

MINUTES OF PROCEEDINGS
OF
THE COMMITTEE OF
PUBLIC ACCOUNTS

TOGETHER WITH THE
MINUTES OF EVIDENCE, APPENDICES
AND INDEX

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FOR THE NOMINATION OF THE COMMITTEE SEE THE
FIRST REPORT

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* The First and Second Reports of the Committee have been published separately.

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PROCEEDINGS OF THE COMMITTEE

WEDNESDAY, 15TH DECEMBER, 1943.

Members present:

Sir Irving Albery.	Sir John Mellor.
Mr. Benson.	Sir Assheton Pownall.
Sir Edmund Brocklebank.	Sir Frank Sanderson.
Mr. Douglas.	

Sir Assheton Pownall was called to the Chair.

The Committee deliberated.

[Adjourned till Tuesday, 29th February at half-past Two o'clock.

TUESDAY, 29TH FEBRUARY, 1944.

Members present:

Sir ASSHETON POWNALL in the Chair.	
Sir Irving Albery.	Mr. Glenvil Hall.
Mr. Ralph Assheton.	Sir John Mellor.
Mr. Benson.	Mr. Pickthorn.
Sir Edmund Brocklebank.	Sir Frank Sanderson.
Sir George Davies.	

The Exchange Equalisation Account; the Revenue Departments Appropriation Accounts: Vote 2, Inland Revenue, Vote 3, Post Office, Vote 1, Customs and Excise were considered.

For Witnesses for this and subsequent days, see Minutes of Evidence.

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

TUESDAY, 7TH MARCH, 1944.

Members present:

Sir ASSHETON POWNALL in the Chair.	
Sir Irving Albery.	Sir John Mellor.
Mr. Benson.	Mr. Pickthorn.
Sir Edmund Brocklebank.	Sir Frank Sanderson.
Sir George Davies.	Mr. Touche.
Mr. D. O. Evans.	

The House of Commons Members' Fund Account, 1942-43; the Civil Appropriation Accounts, 1942: Class I, Vote 2, House of Commons; Class V, Vote 11, Assistance Boards; Class V, Vote 14, Supplementary Pensions, Statement of Excess; Class V, Vote 14, Supplementary Pensions; Class I, Vote 9, Exchequer and Audit Department, Vote 1, House of Lords Offices, Vote 5, Privy Council Office; the Cinematograph Fund Account, 1942; the Civil Appropriation Accounts, 1942: Class I, Vote 7, Charity Commission, Vote 8, Civil Service Commission, Vote 10, Friendly Societies' Deficiency, Vote 11, Government Actuary, Vote 12, Government Chemist, Vote 14, Import Duties Advisory Committee, Vote 16, National Debt Office; the Local Loans Fund Accounts, 1942, the Sinking Fund Accounts, 1942; the Civil Appropriation Accounts, 1942; Class I, Vote 17, National Debt Office; the Local Loans Fund Accounts, 1942; the Sinking Fund Works Loan Commission, Vote 25, Tithe Redemption Commission, were considered.

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

TUESDAY, 14TH MARCH, 1944.

Members present:

Sir ASSHETON POWNALL in the Chair.

Sir Irving Albery.	Mr. Glenvil Hall.
Mr. Benson.	Sir John Mellor.
Sir Edmund Brocklebank.	Mr. Pickthorn.
Sir George Davies.	Sir Frank Sanderson.
Mr. Douglas.	Mr. Silverman.
Mr. D. O. Evans.	Mr. Touche.

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

The Civil Appropriation Accounts, 1942: Class II, Vote 12, Imperial War Graves Commission; Class I, Vote 28, Ministry of Town and Country Planning, Vote 1, The Mint; Class III, Vote 2, Broadmoor Criminal Lunatic Asylum, Vote 4, Prisons, England and Wales, Vote 7, County Courts; the County Courts Funds Accounts, 1942; the Civil Appropriation Accounts, 1942: Class III, Vote 8, Land Registry, Vote 9, Public Trustee, Vote 10, Law Charges; Class IV, Vote 2, British Museum, Vote 3, British Museum (Natural History), Vote 4, Imperial War Museum, Vote 5, London Museum, Vote 6, National Gallery, Vote 7, National Maritime Museum, Vote 8, National Portrait Gallery, Vote 9, Wallace Collection, were considered.

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

TUESDAY, 21st March, 1944.

Members present:

Sir ASSHETON POWNALL in the Chair.

Sir Irving Albery.	Sir John Mellor.
Mr. Benson.	Sir Frank Sanderson.
Sir Edmund Brocklebank.	Mr. Silverman.
Sir George Davies.	Mr. Touche.
Mr. D. O. Evans.	

The Civil Appropriation Accounts, 1942: Class II, Vote 4, Dominions Office, Vote 5, Dominion Services, Vote 6, Oversea Settlement, Vote 10, Development and Welfare (South African High Commission Territories, &c.); Class VI, Vote 6, Office of Commissioners of Crown Lands; the Crown Lands Abstract Accounts, 1942; the Civil Appropriation Accounts, 1942: Class III, Vote 19, Supreme Court of Judicature, &c., Vote 20, Irish Land Purchase Services; the Land Purchase Account, 1942, of the Supreme Court of Judicature, Northern Ireland; the Irish Land Purchase Fund Accounts, 1942; the Civil Appropriation Accounts, 1942: Class IV, Vote 1, Board of Education, were considered.

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

TUESDAY, 28TH MARCH, 1944.

Members present:

Sir ASSHETON POWNALL in the Chair.

Sir Irving Albery.	Mr. Glenvil Hall.
Mr. Benson.	Sir Frank Sanderson.
Sir Edmund Brocklebank.	Mr. Touche.
Sir George Davies.	

The Civil Appropriation Accounts, 1942: Class II, Vote 1, Foreign Office, were considered.

The Civil Appropriation Accounts, 1942: Class II, Vote 2, Diplomatic and Consular Services were considered; further consideration of Vote 2 postponed.

The Civil Appropriation Accounts, 1942: Class II, Vote 3, League of Nations; Class VII, Vote 13, Stationery and Printing; Class V, Vote 2, Board of Control, Vote 3, Registrar-General's Office, England, Vote 4, National Insurance Audit Department, Vote 5, Friendly Societies Registry, Vote 6, Old Age Pensions; Class VI, Vote 3, Department of Overseas Trade, Vote 8, Surveys of Great Britain, Vote 14, Department of Scientific and Industrial Research, Vote 15, Clearing Offices; the Debts Clearing Offices and Import Restrictions Act Accounts, 1942; the Civil Appropriation Accounts, 1942: Class VIII, Vote 3, Royal Irish Constabulary Pensions, Vote 4, Superannuation and Retired Allowances, were considered.

[Adjourned till Tuesday, 18th April, at half-past Two o'clock.

TUESDAY, 18TH APRIL, 1944.

Members present:

Sir ASSHETON POWNALL in the Chair.

Sir Irving Albery.
Mr. Benson.
Sir George Davies.
Mr. Douglas.

Mr. Pickthorn.
Sir Frank Sanderson.
Mr. Silverman.
Mr. Touche.

The Army Appropriation Account, 1942, was considered.

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

THURSDAY, 20TH APRIL, 1944.

Members present:

Sir ASSHETON POWNALL in the Chair.

Mr. Benson.
Sir Edmund Brocklebank.
Sir George Davies.
Mr. Douglas.

Mr. D. O. Evans.
Sir Frank Sanderson.
Mr. Touche.

The Army Appropriation Account, 1942, was further considered.

The Royal Hospital Chelsea Account, 1942; the Civil Appropriation Accounts, 1942; Class III, Vote 6, Supreme Court of Judicature, &c.; the Supreme Court of Judicature Account, 1942; the Supreme Court Prize, &c., Deposit Account, 1942-43, were considered.

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

TUESDAY, 25TH APRIL, 1944.

Members present:

Sir ASSHETON POWNALL in the Chair.

Sir Irving Albery.
Mr. Benson.
Mr. Douglas.
Mr. Glenvil Hall.

Sir Frank Sanderson.
Mr. Henderson Stewart.
Mr. Touche.

The Civil Appropriation Accounts, 1942: Class IX, Vote 1, Exchequer Contributions to Local Revenues, England and Wales; the Civil Appropriation Accounts (War Services), 1942: Class X, Vote 5, Ministry of Health (War Services); the National Health Insurance Fund Accounts, 1942; the Widows', Orphans' and Old Age Contributory Pensions Accounts, 1942; the Civil Appropriation Accounts (War Services), 1942: Class X, Vote 17, Department of Health for Scotland (War Services); the Housing Act, 1914, Account, 1942; the Civil Appropriation Accounts, 1942: Class V, Vote 15, Department of Health for Scotland, were considered.

Adjourned till Thursday at half-past Two o'clock.

THURSDAY, 27TH APRIL, 1944.

Members present:

Sir ASSHETON POWNALL in the Chair.

Sir Irving Albery.
Mr. Douglas.
Mr. D. O. Evans.
Mr. Glenvil Hall.

Sir John Mellor.
Mr. Pickthorn.
Mr. Touche.

The Civil Appropriation Accounts, 1942: Class VI, Vote 7, Ministry of Agriculture and Fisheries; the Trading Accounts and Balance Sheets, 1942; the Sugar Industry (Research and Education) Fund, 1942; the Land Fertility Research Fund Account, 1942; the Civil Appropriation Accounts (War Services), 1942: Class X, Vote 1, Ministry of Agriculture and Fisheries (War Services); the Civil Appropriation Accounts, 1942: Class VI, Vote 17, Department of Agriculture, Scotland; the Civil Appropriation Accounts (War Services), 1942: Class X, Vote 16, Department of Agriculture, Scotland (War Services); the Wheat Fund Accounts, 1942-43, were considered.

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

TUESDAY, 2ND MAY, 1944.

Members present:

Sir ASSHETON POWNALL in the Chair.

Sir Irving Albery.
Sir Edmund Brocklebank.
Sir George Davies.
Mr. D. O. Evans.
Mr. Glenvil Hall.

Sir John Mellor.
Mr. Pickthorn.
Sir Frank Sanderson.
Mr. Henderson Stewart.

The Civil Appropriation Accounts (War Services), 1942: Class X, Vote 15A, Ministry of Works and Planning (War Services); the Civil Appropriation Accounts, 1942: Class VII, Vote 1, Art and Science Buildings, Great Britain, Vote 2, Houses of Parliament, Buildings, Vote 3, Labour and Health Buildings, Great Britain, Vote 4, Miscellaneous Legal Buildings, Great Britain, Vote 5, Osborne, Vote 6, Ministry of Works and Buildings, Vote 6A, Ministry of Works and Planning, Vote 7, Miscellaneous Works Services, Vote 8, Public Buildings, Overseas, Vote 9, Royal Palaces, Vote 10, Revenue Buildings, Vote 11, Royal Parks and Pleasure Grounds, Vote 15, Works and Buildings in Ireland, were considered.

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

TUESDAY, 9TH MAY, 1944.

Members present:

Sir ASSHETON POWNALL in the Chair.

Sir Irving Albery.
Mr. Benson.
Sir Edmund Brocklebank.
Sir George Davies.

Mr. Pickthorn.
Sir Frank Sanderson.
Mr. Henderson Stewart.
Mr. Touche.

