them because they reckon that we know how the shipbuilding firms work. If they have a government to firm contract then

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they have to make the arrangements for their work themselves, and they much prefer it the other way.

Mr. Arbuthnot.

2411. Sir Edmund, from paragraph 29 it appears that there is a disagreement between you and the Admiralty as to whether it is or is not accepted practice to obtain advances to cover expenditure. What is the evidence on which you say that it is accepted practice?—(Sir Edmund Compton.) I addressed my question to the Admiralty basing myself, really, on what they had said in reply to this Committee when, if I may quote from the evidence given before this Committee in 1956-57, the Accounting Officer was asked: "Do you in every case obtain in advance sufficient funds from the other governments in order to cover your outlay", and the answer was: "By and large, yes, Sir. I say 'by and large' because I do not think I could put my hand on my heart and say that never have we gone ahead and made a payment until we had received the money, but our plan is quite definitely to get an imprest from these various customer countries before we pay the bills".

2412. Sir John, do you now accept that it is accepted practice to obtain advances?—(Sir John Lang.) * * * In the sense of an aim, yes, Sir: but the fault that developed in this example was that our machinery was obviously not adequate to achieve that object.

2413. So that you have now set up within the Directorate of Navy Accounts a special section to keep a record?—Yes.

2414. Mr. Macpherson, is this one of the aspects of financial control within the Admiralty that the Treasury have been studying?—(Mr. Macpherson.) Not one we have made a special study of so far, but not one that is necessarily precluded. It may be necessary to follow this up in the exercise.

2415. So, therefore, you are not in a position to tell the Committee that you are satisfied that the section that the Admiralty have set up will remedy the defects?—Obviously not, Sir, we cannot say that. (Sir John Lang.) Nor am I claiming that it will necessarily remedy the defects. What I am claiming is that, at any rate, it has remedied them as at 31st March 1959. To some extent we are

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feeling our way. We will obviously have to watch this particular problem to ensure that, if need be, the machinery is still further modified.

2416. Will you, Sir John, make a charge against your customers to cover the cost of this section?—No, we charge them a percentage on the total bill which reckons to cover that portion of Admiralty expenditure on overseeing and administration which is reflected in this work. If we tried to add a small proportion to the bill to cover this it would be trivial.

2417. In writing to the Comptroller and Auditor General you referred to "the difficulty arising from accounting complications and other factors." What are the other factors?—The other factors are the point mentioned by Mr. Macpherson. * * *

2418. That was the only other factor?—Yes, I think so. My colleague has reminded me that there could, in fact, be political considerations. * * *

Mr. Stevens.

2419. Sir Edmund, to hark back just for a moment to this apparent discrepancy in the two statements about the basis on which payment is made, you say in paragraph 29 that the Admiralty informed you that there did not appear to be a generally accepted practice. Is that correct, or did the Admiralty later, in fact, agree that there had been that practice in the past but circumstances had changed and there was now no such practice, or words to that effect?—(Sir Edmund Compton.) My report does in fact quote what the Admiralty said in reply to my question.

2420. Sir John, do you not agree that it might have been helpful in reply to the Comptroller and Auditor General's query to agree that that had been the practice in the past but that there had been a change? It would have avoided this apparent conflict of statement?—(Sir John Lang.) I think, frankly, that when we replied to the audit query we were approaching it from the angle of some discussions which Mr. Macpherson mentioned to the Committee a few minutes ago that had taken place in 1952, or thereabouts, and we thought the Comptroller and Auditor General was, in fact, harking back to that reference rather than the statement which I had made in evidence in 1956 that normally

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we tried to get our money before it was spent. The reason we denied that there was an accepted practice in relation to the 1952 discussion was that the discussions then, from the very nature of the conclusions that came out of them, show that they were really thinking of, as it were, unit transactions in relatively small sums—the purchase of stores, the purchase of guns, the purchase of ammunition, or something of that kind—and were not thinking of large-scale projects which might well take three or four years to complete. We had recognised in the Admiralty that the principles which the Treasury had enunciated away back in 1952 were not easy of application to shipbuilding and similar projects, and that is why we said there was no accepted practice.

2421. And in 1956 when you gave the evidence—?—In 1956 I explained to you what we did, but I looked on accepted practice as an accepted practice amongst all Government Departments and I was not thinking for one moment in terms of the fact that we in the Admiralty had tried, and to a large extent still do try, to make sure we are in funds before we spend.

Mr. Pentland.

2-22 Sir John, the third sentence of paragraph 29 suggests that the failure to recover expenditure by advances is partly due to miscalculation. Would you like to tell the committee if that is so?—Reading the sentence: “The position at 31st March 1958 was said to be due to the difficulty”, and so on, miscalculation in the sense described there of difficulty in assessing what amount would be spent in a particular period. You must remember, the year in which this occurred was a year in which the Admiralty had come to Parliament for a Supplementary Estimate for some £30 million. A very great part of that Supplementary was due to the fact that much more money had been spent in shipbuilding and ship repair contracts than we had thought likely when the Estimates were framed. That was very largely the result of a shortage of new orders in the merchant ship side, a certain amount of depression of freights and merchant ships were therefore being laid up, and inevitably the shipyards which had Navy orders were in a position to give much more attention to their Navy orders in that year. And just as we had found

in our own affairs that the amount of money we had to pay to the shipbuilders for the progress made was much higher than we thought, so too that applied in respect of these ships and it was the difficulty of estimating how much we should ask the overseas Governments for that which is referred to in this paragraph.

2423. Could you tell the Committee how long you have been doing this repayment work?—In one form or another since about 1948 to 1949 when, the war being over and we ourselves having got to the stage of reductions in our Navy, various other countries feeling that they wanted to develop navies had been buying ships from us and having them refitted in this country. But in those days it was fairly low figures, certainly under £10 million until we got to 1956-57. Of recent years it has gone up very much higher than that until, as I say, it has got to a figure of the order of £25 million or £30 million.

2424. Has that trend only recently manifested itself to anything like the same extent?—Yes. We have always had, of course, the difficulty that the total cost of the job might go up, but so long as it went up in relatively slow time then we might have difficulties with our customers in persuading them they ought to pay; but nevertheless we had not got the difficulty of being so woefully out in our total of money.

2425. May I ask why it has taken so long to decide that a special section was necessary to control these transactions?—Well, has it taken so long? It was roughly a year ago that we in the Admiralty began to realise that we were adrift in our charges to customers. First of all, we had got to search for the reasons why we were adrift and then we had got to decide on the remedy for it; and we set up the section in something like November or December of last year. It took us something like six months to establish what was wrong, find the remedy and get the section set up.

2426. You are satisfied that the decision could not have been arrived at any sooner?—I think so, yes, because we were not at all sure to start with exactly where the trouble was.

Mr. John Hall.

2427. Are you able to tell the Committee, Sir John, what additional cost,

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if any, is involved by the setting up of this special section?—Something quite small. We have done it largely by an alteration in organisation which has brought two groups of people together. We have added about two or three people to the staff, so the cost is of the order of £3,000 a year. (Mr. Macpherson.) May I just clarify one thing, Sir, arising out of a previous question? When the Treasury were considering the rules in 1952 we were concerned primarily at that time with the supply of stores and equipment and against a background of a very much smaller volume of activity. Then we enunciated this general principle that prepayment was the proper approach and the rules were related, really, to supplies where prepayment is more difficult. But in this field of work being done on ships, we still feel that the prepayment principle is the proper one and the ideal approach.

Mr. Arbuthnot.

2428. Does Sir John accept that?—(Sir John Lang.) I will argue that out with Mr. Macpherson when we get down to it in our internal discussions.

2429. May we take it from that that Sir John does not accept Mr. Macpherson's contention?—Not entirely, no, Sir.

Mr. Chetwynd.] The word was "ideal".

* * * * *

Chairman.

2431. Paragraphs 34-38, Stocktaking. Sir John, do you think that this introduction of electronic equipment is likely to solve your problem?—It will not solve the problem in the sense of eliminating store errors. It will not solve the difficulties that we have suffered from for some years past and are still suffering from, in getting enough qualified staff to do things like stocktaking. But it will, we believe, substantially solve our problems, or, at any rate, very markedly improve the situation on the store accounting side.

2432. Stocktaking at this spare parts department has been in arrears. How are you getting on with it? I am looking at the first line of paragraph 38?—There will undoubtedly be an appreciable improvement in that field over the next

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two to three years, because we have now transferred the responsibility to a department that specialises in store holding and stocktaking work and they have started off with, as it were, a clean sheet; and over the cycle of about 3 years which will run for this particular service we think that we shall get on top of the difficulties that have existed in that field.

Mr. Stevens.

2433. At the tail end of paragraph 38 reference is made to an investigation into discrepancies over a proportion of the range of stores. I just wondered, Sir John, if you can tell us what progress has so far been achieved?—This is dependent on the stocktaking cycle. You realise that in a depot of this kind we have a running stocktaking over a period of three years, and we are only just about through the first year of those three, so inevitably we have not got very far with it. All we can say at the moment is that in the first year of that stocktaking we have not had any abnormal discrepancies; in other words, the precaution which the Treasury said that we should take to look into discrepancies over some specimen items of stores has not yet given rise to any trouble, because we have not had abnormal discrepancies.

2434. But it is still rather early to make any assessment?—It is too early to feel that we are really out of the wood.

Mr. Arbuthnot.

2435. Sir John, from paragraph 38 it appears that you told the Comptroller and Auditor General that the storekeepers were in difficulty with identification, that they could not identify the stores. From paragraph 37 we learn that you have given top priority to the early disposal of surplus and obsolete holdings. Is there any danger that the inability to identify the stores will result in your getting rid of items that you really ought to keep because the storekeepers cannot identify them? Is there a danger that the baby will go out with the bath water?—Not now, Sir, no. The reference that you quoted in paragraph 38 was a statement we made when we went to the Treasury a matter now of some twelve months or more ago to say: "Let us have a fresh start in this particular field now that we have put in some store-keeping and stocktaking experts and

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got over the difficulties which had occurred hitherto in this lack of identification." But in the twelve months or so in which priority has been given to disposal of surplus and obsolete holdings we have got some people in there who can identify them. A lot of the trouble was due to the fact that an enormous amount of these spare parts were coming back from overseas depots, and so on, which we had closed down, many of them crated with descriptions on the outside or descriptions on stores lists which came with the packages; but if only because they were spare parts of engines, and all the rest of it, you wanted a reasonable expert, a man associated with engines, to identify; but we have got over that now, we think.

2436. Were the descriptions on the outside different from the contents?—Frequently, yes.

Mr. Hoy.

2437. Sir John I will just ask you one question about the shortage of qualified staff. Is it because they are unobtainable or because you have not permission to employ them?—It is not a question of permission to employ them in the sense that there are Governmental rules which prohibit us from doing that; but we are controlled in our numbers in two ways: we are controlled monetarily for the industrial grades and we are controlled by ceiling numbers for the non-industrial grades. As I mentioned a little earlier in another context, there is a perpetual squeeze going on that we should keep numbers down but there is on top of all that the physical difficulty of getting enough people willing to join the Admiralty service in the store-keeping grades. Rates of pay and opportunities for promotion, and that kind of thing, are regarded as better elsewhere. To some extent we are only just about holding our own with the proper number of store-keepers we ought to have.

2438. What I was wondering was, in fact, if you had been able to spend a little more employing these people that might have resulted in savings considerably more than the losses through not having them in your employment?—I, quite frankly, do not feel that our store-holding arrangements in the dockyards are at all bad. Admittedly, because of staff shortages, and so on, we have had to have lots of relaxations on the test checks, and so on, that were customary before the war. But our record in deficiencies of stores, and that kind of thing, is, we think, not at all unsatisfactory; and I would hesitate to claim that we ought to be allowed to pay more money than we do pay because the dockyard wages structure is a very intricate structure. If we start putting up wages in one field we shall undoubtedly have a whole host of claims from other people who think they have some relation with store-keepers.

2439. I was not thinking quite so much of increasing salaries as, perhaps, increasing the numbers of your staff?—To increase the number of the staff, as I have said, is to some extent the difficulty of getting people who are willing to come and do that work.

Mr. Chetwynd.

2440. I am interested in this from the point of view of Eaglescliffe, which employs a good many of my constituents. Have you got any other depots like that in this country?—That is the biggest of the depots. There are two others: there is one on the Clyde, which has the very heavy machinery parts, and there is a small one at Leeds.

2441. I take it that the comment that the discrepancies are due to accounting and identification releases any of my constituents from the suspicion that they have walked off with half a ship?—It would be libellous if I suggested that.

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[Continued.]

GREENWICH HOSPITAL AND TRAVERS FOUNDATION ACCOUNTS,
1957-58.

Mr. R. MILLAR, C.B.E., Director of Greenwich Hospital, called in and examined.

Chairman.

2442. Will members now turn to the Greenwich Hospital and Travers Foundation Accounts, 1957-58, to the Report of the Comptroller and Auditor General, paragraphs 1-4, on page 11? I see that in the last three years expenditure exceeded income, which is a reversal of a very long opposite situation, Mr. Millar. What is the reason for that?—(Mr. Millar.) I think I should like to make one general observation in the first place, Sir. That is that, in view of the continuous transactions and long term transactions that are going on in Greenwich Hospital, it would be misleading to take one year or even a short period of three years by itself. As the Report of the Comptroller and Auditor General says, there have been credits from income to capital in previous years; and I regard the abstraction of so much from capital as just a corollary to that in difficult years. I think the Comptroller and Auditor General is very much in order in drawing attention to what has happened in these three years because they have been difficult years, and I myself have been at the helm and I think, if I may say so, that the Admiralty is entitled to a certain amount of credit for having steered the ship safely through these three years. We all know that costs generally have been rising very steeply in that time and the financial arrangements of Greenwich Hospital were not geared, so to speak, to meet such a steep increase in expenditure. But we have taken certain steps during that time to gear the system to meet this sort of thing.

2443. Have you unlimited power to dip into capital to meet your expenditure?—Not unlimited, Sir. Under the Act of 1865 we are bound to come to Parliament if we exceed the expenditure that Parliament has approved.

2444. I see. Assuming that your income suddenly decreases you can dip into capital and meet that without permission?—That is so.

2445. Is your expenditure strictly limited to the amount of the Estimate presented to Parliament?—Yes, the

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total amount. We must stay within that or come back to Parliament again.

Mr. Arbuthnot.

2446. You told us that the last three years have been difficult years?—Yes.

2447. And have suggested that that has been the cause of increased costs?—Yes.

2448. Incomes have also gone up, have they not, during that period?—Incomes have gone up, yes.

2449. So is there really any reason why there should not be a contribution from the increased incomes to keep pace with the increased costs?—The whole of the income has been used to meet the costs. It just has not so far been big enough to meet the total costs. The main item of expenditure, of course, is the Royal Hospital School. The cost of that has gone up something like £10,000 a year and it is an almost irresistible movement.

2450. Do the parents contribute anything towards the costs?—Yes, that is one of the steps that we have taken, which I mentioned, to meet this kind of situation. From the beginning of 1957 we introduced a fee which is chargeable to the parents of £72 a year. It is nothing like the full cost of the boys' maintenance and education at the school but it does give us something to play on; but it only applied to boys entering after the 1st January, 1957, so we are going slowly up. In time it will meet the extra costs.

Sir Colin Thornton-Kemsley.

2451. Is there any suggestion, Mr. Millar, that that payment should be graduated with the incomes of the parents?—I am glad that you have asked that question, Sir. The position is that parents can apply to local education authorities for assistance in meeting the £72 a year, and many of them do get grants from the authorities. In cases where the authority does not make a grant for some reason or another we are willing to consider any hardship which arises, and we do that very carefully.

2452. I had asked my question rather more to find out whether there were any provisions for charging more to parents

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[Continued.]

who could afford more than £72 a year? —No, we did not want to have a distinction in the school between one boy and another.

2453. Would it be known in the school if some parents contributed more than others?—Not necessarily, because the fees are dealt with in my office, not at the school.

Chairman.] I think that will probably come better on paragraphs 7-11 when we get to the school itself.

Sir Colin Thornton-Kemsley.

2454. I think you have under-estimated the income from estates in the North of England for the last three years, have you not?—That is so, and it is just one particular item. The amount in the year with which we are dealing was £6,000, and that was on thinnings of trees from our woods. We have 1,100 acres of woods altogether in our estates. The bigger part of that is in the West, near Alston in Cumberland. We have others in the North-east of England, just south of Berwick, but the main part is near Alston; and these trees became ripe for thinning in 1955. We have been working at the thinning since then. I have a receiver and agent up there, also a forester, who was quite sanguine about what he could do, but we found that the difficulties have been such that we have not realised our expectations. I have got a list of the difficulties here and they are not small ones.

2455. But is it not the other way round? Have you not under-estimated the income instead of over-estimating it? —We have over-estimated the income yes, from the thinnings. That means that they have not reaped as many of the thinnings as we expected. Is it clear to the Committee what thinnings are?

2456. I think it would be, yes. Then, what was the reason for that under-estimate of the investment income?—That comes to about £6,000 altogether; and I think the Committee will appreciate that when you are dealing with ordinary shares and a considerable number of transactions it is not easy to look a year ahead and say just how much will be realised. My own feeling is that, on a total of £111,000, £6,000 is not all that bad, especially as during that year the transactions amounted to something like £½ million. We invested in debentures and ordinary shares, converting Government stocks in that period.

2457. In framing your estimates you do not deliberately over-estimate your income so as to avoid estimating for a deficit which would have to be made good from capital, do you?—I can say with my hand on my heart that that is so. I admit I did not disguise from the agent in the North that I wanted as much money as I could, so that may have influenced him in being optimistic about what we would reap from the woods, but I did not dictate the figure.

Chairman.

2458. Paragraphs 5 and 6, Capital Investments. "Book Value", I presume, means costs, or is it something different? —Book value is what we paid for them, yes.

2459. If you buy shares and sell them at a loss, where does that show in your accounts?—It does not really show, I think. We try to average the cost with what we get, but it does not show as a separate item at all in the accounts.

2460. On page three, under Stocks, the value of your investments, and so on, I do not find it very informative. Some of the accounts which we investigate, particularly those which hold Government securities, give a detailed list of the securities they hold. They do not lump them together like this?—We felt that that was, in a sense, confidential information which we did not want necessarily to publicise, but there is no other reason why we should keep it secret.

2461. Why should it be considered confidential? Is there any reason why the public should not know?—Not that I know of, no. This is done in the open market, and so on.

2462. Certain sections of Government Departments hold securities and they publish their securities?—Yes, we are not really a Government Department.

2463. I know you are not. Is there any reason, if they can do it, why you should not do it?—No, I think not.

2464. I think we may have something more to say about the form of your Accounts. I think it would be better if one had more information about your financial transactions?—The actual investments?

2465. Yes, and an indication of sales and purchases?—Yes.

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Mr. R. MILLAR, C.B.E.

, [Continued.]

Mr. *Arbuthnot*.

2466. Mr. Millar, who is your financial adviser on the question of buying and selling securities?—The government broker.

2467. It is a pretty indifferent performance that he has made, is it not, when you have got a substantial loss on your government securities and also a substantial loss on your ordinary shares?—No, I do not think so, Sir. This is the position as at the end of March last year, and everybody was in the same boat at that time. I was associated with certain other quite large charities and they were all in the same position at that time. The market price had sunk to the bottom. In fact, the position now is very much better.

2468. Is the position now so much improved that you have got back to your book value?—I have got the figure here. We have invested a little more, I think, in equities and the actual market value is £400,000 higher than it was.

Chairman.

2469. Is that on your total market value or of the equities?—Of the whole value, I think.

Mr. *Arbuthnot*.

2470. So, you are not back to your book value yet?—We are partly back. We are not wholly back.

2471. Mr. Macpherson, why is it that you have limited the Greenwich Hospital to 30 per cent. in equities?—(Mr. *Macpherson*.) These were their own proposals to us, Sir, which we accepted. (Mr. *Millar*.) Might I explain, Sir, we have gone up to 40 per cent. now. We have got authority for 40 per cent. now.

2472. Why did you ask for a limit at all?—That was after discussion with the Treasury officer. I went along to the Treasury and asked how far they would let us go. Perhaps the Treasury representative was not aware of that. We are quite happy to carry on from step to step. We have gone up from 6½ per cent. for ordinary shares to 12½ per cent. and to 25, as it is now, on ordinary shares with a total overall of 40 per cent. We are quite happy to work up to these levels and then we will ask for more. But I did speak to the Treasury last December, I think, and

they suggested that 40 per cent. and 25 per cent. would be a reasonable limit at the moment.

2473. Mr. Macpherson, is there any reason why there should be a limit at all?—(Mr. *Macpherson*.) It stems, Sir, from the provisions of the Act which, though not prescribing trustee securities, did, I am pretty sure, prescribe the type of security. If I might just find the exact description—it is in the original Act—this is what the Act of 1865 says “The Admiralty may from time to time lay out or invest any cash standing to the Greenwich Hospital Capital Account in the purchase of any bank annuities, or in or on any stocks, funds, or securities the principal or interest whereof is charged on or payable, by way of guarantee or otherwise, out of the revenues of the United Kingdom or of India, or on mortgage of freehold lands in the United Kingdom, or, with the approval in each instance of the Commissioners of Her Majesty’s Treasury”, and it was that guidance which made us pretty cautious in the authority we gave.

2474. You have agreed, I understand, that they should go to 30 per cent. in equities?—40 per cent, Sir.

2475. To 40 per cent. in equities. In that case, there is nothing binding you to put a ceiling on their equities, is there?—No, we are not inhibited from going further. I do not know if the Accounting Officer would agree with me, but he himself felt that this was a field in which we ought to go rather cautiously because there are risks involved.

* * * * *

2477. The Commissioners of the Church of England have been highly successful, have they not, in investing in equities?—They produced good results.

2478. Might they not do the same for Greenwich Hospital?—It may well be. All I can say is we have not said that 40 per cent. is the maximum.

2479. Would you also agree, provided the advice of the brokers is not such that it leaves them even today at a lower book value than the value at which they bought their equities?—I doubt if that is a question for me, Sir.

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Mr. R. MILLAR, C.B.E.

[Continued.]

Mr. Chetwynd.

2480. Would it be possible to list your investments, or are they too numerous?—(Mr. Millar.) To give the Committee a list?

2481. Yes?—Yes, I can provide that.

Mr. Chetwynd.] That would be useful.

Chairman.

2482. I did suggest that they might, as do many of the Accounts we see, give a list of securities. On the other hand, I think without exception those securities are always Government securities. I cannot remember a list which has contained ordinary shares. Can you, Sir Edmund?—(Sir Edmund Compton.) Oh, yes, I think so.

Chairman.] There are others, I see.

Mr. Hoy.

2483. All the more as the form of investment has been widened, is that not right, Sir Edmund?—I would suggest, the form of Accounts being a matter on which the Treasury advise, that the Committee might wish the Greenwich Hospital to consult with the Treasury on a more informative statement of investments, covering not only particulars of the investments themselves but also showing the transactions, for example, whether there have been gains or losses. (Mr. Macpherson.) We shall certainly do that, if that is the Committee's wish.

Mr. Arbuthnot.] And the date of purchase.

Chairman.

2484. As a matter of fact, these Accounts are very different from any other Accounts that we ever receive, and I hope you will consult with the Treasury to see if you cannot bring them more into accordance with this type of Account and make it considerably more informative than it is now?—(Mr. Millar.) I shall be delighted to do that, Sir.

2485. I do not know what the Committee feel, but I feel that these Accounts need complete recasting in a modern form?—Might I say one thing, Sir? There was a reference to the Church Commissioners a short time ago. I have certain particulars about them which I got from a publication. As at the end of March their percentage of portfolio in equities was 33½ per cent., so we are not too far out.

2486. I do not think it is for this Committee to dictate your percentages, but I do think the Committee would welcome a radical reconstruction of the whole of your Accounts?—Oh, yes, Sir, I would be quite happy to agree to that.

2487. Paragraphs 7-11, Royal Hospital School, Holbrook. Expenditure on the school is a very high proportion of your total expenditure?—Yes.

2488. In fact, one might say it is the primary expenditure?—It is.

2489. You give your estimates in considerable detail?—Yes.

2490. But you do not produce what we would call an Appropriation Account, and it is that which I had in mind when I suggested you consult with the Treasury to recast the whole of your accounts?—Yes. I would be very happy to alter the Accounts. An Appropriation Account as far as the school is concerned, do you mean?

2491. No, as far as your whole Accounts are concerned, to show exactly how you have made your expenditure. I think if you consult Mr. Macpherson he will realise what we want. You do, Mr. Macpherson?—(Mr. Macpherson.) Yes, Sir.

2492. On pages 6 and 7 we have the Home Farm. Again, you give very great details of your farm but there are practically no details of the school, and as your farm is merely subsidiary to the financing of your school I think you might look into that point as well to see if you cannot give us more details of the school?—I shall be quite happy to leave out some of the details of the farm.

Sir Colin Thornton-Kemsley] Oh, do not do that.

Chairman.

2493. I am not asking that you should do that. There are certain agricultural interests on the Committee who would be, no doubt, extremely interested in your farm. On the other hand, I think we might have a little more information about your school?—Yes, we can settle just what you would like, Sir.

Mr. Chetwynd.

2494. I wonder if you could tell me, Mr. Millar, on what basis was the fee of £72 a year fixed?—I did it in consultation with the Ministry of Education

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[Continued.]

and Dr. W. P. Alexander, who is the Secretary of the Association of Education Committees. If I may, I would like to take this opportunity of saying how helpful Dr. Alexander has been in this connection, because from the beginning I wanted to arrange for the parents to get grants from the local educational authorities, and it was Dr. Alexander who helped me in that connection.

2495. But did you arrive at this figure by taking a percentage of the costs?—No, it was a figure which I thought would eventually meet our requirements. There was nothing mathematical about it more than that.

2496. This is supposed to bring you in the difference between what you expend on the school and what your income brings you in?—Yes. I should have liked to introduce it a little more quickly, but it was decided only to apply it to new boys from January, 1957, and that rather slowed down our income.

2497. Most schools when Burnham Scales go up are passing on those increases in fees. Are you doing the same?—We are considering an increase of fees at the moment.

2498. On the remissions of fees, who actually decides what the remission shall be and on what basis?—We get a statement from the parents of their circumstances and it is based on that. I generally give the decision. I put the first batch to the Board of Admiralty and on the basis that they settled those I settle the current ones. We did give an undertaking to Parliament when we reported the introduction of fees in 1956, I think, that we should be very careful to avoid any hardship arising, and I have made it my personal responsibility to see that that is carried out.

2499. You are going to get ultimately £45,000 a year in fees, and it says "subject to remissions". What sort of figure have you in mind for the remissions?—It is very difficult to estimate what the remissions are going to be. They vary from term to term. The figure mentioned here is something over £1,000 in the course of a year. I should think that that is about what the average might very well be.

2500. Has the fee charging made any difference to the kind of pupil you are getting?—It has made no difference in the kind of pupil, but it has made a

difference in the number of applications. We are getting twice as many as we were getting before. Before fees were introduced it was feared that it might diminish the number of applications but the reverse has happened and we have now about two applications for every vacancy.

2501. Are they coming from the same source as they came from before?—Yes, and compassionate cases get prime consideration.

Mr. Hoy.

2502. Mr. Millar, I am not very certain about the purpose of this school. Is the school run to educate the sons of sailors, or is it to produce sailors?—No, it is run to educate the sons of sailors. That is under the Charter of 1694.

2503. How many boys does it hold?—660.

2504. That is a lot of boys. What do they get for their £72 in addition to their schooling, anything else?—They get boarding. It is a boarding school.

2505. Complete boarding, education and everything else for £72?—Yes, and their free time is occupied in doing sailing and games of all kinds.

2506. Do the other Services have any schools of this type, or is it just confined to the Navy?—The Army has one something similar but it is run out of Army Votes, I believe.

Mr. Arbuthnot.

2507. The Duke of York's School?—Yes. It is something similar. I have been there and there are certain differences in set-up, but it is the nearest analogy.

Mr. Hoy.

2508. Have you ever compared your costs with theirs?—Yes, our costs are very much less. I am also an Almoner of Christ's Hospital, and our costs compare well with those.

2509. As far as the Army one is concerned, very much less?—Yes.

2510. Is it true to say that the rent and capital costs are not included in the annual cost per boy?—That is so. The cost of the building, and so on.

2511. If that were in fact added, what difference would it represent?—I do

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[Continued.]

not know. The buildings cost a tremendous lot in 1933. It would make quite a difference.

2512. So, you get it down to the figure you have given us by not including the capital cost, nor the rent?—That is so.

Mr. *Arbuthnot*.

2513. If you did include the capital costs and the rent would your figure be comparable to that of the Duke of York's School?—I am not quite sure on what basis they work out their costs.

2514. In that case, your reply that you were much more economical than the Duke of York's School was a bit of a shot in the dark, was it?—I have not got a figure from anywhere, but I know what their set-up is, and their set-up is more lavish than ours.

2515. Is it expected that the boys who come from the school will join the Navy?—They are under no obligation to do so, but we do undertake to give boys who want to join the Navy a suitable introduction, some preparation for that.

Sir *Colin Thornton-Kemsley*.

2516. The Holbrook Estate is owned by the Admiralty, is it not?—Yes, it was presented to us by Mr. Reade.

2517. And the Home Farm is managed on the Admiralty's behalf?—Yes.

2518. To whom is the rent payable, then?—It comes in the Account. It really comes to us in the end.

2519. Then, I suppose it is one of those items shown on page 41 as revenue from other properties? Would that be so?—Yes, that is so.

2520. What is that net item: "Royal Hospital School, Home Farm (net), £43 7s. 11d." It does not seem to appear at all on the Home Farm accounts. It is a detail that honestly does not matter, but it is perhaps another example of the way that the Accounts are drawn?—My colleague informs me that it is the difference between the receipts and expenditure from the farm in one year; but in addition to that, of course, the farm has also repaid us so many thousands on an advance they got some years ago. That comes in the capital account.

Sir *Colin Thornton-Kemsley*.] It is not worth pursuing at this time in the evening.

THURSDAY, 23RD APRIL, 1959.

Members present:

Sir George Benson, in the Chair.

Mr. Arbuthnot.
Colonel Crosthwaite-Eyre.

Mr. John Hall.
Sir Colin Thornton-Kemsley.

Sir EDMUND COMPTON, K.B.E., C.B., and Mr. J. MACPHERSON, called in and examined.

TREASURY MINUTE ON PARAGRAPHS 17-20 AND 21-23 OF THE THIRD REPORT OF THE COMMITTEE OF PUBLIC ACCOUNTS, 1957-58

Mr. W. STRATH, C.B., Permanent Secretary, Ministry of Supply, called in and further examined.

Chairman.

2521. Will Members turn to the Treasury Minute on paragraphs 17-20 of the Third Report of the Committee, Recovery of Costs of Development? Mr. Macpherson, how do the Treasury propose to interest themselves in and to keep informed of these negotiations on the levy on sales of military aircraft?—(Mr. Macpherson.) The discussions, Sir, with the Ministry of Supply indicated how the Ministry of Supply, in fixing the levy for military aircraft, set about it, what factors they took into account, and so on; and the Ministry of Supply intend to tell us how, in fact, this works in practice.

2522. Mr. Strath, do you at least agree provisional rates of levy sufficiently early for a contractor to make provision for them in his costs?—(Mr. Strath.) In fixing his sales?

2523. Yes?—Yes, Sir, it is necessary that the contractor should have some idea of the levy in order that he may negotiate the price with full knowledge of the sum that he is due to pay to us, even if it is only in the nature of a provisional figure.

Colonel Crosthwaite-Eyre.

2524. In how many cases of sales of engines of this nature has any discussion taken place with the private contractor and a sum set before a sale has been made?—The number of cases I could not say offhand. It is the normal practice to have these discussions in advance of sales and to set a sum, either as an absolute sum or as a percentage of the sales price.

2525. Is the sum set with regard to what is correct financially, or what the customer can afford to pay?—A num-

ber of factors have to be taken into account. One would say, I think, that each case has got to be considered strictly on its merits having regard, among other things, to the costs that have been incurred in developing the aircraft or the engine, what is known at the time about the extent of the market, and some judgment about what the market is likely to bear; and the net result is a judgment based primarily on these factors.

2526. But is it not a fact that the overruling consideration is what the market will bear?—It is a very important one, certainly, especially in the case of military aircraft which are very expensive to develop.

2527. Do you not feel, Mr. Macpherson, that this Minute from the Treasury is rather a smug denial of any real responsibility?—(Mr. Macpherson.) No, Sir. As we have said, in the case of civil aircraft we have in fact taken a real interest and laid down the rules with the Ministry of Supply. But we do not think in the case of military aircraft, where the development has been primarily for the needs of the United Kingdom forces, that the same weight need be given to the considerations. As Mr. Strath has said, one of the main considerations here is what the market will bear, and we as the Treasury know what factors the Ministry of Supply take into account. What the market will bear is not the only one. There is the total cost of the development in relation to the numbers of aircraft produced, including those for the United Kingdom forces.

2528. Going on to the question of military aircraft, why do you say: "Owing to the lack of reliable data"?

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[Continued.]

—That is for determining the rate at the outset, which is in fact what is done in the case of civil aircraft.

2529. No, I am talking about military aircraft. I am quoting the Minute. It has been rather difficult for the Treasury, really. They say that they find it difficult, if I may quote again, "Owing to the lack of reliable data"?—There is a lack of reliable data if, at the time there is an inquiry as to the possibility of sale of a military aircraft, the aircraft is not even on the production line. (Mr. Strath.) May I also draw attention to a point that is relevant, Sir? In many of these cases the sale of a military aircraft is not just a commercial matter, but may have political implications involved in it. Those change in time and it is very difficult to forecast at the time when a new development project is put in hand what considerations of that sort may have weight when the aircraft is available for sale. That is only one example. The second example, I think, of the difficulty of fixing this in advance for a military type of aircraft is that you here are trying to squeeze out the ultimate in technical development at a given stage and during the course of the development of the aircraft or equipment there is scientific progress, technical progress, which is sometimes very costly to achieve; and therefore the final costs of development may, for those reasons, vary very considerably from the original estimate, and it is very difficult to fix the right rate of levy at the outset.

2530. May I just go back, because I do not want to pursue this, and ask you a variation of the first question which I asked you? In how many cases, therefore, has a levy, which you know to be financially sound, been actually secured by the Ministry as apart from some sum which the market would bear, or any other of the reasons you have given in your answer to my question? What is the proportion, one way or other?—I think the answer to that must be "Most," Sir, because what is sound in that case is the result of the judgment based on the factors that we have mentioned. This cannot be judged solely on pure commercial principles, because it is not a commercial transaction.

2531. I am very sorry, I am asking you purely on a commercial principle, in how many cases have you actually sold an engine or an aircraft on pure

commercial principles?—Subject to confirmation, I would say, most. We endeavour to do that.

Mr. Arbuthnot.

2532. You told us that the rate of recovery of the cost of development would vary with political considerations. Who assesses the political factor?—What I meant there in reference to political considerations was the extent of the market, for one thing. In making sales of this sort there is of course, always close consultation between the Ministry of Supply and the Foreign Office and the Treasury, and we are guided at the political end of it by the Foreign Office or Commonwealth Relations Office.

2533. Mr. Macpherson, how many consultations have you had with the Foreign Office over the last year in assessing the political considerations where the sale of military aircraft was involved?—(Mr. Macpherson.) I do not think I could quantify, Sir. I can think, in my own experience, of one very important case rather more than a year ago where there was considerable consultation between Departments on a particular sale, and there is in fact a committee of officials where sales of this sort are considered. There is a working party of officials of all the Departments concerned who would consider just this sort of point, and where the representations of a political Department would be heard.

Colonel Crosthwaite-Eyre.

2534. I would like to be quite clear, Mr. Macpherson. Mr. Strath has said that in cases of these sales the commercial element was uppermost and was satisfied. The Treasury would agree with that?—Well, like Mr. Strath, I do not have a list of all the transactions that have taken place, but my impression is that the political factor that arises—

2535. No, I want to exclude the political factor?—I am saying, the political factor when it arises is rare rather than normal.

2536. And you are satisfied, as Mr. Strath has said, in most of these sales—I think your actual words were, "the majority of these sales"—the ultimate recovery has been satisfactory, commercially, for any sale effected?—That is my impression.

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Mr. W. STRATH, C.B.

[Continued.]

Chairman.

2537. Paragraphs 21-23, Purchase of Britannia Aircraft for Trooping Operations. Mr. Macpherson, has the ownership of these three Britannias been definitely settled yet?—Yes.

2538. Who owns them?—They have been bought by the Air Ministry.

2539. What happened on the tenders being received from the trooping contractors?—I am speaking at second-hand on this because this is the responsibility of the Air Ministry, but I understand that the tenders revealed that the trooping could be done more economically by civil operators using their own aircraft.

2540. But they would not touch them, they did not want them?—They there-

fore did not want the three aircraft referred to in the Minute.

2541. Can we take it that all proposals for advance purchases, as mentioned in the last five lines of the Minute, will be put to you for your approval?—That is the ruling now, Sir.

Mr. Arbuthnot.

2542. What did the Air Ministry pay for them, Mr. Macpherson?—Perhaps Mr. Strath, who got the money, Sir, could tell you more accurately. (Mr. Strath.) We have received, so far, £3·6 million in the bulk settlement from the Air Ministry, and that is approximately the figure that these cost. The final details have yet to be settled with the Company, but that is approximately the full cost.

CIVIL APPROPRIATION ACCOUNTS (CLASSES VI-X) 1957-58.

CLASS VI.

VOTE 10.

MINISTRY OF SUPPLY.

Chairman.

2543. Will Members now turn to the Civil Appropriation Accounts (Classes VI-X), to paragraphs 22-26 of the Comptroller and Auditor General's Report, which deal with the Empire Test Pilots School? Mr. Strath, the purpose of this School is, as stated in its charter, to provide test pilots for the Ministry of Supply and for industry generally. How is it the industry has not used these facilities to any great extent?—(Mr. Strath.) I think the simple answer to that, Sir, is that industry has been able successfully to rely on getting its needs met from flying personnel who come out of the Royal Air Force and the Royal Navy, and generally those people, or a great majority of them, I believe, have been persons who have had a prior training in this School while they were serving officers.

2544. How is it they do not come to you?—I imagine, Sir, they find that it is more economical to get their staff that way than to train them from scratch through the School.

2545. But why does it cost as much as £30,000 to train a pilot, particularly if they have already been trained in the R.A.F. or the Royal Navy?—This School has been set up to take pilots

who have got a very considerable amount of normal flying experience and flying skill, and to raise them up to the extremely high standards that are required of a test pilot who will be responsible for testing experimental aircraft of great complexity. The reasons for the high costs are very briefly these. The number of people going through this School in a year is about 30, of whom something like 18, or thereabouts, represent the people coming into the Ministry of Supply establishments; others are people coming from other quarters. They have to be trained on a variety of aircraft representative of the types in use in the Service, and on aircraft that are up-to-date; and therefore these are costly and expensive to run. These estimates, Sir, include provision for the depreciation of the aircraft, and for interest computed on the capital value of the aircraft; and the maintenance costs of complex aircraft of this sort are also extremely high. When divided between a relatively small number of pupils the cost is bound to appear to be high.

2546. Presumably these aircraft have already been tested by the contractors themselves?—There is testing by the contractors, but also testing at the experimental flying Establishments

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[Continued.]

operated by the Ministry. There is, in fact, as the Report indicates, a large number of these skilled people doing this experimental flying at the Ministry's various Establishments, at Boscombe Down and Farnborough and at Bedford.

2547. Yes. We are now dealing with training costs, not the activities of the pilots when they are trained, but the actual training costs?—I understand, Sir.

2548. I do not quite understand why it costs so much to train a test pilot. All these aircraft have already been tested by the pilots of the firms concerned, and does it cost them £30,000 to train a pilot?—The firms themselves do not bear the costs of training. They get the ready-made article. They generally get the man who has already had the experience through this School. In fact he has already cost us £30,000 or thereabouts to train. He has after that done his period of service as a test pilot with the Ministry. He has probably gone back to the Royal Air Force and served his time there. He leaves the Service and is recruited by one of these firms.

2549. Is it then that your term of service is too short?—I do not think so, Sir. These officers have got to think of their careers. The Air Ministry and the Royal Air Force have got to think of their careers, which are not wholly and continuously as test pilots.

2550. What about the effect of the Defence Programme, is that going to reduce the cost?—It is natural, I think, to assume, with the change in the character of the Defence Programme, that this requirement will diminish, and we are looking once more very carefully into the need for the School, the scale, and what economies are possible in the light of the best estimates that can be made of future requirements, bearing in mind the changed character of the Defence Programme; but at the moment the view is that so long as a large amount of highly skilled experimental flying is necessary training facilities of this type are unavoidable.

Mr. John Hall.

2551. Mr. Strath, I notice that in 1958 you had 81 pilots at the experimental Establishments doing this testing work, which is a little less than three years'

average output from your School. Now, you were saying earlier that industry draw from these Schools for their own requirements of test pilots. Do they find enough available from the School to meet all their requirements for test pilots?—May I just make one point, Sir? You referred to our holding being equal to three years output; of the total output of the School, yes, but of the 30 our off-take is something like 18, or so, a year, so it is more like four or five years' output. The contractors do not get their people direct from the School. They get them from the Services, mainly.

2552. They get them from the Services. You would say that the test pilots they get have all been trained at this School?—It is my information, Sir, that most of the people they do get are people who have had their experience in this School.

2553. And have gone through this course of training?—But I could not give you an assurance that that applies to one hundred per cent.

2554. If that is so, and if in fact the aircraft industry is being saved a considerable amount of money in the training of test pilots for this very special work, is there not a case for imposing some charge on the industry for this?—It is very difficult to do that, and, in any case, so far as industry uses these pilots to test aircraft which are being produced for the Services, those costs would eventually come to us as part of the costs.

2555. Of the charge?—As a proper charge in producing the aircraft.

2556. May I come back, then, to the point I was originally aiming at: if you are quite sure that most of the industry's requirements are met by pilots taken from the R.A.F. or the Royal Navy who have been at some time or other trained in this School, because if that is not the case and they do get a reasonable proportion of pilots from some other source, or give them the training themselves, it would be very interesting to know how much it costs industry to train a test pilot?—I take the point, Sir, and it is a point that I had already taken and enquired about. I cannot say just how many people industry succeeds in getting who have not had these advantages, but I gather they are relatively small.

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[Continued.]

2557. I gather from this Report that the major part of the cost must be in the maintenance and the depreciation in the aircraft that are used for training. Would that not be so?—That is so, Sir. I have got some detailed information about that, if you would care to have it just by way of illustration. There is a figure mentioned in the Report in paragraph 24 of some £700,000, as being the 1957 estimate. Of that figure approximately £200,000 represents depreciation of the aircraft, something like £70,000 computed interest thereon, and the maintenance figure for the aircraft was approximately £279,000. So that one sees those three items alone form a significant part of the total.

2558. Now, some of these aircraft, presumably, are aircraft which would normally be used by the Royal Aircraft Establishment for experiments and development purposes, and so on, outside the use to which the School might wish to put them?—It is possible, but the aircraft on the School's charge are assigned to the School for the School's purposes.

2559. Are aircraft of the same type used by the Aircraft Establishment in addition to those used by the school?—I think the answer to that is only partly so, because many of the aircraft which are being used and tested as new aircraft by the Establishments must be more up-to-date machines than these. But insofar as aircraft may be used for testing equipment, as opposed to testing the aircraft themselves, there may be some similarity between some of those aircraft on the School's charge and those that are otherwise being used by the Establishments.

2560. I was trying to get at two points: one, whether it was possible to make a more economical use of aircraft in general employment at the Royal Aircraft Establishment by sharing their use between the Establishment and the School, or alternatively, was the School being called upon to carry the entire maintenance costs and depreciation and interest costs of aircraft which are also being used by the Establishment?—I think the answer to this, Sir, is that about two years ago there was an investigation made into the operation of the School, its efficiency, its economical running and its needs. One of the reasons for that investigation was representations from the School Commandant

that he needed more up-to-date equipment than he already had. I would have thought, Sir, that there is probably not in practice a great deal in the point that the School's aircraft could be very widely used for other purposes, partly for the reason I have given you, partly also by reason of the problem of logistics of handling and operating the training in the school, and dovetailing that with the other activities of the Establishment. But I would, of course, grant this point, that it is a matter which ought to receive the attention of the working party which we are now setting up to have a fresh look at the need for the School for the future, and the suggestion which is implicit in your question is one of the things which I shall have investigated.

2561. I notice that on the course in 1957 there were 10 students from Commonwealth and Allied countries who were charged what appeared to be very nominal fees. Is there not a case for charging a more realistic figure for students, if I may use the word, or test pilots, from other countries?—This is a practice which has prevailed since the war when there was a reciprocity of training. It is a practice which conforms with that observed by the Royal Air Force itself in regard to Service officers who are on exchange from other Air Forces, and on the whole, after discussion with the Treasury, it has been regarded as a reasonably good principle to maintain, because there are swings and roundabouts in it. Partly because of these existing arrangements, partly because of the reciprocity which is involved in these arrangements, the principle of charging external pupils only by reference to the extra cost instead of the total cost has been adopted after full consideration, and after consultation and agreement with the Treasury.

2562. Do you train students from industry in addition to students from other countries?—Yes, we are prepared to do so, but very few come from industry.

2563. What do you charge them if they do come?—We would charge them at the same rate.

2564. So, although there is no reciprocal arrangement in the sense that you are not going to get anything back for that, they do not pay anything more than a country which in turn is training

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our pilots?—It is wrong to say they do not. They would not if they did come, because in the last ten years there has been only one trainee from industry in this country, so the problem has not been a very real one.

2565. Do you get many examples of students from this School going out to industry very shortly after they have completed their course?—Certainly not before they have completed their 3-year period of service with the Ministry.

2566. But immediately after that?—I would not like to say when after that. They normally go back to their Service units and serve out their time with the Air Force or the Navy in accordance with their contracts, and I believe they would not be permitted to leave before their Service periods were up save by express agreement of the authorities, the Air Council and the Board of Admiralty.

2567. If I may ask you one last question, the difference between the figure given here, the total cost for 1957, and those you gave me is £151,000. Is that £151,000 the cost of maintenance, depreciation of buildings, remuneration of staff, and so on?—That comprises those items you have mentioned, plus, of course, fuel and oil for the aircraft, which accounts for something like £76,000, and the salaries and maintenance of the training personnel, the staff in charge of training.

2568. So, excluding the fuel, something like £75,000 represents the other costs?—That is about right, Sir, yes, and it includes also all the incidentals that go to running an establishment.

2569. The incidentals seem very expensive?—I do not think so, Sir: transport, works services, gas, water, electricity, depreciation of transport, and things of that sort. At first sight they do not seem to be outrageous or out of scale.

2570. I was relating it to the number of students in the school, excluding the number of aircraft themselves?—I think it is inevitable, when you have got an establishment which is so highly capitalised as this which has to train a small selected body, that you get these costs.

Colonel Crosthwaite-Eyre.

2571. Sir Edmund, why do you say in paragraph 22 that this School is both for the Ministry of Supply experimental Establishments and for industry generally, when Mr. Strath has told us that only one pupil has come from industry generally?—(Sir Edmund Compton.) I am stating its charter as it were; that is what the school was set up to do. It was set up for the purpose of training students from those sources. Mr. Strath has pointed out that in practice students, unfortunately, have not come from industry.

2572. How long, do you think, Mr. Strath, is the tour of duty of one of those pilots when he has been trained from the point of view of physique and ability to fly these aircraft?—(Mr. Strath.) With the Ministry?

2573. No, purely on the physical side. I imagine after you are 65 you certainly could not fly one of these aircraft, but for how many years do you think after the training you give him he is able to do what you have taught him?—If he keeps his hand in, I should have thought quite a long time, but I have no particular knowledge to enable me to give you a precise answer to your question. The practice is, so far as we are concerned, to train these officers on the understanding that they will remain as test pilots with the Ministry for the period of three years subsequent to the end of their training.

2574. What you are saying, in fact, is that to get three years' work out of these people is worth £10,000 a year on capital development?—I think there is something more in it than that. The value of the training does not lie solely in the return that we as a Ministry get from that training. The Royal Air Force, for example, if they come from the Royal Air Force, get the advantage of very early user experience through these pilots of handling the latest aircraft that are coming off, and when they go back, of course, they are much more valuable pilots to the Royal Air Force than they were when they came, certainly much more skilful.

2575. I thought you said to one hon. Member that after three years you really have no knowledge of what these pilots did?—I have no particular knowledge. I do know that they do go back.

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[Continued.]

2576. When I said "you" I meant, of course, your Ministry. How can you say they are more useful to the Royal Air Force or the Royal Navy when they return?—I should have thought that is a reasonable deduction from the extensive training they have had.

2577. Do they get accelerated promotion, or anything of that nature?—They may, but they still fly aircraft.

2578. Surely it is a most dangerous thing to say that they are more useful unless you actually keep track of their records, is it not?—No, I should have thought, Sir, that a highly skilled pilot and one very knowledgeable of the latest aircraft is bound to be a very useful asset to an air force.

2579. How do you account for the fact that despite your charter, nobody has come from civilian aircraft firms to take advantage of your facilities?—The only reason I can offer you, Sir, is the one which I have already mentioned, that the contractors are able to find recruits and to meet their needs in other ways which they feel are less expensive; in other words, by recruiting officers after they have left the Services.

2580. Yes, but if I am correct, you say: "You have got to do, if you pass your course, three years with the Ministry of Supply, you then have to complete your term of engagement either with the Royal Air Force or the Royal Navy", and by that time he would certainly be getting on in years from the point of view of a test pilot. Are you suggesting that it is only those people who go in for civilian aircraft testing?—I have never suggested only those, Sir. I think I did mention in reply to a previous question that I could not guarantee that this was the sole source of recruits for the civilian industry.

2581. I notice also that the Comptroller and Auditor General in paragraph 24 says that the accounts which the Ministry are required to maintain are not such as to exhibit the full cost of running the school. What are the additional costs that are not mentioned?—This is a reference to the fact, Sir, that the establishment, which is part of the larger establishment at Farnborough, maintains its accounts in accordance with the normal Government accounting conventions, that is, a simple cash account; and in order to get a full commercial account, so to speak, of this

School it is necessary to instal some cost accounting techniques into the Royal Aircraft Establishment. Cost accounting techniques have recently been introduced, and it is hoped that very soon it will be possible to prepare more exact accounts for the School, as one would, for example, in a commercial establishment.

2582. Do you think you will be able to do it this year?—I believe that it will be possible to do it fairly soon, perhaps not with complete perfection, but substantially so. (Sir Edmund Compton.) I should, perhaps, add to that that the figure of £700,000 quoted later in this paragraph is the full cost, that is, it includes such elements as interest and depreciation on buildings and aircraft which would not appear in the cash Appropriation Account.

2583. Thank you. Do you think there are any economies, as indicated in the last sentence of paragraph 25 which will be of some use in reducing the charge to the country?—(Mr. Strath.) I think that remains to be seen when the investigation is completed. I should doubt, if the school is to continue as an entity, whether one can achieve major economies, given the nature of the expenditure which I have detailed. You have got this hard core of very expensive equipment to handle, and that is not easy to reduce except by reducing the number of aircraft available for use by the pupils.

2584. Excuse my ignorance, but what are the instrument rating tests?—These are tests which pilots have to undergo to prove that they are capable of flying and landing aircraft with complete reliance on instruments, and instruments alone.

2585. Does the £6,000 represent fees that the pilots themselves pay, or that the Services pay, for you telling the pilots that they can have the piece of paper showing they have done that?—These are payments made by the firms whose people come for instrument rating tests. The Services normally, apart from jet aircraft, do their own instrument rating tests on stations.

2586. You mean that these fee-paying pupils are nothing to do with your annual course at all, they are something quite different?—Yes.

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2587. They merely come in for a weekend or a month, or whatever it is? They are sort of day boys?—That is right. It is a very short test which is carried out here because we have facilities for this purpose. In fact, that is an example of the use that is being made of the School to share the capital equipment that is available.

2588. Are these charges you raise against them adequate, in your view?—They are. They are geared to the cost of the flying time.

2589. The £700,000 is quoted by the Comptroller and Auditor General as being your overall charge. This £6,000 represents a proper proportion of that, does it?—That represents the extra cost of flying these aircraft for these purposes. The charges are, in fact, on the extra-cost basis.

2590. That is all? They do not pay anything towards the overheads of the Establishment?—No.

Mr. Arbuthnot.

2591. Mr. Strath, you told us that the firms were able to recruit some of their people from other sources. Have you looked round other potential sources yourselves so that you might, at less cost, be able to follow the example of firms?—If there were other sources which were in fact producing a supply of trained people as we are, we might do so, but we are in the disadvantageous position of being ourselves the producer of this fund of talent.

2592. In fact, the other sources do not exist?—The other sources do not exist.

2593. So the firms cannot be going to other sources?—They either rely on this source, or to the extent that they do not, they take in people and make arrangements for training them themselves. What the cost of training them themselves is, I am afraid I do not know.

2594. Is not the testing under Ministry of Supply development contracts carried out by the contractors' own test pilots?—Only in part.

2595. You do not rely on the work of the contractors' test pilots, then?—We have got responsibilities towards the Services for satisfying them that the aircraft are properly developed for the purpose for which they are supplied, and therefore we do have to conduct tests of our own apart from those carried out

by the contractors if we are to discharge our obligations properly.

2596. You have told the Committee that the training cost is about £30,000 per non-paying student and that you charge Commonwealth and Allied countries, and anybody else who comes in, £10,000 as the extra cost. What exactly do you mean by that term "extra cost"?—In concrete terms, Sir, it would represent the extra cost incurred by having additional training staff there beyond the numbers that would be necessary if the School were confined only to our own requirements, plus the extra costs of flying, for example, the additional fuel and oil, and maintenance charges in operating the aircraft.

2597. So that the Commonwealth and Allied countries are not asked, in effect, to bear anything of the overheads?—They are not asked to bear anything of the standing overheads which would go on irrespective of the presence or absence of this quota of people from overseas.

2598. Is the Treasury satisfied about that?—(Mr. Macpherson.) Yes, Sir. The arrangements were, as Mr. Strath says, reviewed by the Treasury in 1958, and the Treasury agreed with this basis of charge.

2599. Mr. Strath, do you know how the Air Ministry calculates the rates per flying hour that you use?—(Mr. Strath.) These rates per flying hour calculated by the Air Ministry are based on their own experience of the costs of flying particular types of aircraft, the operating and maintenance costs and fuel and oil costs per flying hour, and include elements for depreciation of the aircraft, and items of that sort.

2600. Have you worked out any rates per flying hour yourselves?—We have made a check of the extra costs incurred at the School by, for example, taking the cost of the additional staff plus the total cost of maintaining aircraft and keeping them in the air, and the fuel and oil, dividing them up by the number of flying hours flown by the school, and so getting a figure of the extra costs which are incurred in training these outside people. The figure of, I think, £97,000 or thereabouts, which represents the income from these external sources, tallies pretty closely with calculations of that

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sort that we have made, and that is the reason why we feel reasonably satisfied that this represents a fair charge; given, of course, the assumption that we are trying to charge only the extra costs and not the total costs of the School.

2601. Have you taken out any comparative costs with those of the Air Ministry as a check that the rates per flying hour that they calculate are in fact the rates, in practice, of the school?—It is difficult, I think, to make a complete comparison, Sir, because quite obviously fixed charges included in flying hour time will vary according to the utilisation of the aircraft. It is like every asset: if you can spread its cost over a large number of hours' usage you get a very much smaller overhead charge per unit. Here, the number of flying hours is necessarily much more limited.

Sir Colin Thornton-Kemsley.

2602. Mr. Strath, you told the Committee that industry gets its test flying personnel very largely from Royal Air Force and Royal Naval officers who have recently retired from the Services?—That I understand to be so, Sir.

2603. Why cannot your Ministry obtain prospective test pilots from the same source?—We do, but we then proceed to train them—not from people who have retired, but we take people in at a very much earlier stage and undertake the training ourselves.

2604. Yes, but they are then on the books of the Service that they are attached to, are they not, and presumably are drawing Service rates of pay, but industry, of course, would get them when they retire, and would be able to afford a higher salary, presumably?—Whether it would be possible for us to help out with our recruitment if we were in a position to pay these people the rates of remuneration that they can command outside in the airline corporations, or with the contractors, I do not know. It has been the practice to regard this responsibility of acting as a test pilot as something which is done by an officer during the course of his career, and not as a post-career occupation, for which we recruit a separate establishment.

2605. No, I was really going to ask that question because it seemed to me that it might conceivably be cheaper for you to attract recently retired officers of the flying Services by offering rates

of salaries which would approximate to those offered by private industry and thus reduce some of this enormous cost of training?—Insofar, of course, as we should not satisfy all our requirements from that source, the unit cost of training those we had to train would be even higher.

2606. Is there any reason to suppose that it would be more difficult for you to secure trainees if you were to insist upon an undertaking that they should stay with you for longer periods than three years after they had been trained?—I am not familiar with the factors that have settled the three years, but I would imagine that regard had to be had to the officer's normal career in the Service.

2607. But if you were able to recruit officers who had left the Services, then you might be able to secure an undertaking from them that they would stay with you longer than three years after they had had this very expensive training?—That, clearly, might be possible if the other circumstances made this a practicable and worthwhile thing to do, but it is only, of course, one factor.

2608. Have you made any attempt to ascertain the costs of the training of test pilots by industry?—I have no specific information, Sir, of what it costs industry to do that. Of course, each firm has only a very small number of people and will train these recruits, so to speak, on the job. It is very difficult, I imagine, for them to segregate precisely what the cost would be. It must be spread quite widely throughout their accounts, and I do not know that they would have anything in the way of an organised training establishment for this purpose which we could compare.

2609. So, the short answer is that you have not made any attempt to secure that information?—I have no information of that kind, Sir, available for this Committee.

2610. Paragraph 23 of the Comptroller and Auditor General's Report says that civilian pilots employed in the aircraft industry may also be accepted on the same terms. Does that mean on the extra-cost basis, as for Commonwealth students?—Yes, the extra-cost basis.

2611. On what ground is that done?—Broadly, on the ground that the School has to exist to maintain a flow

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of pilots to meet our own needs and that the cost of making the facilities available to others could be represented reasonably by the extra cost of taking them in. There is also, of course, the other factor that in the long run these costs do come back to us by way of overheads of the firm to the extent that the firm is engaged on work for the Government, and a very large part of the activities of many of these firms consists of work for the Services.

2612. Yet, in fact, these firms are not using the facilities which you offer them. Do you think it is because they consider that £10,000 is too high a charge?—I can only offer the explanation that they think they can get their needs met more cheaply in the way they meet them now than by sending young officers for special training and paying what is the full charge, or even the extra cost charge that we would make.

2613. If you are only proposing to charge £10,000 for an outside student, on what grounds do you think it is worth £30,000 to train one of your own students?—Insofar, Sir, as it is necessary for us to have this class of highly trained officer, and I would remind the Committee that we rely on these officers for proving aircraft which represent an enormous investment in capital, insofar as we have to have them and we cannot get them in any other way I am afraid I see no alternative to paying the cost of producing them. I am not aware at the moment of any alternative way of meeting the supply in the quantity that is required. It might be possible to get marginal supplies, but this has been thought to be the only way to get in this quantity a regular supply of young officers of the high degree of skill and adaptability that is required. It will, of course, be under review. The Committee which we have set up to look at this again will, among other things, look not only at the economical working of the School but also at whether there is any alternative to it.

Mr. John Hall.

2614. What is the length of the course?—One year, Sir.

Colonel Crosthwaite-Eyre.

2615. You have 81 pilots in the Ministry of Supply at the moment. Would it be possible to say how many of those, and in what period, in the words of paragraph 22, have been

“capable of undertaking the highest range of experimental and research flying”?—62.

2616. And for how many hours, roughly?—On our staff?

2617. Yes?—I have not got the figure available of the number of hours flying they have done as trained staff, but I could get it if you wish.

2618. Not if it is any trouble. 62 out of 81, at any rate?—62, yes.

Chairman.

2619. Paragraphs 27-31, Development of the Orion Engine. Did this estimate of the cost of development of the Orion of £6½ million originate with the Ministry or from the contractor? Was that estimate made by the Ministry or by the contractor?—Originally it was an approximate estimate made by the Ministry and subsequently confirmed by the contractor.

2620. On what evidence?—Broadly, only on the limited experience that was available at the time of this class of engine and the cost of developing an engine of this general character.

2621. When you said it was also your estimate, did that mean that your accountants and your technical costs officers arrived at this?—This was not a detailed estimate in the sense that it was worked out by technical costs methods on the basis of detailed designs and drawings. At that stage it was much more conceptual in character and the estimate was an estimate not of technical costs people but of the engineers and scientists who were responsible for this class of work.

2622. When you say “conceptual in character” do you mean guess-work?—Not so, Sir.

2623. How did you come to overlook the need for the additional six engines?—The additional six engines were required to carry out a programme of testing this engine in flight on an aircraft that was completely fitted with the four engines. The original estimate was related to development of an engine *per se* rather than as an integral part of a project to develop a particular aircraft with this particular engine. Obviously, when the time came to think of it in terms of a particular application it became necessary to test its performance

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in that particular type of aircraft. When that need emerged the need for the additional engines also emerged.

2624. When you are going to order a new type of engine for testing, how many engines do you normally order?—A substantial number of engines, Sir, depending on the stage of development to which the engine has to be taken and the time that is available for the purpose. I believe that it is quite possible, to carry out a complete programme of engine testing and flight testing, to have anything up to thirty engines, but I would like to verify that.

2625. How many engines did you order originally?—In this case nine engines, Sir.

2626. That is a pretty big error? An addition of six on thirty might have been reasonable but an addition of six on nine surely is a pretty large error in estimating?—There was an extension of the project to test the performance of the engines in a particular application which was not, in fact, within the ambit of the original scheme.

2627. Mr. Macpherson, when the Ministry came to you for permission to spend £6½ million did you assume that this was a firm figure or merely a tentative figure?—(Mr. Macpherson.) The actual words used, Sir, in the letter which came to us in August, 1953, were: "The cost of development over the next six years to type test we think will be about £6.5 million".

2628. And you took that as a fairly close estimate?—When we knew that the estimate had gone up to £13 million we had a pretty extensive post-mortem as to why that had happened.

2629. Who was the corpse?—The Ministry of Supply were on the dissecting table.

Sir Colin Thornton-Kemsley.

2630. Mr. Strath, what contribution was the contractor required to make towards the cost of developing the Orion?
— * * *

2631. How was this figure arrived at?—(Mr. Strath.) At that time it had been the practice to carry the entire cost of development of this sort on public funds, and I believe that this was the first occasion on which the new policy

was introduced of attempting to secure a contribution from the developer. In this particular case it was the result of negotiation and the maximum contribution which the Department could get from the developing contractor.

2632. Could you not have applied an upper limit to the Ministry's contribution from the outset?—With hindsight that would have been obviously a very advantageous thing to do, but bearing in mind the way in which costs did grow, partly for reasons outside the contractor's control, partly for technical reasons which were very difficult to foresee, it might not have been an easy matter at that early stage to fix a reliable upper limit. When, however, at a later stage in the transaction a better idea of the cost was possible an upper limit of that sort was negotiated with the contractor; and out of the £12.9 million which the final estimates reached an upper limit of £— was eventually negotiated with the contractor, although, of course, it never became fully operative because the contract was closed down.

2633. Then we come to the 31st March last year, when it was estimated that the outstanding liabilities of your Ministry amounted to nearly £5 million. What do you expect your final liability to be?—About £4½ million, Sir.

2634. Does that allow for Bristol's contribution?—That is the estimate of the liability of the Department to Bristol's for our share of the cost, leaving Bristol's to carry their share.

Mr. Arbuthnot.

2635. Mr. Strath, what applications other than the Britannia was the Orion expected to have?—A number of applications, Sir: for a long-range Bristol aircraft which was to be successor to the Britannia. A joint project was considered between the Convair Company of Canada and Bristol's. The Canadianair Company had an arrangement with the Bristol Company for the development of a Britannia-type aircraft for the Royal Canadian Air Force into which this particular engine was to be put. There was the re-engining of certain overseas types of aircraft for which an engine of this sort was deemed to be suitable. At that time there were in mind quite a number of applications, both military and civil.

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2636. Were these other applications only subsidiary to the use in the Britannia?—They were supplementary.* One of the other applications became very firm indeed, the one in Canada with Canadair, and that showed prospects of expanding into a larger demand, both military and civil.

2637. Is this the one that the Canadian Company went back on?—It is the one which was frustrated by the fact that the development contract for this particular engine had to be terminated by the Ministry.

2638. What engine are the Canadian Company using instead of the Orion that they had provisionally ordered?—The Rolls Royce Tyne, I understand.

2639. What engine will be used in future in the Britannias?—The Proteus, the present one.

2640. Was the development of the Tyne also financed by the Ministry?—Only in part. It was a scheme in which a sharing arrangement was introduced between the Ministry and the Company.

2641. Would it be right, then, to say that you were financing simultaneously the development of two engines which could do the same job?—No, I do not think that these engines were comparable. The Tyne engine overlapped this particular engine only at the low end of its power range at about 4,000 horsepower. This particular engine had very much more development potential in it than that.

2642. The Tyne had?—No, this particular one, Sir, the Orion. In fact, it was possible for the Orion to develop double the horse-power of the Tyne engine.

2643. In that case, why were you financing the Tyne?—The Tyne was for a different application.

2644. In paragraph 30 the Comptroller and Auditor General refers to "the contractor's own theoretical estimate". What examination did you give to that?—That was the contractor's theoretical estimate of the performance of the aircraft when fitted with this type of engine. That was, I understand, given a thorough examination by our research and development experts who were unable at that early stage to find any fault with the deductions which the

* Note by Witness: I should make it clear that the re-engining of existing Britannias was not regarded as the major application.

Company had drawn on theoretical grounds about the performance of the aircraft. It is, I understand, a case in which it is extremely difficult to be precise until one is able to check the theoretical calculations against performance, either in a wind tunnel or, preferably, on an actual aircraft in flight.

2645. But was there no opportunity of testing this engine until nearly £5 million had been spent?—I gather, Sir, that it is possible that the testing might have been done earlier but, I understand, not significantly earlier than actually happened. The wind tunnel test and the actual flight testing were done as soon as they reasonably could be.

2646. Is it normal that you cannot test a theoretical assessment until you have spent £5 million on an engine like this?—The engine, you will recollect, Sir, was being developed as an engine and not necessarily for application to the particular mark of Britannia which produced this result.

2647. If it had been with this particular application in view could it have been tested earlier?—I would require notice of that question, but I understand from enquiries which I have made on the same point that the actual experimental tests that were made of these engines in flight were made as soon as there was a firm interest in that particular application.

Mr. *Arbuthnot*.] So that you do not really know whether the answer to your previous question was relevant or not? That is what it boils down to.

Colonel *Crosthwaite-Eyre*.

2648. In your original estimate of £6.5 million what did you allow for contingencies?—I do not know what particular provision was made for contingencies, but it is possible that in an estimate of this sort there was no specific allowance for contingencies.

2649. That is what puzzles me, because in this Report the Comptroller and Auditor General says that there was very little knowledge of this particular type of engine. Surely, in giving an estimate to the Treasury there must be some allowance for difficulties which you may encounter?—That is, in theory at least, supposed to be taken account of in the basic estimate.

2650. That is what I am asking you?—One does not make an estimate of

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[Continued.]

this sort and then add on a contingency allowance at the end of it.

2651. No, but out of the £6.5 million for which you asked the Treasury surely there must have been some sum which you allowed for unforeseen obstacles that might come in your way?—I can only explain Sir, that at this early stage in the concept the estimate that was made by the Ministry was a very round one which, it was felt at the time by those who made it, took account in its make-up of the inadequacy and imperfections of the information available at the time, but did not contain a specific figure for contingencies. One normally finds a specific figure for contingencies in an estimate which is very precise in its detail and one may have to allow then for the element of the unknown. The basic factor was that this estimate was an estimate in the unknown.

2652. This is not a trap question at all; I was merely asking whether you had allowed such an item in the sum?—I understand that no specific separable provision was made.

2653. Then, when did the need for substantial design changes come to light? This is paragraph 29?—These began to come to light towards the end of 1955.

2654. 1955?—1955-1956.

2655. Yet it was not until March, 1957, that you told the Treasury that the estimated cost of development had risen to £12.9 million?—The problems of development came to light gradually, but it was not until later, as stated in the Report, that remedies were suggested and the revised estimates became available from the firm.

2656. But is it not part of the function of your Ministry if there is a substantial design change, which as I read it, must mean an increase in cost, to notify that to the Treasury rather more quickly than a year from the time that the change has happened?—Nowadays I think there is a much quicker liaison between the Department and the Treasury on significant changes of this sort than there was at that time.

2657. Mr. Macpherson, were you aware that these changes had taken place a year before you were notified?—(Mr. Macpherson.) No, Sir, we were told in March, 1957, that this increase had taken place.

2658. But you were not aware, as Mr. Strath has just told this Committee, that the changes were known to his Ministry a year earlier?—It is not on the record. Whether it was mentioned in discussion, I do not know. (Sir Edmund Compton.) Could I intervene to mention a figure that I happen to have here that is relevant, I think? It is that the change in design, I understand, accounted for £750,000 only in the increase. The main factors, according to my information, for the increase of £6.5 million, which was the rise in cost over the year, were the inflationary factor which accounted for £2 million and the prolongation of the programme and the six additional engines which account for £3,650,000.

2659. Perhaps I could ask Mr. Strath this, then: at what intervals were the increases of cost notified to your Ministry by the contractors? That is this total increase, as I understand from the Comptroller and Auditor General, of £2 million. Were they notified at regular intervals or at one stage? If that is a difficult question perhaps I could put it the other way round: at what intervals were the Treasury notified of the increase in cost of the project, every time an increase was notified by the contractors?—(Mr. Strath.) I understand, Sir, that the big change in the cost of this project came to the notice of the Department towards the end of 1956, and it was not very long after that before the Treasury were acquainted with the change.

2660. In March, 1957?—In March, 1957. It did take some time to elucidate the reason for this and to check the solidity of the revised figures.

2661. In paragraph 28 you are reported as saying that you expected that a certain number of engines would have been sold and that you would have recovered by way of levy £9 million or, on a more optimistic basis, £17 million. How many engines were involved in those prospective sales?—At the lower end of the bracket, Sir, account was taken of a firm order at that time from the Canadair Company for 32 engines for the Royal Canadian Air Force. The upper limit took account of the possibility that that order might be very substantially increased for military purposes, perhaps even to three times that number, and that there might also be opportunities for exploiting the engine in the civil market in North America.

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[Continued.]

That accounted for something like £6 million to £12 million of the £17 million. The other side of the coin, the home side, took account of the existence of an order by British Overseas Airways Corporation at that time for 60 engines. It was hoped, of course, if the engine were successful in its applications, that there would be opportunities for further sales direct by the Bristol Company of, for example, later marks of the Britannia. At that time the Company were planning further production of later types of Britannia, and that accounts for the further range of the bracket of £2½ million to about £5½ million, giving a spread of about £9½ million to £17 million in all.

2662. I see you said you had a firm order for Canadair. Did Canadair actually pay anything when they cancelled the order?—We had not a firm order. There was an arrangement between Canadair and the Bristol Engine Company for these engines. The order had to be cancelled, of course, when the development ceased.

2663. It was the Company who cancelled the production?—The order was frustrated by the decision to terminate the development of the Orion Engine.

2664. So, "sales prospects" is really the wrong word?—That was a subsequent development.

2665. The sales prospects, whatever they were, were cancelled when the development was stopped? There was no question of the prospective purchasers cancelling the order?—That is true.

2666. It is simply a question of the manufacturer saying: "We are stopping in view of certain directions by the Secretary of State for Air"?—This was an estimate of prospects which was made at the time when the increasing costs of developing this engine became apparent and we had a measure of it. Consideration had to be given then as to whether, despite the increased costs, there was a good case for proceeding with it. Then there was a chain of circumstances later which caused the development to come to an end.

2667. Were the Ministry or the producers of the engine under any liability to pay because they had not delivered the engines?—The Ministry was not liable.

2668. If you accept a firm order for an engine and then you do not deliver

it normally you would have to pay a penalty?—

* * * * *

Mr. John Hall.

2671. Mr. Strath, I rather thought that in answer to an earlier question you said that this Orion engine was designed primarily as an engine, not with any specific aircraft in mind?—It started off as a development of an engine on its own merits.

2672. I am a little puzzled by the reference of the Comptroller and Auditor General in paragraph 27, where he says: "It was designed to be fitted into Britannia 250 and 300 aircraft without modification". True, it was expected to have other applications, but its original purpose was to replace the original Proteus engine?—It was. That was one of the possibilities that was in mind, but only one.

2673. Was that not the main purpose for which it was going to be produced?—It was one important purpose.

2674. So, it is not quite right to say that it was not designed with a particular aircraft in mind?—But designed, I think, as an engine which would be suitable for later marks, more developed marks, of the Britannia.

2675. Did the proposed additional applications as the engine was developed necessitate any changes and modifications in the nature of the engine of any substantial amount?—I think the changes that did occur in the design of the engine arose primarily from the technical difficulties inherent in the development of this novel type of engine.

2676. Of the total additional cost over and above the amount which was stated to have been due to an underestimate of the cost and overlooking the need for additional engines, I think I heard it said that some £2 million was due to rising costs, or inflation. Am I right in that?—The estimate is approximately that, Sir.

2677. Does that mean, roughly, on the original estimate something like 33 per cent. over three years?—On the original estimate but, of course, the original estimate was an under-estimate so that is not a correct reflection of the inflationary element.

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[Continued.]

2678. In paragraph 28 the Comptroller and Auditor General says that it was in March of 1957 that you discovered that the total cost was going to amount to nearly £13 million, although, of course, the actual cost has been a little under £5 million, because of the cessation of the contract; but it is only a few months later, as I see from paragraph 30, that the faults of design and the difficulty of applying this engine to its original purpose were discovered. Was there no previous inkling a few months earlier, in March, 1957, that it was likely that this engine would not be capable of the hoped-for development?—I do not think that there was any doubt at the time about the engine having the capabilities of good development as an engine. What did emerge was that, when applied to the particular aircraft, adverse aerodynamic characteristics showed themselves; in other words, they got to the point at which the drag on the aircraft increased so rapidly that the additional power or performance of this engine could not be used to advantage to drive the aircraft faster and increase its cruising speed. That was the essential thing; not a difficulty about the engine, but a difficulty about the engine improving the performance of one particular aircraft.

2679. So that what it really amounts to is that the engine as an engine was absolutely first class and perfect, but it was no good when fitted to an aircraft?—To this particular type of aircraft.

2680. Is there any reason to suppose it would be any better when fitted to other types of aircraft?—Yes, certainly, but it has not been tried out.

2681. Although it was designed without an application in mind for other aircraft?—Some of those other applications which were in mind when the project was first started did not remain and had evaporated by the time when the decision whether or not to go ahead with this particular engine was taken.

2682. Is it your view, had the Ministry decided to go on with the development of this engine, that it would have had a very useful application in some aircraft?—It is possible, yes, that it might have done.

2683. But no aircraft which has now been developed?—I think that might

well have been so if the engine had been developed to completion but events brought it to an early close.

2684. Is it not the case, as we all know it to be the case, of course, that in the aircraft industry errors in design are apt to be very expensive, so much so that if they occurred in any other industry the industry would probably be bankrupted? Is that not a fair statement?—I think it is perfectly true that in any field of technology when one is pressing up against the very frontiers of technology and science there is a very high degree of technical risk, which is bound to be expensive; but if one is going to get the ultimate out of these things, these are risks which one has to take.

2685. Would you agree that sometimes the tremendous cost of developing a new engine or aircraft has been hidden when it has been successful? In fact, one can think of engines and aircraft which have been developed where the estimate has been greatly exceeded but where final success has tended to overshadow that because it has absorbed the original development costs. Would you say that is a fact?—I think it is a feature of development of this highly technical kind that what you say is so.

2686. Do you think it is possible to evolve any method by which the tremendous cost of the development of, shall we say, a prototype engine to a point where you can really judge its true performance can be reduced, in your view?—I think there is room for a great deal of improvement in attempting to get a much more precise estimate at an early stage of what these developments are likely to cost, and to have something more of a stage by stage control over the expenditure in relation to the technical progress that is being made, so that it may be possible to sit back at definite stages and ask whether it is worth while going ahead, given the knowledge that has then accrued, and still, contractually speaking, have a negotiating position open to enable one to have that fresh look without getting into contractual difficulties and being bound to go ahead to the bitter end.

Mr. John Hall.] Do you think that the present policy, which, as I understand it, tends to throw more of the costs of development on to the industry itself, is likely to produce the same excellent results but more economically, or is

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[Continued.]

it in your view likely to slow down and inhibit design of really up-to-date aircraft?

Chairman.] I think these questions are getting a bit hypothetical.

Mr. John Hall.] I am sorry. I was really basing it on the costs which have arisen in this particular project, but I withdraw it.

Chairman.

2687. I would just like to ask one or two more questions. Did you get any practical results at all from this expenditure?—Yes, Sir. There are, first of all, naturally, the technical and scientific lessons one learns even from partial failures or partial successes which go into the whole body of knowledge in these fields. There has also been a specific application of the compressor that was developed for this engine, which I believe is now being used in the Orpheus engine. So that it is not true to say that expenditure of this type which comes to a premature end is entirely nugatory.

2688. That was not what you set out to get?—No, that is true, Sir, but I think in all research and development expenditure, although one may not attain precisely the original objective, it does not mean that one does not get some dividend.

Colonel Crosthwaite-Eyre.] You get to Birmingham by way of Beachy Head?

Chairman.

2689. Mr. Macpherson, do you not regard this expenditure, which, whatever results it secured, did not secure the result intended, as a constructive loss?—*(Mr. Macpherson.)* I say quite frankly, Sir, that this point raised by the Comptroller and Auditor General is one to which we have not hitherto paid a great deal of attention; but this reference has meant that we are going to consider with the Ministry of Supply whether, if at all, this sort of case ought to be treated as a constructive loss. There is obviously a very wide range in this type of activity

from pure research on the one hand to, on the other, development which is related to a particular project. One can see that in the first instance, research, it is very difficult to say whether the object had been achieved because the whole purpose of the research is not related to any specific project; but in the other case, development, we would like to consider with the Ministry of Supply what, if anything, can be done to determine whether there had been a constructive loss. I quite agree, Sir, on the sort of benefit that Mr. Strath has referred to. Though you may not have got the specific result there may nevertheless have been quite a substantial increase in your knowledge which may have other applications. It is not an easy field of definition, Sir.

2690. That is even more hypothetical than the question which was being put just now. Sir Edmund, have you got anything to say?—*(Sir Edmund Compton.)* Well, constructive loss is a thing in relation to which it is very hard to give a practical definition in general terms. It is difficult to do other than arrive at a decision on the facts of the particular case. My domestic definition of a constructive loss, I think, is also of general application in Departments. It is defined as "wasteful expenditure and excess cost due to change in policy, error of judgment, failure of contractors to carry out contracts, or other causes by which the Service does not have the utility intended or entails unnecessary cost to the public". Well, *prima facie* I would myself have thought that this case, judged by those standards, was a constructive loss; but I would prefer, before expressing a definite view, to wait for the results of the discussions that are to take place between the Ministry of Supply and the Treasury. *(Mr. Macpherson.)* We do not dissent from that definition. *Prima facie*, as Sir Edmund says, this case seems to fall within it. But the Ministry of Supply, in fairness, have other views on this particular type of work which they are anxious that we should consider.

TUESDAY, 28TH APRIL, 1959.

Members present:

Sir George Benson, in the Chair.

Mr. Chetwynd.
Colonel Crosthwaite-Eyre.
Mr. John Hall.
Mr. Hannan.

Mr. Hoy.
Mr. Cledwyn Hughes.
Sir Colin Thornton-Kemsley.

Sir EDMUND COMPTON, K.B.E., C.B., and Mr. J. MACPHERSON, called in and examined.

CIVIL APPROPRIATION ACCOUNTS (CLASSES VI-X) 1957-58.

CLASS VI.

VOTE 10.

MINISTRY OF SUPPLY (continued).

Mr. W. STRATH, C.B., Permanent Secretary, Ministry of Supply, called in and further examined.

Chairman.

2691. Will Members turn to the Civil Appropriation Accounts (Classes VI-X), 1957-58, to the Comptroller and Auditor General's Report, Paragraphs 32-37, Development of Comet IV Aircraft and RA29 engine? Mr. Strath, how much has the Ministry spent altogether on developing the Avon family, not the RA29 only?—(Mr. Strath.) The Avon family of engines, Sir?

2692. Yes—In the region of £—over the years.

2695. That includes the RA29?—That includes the RA29.

2694. How much of that was for civilian use?—Solely for civilian use, Sir; the RA29.

2695. Except the RA29. If you had known that the RA29 was going to cost you approximately £9 million, would you have gone on with the development?—That is a difficult question. At the time when this project was undertaken you will remember, Sir, that we were faced with the tragic situation of the collapse of the Comet, and it was felt at that time that there was a great need to restore confidence in that aircraft. There was a requirement of the British Overseas Airways Corporation to safeguard;

and the Department itself had also a large military interest in the purely military work undertaken by the De Havilland Company. It was, therefore, for all these reasons that the Department felt that it had to undertake this work. I think at that time it might also have been considered that the commercial prospects of this aircraft, it being the first purely jet passenger aircraft successfully flying, would have justified a considerable expenditure on the development to add to all these other considerations.

2696. Mr. Macpherson, supposing the Treasury had been gifted with foresight, what would their attitude have been?—(Mr. Macpherson.) As Mr. Strath says, that is very difficult, but the point was that this engine was necessary for the Comet IV to give it the performance that the B.O.A.C. required of the Comet IV. The extra 1,000 lbs. of thrust which the RA29 gave was an important factor in determining that the RA29 should be gone ahead with.

2697. So the Treasury attitude is that, irrespective of cost, you had to get an engine of a given efficiency?—I would not say we would go as far as that, Sir. That was the picture at the time, but we were dealing with a much smaller estimate of the cost of getting the engine.

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[Continued.]

Mr. John Hall.

2698. In paragraph 33 the Comptroller and Auditor General states that the Ministry would make a fixed contribution of £1·7 million to the airframe development. How much of the cost were De Havilland's themselves going to bear?—(Mr. Strath.) At that time, Sir, the De Havilland Company had put forward an estimate of development work amounting, I believe, to £—. The nature of the development work to be undertaken was discussed with the Department and reduced to £— of which £1·7 million represented at that time the share undertaken by the Department, leaving £— for the company to bear. In actual fact that figure has subsequently been very substantially exceeded.

2699. So, De Havilland have borne quite a reasonable amount of the cost of developing the aircraft?—The major share.

2700. Why would not Rolls Royce accept a similar arrangement?—At that time the Department was assisting in the development of a number of engines of Rolls Royce type. It is necessary, in my opinion, to consider the assistance for this particular engine not in isolation but against the background of the Department's relations with the company over other engines then under development. The Tyne engine, for example, was one on which the Department were negotiating a sharing arrangement. * * * Also, in the case of another engine, the Dart engine, which the Department were supporting at that time, negotiations led to our closing down our financial responsibilities in 1955 on a footing that we would thereby be contributing about — per cent. of the total, leaving the company to carry the remainder. Against this background it was then felt that in this particular case it would be reasonable for the Department to carry the cost of developing the RA29 engine.

2701. Would I be right in summing it up by saying you believed it was beyond the company's resources to undertake any part of this further development?—Against the background that I have mentioned, yes.

2702. In paragraph 34, Mr. Strath, about the fifth or sixth line down, the

Comptroller and Auditor General refers to the fact that the estimates were found to exceed the original estimate, partly because the original estimates furnished by the contractor were not exhaustive and partly because they included only two out of the four years' work. How is it that the contractors themselves did not bring it to the Ministry's attention that it included only two out of a possible four years' expenditure and, secondly, how is it that the Ministry themselves did not notice that?—This is a feature for which the company have indeed subsequently expressed their regret to the Ministry. Provision was made in the original estimate for only two years bench-testing because the company found it difficult to foresee all that might be required, but the estimate that was put forward of £2·36 million—in fact it was slightly higher than that—was put forward as an estimate of the whole cost of developing this particular engine up to a standard which would make it suitable for incorporation in the Comet IV aircraft. It is regrettable that this point was not clearly established for all parties at that time. It certainly did prove to be a false assumption on which to base this particular estimate.

2703. At the end of that same paragraph the Comptroller and Auditor General refers to the problem of a break clause in the contract. Did your contract with the Rolls Royce Company for the RA29 development include a break clause?—It certainly did, the customary break clause.

2704. What was the value of the break clause, then, if the contract for the Comet IV itself did not include a break clause?—It was always possible that the contract with De Havilland might have fallen through for reasons other than a desire on the part of the Ministry of Supply to bring it to an end. In those circumstances it would then have been open to the Ministry to invoke the break clause to terminate or curtail their liabilities to Rolls Royce.

2705. But you would have had a liability to De Havilland, presumably, because you had no break clause in the common form in the development contract as such, so there would have been a liability to somebody?—It is true that there was no break clause in our contract with De Havilland, for reasons

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[Continued.]

which I think were understandable. The Department was making a fixed contribution to the joint development of this airframe. This company started off, it is true, by making a smaller contribution to the development of the aircraft, but that was not the end of it by any means. The company had themselves to invest considerable sums of money in pre-production expenditure, in jigging and tooling and also, of course, it entered into very substantial commitments with operators for the sale of the aircraft. So, its outstanding commitments at any time were very substantially in excess of the £1.7 million that the Department contributed; and it was thought, and I think rightly so, unreasonable to expect the company in those circumstances not only to accept those risks but also to accept the added risk that the Department might invoke a break clause and bring to an end the assistance which it had offered.

2706. When you say "It was thought unreasonable", I take it you mean the Ministry thought it was unreasonable?—No, it was thought unreasonable by the company. This was a matter which the Ministry did not neglect at the time; there were discussions with the company about the possibilities of introducing a break clause into the contract, but representations of the sort that I have been describing were, in fact, made at the time by the company and accepted by the Department as reasonable.

2707. You think the company would not have accepted the contract had there been a break clause inserted in it at the insistence of the Ministry?—That is so.

2708. Undoubtedly you must have tried to find some way of getting out of the contract, because the Comptroller and Auditor General tells us here that legal advice was sought on the subject?—Legal advice was sought, when it was realised that the cost of engine development had reached the large figures it did reach, very largely as a result of discussions between the Department and the Treasury to find out what the effective liabilities of the Department at that stage were.

Mr. Chetwynd.

2709. I take it that these two things go together, the airframe and the engine, and it is no use developing one without

the other? Why is it in the case of the airframe you entered into a limited commitment and yet in the case of the engine you entered into an unlimited commitment?—The reason for that is that the Ministry of Supply was endeavouring, in a difficult situation of national importance, to give effective assistance, but to give that assistance in as economical a manner as was possible. This was the result of the joint negotiations with the airframe company and the engine company.

2710. Yes, but in actual fact you were giving a blank cheque to the engine company?—No, Sir, not quite a blank cheque. There was a limit on the extent to which this particular engine had to be developed. The Department's undertaking was to pay a fair and reasonable price for the work that was necessary. It is true that it did not prove possible, in the event, to fix in advance the exact extent of that commitment, but it was not wholly a blank cheque.

2711. Where you have a development contract for a civil airframe, would you normally undertake to supply on embodiment loan engines still to be developed?—At that time this happened to be the practice that prevailed. Engines were supplied on embodiment loan for a number of aircraft; for, I believe, the Britannia, for example, the Ambassador, and others. It is no longer the practice.

2712. Was it because that committed you to supplying the engines no matter what the cost was?—We were committed to supply on embodiment loan engines which were sufficiently good in their performance to meet the requirements of this particular aircraft.

2713. Whatever the cost?—Well, literally and contractually there was no fixed limit in the contract; I must accept that.

2714. Has that practice now been altered so that responsibility is placed on the manufacturers and you prescribe a maximum?—We endeavour to do so, yes, certainly.

2715. Mr. Macpherson, did the Treasury appreciate, when authorising these RA29 contracts, that the Ministry being bound to supply the engines, as I understand, would be committed to the

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[Continued.]

development even if the estimated costs were greatly exceeded?—(Mr. Macpherson.) No, Sir, we did not appreciate that at the time.

2716. If you had, would you have allowed them to go on with it?—It would have been a new problem and one of the considerations would have been to discover whether the engine company would have been prepared to make a greater contribution to the cost of the development instead of, as it was, Her Majesty's Government taking all the responsibility.

2717. On the point of the final supply of the finished article to B.O.A.C., is this increased cost that the Government are bearing passed on to them?—(Mr. Strath.) The increased cost of the engine?

2718. Of the development?—It is reflected in the return that we get on sales.

2719. So ultimately, when the sales take place, you will get back the extra cost which you have incurred?—That depends, obviously, on the extent of the sales. If the sales were big enough, yes. But I think I ought to say that it is unlikely in this particular case that we shall cover all the expense of the engines, but under the agreement we have reached with De Havilland's the reverse is the case with the airframe. May I just revert for a minute to the point about the unlimited expenditure on the engine? It is true that the contract itself contained no specific provision for an upper limit. This does not necessarily mean, in practice, that there can be no upper limit, because, as you will observe from the Comptroller and Auditor General's Report, an upper limit was in fact negotiated at £8·8 million, despite the fact that the contract in its form contained no provision for an upper limit to our liability.

2720. I see that the £8·8 million is the maximum and there is something about a lesser sum, if it arises. What are the prospects of that?—It was a three-way arrangement, as the Report indicates, the sum payable being determined by which of three things happened soonest. None of those has yet operated.

Mr. Hoy.

2721. Mr. Strath, I think you told us in reply to an earlier question in the

cost of the development in which De Havilland were involved what proportion of the cost was borne by De Havilland's and what by you?—Originally it was £1·7 million for us and less for De Havilland's. That was the arrangement originally. The actual costs have greatly exceeded that and the position has been reversed.

2722. But I take it that, if any of these aircraft are sold, De Havilland's will quite rightly recover part of their cost of the development in the price that the purchaser is to pay?—It is the aim of every commercial company to endeavour to recover their outlays of this sort.

2723. May I ask what agreement you have got to recover your part of the development?—We have got an agreement with De Havilland's whereby we recover on each aircraft sold £— and a percentage on spares.

2724. May I ask you how was it overlooked that two only instead of four RA29 engines could be installed in the Comet II's which were going to be used for testing?—This was a matter which came to the attention of the airframe-manufacturer and the engine-maker and ourselves only at a later date when on detailed examination it was discovered that the structure of the aircraft was insufficiently strong to carry the very big thrust strains to be put upon it by four engines of this power. That made it necessary to use only two instead of four engines in each of the aircraft used for test purposes, putting those in the outer positions and having inboard on each side Avon 117 engines of a smaller thrust.

2725. In these detailed examinations which were carried out, did you discover whose fault it was that the original development programme did not allow for these structural alterations?—The Comet III was, of course, developed and produced as an aircraft before this programme was initiated for the Comet IV.

2726. When you just said to me "on detailed investigation", I assumed you are talking about detailed investigation by your own experts. Is that right?—Detailed investigation by the people who were doing the development primarily, that is, the companies.

2727. Are you suggesting it was all given the go-ahead without a detailed

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[Continued.]

investigation being made?—No, I am not suggesting that, Sir. It was at the time felt that the Comet II presented the only opportunity to have early flight development tests of these engines as it was not possible to carry out these flight development trials in the Comet IV. One had therefore to make the best use of the material that was available in the time that was available.