The Civil Appropriation Accounts, 1942: Class V, Vote 8, Ministry of Labour and National Service, Vote 9, Grants in Respect of Employment Schemes, Vote 10, Commissioner for Special Areas, England and Wales; the Civil Appropriation Accounts (War Services), 1942: Class X, Vote 8, Ministry of Labour and National Service (War Services); the Unemployment Fund Accounts, 1942; the Civil Appropriation Accounts, 1942: Class I, Vote 26, Scottish Home Department; Class III,

Vote 12, Police, Scotland, Vote 13, Prisons, Scotland; Class V, Vote 18, Commissioner for Special Areas, Scotland; Class VI, Vote 18, Fisheries, Scotland, Vote 19, Herring Industry; Class IX, Vote 2, Exchequer Contributions to Local Revenues, Scotland; the Civil Appropriation Accounts (War Services), 1942: Class X, Vote 18, Scottish Home Department (War Services); the Civil Appropriation Accounts, 1942: Class III, Vote 14, Approved Schools, etc., Scotland, Vote 15, Scottish Land Court, Vote 16, Law Charges and Courts of Law, Scotland, Vote 17, Register House, Edinburgh; Class IV, Vote 13, Public Education, Scotland, Vote 14, National Galleries, Scotland, Vote 15, National Library, Scotland; Class V, Vote 16, Board of Control for Scotland, Vote 17, Registrar-General's Office, Scotland, were considered.

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

* THURSDAY, 11TH MAY, 1944.

Members present:

Sir ASSHETON POWNALL in the Chair.

Sir Irving Albery.	Mr. Pickthorn.
Mr. Benson.	Sir Frank Sanderson.
Sir George Davies.	Mr. Henderson Stewart.
Sir John Mellor.	Mr. Touche.

The Civil Appropriation Accounts (War Services), 1942: Class X, Vote 6, Ministry of Home Security; the Civil Appropriation Accounts, 1942; Class VI, Vote 4, Export Credits, were considered.

The Trading Accounts and Balance Sheets, 1942, were further considered.

The Vote of Credit Appropriation Accounts, 1942, Service 43, Administered by the Export Credits Guarantee Department, were considered.

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

TUESDAY, 16TH MAY, 1944.

Members present:

Sir ASSHETON POWNALL in the Chair.

Sir Irving Albery.	Sir John Mellor.
Mr. Benson.	Mr. Pickthorn.
Sir Edmund Brocklebank.	Sir Frank Sanderson.
Sir George Davies.	Mr. Henderson Stewart.
Mr. D. O. Evans.	Mr. Touche.
Mr. Glenvil Hall.	

The Civil Appropriation Accounts, 1942: Class VI, Vote 10, Roads, etc.; the Road Fund Account, 1942, the Civil Appropriation Accounts, 1942: Class VI, Vote 2, Mercantile Marine Services, Vote 11, Miscellaneous Transport Services; Class VIII, Vote 1, Merchant Seaman's War Pensions; the Civil Appropriation Accounts (War Services), 1942: Class X, Vote 14, Ministry of War Transport, the War Risks (Marine) Insurance Fund; the Vote of Credit Appropriation Account, 1942, Service 56 Administered by the Electricity Commission; the British Shipping (Assistance) Act, 1935, Account, 1942; the Cunard Insurance Fund Account, 1942, were considered.

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

THURSDAY, 18TH MAY, 1944.

Members present:

Sir ASSHETON POWNALL in the Chair.

Sir Irving Albery.	Mr. D. O. Evans.
Sir Edmund Brocklebank.	Sir John Mellor.
Sir George Davies.	Mr. Henderson Stewart.

The Civil Appropriation Accounts, 1942: Class II, Vote 7, Colonial Office, Vote 8, Colonial and Middle Eastern Services, Vote 8A, Site for Moslem Mosque, Vote 9, Development and Welfare (Colonies, etc.); the Vote of Credit Appropriation Account, 1942, Services 26-31 Administered by the Colonial Office; the Civil Appropriation Accounts, 1942: Class VIII, Vote 2, Ministry of Pensions; the Vote of Credit Appropriation Account, 1942, Service 48, Administered by the Ministry of Pensions; the Civil Appropriation Accounts (War Services), 1942: Class X, Vote 3, Ministry of Economic Warfare, were considered.

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

TUESDAY, 23RD MAY, 1944.

Members present:

Sir ASSHETON POWNALL in the Chair.

Sir Irving Albery.	Mr. Pickthorn.
Sir George Davies.	Sir Frank Sanderson.
Mr. Douglas.	Mr. Henderson Stewart.
Mr. D. O. Evans.	Mr. Touche.
Sir John Mellor.	

The Civil Appropriation Accounts, 1942: Class III, Vote 1, Home Office Vote 3, Police, England and Wales, Vote 5, Approved Schools, etc., England and Wales, Vote 18, Northern Ireland Services; Class VII, Vote 15, State Management Districts, were considered.

The Trading Accounts and Balance Sheets, 1942, were further considered.

The Vote of Credit Appropriation Accounts, 1942, Services 33-37, Administered by Home Office; the Civil Appropriation Accounts (War Services), 1942: Class X, Vote 13, War Damage Commission; the Civil Appropriation Accounts, 1942: Class IV, Vote 12, Broadcasting; the Civil Appropriation Accounts (War Services), 1942: Class X, Vote 7, Ministry of Information, were considered.

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

THURSDAY, 25TH MAY, 1944.

Members present:

Sir ASSHETON POWNALL in the Chair.

Sir Edmund Brocklebank.	Sir John Mellor.
Sir George Davies.	Mr. Pickthorn.
Mr. Douglas.	Sir Frank Sanderson.
Mr. D. O. Evans.	Mr. Touche.

The Committee deliberated.

Motion made and Question put, "That Mr. O. C. Allen, C.B.E., be given leave to withdraw two documents on the subject of defective air-raid shelters put in by him in evidence and to put in two others in place thereof." (*The Chairman*).

The Committee divided:

Ayes 4.	Noes 2.
Sir Edmund Brocklebank.	Sir John Mellor.
Sir George Davies.	Mr. Pickthorn.
Mr. D. O. Evans.	
Mr. Touche.	

The Trading Accounts and Balance Sheets, 1942, were further considered.

The British Phosphate Commission Accounts, 1942; the Vote of Credit Appropriation Accounts, 1942, Services 22-25, Administered by the Dominions Office, were considered.

[Adjourned till Tuesday 6th June at half-past Two o'clock.

TUESDAY, 6TH JUNE, 1944.

Members present:

Sir ASSHETON POWNALL in the Chair.

Sir Irving Albery.	Mr. Glenvil Hall.
Mr. Benson.	Sir John Mellor.
Sir Edmund Brocklebank.	Mr. Pickthorn.
Sir George Davies.	Sir Frank Sanderson.
Mr. Douglas.	Mr. Silverman.
Mr. D. O. Evans.	Mr. Touche.

The Civil Appropriation Accounts (War Services), 1942: Class X, Vote 4, Ministry of Food; the Vote of Credit Appropriation Account, 1942, Service 50, Administered by the Ministry of Food, were considered.

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

THURSDAY 8TH JUNE, 1944.

Members present:

Sir ASSHETON POWNALL in the Chair.

Mr. Benson.	Mr. D. O. Evans.
Sir Edmund Brocklebank.	Mr. Glenvil Hall.
Sir George Davies.	Sir Frank Sanderson.
Mr. Douglas.	

The Navy Appropriation Account, 1942, was considered.

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

TUESDAY, 13TH JUNE, 1944.

Members present:

Sir ASSHETON POWNALL in the Chair.

Sir Irving Albery.	Sir John Mellor.
Mr. Benson.	Mr. Pickthorn.
Sir Edmund Brocklebank.	Sir Frank Sanderson.
Mr. Douglas.	Mr. Henderson Stewart.
Mr. Glenvil Hall.	Mr. Touche.

The Navy Appropriation Account, 1942, was further considered.

The Civil Appropriation Accounts, 1942: Class VII, Vote 14, Peterhead Harbour; the Greenwich Hospital and Travers Foundation Accounts, 1942, were considered.

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

THURSDAY, 15TH JUNE, 1944.

Members present:

Sir ASSHETON POWNALL in the Chair.

Sir Irving Albery.	Mr. Douglas.
Sir Edmund Brocklebank.	Sir Frank Sanderson.
Sir George Davies.	Mr. Touche.

The Air Services Appropriation Account, 1942, was considered.

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

TUESDAY, 20TH JUNE, 1944.

Members present:

Sir ASSHETON POWNALL in the Chair.

Sir Irving Albery.	Sir John Mellor.
Mr. Benson.	Mr. Pickthorn.
Sir Edmund Brocklebank.	Sir Frank Sanderson.
Sir George Davies.	Mr. Touche.
Mr. Glenvil Hall.	

The Coal Commission Accounts, 1942; the Civil Appropriation Accounts (War Services), 1942: Class X, Vote 9, Mines Department of the Board of Trade (War Services), Vote 10, Petroleum Department of the Board of Trade, Vote 10A, Ministry of Fuel and Power; the Civil Appropriation Accounts, 1942: Class VI, Vote 5, Mines Department of the Board of Trade; the Vote of Credit Appropriation Account, 1942, Services 44 to 47, Administered by Ministry of Fuel and Power; the Civil Appropriation Accounts, 1942: Class VI, Vote 1, Board of Trade; the Civil Appropriation Accounts (War Services), 1942: Class X, Vote 12, War Damage (Business and Private Chattels); the War Damage (Business and Private Chattels) Business Scheme Account; the War Risk (Commodities) Insurance Fund Account, 1942; the Vote of Credit Appropriation Account, 1942, Services 38-42, Administered by the Board of Trade, were considered.

[Adjourned till Thursday at Eleven o'clock.]

THURSDAY, 22ND JUNE, 1944.

Members present:

Sir ASSHETON POWNALL in the Chair.

Sir Irving Albery.	Mr. Douglas.
Mr. Benson.	Mr. Touche.
Sir George Davies.	

The Civil Appropriation Accounts (War Services), 1942: Class X, Vote 2, Ministry of Aircraft Production, were considered.

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

TUESDAY, 27TH JUNE, 1944.

Members present:

Sir ASSHETON POWNALL in the Chair.

Sir Irving Albery.	Mr. Glenvil Hall.
Mr. Benson.	Mr. Pickthorn.
Sir Edmund Brocklebank.	Sir Frank Sanderson.

The Civil Appropriation Accounts, 1942: Class X, Vote 2, Ministry of Aircraft Production, were further considered.

The Vote of Credit Appropriation Account, 1942, Service 49, Administered by Ministry of Aircraft Production, was considered.

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

THURSDAY, 29TH JUNE, 1944.

Members present:

Sir ASSHETON POWNALL in the Chair.

Sir Irving Albery.	Mr. Glenvil Hall.
Mr. Benson.	Sir John Mellor.
Sir Edmund Brocklebank.	Mr. Pickthorn.
Mr. Douglas.	Mr. Touche.

The Civil Appropriation Accounts (War Services), 1942: Class X, Vote 19, Office of the Minister of Production, Vote 20, Ministry of Production, Statement of Excess on the Civil Estimates (War Services); Class X, Vote 11, Ministry of Supply; the Civil Appropriation Accounts (War Services), 1942: Class X, Vote 11, Ministry of Supply, were considered.

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

TUESDAY, 4TH JULY, 1944.

Members present:

Sir ASSHETON POWNALL in the Chair.

Sir Irving Albery.	Mr. Glenvil Hall.
Sir Edmund Brocklebank.	Mr. Pickthorn.
Mr. Douglas.	

The Civil Appropriation Accounts (War Services) 1942: Class X, Vote 11, Ministry of Supply, were further considered.