2728. Rolls Royce's first estimate of the cost of the programme was examined by your Ministry's technical staff, is that correct?—That is true, Sir.

2729. Then why did they not detect that the Company had provided for only two years' testing of this?—I think that that was a weakness, Sir.

2730. You mean a weakness on your technical staff's part?—I think we relied at that time on the assurance that for this particular kind of development of what was, after all, a family of engines the company had good grounds for thinking that this period of development would be adequate. It subsequently turned out that the company had in their minds, though it was not disclosed to us at the time, that this engine might have other applications of a military kind, and that there was being developed another engine, the RA24, which was somewhat similar, and that part of the development experience could be obtained in these other applications. But at the time this was not fully appreciated by the Ministry, and one must admit, I think, that it would have been better had this been realised then. It was not.

2731. But even then, Mr. Strath, would you not have thought it would have been the duty of the company to have told you that this was only a partial estimate?—The company at the time put it forward as a complete estimate. I believe that the people in the company who put it forward did believe it was a full estimate.

2732. They believed it was a full estimate?—Afterwards it was recognised with developing experience that the estimate was inadequate.

2733. What I am a little puzzled about is this: in all these examinations by these experts could your own technical staff not have discovered all this when they examined the estimate? Would it have been apparent to them, or should it have been apparent to them?—It was not apparent to them.

39630

2734. Should it have been?—That is very difficult for me at this late stage to say, but the fact is that it did not become apparent at that time.

Sir Colin Thornton-Kemsley.

2735. Mr. Strath, was there no alternative engine to the RA29 for the Comet IV?—There was none available at that time, Sir, which would give the performance required for this larger version of the Comet airframe.

2736. We are told in paragraph 32 that there were possible military applications for the RA29. Have these materialised?—Among the applications that were then in mind were the possibilities of re-engining the Valiant and Canberra. Those applications have not materialised.

2737. Were there any other firm applications for the RA29?—No firm application, apart from the Comet itself at that time. It has since gone into the French aircraft, the Caravelle.

2738. To what extent? How many engines have been concerned?—I have not got that information available, Sir, but I could get it for you if it is of interest.

2739. Have you any idea how many are likely to be needed for that requirement?—I understand, approximately 60.

2740. About 60 for a French requirement, which is a firm requirement, as far as you know?—Yes, Sir. I am sorry, may I correct the statement I have just made? It is 60 aircraft. The aircraft is a two-engined aircraft, so that there will be 120 engines, plus the appropriate quota of spares.

2741. We heard last time that the usefulness of the Orion engine was closely tied up with the Britannia, and now we find that the RA29 is virtually limited to the Comet IV. Does this not suggest that you are financing the development of engines on too narrow a foundation?—Certainly, the limitation in the military application of manned aircraft has increased the degree of risk which must be undertaken in engine development. There was a time when, with, perhaps, a large variety of military aircraft being developed, it might have been reasonable to assume that engine development, if it went ahead, could find applications in several

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[Continued.]

different types of aircraft as the years went by. With the narrowing of military requirements I think it is inevitable that engine development tends to be associated much more closely than it did in the past with a particular application, that is to say, with particular airframes, and to that extent with the increase in size of aircraft and the smaller number of the same type of aircraft which are used by airlines, engine development becomes to that extent more speculative. I think it is just one of the facts of life.

Mr. *Cledwyn Hughes*.

2742. Mr. Strath, in speaking about the contract you used these words: "The company did not disclose at the time that the engine might have other applications, perhaps, of a military kind". What is the significance of that remark? Are you suggesting that the company deliberately withheld that information at the time?—No, I do not think so, Sir. I think it is very natural that a company which is developing a very big family of engines should consider how it can develop a particular member of that family in an economical fashion. Quite obviously, a company developing a new generation of the same species will take into account how far it can look to current production of components for items to incorporate in the new member of the family, how far it can share the costs of developing particular new features with the corresponding work which may be going on in another member of the family. At that time there was the RA24 engine which was fairly close to the RA29 in time of development. It was being developed specifically for military purposes. It was hoped at the time by the company that some assistance could be derived from that engine, as it started off somewhat earlier in its career than the RA29. One of the reasons why the cost of the RA29 shot up was that the RA24 engine was delayed for other reasons and certain development costs which would naturally have fallen on the RA24 had to be carried on the RA29, because that is where they were first incurred; I do not think one should read into this any more than that.

2743. Where your Department, and therefore the taxpayer, subsidises a private company in this way and to this extent, and when in fact you have a case like this where the ultimate liability is nearly three times the amount of the original estimate, do you have represen-

tatives from your Ministry in the company, liaison officers as it were, who are looking into these matters and ensuring that the country does not have to pay a sum so much in excess of estimates? Secondly, are you satisfied in your own mind that a similar thing cannot happen today? Are we protected now against this sort of occurrence?—The Ministry's technical officers do keep in close touch with the development work that is going on, not only on paper but also in the company's works. The Ministry's accounts officers, the technical costs officers, do investigate the costs in negotiating final prices to be paid, and it is one of their duties to see that the expenditures incurred were in fact justified and were properly and economically incurred. As to whether I can assure you that estimates will not go astray in future I am afraid, to be quite frank, I cannot, and I think it would be unreasonable for me to say that I could. We are essentially endeavouring to make progress in a very difficult field technically where it is not always practicable to forecast the difficulty of obtaining the objective. When one sets the objective very high, which has been the case in this instance, one inevitably comes up against the unforeseen over a period of time, and of course the estimates can go astray for reasons wholly outside the control both of the company and of the Department; particularly, costs and prices go up for reasons that are applicable to all costs and prices.

Mr. *Hoy*.

2744. But these are not costs and prices, Mr. Strath, nor are they wages?—I was not attributing this in whole, Sir, to that. It is one reason why estimates sometimes go astray, because we are not permitted in initial estimates to make provision for possible inflation.

Mr. *Hoy*.] That we can understand.

Mr. *Cledwyn Hughes*.

2745. On paragraph 37, can you say how many Comet IV airframes are likely to be sold?—The sales to date have been 33. I think it is possibly wiser to confine my reply to known facts. Future sales are a bit more speculative, and I would not like to guess how many more will be sold.

2746. You say you have actually sold 33?—The Company have.

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2747. The Company. Do you know whether any more are in process of being sold, or have contracts been signed for any more to be sold?—The Company are in continuous negotiations in matters of this sort, but I am not aware of any firm sales immediately in prospect.

2748. What will you as a Ministry get by way of recovery of development expenditure on the RA29?—* * *

* About — engines have been sold or committed for sale, and on that basis the returns should be in the region of £3 million on firm transactions.

Mr. Hoy.

2749. May I ask the Treasury one question? Mr. Macpherson, when you get advice from these Ministries, of course, you have no means of checking it. The Treasury has, in fact, got to accept advice from the Ministry on these technical matters?—(Mr. Macpherson.) Yes.

2750. When the Treasury comes across a case of this kind where in fact this sort of thing was not even discovered by the Ministry's experts then, obviously, the advice the Treasury got was not very sound. Is that reasonable?—Yes.

2751. What does the Treasury then do with the Department? Can we have an assurance that you take it up with the Department concerned?—This is just one of several cases we have, in fact, taken up with the Department. We were perturbed when we learned about the increase in cost of the RA29 development and did consider two main points: (a) Was there another way of engineering this particular aircraft and (b) if there was not, was there a case for cancelling the project altogether.

2752. That is not quite the question I was putting, Mr. Macpherson. I can well understand that arising. Really, this does show up a weakness in the machine?—Yes.

2753. What I am asking is, what steps does the Treasury take, along with the Ministry concerned, to strengthen the machine so that this sort of thing will not happen again?—By our going into the reasons for the increase with them the Ministry do have revealed any weaknesses within their own machine, and we hope as a result to bring about an improvement. But we are hoping all the time that we will benefit from our experience and get an improvement on

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the basis of estimation; and also, we would hope, by our paying more regard to our contractual obligations and our negotiating position that we will avoid this sort of open-ended commitment. The sort of approach that the Ministry are considering at the moment is seeking to limit Her Majesty's Government's contribution to a fixed sum, or trying to get an arrangement so that at stages in the development we can look at our position afresh without having any commitment to go beyond the stage to which we have agreed. In such ways we are seeking to get an improvement in the method of control.

Mr. John Hall.

2754. Would either you, Mr. Macpherson, or Mr. Strath like to say if the present policy of the Ministry tends to throw more and more the onus of bearing the cost of development on to the Companies?—(Mr. Strath.) That is very true Sir.

Mr. Chetwynd.

2755. How far is the Ministry in the hands of the Companies in this? How far are you led up the garden path either wilfully or accidentally?—I hope, Sir, you are not asking me to accept the imputation of that question.

2756. It is quite fantastic to me that you can have an estimate at one figure and a couple of years later it goes up to these proportions without somebody concealing something wilfully or there being gross incompetence?—No; in this particular case, as I have said already, the initial estimate was incomplete as presented by the company; and, secondly, the difficulties of carrying through the development caused the costs to increase in a way that was unforeseen; and, thirdly, of course, over a fairly lengthy period of development inflation made its contribution as well. One would hope that, by the techniques which the Treasury representative has already mentioned which are now in force in the Ministry, cases of this sort should be rarer in the future.

Chairman.

2757. Mr. Strath, in view of past paragraphs and future paragraphs it is quite clear that the cost of development is very enormous and speculative. The Treasury has provided enormous sums for this

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[Continued.]

development. Is it not probable that the sums required for future development are beyond the capacity of the private companies to find?—As the cost of individual aircraft increases it is becoming increasingly difficult, I think, for companies to bear without assistance the cost of big technological jumps as opposed to the development and improvement at a modest rate of aircraft which have become established as conventional aircraft. This is a problem which is not peculiar to the aircraft industry. One finds it in other fields where rapid technical progress is being made.

2758. Is the Department finding large sums for private firms?—For military developments it is, of course, making very substantial contributions.

2759. Yes, but this is commercial?—For civil development the policy of the Department is to lend support on a selective basis where the development represents significant technical advances which it would be difficult to have financed and developed solely as a private venture. But every effort is made to get the maximum amount of private-venture capital into schemes of this sort and, where assistance is given, the maximum contribution from the developer. This is a matter where, naturally, cases must be taken on their merits.

2760. Yes, but take the RA29, which cost the Government nearly £9 million. Presumably the RA29 was essential and if the company could not find the money there was nobody but the Government to find it, is that not the position?—That was so at the time. The operation to support the Comet IV development and the associated engine development was considered to be so important that it was the decision of the Government as a whole. It was not merely a Departmental application of a standing policy; it was a very specific decision and I

think this Committee did consider this matter some time ago.

2761. Does not what you have said apply to the Sea Vixen and also to the radar scanner?—The Sea Vixen and the radar scanner were purely military applications, Sir.

2762. But they involved research; and research, I presume, on one type of aeroplane is not wasted on another type of aeroplane?—They involved research of a very complex kind.

2763. And the same with engines?—That is true, Sir.

2764. So you are, really, in the position of the provider of last resort?—We are responsible in the case of military research and development for seeing that it gets done and, therefore, that involves paying for it; in the case of desirable civil improvements, for lending support selectively on the most economical basis that can be negotiated.

2765. What my questions are leading up to is this: is the quality of your technical staff adequate for the job of controlling this development?—I think, Sir, that is something that is improving. Some years ago when the re-armament programme was at its height—it went up at a rapid pace and down again—the strain on the technical people was very considerable. With the easing of the military programme, naturally, that strain is becoming less and it is now possible to put more scientific and technical effort into individual cases than was possible some years ago.

2766. Are you getting all the scientific staff of the quality you require?—That is a question to which one cannot give a categorical answer. We have got our reasonable complement, and I think that, on the whole, we should be able to do a satisfactory job on this with the staff we now have.

VOTE 10.

MINISTRY OF SUPPLY (continued).

VOTE 11.

MINISTRY OF SUPPLY (PURCHASING (REPAYMENT) SERVICES)

Chairman.

2767. Paragraphs 38-42, the development in connection with the Sea Vixen. This was a naval version of the D.H.110. Was the D.H.110 ever in

production?—(Mr. Strath.) No, Sir. The D.H.110 was conceived originally as a land-based night fighter aircraft, but it was never produced as such. The only application of this is in the naval version, which is the Sea Vixen.

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2768. To what extent did it have to be modified?—Oh, very considerably, Sir. To give you an example of the extent of the modification, something less than 5 per cent. of the 20,000 odd drawings that were involved in the design of this aircraft were common to the land-based D.H.110 and the navalised version.

2769. Is that why you failed to get a reasonably accurate estimate of what the modification would cost?—This particular aircraft was, in a sense, the first of its kind. It was not just an aircraft, it was an integrated weapon system carrying guided weapons, with enormous complications of linking the guided weapons with the control system of the aircraft and with the stabilisers in the aircraft; and the aircraft development had to be undertaken while the major armaments were themselves under development. The difficulties then of establishing at an early stage exactly what the technical problems were in designing this very complex system were extremely great; and I think one must confess here that when the initial estimate was made these problems were quite inadequately appreciated by the people concerned. It was only at a later date, within about a year or eighteen months, when sufficient design work had been done, that a full appreciation of these complexities was secured. It is noteworthy that, when the first major revision of the estimate was made about March of 1955, when the estimate was increased to over £3 million, that revised basic estimate remained substantially sound thereafter; and the subsequent increases, though they were substantial, can be attributed very largely to additional requirements which could not reasonably have been incorporated in the estimate, and to additional testing which was specifically not included in the original estimate.

2770. That may explain the jump above £3 million, but what was the cause of the contractor's own statement that his original estimate was ill-founded?—No more, Sir, than what I have explained, that at the time when that estimate was made the facts on which a sound estimate could have been made were not available to the contractor. I do not think there is anything sinister in that remark.

2771. Have you replied to the Comptroller and Auditor General's question

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which is set out in paragraph 42, and if so, what was your reply?—This paragraph makes enquiries about the steps taken by the Department to check the make-up and accuracy of the contractor's estimates. These estimates were based on consultations that took place at that time between the Department and the contractor. Both parties at that time had very limited experience of the problems involved in this new concept and, in the light of the knowledge that was available to them, which was derived from experience of somewhat simpler types of aircraft, the estimates were thought to be at that time as good and as sound as they could be made. It was only later on that a full appreciation was made of the true technical difficulties that were involved in the project.

2772. What effect is that going to have on your future conduct when new steps have to be taken?—I hope, Sir, that a Department can learn from its experience.

2773. Mr. Macpherson, have you anything to say about the Treasury being presented with inadequate estimates on inadequate bases?—(Mr. Macpherson.) One of the factors that emerged Sir, when we were acquainted in February, 1957, of the increase from £1.3 million in November, 1953, to £4.98 million, was that we had not, in fact, been asked for specific authority for the increases. The increases had been included in annual statements made to us by the Ministry of Supply just after Estimates time. As a result of the review of these arrangements one of the improvements that has been made is that the Ministry of Supply are now required to come to us for specific approval in these cases so that we do have the opportunity to review the project as the cost goes up beyond our authority.

Mr. Cledwyn Hughes.

2774. I would just like to follow up that last point. Mr. Strath, whilst appreciating what you have just said about the complexities of the project, and so on, generally speaking are you, as Accounting Officer for the Ministry of Supply, satisfied with the estimates submitted by this particular company? We were dealing with this company when we were dealing with the previous paragraph. Are you satisfied with their estimates in a general way or are they causing you some disquiet, and what is the opinion of your chief technical officer on

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[Continued.]

this question?—(Mr. Strath.) On this particular case?

2775. Yes, on this point?—So far as I have been able to judge in this matter, the estimate was genuinely regarded by the officers who were concerned with the project at the time as a reasonable estimate in the light of the knowledge at that time. The essential point here is that something completely novel was being undertaken, and it was being undertaken also at very high speed to meet a military requirement. Had there been time to have undertaken, for example, a limited design study over nine months or a year before the final work had proceeded, a better appreciation of the problems involved in developing and producing this aircraft would undoubtedly have been available and a better estimate would have been possible. This is an improvement which we do hope to bring about in major cases of this sort, to ensure that at the outset more time is spent on making a thorough analysis and study of the problems of development and design so that we can be sure—surer than sometimes in the past—that there is a fuller knowledge both of the character of the problems that have to be overcome and about the preferred routes for overcoming them; and on the basis of that information it should be possible, I think, to get much more reliable estimation done. But given the circumstances in which this estimate was made, the data available and the time available, this was genuinely regarded by the Department as a reasonable shot. It proved in the event in the light of later knowledge to have been not so sound.

2776. Had the figure of the ultimate liability been known to you in 1953 would that then have coloured your attitude in any way towards the project?—The only answer, I think, I can give to you on that is that during the course of the development and production of this aircraft the ultimate purchaser of the aircraft was kept fully in touch with the rising costs. There were, therefore, opportunities to consider whether the objective was worth what it looked like costing; and on all these occasions the ultimate purchaser felt that, given the attainment of the technical objectives, they were still getting value for the money that was being spent.

Sir Colin Thornton-Kemsley.

2777. Mr. Strath, how much of the development was done on the prototype machine and how much on the first production aircraft?—This was a case where only one prototype was ordered, the assumption being that part of the development work would be carried out on the early aircraft. This, in fact, proved to be so. As to the actual distribution between the two, I am afraid I cannot give you any numbers straight away; but I believe that it is true, Sir, that a very considerable proportion of the trials and the development work that emerged from those trials was done on the first three or four aircraft that were produced.

2778. So, presumably, very little was done on the prototype?—Oh, no, it was fully used, but in an effort to evaluate the aircraft, to get all the clearance trials and the flight testing done in a short time, this task had to be spread over a number of aircraft and it was in fact spread, but the original prototype certainly did its full share.

2779. What is the latest estimate of the cost of the development?—The final estimate of the cost of development is £—.

2780. How much of the development took place after 1954 when authority for the production order was given?—The major part of the development expenditure was incurred after that date. The development contract, indeed, was placed only in December, 1953, and as the Comptroller and Auditor General's report indicates there was a significant increase in the costs of the development between 1955 and 1957 due to the fact that a very large part of the work was carried out in that period.

2781. Are we quite right about our early dates? December, 1953, was the date of the order of the prototype, was it not, and then a year later, December, 1954, was the first production order?—That is true, Sir. Production orders were placed at a very short interval after the development contract in an effort to leap-frog and get the aircraft delivered in the shortest possible time to meet the Admiralty's required dates.

2782. When your Department gave the production order how many machines were ordered?—The total number of machines ordered was —, of which three

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were for development work by the Ministry of Supply and the remaining — machines for the Admiralty.

2783. At what date did the Sea Vixen attain the approved release standard? —The machine is at the present moment under its service trials. It has not yet attained its full and final clearances but it will be in operation this year with the squadrons.

Colonel *Crosthwaite-Eyre*.

2784. When you say it will be in operation, is that a pious hope or something you can say from your own knowledge? —It is an observation based on the latest appreciation of progress with the clearance trials, on observations of our technical people.

2785. You have no personal knowledge to make that statement? —Not my personal knowledge. It is the advice of our technical people who are concerned with this.

2786. I am not clear, because the Ministry of Supply do not, on the whole, do much work for the Admiralty, do they, compared with the other Services? —On the aircraft side they do the whole of the work for the Admiralty in the same way as they exercise responsibilities in the aircraft field for the Air Ministry.

2787. And yet it would appear from these paragraphs that the time between the point at which you obtained Treasury consent and the Admiralty actually placed an order was over a year? —That was a delay for which the Ministry of Supply was not responsible. That was connected with reviews being conducted by the Government of the Defence Programme as a whole.

2788. In 1953, then, the Admiralty had already told you this was a development they wanted? —That is so, Sir.

2789. You are quite certain? —Yes.

2790. All this work was, in fact, done at the Admiralty's request? —Yes.

Mr. *Hannan*.

2791. Mr. Strath, let me return to paragraph 41 again. In reply to the Comptroller and Auditor General you gave us some of the reasons for the production costs being nearly doubled at that time. More accurate estimating was necessary. Why was your knowledge so defective at that time? Had the Department itself not been accurately informed by the Admiralty as to its requirements or were

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there changes or indecision that handicapped you in making your requirements known? —I do not think, Sir, that I can add very much to the explanation that I have already given, that we were concerned here not only with the development of an aircraft but the development of an aircraft that was closely integrated with a completely new guided weapon system which involved very complex problems of control between the aircraft and the firing mechanism of the weapons and the guidance of them, the stability of the aircraft, and so on. These were problems of a novel kind for which it was not possible at that time—it did not prove possible at that time, anyhow—for either the manufacturer or the Department to make estimates of the difficulty of finding solutions, or estimates of the cost of doing so, as accurately as we would naturally like.

2792. Then, if I may refer again to that same paragraph 41, line 5, the Comptroller and Auditor General speaks of "new manufacturing techniques to cope with weight restrictions". How did this question of weight restrictions arise? —This aircraft was, you will recollect, a naval aircraft designed for take off and landing on aircraft carriers. I understand that that imposes certain limitations on the weight of the aircraft and its structure for safety reasons, efficiency reasons, and so on, but I am unable to give you from my personal knowledge a detailed analysis of those technical reasons.

2793. But surely that very knowledge would be known from the first? Surely the Department knew from the beginning that the Sea Vixen was in fact to operate from carriers in making the estimate? —That is known, Sir, but one of the great difficulties in this field is that there is a constant effort being made to push performance to the limits on these matters, and if one could set the technical objectives in a conservative way it would be very much easier to meet them and the cost of meeting them would be less, but when so much depends on pushing these developments to their ultimate one does run into these practical difficulties.

Mr. *Hoy*.

2794. I was interested to hear you say that these estimates were based on consultations. What was so novel about this that people appeared to know so

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[Continued.]

little about it? You said this was a very novel type of plane and very little was known about it. What made it so novel that people knew so little about it?—The attempt to make a high performance aircraft which represented big advances in, for example, its operational speeds, its rate of climb, its performance at height and the fact that it was armed with a completely novel type of weapon which involved problems of control that were completely new and of which no experience had been got from previous types of weapons. * * * There were substantial increases in the operational speed, very substantial increases in the rate of climb, improvements in the ceiling which it could attain in a given time, its combat radius was enlarged, and so on. The attempt to meet all these very exacting requirements in a short space of time did, I submit, give rise to very great technical problems.

2795. In view of all the reasons you have just given us would you not have thought it would have been only right that you should have asked the specific approval of the Treasury to go on with this project?—Approval was obtained.

2796. May I put my question again: specific approval?—Specific approval, Sir, was obtained to initiate this contract and the development work.

2797. Mr. Macpherson, I understood you to say that you were not asked for specific approval?—(Mr. Macpherson.) Yes, Sir. Why I said that was that in November, 1953, we were asked for specific approval at a figure of £1.3 million. We were not asked again for specific approval until February, 1957, until the cost had gone up to almost £5 million pounds; but in the intervening period by a process of annual reports the Ministry of Supply had given the Treasury figures of the increased cost; and I said that one of the improvements that had come out of looking at this and similar cases was that the Ministry of Supply were now required to come to the Treasury when there were increases in cost beyond the Treasury's authorised figure, except when the increase was within the sort of margin which we would give in the normal way.

2798. So it would be right for us to assume that the Ministry of Supply asked for approval of this thing at a cost of £1.3 million, which you approved?—That is so.

2799. But it then went up to something over £5 million without your specific approval, but it would be included in the Ministry of Supply ordinary Estimates, is that right?—That is correct. (Mr. Strath.) I think there is a slight correction for the record which I would like to make in connection with that. The approval of £1.3 million was for the development of the aircraft. We did get specific authority from the Treasury for that in November, 1953. During the following year there was evidence that the cost was likely to rise from the contact that the Department was maintaining with the firm throughout that year. The Department realised that there was a need for a completely fresh look at the estimates and did press the contractors to do so. These revised estimates were available for the first time in March, 1955, and at that time, in April, the Treasury were informed that the estimate of £1.3 million had gone up to something over £3 million; and the Treasury was subsequently kept informed of the later developments in the cost. That is the picture on the development contract. On the production contract, which was a separate arrangement, Treasury approval was obtained in April, 1954, and as has been indicated in my reply to a previous question, the order was not placed until February, 1955, for reasons that have nothing to do with the Ministry of Supply, because of Defence reviews that were taking place. The major revision in the estimate to June, 1957, was not made available specifically to the Treasury until that date, although the progress of the expenditure on the aircraft was something that was incorporated each year in the detailed Estimates submitted to the Treasury by the Department for Estimates scrutiny.

Chairman.

2800. Mr. Macpherson, was the new figure submitted to the Treasury for their approval?—(Mr. Macpherson.) The latest figure approved by the Treasury, Sir, I understand, is £— in November, 1958, but presumably the Ministry of Supply will be coming back. Formally, our approval related to the figure in November last year, but we know of the increase.

2801. So that the statement in paragraph 39: "After discussion the Treasury authorised expenditure within a

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limit of £4·2 million" means little or nothing?—I think you have got to distinguish here, Sir, the £4·2 million for the main prototype contract. The £4·2 million was related to the main prototype contract, but the Treasury had approved subsequently other work on the development; and our latest approval is limited, as I said, to £—.

Mr. Hoy.

2802. Let us relate this to single aircraft. What was the original estimated production cost per aircraft?—(Mr. Strath.) We are talking here about the production aircraft?

2803. Yes, that is right?—The average estimated cost for the aircraft for the Admiralty was £—. For the three aircraft for the Ministry of Supply which we estimated somewhat earlier, it was £—.

2804. Have I got it correctly that this has increased by what, some 85 per cent.?—By June, 1957, it had gone up by 85 per cent.

2805. I believe that there is still a further addition to be made to that, is that right?—That is correct.

2806. What is the latest estimate?—At March, 1959, the latest estimate is £—.

Colonel Crosthwaite-Eyre.

2807. And not one of these has flown yet?—They have flown, yes.

Colonel Crosthwaite-Eyre.] They have not been accepted, have they?

Mr. Chetwynd.

2808. It is not in service?—No.

Mr. Hoy.

2809. How many have been produced so far?—I am sorry for the delay in getting this information* for you. In the few weeks I have been at the Ministry I have not in mind all the details.

Chairman.] We realise that.

Mr. Hoy.

2810. I quite realise, if I may say so, that you have taken over the Department and you are answering for a great deal which was done before your arrival. That is how it is, but you are the witness for the Ministry of Supply?—Yes.

* See Q. 2815.

2811. Now, when your Department comes here and tells us that estimates were made in consultation which were going to mean the cost of an aeroplane being £— and then you have got to come and tell us that instead of £— it is going to be £—, do you not even yourself come to the conclusion that there were no estimates made at all?—No, I think that one has to assume here that the estimates at the beginning were certainly inadequate estimates; but I think one also has to bear in mind that, if I may say so, this production contract was placed very, very early in the period of development. Had it been possible to delay the placing of this production order until the development work had been much more firm then, quite obviously, the basic estimate for the production aircraft should have been better and quite possibly would have been better. At this stage there was a certain amount of groping in the dark because the full technical complexities of the aircraft were not known to the people who made the estimates. There was also, of course, the fact that during the course of production very considerable numbers of modifications were introduced into these aircraft. I believe that over the period of the order, arising out of the very fast development work that was taking place, several hundreds of modifications had to be incorporated.

Colonel Crosthwaite-Eyre.

2812. At whose request were these modifications made, the Admiralty's or the Ministry of Supply's?—These are to meet Admiralty requirements.

2813. All Admiralty requirements?—These matters are discussed between the Ministry of Supply and the Service Department and agreed by the Admiralty before they are introduced.

2814. I am sorry; my question was, at whose request, not who agreed them. At whose request were these modifications made?—The answer is two-fold, Sir: in part to meet the specific requirements of the Admiralty, in part to meet suggestions made to the Admiralty by our own technical development people who were able to bring to the notice of the Admiralty improvements which became possible as a result of the development work undertaken by the Ministry.

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Mr. Hoy.

2815. I am just a little surprised. I think Mr. Strath said he could not give me the number of aeroplanes that have been produced so far?— — have been produced so far, although they have not yet been released to service pending final clearance trials.

Mr. Chetwynd.

2816. In paragraph 40 the Comptroller and Auditor General says: "The first four aircraft . . . were to be manufactured by special pre-production methods." What exactly are those special pre-production methods?—The components of this aircraft had to be manufactured very largely by hand techniques rather than by full production-line processes.

2817. It still does not mean anything to me?—It means that they have got to be made in development shops rather than on the production line.

2818. The first four only?—The first four, yes.

2819. Did that affect the cost of these four aircraft appreciably?—Yes, this made them very expensive.

2820. Is it not the normal procedure with a thing like this, that they have to be done in that way?—It was not the original intention to make them this way. It was the intention to add these aircraft to the production order and take them off the line, but because of delays in setting up the production line and getting the production order going, special steps had to be taken to produce these by these hand-made methods.

2821. I am trying to understand how the Ministry of Supply works in all this, and I find it very confusing. Do you think you could give us a brief picture from the time of the Admiralty requirement, how it goes through its stages until you finally get the finished product, because in this you seem to be confusing development and production in the one operation. Is that a normal procedure?—Research and development work is something which the Department does undertake directly on its Vote. What is developed is determined in consultation with the Service Departments, although quite obviously the Ministry of Supply, being very closely concerned with the scientific and technical possibilities, has got a responsibility for bringing to the notice of the Service Departments new ideas and new possibilities. These are

agreed with the Service Departments, and after approval by the Treasury the work is then put in hand by the Ministry of Supply; it is supervised by them, keeping the Service Department in touch with the course of development. If the development shows signs of being effective in meeting the Service requirement, the Service Department will at an appropriate stage place with the Ministry a requirement for production models.

2822. You do not have to complete the development?—It is not necessary to do so, and the time factor being as short as it is in military matters, it is, I believe, quite normal to have an overlap between the two processes. The Service Department is then responsible for saying to us how many aircraft it wants, agreeing the specification of its operational requirement in some detail, and itself obtaining authority from the Treasury for the order which will eventually fetch up on the Service Department's own Vote although in the first instance it will be charged to the Ministry of Supply (Purchasing (Repayment) Services) Vote.

2823. The point I am trying to get at is this: a lot of the additional cost in this case seems to have been incurred because the development and production went on simultaneously, and you are actually doing your development on your production models. Now, why do you have to have all these modifications? How many did you mention, one hundred, or something?—In the current aircraft deliveries some 250 of these modifications are being incorporated. I think this is due to the rate at which development of this system has been taking place and it is the desire on everybody's part to produce the most efficient weapon system for naval needs.

2824. Does that mean, though, that in this case the best is the enemy of the good, as it were?—I think one has always got to strike a balance between the rate at which modifications are introduced and the interests of production and also, of course, the interests of cost. It is a question of where one strikes the balance.

2825. Of course, this finished thing will bear no relation whatsoever, I take it, to the one with which you originally started in November 1953 and to talk of it as a naval version of the D.H.110 is quite nonsense?—It has been transmuted into something quite different.

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[Continued.]

2826. Mr. Macpherson, at what time do you get a definite contract tying down the producer to produce the goods at a certain time?—(Mr. Macpherson.) We were given a figure in December, 1954, when the order for — aircraft was authorised, as Mr. Strath says, of £—. We have been very perturbed at the rate of increase on this particular aircraft and the lesson that seems to us to be learned from this is that we must have a tightening up of the control procedures. One of the techniques that has been developed in the Ministry is that there is an arrangement whereby the modifications are looked at by representatives of both the ordering Department and the Ministry of Supply with finance representatives from each, to try and strike a balance, as Mr. Strath indicated, between what is essential and what really is desirable but not justified by cost.

2827. But on the actual contract, at any given stage do you give a final figure to the manufacturer and say: "This is what you will produce it at"; or do you agree to pay him what his costs are?—(Mr. Strath.) No, Sir. Efforts are now being made in this particular case to establish a firm price for the follow-on orders. We have not got this settled as yet. It is still under negotiation, but a strenuous effort is being made to establish this point now, on the assumption that we have now got to a stage at which it is reasonable to expect the contractor to firm up the cost of production.

2828. But for the first few years in all these things is it always a matter of speculation as to what the outcome is going to be?—It is a matter of uncertainty.

2829. And you cannot get any nearer to it than at this stage in production fixing a firm price?—I think the best one can do is to keep a very close watch, and this watch, I think, has got to be not merely financial but technical, on the progress of the work to see that reasonable compromises are made between what is technically possible, what is operationally necessary and what is financially justifiable.

2830. Mr. Macpherson, I think you have partially answered this: I was going to ask you, how tight is Treasury control over this, because it seems that here again a bill is presented to you after the event and you have got no other recourse but to meet it?—(Mr. Macpherson.) As I said earlier, one of the means by

which we are seeking to improve our control is having to give specific authority for these increases in cost so that we can, before we approve them, decide whether the order is worthwhile at the higher price.

2831. Yes, but in this case the expenditure has been incurred. Now, what would happen, assuming you said you did not approve?—That would be a question then to be decided, if necessary, by Ministers, if the Treasury in fact were holding out against a military requirement on financial grounds.

2832. What does that mean, then?—I do not think the expenditure we are dealing with here had necessarily been incurred at the time we approved the expenditure. We have not, as a matter of fact, authorised the follow-on order for this aircraft pending an investigation by the Ministry of Supply and the firm into the reasons for the increased cost of the original order. There is a financial ceiling on the amount that may be spent on the follow-on order.

2833. In reply to a previous question a figure of £— was given as against £—. I assume that that work has actually been done to bring the cost of the aeroplane up to that figure, but you at no stage have agreed that that is the figure?—We have not agreed so far that that is the figure.

2834. Could you say: "No, we will not pay it"?—I think there is, in fact, one case where we did say in respect of an aircraft that we were not prepared to see the project go ahead, and the aircraft was, in fact, taken out of the programme.

Mr. Hoy.

2835. Mr. Macpherson, as the result of all this it would now appear that the Treasury will have to pay £— compared with an original estimate of £— for these aircraft?—Well, the Treasury will not have to pay it, the Admiralty will.

2836. Well, where does the Admiralty get its money from? Has it got a private locker?—It is voted by Parliament.

2837. At any rate, you are the Department which controls this. What you are going to be faced with is this claim. I want to know where this Treasury control is fixed, because I remember we had a road in Scotland where we built the north part and the south part but just

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[Continued.]

had the middle of the road to complete—we sometimes do these things that way in Scotland—and we could not get a Treasury grant for it because the Treasury control was so tight. What I want to know is, where was the Treasury control which allows this estimate to be exceeded by £—?—This must be a case where the military need for the aircraft has been accepted by the Treasury but if that military need is now going to be satisfied at that cost, it means that it is being satisfied by the Department at the expense of some other expenditure on the Admiralty's part or the Services as a whole.

Mr. Hoy.] Or, it may be, of a poor road in Scotland.

Chairman.

2838. I would just like to clear up one point, Mr. Strath. Is that cost per aeroplane the cost of the aeroplanes coming off the production line in the future or for those you have got?—(Mr. Strath.) That is the estimated cost as at March, 1959, of the aeroplanes coming off the production line fully equipped.

2839. Now, paragraphs 43-47, Development of a Radar Scanner. Here again, Mr. Strath, we have the same tale: the development contract was for £60,000 and it has now risen to £1,900,000; in other words, it has multiplied itself by thirty. Have you any remedy against contractors who produce these wild inaccuracies?—I do not know of any, Sir, except to be selective in the way one places the work.

2840. Who was the contractor in this case?—A Company known as De Havilland Propellers Ltd.

2841. Part of the De Havilland Company?—It is De Havilland Propellers Ltd.; not the main De Havilland Company, but it is an associated company.

2842. To what extent is it in the interests of a contractor to make a rather ridiculously low estimate to get the job, so to speak, and then raise his price as he goes along?—This is something, of course, which we would have to try to avoid.

2843. Do you ever avoid it?—I think the answer to that must most certainly be Yes. It would be quite wrong, I think, to attempt to generalise on particular cases.

2844. Let us take a specific case. Have you ever had an original estimate that was too high?—It is unusual, I should imagine, Sir.

2845. From paragraph 44 it appears that the Ministry had an imperfect appreciation of the difficulties of an acceptable design. Have you any comment to make on that?—This is, I am afraid, true. Here again we are faced with a completely new type of apparatus involving processes which had not been applied before in this type of equipment and the difficulties of doing so were certainly not realised either by the firm or by the Department's Research Establishment experienced in radar matters. That must be accepted, I think, as a fact.

2846. But here, apparently, according to paragraph 45, some of the blame must rest on you for the exacting nature of the additional requirements?—I am not quite sure, Sir, that one can put it quite like that.

2847. Shall we say, responsibility rather than blame?—There was here an exacting Service requirement which emerged about 1953 which the Ministry had to do its best to meet. May I explain?

2848. Please do?—* * * The work has been successfully carried to a conclusion, admittedly at a cost which, when it started, was very far from being realised. As time went on and the cost mounted the application of this particular apparatus became more limited and consideration had to be given to whether it was possible to substitute this particular development by some other means. Consideration was given to alternatives. * * * It was with some reluctance, therefore, that it was thought to be necessary that this work should proceed to meet this particular requirement despite its very great cost. * * *

Mr. Chetwynd.

2849. Were any revised figures submitted to the Treasury between the £60,000 one in 1951 and the £1½ million in 1955?—Yes, Sir. In 1953 when the major change in requirement took place a revised estimate was obtained from the contractor. At that time the costs had gone up from £60,000 to £350,000 and, really, if any comparison is to be

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[Continued.]

made with the final figure, this £350,000 is the only sensible figure to compare it with. At that time Treasury approval was obtained, in May, 1954.

2850. It does not state so in the Report we have?—(Mr. Macpherson.) This was another case, Sir, where no specific approvals were sought. In the interval between the figure of £60,000 being approved and the estimate of £1.25 million there had been annual reports to the Treasury. That procedure is no longer followed in these cases.

2851. May I ask you then, Mr. Macpherson: do you consider you were kept adequately informed of the cost of this project as it proceeded?—I do not think we could admit that because, as I have said, the new procedure means that we are approached on individual projects as the cost goes up. At that time annual reporting was the practice.

2852. This comes back to some of the questions I asked you on the previous paragraph: what action is taken by the Treasury if costs appear to the Treasury to be getting out of hand?—This is a case where the Treasury did seek assurances from the Ministry of Supply. The costs were going up and one of the applications of this equipment had been abandoned because an aircraft into which it was going, had fallen out of the programme. We asked if this was the only way in which the requirement could be met. As Mr. Strath said they reluctantly agreed, I think it is fair to say that the Treasury even more reluctantly agreed that this expenditure would have to be met as part of the equipment of this aircraft.

2853. So, in actual practice you have got no alternative but to authorise the further expenditure when the estimated cost of development increases?—I do not think I can accept that. We can ensure that the project is looked at, having regard to the increased costs, and in relation to the military requirement to be satisfied. As I have already said, there has been an occasion where the Treasury's intervention has resulted in a change of programme; but this was a case where it was accepted that the military requirement was of first importance.

2854. But where the Service requirement still remains it really amounts to your hand being pretty well forced in a case like this?—The Treasury hand need not necessarily be forced. If the Treasury feels strongly enough about the particular project it will drive it up for further consideration at the highest level.

Mr. Hoy.

2855. Mr. Strath, was this contract on a cost-plus basis?—(Mr. Strath.) This was on the basis that the Department would pay the fair and reasonable costs of the necessary work done.

2856. Once you come to an arrangement of that kind are you not just simply compelled to pay what the contractor says are his costs plus the profit he is going to charge?—No, Sir. Before final settlements are made this work is subject to scrutiny, scrutiny technically and scrutiny by the Department's cost accountants. One must accept, I think, that a contract of this sort that has got no firm price in it is much less satisfactory than one which has, but it is extremely difficult to get a contractor to accept a firm liability for technical development work of this complexity; and this is something which is not peculiar to Government work in this field. This is something which is experienced by anyone outside who has to place extramural contracts for development work of great technical complexity. We do more of that than people outside, I think; that is the only difference.

2857. What real incentive has a contractor to keep his costs down when he works on this basis?—The development work is, of course, a prelude to further work on production if successful, and there is an incentive upon a contractor to do a good job of work in order to get continuation orders.

2858. Is he not much more likely to spend much more in order to make sure he makes no mistakes when he has entered into a firm contract? Is that not so?—Well, I do not think that the profit element is geared in that way to his actual expenditures.

2859. Supposing your technical people found that there had been some inefficiency in the carrying out of the work, would you have the right to penalise the contractor?—Certainly, Sir.

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[Continued.]

2860. You have got that right?—
Yes.

2861. Do you employ it?—I understand the Department has, and I hope will continue to do so.

2862. So do we. Now, originally you needed only three models and later this became seven and then 33. Could you tell us why the first figure was so much lower than the final one?—It started off with three development models and this was increased to four, later to seven. The pace of development became so rapid that six of those seven became obsolete and had to be replaced, which gets it up to 13 in total; and a further 4 was added to that to make it 17. The reason for the growth, apart from the replacement, was the need to speed up the development of this equipment, which was being tested and undergoing trials in a number of different places. The extra models for development purposes were needed, really, to speed up the development work. In addition to that, at a later stage in the programme, provision was made in these prices that we have mentioned for a supply of prototypes. In September, 1953, for example, the contract was enlarged to include 20 prototypes and that figure remained until a late stage when it was reduced finally to 16. The reason for that number was that this was the number required to match up with the number of prototypes of the major equipments with which this particular scanner was associated.

2863-4. What was the original quantity and estimated production price and what are the present figures?—The original quantity fell into two parts because at that time there were two Services involved in it, and the total was —. It ended up as —, the reason for that being that the final requirement was limited to the needs which were the smaller part of the original figure.

2865. What about the estimated production price and the present figure?—The estimated production price was, approximately—it is not final—

2866. What was the original estimate?—The original price was £— per set and shortly after, in about a year's time, that was increased by 150 per cent., when further information became available about the complexities

of development; and the present estimate for the cost of the equipment is eight times the original estimate per set of equipment.

2867. So that what started off at £— is now going to cost you eight times the original estimate?—That is correct Sir.

2868. That, at least, is firm, is it?—I understand that this figure is very close to the mark, although I have to warn you, of course, that the final figure has not yet been agreed with the Company.

2869. In view of these figures, Mr. Macpherson, do you not think the Treasury might give the Ministry of Supply an order for a scanner?—(Mr. Macpherson.) No, Sir.

Sir Colin Thornton-Kemsley.

2870. Mr. Strath, we learn from the Comptroller and Auditor General's Report in paragraph 4 that six development models did not meet requirements. Was that because their design was not up to specification?—(Mr. Strath.) No. I think the real explanation is that the development proceeded so fast that these six models were overtaken by the advances and it was necessary to provide more advanced models to take their place, although I would not like you to think that those six models were not in fact fully utilised experimentally by the research and development people.

2871. How long had the contract been running before this fault in design was discovered?—There was no fault in the design, Sir.

2872. Well, the defects in the instruments which made them unsuitable for their purpose?—I do not think that it is either a question of faults in design or defects in the instruments. It was a question here of the real technical complexities of the work and success that was achieved over the period in mastering those difficulties.

2873. Let us look at it another way. The contract was placed, was it not, in December, 1953?—Are you referring to the development contract or the production contract?

2874. The production contract. That is the date given at the beginning of paragraph 46 of the Report?—These models were included in the development contract, not in the production contract.

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[Continued.]

2875. The development contract was placed, was it not, in 1953?—The original contract for £60,000 was placed earlier than that, Sir.

2876. In 1951, was it?—1951, yes, but the major change in the requirements that I explained at the beginning of my evidence took place in 1953, which is possibly the date that you have in mind.

2877. Yes. It was not really until September, 1955, that the fact that these instruments were inadequate, if one may use that word, was noticed?—No, Sir. Out of the seven development models required, six required replacement because by that date the development had proceeded to a point at which it was possible to make very much improved models; and obviously that was the line of advance that had to be followed from then on. Therefore, those original six models were replaced and additional ones purchased to enable trials to be made on the basis of these improved developments.

2878. So the contract had been running for something like four years when it was found that the models did not meet the revised requirements?—That is so, Sir. The contract was placed in 1951 and these new requirements emerged in 1955.

2879. What machinery is there for checking technical progress against the contractor's expenditure?—The normal machinery is for the research and development department of the Ministry to exercise surveillance of the work by periodical visits to the firm and discussions with the firm's personnel engaged on the development work.

2880. And that procedure was followed in this case?—This procedure was followed in this case, but I think to a much more limited extent than was either normal or desirable.

2881. Why was that?—Because of great pressure of work in the electronics field at that time. At this period electronic development and electronic equipment generally were recognised by all concerned with the defence programme as being one of the real technical bottlenecks. The limited staff available in this field were working at full stretch.

2882. Did they make any adverse technical reports on the contractor's progress?—Our officers were not very

satisfied at the time and representations were made by technical officers of the Department to the firm in an endeavour to improve the performance.

2883. But the representations did not meet with great success, evidently?—They have met with success in the sense that they were successful in producing a satisfactory equipment at the end of the day, technically very complex equipment, but at a price, of course, which was higher than we had expected.

Mr. Hoy.] Eight times the original?

Sir Colin Thornton-Kemsley.

2884. Would you say that on the evidence of this case your organisation for checking technical progress needs either strengthening or overhauling?—We are concerned here, Sir, with things that have happened a little time ago, and as a result of experiences of this kind the Department has already taken steps to tighten up the control. My predecessor did do that, and I certainly hope to continue those efforts.

Mr. Cledwyn Hughes.

2885. What are the "new features" referred to in paragraph 44?—The new features, Sir, were those which I have described in some detail at the beginning of my evidence on this section.

* * * * *

2887. Do you not think that this change made the scanner a new project requiring reconsideration and fresh estimates?—I think, Sir, that in some of these cases we tend to think that we are comparing the same thing at the beginning of the story and at the end of the story; whereas, in fact, it would be a truer representation of the case if one were from time to time to say that there has been a distinct change in the concept and the old contract should be really wound up, a new definition of the project agreed and a fresh look taken, getting away from all that has gone on in the past, a fresh look at the prospects and the needs. This is, I think, probably a case where that has happened, where the start of the project and the end of the project are quite different things.