The Vote of Credit Appropriation Account, 1942, Service 55, Administered by the Cotton buying Commission; the Civil Appropriation Accounts, 1942: Class V, Vote 9, Forestry Commission, were considered.

The Trading Accounts and Balance Sheets, 1942, were further considered.

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

THURSDAY, 6TH JULY, 1944.

Members present:

Sir ASSHETON POWNALL in the Chair.

Sir Irving Albery.	Mr. Pickthorn.
Mr. Benson.	Sir Frank Sanderson.
Sir Edmund Brocklebank.	Mr. Touche.
Sir John Mellor.	

The Vote of Credit Appropriation Account, 1942, Services 51-54, Administered by the Ministry of Supply, was considered.

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

TUESDAY, 11TH JULY, 1944.

Members present:

Sir ASSHETON POWNALL in the Chair.

Sir Irving Albery.	Mr. Glenvil Hall,
Mr. Benson.	Sir John Mellor.
Sir Edmund Brocklebank.	Mr. Pickthorn.
Mr. D. O. Evans.	

The Vote of Credit Appropriation Account, 1942, Services 1-13, Administered by the Treasury; the Civil Appropriation Accounts, 1942: Class I, Vote 4, Treasury and Subordinate Departments, Vote 13, Government Hospitality, Vote 23, Secret Service, were considered.

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

THURSDAY, 13TH JULY, 1944.

Members present:

Sir Irving Albery.	Sir John Mellor.
Mr. Benson.	Sir Frank Sanderson.
Sir Edmund Brocklebank.	Mr. Touche.
Mr. Douglas.	

In the absence of the Chairman, Sir Irving Albery was called to the Chair.

The Civil Appropriation Accounts, 1942: Class II, Vote 2; Diplomatic and Consular Services, were further considered.

The Vote of Credit Appropriation Account, 1942, Services 14-21, Administered by the Foreign Office; the Civil Appropriation Accounts, 1942: Class II, Vote 11, India and Burma Services; the Vote of Credit Appropriation Account, 1942, Service 32, Administered by the India and Burma Office, were considered.

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

THURSDAY, 20TH JULY, 1944.

Members present:

Sir ASSHETON POWNALL in the Chair.

Sir Irving Albery.	Mr. Pickthorn.
Sir Edmund Brocklebank.	Mr. Touche.
Mr. Douglas.	

The Trading and Accounts and Balance Sheets, 1942, were further considered.

The Public Income and Expenditure Account, 1942; the Consolidated Fund Abstract Account, 1942; the Funds left in Trust for the Reduction of the National Debt, for the year ended 31st March, 1944; the Civil Appropriation Accounts, 1942: Class I, Vote 3, Registration of Electors, Vote 6, Privy Seal Office, Vote 20, Repayments to the Local Loans Fund, Vote 21, Royal Commissions, etc., Vote 22, Miscellaneous Expenses, Vote 24, Treasury Chest Fund; the Treasury Chest Fund Account, 1942; the Civil Appropriation Accounts, 1942: Class I, Vote 27, Repayments to the Civil Contingencies Fund; the Civil Contingencies Fund Account, 1942; the Civil Appropriation Accounts, 1942: Class III, Vote 11, Miscellaneous Legal Expenses; Class IV, Vote 10, Scientific Investigation, etc., Vote 11, Universities and Colleges, Great Britain; Class V, Vote 7, Widows', Orphans' and Old Age Contributory Pensions, Vote 12, Special Areas Fund, Vote 13, Financial Assistance in Special and Other Areas; Class VI, Vote 12, Development Fund; the Development Fund Accounts, 1942; the Civil Appropriation Accounts, 1942: Class VI, Vote 13, Development Grants; Class VIII, Vote 12, Rates on Government Property; the Czechoslovak Financial Claims Fund and Czechoslovak Refugee Fund Accounts, 1942; the Tithe Act, 1936, Accounts, 1942, were considered.

[Adjourned till Tuesday, 17th October, at half-past Two o'clock.

TUESDAY, 17TH OCTOBER, 1944.

Members present:

Sir ASSHETON POWNALL in the Chair.

Sir Irving Albery.	Sir John Mellor.
Mr. Benson.	Mr. Pickthorn.
Sir Edmund Brocklebank.	Sir Frank Sanderson.
Sir George Davies.	Mr. Henderson Stewart.
Mr. Douglas.	Mr. Touche.

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

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

Paragraphs 1 and 2 agreed to.
Paragraph 3, amended and agreed to.
Paragraphs 4 to 19 agreed to.
Paragraph 20.

Amendment proposed in page 14, line 7, to leave out the words " were glad to " and insert the word " observe " (Sir *Irving Albery*).

Question put: " That the words ' were glad to ' stand part of the paragraph."

The Committee divided.

Ayes 5	Noes 4
Mr. Benson.	Sir Irving Albery.
Sir George Davies.	Sir Edmund Brocklebank.
Mr. Douglas.	Sir John Mellor.
Mr. Henderson Stewart.	Sir Frank Sanderson.
Mr. Touche.	

Paragraph agreed to.
Paragraphs 21 and 22 agreed to.
Paragraphs 23 and 24, amended and agreed to.
Paragraphs 25 and 26 agreed to.
Paragraph 27, amended and agreed to.
Paragraph 28.

Amendment proposed in page 19, line 14, to leave out the word " inevitable " and insert the words " to be expected " (Sir *Irving Albery*).

Question proposed that the word " inevitable " stand part of the paragraph.

Amendment, by leave, withdrawn.

Paragraph agreed to.

Paragraphs 29 to 50 agreed to.

Paragraph 51, amended and agreed to.

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

Ordered, That Papers forwarded in pursuance of undertakings given in evidence on 29th February, 12th and 24th May, and 1st July, by H.M. Treasury, on 15th June by the Comptroller and Auditor General, on 19th April by the Assistance Board, on 13th July by the Ministry of Food, on 9th August by the Ministry of Fuel and Power, on 11th July by the Ministry of Health, on 11th May by the Ministry of Home Security, on 16th June and 10th July by the Ministry of Labour and National Service, and on 21st June by the War Office; the Correspondence with H.M. Treasury, dated 12th June and 5th and 6th July, and with the Metropolitan Boroughs Standing Joint Committee, dated 5th January; and a Memorandum forwarded by the Association of Municipal Corporations on 25th January, be printed as Appendices to the Minutes of Evidence taken before the Committee.

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

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THE COMMITTEE OF PUBLIC ACCOUNTS

TUESDAY, 29TH FEBRUARY, 1944.

Members present:

Sir ASSHETON POWNALL in the Chair.

Sir Irving Albery.
Mr. Assheton.
Mr. Benson.
Sir Edmund Brocklebank.
Sir George Davies.

Mr. Glenvil Hall.
Sir John Mellor.
Mr. Pickthorn.
Sir Frank Sanderson.

Sir GILBERT UPCOTT, K.C.B., Mr. H. BRITAIN, C.B., and Mr. D. F. C. BLUNT called in and examined.

Chairman.

1. I think the Treasury have certain papers to hand in?—(Mr. Britain.) Yes. The first is the comparison of the audited expenditure with the Exchequer issues and

general abstract of Appropriation Accounts, 1941, and the second is the Treasury Minute dated 12th February, 1944, on the Report of the Committee of Public Accounts, 1943. (*The same were handed in.*)

REVENUE DEPARTMENTS APPROPRIATION ACCOUNTS, 1942.

VOTE 2.

INLAND REVENUE.

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

Chairman.

2. Revenue Departments Appropriation Accounts, 1942, pages iv-viii, paragraphs 6-13. I propose taking paragraphs 6, 7 and 8 together if the Committee will turn to them. Could you tell us, Sir Cornelius, the reason for the increase of £50,000,000 on page v, nearly half-way down, in the amount carried forward, which has gone from £85½ millions to all but £136 millions; that is the amount brought forward for local collection?—(Sir Cornelius Gregg.) The table only covers Schedules A, B and D tax this year, whereas formerly it covered Schedules A, B, D and E. As is pointed out in paragraph 7, Schedule E is left out this year. The current charge in that line marked 1942 is £685,907,000; that is the current charge excluding the Schedule E. That charge has gone up because this is the produce of the increase in the rate of income tax which went up from 8s. 6d. to 10s.; also the produce went up by reason of the cut in the allowances. You have an increase in the charge, and out of that much higher charge you naturally have a much higher arrear. The question then becomes rather one of the comparison of the higher arrear with the charge.

3. Yes?—The £135,975,000 which is mentioned is 17.6 per cent. of the £771,867,000, which is the gross total of the current charge of £685,907,000 and the carry-forward of £85,780,000 to which you have

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referred. That 17.6 per cent. is 17.6 per cent. of a charge which leaves out the Schedule E. If you took last year's charge, which included the Schedule E, the carry-forward of £85,780,000 which you see there represented 15½ per cent. of the charge for the preceding year, excluding therefrom the Schedule E.

4. So that your point is that the increase in the percentage is only from 15½ per cent. to 17½ per cent.?—15½ per cent. has gone up to 17.6 per cent.

5. A relatively small percentage in view of the larger amounts to be collected?—Yes. When I appeared before the Committee two years ago, I gave them the percentages over a period of years, and told them the percentage we had then reached was the lowest percentage we had ever reached, and that we were likely never to see as low a percentage for some time, because, with the war assessments coming, the Schedule D assessment always has much more hanging over; you get late returns, late accounts, and so on, which delay the making of the Schedule D assessment, and on top of that you get one particular feature, namely, that in assessing the Schedule D assessment you have to deduct the Excess Profits Tax, so that you cannot clean up the Schedule D assessment until you have cleaned up the Excess Profits Tax, so that means a larger amount of arrears at the end of every year.

A

29 February, 1944.] Sir CORNELIUS GREGG, K.C.B., K.B.E.

[Continued.]

6. Could you give us the analogous figures to those just below, £19,261,000, income tax of other classes, which I see became £40,628,000 a year afterwards? Those figures are a little lower down on the same page?—The £40,628,000 is 20.7 per cent. of the charge of £195,516,000. That compares with last year's figure of 10.9 per cent. It has been practically doubled. There is a special reason for that. This heading of "Income tax of other classes" includes the tax under Schedule C, like tax deducted from National Debt interest, and all the special assessments and includes in particular the assessments on the railways.

7. How much does that account for? Was that a big item?—It is the railways principally which account for the figure which causes that very marked difference in the percentage.

8. What was the total of the figure? Have you the figure?—I have the carry-forward. There was £17 millions of tax in the case of the railways in dispute at the close of this account, whereas against the account for the previous year the amount of tax in dispute was £7 millions.

9. There was an extra £10 millions?—An extra £10 millions was in dispute.

10. Practically one-half of this £21 millions is accounted for by the railways?—The other part of it arises in this way: in the previous year the railways had paid tax before it was due: this year they had not. There is about £7 millions accounted for under that heading again.

11. That seems to account for almost all of it. On paragraph 7, over the page, the second sub-paragraph says: "After the outbreak of war certain relaxations in control procedure were authorised." Could you please tell us what they were?—Our control of collection proceeded on what we call the segregation principle. You had one staff in our collection offices engaged in actually receiving the money and giving the receipts for it. You had a separate staff in a kind of control position, and the cash received on the cashiers' side was controlled and accounted for by the staff on the control side, so we kept two staffs almost in water-tight compartments in these collection offices, one engaged in the handling of the cash and giving the receipts for it, the other engaged in accounting for it, bringing it to credit against our accounts, and so on. We saved tremendously in man-power by dropping that segregation, and the clerk who in the morning might be receiving the cash, might in the afternoon go in and do the accounting for it. We were faced, of course, with an enormous increase in work, and we had to deal with that increase in work by either increasing the staff or by dropping processes so as to enable the same staff to do more work. That was the main change, Sir, the main relaxation on the outbreak of war.