Chairman.

2888. Will Members turn to Paragraphs 48–50 of the Comptroller and Auditor General's Report, Special Financial Assistance to a Contractor? I see that some special progress payments

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[Continued.]

were made because of the strain on the contractor's resources. How much did you advance over and above normal progress payments, Mr. Strath?—A series of transactions took place, Sir. First of all in 1956 special progress payments, that is, an advance of a type which would not normally be made, were made to the Company. In 1957 special progress payments of the same character were made. Those were on the same equipment which had attracted the initial special progress payment.

Mr. Hoy.

2889. What date was this?—This was in 1957, the final quarter of 1957; and about the same time a further £— was made available by way of special progress payments on additional equipment ordered. Fourthly, again about the same time as the last payment I mentioned, an advance was made to the Company on jig and tools which the Company had purchased with their own resources for the production of other equipment ordered by the Department. These were all advances of the general character of special progress payments. There were certain other forms of assistance given later on in the way of deferment of the repayment of sums due * * * to the Ministry.

Chairman.

2890. Are you sure that it is correct and proper to use the Ministry of Supply Votes in this way, not only to finance Government orders, but to rescue a firm in financial difficulties?—

* * * * *

2895. As you know the firm was in financial trouble and you had made advances. I take it you took steps to see that your money was secured?—In the case of one of the advances we had full security in the sense that we took ownership of the assets in respect of which the advance was made.

* * * In the case of the other advances no special security was taken for the advances for good reasons, I think. In the first place, the advances which were made were small in relation to the total transactions between the Department and the Company.

* * * We also were making advances in respect of work which had been done by the company on equipment which we ourselves were purchasing. * * * These progress

payments were related to preparatory expenditure which the contractor had already incurred * * * Having made them in advance of the time when the first progress payments were due in the terms of the contract itself, the Ministry took steps to negotiate a price abatement which was calculated to represent interest on the advance from the time when the advance was made to the time when the payment would normally have been made under the terms of the contract, those interest payments becoming due at 1 per cent. over the Bank rate that was current at the time when the transaction was entered into. This, although a modification of the terms of the contract, is not an unusual matter in commercial life where it is quite frequently the case that a percentage of the price is paid with the order very largely to take care of the initial pre-production expenses which contractors have to incur on raw materials and design work, and so on, in the course of preparing to discharge the contract.

Sir Colin Thornton-Kemsley.

2896. Mr. Strath, why do you not consider it appropriate to note in your Appropriation Account as loans the sums which were the subject of deferred payment?—These are not advances in the sense of loans of public monies. They are not a loan but a deferment of debts due by the Company to the Ministry. I think it is reasonable practice and good practice on the part of parties to a contract that if one of the parties gets into financial difficulties the aim of both parties should be to come to an accommodation which will ensure that the main purpose of the contract is achieved. The main purpose of the contract is not to put one of the parties into financial difficulties; the purpose of the contract is to produce goods successfully. The second object is to ensure that the debts owing by one party to the other are realised in full if there is time to enable the financial difficulties, which may be temporary, to be overcome. These were the purposes of this transaction.

2897. You told the Comptroller and Auditor General these outstanding sums were on the same footing as numerous other past and current arrangements which your Ministry have with their debtors. What are these numerous arrangements?—In an organisation

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[Continued.]

which transacts business on the scale of the Ministry there are bound from time to time to be cases of this sort in which it is necessary to accommodate a debtor of the Ministry in order to meet periods of financial stringency, the aim being to protect our interests and to secure full payment of the debts owing to us. The specific answer to your question, Sir, is that at present we have only 17 other outstanding cases of debtors with whom we have made or are trying to make arrangements for the repayment of overdue debts and the sum involved in all these cases is approximately £170,000.

2898. I think you do in some cases note some loans in your Accounts. How do these loans which are noted differ in principle from the sums which we are now discussing?—Because these transactions were not made as loans from monies voted for the purpose of making loans. These were deferments of sums due by the Company to the Ministry. I think they can be distinguished from a loan *per se*, from monies made available for the purpose of making loans.

2899. Mr. Macpherson, what are your views on this?—(Mr. Macpherson.)

We do not dissent from this method of dealing with it, Sir. We did not ask the Ministry to note their Account. There might have been a case, not on the technical grounds that these were loans, but because of the rather abnormal nature of the arrangement, for a note to have gone on the Account. But there were other considerations—the confidential nature of this transaction which I think would have precluded that. Our position is that we would agree with the Ministry of Supply that on a technical accounting point the sums were not strictly loans, and therefore not to be noted in the Account in the ordinary way as would monies voted by Parliament for loans. But had it been possible to disregard the confidential considerations, this might have been a case where Parliament's attention should have been drawn to the rather abnormal nature of these arrangements.

Chairman.

2900. Sir Edmund, have you anything to say?—(Sir Edmund Compton.) No, Sir.

THURSDAY, 30TH APRIL, 1959.

Members present:

Sir George Benson, in the Chair.

Mr. Arbuthnot.
Mr. John Hall.
Mr. Cledwyn Hughes.

Mr. Peyton.
Mr. Stevens.
Sir Colin Thornton-Kemsley.

Mr. P. J. CURTIS, C.B.E., Secretary, Exchequer and Audit Department,
called in and examined.

CIVIL APPROPRIATION ACCOUNTS (CLASSES VI-X) 1957-58.

CLASS VI.

VOTE 10.

MINISTRY OF SUPPLY (continued).

VOTE 11.

MINISTRY OF SUPPLY (PURCHASING REPAYMENTS SERVICES)
(continued).

VOTE 12.

ROYAL ORDNANCE FACTORIES.

Mr. W. STRATH, C.B., Permanent Secretary, Ministry of Supply, called in and
further examined.

Chairman.] Will members turn to the Civil Appropriation Accounts, Classes VI-X, to paragraphs 51-52 of the Comptroller and Auditor General's Report, Store Accounts—Stocktaking? I have no questions.

Mr. Arbuthnot.

2901. What was the establishment referred to in paragraph 52?—(Mr. *Strath.*) This is the Royal Aircraft Establishment at Farnborough with its associated sub-establishments.

2902. What was the cause of the pressure of work, other than shortage and sickness of staff?—I do not know that there is any special reason that I can give, other than the general pressure on an establishment of this sort combined, of course, with illness at the time of this particular stocktaking.

2903. Mr. Curtis, did you intend to convey anything particular when you referred in paragraph 52 to pressure of work as a separate item, so to speak, from shortage and sickness of staff?—(Mr. *Curtis.*) I do not think so, Sir. I did not think that they were quite necessarily all the same thing. These are the explanations given by the Ministry:

there was particular pressure of work at the time and on top of that there was a shortage of staff and there was some sickness. I thought that was the meaning of the explanation.

2904. That is what I am trying to get at. What was the cause of the particular pressure at the time?—(Mr. *Strath.*) The Department was engaged in a very heavy programme of aircraft development and aircraft work. Farnborough happens to be the centre of the scientific and development work in that field carried out by the Ministry and, therefore, there was a tremendous pressure.

2905. That pressure has been relieved now, has it?—It has been abated.

2906. What was the total cost of the stores losses that you had not yet received permission from the Treasury to write off?—In 1955 and 1956 the total stores involved were approximately £2,700 in 1955 and £3,200 in 1956. Approval, I may say, has now been given by the Treasury last month. These are not large figures in relation to the total stores which are bought by these establishments, which reach several million pounds a year.

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[Continued.]

Mr. Stevens.

2907. Why was there so long a delay in getting approval?—I think the delay is regrettable, Sir, but it was just pressure of work in the department concerned. I should hope that this sort of thing could be done much more speedily.

2908. It was very long?—It was, I agree with you, yes.

2909. The adjustments resulting from the stocktaking of 1957 had not been completed at the date of the Comptroller and Auditor General's Report in February. Have they been completed yet?—That is all right. These were completed in the following year, but I agree with your main point, Sir, that one would have expected the subsequent paper work to have been done more speedily than was the case.

2910. On the 1957 adjustments that is all right, is it, because the Comptroller and Auditor General said it was not?—I beg your pardon. The 1957 final formal arrangements with the Treasury have not yet been completed.

2911. Is there going to be the same delay, then, in respect of 1957 as there was with 1955?—I intend to see that there will not be any further delay.

2912. It is fairly considerable already for 1957, is it not?—Yes.

2913. But you are taking steps to speed it up?—Yes.

Mr. Peyton.

2914. Are you having serious difficulty with shortage of staff for this purpose?—I would not like to leave the impression with you, Sir, that the shortage of staff is in any way commensurate with this delay in this particular case. I agree that this delay is open to criticism here. Fortunately, small amounts were involved; but while there is a stringency of staff it is not as great as the time would suggest.

2915. The only reason I asked the question is that Departments, particularly the Service Departments, year after year have been putting forward as a reason for delay or arrears in stocktaking the difficulty of getting sufficiently skilled staff in sufficient numbers?—Yes, there is a tightness of staff, certainly, in this field but I do not think myself that that justifies this delay.

Chairman.

2916. Do you aim at making a 100 per cent. coverage each year?—We

do, Sir; not all on one day, but sometimes by continuous stocktaking throughout the year.

2917. You anticipate covering the whole stock once a year?—Yes.

Chairman.] Will members now turn to paragraphs 54-58, Weapons Research Establishment—Woomera? I have no questions.

Mr. John Hall.

2918. On paragraph 58, what is the answer to the question in the last sentence in the Comptroller and Auditor General's comment? He asked the Ministry what procedure exists for dealing with and accounting for losses of stores and equipment?—The arrangements here are that the Australian authorities, who are responsible for managing the range, will satisfy themselves about the losses in accordance with the rules for accounting for losses of this sort in Australia, which are equally stringent, and in some respects more stringent than our own. Stores which are jointly paid for will not be noted in our Appropriation Account on the ground that our contribution is equivalent, really, to a cash contribution to the project; but in respect of stores which are wholly paid for by the Department, write-offs will be reported to the Department and will be noted in the Department's Appropriation Account in a total sum each year.

2919. Is the amount of the loss known?—So far we have not been notified of any losses.

Mr. Arbuthnot.

2920. Mr. Curtis, have you yet had a reply to your enquiry of the Ministry as to what procedure exists for dealing with and accounting for losses of stores?—(Mr. Curtis.) Yes, Sir, that is the reply that Mr. Strath was just giving. That is on paragraph 58?

2921. Yes?—Yes. We have heard, as he said, that they are going to be noted in total in the Appropriation Account. No losses have yet been reported, but I think that the Departments are making enquiries by an internal audit team in Australia.

Sir Colin Thornton-Kemsley.

2922. Mr. Strath, the Comptroller and Auditor General asked you another question, about the remedial steps taken by the Australian authorities. Have you answered that one yet?—(Mr. Strath.) Yes, Sir.

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Mr. W. STRATH, C.B.

[Continued.]

2923. What is the answer, briefly?—That we do look to the Australian authorities to exercise responsibility for taking care of these stores. We have been in discussion with the Australian authorities about the circumstances which have given rise to the criticisms of their own Auditor-General and they have satisfied us that they are doing as much as they can to bring the whole matter under control by setting up proper store accounting techniques, adequately staffed; and our belief is that they are making very good progress in that direction.

Chairman.] Paragraphs 59-62, Maralinga. I have no questions.

Mr. Stevens.

2924. Mr. Strath, I see at the end of paragraph 62 that a further internal audit visit to Maralinga is going to take place in February. Is it too early for any report to have been received?—No, Sir. The audit team has reported and since then I have also sent a senior officer from the Department, who was going to Australia, to check up on the situation. Very briefly, I am now in a position to assure you that the deficiencies in store accounting at this range have been very satisfactorily remedied and that the stores are now well managed and are being accounted for. I think I ought to call attention to one major point here, that the criticisms which have arisen and which, by the way, were criticisms of our own internal audit team and not the external auditors, were primarily criticisms of methods of accounting. They were not criticisms that the stores were being lost. Naturally, of course, if one has not got a good accounting system it is not so easy to check up on the matter, but given the isolation of this station and the lack of transport it is not likely that stores will be readily lost. But as a result of the visit of the audit team and this senior officer who came back just last week, I feel pretty confident that this situation is now well in hand.

Mr. Arbuthnot.

2925. In May, 1957 steps were being taken to introduce an efficient store accounting system at Maralinga. Yet almost a year later your internal audit team found the store accounts seriously defective and unreliable. How was this?—The reason for that is this Sir: here one had a range situated in a very isolated place which had been hurriedly

built inside about twelve months in order to enable certain nuclear tests to be carried out quickly. It was staffed by a small number of troops and it was felt in those circumstances that some simplified form of store accounting was probably the simplest thing to instal; and our own store accounting people attempted to devise a simple one, a form of store accounting which really, in effect, amalgamated storekeeping with store accounting in order to make this more manageable for the type of personnel who were available. It was recognised that this was open to criticism at the time; it is a risky procedure. A year afterwards we did send our own internal audit people to find out how it was operating and they came back with this report that the experiment had not come off and something better was required. We therefore at once put in a much more normal kind of accounting system, separating off central store accounts from store control. We have recruited some temporary civilian stocktakers in Australia; and four expert R.A.F. store accountants have been sent out to take control over the central accounts system. I think now, as a result of the work which has been done by that new team over the past year, that a very big improvement has taken place.

2926. Can you say in round figures what is the value of stores and equipment issued on this project?—I am very sorry, Sir, I have not got the figure, but I should imagine it runs into millions of pounds.

2927. £6 million, £20 million or £50 million?—Oh, no, not like that, but the figure is one I could supply if you wish. I just do not have the figure with me.

2928. Have you had any losses of stores reported so far?—We have had none reported so far.*

2929. Will any losses be noted in due course in the Ministry of Supply Appropriation Account?—This particular range is the responsibility of the Department and any losses at this range will be treated in the same way as any losses which have occurred in any other establishment of the Department.

2930. So they will be noted?—Yes.

* Correction by Witness: Deficiencies disclosed at stocktaking in 1957 amounted to £1,200, but were offset by much greater surpluses. Treasury approval for the necessary write-off has been obtained.

TUESDAY, 5TH MAY, 1959.

Members present:

Sir George Benson, in the Chair.

Mr. Arbuthnot.
Mr. Chetwynd.
Colonel Crosthwaite-Eyre.
Mr. John Hall.
Mr. Hoy.

Mr. Cledwyn Hughes.
Mr. Pentland.
Mr. Stevens.
Mr. Thornton.
Sir Colin Thornton-Kemsley.

Sir EDMUND COMPTON, K.B.E., C.B., and Mr. J. MACPHERSON, called in and examined.

AIR SERVICES APPROPRIATION ACCOUNT, 1957-58.

Sir MAURICE DEAN, K.C.B., K.C.M.G., Permanent Under-Secretary of State for Air, called in and examined.

Chairman.

2931. Will Members turn to the Air Services Appropriation Account, 1957-58, to Paragraphs 1-6 of the Comptroller and Auditor General's Report, Outturn of the Account? Sir Maurice, I see from Paragraph 4 that the cancellation charges with regard to the Swift, Hunter and Seamew aircraft were less than you expected. How much did you expect?—(Sir Maurice Dean.) We paid £9.2 million in cancellation charges on aircraft and we had expected to pay just under three-quarters of a million pounds more.

2932. The cancellation payments totalled £10 million?—That is right. So far as aircraft were concerned, the Swift was £5.9 million, the Hunter was £2 million and the Seamew just over £1 million, making a total, with one or two smaller charges, of £9.22 million.

2933. How much did you expect to have to pay? Was that more or less than you expected?—That was slightly under.

2934. Is this a real saving or is it likely to lead to any further expenditure in the future?—It was really a combination of two things, the charges being slightly less than we expected and a slight variation in their incidence.

Mr. Chetwynd.

2935. The surplus of £9.2 million on Vote 8, Works and Lands, is said to be largely due to deferment and cancellation of new works services, mainly resulting from policy changes and reviews. Were

there any other changes as well?—This is on works, Sir?

2936. Yes, Paragraph 4?—To get a clear picture of what happened on the Works Vote I think it is advisable to ignore the Supplementary and compare the expenditure with the actual Estimate, because otherwise the picture is rather clouded. There was, in fact, an underspending on Subhead A, which is new works costing more than £10,000, of just over £19 million; and that was made up in turn of three elements, of which the biggest was the United States Air Forces which came to £11.62 million, the second biggest was the Royal Air Force at home which came to £5.02 million and the third was the R.A.F. abroad, which was £2.62 million. That adds up to a total of £19.26 million. If you look at those sums in turn, the biggest of the three is the American Air Forces and this was due to the extensive changes in the deployment plans of the American Air Force during the year. As far as the Royal Air Force at home is concerned it will be remembered that this year which began in the spring of 1957 was the year of the Defence White Paper of 1957, and there were extensive changes in the plans of the Royal Air Force. So far as the Royal Air Force abroad was concerned, it was the year after Suez, and there was a certain amount of reappraisal of our overseas commitments going on. To sum up, therefore, the three factors were an underspending on account of the American Air Forces and changes of policy of the Royal Air Force, both at home and abroad.

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[Continued.]

2937. Your over-estimate was something like 40 per cent.?—That is so, yes.

2938. Were those policy changes and reviews, then, so wholesale and unrestricted that you could not get nearer it than that?—As I said, the biggest numerical factor is the American one. One factor is that the American fiscal year does not correspond with our year, and therefore they were not in a position to give us an up-to-the-moment revision of their plans.

2939. Has there been any improvement in the position now with regard to getting information?—I have not seen the final figures for the following year, I am afraid. I do not know whether the American figures are better. So far as the Royal Air Force are concerned, I think you would agree that 1957-58 was a year of exceptional policy difficulty.

Mr. Hoy.

2940. Sir Maurice, I think you said that the cancellation payments in respect of the Swift, the Hunter and the Seamew were about £5 million, £3 million and £2 million respectively, is that correct?—The figures were £5·92 million for the Swift, £2·01 million for the Hunter, and £1·08 million for the Seamew and then there is a small entry called "Other", which is £0·21 million.

2941. The Swifts were cancelled because they were not satisfactory. At an earlier meeting of the Public Accounts Committee we investigated that matter and we will not bother going into it again, but can you tell me if there was anything wrong with the Hunters and the Seamews?—As far as the Hunters were concerned, the story there is that there was a big reappraisal of the size of the Air Force and a reappraisal of the strength of Fighter Command, as a result of which 100 Hunters were cancelled.

2942. What about the Seamew?—As far as the Seamew was concerned, what happened was that we had to cut down the cost of the Royal Air Force, and as a result we were forced to make certain cancellations of which the Seamews, of which there were 30, was one. We would have been very glad to have the Seamews had our budget run to it.

2943. As those two aircraft accounted for about £5 million in cancellation payments, could this not have been foreseen

somewhat earlier?—Are you speaking of the Hunter and the Seamew?

2944. Yes?—I think in the year we are speaking of the total came to £3 million, did it not, Sir?

2945. I think you told me £3·1 million and £1·08 million?—£5·92 million for the Swift, £2·01 million for the Hunter and £1·08 million for the Seamew.

2946. I see, yes?—So the two between them came to £3 million.

2947. Even then, £3 million is quite a considerable sum?—Yes.

2948. What I was wondering was whether this could not have been foreseen and a saving made in this direction?—I do not think so. There had been over the years, of course, successive reviews of R.A.F. policy and this was one of them. Of course, comparing the cancellation charges on the Hunter with the full cost of the aeroplanes, which would have been about £10 million, I think it is pretty clear we got in fairly early on that one, more so perhaps than in the case of the Seamew where the cancellation payments do amount, in fact, to a very considerable proportion of the total cost.

2949. Was the cancellation of £471,000 for radio, radar and electrical equipment also due to smaller defence requirements?—There is a mixture of elements in that figure. Would you like to know what they are?

2950. I was wondering, first of all, whether any part of this was due to the fact that defence requirements necessitated a cut?—Running through the main elements in that £471,000, there was first the cancellation of a piece of equipment called G.C.A., or Ground Control Approach, and that really flowed from a reduction in the size of the Forces. Then there was a reduction in an air-borne radar set which really reflected as much as anything a cancellation of a particular aeroplane, the thin-wing Javelin. Then there was a small item for what we call the C. & R. system, the Control and Reporting system, and that was certainly due to a decline in the size of the Forces. There is another small element in that total, curiously enough, which belongs to the Swift and is the subject of a separate note on Vote 7.

2951. Could you tell us, then, Sir Maurice, is this the total or an instalment of cancellations of this kind?

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[Continued.]

Do you expect anything more to arise?—It is an instalment in cancellation charges. If we are talking of the total of cancellation charges, which comes to something like £10·2 million, it is an instalment. There have been charges in previous years and there will be charges in following years. It happened statistically to be rather a large instalment, this £10·2 million. The previous year it was a good deal less.

2952. If we single out electronic types of equipment, apparently changes take place rapidly. Can we expect any more cancellations of this kind?—There will be other cancellations to come. As an example, in the particular field of electronics which we are discussing, there will certainly be cancellation charges in the following year.

2953. We all know, I think, that developments in this field can take place very quickly, but can we be assured that steps are taken equally as speedily to see that savings are effected and orders cancelled?—Well, we do our best. We have, Sir, very experienced finance officers who keep an eye on these things in order that cancellation should flow as quickly as possible from changes in policy.

2954. Are you assured at the very start of these investigations into this equipment and the experimentation that you are as well advised as you ought to be?—You mean, our relations and liaison with the Ministry of Supply?

2955. Yes?—I think so. I think our contacts with them are very close.

2956. Even then there is some little feeling, if I might say so, that your experts' advice is not all it might be and that you set off on a course of expenditure which is not always justified, simply because proper attention is not given to these subjects at the very beginning. We would like to be assured that you do go into the matter very carefully with top class scientists before you undertake these experiments which can prove to be so costly?—Well, a successful policy does mean an ingenious fusion of the Air Force element and the Scientific element. Certainly, we do our best to work very closely with our friends in the Ministry of Supply, because good liaison is an absolutely essential requirement, as you say.

Colonel *Crosthwaite-Eyre*.

2957. What direct contact do you have with the scientific side of the Ministry of Supply? Is it by way of joint committee, or what?—The main contact, of course, falls between the Air Staff and the Ministry of Supply. We have a division of the Air Staff which is concerned with new requirements, and it is their job to keep in very close touch with their scientific and other professional friends in the Ministry of Supply. This is done partly by a system of liaison officers, partly by appointing project officers for particular aircraft, and so forth, and partly by committees.

2958. When a project comes up is it usually as a result of a request by the Air Ministry for a particular model to do particular things, or is it the Ministry of Supply who say: "We have got a model which will do this, that and the other. Are you interested"?—The first step, theoretically, should be for the Air Staff to submit a requirement.

2959. That does happen?—Oh yes, that does happen, but you realise that in fact it goes back further than that, because until the scientists have said what is possible you cannot really formulate a requirement. Indeed, the formulation of the requirement, although it is formally from the Air Ministry, is the result of a piece of joint thought.

2960. Once it has got off, say, the theoretical level, and comes down to the practical level of the construction and where it is to be placed, are the people you deal with in the Ministry of Supply usually personnel from the Air Ministry?—I should say not, as a rule. I would say they are, for the most part, scientists and engineers.

2961. But it is quite true to say that a number of officers are seconded from the Air Ministry?—Oh, a very large number, yes.

2962. Which Departments do they go to, generally? Are they people who deal with you after they have left your Ministry or not?—There are people who would be seconded to the Ministry of Supply, to the Controller, Aircraft Department or Controller, Guided Weapons Department, and then they usually come back to the Air Force and do a further job later on.

2963. They would be dealing with your Ministry although they are seconded?—Very much so, yes.

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[Continued.]

Mr. *Arbuthnot*.

2964. In Paragraph 4 the Comptroller and Auditor General refers to cancellation payments being lower than expected. What is the basis on which you form your expectation of what it will cost you to cancel contracts? Do you take a percentage of the cost varying with the years from completion, or how do you work it out?—No, it would be on advice from the Ministry of Supply, who would be in negotiation with the firm. They would negotiate the cancellation charge with the firm.

2965. So it would be they who formed the expectation and it is their error in assessment that is responsible for this?—Yes.

2966. At the end of Paragraph 6 there is a reference to balances irrecoverable and claims abandoned. I see that is also referred to on page 31. It seems to be a little obscure. Could you throw some light on it?—I am advised, Sir, that it is a total of sums written off, in effect.

2967. But why are they irrecoverable and why have they been abandoned?—In simplest terms, of course, because we could not collect. (Mr. *Macpherson*.) The details, Sir, are given on the following pages of the Account, pages 32 and 33.

Mr. *Arbuthnot*.] Thank you, yes.

Chairman.

2968. Paragraphs 7-11, Gan Airfield. What is the present state of negotiations with the Maldivian Government on this matter?—(Sir *Maurice Dean*.) The present state of negotiations, Sir, is that there were discussions in Colombo earlier in the year which were broken off, and when they were suspended the British Government said they would be willing to resume them in London or elsewhere at the convenience of the Maldivian Government. Fairly recently, as you will have seen in the newspapers, the legal adviser of the Maldivian Government has been in this country and he has had a series of informal talks with the Commonwealth Relations Office and he has just gone back, but whether or not the talks will be resumed I do not know at this stage.

2969. Does that mean that if the talks are not resumed you will abandon the airfield?—By no means, Sir.

2970. What were the heads of the 1956 Agreement?—I have the actual text here.

2971. It is rather a lengthy one. I think we had better have a summary of it?—Yes. It is not a particularly easy document to summarise, but I will do my best.

Colonel *Crosthwaite-Eyre*.

2972. Is it written in Maldivian, then?—No, it is an English text. Article 1 says that the United Kingdom Government may re-establish, and so on, the airfield on Gan Island, and the Maldivian Government will provide every facility for this purpose. It then goes on to say that the United Kingdom Government will be permitted to lease the whole area of Gan, and the existing residents who are not actually needed to operate the airfield will be resettled elsewhere. The second Article permits the United Kingdom Government to erect and operate a radio station on the neighbouring island of Hitaddu. By the way, Sir, I have brought along some maps which the Committee might like to have.

Chairman.

2973. Yes? (*Maps handed to the Committee*.)—Hitaddu, as you will see, Sir, is the island in the north-west of the Addu atoll. The third head of agreement I might, perhaps, read out. It says: "The Maldivian Government will lease Gan Island and the area required for a radio station on Hitaddu Island to the United Kingdom for one hundred years at a rent of £2,000 per annum. The Maldivian Government will later, if the United Kingdom Government so requests, consider the possibility of replacing this lease by an agreement to purchase". Then, Head 4 of the Agreement says that as part of the lease referred to above the Maldivian Government agree to concede to the United Kingdom certain rights of acquisition and use of coral and certain rights in connexion with moorings and lighting and navigational aids. Under the fifth Head of the Agreement, the United Kingdom Government agrees in principle to meet the cost of resettlement of the existing population on Gan Island, on some other island or islands. The sixth Head of Agreement says that the Maldivian Government will discuss with the United Kingdom Government the provision of a labour force to help in the construction of the airfield. The seventh says that the United Kingdom

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[Continued.]

and Maldivian Governments will negotiate a legal convention governing the status of the United Kingdom forces in the Maldivian Islands. So that it is our view that the combination of this Agreement and the Agreement of 1953 give us a firm title to build the airfield.

2974. What form of government is the Maldivian Government?—It is a Sultanate, Sir.

2975. You regarded this agreement as giving you adequate security?—Yes.

2976. On what grounds is it repudiated or challenged?—The Agreement I have just been summarising was initialled in December 1956 and a year later the Government with whom we concluded the agreement fell and its successor government indicated that they would like to re-negotiate the terms, both of the Agreement of December, 1956, and of the earlier Agreement of 1953.

Colonel Crosthwaite-Eyre.

2977. Just to get this straight for the record, how did both these agreements differ from the original one in 1948?—I have no knowledge, I am afraid, of the 1948 agreement. The 1953 agreement—I have the text here—in effect gives us the right to obtain defence facilities in the island after consultation with the Maldives.

2978. It gives us the right?—Yes.

2979. I just wanted to find out whether each of these agreements was more advantageous to the Maldivian Government than the previous one?—The operative phrase in the 1953 agreement reads: "Her Majesty's Government in the United Kingdom shall have the right to establish and maintain in the Maldivian Islands such facilities for Her Majesty's forces as H.M.G. in the United Kingdom may, after consultation with the Government of the Maldivian Islands, determine to be required for the defence of the Maldivian Islands or of any part of the Commonwealth of Nations and the Government of the Maldivian Islands shall afford every assistance to this end." Then, founded on that, we had this agreement for a lease in December, 1956, which, in our view, still holds good.

Chairman.

2980. And there was a change of government. What exactly does that mean, a change of Sultan?—It was the Prime Minister who changed.

2981. On what ground is it challenged? Do they deny the validity of the agreement?—They have asked that Her Majesty's Government should recognise the Maldives as a sovereign independent state by a prior declaration, and until that is made they have been reluctant to discuss any variation in the terms of the lease.

2982. You say, any variation in the terms of the lease. Are you proposing a variation?—No. We are proposing no variation, but the Maldivian authorities have told us that they would like to vary the terms of the 1956 agreement.

2983. Are they in any way hindering you?—We have made a good deal of progress with the airfield. For example, I am told that the overall figure of completion is 65 per cent. and the airfield itself is 98 per cent. completed, so that a great deal of progress has been made. But it is true to say that the rate of progress has been slower than we hoped it would be when the agreement of December, 1956, was initialled. The reason for that is that after the change of government the local co-operation on which we depend, in the way of moving huts and cutting down trees, and so forth, has taken rather longer to get than it had been under the former Prime Minister.

2984. Are you getting the co-operation now?—We have got co-operation and, as I have just said, a great deal of progress has been made.

2985. Mr. Macpherson, has the Treasury been involved in this at all?—(Mr. Macpherson.) Very closely, Sir, from the outset. As you rightly said, the main concern here has been the security of tenure, and the Departments and Ministers have all along been considering this proposal with that criterion in mind. It has been decided that we have the right to go ahead and that this military requirement is of prime importance, but it has been considered very carefully by all Departments, including the Treasury, stage by stage.

2986. What is the present position?—(Sir Maurice Dean.) The present position, Sir, is that the work is going ahead quite well.

2987. With co-operation?—With co-operation, yes.

2988. Does that mean that you have got over your troubles? Of course, these

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[Continued.]

reports are always slightly out of date. Does that mean that you have now solved your problem?—No, it does not mean that, Sir. The political outlook in the Maldives is, as you know, somewhat obscure at the moment in that the southern atolls are seeking to break away from the Male government. The position is that the inhabitants of the Addu Atoll where we are actually building the airfield would be delighted to give us all the facilities we want, but we have in fact been trying to negotiate with the Male government and we have been making very slow progress. I may say, slow progress is a well known feature of negotiations with the Maldivian Government; the previous agreements had also taken a very long time to settle.

2989. Does that imply that your progress with the airfield is a great deal more rapid than your progress with the negotiations?—I think so, Sir. The runway is virtually complete now. We are hoping the whole work will be complete early next year, but I would not like to be sure that the agreement for the lease itself will be settled by next year.

Mr. Pentland.

2990. Sir Maurice, when did difficulties with the Maldivian Government first arise?—The first serious difficulties arose after the change of government, or change of Prime Minister, at the beginning of 1958.

2991. Was any alternative site for the airfield considered?—It has been considered. Before we chose Gan, of course, there were other possibilities. We thought about alternatives a long time ago, but, as you will see from the little map, Gan is extremely advantageously placed. If you look at the map right at the top, looking at Gan in relation to Africa and Australia and Singapore, it is extremely advantageously placed. The alternative to Gan is really the little group of islands which you see marked just to the south there, which include Diego Garcia. We considered going there, but it would have added very considerably to the length of the flying involved from all the main terminals. Of course, by the time the Maldives Prime Minister changed our stake in Gan was already very large, and although everything had been thought about, for my part I would not say that the possibility of a change at that stage was really a very practical one.

2992. You did consider the alternative site?—We have considered it, but only to turn it down.

2993. Was that before or after the difficulties arose?—Before we ever chose Gan we thought of all the possibilities. When difficulties arose we thought of various possibilities, but we thought of the possibility of moving from Gan only to turn it down instantly. For one thing, it is in the right place, secondly, our stake in it is very large, and thirdly, none of the difficulties which have arisen seemed insuperable, nor do they seem insuperable now.

2994. In Paragraph 9, line 4, it is reported that you revised your estimate in September, 1958, to £3·8 million. Would it be right to say that by that time you were so far committed to expenditure that there was really no turning back?—Oh, I am sure that is right, yes, for that and many other reasons.

2995. What other reasons were there?—There was no adequate reason to turn back. We feel sure that we can carry this through to a successful completion. There has never been any suggestion at any time on the part of the Maldivian Islands that they do not want to see an airfield on Gan.

Chairman.

2996. It is merely a question of the terms?—It is the question of the political and other terms on which we go there.

Mr. Stevens.

2997. I see, Sir Maurice, that part of that higher cost arose from providing aggregate for the runway. What was the special problem there? This is in the middle of Paragraph 9 of the Comptroller and Auditor General's Report?—The special problem there was that we had hoped at the very beginning to construct a causeway linking up this little chain of islands and we would then have been able to get our coral and more or less drive it in lorries where we wanted to use it. But the Maldives authorities in the end did not want us to build the causeway. They said it would interfere with the fishermen getting into the lagoon, so in fact we have had to manage without the causeway. So we have had to get our coral from a slightly more difficult place, and that has had the effect of increasing the cost of our coral aggregate which we use for making the runway.

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[Continued.]

2998. When the estimates originally were made had enquiries not been made as to whether or not objection would have been taken to the making of the causeway?—When we made the agreement we certainly hoped we should be given permission to use the causeway.

Mr. Thornton.

2999. In Paragraph 10 of the Report the Comptroller and Auditor General says: "In addition, a substantial sum is expected to be payable for compensation". What, roughly, is meant by "a substantial sum"?—The people on Gan island had to be moved to some other island.

3000. How many?—About 900. The first idea was that they should be moved on to the neighbouring island of Fedu, which you will see is in fact the next island on that little map. If they are moved there a number of things will have to be done. They have asked to be given new huts to live in; they will have to be compensated for the coconut trees which we have had to cut down on Gan island, and which are, of course, an important feature in their living; and thirdly, they will have to be given some measure of subsistence in the form of food to help them to get by until their coconut trees and their vegetables of various kinds have grown up again and they can support themselves. After the change of Prime Minister early in 1958 the new Prime Minister started to say that it was wrong to move these people to Fedu and that they should in fact be moved to the atoll which you see on the map which is there marked Suvadiva, which we normally call Huvadū; anyway, to a different atoll, about 70 miles to the north. If that comes off it will greatly increase the cost of compensation, but there again there are considerable complications because the natives affected say that in no circumstances will they go to this atoll 70 miles away. So, what one can say is that the final sum to be paid will be made up in effect of three elements: the cost of re-providing huts, an element of compensation for what we have destroyed in the way of their trees, and an element of subsistence to get them going until they can maintain themselves. But what the bill will amount to I do not know. What I can say is that it is showing every sign of rising, because as time has passed the ideas of the inhabitants of Gan as to what constitutes a replacement

of what is called locally a basha hut has tended rather to mount upwards. Another feature which makes one vague about the cost of compensation and assistance is that the Maldives Government, since the change of government has happened, have been very reluctant to discuss these subjects. They have been very much more concerned about the political background and trying to get us to make the prior statement that we recognise them as a sovereign state, and we have therefore had very little in the way of discussion about the domestic difficulties of settling the inhabitants of Gan. But in the first year that the agreement ran we had moved 600 of them and there are only 300 left on Gan now.

* * * * *

Mr. Stevens.

3004. May I ask just one question arising out of an answer you gave, Sir Maurice, just now? Did I hear you say that there were 900 people on Gan island?—There were originally.

3005. It appears to be two miles long by one mile wide?—Yes.

3006. If they not only live there but also carry out their agriculture there their standard of living must be very low, or it must be very concentrated?—So far as re-settlement is concerned, it might be more correct to think of Fedu and Maradu rather than Fedu alone. Are they actually joined up on your map?

3007. No?—It might have been right to say Fedu-Maradu.

3008. Which gives a much bigger area, of course?—Yes. On the little map here you will see they are actually joined up.

Sir Colin Thornton-Kemsley.

3009. Sir Maurice, while negotiations were going on you restricted your work and apparently thus added substantially to the cost. I understood from the tenor of your answers that that was not because you contemplated giving up the whole project if the negotiations broke down for any reason. If that is so, why did you restrict the work?—I am sorry I did not bring a photograph along. The runway, as you can see from this little map here, does in fact occupy the entire length of the island and in order to build it we had to knock down a certain number of huts, cut down a

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[Continued.]

certain number of trees, and you can only do this amicably (and we are very anxious to do it amicably), with the support of the local Maldivian authorities. There is no doubt that when the change of government occurred those consents became rather more difficult to get, though I do repeat that, despite the difficulties, progress has gone on but rather more slowly.

3010. So, you restricted the work in order to secure consent if possible, is that the answer?—I would say that we did not in practice try to proceed without getting local co-operation in the way, as I say, of moving huts or trees, and that did slow up the work because such consents were slower to come by after the change of government.

3011. You would not disagree, would you, with the statement in the Comptroller and Auditor General's Report, in Paragraph 9, that that added materially to the total cost?—No, I certainly would not object to that, though it was not, of course, the only factor.

3012. Now, looking at the total cost, the first provisional estimate was £2.7 million; it rose to £3.5 million, and then in September last year to £3.8 million. What is the latest estimate of the total cost?—The latest estimate, I think, is about £4 million, in very round terms.

3013. The contract was placed on a prime cost plus fees basis?—Yes.

3014. You gave a range within which the cost of the work might be assumed to fall. What, in fact, was the fee quoted by the successful estimator?—The fee quoted was £— if the prime cost fell between £1.7 million and £2.3 million, and if the prime cost was more than £2.3 million the fee was to be the figure I have referred to plus — per cent. of the excess above £2.3 million.

3015. I would not like quickly to work that out, but it will be a substantial fee on the revised cost of £4 million, will it not?—My answer is, £—.

3016. What arrangements have you got for the supervision of the work?—We have a strong works team on the spot. We have a superintending engineer and a staff of 25 Air Ministry works officers on the spot.

3017. You think that they will be able to ensure that there is not any wasteful

or extravagant expenditure?—Yes. We have a number of safeguards written into the contract, and we have, as I say, a very strong supervisory team there.

Mr. *Arbuthnot*.

3018. Sir Maurice, you did not include permission to build the causeway in the Agreement?—No.

3019. Was that not improvident?—I am not sure that it was. You see, we did expect that kind of point to be covered by the lease.

3020. But why did you sign the lease if it was not covered?—We signed an Agreement and the Agreement said that there would be a lease, and we were expecting that kind of point about causeways, moorings, and such like, to be covered in the lease. I would not have said the Agreement was an improvident one, no.

3021. May we go on to the question of the resettling of the people who have been displaced? You told the Committee that their idea of the standard of housing to which they are entitled is rising. Is there any reason why you should accept the improvement element?—Yes, I think there is, because I think that more important than, or as important as, the formal legal position is the relations that prevail locally.

3022. What is your latest estimate for the resettlement building work?—I would repeat, Sir, that all these figures that we have are really vague in the extreme. If the resettlement is done in the southern atoll and this scheme I have mentioned a few minutes ago about possibly being driven to the northern atoll is dropped, the kind of figure we have in mind for the actual cost of building the houses and shipping them is of the order of £300,000 or so.

3023. As against £50,000 originally?—As against £50,000, but I hasten to add that that figure is a very vague one, and that it includes nothing for compensation or subsistence, which might be a very substantial sum in addition.

3024. A 500 per cent. error?—Certainly, the £50,000 which was mentioned as the cost of rehousing was, as things have turned out, a gross under-estimate. There is no doubt about that at all.

3025. Why did you decide to do the building work by direct labour? Would

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[Continued.]

it not be cheaper to use the airfield contractor?—That point was thought about, but the resettlement may be a very long drawn-out business and we should not have liked to keep the main contractor hanging around.

3026. Will you have any difficulty in obtaining direct labour?—Yes, most of our direct labour comes from Karachi. Some of it is local labour, but the majority of it comes from Karachi.

3027. Even so, you think it pays?—We decided that it was cheaper to do it ourselves rather than keeping the contractor hanging around.

Colonel *Crosthwaite-Eyre*.

3028. I would like Sir Maurice to go back to this causeway again. Unless I am greatly mistaken, Addu Atoll was a naval base during the war?—Yes.

3029. Were there not a great number of buildings and equipment left?—Very little.

3030. No causeways?—No.

3031. No arrangements at all?—No.

3032. And yet, if I may leave that for the moment, in 1953 you had every right to expect that in any defence work required Her Majesty's Government would be supported by the Maldivian Government?—Yes, after consultation.

3033. After consultation. You did not actually have consultation about this causeway before you started the project?—Before we started building?

3034. Yes?—Oh, I should think almost certainly, yes.

3035. I am asking you, did you?—We certainly had consultation about the causeway but not before the Agreement was signed.

3036. You had started on the project before you knew whether or not you could have a causeway?—I think the order of events was that the Agreement was signed. Then the contract was placed and we then went to the people and said: "Can we have a causeway?" and the answer was "No."

3037. So the position would be that you signed the Agreement, signed the contract and then found you could not have the causeway?—Yes.

3038. I understood you, I think, in answer to a previous question to say that

the reason given by the Maldivian Government was that it would interfere with fishing?—That was one of the reasons, yes.

3039. If that is so, would it not have been much cheaper to have paid some sum by way of compensation for the fishing, and I cannot think who it is who is going to fish over a coral reef. It seems to me a most unlikely proceeding?—No, I think the lagoon was a shelter for fishing boats.

3040. You were not seeking to build over the lagoon, you were going to build a causeway over the coral reef between islands. How did it interfere with fishing?—It would stop the fishing boats going into the lagoon.

3041. Between Gan and Fedu? That is over a coral reef?—They said the causeway would stop them mooring their boats in the lagoon.

3042. I thought you were making your causeway between Gan and Fedu?—Yes and joining up to Hitaddu.

3043. That is not going to stop anybody anchoring in the lagoon. If you build a causeway down that side it is not going to stop anybody anchoring in *here*?—You mean, they can sail round?

3044. The only entrances are through these gaps. Nobody is going to sail over a coral reef?—I merely told you that was the reason they did give, that it would interfere with fishing.

3045. I accept it if you say it. What were the other reasons given?—I am sure that in the background there was the idea that they wanted to keep Gan separate from the rest of the islands. But I do not want the Committee to think that this causeway was a dominant factor in the reason why the bill has gone up from £2.7 million to £4 million. There were a number of other very important factors. Perhaps I should mention them. There was first the increase in the length of the runway. We found it possible to increase the runway there from 7,500 ft. to 8,700 ft., which is quite an important thing. Secondly, our labour bill was very much bigger than we thought it would be. First of all, we had to get it from Karachi where it is very much more expensive than it is in the Maldives and, secondly, we had to keep it hanging about very much longer than we hoped for because the work was slower.

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[Continued.]

3046. I see that initially you had every right to expect that the lease would be for a hundred years and that is now in question?—That is so.

3047. What is the new term proposed?—We are, in our various discussions now, prepared to consider coming down to 30, but this is all very much for future negotiations.

3048. Surely, any reduction in the term of the lease would very much alter the value of the aerodrome, would it not?—Yes, I agree, but 30 years would seem to give a reasonable user in these days.

3049. Would you still pay the same rent for a 30-year lease as you would for a 100-year lease? All these questions are designed to discover whether, in fact, the initial bargain you thought you had made with the Maldivian Government has not become very much altered?—The original agreement, of course, talked about £2,000 which we thought was a fair figure for a coral island.

3050. How many acres is it, do you know?—It is about two miles long.

3051. About 600 acres, the whole thing?—Less, I should think.

3052. I should have thought so?—Considerably less, I should have thought.

3053. And it is £2,000 for both, Gan Island plus the other stations?—Plus the other station on Hitaddu, yes.

3054. £2,000 covers the whole thing?—Yes.

3055. One other question. I am not quite clear why you asked selected firms to tender on the basis of a prime cost range of £1.7 million to £2.3 million, which must have been done prior to August, 1957, when already in June, 1957, you knew that the aerodrome was going to cost at least £2.7 million. Why did you ask for a tender on an unrealistic figure?—We let the contract in 1957. The Treasury agreement to £2.7 million was in June, but that would include a certain amount of materials we supplied ourselves.

3056. So the £2.3 million was the net prime cost to the contractor?—Yes, to the best of our guess at that time.

Mr. Chetwynd.

3057. Are any aeroplanes using what you have got there already?—People can land on Gan, yes.

3058. You are using it?—Yes, that is the normal way to get to Gan.

3059. Are you using it as a staging post?—Not yet.

3060. Are you precluded from that?—No; it is only within the last few days that we have got up to 98 per cent. completion.

3061. Without getting the Agreement all fixed will you be able to use it fairly soon?—Certainly, yes.

3062. So it is not a dead loss, so far?—No.

3063. Will you be retaining any of these natives of the islands to do work on the base?—A certain number will be retained as labourers but our basic idea was to have the whole of Gan Island for the Air Force, apart from the labourers we wanted to keep on the spot.

3064. Was that for security reasons?—Yes; and it would of course mean getting rid of quite a number of the 300 who are there at the moment. So there is quite a resettlement problem there.

Mr. John Hall.

3065. Are Comets and Britannias able to land on the airfield?—They have not landed so far.

3066. Will they be able to?—That is the idea, yes.

3067. As far as it has gone in the present course of construction can they land there?—The difficulty at the moment is that they have not got quite enough width. They want to do a little more clearing to have the trees a greater distance away, but I think in emergency they could use it now.