12. Five lines lower down there is a mention in Sir Gilbert's report, "After it had been launched, further accounting difficulties were experienced." Could you just tell us what they were?—Those were difficulties arising mainly under the tax deduction scheme. Under that scheme you then had (of course, we are embarking on a new scheme now, in pay-as-you-earn) to consider employees in two classes for the tax deduction scheme. You had the ordinary wage-earner who paid his tax in six-monthly periods in the whole year. In those days the year we are concerned with here ended at the end of December. He commenced paying his tax on the 1st January and ran right on till the following end of December. Then you had the Schedule E employees, who were not weekly wage-earners but who were mainly the black-coated employees, clerks, and so on. They had a year which commenced on the 1st November and went to the end of the following October, so our collection machine then had tax which had been deducted in the year ending October from these clerks, and tax which had been deducted in two six-monthly periods ending in December (later on, the end of January) from the weekly wage-earner. If you take the year of account we are dealing with, the year to September, 1942, in that year there would have been deducted tax up to the previous October, 1941; that will be the last complete year on the clerks' side; they ran from the beginning of November to the end of October, so if you take the year ending September, 1942, on the tax deduction from what I call the clerical employees (the Schedule E employees), the year ending within that year would have been the year to October, 1941. On the weekly wage-earners' side, the year ending in that year would have been the year to December, 1941.

13. It is rather confusing?—You had not then a common date for all employees. You had one date for the clerks and another date for the weekly wage-earners. On top of that you had the current tax coming in from October, 1941, onwards in respect of a charge which would overlap the two years. It is rather an intricate point, Sir. But the periods for which employers had to pay over the tax to us were not coterminous; they were different periods; and consequently you had great trouble in striking an account to identify the tax which you were receiving from them as being in respect of a particular charge. On top of these troubles then we had fresh troubles arising as millions of wage-earners came under charge. You might have the tax being deducted and paid over to us at the head office of a company for its employees who were dispersed all over the country. You might have an employee in some provincial city and his charge would be there, but his tax would probably be deducted at the head office in London, so we had to take the tax in London and credit it to the various places

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[Continued.]

in the country where the employees were and where the charge arose. Further trouble, especially in 1941, arose from the fact that there was a considerable movement of employees as the Ministry of Labour moved them from one place to another. We had large numbers moving from one employment to another in the middle of a tax collection period, so that a man would pass from employer A to employer B and we had immediately the accounting trouble of closing down his tax at A and starting it freshly at B. That made awful trouble in the accounting machine.

14. In the next line but one there is a mention of a simplified accounting procedure. That was presumably instituted to get over the difficulties you have enumerated?—We have done it provisionally for the account year to 1943, and we will have it for the account year to 1944, in which we will take the charge for the tax deduction year which ended within the year of account. Take the case I put to you a moment ago. For the account to 1942 this simplified accounting procedure would show for the clerks what happened to the tax charged for the year to October, 1941, being the first year ending in the year to September, 1942, and in the case of the wage-earner to December, 1941. We will put against that charge the amount of tax we have collected in respect of it, but we will not be able to do that until September, 1944. It means an alteration in the accountancy arrangements. I mentioned the case of the dispersed employees. We are altering that now, so as to transfer the charge from where the man is working to the head office, where the man is being paid and where the tax is in fact being deducted. These changes have been made to facilitate this simplified accounting arrangement.

15. How will pay-as-you-earn affect these complicated calculations?—Pay-as-you-earn will completely end the whole business of this balancing statement, which proceeds entirely on the footing that you have a charge first and collect the tax afterwards. This in effect says: "You, the Revenue, have raised so much charge. Where is the money for it? Either show us money or discharges or remissions and carry-forward". It is on the basis of charge first and collect afterwards. Pay-as-you-earn is on the basis of collect first and charge afterwards.

16. It will be simpler from your point of view?—It may be, but from the point of view of this accounting control, the accounting control is completely reversed. It is on the basis that there exists first a charge, and then the question is, How much have you collected? Under pay-as-you-earn we collect first, and only at the end of the year, when the collection has gone through the whole year, will we know sufficient to create a charge. We will be making the charge after the collection, and not before.

17. On the next paragraph, could you tell us what the present position is? Sir Gilbert mentions that an account has not yet been furnished.—That is Schedule E, paragraph 8?

18. Yes, paragraph 8.—Since practically the outbreak of war (for the last two years, anyway) we have not given the Comptroller and Auditor General a balancing statement to cover Schedule E. I mentioned that last year; at least the question arose with the Committee last year. The trouble is that we cannot get the accounts balanced. Particularly is that true for the Forces; scattered as they are and with deductions taking place at various pay points, you cannot get a proper charge created. Even in the Government Departments themselves, especially the new Departments, the accounting work involved is so great that we cannot clean up the charge to account properly. The proper accounting of the charge would mean that for any Department or for the Services you would not merely know the tax charged and collected, but in theory, at any rate, you would know from whom you had collected it. Every man's name is written out in the charge. There is a certain amount of tax opposite his name, and that amount would be ticked off as paid, discharged, or whatever happened to it. We cannot get that complete. I had hoped to have given the Comptroller and Auditor General, in time for this report, estimated figures that would probably have been of interest to the Committee to show the progress of collection, but unfortunately we have not been able to supply him in time with them. I have them here, and they do illustrate the progress of collection. If you like, I will mention them to you.

19. Yes, please, very briefly.—For Government Departments as such, excluding the Services, last year, that is to say for the year to March, 1942 (I am speaking now of Government Departments excluding the Services, which I will give separately), the gross charge was £21.1 millions, and the payments received were £19 millions. For the year to March, 1943, the gross charge was £23.8 millions, and the payments received were £23.9 millions. That is the position for the Government Departments. For the Services, for the year to March, 1942, the charge on the Services, according to our tally, amounted to £16.8 millions, and the actual payments were £14.8 millions. For the year to March, 1943, the charge was £19.2 millions and the receipts were £27.4 millions.

20. £27 millions?—We have collected a great deal more than the charge.

21. You have collected £8 millions more than you have charged?—£8 millions more than the charge as struck at that point of time. It illustrates the difficulty. The charge is lagging behind because we have

arrangements under which, when an officer enters the Army, there is a provisional deduction of tax which takes place forthwith. That is not merely for our benefit: it is for his benefit, too, because we do not want to descend on him months later and collect in one lump sum several months' tax, so there is an arrangement under which, from the word "go," he comes under provisional deduction. Then he makes his return and then we make the assessment, so we are receiving money provisionally before the assessment is made. Then the making of the assessment, thanks to all the work involved, of course lags behind, so we did in the year to March, 1943, achieve that extraordinary result of collecting a great deal more than the charge.

22. It sounds almost as if you took the money from him before he received it himself. It is not so, obviously?—No. It is simply that, owing to the troubles in war-time, staff troubles, and all the rest of it, the assessing machinery is lagging behind.

Chairman.] Are there any questions on paragraphs 6, 7 and 8?

Mr. Benson.

23. Sir Cornelius, you said that the pay-as-you-earn scheme would put an end to this balancing account on page 5. That is only as it applies to Schedule E, surely?—Yes, only Schedule E.

24. Schedule E appears only in the middle item?—No; Schedule E used to be in the first item "Income tax for local collection."

25. But it is not in this account?—It is not in this account because, owing to these accounting difficulties mentioned in paragraph 7, we have not been able to produce the balancing statement for the Comptroller and Auditor General.

26. When you said the railways' tax was in dispute, that referred to the companies' tax?—Yes, the companies' tax—the Schedule D tax on the companies themselves.

27. With regard to the curious method in which railway companies are responsible for their employees' tax, does that facilitate your working in any way?—Well, of course, the point was brought up in the recent debates on the Pay-as-you-earn Bill. The railway companies are rather like the Civil Service and Crown Services generally, where tax is deducted normally in the year from the pay. The railway companies are in the same position, with one or two exceptions where they have a different year from the financial year. On the point which you put to me about facilitating our job, it is precisely the same advantage as tax deduction generally. They have always had tax deduction in the railway companies, like the Civil Service.

28. It does not facilitate your clerical work in any way?—Not so much the clerical work, but it saves us the trouble of collecting the money from the man. It is much easier for the man to pay so much per week or so much per month than to have to pay it in one lump sum.

29. But apart from that, there is no advantage to the Inland Revenue in the method of collection?—No. It is only just that they have always had tax deduction, which is the ideal method.

30. With regard to the relaxation of safeguards, the present position, apparently, is that the man who handles the money is responsible for accounting for it?—He may be. We had two separate staffs which were water-tight, one handling the receipt of the cash, the other on the accounting and book-keeping. We could not carry on with it and they are no longer water-tight, and it may very well be that the man who handles cash in the morning might in the afternoon find it his job to go and do the accounting for the very item of cash which he had received.

31. It is a very great relaxation of safeguards?—It is, but it is inevitable, because we could not face the extra work without doubling or trebling the staff.

32. I take it you intend to revert to the old system, or something analogous to it, immediately after the war, or as soon as possible, shall we say?—I would like to see how Pay-as-you-earn works. I am afraid from this particular angle we are more subject to fraud in the future than we have been in the past.

33. That is the point I had in mind. It lays you open, particularly in the handling of such enormous quantities of monies and with such vast numbers of accounts, to fraud?—Yes.

34. If you maintain the present system after the war, are you working out some method of safeguard?—Not at the moment.

35. You are not? You have it in mind?—We have it in mind, but the more we think about it the more difficult we see what it will be, because under Pay-as-you-earn in the future you will have employers coming in every month and paying over sums of money to us, and we shall know nothing at all about them when we get them. Under the old system you had a charge first: you had something to guide you as to what an employer ought to be paying you. But under the new system, an employer will march in and pay you money and you do not know what it is coming from. That leaves the door open to fraud in our offices. Money may be handed in; there is nothing to set it against; you have no charge, and it is only at the end of the year, when you get all these tax deduction cards from each employer and get a return from the employee, that you see fully the

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[Continued.]

amount of money he ought to pay. In the meantime, our only check is to audit the employer, and we will do so. But to come to the point about the office, you will have a clerk receiving money, which might be handed across the counter in cash to him, and, if he puts it in his pocket, there is no way to discover it until the end of the year.

36. At the end of the year?—We get a check at the end of the year.

37. How far does it facilitate the manipulation of books, which might miss the check?—We contemplate under Pay-as-you-earn our audit officer going down to employers and inspecting the books and checking up the cash taken against what he sees in the books and on the cards as the sum in fact deducted.

38. Would it be a complete check or just a sectional check?—It would be a sample check rather than a general check. In war-time, at any rate, you could not do a general check.

39. I was not thinking of war-time. I was wondering how far you are visualising the possibilities of fraud, and what steps you are taking to build up (I do not say immediately) a counter system?—We have been thinking about it, but we have not reached the point of drawing up an architect's plan for building it up.

Sir Frank Sanderson.

40. At the bottom of paragraph 7, the last two lines read: "In view of the relaxation of headquarters control over collectors, surprise audits are being conducted locally by officers responsible to head office." Do I take it that the true meaning and interpretation of those words is that local firms of accredited accountants are appointed in order to save the work of the Government accountant?—No. The check we used to have was this: from head office we sent out letters to taxpayers whose tax was shown to be still unpaid or not accounted for. Supposing a particular taxpayer's money had been stolen, we will say, he would be shown in the books as not having paid. We would send him a letter from head office saying "Why have you not paid that sum of money which is due from you?" If he said he had paid it, immediately we were on to it that there may be fraud. We had to drop that practice of sending letters from head office. You could not send from head office letters to an employer making a general fishing inquiry covering all the tax he had to pay on behalf of employees, so we have an officer from our own local office to go round to the collector and where necessary to the employer and have a surprise check. As a matter of fact, we have found one case of fraud. We have had one prosecution under this system. We have discovered one fraud

and prosecuted the man. It is in this report.

41. It is a short-circuit to save headquarters staff?—It is to try to get the same check applied to it. The danger is that, as there are hundreds of thousands of small employers with only half a dozen or less employees each, a small employer might come in and pay the cash across the counter, and the clerk might take it. The only way you can find that out is to go to the employer and find out what money he paid that day. You could not do it from head office. You could in peacetime, for individual taxpayers, but I do not think you could send letters from head office to employers all over the country asking them to make a return to head office for all their employees, so the only thing we can do is to get a local officer to go to the accountant of the business or to the employer and see what money has been paid by him.

Sir John Mellow.

42. You were telling Mr. Benson that you had to have sometimes the same official in charge of both the collection and the accountancy. I suppose it never happens that you would have the same official not only in charge of collection and accountancy but also responsible for making the assessment?—No.

43. That could not happen?—No. The assessment is, broadly speaking, on the side of the Inspector of Taxes; he is the assessing machine; and you have the collection office as a separate receiving machine.

44. So no one could avoid paying tax without squaring those two people?—No. There must be a widespread collusion.

Chairman.

45. In paragraph 9 there is a mention of remissions on grounds of equity, £752,743. Could you tell us how much it was last year?—Equity is £752,000 this year: last year it was £284,235.

46. That is nearly three times as much?—Yes.

47. Is there any reason for this very big increase in equity remissions?—Yes. Equity last year for the first time included an item known as lost rent. I explained it to the Committee last year. When we included that item last year, equity went up to the then figure of £285,000, roughly. Now it has jumped to £752,000, and the growth is almost entirely due to the growth in lost rents.

48. In what?—The Schedule A tax remitted in respect of lost rent. The lost rent remissions last year included in the £284,235 were £216,000, and the lost rent remissions this year included in the £752,000 are £698,000, roughly, so there is a growth in the lost rent remissions alone of £482,000, which accounts almost for the whole growth.

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[Continued.]

49. That is due to enemy action?—That includes cases where the rent is lost or abandoned due to enemy action, using that term in the wide sense. It includes cases in which, owing to control in a particular area, people might be ordered out of property and no rent would be paid for it.

50. Under the heading "Amounts irrecoverable," composition settlements amounted to £300,000. Could you tell us how that compared with last year? I am referring to the second of those composition settlements, the amounts irrecoverable, £300,804?—It was £300,804 this year. In the previous year it was £208,965, and in the previous year £802,795.

51. £800,000?—Yes, in the account of 1940; £208,965 in the account of 1941, and £300,804 in the account of 1942.

52. Was there any important case bulked in with that £300,000 this year, or is it a lot of small cases?—The highest one was £94,000 odd.

53. Under what sort of conditions, could you tell us at all?—Yes, I think so.

54. It is a very large sum?—There were two companies (wholesale clothing companies, I think they were) who had arrears amounting to £130,000 odd, and we made a settlement for £20,000 by instalments spread over a period of years. They were in heavy financial difficulties. The assessments are very old assessments, in respect of Income Tax, Excess Profits Duty and Corporation Profits Tax for years up to 1927-1928.

55. 15 years old?—Yes.

56. Excess Profits Duty: that is going back to the last war?—Yes. They were in financial difficulties, and they proceeded to try to arrange a settlement with us. There was also personal super-tax due from the man who was behind them. A new company was formed, and there was to be an issue of shares and they were to pay us so much. I think £50,000 was the original figure we hoped to get from them. This new company was formed, but the public issue of the new company proved a complete failure.

57. There was a loss of nearly £100,000, anyhow?—Yes.

58. In the last line but one of the paragraph there is a mention of "war-time extra-statutory concessions." Could you please give us some idea what the war-time extra-statutory concessions would be?—Well, there is a large number of them. May I give you one taken from each type of duty?

59. Yes?—I will take first the oldest of all duties, the Stamp Duty. It is only a small thing, but still it was of general application. In Stamp Duty one of the extra-statutory concessions reported was the remission of the Receipt Duty that has to be put on every receipt for a sum of £2 or upwards. We have remitted that on

receipts for billeting payments. In 1940 the Ministry of Health came and pressed us to abandon this duty. The billeting payments for civilian evacuees, and so on, were being made through the Post Office, and there was great trouble being caused. People were taking the payment for each person separately in order to have a payment of less than £2. The Ministry of Health pressed us to drop it, and we gave way. We have extended it since to billeting payments that are made for members of the Forces—either our own or Canadian or other Forces in the country. That is a Stamp Duty one. May I take Death Duties next?

60. Just that one will satisfy us?—There is income tax, too, which I should like to mention, and there is an important one which I should like to mention under E.P.T., if you wish to hear it. Shall I go through them all quickly?

61. Not all: the two main ones?—I can give you income tax, Death Duties or Excess Profits Tax.

62. Give us income tax and Death Duties?—(Sir Gilbert Upcott.) The Excess Profits Tax is the most important. (Sir Cornelius Gregg.) The Excess Profits Tax concession is of general application. The Excess Profits Tax concession has been explained more than once in the House of Commons, because all these concessions get the approval of the Chancellor and every one of general interest has been announced in the House of Commons. The Excess Profits Tax concession is this: we do not collect E.P.T. on the amount that represents the deferred repairs and renewals. Where a concern, owing to the war, does not carry out its normal repairs and renewals, but defers them until the end of the war, we do not collect the E.P.T. on that part that would have been allowed if the expenditure on repairs had been incurred there and then.

63. It is kept in suspense?—It is kept in suspense, and if at the end of the war the trader then carries out the repairs and the renewals, we will discharge the assessments. It is in effect giving a provisional allowance for the expenditure on repairs and renewals even though not incurred, but it is held in suspense until it is incurred. It is, of course, an important thing which was done in the last war, and it has been announced by the Chancellor in his Budget speech two years running. He has explained it in detail.

64. What is the Death Duties one?—The Death Duties concession relates to the Channel Islands. In 1940, before the Channel Islands were evacuated, the banks proceeded to take their assets away from the Channel Islands. The issue first arose about bearer bonds which were held in the Channel Islands and which were removed for safety to London. Death Duty applies to all personalty situate in this country, and in the

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[Continued.]

case of a bearer bond it is deemed to be personally situated where the bond itself is, so the removal of these bearer bonds from the Channel Islands to this country brought them, in fact, into the category of being personally situated in this country and therefore liable to our Death Duty. We agreed with the banks that any bonds that came from the Channel Islands in that fashion would not be charged Death Duty by reason of their coming here. We did the same for stock. There were arrangements made by the Board of Trade and the banks, for converting these bearer bonds into registered securities. It was done for security reasons, and we said that where a bond was put on a share register in this country, it would still be treated (so long as it was owned by the person abroad, of course) as not situated in this country. We did the same with bank balances. The banks removed everything, and a bank balance that came here was treated, again, as not being situated in this country merely because it was transferred from Guernsey to London. The general principle was that where sanctuary was sought in this country to escape from the Germans, we would not take advantage of the property coming here to exact a duty which we would not have exacted if the property had remained where it was.

65. That is interesting. Passing to the next paragraph, which deals with Excess Profits Tax, are you broadly satisfied with the collection of Excess Profits Tax up to date, Sir Cornelius?—Yes, Sir.

66. You are getting the money all right on Excess Profits Tax?—Yes.

67. On paragraph 11, what advice do you have in disposing of these securities which are surrendered to you?—We have the Government broker to advise us.

68. The Government brokers are your official advisers?—Yes. There were a few sales this year, and they were done on the express advice of the Government broker.

69. On paragraph 12. "Fraud and Evasion," last year you told me it was too early to say how the new procedure arising from the Act of 1942 was functioning. Could you tell us now how the procedure then instituted is getting on?—I am afraid it is still too soon, Sir.

70. It is still too soon?—And will be for years. May I put it in this way: the main change made in the Act of 1941 was that the old procedure under which any person coming in and making a confession to us of any fraud, or anything else, was guaranteed immunity from prosecution, has been changed now to a system under which he is not guaranteed immunity, but the law says that the fact that he is told that it is our practice to settle by pecuniary settlements and in particular to be influenced by the extent to which a taxpayer makes a complete voluntary state-

ment, does not contribute an inducement to a confession. That was the legislation that was passed. We have had no case in the Courts yet of a prosecution following on that. There has been quite a number of cases of people who have made statements to us, some of them completely voluntary, some as a result of our getting on to some point that had put us on inquiry; but I am afraid if you want to compare it with the old system, you will want several years' experience of it.

71. It is too early to say yet?—It is much too early.

72. On paragraph 13, are you, broadly speaking, satisfied with regard to the balance of this War Damage Contribution?—Yes, the collection of the War Damage Contribution is going quite well. Of course, as you know, it only commenced in 1941. It is five yearly instalments commencing in 1941.

73. The money is coming in all right?—Part of that arrear that is carried forward is in fact not collectible, because you may remember that the War Damage Act provided that where a building was destroyed the contribution would not be collectible, but it would be recovered by deduction at the end of the war when the value payment was given for it. There is thus a certain sum there which is due for War Damage Contribution on destroyed premises, which is not collectible at all.

Chairman.] Are there any questions on paragraphs 9-13 inclusive?

Sir George Davies.

74. There is one question I would like to put to the Comptroller and Auditor General on the top of page vii, the third line: "I have made a test examination of all classes of remissions and irrecoverable items with generally satisfactory results." What does the use of the word "generally" mean? I ask that because at the top of page viii and again on the Post Office account, the last item of the whole lot, it is "with satisfactory results." I was just wondering what the "generally" implied, whether it means a general statement or whether there were considerable exceptions?—(Sir Gilbert Upcott.) No. I think perhaps it was only excess of caution.

Mr. Glenvil Hall.

75. Is it not like the phrase "fair and reasonable"? If a thing is fair it is reasonable, but repeatedly throughout these reports things are said to be "fair and reasonable"?—There is no distinction intended to be drawn between the test mentioned in paragraph 9 and that mentioned in paragraph 11.

Sir John Mellor.

76. I should like to ask Sir Cornelius a question about the words at the bottom of page vi, "liability not enforceable" under the heading "Amounts irrecoverable." What sort of cases give rise to that

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[Continued.]

situation?—(Sir *Cornelius Gregg*.) You may have people owing tax who are completely outside the jurisdiction. Cases like that happen, of course. People bolt from the country, and we watch them and wait for them to come back.

77. Under "Remissions," just above it, I see "Amount not sufficient to justify cost of proceedings." Why is that classified under "Remissions," and why is it necessary to remit at all where it is an amount not sufficient to justify cost of proceedings? Why should there be any remission?—It is a question, when you are dealing with small sums, whether it is worth while spending money on getting them.

78. I quite understand that, but why remit? Why not put it as "Amount irrecoverable"? Why remit, because I take it once you remit you cannot recover?—Strictly it would be recoverable. If you spent money on getting it, it would be recoverable, but it is such a small sum that it does not justify spending money on getting it.