3068. With further development of the airfield they could use it safely and adequately? Is that included in the £4 million?—Oh, yes.

3069. You did say some 600 of the inhabitants had gone and have already been resettled?—Yes.

3070. Has any basis of compensation been arrived at for them?—No.

3071. They have been given huts wherever they have been resettled?—They took their little bits and pieces with them. We did agree to make a contribution towards resettling them but it has not been finalised at the moment.

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[Continued.]

3072. How are they living at the moment?—They are living in their original huts which they took along with them. They have had a certain amount of subsistence but we have not settled up yet.

3073. Would it be true to say you are not dependent so much on the Maldivian Government's help to continue there as on the goodwill and consent of the Ganian islanders themselves?—In the long run I am assuming all this will be cleared up. * * *

3074. The only thing I was looking at is whether you could look forward to a much longer term than the 30 years

which you say you are prepared to come down to. Could you not get agreement to something more like the 100 years, because your bargaining position is very strong?—Legally our bargaining position is very strong.

Colonel *Crosthwaite-Eyre*.

3075. Was there not a question of starvation or near starvation?—Yes, that was in the atoll to the north.

3076. Was it not Her Majesty's Government, and the Air Ministry in particular, which came to the rescue?—Yes they landed food there. That is on Suvadiva. That is the atoll about 70 miles to the north.

REVENUE DEPARTMENTS APPROPRIATION ACCOUNTS, 1957-58

VOTE 3.

POST OFFICE (continued).

Sir GORDON RADLEY, K.C.B., C.B.E., Director-General, Post Office, called in and further examined.

Chairman.

3077. Will members turn to the Revenue Departments Appropriation Accounts, 1957-58, paragraphs 36 and 37 of the Comptroller and Auditor General's Report? Sir Gordon, your statement* of telephone stocks shows that 50,000 and 325,000 were scrapped in the years 1957-58 and 1958-59. Are these figures actual and what type of telephone were you scrapping?—(Sir *Gordon Radley*.) Yes, the figures were actual, Sir. We are scrapping telephones now because the types are obsolete. One decision that we took quite recently was to scrap all telephones of the old candlestick type. We are also scrapping telephones of the hand micro-telephone type which are obsolete electrically.

3078. Do those that you are scrapping now include new ones, unused ones, and ones that you have repaired recently?—No, Sir, they would be telephones recovered from the field which, if they were not of obsolete types, would be repaired.

3079. What is your future policy? You show the figures as to what you are proposing to scrap. What type of telephones are you going to scrap

in the near future?—We will continue to scrap the old types of hand micro-telephone as they come back, and we may in two or three years time take a decision to scrap a more recent type. In general, I should say that we are scrapping telephones that went into service first about 20 years ago. We are scrapping them for two reasons: first, because they are inferior electrically to the modern telephone and, secondly, because they are not modern in shape and design.

3080. They are all of the candlestick type, are they?—No, we are beginning to scrap the older types of hand micro-telephone as well as the candlestick.

3081. Are you repairing any of those or are you scrapping them all as they come in?—We are scrapping the obsolete types but repairing the others.

3082. How long will it be before those which you repair will be scrapped? You are not repairing things which are likely to be scrapped before they are used?—Oh, no.

Mr. John Hall.

3083. Sir Gordon, in the note* you sent about the stocks you say that the

* See Appendix 4.

* See Appendix 4.

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[Continued.]

difference between the figures in the note and those quoted in paragraph 37 is accounted for by the fact that the latter referred only to black telephones and excluded field stocks?—Yes.

3084. Why did the figure exclude those field stocks and coloured telephones?—I am afraid there was a little confusion about this, Sir, in that Audit made their initial enquiry direct to our Supplies Department. As I explained to the Committee last time, the arrangements for handling coloured telephones and black telephones are somewhat different. Repair arrangements, for example, are different and it is rather natural for us to think usually in terms of black telephones only, so that the figure quoted was for black telephones only. When the Audit comment was looked at we checked the figure against that which had originally been given and drew attention to the fact that they were central stocks only, but I am afraid we omitted to note that they had excluded the coloured telephones.

3085. In note (b)* you say that the stocks, starting in 1961-62 onwards, are likely to be too low for working purposes by the figures you give in the note, 120,000 and 200,000 respectively?—Yes.

3086. At what stage do you have to decide whether you are going to order additional telephones? What is the length of notice which you have to give to telephone manufacturers?—About a year or so in advance of coming up to the point when we should want them.

3087. So you would have to start reviewing at the beginning of the previous year, 1960-61?—Yes.

Mr. Thornton.

3088. What do you consider to be a reasonable level? What number do you consider to be a reasonable stock position for your central and field stocks?—I regard a stock equivalent to six months' user as being a reasonable level. Of that six months' user, approximately four months', or rather more, would be held centrally. The rest would be distributed among field stocks.

3089. Are you at that position now?—No, we hold more now, but our

* See Appendix 4.

programme is designed to adjust our holdings to that position over the next two or three years.

3090. It will be the next two or three years before you achieve this position?—Yes.

3091. You referred to the new and improved design of telephone. Is this likely to be available fairly soon?—The new design will be available in colours this summer and will be issued on payment of the additional charge. The new design in black will also be available but will only be used at present where the electrical conditions demand it; that is, where the line is very long and you want to take advantage of the additional efficiency of the new design.

3092. You will, I understand, continue to repair the older type of telephone. Is that because your supply of new telephones will not meet the demand position?—No, because it is an economic thing to repair telephones, so long as they are not too badly outdated. Our methods of repair are such that a repaired telephone is, electrically, quite as good as it was when it was first bought. It may not be quite as efficient electrically as a more modern design but it is very serviceable.

3093. Your contention, I take it, is that to introduce the new type of telephone as expeditiously and as widely as possible would not of necessity add to the efficiency of the service?—The new type of telephone does add to the efficiency of the service because it enables you to use smaller wires, for example, in your cables for connecting it to the exchange; but one can only take advantage of this saving gradually, so it becomes a problem to match your intake of new telephones to your general development of the system and the scrapping of the old.

Chairman.

3094. With regard to the important saving of the finer cable, does that not mean that your new telephones will be pretty well limited to your new line?—What we shall do initially is to use the new black telephones in those places where the added efficiency is of advantage to us. The coloured ones, of course, will be used where customers want them.

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[Continued.]

INDEPENDENT TELEVISION AUTHORITY ANNUAL REPORT
AND ACCOUNTS, 1957-58 (continued).*Chairman.*

3095. Will members now turn to the Independent Television Authority Annual Report and Accounts? Sir Gordon, when you were examined last time on this matter you were asked why you did not charge your customers, the people who use your links, according to their capacity to pay and so make as much as possible. You said you would have to think about it. Have you done so?—(Sir Gordon Radley.) I have done so, Sir, and might I with respect refer you to the answer that the Postmaster General gave in the House on the same subject on the 8th April, when he said that the Post Office is a public service. It would be quite wrong in principle for a public service to select certain customers and say: "You will pay a price greatly in excess of the price paid by anyone else." That would be an altogether wrong principle.

3096. So, it is on grounds of high principle that you take this line?—Well, I do not know about "high", Sir.

Colonel Crosthwaite-Eyre.

3097. In one of these papers* it says that you only charge a small percentage of profit. What is the definition in this case of the Post Office of the word "small"?—If we might take the case of the rentals for the main two way links, we calculate a cost which includes a profit of 2½ per cent. and then the actual rental is rounded up to something usually a little bit above that; and over the past two years it has resulted in a profit of round about 5 per cent.

3098. That is, of course, after any sum has been charged for depreciation, maintenance and so on?—Yes.

3099. It is 5 per cent. clear profit?—5 per cent. clear profit, yes.

3100. Could you give me the figure that this actual profit of 5 per cent. represents?—Well, a very rough way to take it would be between £15,000 and £20,000.

3101. A year?—Yes.

3102. That is equivalent to about what an advertiser would spend for twenty

minutes a year on one of the programmes?—Approximately, Sir.

Mr. Hoy.

3103. Sir Gordon, do the Post Office know the terms of the Authority's contracts with the programme companies?—Yes, we were shown the contracts.

3104. You will know that three of the early contracts included a letter in which the Authority stated that it was not part of the Authority's financial policy to build up a significant surplus balance. In other words, the Authority made it clear that they had no intention of earning excess revenue which you could direct them to pay to the Exchequer under Section 13. If that is the case, did the Authority offer to consult you or did they inform you before they gave this assurance?—The Authority showed us the draft agreements informally in December, 1954, and the Authority did not in any sense submit them to us for approval. Indeed, we had no responsibility for approving them. What we did then was to look at them in a friendly way to ensure that they were not obviously inconsistent with the Act. We did not see the covering letters which were sent with the agreements until after the event. I think it was somewhere round about July of the following year.

3105. July, 1955?—Yes.

3106. Then, having seen them, what did the Post Office do?—The Post Office did nothing, Sir, because the Post Office took the view that these contracts between the Authority and the programme contractors were a matter for the Authority itself.

3107. But you knew what the Act said. You agree that our interpretation of Section 13 of the Act is a correct one, do you not?—As I see it, Section 13 of the Act, Sir, places no obligation on the Authority to make a profit over and above what is necessary to meet the requirements of Section 10 or on the Postmaster General to direct it to do so. Section 13 simply makes a provision for a possible eventuality.

3108. Are you trying to say that Section 13 of the Act does not lay down that excess profits will be paid into the National Exchequer? If they are earned and should be earned that they should

* Not printed.

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[Continued.]

not go to the Exchequer?—What I am endeavouring to say, Sir, is that Section 13 lays it down that if profits are earned it should be within the powers of the Postmaster-General to direct them into the Exchequer.

3109. Very well, then. Having seen these letters did you not feel that this was circumventing the Act?—No, Sir.

Mr. Chetwynd.

3110. Does it not seem, then, that Section 13 is totally unnecessary as it is being operated at the present time? What is the point of having Section 13 in the Act if it is not being operated?—Section 13 will, as I see it, Sir, be required in the future when the Authority accumulates profits over and above what is required to build up a reserve fund, and possibly over and above what is absorbed by the early repayment of the capital advances.

3111. Under what circumstances can that happen when the agreements made by the I.T.A. with the programme companies preclude any other form of revenue except to cover the instances you have mentioned?—No, Sir, with respect, the agreements made between the Authority and the programme contractors were for fixed payments. They included clauses which allowed those payments to be increased slightly, and those increases have been made, so that there will be a resultant profit to the Authority over and above what is required to meet the requirements of Section 10.

3112. But at the moment that has not arisen?—No. What happened last year was that we diverted £½ million of the excess into the building up of a reserve fund.

3113. Do you have any control over what that reserve fund shall be or is it purely within the powers of the I.T.A.?—The Act does give the Postmaster General power to give directions with regard to the reserve fund. Might I refer you to Section 14 of the Act?

Mr. Hoy.] Section 14 says: "Reserve Fund. (1) The Authority shall establish and maintain a reserve fund. (2) The management of the said fund, the sums to be carried from time to time to the credit thereof, and the application thereof shall be as the Authority may determine: Provided that—(a) no part of the said fund shall be applied otherwise

than for the purposes of the Authority; (b) the Postmaster General may, with the approval of the Treasury, give to the Authority such directions as he thinks fit as to any matter relating to the establishment or management of the said fund, the carrying of sums to the credit thereof, or the application thereof, and the Authority shall comply with the directions".

Mr. Chetwynd.

3114. I take it no direction has been made at present?—I do not know whether you would call our discussions with the Authority and the Treasury and the decision to put £½ million into the reserve fund last year a direction.

3115. Well it is an agreement, is it not, it is not a direction. I take it that if you were not satisfied you could ask for more or you could direct more?—Could I put it this way: there has been no disagreement over it.

Colonel Crosthwaite-Eyre.

3116. Section 10 of the Act, which has already been quoted, lays down the revenue that the Authority shall obtain, and so forth, and you have given the answer to all questions that they obtain sufficient revenue. That would be correct, would it not, in general?—Yes.

3117. But you will notice that the Section carefully says that it is "at least", and then paragraphs (a), (b) and (c) follow. There is nothing to say that it should not be more. Why are you content with just fulfilling "at least"?—I did not intend to imply that it should not necessarily be more.

3118. I thought you were maintaining it could not be more, to start with?—No, not could not be more. I have consulted the Postmaster General of the time about this particular Section and he took the view that the words "at least" in Section 10 did not represent a charge to the Authority to make profits. I think, Sir, the Committee should remember that at that point in time we were very uncertain as to the future of independent television financially. If I might quote the present Lord Chancellor during the Debate on the Television Bill in the Committee stage, he said: "We have set a standard which is higher than that set for the usual public corporation. Generally speaking, public corporations are subject to a direction to balance their

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SIR GORDON RADLEY, K.C.B., C.B.E.

[Continued.]

accounts, taking one year with another. In this case it is positively desirable in our view for a continued surplus to be earned. The Clause therefore lays on the Authority a duty to secure that its revenues attain as soon as possible a level at least sufficient—I repeat the words ‘at least’—to cover in full all revenue expenditure and to provide for capital expenditure at first in part and as soon as possible in full. I believe that it was right to take that healthy and optimistic view of what will happen.”

3119. We are not arguing at all, Sir Gordon, about that. What I am trying to ask you is if in fact arrangements have been made by the Authority which, except for minor revisions, prevent any further revenue being secured before the year 1965, is it?—1964, that is correct.

3120. 1964. I will not quarrel with the year. How do you square that with the duty laid on the Post Office under the Act of “at least sufficient”?—The arrangements which were fixed between the Authority and the contractors do provide for the Authority meeting in full its obligations under Section 10,

3121. Do you think the Lord Chancellor, whom you have quoted, would agree that the tenor of his speech had been carried out by the arrangements you have made?—Yes, Sir, with respect, because as it has turned out the rentals paid by the programme contractors are not only fulfilling Section 10 but they are, as we said last time, beginning to accumulate a surplus.

3122. On reserve fund, but it is doing nothing more than the Act, it is only fulfilling the Act. It is not taking advantage of permissive powers granted under the Act or the intention, as I see it, of Section 10?—I think, as the figures given by Sir Robert Fraser at our last examination suggested, by the end of the period there will be a surplus of round about £4 million, which is rather more than one would put into a normal reserve fund.

Mr. John Hall.

3123. I gather, then, that you contend that not only has the Authority carried out the legal instruction under the Act but also the spirit of the Lord Chancellor’s use of the words “at least” by not only covering the expenditure but also providing for itself a very considerable surplus?—Yes.

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Mr. Chetwynd.] It could have been greater.

Chairman.

3124. There are two distinct points here. There is the service, and that is what we are investigating now, rendered by the Post Office, to the Independent Television Authority; and then there are the rentals chargeable by the Post Office to the companies, and there are the charges by the I.T.A. to the companies. Those are two distinct things and we are now discussing why Sir Gordon does not charge more?—I am sorry, Sir, I may have been confused, but I took it that Members were questioning me on the second one of those two points.

Mr. Chetwynd.] Certainly.

Chairman.] Sir Gordon cannot answer for the I.T.A.

Mr. Hoy.] He can answer for the Post Office.

Colonel Crosthwaite-Eyre.] I think where possibly we have got at cross purposes, with great respect, is that Sir Gordon is congratulating himself on the fact that a direction given by him under Section 14, which is as to the establishment of the reserve fund has resulted in a surplus of £4 million. In fact, he is saying that because he has fulfilled Section 14 to the extent of £4 million he is justified in saying he need take no further action under Section 10.

Chairman.] Did Sir Gordon give instructions to the I.T.A.?

Colonel Crosthwaite-Eyre.] He must have under Section 14, to set up a reserve fund.

Chairman.

3125. Did you, Sir Gordon, in any way indicate that the reserve fund must be kept almost to a bare minimum?—No, Sir, but we have not had the resources to do more than put in the £½ million which we did last year. Without anticipating the result of the 1958-59 Accounts, we shall probably put in another £½ million.

Mr. John Hall.] I am not quite sure whether we are discussing the rentals charged by the Post Office, which, I thought, is what we were discussing?

Mr. Hoy.

3126. May I say how this question arose? I asked Sir Gordon if it was not

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a fact that in addition to the agreements there had been three letters sent by the Authority saying that it was not their intention to build up a significant surplus balance, and he said "Yes". Is that not right?—That is quite right, Sir, but might I make a point? Those covering letters were additional letters to the agreement between the Authority and the programme contractors. They had nothing to do with the Post Office in the direct sense.

3127. No, but you agree the letters were sent?—Yes.

3128. Then I asked you, when you became aware of them what action the Post Office took?—Yes.

3129. Because this seemed to me to be a denial of the Act itself, and you said that you took no action?—That is quite right.

3130. I am suggesting that you ought to have, because you were in fact

condoning a measure which was not implementing an Act which was passed by the House. Whether the letters were surplus to the agreements or not, the letters were sent, and the Post Office was aware of the three letters?—The Post Office was not aware of the letters until some time after they had been sent.

3131. Yes, but whether it was before or after, you were aware of it and you cannot escape responsibility by saying "Well, it was a little later before we got to know of them". You got to know of them?—Yes.

Mr. John Hall.] Could I, for my own guidance, know exactly in what way the Post Office is said to have offended against the Act, because I cannot see it?

Mr. Chetwynd.] Section 13.

Mr. John Hall.] I am afraid I do not understand in what way the Post Office have offended against Section 13.

Sir ROBERT FRASER, O.B.E., Director-General, Independent Television Authority, called in and further examined.

Chairman.

3132. Sir Robert, in your memorandum you say that Sections 10 and 14 of the Television Act define the financial duties of the Authority. Have you forgotten Section 13, which says that you must make a surplus and provides for the payment of the surplus into the Exchequer?—(Sir Robert Fraser.) No, Sir, I have not forgotten it. But with the greatest respect I do not find it possible to interpret it in the sense that you have just given to it. Our reading of Section 13 is that it provides for an eventuality. It seems to us that it gives to the Postmaster General and to the Treasury Ministers the power, if they wish to exercise it, to instruct the Authority in the disposal of such a surplus as might or might not exist. There is, it seems to us, no part of Section 13 nor any part of the Act which lays it down that it should be a financial objective of the Authority to amass and plan for an excess of income over expenditure beyond the fulfilment of the purposes and objects described in Section 10, and, of course, to a secondary extent in Section 14 which defines the reserve fund. Section 10, Sir, it seems to us, says that the Authority must provide itself with an income ample to secure this ;

and it then defines other objectives and in listing those objectives Section 10 does not say that it shall be part of the Authority's duty, as it seems to us, to amass a surplus—if I may put it as shortly as this—for the Exchequer.

3133. On the other hand Section 13 does say that you shall pay any surplus into the Exchequer. Obviously, the Act does anticipate and expect you to make a surplus?—With the greatest respect, Sir, I do not think that Section 13 does say that. Section 13 does not, in fact, place an obligation on the Authority except to comply with a direction from the Postmaster General and from Treasury Ministers in regard to the disposal of such surplus as may exist.

3134. Is it not your duty to see that a surplus does exist?—It is part of our duty to see that a surplus does exist, but that surplus must be brought into existence in any case. A surplus must be brought in to existence if the Authority is to fulfil the requirements in Section 10. As I was trying to explain when I was last before you, in order to comply with Section 10—let us just for a moment suppose that section 13 is not in the Act—the Authority must provide itself, as things have worked out, and as indeed it does, with an excess of income over its

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normal day to day expenditure which is of the order of 200 per cent. Now a surplus of £2 out of every £3 of income you receive is a very substantial surplus. I think, perhaps, the real question is whether it is correct or not correct to interpret Section 13 as laying upon the Authority a further obligation still further to increase the surplus which must arise in fulfilment of Section 10 in order that it may be available for payment into the Exchequer; and we have, as I said last time, Sir, never so read Section 13.

3135. In your evidence last time you were here you agreed that you would inevitably have more regard to the ability to pay when fixing the terms of future contracts. Under future contracts we assume that this time you will see that you will fix a rental which is adequate to the profits which will be made? Will you do that?—I thought that what I said last time, Sir, when I was asked a series of questions about that, was that in determining the rentals in the few contracts that the Authority still has to make, the Authority did not propose to depart from the levels of rentals that exist in the contracts that we have recently made. I said, you will remember, Sir, that there were two reasons for that. Firstly, that it was now only companies that could expect a relatively small income and, in our view, a relatively small profit, that we still have to appoint and that we were not anxious to introduce higher rentals that could be regarded as a discrimination against the smaller companies, particularly since we had looked to them to incur special expenses in providing regional programmes; and secondly, if we were to try to relate our rentals to their profits, which of course would be a new feature in the Authority's financial policy, we were not at all sure, if we were to try to do that, that in fact we would arrive at rentals higher than those we are proposing in any case to charge.

3136. Let me take questions 1144 and 1145. "Let us look forward to 1964. Do you not anticipate that inevitably you will have some regard, in spite of all you have told us, to the ability to pay", and you immediately said: "I would agree at once, Sir". If you are prepared to look at ability to pay in 1964 why are you not now?—I am in danger of repeating myself, Sir. Much the greater part of the financial business of the

Authority has been completed already and the rentals that will be paid by the new companies still to be appointed will never form more than a very small proportion of the income of the Authority. We would not wish to increase the rentals over the level of the existing rentals in the case of the smaller companies (a) because they are smaller companies with special responsibilities and we do not wish to discriminate against them, and (b) because, having regard to their ability to pay, we do not in fact think that the rentals we will be proposing ought to be any higher than they will be.

3137. But I was not dealing with small companies. That question was dealing with 1964. It was admittedly a hypothetical question; "You will have some regard . . . to the ability to pay", and you answered: "I would agree at once". Your answer to question 1145 was a complete abandonment, surely, of the policy you have adopted hitherto?—I am afraid I do not follow, Sir. It was a question, as I understand it, about 1964.

3138. Yes?—I went on to explain that nobody, of course, would know what the circumstances of 1964 would be; but, of course, it is not possible ever to fix rentals except after paying some regard to the ability of the companies to pay them.

Mr. Chetwynd.

3139. Sir Robert, you said when you were with us on March 10th that the rentals had been increased to the full extent possible under the contracts. Does that not mean, then, that the full 20 per cent. which is permissible has been made in every case?—Yes, there have been three increases in rentals of the main companies. Twice under the cost of living clause in the contract they have been raised. There is also in the first contract a provision for an automatic increase of one-twelfth after a certain period, that is automatic, and then, in addition to that, there is the discretionary power of the Authority to increase the rentals by a sum not exceeding 20 per cent. That last increase has been made, or notice has been given that it will be made, as soon as possible under the contract.

3140. With those whose contracts come to that stage is it your policy to go up to the 20 per cent. maximum in each

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case?—The provisions about which I have just been speaking apply to the first six contracts with the first six companies. The contracts made since then have embodied a higher rental than the original ones, so much higher that they do not include provision either for the automatic increase of one-twelfth or for the 20 per cent. discretionary increase. They are, in fact, higher than the earlier rentals become even after the application of the automatic increase and the full discretionary increase.

3141. Why was it that that was done? Are we not coming now to the point that was made, that it is ability to pay?—I was asked that question, I think, last time. The Authority has made it a point of policy not to engage in television activities on the basis of rentals that do not cover its costs in that activity. Now, the costs of operating television in relation to the number of people covered rise as you go down to smaller and smaller areas, and it would have been the case that unless we had increased the rentals to the figure that is standard in the second batch of contracts we might have been out of pocket, or very nearly out of pocket, on the total operation of television beyond the first six contracts.

3142. But then you are bringing in discrimination. You were saying earlier that you could not discriminate. You are actually discriminating between the companies before a certain date and those after a certain date?—But it is not a discrimination which rests on their relative profitability or size or capacity to pay. If it had so proved that it was not necessary to charge these particular rentals in order to comply with the provisions of section 10, we should not in fact have raised the rentals. We did not raise the rentals in order to reduce what might prove to be the profits of the second batch of companies. We increased the rentals because we should ourselves have been out of pocket unless we had done so.

3143. I want to get this quite clear: you mean, out of pocket in relation to each one of those individual companies or out of pocket overall?—We did not raise them separately. We costed the second batch of stations all together and the larger ones in the second batch, if I may use the word, we make a profit

from, and the smaller ones we probably will not.

3144. Are you not also able to use the profit you made on the first batch, those who got in on the ground floor, to enable you to run less economic services elsewhere?—We shall, in fact, really be doing something very like that. The whole of the Authority's excess, or virtually the whole of the Authority's excess, of income over expenditure comes from the first group of large companies. The rest of the operation will not do very much more than break even, and this, broadly speaking, has the effect of making life a bit easier, shall we say, for Ulster Television or East Anglia Television than it would be if they were asked to pay rentals which were in the same relationship to our costs, as happens with the first batch of companies.

3145. With the first batch, then, would you now maintain that you are getting as much from them in the way of revenue as you can reasonably expect to get?—Once again, it really depends on what one means by "as much as one can reasonably expect to get". It would be possible for the earlier companies, the larger companies, to pay us higher rentals and still be profitable companies. This really, I think, goes back again to what I think is perhaps emerging as a genuine difference of view on the interpretation of Section 13.

3146. The only point on Section 13 and Section 10 is that if you carry out Section 10 only, then how can you possibly have an excess to be made over under Section 13, because it is all accounted for under Section 10 under different headings?—First of all, there is, of course, the possibility of finding yourself, as most prudent financial managers would hope to find themselves, with a little more in hand than they might have first of all expected. Secondly, if one reads Section 13, it will be seen that it does not merely empower the Postmaster General to appropriate, as it were, any excess that exists after the fulfilment of the obligations of Section 10, in fact it is so drafted as to empower the Postmaster General to appropriate or secure the appropriation of any excess of income over revenue expenditure plus the reserve fund; and as, of course, you will see from Section 14, the Postmaster General himself is master of the reserve fund in the sense that he has power to

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direct the Authority either to pay into it or not to pay into it, and if to pay into it how much to pay into it. It follows, in fact, that the Postmaster General and the Treasury Ministers have in their power the disposition of the entire surplus of the Authority over its revenue expenditure in the conventional sense of the word, that is to say, its revenue expenditure excluding the reserve fund.

3147. May I turn from that now to your Memorandum,* paragraph 9? In paragraph 9 you say: "It would be difficult, if not impossible, to reconcile this duty with the selection of programme companies by competitive tender"?—Yes.

3148. Now, why do you say that?—I find it difficult to see how the simple test of ability and social responsibility would be other than confused if the Authority had before it when selecting a programme company a series of rival bids expressed in terms of different sums of money from applicant companies. No matter how hard one tried, it seems to me that it must introduce another and a foreign element into the control of independent television, the test of length of purse. I think there are also dangers, perhaps, in the introduction of competitive tendering for this kind of responsibility. There is the danger of over-bidding, and then the possibility of a defective programme performance because in fact the applicant company had promised to pay too much. There is also, of course, the possibility that the company may have promised to pay more than in fact it could pay. It gets into financial difficulties and so creates a difficult situation. Once again, Sir, I still think, if I may say so, this comes back to the fundamental difference of view. If one takes the Authority's view of Section 10, then there is no point in competitive tendering because it exhausts the responsibility of the Authority to secure an income which complies with Section 10, and that can be done, as we have shown it can be done, without the introduction of competitive tendering. If one says: "There is an obligation on you under Section 13 so to conduct your affairs as to provide money for the Chancellor," then, of course, I can at once see that competitive

tendering might seem the correct financial answer to that responsibility, but that is not a responsibility that the Authority has felt it right or possible to accept.

3149. In the allocation of your contracts, then, the only criterion you have is the suitability to put over the programme, and then the price is fixed later, is it?—No, the rental which the Authority expects to have is notified to all applicant companies before they apply. The only test, of course, other than competence to produce programmes, is that they must possess a certain minimum financial strength to prevent them getting into financial difficulties.

3150. Could you not adopt a policy, where you have satisfied yourselves that certain firms are financially competent themselves to provide services, that you could then take the highest bidder? What is wrong with that? That is the normal way, surely, in industry?—That is not, if I may say so, what is normal in this respect. This is a unique operation. It is not as if we were tendering for the building of roads, we are tendering for the discharge of a social and a statutory obligation, most of which is expressed in terms of qualitative standards which must be attained. Of course, if competitive tendering were introduced and if it were discovered that of A and B, exactly equal in every other respect, A had offered a higher figure, then, given that it was right for the Authority to swell its income to this extent, given that that is the proper interpretation of the Act, I see no reason why A should not be appointed. I think, in practice, because there is great competition, of course, to enter independent television, it would be extremely difficult not to give the impression wherever the Authority appointed a company which had made the highest bid that this had in no way influenced its decision.

Mr. Hoy.

3151. Sir Robert, if there is not to be competitive tendering the powers of patronage become all the greater, do they not?—That is not a word that I would use.

3152. Well, favour, whatever word you like?—No, I do not like either, Sir.

* See Appendix 5.

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3153. Under present circumstances, what you have the right to do is to give people power, and you have given it to them, to earn vast sums of money. Do you agree with that?—That is a consequence of the decision, it is not the object of the decision.

3154. I am not saying whether it is the object. I am saying that is the result of the decision, is that correct?—It is one of the results of the decision.

3155. Do you think that it is not your duty to get something more by way of rents? The agreement will come to an end in 1964, and there is nothing you can do before 1964, your hands are tied, I take it, until that date?—They are tied, Sir, but it would be only fair to say, if we are to use the phrase “tied hands”, that we have tied them ourselves and thought we were right to do so.

3156. Yes, I am not disagreeing with that. I am saying that is the position?—If they were untied we would do no different.

3157. You are saying you would not do anything different. What did you mean by saying on the last day you were here that you would in fact take its profits into consideration, the ability to pay?—When I said the ability to pay would be taken into consideration I meant two things: first of all, that nobody would be so foolish as to fix rentals without considering ability to pay. You might fix them too high, and secondly, of course, I think we were talking about the 1964 situation, when one would have probably to take different things into consideration. I also did say, in answering a question, that if we were now making the contracts we have made the rental figures might well be different. Indeed they might, but not for a reason which concerns the correct interpretation of Sections 10 and 13 respectively. Nobody could know when we entered into these contracts in 1954 and 1955 that there would so rapidly arise the possibility of great capital expenditure in the development of television, of the introduction of a second service, and of what will prove to be a highly expensive change, if a change arises, in the line system and the possible introduction of colour. If we were now calculating what should be our

proper provision for capital expenditure for the period 1954 to 1964, I think we should probably have arrived at a higher figure than we did in 1954 when we were, to tell the truth, then assuming that there would be no likely responsibility on the Authority other than the introduction of a single monochrome service with the existing line standards within the ten years of its life.

3158. As you say, Section 10 lays down what the Authority has got to do and what its revenue has got to cover, and I agree with that. But would you not also agree that Parliament had also expected that there may be a surplus over and above these things, otherwise subsection (2) of Section 13 would not have been put in the Act at all?—I have done my homework since my examination on the Debates themselves, and I cannot find, as I would expect to find, if that had been Parliament's intention, in the debates themselves any suggestion that the Authority was expected to provide for a surplus over and above Section 10. It is perhaps relevant to draw your attention, Sir, if I may, to the fact that the wording of Section 13 is repeated almost word for word in all other nationalisation Statutes,—in, I think it is, the Air Corporations Act of 1949, Sections 19 (1) and (2), and in the Atomic Energy Act of 1954, Section 4 (2), are almost word for word what appears in Section 13. Now, I may be quite wrong and perhaps I am going outside my own province, but I would have doubted whether anybody has ever interpreted these Sections in these two nationalisation Statutes as meaning that it should be part of the financial policy of these Corporations so to conduct their affairs as to provide a surplus for the Exchequer. Of course, Sir, it is perhaps also relevant to point out that the words “at least sufficient” in Section 10 to which you drew my attention at the beginning of my examination last time, those words in Section 10 are really a common form in nationalisation Statutes. The wording is slightly changed from “at least sufficient”, which is the wording of the Authority's Act, to “shall not be less than sufficient” in the other nationalisation Statutes. But there they are as common form in the Coal Industry Nationalisation Act, in the Transport Act, in the Electricity Act and the Gas Act. With great respect, I find it

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impossible so to construe "at least sufficient" in Section 10 with the permissive powers given to the Postmaster General in Section 13 as constituting a direction to the Authority consistently to provide an income which contains an element of surplus for the Exchequer beyond the elements of surplus which must accrue under a policy of fulfilment of Section 10.

3159. We have had an interpretation, Sir Robert. I do not know whether you will be helped by the Report of the Debate in which the Lord Chancellor said: "At least", and then said: "I repeat, at least". Would you not have thought that meant something rather more?—I think from the context it is clear what Sir David, as he then was, meant, or so it would seem to me. He was following an hon. Member who had said (and I think it is difficult to interpret what the then Home Secretary meant except in the context of this preceding remark) fortunately incorrectly: "The I.T.A. will run into very serious financial difficulty. The I.T.A. will not be able to pay its way. The Clause"—which is now Section 10—"will become a dead letter because the conditions that the Clause seeks to impose upon the Authority will not possibly be carried out". The Home Secretary said: "We have set a standard". You understand, the hon. Member had been saying the obligations of Section 10 were too great, the Authority would be unable to comply with them, and the then Home Secretary then said: "We have set a standard which is higher than that usually set for the public Corporations. Generally speaking, the public Corporations are subject to a direction to balance their accounts taking one year with another. We have all discussed that at considerable length. The effect of that is that they"—distinguishing them from the Authority—"have to run services at not less than cost but they are not bound to do more than that. In this case it is positively desirable in our view for a continued surplus to be earned. The Clause"—now Section 10—"therefore lays on the Authority a duty to secure that its revenues attain as soon as possible a level at least sufficient—I repeat the words 'at least'—to cover in full all revenue expenditure and to provide for capital expenditure at first in part and as soon as possible in full. I think it

was right to take that healthy and optimistic view of what will happen. To stress that point I have expressed the view that that is the wording of the clause". Now, I read that as meaning that the Home Secretary was defining it as the responsibility of the Authority to do something a great deal more than was expected under the nationalisation Statutes of the other public Corporations, and in fact, as I have said too often, the effect of the observance of Section 10 is to provide us with a surplus each year of about 200 per cent. of our expenditure. That, it seems to me, is what he meant. If he meant by this interpolation, "I repeat the words 'at least'", that the Authority was consciously and deliberately in observing these obligations to amass a still further surplus for payment into the Exchequer, I ask myself, as I asked myself again and again through those Debates, why did he not say so? One can search the Debates from the top of one column to the bottom of the next, and one cannot find any Government spokesman, for that matter one cannot find any hon. Member, suggesting that it should be part of the Authority's responsibility to earn a surplus for the Exchequer.

Mr. Thornton.

3160. I think you may perhaps have answered this question when you were before us before, Sir Robert, but what was the reason why these contracts were entered into for such a long period as to 1964?—The explanation for that was the great expenditure necessary to establish oneself as a programme company plus the very great, as it seemed at that time, political uncertainty, the uncertainty of the tenure of the contract. Every single applicant group that we had in the early days took the line, and they had the Authority's sympathy in this: "This is not possible for us unless we can be sure of continuous operation through the period of the ten years. If there was no political doubt about the future of independent television, if no body of political opinion was likely to stop the system as a whole, we would be perfectly prepared to operate on the Australian or on the American contracts, which are in fact mostly terminable at one, two or three years. But with this degree of uncertainty over us we cannot really, in talking to you, come into an operation in which we shall have

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to spend £4 million, £5 million or £6 million on buildings and equipment before we can do our job properly as a programme company."

3161. Therefore, who was it who objected? Was it not suggested, and was there no objection to a break clause being in these contracts? Would you have objected if a programme company had wanted a break clause in after part of the period, or was it the programme companies who objected to such a thing? —I do not think either of us were very keen on the idea, really. I think we both felt: "Well, all we know is that unless it is repealed or drastically amended before 1964, here is a ten-year period. Here are, so far as the Authority is concerned, as it seemed to us, perfectly clear, financial instructions from the Act as to our duties. Let us make financial arrangements which from the beginning put the Authority in a position of complying, as it seems to it, to the full with those obligations and leave it at that".

3162. Is it not unusual for a contract to be entered into for ten years with so many uncertainties on either side?—I think one can only say the uncertainties would have been greater still had they not run for the 10 years or of course the nine years as it was effectively. In the last analysis, I think, it would have been the programme companies, at that time the applicant groups, who would not themselves have wanted to enter into contracts which gave them a certain life that ended before 1964 or could end before 1964.

3163. On the question of the programme companies, and the reason why there is not competitive tendering, when you considered the suitability of a programme company, who was it you had in mind, the technical people behind the company or the directors who were to operate the company and be responsible for the management of the company? I notice that the first four companies that were formed and with whom you entered into contracts in 1955, and A.B.C. Television in 1956, in those four companies the numbers of Directors are eight, five, eleven and five. Now, in the later companies the numbers of Directors are six, ten, sixteen, thirteen, ten, in numbers of Directors. Then, Independent Television News seemed to operate the rather unusual system of changing the chairman every six months. What I want to know is, do you have regard to the technical

competence of the people with the company or the directors who would be in charge of the company?—Inevitably, Sir, it is really the first, it is the quality of the directors and of the companies which they already represent. At the time that groups make their application to us they have not of course taken on subordinate staff. They can in a few cases tell us that they have it in mind to approach this or that person as a programme director, and they very often do, but really one is in a position of having to take the decision in the light of one's estimate of the leaders of the company, the members of the board and other senior people associated with the group.

Chairman.

3164. Why did you send those letters to three contractors indicating that you would consider a reduction, in view of the fantastic profits they were making? —They were making no profits at all at the time the letter was sent and, in fact, they lost a great deal of money for at least twelve months, if not more, after the date of the letter.

Mr. Thornton.] What was the date of the letter?*

Chairman.

3165. If I remember the phrasing rightly the letter was an indication that under no circumstances would you want a surplus?—We are once again back, if I may say so, to the ambiguity of the word "surplus". The Authority does want, does secure and must have, if it is to discharge its statutory duties under Section 10, a very large surplus indeed; but it is true, as I hope I made plain in my replies to my last examination, and I would be sorry if there were any doubt about it, that the Authority has not made it a part of its financial policy deliberately to accumulate a surplus so that the Exchequer might have it under the operation of Clause 13. I misled you, Sir, when I was last being examined on this point, if you would just allow me to say so. I was asked whether I was aware of any conversations or consultation between the Authority and the Postmaster General in these early days, and I said truthfully, describing my state of mind when I was answering the question, that

* Note by Witness: It was May, 1955 in three cases. In the fourth it was February, 1956.

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and Sir ROBERT FRASER, O.B.E.

, [Continued.

I was not aware of any. I now find that there were, in fact, such consultations and if I do not describe them accurately, perhaps Sir Gordon will correct me. My then Chairman in the early days before the contracts were signed, Sir Kenneth Clark, asked the then Postmaster General for his advice as to the interpretation of the phrase "at least sufficient" in Section 10. There is no record of the consultation except a few lines in the minutes of one of the early meetings of the Authority where my then Chairman is recorded as having told the Authority that he had asked the Postmaster General's advice on this point and had been assured that it was not the Postmaster General's view that it was part of the Authority's responsibility to make a profit, and, as I understand it, this version of the conversation the then Postmaster General has lately confirmed. I am sorry to be so long, but I am genuinely anxious to try to help the Committee in the resolving of what I see as a very difficult problem. Of course, the phrase "make a profit" is open to various interpretations. My Chairman, when he asked that question, must have known from his own reading of Section 10 that the observance of Section 10 could not be secured unless the Authority were going to make a very large profit indeed, as I have said, £2 of profit out of every £3 of income. He must have known that, so he could not have meant when he asked the Postmaster General for his advice: "In your view is the Authority supposed to secure an excess of income over expenditure, which is all that is required of the other public corporations?" He must, it seems to me, have meant: "Do you take the view that it is part of our responsibility to do more than comply with the requirements of Section 10?" I do not see what else he could have meant than that. (Sir Gordon Radley.) I confirm that, Sir. In fact, I think I did say more or less the same as Sir Robert has said just now in replying to a question before he came in. The Postmaster General of the time told me recently that he did express the opinion that the words "at least" in Section 10 did not represent a charge to the Authority to make profits over and above the sums that it was necessary to provide under the Section.

3166. Sir Robert, what are we to assume when the contracts run out in 1964? Are we to assume that they will

be let on similar terms and that these enormous profits will still accrue from these publicly granted monopolies, or do you propose that something should go to the Exchequer?—(Sir Robert Fraser.) I think, first of all, one must ask whether by that time there is or is not a third competitive television service, no matter who is responsible for its conduct, which is selling advertising time in the same areas as the existing companies, each one of which, of course, has a monopoly in its own region. Independent television is not a monopoly because there are eight independent companies—

3167. No, Sir Robert, that is begging the question. The question is not as to whether profit will be made, but that if profits are made you will still debar yourselves or the Exchequer from sharing them. That is the question I am asking you, not to forecast whether or not profits will be made, but if they are made when you come to review the contracts are you proposing to carry on the same policy of allowing the whole of the value of the monopoly to go to the private entrepreneur?—Would it be for us to propose it? By this time the Television Act will have lapsed. If the Television Act were renewed in exactly the same form as that in which it now stands it would be the Authority's interpretation of it that the only obligations that it places on the Authority are to comply with the requirements of Section 10. If that is an incorrect interpretation, if it is part of the Authority's responsibility to act as a fiscal agent, as an agent of the Exchequer operating on the profits of the programme companies in the interest of the Revenue, I would, with respect, suggest that that must come to the Authority in the form of a Ministerial direction or a decision by Parliament.

3168. One further point. You described the contracts as confidential?—Yes.

3169. In making our Report it will be for the Committee to decide what it regards as confidential or not?—Well, it is not a decision which I can dispute, Sir.

3170. In view of what you have said I thought I had better warn you that it is for the Committee to decide how far they feel that disclosure must be made?—Very well, Sir, I will report that to Authority.

THURSDAY, 7TH MAY, 1959.

Members present:

Sir George Benson, in the Chair.

Mr. Arbuthnot.
Mr. Chetwynd.
Mr. John Hall.
Mr. Cledwyn Hughes.

Mr. Stevens.
Mr. Thornton.
Sir Colin Thornton-Kemsley.

Sir EDMUND COMPTON, K.B.E., C.B., and Mr. J. MACPHERSON, called in and examined.

TREASURY MINUTE ON PARAGRAPHS 24-29, 30-33, 34-37 and 38-44 OF THE THIRD REPORT OF THE COMMITTEE OF PUBLIC ACCOUNTS, 1957-58.

Mr. A. J. D. WINNIFRITH, C.B., Permanent Secretary, Ministry of Agriculture, Fisheries and Food, called in and examined.

Chairman.

3171. This is your first appearance before the Public Accounts Committee, Mr. Winnifrith?—Very much my first appearance, Sir.

3172. I understand you have only been in your Department for about a month?—Just four weeks.

3173. I think the Committee will realise that you have rather a difficult job and should either of your colleagues be able to reply more conveniently that will be perfectly in order?—Thank you very much.

Chairman.] Will Members turn to the Treasury Minute on Paragraphs 24-29 of the Third Report of the Committee, Lime Subsidy? I have no questions.

Mr. Thornton.

3174-5. The Treasury Minute, Mr. Winnifrith, says it is proposed to appoint an independent chartered accountant to advise whether the prices approved for the purposes of the Agricultural Lime Scheme should be varied?—Yes.

3176. Has the chartered accountant been appointed?—Yes.

3177. Who is he?—We have appointed Messrs. Peat, Marwick and Co., who carried out the original survey in, I think, 1937-38, and they started work on April 15th.

* * * * *

3180. I take it that the actual costs of selected suppliers will be checked by the accountant?—Yes, indeed.

3181. Will the selection of them be done by the accountant or by your Department?—We made the selection and the aim was to get the right kind of coverage. This is a complicated industry dealing with different types of material ranging from soft chalk to very hard limestone, so you have got to cover all these types. You have got to cover the different geographical areas where conditions vary, and you have got to cover the size of the unit because the big firm, obviously, is a different proposition from the small one. We hoped that by casting the net wide enough we would get a really representative sample.

3182. It is your Department who has made the selection?—We made the selection.

3183. Have you given the accountant any guidance as to what may be considered a fair and reasonable price?—No, not in terms. We have left that to him, feeling quite certain that he will know what are the different yardsticks that one ought to apply. If the Committee are in any doubt there is still time; we can make points to him.

3184. Just one last point: when do you expect the report to be available?—They have been at work since 15th April. We think, in about six months. There is a wide sample to be covered. I see that we asked them to look at 67 producers and that was to secure the coverage we thought was necessary from a statistical point of view. In addition, we thought we would deal at the same time with a number of applica-

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[Continued.]

tions we had had from some of the producers who had asked for increased prices, and we thought that they might as well be thrown into the enquiry as well. Obviously, they are only selected by their own choice and they are not ideal from the point of view of getting the wide coverage we want. But that will mean—there are 32 of them—that Messrs. Peat, Marwick & Co. will be looking into 99 different works and I think they will need that time to finish their job.

3185. I understand that those who have asked for increased prices are going to be additional to the 67 who are being investigated?—Additional to the 67.

Mr. Arbuthnot.

3186-7. Mr. Winnifrith, how does it come about that it has taken from August of last year, when the Committee reported that something ought to be done, until 15th April of this year for auditors to be appointed? It seems a very long delay, does it not?—
* * * It has taken a long time, but we were particularly anxious to get the coverage right.

Chairman.