79. The liability is not discharged? May I put the question again a little more clearly? "Amount not sufficient to justify cost of proceedings, etc.", is classified under "Remissions." The use of the word "remissions" implies, to my mind, that the liability is discharged. Is that so or not?—No. You must distinguish between discharge and remission. The word "discharge" has a technical meaning here. When you discharge something you are writing off something which in law the man is entitled to have written off; it is something which is not payable in law and you discharge it. If there is something which is payable in law you may, on the grounds of the man's poverty, or for all sorts of reasons, simply say "I will not collect it." You are remitting it then. It is legally due, but it is remitted. Remission is the abandonment of something which is legally due.

80. You say you will not collect it, but supposing you find a year later that the man has a lot of money, can you then collect it?—Yes, we could.

81. You could?—The remission operates here; but take, for instance, a man who has gone abroad: We may remit a sum which is due from him because he has gone to an unknown place. We remit it here, but if the man comes back three years later we have the statutory power to collect it, even though we have remitted it here.

82. So the technical sense of the word "remission" really means nothing at all. It is really that you take no action?—You have suspended activity in collecting it.

Mr. *Benson*.] Taxes are different from sins?—(Sir *Gilbert Upcott*.) It discharges

the collector's responsibility to account for the amount.

Sir *John Mellor*.

83. But so far as the taxpayer is concerned, it has no effect?—(Sir *Cornelius Gregg*.) It has effect. If you abandon it on the ground of poverty, the man is told that we have remitted it and it is not payable. It depends on the nature of the remission.

Sir *John Mellor*.] The liability is not discharged. When you tell him that you remit it, you do not discharge him from liability: you merely tell him that you will not collect it unless you change your mind.

Chairman.

84. You are suspending activity for the time being, but you can revive it if conditions change?—If conditions change. If a man has gone abroad and he has been gone for many years and the amount appeared to be irrecoverable, if he came within the jurisdiction and we knew that he had money with which to pay us, we should revive the claim.

Sir *John Mellor*.

85. The liability does remain?—Yes.

Sir *Edmund Brocklebank*.

86. Even after six years?—Yes; there is no time limit.

Sir *John Mellor*.

87. On page vii, in the case of these war-time extra-statutory conditions, do you cover the point by some Defence Regulation or Statutory Order?—No.

88. Take the case you mentioned about the remission of Stamp Duty on receipts for billeting allowances. It is only a small matter, but do not the people commit some offence if they fail to give a properly stamped receipt? It just means that you do not require them to do it and you would not prosecute?—We do not enforce the penalty.

89. With regard to paragraph 11, you said you took the advice of the Government brokers upon the securities which you may accept in satisfaction of tax liabilities?—No—on the sale of securities. If we sell any of our holding of securities, we generally get the brokers' advice.

90. Are the brokers remunerated by salary or commission, or both?—I could not answer that. (Mr. *Brittain*.) I think they get an inclusive salary of £2,000 a year.

91. And all transactions they carry through without commission?—Yes. (Sir *Cornelius Gregg*.) Our transactions are very, very small elements in their work.

92. It is for the whole of the Government work that they get £2,000 a year?—(Mr. *Brittain*.) Yes.

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[Continued.]

93. And for that they do all the Government broking without further charge?—Yes.

Mr. Benson.

94. You said that remissions on the grounds of equity were primarily in cases which were the result of blitzed property being rendered uninhabitable by enemy action or properties which had become empty through evacuation, in which cases you abandon the Schedule A tax. Surely you abandon Schedule A tax on all empty property?—(Sir Cornelius Gregg.) That would be completely void property; but these would be cases rather of lost rent; these are cases where the rent is reduced or left unpaid or abandoned because the property is uninhabitable.

95. Under Schedule A you never hesitate to re-assess if the property is damaged, even in peace-time?—That is so. This is doing on a large scale in war-time what we do in peace-time on a small scale.

96. If there is a loss of rent, the Schedule A assessment is reduced?—Under the strict law the Schedule A assessment is fixed at the beginning of the quinquennium, and is supposed to stand for the five years.

97. Tax under Schedule A is not payable, under statutory authority, if the property is empty?—If the property is completely empty the Schedule A assessment is vacated by statutory provision.

98. The previous figure of £200,000 roughly represented what were normal reductions in Schedule A for loss of rents?—No; the first figure of £200,000 I mentioned as having inflated the figure for 1940 was a war figure too. It has gone up from that figure by another £400,000. It is the effect of the blitz plus the cases of property in areas that are controlled areas, where people are not allowed to live in their houses. You may have a controlled area and people may be evacuated compulsorily from their houses, or not allowed to go and spend the week-ends there. All that comes into it too.

Sir Frank Sanderson.

99. I would like to ask the witness one question relating to what he said on regard to the E.P.T. and deferred payments on repairs and renewals. Can he state that the repairs and renewals are deferred only because the companies are unable to carry them out?—Unable or probably not allowed to, but generally unable. Of course, if they carry out any repairs they get them allowed automatically, but the difficulty you have is that you have a company with a steady bill on repairs and renewals every year, the war comes and they cannot get the materials, maybe, and they cannot carry the repairs out, and we allow the amount.

100. It is due to shortage of material?—Yes, precisely.

101. Paragraph 11, "Securities accepted in satisfaction of tax liabilities": can you state whether, in cases where the securities realise an amount in excess of the amount of the debt, is any excess amount handed back to the prospective taxpayer?—I have never seen such a case.

Chairman.

102. We are hoping that one may happen.—The only sale of any consequence in this account I think was at about 8 per cent. of the par value; and that was a good price.

Mr. Glenvil Hall.

103. What is the authority of the Inland Revenue for remitting a 2d. stamp on a receipt for over £2. Have they power to remit Stamp Duty in any direction?—No, the Stamp Duty law gives us no power to remit. The Stamp Duty law imposes this charge, and it is because there is no power to remit it that it appears here reported by the Comptroller and Auditor General as a remission, which means that we are refraining from collecting something which legally we ought to collect.

104. In other words, the Inland Revenue is breaking the law?—Yes.

105. This interests me. I am wondering how you get round the law. The law says that a 2d. stamp must be put on a receipt for an amount over £2.—Yes.

106. All you are doing, in fact, is winking your eye at a wide breach of the law?—When we do a thing like that, we get the authority of the Chancellor of the Exchequer, and practically all these cases are announced in the House of Commons.

107. Surely he has no authority to say to A "You need not put a 2d. stamp on this receipt", and to B "You must"?—May I counter-attack and ask what you would do in these circumstances?

108. I approve entirely. I think the right course has been taken, but what interests me is the constitutional point of view.—(Sir Gilbert Upcott): Perhaps I can shorten this discussion, which is a very old discussion which has repeatedly come up at this Committee. Parliament has never admitted the right of the Executive to remit tax or any other debts due to it, but Parliament and this Committee have, I think, recognised always that as a matter of practice it is necessary to do so from time to time, and the *modus vivendi* is that all such remissions should be reported to me and that I should report them to this Committee.

Chairman.] In other words, we are the proper authority, in a sense.

Mr. Benson.] Does it not mean that any penalty is merely remitted and not discharged?

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[Continued.]

Sir *Irving Albery*.] What the Comptroller and Auditor General has just said is an interesting point, but is it, or is it not, a fact that, if you accept a receipt which has not been properly stamped, you simply have not got a legal receipt?

Mr. *Benson*.] You can stamp any document on payment of a penalty of £10 if you want to produce it in Court.

Sir *Irving Albery*.

109. Then you pay the penalty. I do not want to press that here.—That is not an aspect of the case which is my responsibility.

Sir *Irving Albery*.] I did want to ask two questions. In paragraph 9 it says that Excess Profits Duty amounting to £298,000 was excused. Can Sir Cornelius give us any idea of what proportion of that was irrecoverable owing to bankruptcy or liquidation? If the information is not readily available, I do not want to keep the Committee.

Chairman.

110. If you have not got it, perhaps you could let us have it?—(Sir *Cornelius Gregg*.) I think I have it.

111. The duty was taken off in 1921, so that one is looking at events which happened some time ago?—The £298,000 is made up of the following amounts—shall I call them round thousands?

112. Yes.—£6,000 for equity, £1,000 for special settlements, £2,000 odd for miscellaneous, bankruptcy or liquidation, etc. (that is the item you are interested in), and the big item is ordinary compositions, £212,000. These E.P.D. items are the residue of the last war.

Sir *Irving Albery*.

113. The other question I wanted to ask was this: in paragraph 11, "Securities accepted in full satisfaction of tax", it says "Securities of a nominal value of £28,449 were disposed of, realising £2,000". Could you tell us how those were disposed of, and how you satisfied yourself about the

value obtained?—I think these were the very securities I have already mentioned, as to which we acted on the advice of the Government brokers.

114. It was a market security then?—£28,449; they are foreign bonds mainly. These were securities that had originally been accepted under Class 1. Where the foreign people paid their interest by way of bonds or scrip, we take a proportion. You remember the point you made last year.

Sir *Frank Sanderson*.

115. Could you state whether the Excess Profits Duty for the last war has now been completely eliminated?—No; Excess Profits Duty for the last war remains alive, first, in such assessments as are still on our books, but also because assessments can be made, and a trickle of assessments is still being made, in fraud cases. Although Excess Profits Duty for the last war was brought to an end, there was a special provision in the Statute that in case of fraud we could still continue to assess it, and there is a tiny trickle of assessments still coming in.

Sir *Irving Albery*.

116. On the question of deferred repairs, am I right in understanding that deferred repairs are not allowed in reckoning the profits for Income Tax of the concern?—No.

117. But they are allowed for Excess Profits Tax?—They are allowed for Excess Profits Tax, the reason being that Excess Profits Tax is a temporary tax running for X years, and you must bring in all the expenses attributable to the profits made in X years. For income tax, which is permanent, the repairs, whenever they are incurred, will be allowed then; but you must, for a temporary tax like Excess Profits Tax, relate them back to the very period of the tax.

Chairman.] On pages 7-10 inclusive, which contain the figures, I have no questions. May I take it the account is approved?—(Agreed.)

(Sir *Cornelius Gregg* withdrew.)

VOTE 3.

POST OFFICE.

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

Chairman.

118. Revenue Departments Appropriation Accounts, 1942, page ix, paragraphs 14 and 15 of the Comptroller and Auditor General's Report. "Post Office Store Account," paragraph 14: there have been some changes, I think, there, Sir Thomas?—(Sir *Thomas Gardiner*.) Yes.

119. Could you tell us just briefly what they are?—Hitherto we have each year taken stock of the whole of our stores. In order to reduce the calls on our man-power we are now spreading that stocktaking over three years instead of one year. That is the domestic check by the Stores Department itself. Then in addition to that there

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are snap checks by the Comptroller and Accountant General's Department, which hitherto have covered about 25 per cent. of the stores in the course of three years. That check is now being about halved, roughly speaking. There is one exception to that. In the case of easily saleable stores we are still continuing our annual check. That, I think, is the fundamental change that has been made at this stage. There have been other subsidiary changes. Hitherto, when, in taking stock, we have found there have been discrepancies, it has been our practice to pursue those discrepancies and find out exactly what the cause is. It is usually found to be due to some error in record. It is not proposed now to pursue those cases normally, but only to pursue them in cases of major importance, or only in cases where there is some suggestion of fraud or doubt as to whether the thing was entirely in order. Also, at the end of each year hitherto it has been our practice to make a valuation of our engineering stores, a job which has to be done in rather a rush towards the end of the year. We have suspended that valuation, and now, of course, have to depend on our records for our estimate of what the value of the engineering stores we have on hand is, instead of having an actual check of it at the end of each year. I think those are the main things.