3188. Paragraphs 30-33, Egg Packers' Costs. Last year the Committee were told that there was a case for reducing packers' margins by as much as 5½d. per long hundred, and approximately £1¼ million was involved. Can you tell us whether the Egg Marketing Board have in fact made any such cuts?—
Yes, Sir; it is rather a long and complicated story. As you say, when my predecessor was giving evidence he showed, and I think convinced the Committee, that the excess over 1½d. which we regarded as the right rate of profit was no more than some 5½d. The next thing that happened was the February, 1958, Price Review. At that point under the new system we were determining not a separate figure for the packers and another one for the producers but an overall price, and when we proposed and in fact secured a reduction of 1½d. a dozen—not a long hundred—we had in mind the possibility that on the evidence we had produced it would be right for the packers to take a reduction of 5½d. a long hundred. Now, if the Egg Marketing Board had in fact reduced the figure by that 5½d. then we would

have come down to this profit figure of 1½d. What, in fact, the Board did was rather different. Their adjustment of the packers' margin took the form of a reduction not of 5½d. but of 2½d. So, on the face of it the Board left the packers with 3d. more than the 1½d., which we thought was the right figure. Now, this is largely the Egg Marketing Board's business, but I think the Committee would want to know how much of that 3d. the Board would claim was not due to increasing the rate of profit but to other causes. The answer to that is that the Board regard 2½d. of that 3d. not as profit at all but as a sum necessary to recoup the packers for working expenses.

3189. For increased costs on working expenses?—For increased and disallowed costs on working expenses. That still leaves a balance of ¾d. and there the position quite definitely is that the Board have deliberately decided to give the packers a profit of 2½d. rather than 1½d. So that is a clear ¾d. increase in the working profit.

3190. Why did they decide that?—They decided that, I understand, because the packers had said to them that they were not getting enough. They produced certain *prima facie* evidence and the Board thought that satisfactory. I may say that the packers are not satisfied even now. They say that they are entitled to still more, and as a result the Board have set on foot a further costings enquiry of their own.

3191. How much is this going to save in a full year, if you stick to the present arranged prices?—I am sorry, Sir, I am not quite sure that I follow that question?

3192. This was done in the middle of a year?—Yes.

3193. What would it save in a full year to the Exchequer?—A reduction of what, Sir, 3d. or 1d.?

3194. A reduction from 5½d. to 3d.?—3d. would be £840,000. I hope, Sir, I have convinced you on behalf of the Board that 3d. is not the right figure if, as they claim, an element in that is increases in working costs.

3195. It is a bit difficult to form any opinion. Why did it take so long to get this arrangement? It would have been much better if we had got all

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[Continued.]

these costings done prior to the guaranteed price for 1957-58 being fixed?—You are referring now, Sir, to the original cause of complaint, why the Ministry did not get down to this costings enquiry in time to hit the 1957 Price Review?

3196. Yes?—The first reason is this, that if we were going to have the results of this enquiry by February, 1957, we should have had to start the costings in January, 1956. We know now from later experience that that is the time that a costings enquiry takes. Now, in January, 1956, as it happens we had only just started on the examination of a previous costings enquiry. We could not have said to the packers that we had not got time to get down to that earlier enquiry, particularly as it was throwing up a number of points of dispute, but that we were just going to start on a new enquiry.

3197. Have you now, as a result of this experience, been able to speed up the time of your enquiry?—In future it will not be for us, it will be for the Board, because under the new arrangement we negotiate an overall price and it is for the Board to decide how much of that price is to be allowed for the packers' part in the business.

Mr. Arbuthnot.

3198. Are there any packers' representatives or egg packers on the Board?—I am almost certain there are, because in this business you find people with three hats on their heads. They are producers, they are packers and indeed they are wholesalers and often retailers. So it would not surprise me at all if on the Board there were people who, though elected by producers, were in fact taking an interest in the packers' part of the business.

3199. What was the increased cost of working expenses due to?—It is largely this question of transport. I believe that of that figure I mentioned no less than 2d. was on account of the expense incurred by the packers in collecting eggs beyond a radius of ten miles. Now, that was an old bone of contention when the Ministry were responsible. They had argued that this was an expense which should fall on the producers and should be dealt with in that way. Presumably the Board decided that it was just as convenient from their point of view, and perfectly fair to the producers, to

regard that as an expense which could be loaded on to the packers.

3200. So that the additional help that the Chancellor has proposed to give in the present Finance Bill should bring down the increase of costs that the packers are claiming?—The packers will still have to have this expense of transporting the eggs. The job will be there and the job will cost them money, but, of course, insofar as transport becomes a cheaper operation the cost of the operation will come down.

Chairman.

3201. Have you any estimate of what the total difference will be that these changes will make to the Exchequer?—The switch to the new system?

3202. The new system, yes?—It has this result, that in so far as the packers' remuneration is increased that will be at the expense, not of the Exchequer at all, but of the producer. We negotiated in the Price Review a figure which we think will secure for the producer a fair return. It is then for the Board out of that figure to decide how much goes at the producers' expense for the packers.

3203. Does that mean that it makes no difference to the Exchequer?—No difference.

Chairman.] Paragraphs 34-37, Milk Subsidy. I have no questions.

Sir Colin Thornton-Kemsley.

3204. Mr. Winnifrith, in the final paragraph of the Treasury Minute on our Report we are told about this advisory committee which your Ministry has now set up?—Yes.

3205. Can you tell this Committee something about it? Can you tell us who composes it, what its terms of reference are, when it is going to report, and so on?—The first point I must make is that the committee has not yet been set up. We are hoping it is going to be set up in a matter of weeks now. As to its composition, the one thing we are quite certain about is that it will have to include a first-rate statistician and a first-rate chartered accountant, because it is of the essence of the job to be done that you should have those skills. I do not really like to hazard a guess as to how long the committee will take to produce their report. It will be a big job.

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[Continued.]

3206. Can you hazard a guess as to how long it will take your Ministry to set it up?—Yes, I said in a matter of weeks. I should hope, within a month.

3207. Although this is not strictly within your purview, is Scotland going to be represented on that Committee?—I am told they are.

Mr. Chetwynd.

3208. It is referred to as an independent committee. Independent of whom? Is it a Ministerial committee outside your Department or a completely non-governmental body?—It will be appointed by the Minister but the persons chosen for it will be persons who have an independent outlook.

3209. Will they be people not connected with the Government? Will they be from outside, in other words?—They will not be Ministers.

3210. Will they be Civil Servants?—No. For instance, the chartered accountant and statistician I am talking of will definitely not be Civil Servants. I do not really know until we have appointed the committee that we can give you an authoritative answer as to who is going to be on it.

3211. All I want to know is that it will be independent of your Department?—Yes, it will report to the Minister as an independent body.

Chairman.] Paragraphs 38-44, Potato Marketing Board. I have no questions.

Mr. Arbuthnot.

3212. I would like to ask Mr. Winnifrith, has the new guaranteed scheme now been introduced?—Yes, Sir, for the 1959 crop.

3213. Would you describe it briefly?—The basis of this scheme is that when it is fully working, and it is not fully working yet, the only potatoes which will come within its purview will be the potatoes that actually secure a market for human consumption. The prices secured for those potatoes will be recorded by the buyers and sent up to the Potato Board. From them the Potato Board will be able to calculate the average actual price realised by potatoes that secured a market. That average price will be contrasted with the

guaranteed price which in this year, is £12 14s. per ton. If the realised price is less than the guaranteed price then the Government pay to the Board—not to the producers, to the Board—the difference. I said that the scheme was not yet under way. In the initial year 1959-60 we have taken, as the assumed quantity of potatoes to be guaranteed, 3,809,000 tons. Therefore, in this year the difference between the £12 14s. and whatever the actual realised price is will be calculated on that quantity of potatoes. The result of all that is that if there is a difference at all they will get that sum of money. Now, of that sum seven-eighths will be paid to the Potato Marketing Board and one-eighth will be paid to the Government of Northern Ireland, and it is the business both of the Potato Board and of the Government of Northern Ireland to decide what use they make of that sum for the benefit of producers.

3214. Does that meet with satisfaction, so far as the farmers producing potatoes are concerned?—Judging by the ugly noises which I am told were heard during the negotiations, the producers doubt whether this scheme will be as profitable to them as the old one. The great difference, of course, is that under this scheme we pay the Board and not the producer. Secondly, we are only paying for potatoes which actually find a market for human consumption.

3215. Mr. Macpherson, I see that the Treasury expresses the view that the new arrangements will lead to a reduction in the cost of the guarantee to the Exchequer. On what ground do you base that belief?—(Mr. Macpherson.) Under the old arrangement, Sir, the producer was permitted to sell all his produce to the Board at a guaranteed price if he could not do any better on the market. Therefore, if there were a substantial surplus of potatoes and the price on the market was below the guaranteed price there really was no incentive on him to sell; and he could and in fact did rely on getting paid for his crop at the guaranteed price. Under the new arrangement, as the Accounting Officer has explained, there will be a limit on the amount of the subsidy and there will be an incentive on the producer to get the best price on the market he can.

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[Continued.]

CIVIL APPROPRIATION ACCOUNTS (CLASSES IV-X) 1957-58.

CLASS VIII.

VOTE 2.

AGRICULTURAL AND FOOD GRANTS AND SUBSIDIES.

Chairman.] Will Members turn to the Civil Appropriation Accounts, Classes VI-X, Class VIII, Vote 2, Agricultural and Food Grants and Subsidies, paragraphs 63 and 64 of the Comptroller and Auditor General's Report? These are purely formal and descriptive. I have no questions.

Mr. Chetwynd.

3216. One question, for my information. Why do you calculate deficiency payments for barley, oats and mixed corn on an acreage basis and wheat and rye on a delivered weight basis?—(Mr. Winnifrith.) For this reason, Sir, that wheat is a crop which is, generally speaking, grown to be sold and therefore the great bulk of it is in the natural course of business coming into the market so that we can, without any artificiality, find out the price at which it changes hands in the ordinary course of trading. Now, in the case of those other crops it is a very different story. Four-fifths of the oats grown, one-third of the barley grown, and all the mixed corn never leaves the farm, it remains there to be fed to the stock on the farm; and it would therefore be a highly artificial business to force that into a nominal sale.

Chairman.

3217. Paragraphs 65-69. In the Ministry instruction to merchants referred to in paragraph 65 what, exactly, is meant by "exceptional treatment of wheat"?—This is the circular letter that we sent round, is it, Sir, that you are referring to?

3218. Yes, referring to wheat that requires exceptional treatment?—This undoubtedly is referring to wheat of high moisture content of the sort that has to be dried before it can be turned into flour, and this refers, therefore, to the potentially millable wheat on which we make this arbitrary deduction of 4 per cent. when arriving at its tonnage.

3219. The words a couple of lines lower down: "sold as wheat capable of being converted into millable wheat and dried by an authorised bulk dryer

operator" mean that the exceptional treatment is this drying process, I take it?—Yes.

Mr. Chetwynd.

3220. How do you arrive at 4 per cent. as the difference between one and the other?—4 per cent. is really a rough working rule. When the Ministry were operating a drying plant, in the Ministry of Food days, they got a certain amount of experience as to the weight which was lost in the drying process on average, and that suggested this figure of 4 per cent. No-one pretends that it is a particularly scientific figure; it is a figure which gets you, on rough justice, about the right deduction.

3221. Are there any complaints about it from either the merchants or the growers?—I do not think we have had any suggestions lately that it ought to be increased. When we started to negotiate with the producers, the producers were in favour of rather better treatment from their point of view.

Chairman.

3222. The last few lines of paragraph 66 read: "One firm . . . stated that in the absence of any reference to moisture content . . . they could only continue to certify such wheat as millable". What is the attitude of the Treasury to that? Do you regard it as a justifiable attitude or not?—I would like to make it clear, Sir, that the wheat in question here was not this potentially millable wheat; it was, in the view of the merchant who gave the certificate, millable. It admittedly was of high moisture content, but he still maintained that it was millable.

Mr. Arbuthnot.

3223. After drying?—No.

Chairman.

3224. Before drying, as it was?—As it was. All sorts of things happen after a merchant has bought the parcel. It might be dried or it might not be dried. It would certainly be treated in all sorts of ways before it found its way into the

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, [Continued.]

flour mill. But he maintained in its condition as presented to him it was millable.

3225. And that might contain as much as 24 per cent. of moisture?—Yes. I wonder if I could say something about that 24 per cent. which is mentioned in this paragraph?

3226. Yes?—The Ministry, of course, is very much alive to the need to watch this situation and to see that the merchants carry out their instructions to grade as millable wheat only wheat which is fairly so described. Therefore, we have a system for questioning any transactions which take place at what looks like an undue price below the average. It so happens that in this series of transactions which are referred to by the Comptroller and Auditor General there were cases of wheat with a moisture content as high as 24 per cent. But, in fact, on that occasion there were 50 parcels involved, 50 cases where questions had been raised, and of those 50 only two parcels had moisture as high as 24 per cent. The straight average for the lot was 20½ per cent.

3227. That is considerably above what you would regard as a normal average. Surely here you have one of your agents, in effect, defying the Ministry, have you not? He is acting as your agent?—Yes.

3228. And he is simply ignoring the instructions of the Ministry?—With respect, Sir, I do not think so. We have not laid down a standard of 18 per cent. We have never said that that is the definition of millable wheat and we would be very loth to do it. We have left it to the judgment of the merchant to decide from his experience of the trade whether the sample is millable or not. He is quite within his rights if he says, in certain conditions, that wheat with as high a moisture content as 20½ per cent. is millable.

3229. Sir Edmund, have you anything to say about this?—(Sir Edmund Compton.) Nothing beyond what is already in my Report. The point that I was trying to bring out in the sentence you mention at the end of paragraph 66 was that the merchant in question was claiming that, in effect, he must certify wheat as millable until he was told what "exceptional treatment" meant. He claimed that reduction of moisture content was not exceptional treatment. The

point I was making was that that seemed *prima facie* inconsistent with the Ministry's instructions which make it clear that exceptional treatment is concerned with nothing else than excessive moisture.

3230. Why cannot the Ministry lay down quite categorically and definitely that that is the position, that wheat above a certain content of moisture is not millable in the strictest sense?—(Mr. Winnifrith.) Could I answer that at some length if you do not mind, because it cannot really all be settled in a sentence? The first point I would want to make is this: if there is anything wrong here of course we must put it right, but the first thing to find out is, is anything going wrong over an area that is appreciable, and on that I would like to demonstrate to the Committee that the likelihood under our present arrangements of wheat being graded as millable which ought not to be so graded is very small. I have already referred to these 50 parcels and to those, on average, having a moisture content of only 20½ per cent. The other thing I would like to point out to you about that particular series of transactions is that the total weight of the wheat involved was no more than 100 tons. 100 tons is a very small amount in the total crop, which is 2½ million tons. Of course, you may rightly say that we are only dealing here with those transactions which came to notice; and what I have done in the last month has been to enquire very carefully what is likely to be the total area of damage. I have already told the Committee that we have this system of questioning any transactions where the price being so low indicates that wheat may have been regarded as millable which was not millable. What I am told is that the number of transactions that come to notice on the basis of that instruction in an average year—in the last two years as a matter of fact—has been no more than 1,500. Of course, it is much more important to know what quantity of wheat that represents and here again I am told, but this is only an estimate but it seems to be about right, we can take it that that means a total of 15,000 tons. Now, 15,000 tons is very, very small indeed out of 2½ million tons. Again, it would be entirely wrong to assume that of that 15,000 tons all was wrongly graded as millable. Some of it may have had a low price, and that comes out in the explanations we

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[Continued.]

get, for other reasons; it may have contained a high proportion of tail corn, or dirt. There may have been a variety of reasons which accounted for the price. In general, we have got no doubt whatever that the quantity of wheat about which there could be question as to whether it was millable or not is very small indeed, so small in regard to the total that one only ought to institute a remedy if the remedy was practicable and not too costly.

3231. Surely it is not too costly to give an instruction that wheat which is regarded as millable must have not more than 18 per cent. of water?—I think it might be, Sir, and that is one of the reasons which has led me to feel that it would be wrong to adopt this system, even if it were practicable. You see, if we started on this percentage standard and said that all wheat which was moister than the 18 per cent. standard should automatically suffer an abatement, we should in justice have to do something comparable for the one which was drier than that standard. We should have to give a bonus for those samples of wheat—you do not think so, Sir?

3232. I see no reason. You set a minimum standard below which you do not pay the full price. I do not see why you should give bonuses where they happen to be slightly above?—It might not be “slightly”, it might be very considerably. I am told you can get very dry wheat indeed in certain conditions.

3233. If you set a minimum, you set a minimum?—If I do not convince you on that, may I give you another reason why this would cost the Exchequer money? If we were going to have a fixed 18 per cent. standard, we should have to provide for meters recognised by a central Government standard as accurate. We should have to keep those meters up to date. We should have to provide for appeals, and all that would mean quite a considerable number of extra Civil Servants to work the system. When, if we are right, we are only talking about a maximum of 15,000 tons, the game would not be worth the candle.

Mr. John Hall.

3234. I am rather interested in that. This question of management of moisture content is something which is done by merchants every time they buy because, as I understand it, if the moisture content is above a certain figure they pay

a lower price? Indeed, in paragraph 66 the Comptroller and Auditor General refers to a reduction of price where the moisture content exceeds 18 per cent. “The prices paid to the growers”—by the merchants—“had been reduced where the degree of moisture exceeded 18 per cent.” If that is so they must have a fairly accurate method of judging and assessing that moisture content which is acceptable to the grower. Do you agree with that?—I quite agree, to this extent, that that was my immediate first reaction, that if this measurement was going on, well, why did one not adopt it? But what I was told was this, that there are 2,000 authorised merchants. Of those, a full half conduct their sales without any use of meters at all. They have never used a meter in their lives, and at that stage of the business when they are striking the bargain, they would find it absolutely contrary to their way of trading to introduce that method.

3235. But, nevertheless, their assessment of the moisture content of the wheat they have bought has been accepted more or less without question, perhaps after argument, but has been accepted by the growers; and, indeed, there have been many occasions, presumably, when they have paid the grower a lower price because the moisture content has been above what they thought acceptable at the full price. Is that not right?—Yes. You are referring now to the merchants who use meters?

3236. To the merchants who either use them or do not, because those who do not use meters do it, as you say, on an assessment over long experience?—Yes.

3237. And farmers who know their merchants become accustomed to accepting the judgment of the merchants, is that right?—Yes.

3238. So, I do not see that the Ministry themselves would find any greater difficulty if they themselves laid down a moisture content. Could I possibly follow on that and ask you another point about the custom of merchants? You were saying of the 50 samples you last tested, there were some as high as 24 per cent., but the average came out at about 20 per cent.?—Yes.

3239. That means, presumably, that there are a number of parcels between 22 and 23 per cent. moisture content?—Yes.

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[Continued.]

3240. At what percentage of moisture content would the generality of merchants refuse to certify the wheat as being potentially millable?—I do not think there is any universal answer. I think the answer will vary from year to year, from harvest to harvest and from district to district. It will just be what in that locality, with the weather conditions that you have got in that area, tends to be the average practice, and that is one of the other difficulties of adopting a fixed standard.

3241. Because it tends to vary from area to area?—We should have to fix it from year to year, and it would be appallingly difficult to fix it in advance, and if one was to be fair one would have to provide for local variations.

3242. Does the wording of your circular, which is referred to in paragraph 65, really mean anything in that case, in which you referred to wheat requiring exceptional treatment? How is the merchant to arrive at any assessment of what "exceptional treatment" really means?—He has just got to use his judgment and, of course, that is the essence of his life. He is using his judgment the whole time.

3243. Let me take it a stage further. If there is a reduction in the price paid by the merchant to the grower if the moisture content exceeds 18 per cent., which is the figure mentioned here, presumably the price continues to fall as the moisture content rises? As I understand it, if it is certified as millable it all goes in for the eventual subsidy on the basis of the gross weight of the wheat, including the moisture content, is that correct?—Yes.

3244. So that, in fact, what is happening is that the subsidy that is paid on that high moisture content wheat is very much greater than it would be had the merchant been instructed to reject wheat above an 18 per cent. moisture content?—You are quite right. There are two potential dangers to the taxpayer here, first, that the average price is depressed and, secondly, that the producer is paid for water and not for wheat; but, as I was trying to point out just now, it is a question of degree, and if I am right in my estimate of the area of damage, first of all the overall average will not be affected at all, because a comparatively low price on even as much as 15,000 tons is not going to depress the national

average worth mattering about, and, secondly, although the producer is admittedly in those cases getting away with something, he is not getting away with much.

3245. When the Ministry itself bought wheat, did it have any figures to guide it in its purchases? Was there any limit of moisture content which the Ministry itself used as a guide?—I do not think I can answer that question. I will find out. (Sir *Edmund Compton*.) I could perhaps say for the record that when, in 1954, the Ministry itself was buying wheat through its agent, which was Re-commissioned Mills, their circular dated 5th August, 1953, stated: "In general, wheat containing natural moisture exceeding 18 per cent. is not regarded as being of millable standard."

3246. Thank you very much. If that is so, if that was the Ministry's attitude at that time when they were buying wheat themselves, I find it very hard to understand why the Ministry feels it cannot be done now, now that the buying is being done by merchants who, presumably, are experts, and probably the same agents who were being used when the Ministry itself was responsible?—(Mr. *Winnifrith*.) I do submit it was a very different state of affairs when we were the buyers, and I would like to look further into this business because I was certainly under the impression that the 18 per cent. standard was applicable only to the wheat bought by Re-commissioned Mills.

Chairman.

3247. Could you let us have a paper on that?—I will let you have a paper* on that, Sir.

Chairman.] I think that is the simplest thing.

Mr. Chetwynd.

3248. Is there any possibility of connivance between the grower and the miller because of this system and if so, to what extent?—I would never say there was never any possibility of connivance, human nature being what it is. I cannot quite see how it could be worked without perjury. We examine all these transactions in our machine and we are on the watch for this sort of thing, but I do not think you can legislate against perjury.

* Information supplied: not printed.

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[Continued.]

3249. No, but if a buyer pays a low price for it if it is certified as millable the ultimate price paid to the grower is the best he could hope to get?—Yes.

3250. Therefore, there is an advantage to the middleman by marketing it as millable and paying a low price for it? He pays less and the original grower gets just the same?—There may be some point where the two things meet where you could just get a small turn. I cannot think that it would be a very big turn.

Mr. John Hall.

3251. One question following up the point that was just made: this would not be a question of perjury, would it, because no merchant would have to perjure himself?—I am afraid I was thinking of a different kind of fiddle where you enter up a different price from the price you actually paid.

Mr. John Hall.] No, I do not think that was in mind.

Mr. Chetwynd.

3252. No, you pay a low price because you have certified it as millable whereas by normal standards you should not, and under this system it is quite possible and quite legal, is it not?—Yes. I am afraid I have not done the arithmetic on that, but I think it would be a very small turn indeed from the point of view of the producer.

3253. I am thinking of the middleman and not the producer. The producer is safe either way?—It is the producer's interest to get the best price he can from the merchant. That is the main safeguard. He cannot afford to take a lower price than his wheat is really worth.

Mr. Arbuthnot.

3254. Mr. Winniffrith, when you fixed the standard deduction of 4 per cent. to be made in respect of potentially millable wheat to allow for loss of weight by drying, what did you take as a reasonable moisture content?—I am afraid I cannot give you the answer just at the moment.

3255. Shall I go on to another question, and perhaps you can have it* looked up? Are you aware that in a country such as Nigeria British millers find it impossible to sell their flour because they cannot compete with the considerably higher standard that comes

from other parts of the world, and does this not suggest that your standard for millable wheat is far too low, and you ought to raise it?—I honestly know absolutely nothing about standards in Africa. The explanation I would hazard is that what goes into the grist in different countries is extremely variable. We know that in certain parts of the world the flour can only be made according to local custom with very, very dry grain. Over here we have got accustomed to liking a totally different kind of loaf.

3256. Will you take it from me that the standard that is produced here is not acceptable so far as Nigeria is concerned, and under those circumstances does it not seem that an increase in your standard is called for?—I am not going to admit anything on the basis of what they do in Africa.

3257. Have you, in fact, gone into this problem of drying wheat? Have you seen your own moisture content testers, for example, that are being used down at Slough at your experimental station there?—The answer is that I personally have not seen it, certainly.

3258. You tell the Committee that the amount of wheat that is of high moisture content is practically negligible. The type of moisture content tester that is used for wheat, as a rough and ready check, is a series of prongs that you put into the sack and you read from an electric resistance what the moisture content is, so that from the evidence that you yourself give to the Committee it would suggest, would it not, that the number of times that that moisture content tester showed that you were near the borderline would be comparatively small?—I do not think I would go the whole way with that, Sir, because I maintain, and it is part of my brief, that you can have wheat of higher moisture content than 18 per cent. which is perfectly millable.

3259. But your thesis to the Committee was, was it not, that the wheat in which there was an excess of moisture was so small as not really to matter very seriously?—No, what I said was, I hope, Sir, that the number of cases where there was good reason to doubt on a *bona fide* judgment that wheat which was not fairly to be regarded as millable was being graded as millable was very

* See Q. 3276.

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[Continued.]

small. I did not say, and I cannot say, that that same figure of 15,000 tons is to be defined entirely by an 18 per cent. standard.

3260. You suggested to the Committee that one of the difficulties that you were going to be in was going to be if somebody challenged you on the question of your tester?—Yes.

3261. Would it not be possible to overcome that by using your electric prong tester on everything, and in the cases where it was so marginal as for there to be a possibility of a challenge you would do exactly the same as you do for milk, you put three samples aside in airtight containers, you give one to the person to whom the wheat belongs, take one and test it yourself, and you keep one as a check? Is that not a perfectly possible way out of your difficulty, bearing in mind your evidence that your cases of trouble through too high moisture content are so small proportionately?—First of all, if we had this 18 per cent. standard the number of cases would be larger. Secondly, as it is all too obvious, I do not know anything first-hand about the corn trade, but I have been told, and I will check up as to whether this can stand on the record, that one of the things you cannot do is to take a sample, leave it on one side and rely on its moisture content being the same some days later.

3262. Even in an airtight container?—So I was told.*

3263. What would you reckon was the proportion of failures you would have if you introduced the 18 per cent. moisture content test?—I could not guess.

3264. You told us it was larger?—It is larger.

3265. I wonder if you could let us know how much?—I do not think I could give anything like a reliable estimate.

Sir Colin Thornton-Kemsley.

3266. Would it not be true, do you think, that if we were still keeping wheat in the stack so that it could dry naturally

* Note by Witness: I have verified that even in an airtight container the moisture content of damp wheat will alter. Air cannot be entirely excluded before sealing the container, and, so long as oxygen remains available to the grain, chemical changes will occur.

this problem would not have assumed nearly the proportions it has now? But because now so many people are combine harvesting, and because they have not got grain-drying plants on the farm, they therefore have to unload it when they have harvested it, and therefore you are getting this problem in a rather larger form than you would have done in the old days?—Yes.

3267. Do you think that that has at all influenced the view in your Department about the moisture content that was acceptable in the old days, the days when the Comptroller and Auditor General was talking about, the time when your Ministry was the sole buyer of wheat? In those days, presumably, a much larger proportion of wheat was harvested by the reaper-binder and stored in stacks on the farm and, therefore, you could expect it to be drier. That might explain the figure that we were given about the rule, rough and ready rule it may have been, that 18 per cent. was acceptable and nothing above. Do you think that the trend of thought has been influenced by that fact?—You are absolutely right, Sir. It is the advent of the combine harvester and the continuance of the English summer that has made this a problem. It is this presence all at one time of a large quantity of wheat that has got to be moved quickly that has made this a real problem, and that is why, if I may say so, we are grateful to the Comptroller and Auditor General and to this Committee for putting us on to the alert. As I have said, we do not think that at the moment there is an evil which needs a remedy so drastic, but obviously there is need for very continued vigilance. But the answer to your question is, I think, that undoubtedly it is the introduction of this new system of harvesting which has created this problem.

3268. Would you know whether the merchants referred to in paragraph 66 have now stopped certifying as millable wheat with a moisture content as high as 24 per cent.?—I have not seen in detail the result of the examination of the questionable cases which have come up in the course of this year, but we did send out a circular which I am sure will put them on the alert.

3269. It is a bit woolly, is it not?—It has got to be woolly, Sir, because it is a question of judgment. You cannot define what good judgment is.

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[Continued.]

3270. Apart from the question of the difficulty of enforcement, is it really the view of the experts in your Department that wheat with a moisture content as high as 24 per cent. can properly be regarded as millable?—The advice I have had from the experts is that the extent to which you can accept wheat of high moisture content will vary enormously. I do not know about this 24 per cent. I should think it is extremely doubtful whether a really good case could be made out for accepting 24 per cent. wheat as millable.

3271. Would you say that that would apply to, shall we say, 20 per cent.?—You mean, if you accept my figure of a maximum of 15,000 tons at risk, would 20 per cent. of it be 24 per cent. wheat?

3272. I did not quite mean it in that way. Let me put my question in another way. I think you told the Committee that it was the view of your Ministry that wheat with a moisture content of over 18 per cent. would not necessarily be unmillable. Now, I think you have told me that you think it unlikely that wheat with as high a moisture content as 24 per cent. could properly be described as millable. If I am right in those things, there must be some figure in between, and I suggested 20 per cent., which would be the sort of borderline case?—Quite possibly.

3273. One of the bases of your early answers was that the amount of wheat with a high moisture content was relatively small?—Yes.

3274. Have you, in fact, made any estimate of the saving to public funds in respect of the year 1957-58, which is the one we are dealing with, if all wheat with a moisture content in excess of 18 per cent. had been certified as potentially millable?—No, Sir, I could not possibly do that, because we cannot estimate what quantity comes in that category. You can, of course, do various sums on various hypotheses and I did, I think, cost the effect of some of these transactions, for example, the ones which the Comptroller and Auditor General mentioned, where it came to very, very small sums indeed.

3275. Presumably, whatever answer you get, the figure would be more striking in a year of a very wet harvest, such as 1958?—Certainly. 1957 and 1958 were both very bad years.

Mr. Arbuthnot.

3276. I wonder if I may ask, has Mr. Winnifrith got the answer yet to the question* he was looking up?—I have not, Sir, but I think I can give it in broad terms and put in a paper† on the details. The question was, was it not, on what basis did we arrive at this 4 per cent. figure?

3277. No, when you fixed the standard deduction of 4 per cent., what did you take as a reasonable moisture content?—I shall have to put in a paper. There was a percentage from which one made this abatement knowing that on the experience of those mills the reduction was 4 per cent. Not being good at mental arithmetic, I dare not risk the figure now.

Mr. Thornton.

3278. Paragraph 66 of the Comptroller and Auditor General's Report, in the second line, refers to "an unusually large number of low sale prices"?—Yes.

3279. And yet do I understand that all those cases only amounted to 15,000 tons?—It is 1,500 cases and 15,000 tons, yes. It was a wet year, and indeed the following year was wet, and I have no doubt the Comptroller and Auditor General noticed as a result a higher number of queries being raised.

3280. But was the 15,000 tons in the queries raised, and did the queries raised cover an investigation of all the prices paid?—I do not think I quite understand?

3281. Did the 15,000 tons result from a sample enquiry or a sample investigation, or the whole of the crop?—No, that is a complete enquiry. We investigated every case where there are these low prices. That is not a sample at all, it is complete.

3282. Have the merchants any financial advantage in certifying wheat as millable or potentially millable?—That is a frightfully difficult question to answer. The only advantage that I can see that the merchant would gain would be that as a result he has induced the producer to sell him that quantity of wheat at a low price. Then, of course, he has got to get rid of it, and it all depends what he can do with that consignment. There is, I should say, some risk.

* See Q. 3254.

† Information supplied: not printed.

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[Continued.]

3283. I am afraid I do not understand what is involved here, but it looks to me as though there is the distinct possibility that there is a financial advantage in the merchant in a borderline case certifying as millable rather than certifying as potentially millable?—Of course, a merchant wants to get the best deal he can, but equally, as he is fixed to one district, he has got to keep his customers. He cannot afford to go about quoting an unduly low price and hope to keep his trade.

3284. That is the check?—Yes.

3285. Do I understand from your answers to earlier questions that, if a merchant buys wet wheat at a reduced price and certifies it as millable, you do not accept that that is a defect of the scheme?—No, provided that he *bona fide* feels that what he certifies as millable comes up to the quality being accepted in general as millable in that area.

3286. I think all the Committee will understand and agree that there must be wide variations as between season and season and as between year and year, but doubtless the Ministry of Agriculture in previous years took all these variables into account in fixing the 18 per cent. as the maximum moisture content. I am not satisfied that all these variables to which you have referred could prevent the fixing of a maximum moisture content. Do I understand that that is a question that you are going to look at again and let us have a paper on?—I will certainly put in a paper, if it will help the Committee. Quite definitely the view of the Ministry is that there would be grave difficulty and considerable expense in working to a universal standard and that this system which is now in operation, which does allow some variation for the season and some variation between districts, has a lot to be said for it.

3287. And you think that that opinion arises out of the experience of administering the previous scheme?—Certainly.

Mr. Stevens.

3288. Mr. Winnifrith, I think I may have missed the purport of an answer which you gave to one of the last few questions. You were asked about the possibility of a merchant certifying good wheat as potentially millable and thus obtaining it at a lower price. As the

question was asked, the other side of the picture occurred to me, and I am not sure that I heard your answer aright: if the merchant did do that he would tend to lose the grower's custom. Did I hear you put that view forward?—I certainly would give that answer; I am not sure if I did. Certainly, if the merchant went to that length and certified wheat which the grower thought on his experience was millable wheat as only potentially millable wheat, the customer would be very cross; and, indeed, we have had to provide for that kind of contingency by having local appeal committees which can be assembled at once and reach a judgment on the spot.

3289. You would agree, therefore, that that would be a considerable safeguard against the merchant improperly obtaining wheat at a low price?—Certainly, by certifying it as only potentially millable.

3290. From some of the answers which you have given and from the last sentence of paragraph 69 of the Comptroller and Auditor General's Report, which I think is either quoting verbatim or, at any rate, is paraphrasing the Ministry's circular, it would appear that the amount of the subsidy is governed by two variable factors. In the first place, it varies between one part of the country and another and secondly between one season and another?—No, Sir, the subsidy is the same. The subsidy is the difference between the average realised price and the guaranteed price which has been fixed at the start of the year. That is paid at the same rate in all parts of the country.

3291. The subsidy itself may not vary, but whether or not the subsidy is payable will vary in accordance with the season and the different parts of the country?—By this very, very small margin in this very, very small number of cases.

3292. That is all it is?—Yes.

3293. That is actually a departure from the principle, is it not, that the subsidy should be the same and payable in respect of the same quality all over the country?—Yes. I do not know whether this would appeal to the Committee: one ought, obviously, to have, as far as possible, and I do not think it is possible, universal standards. If, however, in fact, a producer in a district which has suffered bad weather gets a few tons extra allowed to qualify for

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[Continued.]

subsidy there is something to be said for that from the point of view of natural justice. He has had a very expensive harvest.

3294. And some allowance must be made for that. Recently a circular which re-emphasises the importance of the matter, has been issued. Evidently the circular does not raise any fresh issues or give any further guidance to merchants. Do you think it is enough with the idea of offering helpful advice merely to issue a rehash of what has gone out before?—I think this circular achieves its purpose. It puts the merchant on warning.

3295. He has been put on warning before, surely?—Well, warnings get forgotten.

3296. Is this warning going to be in red ink, or something of that sort?—This is something which has happened. This circular went out in August of last year. There is no suggestion of sending out a further circular.

3297. Do you feel that the problem is best left to the judgment of merchants and that you cannot give any further definite guidance as to how they should exercise that judgment?—No, Sir. I hope the Committee will not think we are complacent. I have said and I say it again that we are quite certain that this is a problem which has got to be watched. We think that we have not got to the point where remedies have got to be adopted which we think are very difficult to put into effect and would be costly.

Mr. Cledwyn Hughes.

3298. I want to ask a question again about the last sentence in paragraph 66 of the Comptroller and Auditor General's Report. It reads: "One firm of authorised merchants claimed that the reduction of the excess moisture content was not exceptional treatment which would require the wheat to be certified as only potentially millable". Does that represent the view of your Ministry?—I think that any merchant is entitled to say "On my judgment of what is the average moisture content for the district where I am buying I am entitled to grade that wheat as millable", and that is the rule we have told him to carry out.

3299. So you are not in a position to interpret the meaning of "exceptional treatment"?—No.

3300. Why can you not interpret the meaning of "exceptional treatment", because the words were included in the Ministry's instructions to authorised merchants. Why can you not give guidance on it?—Because we do not think it is a matter which can be defined by a scientific formula.

3301. Why can you not say what is exceptional treatment as compared with normal treatment? If you were in any court of law and you were examined on this you would have to try to define the meaning of "exceptional treatment"?—Yes, I expect I would.

3302. Why use the words if you do not know really what they mean? That is what I cannot understand. Let me put the question in this way: Does wheat with a moisture content of 24 per cent. need exceptional treatment?—I was questioned just now as to whether I thought that wheat as wet as all that was millable, and I probably did the wrong thing in hazarding the uninformed guess that I would think it was doubtful. If I was right in saying that 24 per cent. wheat was not millable, it would require exceptional treatment.

3303. So that wheat of 24 per cent., in your view, would require exceptional treatment? Is that what you are saying to the Committee?—I would like to qualify that by saying, "probably".

3304. Would wheat of a lesser percentage than 24 per cent. require exceptional treatment?—I hope I am not being flippant, but this reminds me of Abraham wrestling with God. I do not think I can go further than I have gone in giving my view that 24 per cent. wheat is very doubtfully regarded as millable, but I would certainly be quite wrong in trying to define it more narrowly than that.

3305. You said that the moisture content of wheat varies from area to area. Can you say what areas of the country the wheat with the high moisture content comes from?—I ought not to answer that question, but if again I could guess, I would say it will vary from season to season with the chance, of course, that the normally wetter districts like the West and the North-West will be the ones which will usually suffer most.

3306. I think that is a very important point, and I would like to know exactly what the position is. Does wheat with

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[Continued.]

a high moisture content regularly come from certain areas rather than from other areas?—I would have to find out the answer* for you, Sir.

Mr. Arbuthnot.

3307. May I just ask one more question on this? Did you not say that the reason why you could not test the moisture content of the wheat was that you would have to provide for appeals?—I saw you pricking up your ears, Sir.

3308. I think you also told the Committee that you have a local appeals committee which can be assembled immediately. Would that committee not provide for your difficulty?—I think it would have to be a totally different kind of appeal because it is, in effect, an official appeal, an appeal under the authority of the Minister.

Chairman.] Paragraph 70. I have no questions.

Mr. Arbuthnot.

3309. Are not risks such as unfavourable weather or infestation by pests or disease normal farming hazards?—They are, Sir.

3310. Do these payments mean that the Exchequer is in part insuring the farmer against those risks?—I put it this way, that insofar as we are merciful on these very small number of occasions we are carrying out the Minister's policy of encouraging, or, at any rate, not discouraging people from growing forage crops—and these are only the forage crops and not wheat—in parts of the country where nature never probably intended them to grow.

3311. So that these arrangements do not apply to any other crop?—No, these are just the forage crops, oats, barley and mixed corn, on which we pay on the acreage basis.

3312. Nothing else?—Nothing else.

* Note by Witness: I find the only available data is in the records of Re-commissioned Mills, Ltd., whose operations in the drying and storage of home-grown wheat, however, extended only to a comparatively small proportion of the home crop. These show that the average moisture content of wheat taken in from the western areas of England and Wales was normally higher than that from other areas.

3313. Can farmers not insure against fire?—They can, and the reason why we included fire amongst these cases where we can on an *ad hoc* basis pay the deficiency payment is this: we had some negotiations with the Farmers' Union and this question of fire risks came up. The Union made it clear to us that fire insurance is not cheap—I believe it is 10s. per £100—and that if we were going to say in all cases that the loss of a crop by fire meant not even the deficiency payment the farmers' representatives would have to claim that that was one more element in the cost of the cereal in question, and that would have to be allowed for in the Price Review. If we went with them on that we would have been paying out far more money than we are under this arrangement.

Chairman.

3314. In other words, you are carrying the risk?—Carrying the risk for a very small price.

Mr. Arbuthnot.

3315. Is your 10s. per £100 a firm figure?—I was told so. There may be some variation. You may be able to get 7s. 6d. in some cases.

3316. Mr. Macpherson, is the Treasury satisfied that the compensation payments are justified?—(Mr. Macpherson.) We have accepted it so far, Sir, but we have never been entirely happy about it. I think we are currently going to review with the Ministry whether this arrangement should be continued. We have always been rather doubtful about the strength of the case for these payments.

3317. If these payments are being made year after year should not the scheme be amended to make them statutory?—I think the Treasury's reluctance to continue to accept them is an explanation why the Treasury has not pressed for them to be made statutory. (Mr. Winnifrith.) I think I would like to say on that, this point having been brought to notice, that I am quite clear that the Ministry will have to reach a policy decision in the immediate future as to whether they still, as I say, regard this as a good stroke of policy; and if they do, then the necessary Resolution should be introduced to give statutory cover.

TUESDAY, 12TH MAY, 1959.

Members present:

Mr. Arbuthnot.
Colonel Crosthwaite-Eyre.
Mr. John Hall.
Mr. Hannan.

Mr. Pentland.
Mr. Peyton.
Sir Colin Thornton-Kemsley.

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

Sir EDMUND COMPTON, K.B.E., C.B., and Mr. J. MACPHERSON called in and examined.

SUGAR BOARD ACCOUNTS, 1956-58

Mr. A. J. D. WINNIFRITH, C.B., Permanent Secretary, Ministry of Agriculture, Fisheries and Food, called in and further examined; and Sir GEORGE DUNNETT, K.B.E., C.B., Chairman, Sugar Board, called in and examined.

Mr. John Hall.

3318. Sir George, I think this is the first time you have appeared before this Committee?—(Sir George Dunnett.) Yes.

3319. May I, on behalf of the Committee, offer you a welcome?—Thank you very much, Sir.

3320. Will Members turn to the Sugar Board Accounts, 1956-58, to pages 10 and 11, paragraphs 4-7 of the Comptroller and Auditor General's Report? Sir George, arising out of those paragraphs, are you quite satisfied that Tate and Lyle do not get an excessive benefit from the block contract in relation to the services that they render?—Yes, Sir, we think certainly that is so. We do not think we can measure exactly what benefit they derive; but we are satisfied that we are not giving away too much, and that we are getting value.

3321. Is that an expression of opinion or is it based on some evidence?—It is based on evidence, so far as the value that we get is concerned. We can calculate how much it would have cost us to handle this seasonal surplus in any other way, and we think that it has been very well worth our while to avoid the cost of storing the surplus sugar with the additional risk that we would all the time be weak sellers.

3322. The calculation of the cost to which you refer is the amount referred to in paragraph 5, is it?—Yes. We put that at £1 million, and that is based on taking 300,000 tons of sugar which

we might have to store and finance for, say, four months, and the cost of extra handling in putting it into store and taking it out.

3323. Did you attempt to make any rough estimate of the value to Tate and Lyle of the contract before you renewed it?—Yes, we did. We tried to satisfy ourselves that it was not out of line with what is quite often done by sellers of a large amount of sugar. So far as we can discover, foreign sellers of sugar sell blocks of sugar on what are called price fixing terms; and I think it is fair to say that those would not be very different from these terms on which we are selling to Tate and Lyle.

3324. In the last sentence of paragraph 6 the Comptroller and Auditor General refers to the fact that you were able to realise a considerable amount on sugar. To whom did you sell the large quantities of sugar at the full amount of the high prices?—Largely, of course, to Tate and Lyle, to the other refiners also and to other parts of the trade in sugar in the country.

3325. You sold this sugar at these high prices, but were they subject to the later price adjustment to which reference is made in paragraphs 8 and 9?—Yes, I think it is true to say that the stock which one of the smaller refiners had—

3326. One of them?—I am referring to one of them particularly at the moment—was revalued, and that would mean that some of the sugar originally sold at a higher price was revalued at a lower price later on, but not all.

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Sir GEORGE DUNNETT, K.B.E., C.B.

[Continued.]

3327-8. So the benefit that is referred to in paragraph 6 is not quite as good as it might appear at first sight?—I think it would still be true to say that on large quantities of sugar we realised the full amount of the high prices, but it was a relatively small volume of sugar, some 40,000 tons, I think, out of a total of 2½ million tons which was sold over the whole period; and during this first period we sold much more than 40,000 tons of sugar at these high prices.

Colonel Crosthwaite-Eyre.

3329. I am not quite clear about this bargain that you made, Sir George. As I understand, there was an excess of about 300,000 tons in the last quarter of each year and yet you made an agreement with Tate and Lyle for 700,000 tons. On the face of it, to somebody like myself, it looks as though you have made a bargain for twice the surplus that you expected?—Yes, there was a surplus building up in the last quarter of the year, and then there was a subsidiary surplus likely to arise, and in fact did arise, in the late Spring also; but the reason why we included a larger volume in the contract than just the surplus is that we want some larger quantity spread over the year as a whole to make sure we get the control of the way the sugar goes into consumption. The way we did it was this: we said "We are going to have a shipping programme, putting this 700,000 tons into it in the different months in such a way as to leave a balance of sugar for sale outside the block contracts to match what we might expect to be the normal demand," so that we should always get a willing buyer for our sugar. The other point I would make on that is that the important part of the contract is the extent of price deferment which we gave. Now, that was limited to — tons and not 700,000 tons, or even 300,000 tons.

3330. I am sorry, but I am still not quite clear. Am I right in assuming, then, that — tons out of the 700,000 tons was part of a normal contract with Tate and Lyle?—I hesitate to describe the contract as a whole as abnormal, Sir. As a part of this contract they were sold along with the rest.

3331. Correct me if I am wrong, but you have an anticipated excess of 300,000 tons?—Yes.

3332. You then discover that there will be a surplus a few months later?—Yes.

3333. Those two add up to a certain figure, but at the same time you make a contract for 700,000 tons?—Yes.

3334. If I have understood your answers correctly, the balance is to ensure that Tate and Lyle may continue their normal trade in the supply of sugar. There are two elements in this contract: one was to meet your requirements vis-à-vis a surplus, either anticipated so far as the 300,000 tons is concerned, or subsequently developing in the Spring, and the rest was to enable Tate and Lyle to carry on their normal trade, is that correct?—It was more to enable us to carry on selling without being in difficulty. It was to enable us to find a willing buyer at all times for the sugar over and above the 700,000 tons.

3335. What then was the actual amount of sugar that the Company had to store?—We do not know.

3336. Did you make any similar agreement with other refiners?—No.

3337. Again if I have understood an answer to a question I asked you, if your object was to ensure a smooth demand for the sugar you produce, why did you not try to make contracts with other refiners?—We were concerned here with the surplus, and Tate and Lyle offered their services to help us over the surplus problem. That having been done, we had no need to deal twice over, you might say, with the problem of the surplus.

3338. I thought we had agreed that there were two elements here, the one for dealing with the surplus, the other with regular supplies, which you had agreed with Tate and Lyle in order to ensure satisfactory, smooth and regular disposal of the stocks that came to you. What I am getting at is, why were the regular stocks not offered to people outside Tate and Lyle?—I am sorry if I have not made myself clear. The second part of the contract was to enable us to have a willing buyer, and that willing buyer was not only Tate and Lyle but anybody else. What we had done, you see, was to arrange with Tate and Lyle to remove the surplus from the market and the result of that, which indeed was the whole object of the process, was to make sure that the rest of the sugar

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found a ready buyer when it came forward.

3339. The ready buyer being Tate and Lyle?—Or anybody else, the other refiners, for instance, in this country.

3340. So, what it comes to is that Tate and Lyle had 700,000 tons of sugar?—Yes.

3341. And the other refiners the balance, is that correct?—No, Tate and Lyle needed a good deal more than 700,000 tons of sugar from us. It is a very difficult thing, perhaps, to explain.

3342. Could I shorten it in this way: what was the total amount of sugar bought by Tate and Lyle under an agreement made by you?—Under this contract, 700,000 tons in a year. On top of that I should think they probably bought over the year another 400,000 tons from us from day to day.

3343. Is it right to say that the — tons was subject to price rebate?—Price deferment, not rebate. What it came to is that they were taking 300,000 tons of sugar from us at a time when they did not want it and they were enabled to defer the pricing up to a limit of — tons, and when they priced the sugar they paid the full market price.

3344. I was going to ask that as my final question: what was the average price at which the — tons was sold to Tate and Lyle?—It was the market price at the time they priced it.

3345. I am anxious to know what that price was?—I do not know that I can say exactly what that price was.

3346. May I put it this way: was it at the cheapest rate of round about 40s. a cwt.?—During this period I think the lowest price was 31s. 7½d. at one time in August, but they were not able to price more than a certain quantity in any one day so they could not make a killing by coming and pricing the whole of an outstanding balance on a certain day. We did try to estimate at various times the price we got for what we called price deferred sugar shipped in, say, June with the price we got for other sugar shipped in the same month.

Mr. Hannan.

3347. I wonder if I could follow this point up by, perhaps, just two questions?

The last sentence of paragraph 4 says: "The company . . . have the right to defer beyond the date of shipment the fixing of the final price to be paid to the Board". Are there any limits below which, or above which, the market price for this — tons should not move? In short, are there any limits within which Tate and Lyle can defer prices?—Only this limit of the total amount which may be unpriced at any one time and the limit of the amount to be priced on any one day.

3348. How were these limits arrived at, by negotiation?—Really, by haggling or negotiation, whatever you call it. They came along at the beginning of the period and said: "It is well known that there is a surplus problem. We can offer our services", and we argued with them and agreed on figures—considerably less, I may say, than what they asked for in the first place. I do not think either side could claim that any of these figures were demonstrably the only correct ones; but we arrived at this after fairly hard bargaining, both sides being unable to foresee what the conditions were going to be.

3349. Is pretty much the same method employed in eventually fixing prices under the block contract? You have been speaking so far, I assume, of the — tons?—That is in the block contract.

3350. That is the block contract?—The block contract, yes.

3351. Are Tate and Lyle really in a position to influence the London market rates?—Well, it is a market and any person buying or selling upon the market is likely to be able to influence it, but I do not know whether that is the sort of comment you have in mind.

Mr. John Hall.

3352. Would they exercise a dominating influence on the London market?—On the London market, you see, we are selling actual sugar. We have no power by our constitution to engage in market activities in futures. The London terminal market was reopened on the appointed day under the Sugar Act, the 1st January, 1957, and has not yet attained a very large volume in relation to New York. I should not think that

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[Continued.]

Tate and Lyle exercise a dominant position on that market. It is used by a great number of people, and I think everybody concerned with marketing sugar in London is conscious that it would be useful to many people to have the London market rather larger, if not considerably larger, than it is now. Nobody wants to put a foot through it, as the saying goes, by trying to buy or sell too much on it at one time until confidence and volume have been gradually built up. As a plain straightforward answer to the question, do Tate and Lyle exercise a dominating influence on the London market, I would say, No. I think they co-operate with everybody else in trying to help it to re-establish itself.

3353. Perhaps I could follow on that point which has been raised; I think it is rather an important one. You stated that the market was rather a small one, indeed, the desire was that it should be rather bigger, and, to use your expression, nobody wants to put a foot through it. Now, the quantity of sugar which Tate and Lyle handle would enable them to put a foot through it if they so desired, presumably?—Yes, I think so.

3354. And at the same time they have this arrangement whereby they can defer payment and fix the price of certain sugar at a date which, to a large extent, suits themselves. Do you regard that as in any way a dangerous position?—I think that is rather separate from the market. Our sugar does not, so far as we can see, have any effect on the market. This price deferment is a part of the contract for actual sugar which does not go through the terminal market at all.

3355. It is, really, then the question of the world market affecting prices rather than the influence of the London market?—Yes; the world market is made up of the interaction between London and New York, and, on the whole, the influence of New York is larger than that of London. But at times I think London has steadied New York.

3356. Perhaps we can now turn to paragraphs 8 and 9. How was the sum of £540,907 which is referred to in the last part of paragraph 8 divided between the three refiners, I think it was, and how did you calculate the amount which was due to each of those refiners?—I have the figures here. In the first place,

the largest amount arose from the re-valuation of unsold stock on the 8th July, which was the date at which we made a settlement in order to ensure a market for our sugar in the face of foreign competition. That quantity of sugar was revalued on the basis of the sales made over the succeeding period from July to September. That was £339,172 in respect of 22,885 tons. The next one was the smaller refinery most closely associated with the first, and there we negotiated a settlement involving £42,485 in respect of 4,030 tons. That was a lower amount per ton because we were able to argue that that refinery was not so much dependent on refined sugar as the other, and we settled at a lower cost. In the case of the third refinery the settlement was £159,250 in respect of some 13,000 tons. In that case we were able to negotiate a smaller amount per ton; indeed, the calculation there was on a slightly different basis since it happened that we had sold some sugar right at the start of our negotiations to this refinery at prices before the market had gone up to quite its full extent, and we took into account what we call a profit on that sugar in reduction of the settlement at this time.

3357. So that, in calculating the amount due there were considerations taken into account quite apart from those you referred to in the first sentence of paragraph 8, that the refiners were protesting because they thought that they had had to carry an unfair market risk. That was a consideration which, apparently, you took into account in calculating the amount due to the first refiner, but you took into account in the case of the second and third that they were not dependent so much on refining?—In the case of the second we decided that the market risk they were talking about was not so relevant to the state of their business.

3358. It is also said in this paragraph that purchases at f.a.s. prices were made on a forward basis. Were those firm contracts or provisional contracts?—I would call them firm contracts here.

3359. Were you under any legal obligation to make these payments?—No.

3360. And yet, although you were not under any legal obligation to pay them, you apparently object to the Comptroller and Auditor General's description of them as *ex gratia* refunds. Were they

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not extra-contractual?—Yes, I suppose they certainly were. It was certainly within our legal rights to stand on the contracts which had been made. We objected, if that is the right word, to describing them as *ex gratia* refunds, because we were very much concerned to see that we got a consideration in return for these payments.

3361. The consideration being?—The consideration being that they undertook to buy our sugar in future on the terms we wanted. There was a big dispute about how far we could insist on expecting to sell our sugar and getting a price fixed before shipment.

Sir Colin Thornton-Kemsley.

3362. How many of these groups or companies of small refiners are there, approximately?—Those that I have mentioned were the three who were next in size to Tate and Lyle, although, of course, they are very much smaller. One is the Sankey Sugar Company, another is Manbré & Garton, Ltd., and the third is Westburn Sugar Refineries in Greenock.

3363. Then there are others, presumably, of smaller size. Those three claimed compensation, but there were others in addition to those three?—There were smaller people who were, like Manbré & Garton, not to the same extent involved in this market risk because they were not primarily refiners of sugar selling refined sugar. They were concerned to a large extent with invert sugar or other industrial uses of sugar and were not so closely connected with the difference between the price of refined sugar and the price of our sugar.

3364. Roughly, what sort of proportion of the total purchases of sugar would be covered by these smaller refiners?—Very roughly, we sell a little more than 70 per cent. of our sugar to Tate and Lyle, about 15 per cent., I should think, to these three, and the balance elsewhere.

3365. Can you tell us the value to these smaller refiners of the revised conditions of sale in the period July to November 1957?—I think I can put it in this way best, that on the sugar we sold in this way—this is different from the £540,000 adjustment, which is the revised method of sale from July to November—the first tranche of that sugar we realised, I think it was, about

9d. a cwt. less than if we had got the price of the day of arrival, and for the second tranche it was more like 2s. a cwt. less than for the day of arrival, but those again are figures that can be no more than a guide to what might have been the average receipt if we had agreed to give them deferred pricing terms. In other words, we could do no more than try to be wise after the event and see whether it was a good way to sell or not, and on the whole we probably think it was not.

3366. It was the price deferment option which you had granted to Tate and Lyle which you felt enabled you to resist the claim of the smaller refiners that they should have some special relief of this kind?—What really moved us was the threat of imports of foreign sugar. We refused to accept an argument that because we had made a particular contract with Tate and Lyle we should make similar contracts with other people. We refused to discuss one refiner's business with another. We said that in our contract with Tate and Lyle we obtained advantages, which is perfectly true, and imposed a burden on Tate and Lyle, but what did move us was that by May or June of 1957 it became more and more evident that foreign sellers were prepared to find a home for sugar by cutting their prices or by giving deferred pricing terms. It was only when we felt that we were in real danger from that side that we agreed to a settlement.

3367. Then, if we look at the sentence which begins about four lines down in paragraph 9, we read that the payments were made as part of an understanding with the small refiners that their future purchases from the Board would be at prices which should be settled before shipment. Would you regard that understanding to be binding upon the Board if abnormal price conditions occurred in some future year?—I think we did use the word "normally" as we have got it here. For our part, I think we should be very reluctant to depart from it. This does not, of course, say anything about what the price should be. If the prices spot were abnormal we should certainly expect to get a premium for forward sales if the market justified it. We have indeed been trying to do that in the last few months, and with some small measure of success.

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[Continued.]

Colonel *Crosthwaite-Eyre*.

3368. Sir George, if I could return to what I was asking you, in view of the fact that you had returned £540,000 to the small refiners, which you have already been asked about, can that be correlated to the actual price which Tate and Lyle secured for the — tons under their price deferment arrangement with you? Would the two be linked and connected in any way?—I think only very indirectly. The cases were really different. The consideration for the price deferment in the case of Tate and Lyle is the fact that they are taking sugar at times when they do not want it.

3369. I thought the actual bargain occurred when the sugar arrived in this country at a maximum of — tons a day according to the ruling price?—It occurs at Tate and Lyle's option at any time after shipment. They are entitled to be in arrears with pricing on the 700,000 tons.

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3375. It was really a carry forward of sugar for which no arrangements for sale had been completed, is that what it means?—Yes, in fact it has always been at the ruling price of the day in London at the time when they have priced the sugar. The agreement is that when we price it we can negotiate it just like an ordinary sale, but in fact that is what it has been. We have always had the full value of the sugar at the time it has been priced.

3376. Now, you have told the Committee that you felt you had no obligation to repay this sum of £540,000 to the

three refiners. I would like to ask you, under what statutory authority did you make that payment?—We had the authority of acting as principals in disposing of the sugar, getting the best price we could reasonably obtain.

3377. But you had made a firm contract?—We sold the sugar to them, that is to say, there was a sale over a period and they then said: "We think we are paying too much". They entered a protest at some stage, but that is what I meant by a contract for the sale of sugar, and we certainly regarded them as contracts.

3378. May I ask the Treasury what they think of this? Is the Treasury quite happy?—(Mr. *Macpherson*.) As the witness has said, Sir, this is a matter in which the Board are principals. This is within their authority.

3379. To vary a contract of this nature?—It is their contract, Sir. They took other considerations into account in modifying the contract arrangements, because, as I think the witness said, there were other considerations which ought to be taken account of. (Sir *Edmund Compton*.) I should, perhaps, say that I was not questioning the legality or otherwise of this arrangement. I was in no position to do so. The query I raised on the *ex gratia* point was whether, if it was an *ex gratia* payment, the accounts should not show that up. I had in mind the point that an *ex gratia* payment is a payment that is made for no consideration. The witness has explained that the consideration was this understanding about the basis upon which future trade should take place.

CIVIL APPROPRIATION ACCOUNTS (CLASSES VI-X) 1957-58.

CLASS VIII.

VOTE 2.

AGRICULTURAL AND FOOD GRANTS AND SUBSIDIES (continued).

Mr. *John Hall*.

3380. Will Members now turn to the Civil Appropriation Accounts, Class VIII, Vote 2, Agricultural and Food Grants and Subsidies, to paragraphs 71 and 72 of the Comptroller and Auditor General's Report? Mr. Winnifrith, how does the Egg Marketing Board decide

what price to charge the packers? Towards the end of paragraph 72 the Comptroller and Auditor General says: "Eggs are bought from registered producers at prices fixed by the Board and after grading and packing the eggs the packers purchase such quantities as they require for their own trading at prices

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determined by the Board"?—(Mr. Winnifrith.) The Board fix the price in their knowledge of what they think the market is going to be at the time, the aim being to secure for the producer as high a return as possible.

3381. Would it happen, then, that if the prices are fixed too high the Board would find itself with a lot of eggs left on its hands?—Yes.

3382. And conversely, if they are fixed lower than the market will bear the packers will be able to make a larger profit?—Yes, insofar as they also act as primary distributors and wholesalers.

3383. Will the packers be able to pass part of this profit, on the assumption that they made a larger one, back to the producers in the form of an inducement bonus, which I think the Committee was informed about last year?—Yes; the Committee got on to this point, I noticed, last year, Sir. There is nothing to prevent the packers in what is a competitive business from offering the producers more than the minimum price. They can go above that, and they do go above that.

3384. Now, paragraphs 73-78, Mr. Winnifrith, the reference in paragraph 73, lines 7 and 8, to the average price for fresh eggs sold by the Board interests me a little. How do the Ministry estimate the average price for fresh eggs sold by the Board?—In this year under review, Sir, they did it by trying to estimate what was going to be the wholesale price over the year. It was a considered forecast. That arrangement has now given way to another system. I do not know whether you want me to go into that now, but in that year, quite definitely, they were trying to forecast the trend of the market.

3385. Which you would regard as an impossible operation, would you?—You may say that the proof was in the event. We did not make a very successful shot at it and I think now we are quite clear that we were attempting too hard a task.

3386. What is the present system?—The present system is that you take the actual prices that have prevailed in the two preceding years with double weighting for the immediately preceding year, and that settles the figure. You estimate, in fact, that the tendency is going to be for those figures to carry forward.

3387. So, what you are doing now is to base the price upon the selling prices of the previous two years?—The actual prices, yes.

3388. Does that reduce the Board's incentive to obtain the highest possible price, do you think?—The Board's incentive, we hope, is provided in this sharing arrangement under which, if they get above the target, they get a benefit. They retain anything within 2d. above the target price. That is the incentive. I am not quite sure whether the new arrangement is going to affect that system of incentives. I think that probably was what your question was. Are you suggesting, perhaps, as this arrangement results in a levelling off of the target figure the Board will be less energetic?

3389. I was just wondering whether it might have that effect?—I think the Board will still be anxious in any event to get the target price, because within 2d. they are going to be able to obtain that for the benefit of the producers.

3390. It does follow, of course, if you continue with this method of calculation, that any additional sum they have got up to the 2d. is going to be taken into account the following year?—Yes.

3391. So, do they have the same incentive thereafter?—I suppose, in theory, there might be a temptation as the year goes on and you can see your way, if you know you are going up to the 2d. limit, in not being energetic in getting more than the 2d. I hope that is a theoretical temptation, and not an actual one.

Mr. John Hall.] It will be interesting to see how that works out, perhaps.

Mr. Pentland.

3392. Under the new arrangements, does the Board still have to share with the Ministry any profit beyond 2d. a dozen?—Yes, it does now.

3393. So if the profit in one year was, say, 3d. a dozen, then the Board would retain 2½d., is that correct?—They retain 2½d. and we get the ½d.

3394. In the following year under the new arrangement, would not the estimated average selling price be increased by the full 3d. and the following year the flat rate subsidy correspondingly reduced?—That is so, but not by the full amount.

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[Continued.]

3395. Then, would it not pay the Board, who apparently fix the packers' remuneration, to contain the profit within a limit of 2d. a dozen?—As I said just now, there would, in theory, be some temptation to them to conduct their affairs in that way.

3396. Can the Committee take it that you are watching that point?—Certainly.

Sir Colin Thornton-Kemsley.

3397. Mr. Winnifrith, I want to ask some questions about the bonuses which are paid by the packers to producers. The very last figure that we are given in paragraph 78 speaks of 4s. 1.14d. a dozen as an average price actually received by the producers for the year to the 31st March, 1958. What I am not quite clear about is whether that includes the bonuses paid by the packers to the producers during the year. Can you help us about that?—I am afraid I do not know that, but I would like to say this, that when we come in the annual Price Review to fix the target figure which goes to the producers we definitely do take into account the prevailing practice of paying these bonuses. I think we have actually got a figure which we allow in our calculations. We allow $\frac{1}{2}$ d. per dozen.

3398. How did you get your information that $\frac{1}{2}$ d. a dozen is the right figure?—We collect a tremendous amount of statistics for this Price Review. I am afraid I could not say offhand from what source we get it.

3399. Presumably not from the Farming Notes in "Country Life", because I see there on the 12th March this year they referred to bonuses of up to 6d. a dozen?—I have got a note that cases have been known of up to 5d. a dozen.

3400. How can packers offer to pay high bonuses to large producers?—I am so sorry, may I correct that figure? The highest figure I have got is 2d. a dozen, which is 1s. 8d. a long hundred.

3401. So, you would think that "Country Life" Farming Notes must be very much out if they speak about 6d. a dozen, as they did?—6d. a dozen strikes me as a very large amount to pay by way of bonus, but I would not deny that it might have happened in some cases. This is a very competitive business and it might have paid certain

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packers to negotiate a certain contract at a very high price.

3402. What sort of factors do you think would have to obtain if they were able to do that?—What they like to get, I think, is a guaranteed large delivery which will just about fill their transport. What they dislike is the lorry going round and having to stop at a number of places with small consignments from each.

3403. You do not think at all, do you, that packers are being paid too much for collecting eggs?—I have got quite an interesting figure here, Sir. In examination the other day I was asked what was the rate of profit under the latest contract of the Egg Marketing Board, and that came to $2\frac{1}{2}$ d. a long hundred. On the throughput for the year that produces, as the total profit element—the profit element alone to the packers—£620,000, which is quite a small sum when you consider the total cost of the whole subsidy, which is a matter of £40 million.

3404. I think you did tell us that at the annual determination of prices when you came to consider the flat rate subsidy, you did have regard to these packers' bonuses?—Yes.

3405. I wonder whether it would be too much trouble to you to put in a paper to us about this whole question of the packers' bonuses and how they affect the price?—Yes*, I will indeed.

Mr. John Hall.

3406. I think that is interesting, because there is quite a difference between the $\frac{1}{2}$ d. a dozen, which apparently you allow, and the other figures which vary from 2d. to "Country Life's" record of 6d. a dozen?—May I say on that that, of course, we have to strike a fair average; and I assume, from our knowledge of how those very luscious contracts bulk in the sample, we arrive at this overall figure.

3407. Mr. Winnifrith would, no doubt, like to look at the "Country Life" article. It is the Farming Notes in the issue of the 12th March this year where the figure is given?—Thank you.

Colonel Crosthwaite-Eyre.

3408. Turning to paragraph 74, I would like to ask you how the figure

* Information supplied: not printed.

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[Continued.]

of 4.95d. for the expenses of the Board is arrived at?—I think you probably may prefer a paper* on that. It is made up of a number of elements.

3409. I would not ask you to go through a long list?—Shall I tell you what sort of things go into it without quoting the figures, which are to three places of decimals? There is the trading loss; that is what happens when the Board in a state of surplus on the market decide that they are going to turn the eggs into liquid eggs and dried eggs. That, obviously, is a less profitable transaction and therefore they have to be recouped for that. Then there is the packers' margin; that is a term which includes all the packers' expenses and not only the margin of profit. There is an element for packaging. There is an element for transport, and finally there is an item for the Board's administrative expenses. Those add up to this figure of 4.95d.

3410. How in practice does the estimate turn out against the expenditure

* Information supplied; not printed.

that is incurred? Is the estimate founded on two years' experience, or is it just fixed year by year?—The best figure I can give, I think, in answer to that is that on the actual outturn there seems to be a margin of error of .11 of a penny.

3411. What does it come to in sum?—On these vast figures of throughput, I think 1d. is £2½ million.

3412. Did the expenses you have mentioned and the headings you have mentioned cover the full cost of the Board's expenses, including accommodation, advertising, and so forth?—No, that is met out of the levy, the levy which they charge on producers and which is referred to in their accounts.

3413. For instance, the levy is what pays for Wingate House?—Yes.†

† Note by witness: I should make it clear that we pay no more towards the Board's administrative expenses than we did before they moved to Wingate House.

VOTE 3.

AGRICULTURAL AND FOOD SERVICES.

Mr. John Hall.

3414. Now we come to paragraphs 79-82 of the Comptroller and Auditor General's Report, Capital Expenditure at Experimental Centres and Demonstration Stations. Mr. Winnifrith, what proportion of the original programme has now been completed, ignoring the additional projects to which reference is made in these paragraphs?—(Mr. Winnifrith.) Are you referring to the number of units that still remain to be completed out of the original programme?

3415. Yes, the number of units and the cost of them?—The position is that we have to date secured 11 agricultural centres and nine horticultural centres. It is rather complicated, because of those, one agricultural and three horticultural are not in the original programme, and if we went ahead with the full programme as originally contemplated we should still have to acquire six agricultural and one horticultural stations.

3416. What would be the cost of completing the programme as originally contemplated?—We have not yet formed

an estimate of what those further centres would cost. The only figure we have got at the moment as a cash figure is the figure of some £500,000, referred to in the Report as the sum needed to complete the centres which we have got in hand.

3417. That only applies to centres you have started. That does not apply to the total programme which you contemplated?—No.

3418. It is rather interesting, because if one looks at the last sentence of paragraph 79 one finds that by the end of 1951-52 about half the programme had been completed, but at a cost about equal to the estimate for the whole scheme. It sounds from what you say as if the cost of completing the second half of the whole scheme is going to be very considerable indeed?—When the statement was made that about half the programme had been completed that, of course, was true as regards the work then in contemplation. What has happened since then on the work that was in hand at that time is that, with the advance of

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[Continued.]

agricultural science, new ideas come in to be investigated and further work has had to be undertaken.

3419. But you were not adding to the number of farms and stations?—No, but we were doing more work on the farms that were then on the way to completion.

3420. Has any estimate been made of what it is going to cost in the end? I am not thinking of additional projects which have been thought of since, but the actual cost of the original programme, adapted and improved as it has been?—I must be careful here not to mislead the Committee. The £500,000 odd will, we hope, finish off all the work at present contemplated on the existing centres, but I must put in this caveat that before they are finished we may think of further needs even at those centres which will call for further expenditure.

3421. So the position, therefore, is that we have spent £772,000?—No, that was the original estimate. We have spent an odd £2,000,000.

3422. We have spent an odd £2,000,000?—Yes, we have spent that.

3423. And your estimate is that it is going to cost another £½ million plus to complete the existing centres?—Yes.

3424. But that will not provide you with the total number which was originally forecast?—No. May I say, we are not in a position to estimate what those further seven stations may cost because, amongst other things, we do not know whether we shall need all of them. In fact, one at least of them, I can say here and now, we have decided we shall not need. No further work is going to be undertaken without careful thought to see whether further expansion is essential.

3425. Do you think the same careful thought was given to the original estimating of this scheme, because the costs seem to have got out of all proportion in comparison with the original estimate. Would you not agree?—I do indeed, Sir. On the face of it it is very alarming that a figure was mentioned in the early stages of the scheme and already we have got something like four times that figure; but there is a lot to be said on the other side. May I say it?

3426. Please do?—First of all, I am quite certain that when the Agricultural Improvement Council had their first shot

at what this programme was going to cost they were not doing anything like a considered works programme estimate. It was very much a round shot at what the order of expenditure might be. Furthermore, undoubtedly they were thinking only of what the immediate programme might be; they were not looking ahead. So that is the first reason, that it was not really a considered estimate. The second reason, one on which I have already touched, is that since the original programme was laid down there has been a very considerable and rapid advance in agricultural research and any amount of new ideas have come up that have required investigation and which were not allowed for in the original programme. The other two reasons which I plead in extenuation are that no allowance was made in the first place—this is a question of fact—for the very considerable effort which we should have to make in improving existing cottages and even more in building new cottages on the farms, which we found was absolutely essential if we were going to get our labour force. Then, of course, the cost of those buildings and of the farm buildings which we had to undertake was very considerably inflated by the rise in building costs. If, for example, we could have done all the work we have done at 1945 prices the bill would have been reduced by as much as £600,000.

3427. So, summing all that up, it means that for all these reasons the cost of doing about half the programme is about four times the original estimate; and, presumably, if you carried out your original intention the original estimate would be increased by something like eight times?—Yes, but I do hope that we shall get away from that 1945 figure as the base estimate.

Mr. John Hall.] I am sure you do.

Sir Colin Thornton-Kemsley.

3428. Do you think the taxpayer is getting his money's worth for this?—Yes, I am sure he is. The results which are being obtained from these experiments may produce value altogether out of scale with the sum of money that has been invested in this work.

3429. Would you care to specify? Can you tell us about some of the results which you have obtained?—I am more familiar at the moment with the results which I hope we are going to obtain. Shall I give just one example?

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[Continued.]

3430. Yes, do?—There is a very interesting experiment going on at one of these stations in early seed potatoes. It is, apparently, one of the facts of nature that the seed potato which has been grown in the country where it is to be planted will come to maturity anything up to three weeks before an imported potato from one of the traditional sources like Northern Ireland and Scotland. The trouble is at the moment that English stocks get virus. The experiment that is going on is designed to produce an English-grown seed potato which will be virus free. If that experiment comes off, English growers will be able to catch the very early market three weeks ahead of the time when they get it now. The value of that will be very, very considerable.

3431. As a Scots grower of potatoes, might I be permitted to ask if you are aware that that kind of experiment in growing virus-free potatoes is being done in Scotland by what I might call private enterprise?—But, Sir, if I am right—I do not know about these things, I only hear about them—that will not achieve the same beneficial result, will it, because your virus-free Scotch potato when it comes down and is planted in England will not mature three weeks ahead.

3432. That may well be?—That is where the great value is, to catch the early market.

3433. What I was really going to lead up to was to ask whether you thought that in any particular which you have had an opportunity of noticing so far it might not have been possible to carry out some of this experimental work on selected farms by selected farmers under supervision rather than by incurring what must be the very large expense of having special farms to do it?—Well, of course, Sir, it would be very rash to say that we can do things at these farms which could not be done anywhere else, but I do suggest that these are very awkward, pernickety experiments. You have got to have a frightful concentration on records and on detail. You have got to be absolutely certain of the accuracy of your records, and that probably does call for treatment at a specialised centre.

3434. Is there any overlapping, do you think, with other research establishments?—We try to avoid it. In the first place, the programmes both of the centres to be put in hand and the

work to be done at the centres is under the control of the Agricultural Improvement Council, on which are represented the Agricultural Research Council and the Universities; and one of the objects of that is to prevent our doing work which is already being done, and perhaps better done, at those other places of research.

3435. The Agricultural Colleges, too, I suppose, apart from the Universities, are represented, are they?—Certainly their information would be available to the Council.

3436. One wonders about some of these College farms whether some of the experiments might not be carried out at those, because you have there the expert staff who are used to keeping records, and that kind of thing?—Yes, I am pretty certain that the Agricultural Improvement Council have got that point in mind. They are very much concerned to prevent overlapping.

3437. It is no good asking you when you expect to complete the capital development of these centres because, as I understand it, you are rather marking time at the moment and wondering to what extent you will go ahead on the original project?—Yes.

Mr. Peyton.

3438. Do these farms earn any money?—Yes. If it were not for what they get by way of receipts for their produce the annual cost would be very much higher. I have got some figures here. The receipts from sale of produce in 1957-58 were £443,000.

3439. Has the National Farmers' Union ever sought—this is a very improper question, I suppose—to advance the idea that if the Government cannot make money out of its farms at the present price levels, how can they be expected to?—They have not, but if they did we would have our answer, that you cannot expect these farms to run as commercial farms when you are deliberately loading the programme with experiments, when you are inevitably carrying a labour force very considerably in excess of what you would need on a commercial farm, and what is more, on top of that you have this professional staff of N.A.A.S. men supervising the experiments. Our accounts have got to bear those charges, and I think they really do very well in keeping the net cost as low as they do.

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[Continued.]

3440. To what extent are demonstration and research separated? Are they carried out on separate farms or on the same farm?—There are two horticultural centres in Wales which are very largely demonstration centres, but for the most part our farms are primarily applied research centres, though at all those farms they like nothing better than to receive parties of visitors who can see on the spot what the experiments are and the results they are producing. That, I am afraid, also means that we have to allow for that in the staff numbers because people are being taken off the job to take people round the farms.

3441. I was not quite sure of your answers just now on the question of duplication of work. I realise you referred to Universities. Do you also include in these safeguards the work done by private enterprise concerns?—That is our aim.

3442. Are you satisfied that the aim is, in fact, achieved?—All I would say is that I hope so, Sir. I have no reason to think that it is not.

3443. I assume you have fairly regular contact with people like I.C.I.?—Yes.

3444. You know exactly what sort of work they are doing?—I would not say exactly, but we have a fair idea.

3445. You know their terms of reference, anyhow?—Yes.

3446. And they know what you are doing?—Yes.

3447. To what extent are results pooled and shared at an early stage?—All I can say on that is really what you yourself have said, that we are in close contact and I would hope that we would know what possibilities of overlap there were at the critical stage.

3448. Yes, but supposing some piece of knowledge came to anybody, it either became available unexpectedly to a University research team or to one of yours or to a commercial firm, would it in fact be passed on to the quarter where it would be most useful?—I cannot speak for what would happen in commercial enterprise, as to how far they would wish on all occasions to pool their ideas. They might have an idea, I imagine, which they would very much wish to keep to themselves.

3449. As far as the Ministry's ideas are concerned, any knowledge that you have do you pass on?—Yes, it is available for all. There is a series of booklets

which describes in detail what experiments we are doing and that is freely available for anyone who is interested.

Mr. John Hall.

3450. I should just like to follow on this point about overlapping. The local authorities, of course, also run experimental farms; there is a very good one in Buckinghamshire. Are they taken into account when considering the work of your own farms?—I cannot answer specifically, Sir; I hope so.

3451. They exist in different parts of the country?—Yes. I am sure we must know about them, but I cannot answer your question definitely.

3452. The results you get, or hope to get, out of these experimental farms and stations are spread largely through the papers and pamphlets you issue through the Stationery Office?—Yes, through our bulletins and to any agricultural papers that are interested.

3453. And through broadcasts in "The Archers" programme, from the sound of it occasionally?—Yes.

3454. Mr. Macpherson, may I ask you a few questions: were the Treasury aware that the official estimate furnished to them covered only the first few years if you look at paragraph 82 the first sentence?—(Mr. Macpherson.) May I say two things, Sir? First of all, on the programme itself, the Accounting Officer has said that this was a marking time period and we wish to be associated with the consideration of an extension of this programme, having regard to the cost so far. Secondly, on the Treasury control aspect, while I think it is fair to say that we were aware from the outset that the estimates were by no means firm, I think, on reflection, we—and I think this goes for the Ministry too—would feel that the method of getting Treasury approval for the improvements that have been necessary after the initial purchases have been made, has not really given the best sort of picture for the Treasury and, I think, the Ministry, to see exactly where we are going project by project; and that is another aspect that we and the Ministry would wish to explore further. What, in fact, has happened is that the Treasury has been aware, usually at the time they authorised an individual project, whether by purchase or by letting, of the amount

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that was involved, and, I think in fairness to the Ministry, they have had some idea of the improvements that the Ministry thought were necessary. Thereafter the Ministry have come with individual projects which were costing more than their delegated authority and these in every instance have been approved by the Treasury; but it has been done in a rather piecemeal fashion. That has resulted in the project cost probably not being wholly realised as it might have been. I do not know whether the Accounting Officer would agree with that? (Mr. Winnifrith.) I would very much like to comment on that, Sir. I do agree with what the Treasury representative has said. There is room for improvement in the way in which we keep the Treasury in touch with future developments and we are going into that with the Treasury in the hope that we can get something better.

Mr. Peyton.

3455. I do see your difficulty here. If you authorise expenditure you are blamed for being profligate, and if you withhold permission then you are accused of being skinflint and very difficult. You are bound to be in an impossible world anyhow, but supposing Mr. Winnifrith comes and says to you: "Look, here is a magnificent scheme. I have got a new potato and this potato is going to be of enormous benefit to all British potato growers". You readily understand why, but what I never have been able to grasp is how the Treasury come to a decision as to whether that scheme is pie in the sky or not?—(Mr. Macpherson.) If over this whole field the Ministry are asking us to be allowed to spend £X million, the Treasury may very well say: "Well, given the sort of result that can be expected from this expenditure we think £X million is too much; and that given the demand on the Exchequer for other experiments and other expenditures we think this is too high a figure for this field of activity"; and that is one way in which the Treasury, sitting centrally, corrects any views that the Ministries individually may have on the importance of their particular activity.

3456. So, is this correct, then, that you would confine your attention to the proportion between the investment and the yield, the money invested and the benefits to be gained in terms of financial

savings?—No, we do not rely only on that, but that is one method of Treasury control. On individual projects the Treasury may well say, in respect of a building project or any other project: "This is too costly, it is not worth while at that amount of money", and even when they feel that a project is in itself worthwhile there is a further control in that we say, taking a building project again: "We do not think you ought to have gold-plated bathrooms". Those are the sorts of considerations that the Treasury must take into account.

3457. Do you leave Mr. Winnifrith to judge the virus-proof qualities of the potato. You do not comment on that?—Obviously we must, but we may well say to Mr. Winnifrith: "Is the likely result of this experiment that there is going to be a substantial cut in the subsidy for the farmers on potatoes". (Mr. Winnifrith.) I ought to make it clear here that the potato experiment is very cheap. There are no buildings involved, it is a question of a few plots and, of course, very careful supervision by the staff.

Mr. John Hall.

3458. I gather, Mr. Macpherson, from what you said earlier that the Treasury had no idea of the eventual total commitment in this case?—(Mr. Macpherson.) We knew of the programme, Sir. We certainly knew of the provisional costing of £700,000.

3459. But you did not know what the final commitment would be? In fact, as you say, you went on approving this in a piecemeal fashion?—Yes. I ought to say also, Sir, that the Treasury on two different particular projects raised the general question with the Ministry: "Is this not the time to stand back and look where we are going, because the programme on this particular project and as a whole seems to be getting too costly. Are we really getting the results to justify this expenditure"; and, as the Accounting Officer has said, the Ministry, too, feel that now is the time to call a halt and see where we are going.

3460. So, you might not have approved it had you known at the outset that the scheme as originally projected was going to cost, we will say, anything from £4 million to £5 million, which is what it has already cost?—

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[Continued.]

No, I cannot say that, Sir, because where Treasury approval was necessary on individual projects we have approved the individual expenditures; so the

Treasury all along have been aware and could have stepped in had they thought it was wrong at any particular time to spend the money that was being spent.

THURSDAY, 4TH JUNE, 1959.

Members present:

Sir George Benson, in the Chair.

Mr. Arbuthnot.
Mr. Chetwynd.
Mr. Cledwyn Hughes.

Mr. Stevens.
Sir Colin Thornton-Kemsley.

Sir EDMUND COMPTON, K.B.E., C.B., and Mr. J. MACPHERSON, called in and examined.

TREASURY MINUTE ON PARAGRAPH 11 OF THE FIRST REPORT OF THE COMMITTEE OF PUBLIC ACCOUNTS, 1957-58.

Sir THOMAS PADMORE, K.C.B., Second Secretary, Treasury, called in and examined.

Chairman.

3461. Will Members turn to the Special Report of the Committee, to paragraph 11 of the Treasury Minute, Power of Virement? Sir Thomas, when did the Service Departments furnish you with their estimates for the outturn of 1957-58?—(Sir Thomas Padmore.) In that year, in the second half of January, Sir.

3462. How did they compare with the final results?—Their expectation compared with the amount that they actually needed to vire?

3463. Yes?—I think that they were to some extent in excess in their expectations of what actually turned out to be the fact, but not, I think, by any large amount.

3464. You are satisfied?—Yes, Sir.

TREASURY MINUTE ON PARAGRAPHS 4-6 OF THE SECOND REPORT OF THE COMMITTEE OF PUBLIC ACCOUNTS, 1957-58.

Chairman.] Will Members turn to the Treasury Minute on paragraphs 4-6 of the Second Report? I have no questions.

Sir Colin Thornton-Kemsley.

3465. Sir Thomas, you say in the Treasury Minute on paragraphs 4-6 that the Appropriation Acts contain no qualification of your power of virement. Would you consider it proper to use that power to provide for deficits caused by expenditure on new works not provided for at all in the Estimate?—(Sir Thomas Padmore.) Yes, Sir, we would, and on occasion we do.

3466. Is that not rather different from the category which you prescribe for in the brackets a little lower down in the paragraph: "changes in labour and material costs or in the rate of progress on contracts"?—Yes, I think it is. I think that the extent and the nature of the control over works services not provided for in the Estimates is a good deal wider than the question of allowing or

not allowing virement to pay for such works because, of course, a situation may arise (and frequently does arise) in which the Service Departments propose to carry out such works when no question of virement arises because there are savings within the Vote sufficient to meet the new expenditure. We have done two things, one of them quite recently, in order to meet this point. The first one was, and this was a thing that was done newly in the Estimates for this year. In the Estimates presented earlier on in this calendar year we provided that works in respect of which a commitment was expected in the year to which the Estimate related, but on which it was not expected that any actual expenditure would be incurred, should for the first time be provided for in the Estimate by a token sum, just as though actual expenditure were involved. That means that the number of occasions on which the question of allowing a commitment to be entered into for a new work not provided in the Estimate will be

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[Continued.]

materially smaller than it used to be. The other measure is a somewhat older one. It was one which was introduced in 1956-57 and was the arrangement that this Committee would be furnished through the Comptroller and Auditor General with particulars of all assents, whether or not virement was involved, to the incurring of commitments or of new expenditure on works not provided for in the Estimates. Those two things together mean, first of all, that there will be fewer instances in the future of this arising and, secondly, that when it does arise, although the Treasury have always considered that their power to allow virement did extend to cases of this kind, this Committee will be in a position to know what use we are making

of that power and will be in a position to challenge us if it thinks we have gone beyond what is sensible.

Chairman.

3467. The Committee, then, can take it that in future you are going to exercise really strict control over the use of virement in circumstances where the Services have been under-providing?—Yes, Sir. I do not think we would admit that we have been anything other than strict and proper in the past; we always have taken these questions very seriously and certainly we shall continue to do so. As I have said, the number of occasions on which the point will arise will be less frequent in future than it has been in the past.

CIVIL APPROPRIATION ACCOUNTS (CLASSES I-V) 1957-58.

CLASS I.

VOTE 22.

MISCELLANEOUS EXPENSES.

Chairman.

3468. Will Members now turn to the Civil Appropriation Accounts, Classes I-V, to page 54, Miscellaneous Expenses? I would just like to ask one or two questions on the History of Parliament Trust, Sir Thomas. When did the Grant in Aid begin?—(Sir Thomas Padmore.) In 1951-52.

3469. How much has it amounted to, so far?—The amount promised was £17,000 a year, £15,000 for the work itself, and £2,000 by way of provision for the costs of publication. So far, of course, the costs of publication have not arisen, so that we have been paying grant at a rate not exceeding £15,000 a year, though it was arranged, and indeed announced to Parliament at the time, that so far as in the earlier years the full £15,000 was not required, the additional amount could be drawn later on on top of the £15,000. Up to now would be eight times £15,000, or £120,000, and the amount actually drawn so far up to the end of the last financial year is £96,000, leaving a balance undrawn out of the £15,000 a year of £24,000.

3470. How do you explain the grant of £18,900 and the expenditure in the year of account of £16,500? That does not square with your £15,000?—Which year, Sir?

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3471. The year ending March, 1958?—The grant was £18,900.

3472. I thought you said the annual payment was £15,000?—As I intended to explain, Sir, the Chancellor of the Exchequer when this scheme was originally announced said that the amount to be promised over the 20 years was 20 times £15,000, but as far as they needed less than £15,000 in the earlier years they might accumulate that and draw more than £15,000 in subsequent years. As they are now below their rate of £15,000 for the eight years for which the thing has been running they are entitled to ask for more than £15,000 to that extent.

3473. I think if you will look at your evidence you will find it has two meanings. However, that explains it. When is publication going to begin?—The publication dates vary. Perhaps I might explain how this thing is going, if you would like me to, in a general sort of way?

Chairman.] If you please.

Mr. Chetwynd.

3474. Is it going?—The position is very different from what it was thought likely to be when the scheme was started, and, so far as I am aware, Parliament has no official knowledge that is

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more up-to-date than the original statement made by the Chancellor in 1951. The proposition then was, as you know, to make this grant of £15,000 a year for twenty years, plus £2,000 a year for twenty years, and that was expected to be a sufficient sum to do the whole job from the earliest beginnings of Parliament right up to the end of the 19th century. In fact, the Trustees became aware progressively, and have quite recently become fully aware, of the fact that they are not going to be able to complete that programme, or anything like it, on the provision so far promised to them. They have divided the whole of the History of Parliament into 15 periods; work is at present in hand on five and about to start on a sixth of those periods, and that is the only work that is being done at the present time. The result is that the present programme is confined to, roughly, the periods 1500 to 1600 and 1715 to 1820. The Trustees now intend to start on a short period somewhat earlier, round about the year 1400, and in their present judgment that programme represents the whole of what they are going to be able to do on the grants so far promised to them. That is for three reasons: first of all, they expected when they began that they would get a great deal of unpaid voluntary assistance. They have had some of that, but nothing like as much as they expected. The second reason is that the value of their grant has to some extent fallen in that salaries have gone up. But the main reason is that nobody knew really how much research it would be possible to do or what material there was, and they have discovered they greatly under-estimated the amount of work which was required to do this job in a respectable and satisfactory way. So much so that they compute now that the number of research man-years that will go into each volume is something like double what they originally expected. Those three things put together mean that on their present financial expectations, the promises that have been made to them, they only expect to be able to complete about two-fifths of the whole job. They have quite recently, after reviewing their position, considered the question whether in those circumstances they should completely alter the basis on which they were doing the job and try to do it in a much more sketchy fashion, but in such a way as to cover the whole

of the material. They have decided with the advice of their distinguished Editorial Board that that would be a complete waste of money in that they would merely produce a work that, from the point of view of scholarship, was contemptible; and that the only practical courses open to them are either to abandon the job completely, which would mean, of course, throwing away at any rate the £100,000 or so that has been spent on it so far, or going on as they are in a state, naturally, of great uncertainty as to whether it will be possible ever to complete it and whether Parliament will think fit ten years hence to provide the funds to complete the job. They have recently—in the last few months—brought the whole of these facts to the attention of the Government; and the Chancellor of the Exchequer has seen the Board of Trustees and has come to the conclusion that the only sensible course, and probably the course that would commend itself most to Parliamentary opinion, is to allow them to proceed as they are and to continue to make their grants on the scale promised to them.* But he has warned them that in his judgment they should proceed on the basis that it seems to him unlikely that they will get any more, and they must therefore make the best of it. In any event, the problem of what is to be done, if anything, to complete the job does not arise currently since the Trustees are satisfied that they are going on now at the optimum pace. They have got sufficient funds to do the job that they are currently doing and complete the volumes that are actually being produced. Of the volumes within the present programme, the first is promised for 1960, next year, I think, and the rest over the following decade.

Chairman.

3475. Am I right in assuming that if they carry on on their present standard, to finish the job completely would cost approximately £850,000?—I think they would put it rather lower than that. The figure they gave to the Chancellor of the Exchequer was that they thought that

* Note by Witness: The Chancellor of the Exchequer has informed the Trustees that the Government is willing to finance the addition of this further section to their programme (to cover the period 1377–1422) by increasing the total of their grant over the twenty-year period from £340,000 to £360,000.

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[Continued.]

to complete the job would cost about another £470,000, which makes a total pretty near to your figure.

3476. That is £810,000, and that I presume is not allowing for any possible increase in prices in the future?—No, it is not.

3477. So, if it is going to go along for another ten years, it looks as though it is going to cost £1 million?—It might very well.

Mr. Chetwynd.

3478. I was working at one time on some of the material that this body has got. Is the Treasury consulted on the terms of remuneration for the workers on this History?—I would not say we are actually consulted. Some time ago we asked to know what were the rates of pay of the full-time employees, the research assistants, and what were the rates of remuneration of the historians who are paid by fees, and we have been kept up-to-date on that. As I say, we are informed rather than consulted, but it happens that we are entirely satisfied that the rates of pay are entirely reasonable.

3479. Is it possible for the Committee to know those, not in detail?—Certainly. I should have to submit a note.

Chairman.