120. Have the Treasury any views? I see you have authorised these modifications?—(Mr. *Blunt*.) No, I do not think there is anything to add, except that we have agreed with the Post Office that they should concentrate their efforts on the stuff that is easily disposable or saleable and let the others go.

121. Paragraph 14 and 15 are mainly narrative. Are there any questions? If not, we pass to the figures on pages 11 to 24. On the first four pages, 11 to 14, I have no question to ask, Sir Thomas. On page 15, Subhead G.6, "Airgraph Services," there is a reduction of some £20,000 odd. Could you tell us something about that, please?—(Sir *Thomas Gardiner*.) I think I explained last year that this was a rather difficult contract to handle and we had not come to any firm settlement with the contractors as to the rates that we were to pay them. The rates finally settled proved to be less than we anticipated they would be, arising from the fact that the quantity of airgraphs to be handled was very much more considerable than the quantity we anticipated would have to be handled, and, of course, that made the contract the more profitable from the company's point of view, and they were, therefore, able to agree to a lower rate than the rate we originally thought might be agreed between us.

Sir *Edmund Brockbank*:

122. On Subhead G.3, "Manufacture of Stamps, etc.," you spent £12,590 more than

was granted. Was that on account of the change-over in the rate of postage? Was that due to the fact that you had not enough 2½d. stamps and had to manufacture more, or was it that you did not anticipate so many being used, or what was it?—Apparently it was due to an increased demand for stamped stationery. As one can understand, as difficulties came on about getting envelopes, the public began to come down on us for stamped stationery, and that resulted in this increase.

Mr. *Benson*.

123. Airgraph Services: Does that include any air transport or is that merely the photography?—That is merely the photography.

124. How comes it that you do not do it yourselves?—If I might recall the position, as you know, at the outset we had no means of getting air mails to our troops. We then were allowed at short notice a small amount—I think 1,600 lbs. or something of that sort—for the conveyance of air mails. In order to make the best possible use of that we introduced the airgraph system. The important thing was to get that going and to get it going quickly. We thought at first that we might do it ourselves, but, of course, it involves the use of machinery which we did not possess, and it involves the use of machinery at both ends, not only in this country but in the distant countries, and we should have had to arrange with the other post offices equally to undertake this job. Feeling that what was necessary was to get the service going quickly we felt we should arrange for it to be done by this company, who had not only the machines but the men actually on the spot in all the countries where this system was to be applied. I think that was the best thing to do in the circumstances.

125. How did they happen to have the machines and the men? Was this system in operation then?—Not this particular system. The company is Kodaks. They had men and machines there for other related activities; they did not have them there for this purpose, because to the best of my knowledge this particular system did not operate before, but they had men and machines there for other related activities.

126. Have you costed their contract?—Yes, we have costed their contract now.

127. What was the outcome of it?—The present position is that we paid them about £360,000, and on such figures as we had when this service was introduced it looked as if that would be about right; but in the course of the year 1942 the number of airgraphs handled increased very largely to something like 1,250,000 a week. Also, another factor that came into costing subsequently and which helped to relieve the cost was the fact that the traffic

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began to flow evenly. With this system, everything passes through a bottleneck at both ends. If it flows evenly through the bottleneck, the cost of running the thing is very much less than if it comes in great bunches now and again. Those two features proved to be very much more satisfactory than we expected they would be, with the result that at the end of the year, when we were costing the contract for the purposes of the next year, we found that the company had made a very heavy profit on this basis, and they themselves proffered a return of the money that had been paid to them to the extent of £130,000.

128. This is the second year, is it not?—This is the second year.

129. I did not quite understand your reference to the fact that the increase in the flow of airgraphs—not the regularity but the quantity—reduced the price. It reduced the price per airgraph, but it did not reduce the price of your service?—It reduced the price per airgraph, yes.

130. Have you any idea what profit they made on the £329,000?—I am talking about that particular year. The £130,000 is profit they would have made had the contract stood in its original form.

131. That £329,000, in fact, carries with it an agreed profit?—That is right.

132. An *ex post facto* profit?—May I put it like this, that had the matter been settled on the basis originally agreed, which includes these payments, they would have had a profit of £160,000.

133. That would have been £480,000.—No; it is included. (Mr. Ismay.) It is not quite related to the payments in the year, but to a figure of £373,000. (Sir Thomas Gardiner.) It is roughly right. (Sir Gilbert Upcott.) If they had not made the refund, the profit would have been about 65 per cent. on cost.

134. Are you working on a cost-plus basis?—(Sir Thomas Gardiner.) No. When the figures were got out we got into touch with the company and they agreed to refund £130,000. The contract ran for one year only. For the next year the rate of payment is based on the figures obtained for this particular year. I do not think it has actually yet been settled. (Mr. Ismay.) No. (Sir Gilbert Upcott.) It was a fixed price contract for the first year. (Sir Thomas Gardiner.) For that particular year.

Sir Irving Albery.

135. Is the contract with an American company?—The main company is an American company, but our contract is with the British subsidiary.

136. It is a sterling contract?—Yes.

Chairman.

137. Turn, please, to pages 17 and 18. There is a mention half way down on page 17, of "Ordinary counter losses," some £57,000. That is an increasing figure, I am

afraid, is it not?—It is. As I had occasion to say last year, this is one of the matters that has caused us some concern. I explained then that the increased losses were due to, I think, three factors: the inexperienced staff, the pressure under which they were working and the many and complicated services that they have to deal with. But the actual loss per thousand pounds of transactions is still very low. In peacetime it is almost negligible; it is about 4d. per £1,000 of transactions. At the present time it is about 6½d. per £1,000 of transactions, which is, I think, a very low figure.

138. Over the page there is a further £57,000 for unregistered parcels lost. That is also an increasing figure, is it not?—Yes. There, of course, our main difficulty is the losses of mail bags which I am afraid suffered, like other forms of commodity, in railway transport. That was the main source of difficulty, but we and the railway companies have made a very strenuous effort in the last 12 months to reduce those losses by employing inspectors and others specially for the purpose of trying to see that these bags are more carefully looked after.

139. Are things better?—There is an improvement in the result during this year, or rather, for the year 1943.

Mr. Benson.

With regard to the loss of registered letters, one can understand the loss of unregistered letters, where the mail bags are lying about on railway station platforms, but how comes it that you have lost £41,000 in registered letters which ought to be particularly looked after?

Chairman.

140. It was due to air raids, I suppose.—Seeing that you did not know this, perhaps I should not give it away, but any mail bag may contain a registered letter. Registered letters go in the same bag as ordinary letters; they are tied up in a special way inside, but if a thief gets an ordinary mail bag he will find, in all probability, enclosed in it a small registered letter bag.

141. Would you rather that that did not appear in your evidence?—I am afraid the persons who are operating this at the moment are so skilled in their job that they probably know it already.

Sir Frank Sanderson.

142. On page 18, first of all, with regard to unregistered parcels, £57,000 loss, how does it come about that a loss is sustained on an unregistered parcel?—If you take an ordinary unregistered parcel and ask for a certificate of posting, which is given to you free, we will, if that parcel is lost, compensate you for its value up to £3.

143. Without being registered?—Yes, without being registered.

144. On the registered letters the loss sustained was £41,000?—Yes.

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[Continued.]

145. Is that a gross or a net loss: in other words, is that the amount of the loss after crediting the amount received for the registration of the letters?—No, it would not come anything near the fees for registering the letters.

146. In other words, you make a profit on registering letters?—Yes; but one has to remember that, in addition to paying for those lost, we have to pay for the special handling of registered letters within post offices. Within post offices they are subject to special safeguards: without post offices they are enclosed in mail bags like any other letter.

147. This £41,000, I understand, represents the gross amount of loss which you have paid out?—The compensation to the public. (Sir Gilbert Upcott.) The registration fee appears as part of the revenue; it does not appear in this account.

Sir Frank Sanderson.] That is the point I wish to make.

Chairman.

148. Turn, please, to pages 19 to 22. On page 22, one quarter of the way down, it says: "Overpayment of unclaimed redemption moneys." I could not quite see how you could overpay redemption money that had not been claimed. That rather met my eye. The amount is £670?—(Sir Thomas Gardiner.) Mr. Ismay will tell you what that is. (Mr. Ismay.) This is rather a technical point, Sir. We pay over any unclaimed redemption moneys on the redemption of a Government stock to the National Debt Commissioners, and ultimately I think they reach the Exchequer. In this particular case we had redeemed one of the Government Loans. We then scheduled all the cases which appeared to be outstanding and paid over that amount to the National Debt Commissioners. We were, of course, in some difficulties just at that period of the war, and, on going into our figures later, we found that they did not really balance by this amount of £670. It is practically certain that there is no fraud and that nothing has gone wrong in this, but that certain warrants which had been paid had not been marked off. The money could not be given back to us by the National Debt Commissioners unless we could give them a new schedule which we could swear was the correct schedule. That would have cost us a very great amount of man-power to try to produce, so we came to the conclusion that the best thing to do was to write off this difference, which is really only a book-keeping error, and seek Treasury authority for doing it, as we just could not face the job of trying to balance *de novo*.

149. As I understand, £670 has accrued to the National Debt Commissioners that ought not to have got to them?—That is so.

150. You have this item against you in consequence, and from the taxpayer's point of view it is a wash-out?—It is a wash-out.

151. Below that I see "fraudulent withdrawals £35,512." How does that compare with, say, a pre-war figure?—(Sir Thomas Gardiner.) The pre-war figure was about £4,000. (Sir Gilbert Upcott.) Less than that. (Sir Thomas Gardiner.) £3,993.* (Sir Gilbert Upcott.) In 1939? (Sir Thomas Gardiner.) In 1941-42 it was £22,000.

152. Now it is £35,000?—Yes.

153. Is there any special reason for it?—No; I think the reasons were the same as I had to refer to last year, partly arising from the very great increase in Savings Bank transactions, and I think it is right to remember that fraudulent withdrawals of £35,000 are related to a total withdrawal of £162,000,000, which I think puts it into its fair perspective. But it does all arise from the fact that in our endeavour to make Savings Bank facilities more easily accessible to the public we are taking a certain risk on withdrawals. Before the war, if a man withdrew money the Savings Bank book had to be sent up to the Savings Bank afterwards, and then it came back to him. It was felt that during wartime we ought to try to do something better than that, and now he is not asked to hand over the book until quite a number of transactions have taken place. Quite obviously, that does let the fraudulent person in. We have taken what steps we could domestically to guard against that by the regulations that the staff endeavour to apply, but we have gone further than that since I was here last. First of all, about 15 months ago we introduced an arrangement under which any person wanting to open a Savings Bank account was required to produce his identity card. That was aimed against the class of person who is a professional thief in this matter, who takes out an account for a small figure, goes away, alters it and draws then against the altered amount. Being required to produce an identity card showing who he is and that sort of thing has had a restraining effect in that regard. But even then the fraud continued to be rather startling, and about three or four months ago we sought the authority of Parliament to require anybody, on any Savings Bank transaction, to produce evidence of his or her identity. Those two taken together have had a very good effect, so far as systematic frauds are concerned. The losses there, which cover about 40 per cent. of the whole of the losses, have fallen about two-thirds in the course of the year 1943, but we do not yet know what effect this stipulation will have on the remaining frauds, which are what we call unsystematic frauds, by

* The figure of £35,512 in the question relates to losses written off under general authority. The corresponding figure in 1938-39 was £2,736. The £3,993 for 1938-39 corresponds to a total loss by defalcations of £37,226 in 1942-43.