3480. Would you submit a memorandum?—I happen to remember that the basic rate for the research assistants, the full-time employees, runs from something of the order of £700 to £1,000, and it is based on a comparison with the sort of rates that people of that character with those qualifications would be earning in University employment.

Mr. Chetwynd.

3481. Are they mainly post-graduate students?—Yes.

3482. Is any thought given to the question of getting post-graduate students to do this work as part of their Ph.D. thesis?—That I could not say, Sir. I should have to ask the Trustees, but I do know that they have had great difficulty. They have had to adjust their rates of pay because they came to the conclusion that they were simply not competitive with the Universities, and they have had great difficulty in keeping such people as they were able to recruit.

3483. At what stage were you in the Treasury consulted about the progress of this work, which seems to have been

going on from 1951 till last year, was it?

—We receive an annual report and the annual accounts, and the report tells us in general terms how things are going. It was in 1956 that the Trustees first began to realise, when they began to see the size of the job, that their present plan simply would not work, and they warned us at that time straightaway that that was the situation. They were not in a position to say how inadequate the grant would be, and it was not until the end of the last calendar year, December, I think, having had a full review themselves, that they came and told us what I have just now said.

3484. Do I understand that now they are more or less in a position to publish their first volume?—I had better check the date, but my recollection was that it was 1960.

3485. And which volume is it?—I am sorry, I see that it is later—1962. There are two sections which will probably involve three volumes each, that is, six volumes, which are expected to be completed and published in 1962. They are Sir John Neale's section and Sir Lewis Namier's section, which means 1558 to 1603 and 1754 to 1790.

Mr. Chetwynd.] They are the most important ones.

Mr. Arbuthnot.

3486. Who are the Trustees, Sir Thomas?—Mr. Clement Davies is the Chairman. The rest of the Trustees are Lord Milner, Lord Salisbury, Mr. John Foster, Mr. Glenvil Hall, Lord Winter-ton; and Lord Merthyr, Sir Edward Fellowes and Mr. Goodman *ex officio*.

3487. You talked about a very distinguished Editorial Board. Who are the members of the Editorial Board?—The Editorial Board who look after the project on behalf of the Trustees are Professor Sir Frank Stenton, Professor J. G. Edwards, Professor Sir Lewis Namier, Professor Sir John Neale and Professor Plucknett.

3488. What is the volume of research effort that is being locked up by this, can you assess it?—The exact number of research assistants? I honestly do not remember exactly how many. The staff has fluctuated. I am afraid I am guessing but I should think, about a dozen. I can check that and let you know. (Sir Edmund Compton.) From my information that is about right, eleven research students.

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Sir THOMAS PADMORE, K.C.B.

[Continued.]

3489. Would it be fair to say that if this work were discontinued, much needed research would be able to go into other things?—(Sir Thomas Padmore.) Well, I suppose 11 research assistants would be available and, of course, the historians themselves would be available to do other things.

3490. Who is going to publish the History?—I think that is not finally settled, but it was always contemplated—was contemplated, I think, even in pre-war days—that this would be published in the end by the Stationery Office; and I understand that the Trustees have recently been in consultation with the Stationery Office and are pretty well satisfied that they will want the Stationery Office to do it.

3491. Now, you told us that two sections were going to take six volumes. How many volumes is the whole History expected to take?—If the whole job were to be done, there are 15 sections and each section will consist of either two or three volumes, so that it is between 30 and 45 volumes.

3492. What is the price likely to be?—I do not know that anybody has been able yet to form any firm idea about that. For one thing, nobody quite knows what costs of production will be when the time comes; nobody knows quite, though they are beginning to know now, how big the volumes will be, still less do they know what the market will be; but the Trustees are very conscious that before very long they will have to address themselves to this question, and I understand from Mr. Davies that they are not unhopeful that these works will prove to have such a market in rather a specialised field that it may be possible to sell the volumes, not, as has hitherto been contemplated, at a loss by reference to the costs of actual printing and making of the volume, but that it may be possible to make some small profit out of it.

3493. Have they convinced the hard-headed members of the Treasury of the sound basis of that view?—I personally think that it is speculative, as indeed the Trustees would admit, though I would want to be advised by the Stationery Office before I felt able to form a judgment on it.

Sir Colin Thornton-Kemsley.

3494. Sir Thomas, can you conceive that there would be any circulation at

all outside the public libraries for something like 30 to 45 volumes of this kind?

—No, I cannot. Mr. Davies' view on that, which I respectfully share, is that there should be a quite considerable sale for libraries in the Universities, to some extent to public libraries and he thought overseas, too, at any rate in the Commonwealth, that Parliaments and libraries associated with Commonwealth Parliaments would want to have this work. But there would be no private sale, except perhaps for an individual volume here and there.

3495. Has anybody estimated what the production would have to be to satisfy that demand?—No, I do not think so.

3496. It would be hundreds, would it not, rather than thousands?—I would think so.

3497. So it could not be suggested, could it, that these volumes are likely to be revenue-producing to any serious extent?—No, if they pay for themselves I would personally be well content.

3498. Just pay for the printing?—Yes.

3499. Do you, representing the Treasury view, agree that the best thing would be to wind this whole project up altogether and cut our losses?—I think that is a very difficult question for me to answer. It seems to me to be a question of what Parliament wants. It is a policy question on which, even if I had a private and personal view, I do not think it would be of any particular value.

3500. Let us look at it in terms of what would be involved. At the moment this has cost about £96,000, as I understand it from you?—Yes.

3501. With another £24,000 undrawn, some of which would have to be drawn if a decision were reached to close the thing down?—Yes.

3502. So that one could think in terms, perhaps, of a round £100,000 at present, and yet it looks as if it is going to cost, I think you told the Committee, another £470,000, possibly, to complete the thing, and that was not allowing for increased costs of production?—No, Sir, it is more than that. £100,000 has been spent already. The balance of £340,000 has been promised, so there is another £240,000 anyhow; and the £470,000 is the additional cost of doing the 9 or 10 periods which the £340,000 will not provide for at all.

4 June, 1959.]

SIR THOMAS PADMORE, K.C.B.

[Continued.]

3503. So it is about £100,000 plus what we are committed to?—It was put to me before at £810,000.

Chairman.] That is the total cost at present prices.

Mr. Chetwynd.] Say, £1 million.

Chairman.

3504. I think, in round figures, if we were to allow for increased prices, Sir Thomas, you will agree it will cost not far short of £1 million, and that will include no printing costs?—This is price increases in a rather special sense. It is the cost of research assistants and whether they will go up by that much I do not know.

Sir Colin Thornton-Kemsley.

3505. What I am not clear about is whether this figure of about £1 million which we are guessing at is the total cost of the whole project when it is all finished. Is that what we say it might be?—At present prices and expectations the total cost is put at about £800,000, and if one thinks that increased prices will make the difference between £800,000 and £1 million, that is the answer. £1 million would then be the cost of the whole thing.

3506. As against that I wanted to see what we are committed to already if a decision were made by Parliament to stop the whole project and cut our losses. Could you give the Committee any guidance on that?—If the whole thing were to be stopped now the expenditure involved would be what has already been spent, which is about £100,000, plus a little for the part of this financial year that has gone by and such terminal payments as might be necessary for breaking contracts, and so on, say something over £100,000—£110,000 perhaps. That would be the measure of the loss. As I understand it, what had been bought for that money would be quite useless, because it would be a whole mass of half completed work.

3507. Yes. But we might, on the other hand, save something like £900,000, or possibly more, by stopping the thing now. Thank you very much?—May I just add this, Sir, that there are other possibilities. You asked what my personal opinion is. If I may say so, I think it is a great pity that this Parliament, the Mother of Parliaments, has not got an official history, and I think, therefore,

there is a great deal to be said for producing such a work. But in the present programme there is one very serious gap, which is the Stuart period, which is clearly a very important period from this point of view. It would be possible, if Parliament thought fit later on, to say: "We will fill in that gap—but only that." There would then be a continuous history from the year 1500 to 1820. That would cost a good deal less than completing the whole thing. It seems to me that it would matter far less if the history did not cover the very early days and if it did not cover the 19th century than if you had two pieces, 1500 to 1600 and roughly 1700 to 1800, with the Stuart period completely uncovered.

3508. It would not be possible to form any kind of an estimate—it could only be a guess, I suppose—as to what it might cost to proceed on those, what seem to me to be sensible, lines?—Yes, it would, because the Trustees have been thinking about it and they have already given me figures. They say that the additional cost of covering the Stuart gap would be, in their judgment, £150,000, so that that would make the total cost £500,000.

Mr. Cledwyn Hughes.

3509. Was it calculated in 1951 that the 15 sections could be completed for the cost then estimated?—Yes.

3510. So that, in effect, the assessment of the time was grievously wrong?—It was. Of course the reason was that nobody really knew what material there was to be assembled and how much work was required to be done on it until somebody started.

3511. Is it not right to say, Sir Thomas, that in 1951 the Board of Trustees were in existence and the Editorial Board was in existence, and when they made their application to the Treasury they must have gone into the figures very carefully? How was it that they were so much out in their calculation?—The Trustees were in existence. I am not sure without checking whether the Editorial Board was in existence, but if it was, it very likely did not have its present quality or size. I think the only answer I can give is the one I have given already, that this was one of those jobs that nobody could assess the size of until they started on it.

3512. Of course, there was never any thought or idea that any profit would be made out of this, was there?—No.

4 June, 1959.]

Sir THOMAS PADMORE, K.C.B.

[Continued.]

3513. You mentioned the Commonwealth, Sir Thomas. What is the possibility of selling volumes of this kind in the United States? Would there be a market in the Universities and libraries there of which there are a very large number?—I would think there was.

Mr. *Arbuthnot*.

3514. Sir Thomas, you told us that the Stuart gap would cost £150,000. Is the Stuart gap one of the 15 periods?—No, I think it is at least two, and may even be three. I am afraid I cannot answer that question with certainty, but I know it is more than one.*

3515. Do you know of any other instance where 45 to 50 volumes entailing this sort of amount and calibre of research has been produced for anywhere near the sum of £810,000?—The only kind of parallel that I know of at all, and it is not a very close parallel, is, of course, the official war histories. What number of volumes is comprised in those I do not know, but the official war histories of the last war, by the time they are completed, will cost more than the sort of figures we have been talking about this afternoon. As I say, without checking it I have no idea how many volumes that covers.

3516. The implication of that then, Sir Thomas, is that you would agree with me that the £810,000 is likely to be a very considerable under-estimate, or even the £1 million?—I would not necessarily say that, Sir; I do not know. The war histories job is a rather different one and it may be, for anything I know, much bigger.

* Note by Witness: The "gap" from 1603 to 1715 comprises 3 out of the total of 15 sections.

Chairman.

3517. Sir Thomas, could you give us some idea of what this History of Parliament consists of? I have been told it consists of biographies of Members of Parliament. Is that correct?—It does, in part. As I understand it, the Trust which started this project before the war, in the early 1930's, started wholly on the basis of producing biographies of individual Members of Parliament. When it was newly examined in 1951 the Trust and the Editorial Board speedily came to the conclusion that that was all very well in its way, but it was not primarily what was wanted. They therefore have altered the structure of the work and it now comprises two parallel lines, one the biographies of the individual members which will cover either one, or in the case of some periods, two volumes; but the other, and to my mind more important, volume which comes before them is a general history of Parliament in the period concerned.

3518. A political history of Parliament's activities?—Yes.

Mr. *Chetwynd*.

3519. Are there not already some pre-war volumes in existence even in our own Library? Sir Joshua Wedgwood was responsible for them?—Yes, there are. There was one volume, or even two volumes, published before the war. But the present plan, certainly if it is fully completed, covers the same periods as those cover for the reason, I think, that the only sensible thing to do, approaching this in this rather new way, was to do the whole thing afresh from start to finish.

CIVIL APPROPRIATION ACCOUNTS (CLASSES VI-X) 1957-58.

CLASS IX.

VOTE 7.

ATOMIC ENERGY.

Chairman.

3520. Will Members now turn to the Civil Appropriation Accounts, Classes VI-X, to paragraphs 111 and 112 of the Comptroller and Auditor General's Report, Atomic Energy? Sir Thomas, the Authority have put it on record that they consider that the practice of making

advances based upon forecasts which are merely estimates is wrong. Do you agree with that?—(Sir *Thomas Padmore*.) Yes, Sir, I do.

3521. It would be equally wrong if it were followed by other Government Departments?—It would.

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Sir THOMAS PADMORE, K.C.B.

[Continued.]

3522. Has it ever happened with other Government Departments, that you know of?—I believe not. I can, if you would like me to do so, explain what happened in this particular instance.

3523. Yes, if you would?—We made enquiry, and as you say, the Atomic Energy Authority having in a certain number of cases, 13 I think, paid out the sum of nearly £200,000 in respect of work not yet completed, when challenged said: "Oh yes, we took this practice over from our predecessors", who, in this particular instance were the Ministry of Works. We made enquiries of the Ministry of Works, and as a result, I must say, I think one can feel a certain sympathy with the Atomic Energy Authority. I have seen some of the standard certificates and those certificates certainly carry on them the implication that they are in part in respect of work not yet completed. We are assured, however, that that is not so, that the Ministry of Works have never paid in respect of work not completed, and that the form of certificate is merely intended as an indication that it is the last certificate of the financial year. But the Ministry of Works entirely agreed that the form of the certificate is misleading. It has in fact misled the Atomic Energy Authority in this particular instance, and they have undertaken to alter it.

3524. I take it, then, that in future advances will be made only for work that is already done or for materials that have already been delivered?—Yes.

3525. And that will apply to all Departments?—Yes.

Mr. Stevens.

3526. Sir Thomas, the Authority claimed that this was the standard practice to some extent in relation to the Ministry of Works, I think I heard you say?—Yes.

3527. Had the Treasury never been aware that the Ministry of Works was carrying on this somewhat unusual practice?—But it was not, Sir. The Ministry of Works were not, in fact, paying in respect of work not completed. They were using a misleading form of certificate. To give you an instance, the certificate in an individual case is dated, let us say, the 17th March and it says: "Work to be completed by 31st March", which appears to imply that it is in part, at any rate, in respect of work not yet done but to be done in the next fort-

night. But the Ministry of Works assured us that although that is the form of the certificate it does not mean what it says, and is, in fact, a certificate solely in respect of work which has been done; but misled by this form, the Atomic Energy Authority did in these cases pay for work which had not yet been completed. Fortunately, in all those cases the work was completed before the end of the financial year, so no harm was done. But, of course, for the future they will not, any more than the Ministry of Works has done in the past, pay for work except work which has been done or goods that have been delivered.

3528. So the Ministry of Works were not, in point of fact, in the habit of indulging in this custom, but the Atomic Energy Authority thought they were. When the Atomic Energy Authority was formed, had they no one to turn to for advice in financial matters, matters of payment in respect of contracts?—Certainly they had. They took over substantial numbers of staff from the Civil Service itself, primarily from the Ministry of Supply, but I have no doubt also that when they took over their own building work from the Ministry of Works they took some staff from the Ministry of Works also.

3529. The Treasury would not have had any part in helping them to establish proper methods when the Authority was first established?—Certainly, we would have helped them if they had been in difficulty, and indeed I have no doubt we very often did help them. But this particular point, being based on a misleading form of certificate, never came to our attention.

3530. I just have in mind that this is not the only occasion when the Comptroller and Auditor General has found it necessary to comment upon unusual financial practices of the Atomic Energy Authority. I go back a year or two when they first started using punch cards, and for six weeks those punch cards turned out very remarkable results which nobody on the Atomic Energy Office knew anything about until the Comptroller and Auditor General went along. It seems to me that the Accounts Department of the Atomic Energy Authority might merit some attention from the Treasury O. & M. Department?—I am sure we would be glad to give them any help or assistance

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Sir THOMAS PADMORE, K.C.B.

[Continued.]

they might require. They are, of course, an independent statutory authority, and therefore there are limits to the extent to which we can tell them how to do their business. But of course on these questions of accounting, and the like, we did give them a great deal of assistance in setting up their machinery to begin with. This seems to have been a point which got overlooked. It happened that everybody who had used the certificate on previous occasions in the Ministry of Works knew what it meant and knew it did not mean what it said.

Mr. *Arbuthnot*.

3531. Sir Thomas, have you had similar assurances from the other Ministries such as you have had from the Ministry of Works?—I do not believe that there are other instances in which a precisely similar form of certificate is used. We made our enquiries of the Ministry of Works because it was from there that it appeared that the Atomic Energy Authority had derived this odd practice.

3532. And you have not queried the thing with other Ministries at all?—I do not think we have. (Mr. *Macpherson*.) No, Sir, we have not, but this is a standard practice which is well known.

3533. Which is?—That payment is not made for work about to be done but only in respect of work actually done or materials supplied. (Sir *Thomas Padmore*.) I think the other Departments would be very pained indeed if we asked them if they ever paid before the work was done or before they got the stuff. Indeed, the Ministry of Works were very pained. They said: "Heavens above, of course we do not".

Mr. *Chetwynd*.

3534. Is it not likely that the Atomic Energy Authority might have made a profit on this? For instance, if they paid before the work was done is it not likely that the work when it was done would have cost more than what they paid for it?—I should think that is very doubtful, because only a very brief period was involved. This concerned only work done within a period of about ten days.

3535. So, the resultant sum at the end is precisely what it would have been had

they obeyed the correct procedure?—Yes. Although this is an impropriety nobody has lost money and nothing harmful has happened.

Chairman.] Paragraphs 113 and 114, Expenses of the Nuclear Research Institute. I have no questions.

Mr. *Cledwyn Hughes*.

3536. On paragraph 114, have the Treasury yet given directions as provided by the Charter regarding the preparation and audit of the Accounts of the Institute?—No, Sir, we have not but we are in process of doing so. The Institute only came into formal existence in, I think, June of last year—just about a year ago—and, therefore, its first Account will be the Account for ten months up to the end of last March. That Account is in course of production now and we are, in fact, in discussion with the Atomic Energy Authority and the Institute about the precise form of the Account. Although we have not given formal directions yet we shall be doing it very shortly.

3537. At the end of paragraph 114 there is reference to arrangements to be approved by the Treasury for making grants for financing the Institute. Have the Treasury yet approved such arrangements?—We have, Sir, but what we have approved are provisional arrangements, certainly not wholly suitable for the long term. We expect shortly to be approving fuller long term arrangements.

3538. Have the Institute any source of income other than Government grants?—They have not except in one sense, that most of the people working at the Institute when it is fully in operation will be University teachers and University post-graduate students, and the like, who will not be paid salaries by the Institute. They will still receive their ordinary University remuneration so that the Institute will not in the main be employing staff which it pays itself; but it has not any other present source of income. It is conceivable that in the fullness of time it might on occasion take on work on a repayment basis for other organisations, rather in the way that the Radio Telescope at Jodrell Bank has done some work of that kind; and it is also conceivable, I

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Sir THOMAS PADMORE, K.C.B.

[Continued.]

suppose, in a small way that it might at the end have something to sell, just as Harwell had isotopes to sell for medical purposes. But apart from these possibilities in the future it is wholly Government grant financed.

REVENUE DEPARTMENTS APPROPRIATION ACCOUNTS 1957-58.

VOTE 1.

CUSTOMS AND EXCISE.

On this Account no questions were asked.

CIVIL APPROPRIATION ACCOUNTS (CLASSES I-V) 1957-58.

CLASS I.

VOTE 1.

HOUSE OF LORDS.

VOTE 2.

HOUSE OF COMMONS.

VOTE 3.

REGISTRATION OF ELECTORS.

VOTE 4.

TREASURY AND SUBORDINATE DEPARTMENTS.

VOTE 5.

PRIVY COUNCIL OFFICE.

VOTE 6.

CHARITY COMMISSION.

VOTE 7.

CIVIL SERVICE COMMISSION.

VOTE 8.

EXCHEQUER AND AUDIT DEPARTMENT.

VOTE 9.

FRIENDLY SOCIETIES REGISTRY.

VOTE 10.

GOVERNMENT ACTUARY.

VOTE 11.

GOVERNMENT CHEMIST.

VOTE 12.

GOVERNMENT HOSPITALITY.

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[Continued.]

VOTE 13.

THE ROYAL MINT.

VOTE 14.

NATIONAL DEBT OFFICE.

VOTE 15.

NATIONAL SAVINGS COMMITTEE.

VOTE 16.

PUBLIC RECORD OFFICE.

VOTE 17.

PUBLIC WORKS LOAN COMMISSION.

VOTE 18.

ROYAL COMMISSIONS, &c.

VOTE 19.

SECRET SERVICE.

VOTE 20.

SILVER.

VOTE 21.

TITHE REDEMPTION COMMISSION.

VOTE 22A.

REPAYMENTS TO THE CIVIL CONTINGENCIES FUND

VOTE 23.

SCOTTISH HOME DEPARTMENT.

VOTE 24.

SCOTTISH RECORD OFFICE.

CLASS II.

VOTE 3.

BRITISH COUNCIL.

VOTE 4.

COMMONWEALTH RELATIONS OFFICE

VOTE 5.

COMMONWEALTH SERVICES.

VOTE 6.

OVERSEA SETTLEMENT.

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VOTE 7.

COLONIAL OFFICE.

VOTE 8.

COLONIAL SERVICES.

VOTE 10.

DEVELOPMENT AND WELFARE (FEDERATION OF RHODESIA AND
NYASALAND, AND SOUTH AFRICAN HIGH COMMISSION
TERRITORIES).

VOTE 11.

IMPERIAL WAR GRAVES COMMISSION.

CLASS III.

VOTE 1.

HOME OFFICE.

VOTE 2.

HOME OFFICE (CIVIL DEFENCE SERVICES).

VOTE 3.

POLICE, ENGLAND AND WALES.

VOTE 4.

PRISONS, ENGLAND AND WALES.

VOTE 5.

CHILD CARE, ENGLAND AND WALES.

VOTE 6.

FIRE SERVICES, ENGLAND WALES.

VOTE 7.

CARLISLE STATE MANAGEMENT DISTRICT.

VOTE 8.

SUPREME COURT OF JUDICATURE, &c.

VOTE 9.

COUNTY COURTS.

VOTE 10.

LEGAL AID FUND.

VOTE 11.

LAND REGISTRY.

VOTE 12.

PUBLIC TRUSTEE.

4 June, 1959.]

[Continued.]

VOTE 13.

LAW CHARGES.

VOTE 14.

MISCELLANEOUS LEGAL EXPENSES.

VOTE 15.

SCOTTISH HOME DEPARTMENT (CIVIL DEFENCE SERVICES).

VOTE 16.

POLICE, SCOTLAND.

VOTE 17.

PRISONS, SCOTLAND.

VOTE 18.

APPROVED SCHOOLS, SCOTLAND.

VOTE 19.

FIRE SERVICES, SCOTLAND.

VOTE 20.

STATE MANAGEMENT DISTRICTS, SCOTLAND.

VOTE 21.

LAW CHARGES AND COURTS OF LAW, SCOTLAND.

VOTE 22.

DEPARTMENT OF THE REGISTERS OF SCOTLAND.

VOTE 23.

SUPREME COURT OF JUDICATURE, &c. NORTHERN IRELAND.

VOTE 24.

IRISH LAND PURCHASE SERVICES.

CLASS IV. .

VOTE 1.

MINISTRY OF EDUCATION.

VOTE 2.

BRITISH MUSEUM.

VOTE 3.

BRITISH MUSEUM (NATURAL HISTORY)

VOTE 4.

IMPERIAL WAR MUSEUM.

4 June, 1959.]

[Continued.]

VOTE 5.

LONDON MUSEUM.

VOTE 6.

NATIONAL GALLERY.

VOTE 7.

TATE GALLERY.

VOTE 8.

NATIONAL MARITIME MUSEUM.

VOTE 9.

NATIONAL PORTRAIT GALLERY.

VOTE 10.

WALLACE COLLECTION.

VOTE 11.

GRANTS FOR SCIENCE AND THE ARTS.

VOTE 12.

UNIVERSITIES AND COLLEGES, &c., GREAT BRITAIN.

VOTE 13.

BROADCASTING.

VOTE 14.

PUBLIC EDUCATION, SCOTLAND.

VOTE 15.

NATIONAL GALLERIES, SCOTLAND.

VOTE 16.

NATIONAL MUSEUM OF ANTIQUITIES OF SCOTLAND.

VOTE 17.

NATIONAL LIBRARY, SCOTLAND.

CLASS V.

VOTE 1.

MINISTRY OF HOUSING AND LOCAL GOVERNMENT.

VOTE 2.

HOUSING, ENGLAND AND WALES.

VOTE 3.

EXCHEQUER GRANTS TO LOCAL REVENUES, ENGLAND AND WALES.

4 June, 1959.]

[Continued.]

VOTE 4.

MINISTRY OF HEALTH.

VOTE 6.

MEDICAL RESEARCH COUNCIL.

VOTE 7.

REGISTRAR GENERAL'S OFFICE.

VOTE 8.

CENTRAL LAND BOARD.

VOTE 9.

WAR DAMAGE COMMISSION.

VOTE 10.

DEPARTMENT OF HEALTH FOR SCOTLAND.

VOTE 13.

EXCHEQUER GRANTS TO LOCAL REVENUES, SCOTLAND.

VOTE 14.

REGISTRAR GENERAL'S OFFICE, SCOTLAND.

On these Accounts no questions were asked.

CIVIL APPROPRIATION ACCOUNTS (CLASSES VI-X) 1957-58.

CLASS VI.

VOTE 4.

SERVICES IN DEVELOPMENT AREAS.

VOTE 5.

FINANCIAL ASSISTANCE IN DEVELOPMENT AREAS.

VOTE 6.

EXPORT CREDITS.

VOTE 7.

EXPORT CREDITS (SPECIAL GUARANTEES).

VOTE 8.

REGISTRATION OF RESTRICTIVE TRADING AGREEMENTS.

VOTE 9.

MINISTRY OF LABOUR AND NATIONAL SERVICE.

CLASS VII.

VOTE 1.

MINISTRY OF WORKS.

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[Continued.]

VOTE 2.

HOUSES OF PARLIAMENT BUILDINGS.

VOTE 3.

PUBLIC BUILDINGS, &c., UNITED KINGDOM.

VOTE 4.

PUBLIC BUILDINGS OVERSEAS.

VOTE 5.

ROYAL PALACES.

VOTE 6.

ROYAL PARKS AND PLEASURE GARDENS.

VOTE 7.

HISTORIC BUILDINGS AND ANCIENT MONUMENTS.

VOTE 8.

RATES ON GOVERNMENT PROPERTY.

VOTE 9.

STATIONERY AND PRINTING.

VOTE 10.

CENTRAL OFFICE OF INFORMATION.

VOTE 11.

PETERHEAD HARBOUR.

CLASS VIII.

VOTE 1.

MINISTRY OF AGRICULTURE, FISHERIES AND FOOD.

VOTE 4.

FOOD (STRATEGIC RESERVES).

VOTE 5.

FISHERY GRANTS AND SERVICES.

VOTE 6.

SURVEYS OF GREAT BRITAIN, &c.

VOTE 7.

OFFICE OF CROWN ESTATE COMMISSIONERS.

VOTE 8.

AGRICULTURAL RESEARCH COUNCIL.

[4 June, 1959.]

[Continued.]

VOTE 9.
NATURE CONSERVANCY.

VOTE 10.
DEVELOPMENT FUND.

VOTE 11.
FORESTRY COMMISSION.

VOTE 12.
DEPARTMENT OF AGRICULTURE FOR SCOTLAND.

VOTE 13.
FISHERIES (SCOTLAND) AND HERRING INDUSTRY.

CLASS IX.

VOTE 1.
MINISTRY OF TRANSPORT AND CIVIL AVIATION.

VOTE 3.
TRANSPORT (SHIPPING AND SPECIAL SERVICES).

VOTE 6.
MINISTRY OF POWER (SPECIAL SERVICES).

VOTE 8.
DEPARTMENT OF SCIENTIFIC AND INDUSTRIAL RESEARCH.

VOTE 9.
ROADS, &c., SCOTLAND.

CLASS X.

VOTE 1.
SUPERANNUATION AND RETIRED ALLOWANCES.

VOTE 2.
MINISTRY OF PENSIONS AND NATIONAL INSURANCE.

VOTE 3.
WAR PENSIONS, &c.

VOTE 5.
NATIONAL ASSISTANCE BOARD.

VOTE 6.
PENSIONS, &c. (INDIA, PAKISTAN AND BURMA).

VOTE 7.
ROYAL IRISH CONSTABULARY PENSIONS, &c.

On these Accounts no questions were asked.

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APPENDIX I

LETTER from a Treasury Officer of Accounts to the Clerk

Treasury Chambers,
Great George Street,
London, S.W.1.

13th November, 1958.

DEAR BARCLAY,

Army Estimates: Vote 4

May I refer you to Vote 4 of Army Estimates which provides for expenditure on the pay of the main body of the civilian employees of the War Department at home and abroad, and on miscellaneous allowances? The Vote contains 13 subheads of expenditure ranging in amount from rather more than £½ million to nearly £23 million in the 1958-59 Estimates, and one subhead of receipts subdivided into two large and three very small items.

The War Office have represented to us that this detailed subdivision is leading to uneconomic working at the present time. The difficulties stem to a large extent from the recruitment and manning problems which are inseparable from running down the Armed Forces. The staff covered by Vote 4 are basically homogeneous in the sense that a clerk in Vote 4 (A), for example, could equally well perform the duties of a clerk in Vote 4 (E). But the progress of running down the Armed Forces varies between different areas and military branches, and some flexibility in recruitment and transfer of civilian staff is desirable to match requirements if units are to be maintained in efficient working condition. The more detailed the sub-division of the civilian staff, the more difficult accurate estimation becomes, although estimation of the Vote as a whole may well be less subject to error.

The Treasury are satisfied that there is substance in these representations and we should like to meet them by reducing the number of subheads in Vote 4 without reducing the degree of control over expenditure on the Vote as a whole.

The change proposed, on which the Treasury and the War Office are in agreement, is a redistribution of Vote 4 expenditure under 5 subheads instead of 13, as follows:—

Subhead A—The existing four subheads B, C, D, F.

Subhead B—The existing three subheads H, J, M.

Subhead C—The existing subhead K unchanged.

Subhead D—The existing subhead L unchanged.

Subhead E—The existing four subheads A, E, G, N.

On the figures of expenditure in the 1958-59 Estimates, none of the new subheads would exceed the figure of approximately £23 million of the existing single subhead K.

This proposal would involve no reduction in the amount of information made available to Parliament in the Estimates, since all the details given under existing subheads would continue to be separately itemised.

At the same time we should like to take the opportunity of combining the existing three smallest items in subhead Z, which in the 1958-59 Estimates amounted together to just over £40,000.

I should be grateful if you would let me know whether the Public Accounts Committee would see any objection to these proposals.

A similar letter is being sent to the Clerk to the Select Committee on Estimates.

Yours sincerely,
(Signed) J. MACPHERSON.

APPENDIX 2

PAPER submitted by the Treasury on 1st December, 1958

SUPERIOR AUTHORITY CERTIFICATES

The Accounting Officers for the Navy, Army and Air Services and the Ministry of Pensions and National Insurance (for the War Pensions Vote only) sign a certificate covering the respective Appropriation Accounts in the following terms:—

“I declare to the best of my knowledge and belief that no part of the expenditure contained in this Appropriation Account has been incurred without authority superior to that of the Department in cases where such superior authority is required by the regulations.”

2. The origin of the present practice is to be found in the Second Report of the Public Accounts Committee, 1867. It appears that the Committee had been perturbed by evidence which showed that, if the Secretary of State for War ordered expenditure to be incurred of a nature which required Treasury authority, but without seeking Treasury authority, the Accountant General and the Chief Auditor of the War Office had to carry out these instructions without demur and without any record in the Accounts so that in effect there was no means of detecting outside the War Office that such expenditure had in fact been met.

3. With the authority of the Public Accounts Committee (paragraph 115 of the First Report dated the 16th May, 1877) the certificate was dropped from the Army Appropriation Account from 1877 onwards following the adoption of the independent audit by the Comptroller and Auditor General of financial authority for Army expenditure, but it was reintroduced in 1902-03, as a result, it appears, of failure on the part of the War Office to obtain Treasury authority for the waiver of certain conditions attaching to the issue of pay and allowances to two squadrons of the Imperial Yeomanry Regiment. (Third Report of the Public Accounts Committee dated the 19th June, 1903.)

4. The extension of the certificate to the more important Civil Departments was considered fully during 1920-23 at the instance of the Public Accounts Committee in their Fourth Report of 1920, but in 1923 the Committee endorsed the conclusion of the Treasury that the special certificate should, for the future, be limited to the Accounts of the fighting Services and the Ministry of Pensions, since these Departments had financial powers delegated to them to a greater extent than other Departments of State. There the matter has rested.

5. There have been several changes since 1923 which affect the position. Probably the most important is the evolution of the status and responsibility of the Accounting Officer and the vesting of this office in the Permanent Head of the Department. This important change initiated by Sir Warren Fisher in the early '20s gained so much support, that Their Lordships, in dealing with the Second Report of the Public Accounts Committee of 1936, said “They will keep under review the few exceptional cases in which the Permanent Head of a Department is not the Accounting Officer.” (Treasury Minute of 19th January, 1937.) Secondly, the letter, in its terms revised in 1953, sent to an Accounting Officer on first appointment brings out very clearly his responsibility for ensuring that specific Treasury sanction for expenditure has been obtained in all cases which are not covered by any standing authorities that may have been delegated by the Treasury, whether formally or by customary usage, to the Department. Thirdly, it is true to say that to the extent that there was a gap between the Service Departments and the Ministry of Pensions on the one hand and the Civil Departments on the other in respect of delegated powers, that gap has been narrowed in the past 35 years.

6. The Treasury and the Departments concerned have come to the view, after carefully considering the origin and history of the certificate in the light of more recent developments, that it is now an anachronism; we would therefore propose to discontinue it, thus putting the Accounts on which it is now given on the same footing as the Civil Appropriation Accounts. I hope your Committee will feel able to accept this proposal.

APPENDIX 3

PAPER forwarded by Sir *Alexander Johnston, K.B.E., C.B.*,
on 9th February, 1959

STAMP DUTY—AVOIDANCE BY NOMINEE HOLDINGS

The Committee asked the Revenue's reasons for thinking that nominee shareholdings were being used in order to avoid stamp duty in some cases.

The answer is that a number of cases have been seen where there seems to be no other reasonable explanation of the facts.

In these cases documents are submitted in which a nominee shareholder (usually a company) purports to transfer the shares, for a specified consideration, to itself. The Board are advised that such a document has no effect known to the law, but the solicitors submitting it sometimes explain that there has been a sale of the shares, that before the sale the nominee company held the shares for the vendor and that the purchaser wanted them to remain in the same name. It has been discovered, from the files of the Registrar of Companies, that in some of these cases the shares had been transferred by the beneficial owner into the name of the nominee company shortly before the sale. This earlier transfer, provided it preceded any agreement to sell the shares, would be liable to a duty of 10s. only; and the instrument purporting to transfer the shares from the nominee company to itself has also been treated as liable to 10s. duty as a deed. Ad valorem duty may thus be avoided. The Board are advised that an instrument subsequently executed transferring the shares from the nominee company to the purchaser would be liable to ad valorem duty; but since such a transfer would ordinarily be supported by a certificate that it is from a mere nominee of the transferee, the Stamp Office would not be put on enquiry and the transfer would be passed for 10s. duty. Nevertheless, from time to time, as a result of enquiries in these cases, a document is produced which attracts ad valorem duty, e.g., a letter from the original vendor to the nominee directing him to hold the shares for purchaser.

In the cases which come to our notice, the nominee is usually a private company.

Another device was canvassed in an article entitled "Share Transfers free of Stamp" which appeared in the "Investors Chronicle" of 4th April, 1958. Under this method the shares would be first put into the name of a bank as nominee. This could be done either when the shares were first acquired (at no cost in stamp duty, apart from the 2 per cent. duty payable on the acquisition of shares), or (at a cost of 10s. stamp duty) at any time thereafter. The beneficial owner wishing to sell the shares would ask the bank to approach likely customers. The bank, having found a purchaser, would simply debit his account and credit that of the vendor with the amount of the purchase price. Under this arrangement there would be no document, or at least no document would be submitted to the Revenue, which was liable to ad valorem duty. In the nature of the case the Revenue have no evidence whether or not any use is being made of this device.

The opportunities for the avoidance of duty by these devices are, of course, limited. They cannot be resorted to without co-operation between the vendor and purchaser, or between the bank nominee and the purchaser.

The two cases which are going to the House of Lords are not concerned with the question of the transfer of shares from a nominee company to itself, but with the question whether it is possible for the beneficial owner of property which is held in trust to transfer his beneficial interest to someone else orally, and thus avoid executing a document which is liable to stamp duty. If it is held, as the Revenue contend, that writing is necessary to dispose of such interests, whether on sale or otherwise, it is probable that attempted dispositions of these kinds will fall into disfavour.

APPENDIX 4

PAPER forwarded by Sir Gordon Radley, K.C.B., C.B.E., on 17th March, 1959

TELEPHONES—BLACK AND COLOURED (a)

	(Thousands)					
	1957/8	1958/9	1959/60	1960/1	1961/2	1962/3
<i>Stock at beginning of year</i>						
Usable ("good") stock—central field...	926	830	667	547	384	198
	102	58	58	58	58	58
	<u>1,028</u>	<u>888</u>	<u>725</u>	<u>605</u>	<u>442</u>	<u>256</u>
Repairable ("old") stock ...	420	667	587	438	391	357
	<u>1,448</u>	<u>1,555</u>	<u>1,312</u>	<u>1,043</u>	<u>833</u>	<u>613</u>
<i>Changes in usable stock</i>						
Additions: Purchases ...	294	257	227	250	250	250
Repaired ...	269	280	300	300	300	280
Deductions: Used in field ...	-703	-700	-647	-713	-736	-739
	<u>-140</u>	<u>-163</u>	<u>-120</u>	<u>-163</u>	<u>-186</u>	<u>-209</u>
<i>Changes in repairable stock</i>						
Additions: Returned for repair...	566	525	446	448	461	464
Deductions: Repaired ...	-269	-280	-300	-300	-300	-280
Scrapped ...	-50	-325	-295	-195	-195	-195
	<u>+247</u>	<u>-80</u>	<u>-149</u>	<u>-47</u>	<u>-34</u>	<u>-11</u>
<i>Stock at end of year</i>						
Usable stock ...	888	725	605	442	256 (b)	47 (b)
Repairable stock ...	667	587	438	391	357 (c)	346 (c)
	<u>1,555</u>	<u>1,312</u>	<u>1,043</u>	<u>833</u>	<u>613</u>	<u>393</u>

Notes

(a) The difference between these figures and those quoted in paragraph 37 of the Audit Report is that the latter refer only to black telephones and exclude field stocks. E.g.—

"Good" Stock

735,000	Audit Report, para. 37.
95,000	Coloured.
<u>830,000</u>	Usable stock in central stores (line 1 in Col. 2 above).

"Old" Stock

553,000	Audit Report, para. 37.
114,000	Coloured and field stocks.
<u>667,000</u>	Repairable stock (line 4 in Col. 2 above).

(b) These figures are too low for working purposes by about 120,000 and 200,000 respectively. It cannot yet be said to what extent the difference would be made good by either additional purchase or repair.

(c) These figures may be lower if additional repair is undertaken (note (b)) or a higher rate of scrapping is decided upon.

APPENDIX 5

THE CONTRACTS BETWEEN THE INDEPENDENT TELEVISION AUTHORITY
AND THE PROGRAMME COMPANIES

PAPER forwarded by *Sir Robert Fraser, O.B.E.*

In response to its request, the Public Accounts Committee has been provided with copies of the contracts between the Authority and the programme companies. This associated Note briefly explains the financial policy from which these contracts take their shape and derive their figures.

2. The Television Act of 1954 has a life of ten years and Sections 10 and 14 define very clearly, as it seems to the Authority, the financial duties which it is expected to discharge within that period. It must ensure for itself an income at least sufficient to:

- (a) meet the whole of its revenue expenditure—that is to say, the cost of the administrative and engineering work which the Act requires it to perform and the depreciation on its capital assets
- (b) provide in addition a surplus large enough after payment of tax, to
 - (i) repay to the Exchequer with interest the whole of any loans received to meet initial expenditure in the early years
 - (ii) meet the whole of its capital expenditure—that is to say, pay for all the property and equipment necessary to support a national television transmission service
 - (iii) create a Reserve Fund to be used “for the purposes of the Authority”—that is to say, in carrying out its television responsibilities as defined by the Act.

3. The payments made to the Authority by the companies under the contracts between them are of an order that fully complies with the ample discharge of all these responsibilities, and, in fact, at the end of the period 1954-1964, the Authority

- (i) will have no debt to the Exchequer
- (ii) will have acquired from income, and so hold free of debt, capital assets, mainly in the form of television transmitting stations, of a total first cost of £5,000,000, on which depreciation of some £2,750,000 will have been provided
- (iii) will hold in revenue reserves some £4,000,000, unless further responsibilities (for example, for a second service, or colour, or other technical changes in national television standards) are placed on it, or there are other financial calls yet unseen
- (iv) will have paid in taxation a total of some £7,000,000.

These very substantial assets will, in 1964, vest in the Crown, in default of statutory provision to the contrary.

4. The income necessary to achieve these purposes involves the Authority, as a public corporation, in securing from the companies annual payments about three times greater than the actual cost of the engineering and administrative services it provides. It should perhaps be noted that part of this cost takes the form of rentals paid to the Post Office for links, and that, in fixing these charges the Post Office follows the declared policy of basing them upon cost, with a small margin of profit.

5. In 1956, when the programme companies were making very heavy losses, great pressure was brought to bear on the Authority to reduce its rentals. This pressure was resisted and reductions were refused by the Authority, because of its conception of its statutory obligations.

6. It seems to the Authority important to note that the Act does not require the Authority to provide itself with an income out of which sums in addition to income tax should be paid to the Exchequer, though it would have been possible for Parliament to add such an obligation to those defined in Section 10 had such been its wish.

7. If the Authority, having established rentals amply large enough to fulfil its duty as defined in the Act, then made a further increase designed only to make inroads into the companies' profits, it would not only be exceeding, as it would seem to the Authority, the clearly defined duties laid upon it by Section 10, but would be assuming responsibilities of a fiscal character proper only to Parliament and to the Ministerial responsibilities of the Chancellor.

8. The profit levels of independent television are not the result of under-charging by the Authority, whose income is, as has been said, three times greater than the actual cost of its services, but of the inability of the Authority to introduce directly competitive services on the number of channels available to it.

9. Finally, the Authority has from the beginning taken the view that in the vital matter of the selection of programme companies, it should pay sole regard to those qualifications that bear upon the relative ability of applicant groups to provide the best possible television programmes, subject always to the assurance that a group which it has in mind to select will be financially secure. The Act again seems clear. It instructs the Authority to provide television services of high quality, and contains many directions about the standards to be observed. It would be difficult, if not impossible, to reconcile this duty with the selection of programme companies by competitive tender. The Authority would be obliged to reserve the right not to accept the highest bid. For this reason, the Authority has itself fixed ample rentals in advance, and has in no case invited competitive tenders, nor would it ever wish, by so doing, to create the impression, or leave any ground for the suggestion, that factors other than those of qualifications and suitability in relation to the provision of programmes could influence its judgment.

APPENDIX 6

PAPER forwarded by *Sir John Hawton, K.C.B.*, on 24th March, 1959.

PAYMENT FOR LENSES AND FRAMES

The gross value of cash settlement discounts received by opticians from 1948 to 31st March, 1958. (Q. 1890-1.)

1. It is not possible to give an estimate of the amount involved.
2. If it could fairly be assumed that throughout the period opticians were always able to earn the discount and in fact received it on all purchases the total sum over the ten years could be estimated at rather less than £2 million. But this is not a reasonable estimate of the amount of discount enjoyed by opticians over that period.
3. Although the existence of a standard 5 per cent. cash settlement discount was known in 1948, the extent to which it was actually received was not known until the investigation by Board of Trade accountants which was reported to the Department in March, 1957. At that time Board of Trade accountants found that discount averaged $4\frac{1}{2}$ per cent. on all purchases from a sample of firms. Information obtained in the course of an earlier investigation of trading results in 1952-53 suggests that discount may then have averaged rather less than $3\frac{1}{4}$ per cent.; this investigation was not designed to produce this information and the data is imperfect; but it suggests that settlement discounts were then less widely received than in later years. There is no similar information available about earlier years.

The significance of the reported discounts in excess of 5 per cent. (Q. 1897-8.)

4. In the case of two companies in one Group the Board of Trade accountants found that settlement discounts were averaging over 5 per cent., and their inquiries showed that this was because special terms were given to several important customers.

5. The discount allowed by one of these two companies in a full year was £802 on sales of National Health Service supplies amounting to £12,935, equivalent to 6.2 per cent. on sales; this relatively high rate was stated to be due to the grant of a 15 per cent. discount to a single large customer; the discount had been agreed some years ago as part of the terms of purchase by the company of a small prescription house. In the case of the second company annual National Health Service sales were £42,711 and discount allowed was £2,577 equivalent to 6.03 per cent. of sales. In this case, also, special terms had been allowed to a number of customers, a practice which had been followed for a large number of years but was being abandoned. There were, therefore, special reasons for these higher rates of discounts, but the additional amounts involved were, in any case, relatively insignificant.

6. In his report the Comptroller and Auditor General mentioned also a firm which had offered certain items at up to 20 per cent. below the reimbursement rates. The total annual National Health Service sales of this firm were rather less than £60,000. The Board of Trade accountants were informed that lower prices were offered only on certain items. The amount involved was not stated, but the firm's price list in 1954 indicated that lower prices (generally less than 20 per cent. lower) were available only for frames, which normally represent about one-fifth of National Health Service sales. At a later date, however, the accountants were informed that the company had extended its range of service and increased its selling prices to the rates on which opticians' reimbursement was based.

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