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[Continued.]

the ordinary man who is suddenly tempted to make use of his neighbour's book or to doctor up his own book. The first precaution I mentioned does not apply in those cases, because the people have the book. The second one does apply, and they have to identify themselves. We are hoping that will have some substantial effect on the number of frauds. Over three or four months' working it seems to suggest a reduction of about 25 per cent. in the losses.

Sir Edmund Brocklebank.

154. How does the post office counter clerk know that the person who puts across the counter an identity card is the person who really owns the identity card?—That is exactly the difficulty, and that is how those frauds that have beaten us have come in.

155. It remains a difficulty still?—Yes, and in so far as they can fraudulently get hold of identity cards we are more or less defeated.

156. On page 22, Item T.2 (b) is: "Unclaimed Postal Orders." Postal orders only last three months, do they not?—Six months, I think it is.

157. I see advertised from time to time people who are prepared to take old postal orders that have run out of date. What authority is there for cashing them, or what do they do with them?—I think even when they are out of date you can make application to headquarters and have the money refunded to you then, on payment of additional poundage.

Sir John Mellor.

158. You referred to the great increase in the transactions of the Post Office Savings Bank?—Yes.

159. Is that due to the increase in the number of depositors mainly, or has there been an increase in the total amounts that an individual depositor is allowed to deposit? I noticed on 2nd February the Chancellor of the Exchequer said in the House of Commons that the limit in ordinary cases is that new deposits shall not exceed £500 in any one calendar year?—Yes.

160. I thought it was £200?—No; it has been at that figure for some time.

161. £500?—Yes.

162. Then there has been no increase during the war?—No, not during the war.

163. In the limit?—That is so.

164. It is mainly due, then, to an increase in the number of depositors?—It is due to increased savings activities, I think. It is one of the most vigorous forms of saving.

165. Both new depositors and larger amounts?—Both new depositors and larger amounts.

166. There is one further point. On page 21 the total figure for expenditure under Subhead O is £1,900,000?—Yes,

167. Is that an estimate of the total expenses of administration of the Post Office Savings Bank, or what does that represent?—That represents in the main payments made to the Post Office from the Post Office Savings Bank Fund for the operation of the Post Office Savings Bank.

168. Is that intended to be as fair an estimate as can be made?—(Sir Gilbert Upcott.) It is actual expenditure.

169. But it surely involves considerable apportionment of rents and salaries and that kind of thing? (Sir Thomas Gardiner.) Yes; in the case of a counter clerk, for instance, we have to assess what amount of the counter clerk's time is given to Savings Bank work as opposed to money order work, let us say; therefore it is to that extent an assessment of what the charges should be, but it is, I think, pretty carefully checked up by the Comptroller and Auditor General.

170. That is intended to be the total figure for the cost of running the Post Office Savings Bank?—Yes.

171. I do not know whether I am doing anything out of order in anticipating a reference to the White Paper on Savings Banks and Friendly Societies Accounts, but in that White Paper there is given under "Post Office Savings Banks Fund" the figure of £2,600,000 odd for expenses incurred in the year. Could you explain to me what is the relation between that figure and the figure on page 21, which we have just been discussing?—(Sir Gilbert Upcott.) I think there is some misapprehension. I do not think this figure under Subhead O in the Appropriation Account is apportioned expenditure: it is actual expenditure on staff employed in the Savings Bank. (Mr. Ismay.) This particular head is the Headquarters expenditure and the apportionment involved here is that it covers the Post Office Savings Bank proper, the Post Office Register, Government Annuities and some miscellaneous bits of work. Only that part of this cost which is attributable to the Savings Bank proper is recovered from the Savings Banks Fund, so there is an apportionment at that stage; but, having got that apportionment of cost to the Savings Banks Fund, there has to be added to it a whole series of apportionments of counter staff and other staff and overheads from the whole Post Office Account.

172. Where do we get that?—You then bring back as a cash receipt from the Savings Banks Fund the total of that bill. If you turn to page 23 you will see that we realised £2,650,957 in that year, recovered from the Savings Bank Fund. That is very close to the figure shown in the other account, which takes account, I think, of some expenses other than those incurred by the Post Office.

173. When you say "the other account" you are referring to the White Paper?—

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[Continued.]

To the White Paper which you mentioned. There is, in fact, a difference there of £19,000. I cannot explain exactly what that is, but I suspect that it is entirely covered by the expenses of the National Debt Office itself.

174. Can you give me an idea in very round figures whether, after having made all due apportionments, the Post Office Savings Bank is run at a profit or a loss, and if so, approximately what amount?—The Post Office Savings Bank Fund, which is a National Debt Commissioners' Fund, does show a profit. That fund represents the investment of all moneys transferred to the National Debt Commissioners out of the Savings Bank. They, of course, only pay to the Post Office the interest necessary to credit the depositors and to cover these expenses. After that, according to the White Paper, they are left with an excess of interest of just over £3,000,000.

175. But I meant after including allowance for the share of rent and wages and so on of the people in the post offices who actually pay out and receive money?—That is simply apportioned to the fund on the basis of what we think on that apportionment it costs the Post Office. We are not making a profit out of that.

176. Taking the whole expense of working the Post Office Savings Bank and allowing a fair amount for what it costs the Post Office to administer it, can you say, if a calculation were made on that basis would it indicate a profit or a loss?—(Sir Thomas Gardiner.) I think the figure that is shown in the White Paper, the £2,669,000, includes

all expenses incurred, whether by the Post Office or anyone else, on behalf of the Savings Bank; that includes the repayment to the Post Office and the payment of the salaries of the persons in the Savings Bank Headquarters; the £2,669,074 includes everything; that is the whole expense of running the Savings Bank for all purposes, and, therefore, the £3,113,597 represents actual profit to the fund on the operations of the Savings Bank.

177. That is an actual net profit?—Yes.

178. Calculated on a commercial basis?—Yes.

Sir Frank Sanderson.

179. In regard to the deposits and withdrawals from the Post Office, since one's identity card bears the signature of the holder, is that signature checked at all against the signature given by the person transacting the business?—I think there is also an alleged signature in the Savings Bank book, but it is pretty easy to approximate to a signature, either on an identity card or on a book, I am afraid.

180. But is any check in fact made between the signature on the identity card and the signature which is required on withdrawal?—The clerk has the signature twice over: she has it in the book as well as on the identity card, and she is supposed to check it against one or other or both. They are expected to use their sense in those matters.

Chairman.] Are there any questions on pages 23-28? May I take it the Account is approved? (Agreed.)

POST OFFICE SAVINGS BANKS ACCOUNT.

SAVINGS BANKS AND FRIENDLY SOCIETIES ACCOUNTS.

(On these Accounts no questions were asked.)

POST OFFICE COMMERCIAL ACCOUNTS.

Chairman.] We take next the Post Office Commercial Accounts, and a paper which has been circulated for the information of the Committee. Are there any questions?

Mr. Pickthorn.

181. On the third page of the Post Office Commercial Accounts, a little more than half way down, in the expenditure column of the General Account: "Civil pay of mobilised staff". I am not quite clear what that means. Does that mean that if a man has gone into the Army the difference between his Army pay and his previous pay is made up, or what does it mean?—(Sir Thomas Gardiner.) In the case of our men who go into the Army, that is the position: the difference between the civil pay and the military pay is made up to the men.

182. Is that by statutory authority or by grace of His Majesty, or what is it?—That is by Treasury direction.

Mr. Pickthorn.] It is by grace, is it?

Mr. Benson.

183. Is your provision for depreciation a notional figure, or do you actually handle that sum?—(Mr. Ismay.) It is notional.

184. With regard to the agency services £9,800,000, is that calculated on a net cost basis, or does that include some sum which represents interest on capital and surplus, and does it contribute to the surplus?—Some of it does contribute to the surplus, but I am afraid it would be rather a long investigation to find out which. Of course, at the moment it is really impossible to say, because we are approximating, for the

29 February, 1944.] Sir THOMAS GARDINER, G.B.E., K.C.B.,
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[Continued.]

purpose of these accounts, which are not published accounts, very broadly, and I would not like to say what the general position is.

185. Not an actual figure; but if and when you fix a cost for a service—?—We should generally add something for overheads.

186. And also for surplus?—Not specifically for surplus.

187. On telegraphs, are you still increasing the number of your telegraph offices where telegrams can be sent?—(Sir Thomas

Gardiner.) No. At the moment our policy is a policy of restriction rather than otherwise. It does involve considerable manpower difficulties, and I should say our offices are fewer in number rather than more than they were, say, 12 months ago.

188. Is that purely a wartime restriction?—It is purely a wartime restriction, yes, that is so.

Chairman.] Are there any further questions? If not I think that finishes the evidence of these Witnesses. Thank you very much, Sir Thomas and Mr. Ismay.

(*Sir Thomas Gardiner and Mr. Ismay withdrew.*)

REVENUE DEPARTMENTS APPROPRIATION ACCOUNTS, 1942.

VOTE I

CUSTOMS AND EXCISE.

(*On this Account no questions were asked.*)

(*The Witnesses withdrew.*)

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

TUESDAY, 7TH MARCH, 1944.

Members present:

Sir ASSHETON POWNALL in the Chair.

Sir Irving Albery.
Mr. Benson.
Sir Edmund Brocklebank.
Sir George Davies.
Mr. D. O. Evans.

Sir John Meilor.
Mr. Pickthorn.
Sir Frank Sanderson.
Mr. Touche.

Sir GILBERT UPCOTT, K.C.B., Mr. H. BRITTAIN, C.B., and Mr. D. F. C. BLUNT called in and examined.

HOUSE OF COMMONS MEMBERS' FUND ACCOUNTS, 1942-43.

Colonel the Right Hon. Sir GEORGE LOYD COURTHOPE, Bart., M.C., T.D., D.L. (a Member of the House), examined.

Sir ERNEST FASS, K.C.M.G., C.B., O.B.E., called in and examined.

Chairman.

189. We begin with the House of Commons Members' Fund Accounts, 1942-43. The witness is the Chairman of the Trustees, Sir George Courthope, and with him is Sir Ernest Fass. As I mentioned to the Committee last week, I myself am one of the Trustees; but I gathered no exception was taken to my being in the Chair. If Members will turn to the White Paper, copies of which have been circulated, the Report of the Comptroller and Auditor

General is on page 4 and the figures are on pages 2 and 3. I have only two questions to ask Sir George or Sir Ernest—whoever is answering. First of all, how many pensions are now being granted, and how many additional ones were granted in the year under review?—(Sir *George Courthope.*) There are 10 still in issue out of 15 which have been awarded. A 16th pension award has just been made and payment thereof has been authorised but has not yet actually taken place. The details of

7 March, 1944. Colonel the Rt. Hon. Sir GEORGE LOYD [Continued.
COURTHOPE, Bart., M.C., T.D., D.L., and Sir ERNEST FASS, K.C.M.G., C.B., O.B.E.

the 16 cases are: Ex-members, four pensions of which two have ceased; widows, 12 pensions of which three have ceased; one widow's pension has been reduced in amount and one increased. I would like, if I might, on that to draw the attention of the Committee to a rather interesting fact which has a bearing on the future expectation of the movement of the Fund. Since the passing of the Act 66 of those Members who were qualified under the Act have died. Of those 66, 12 have left widows for whom adequate provision had not been made. It makes one think rather seriously. Nearly 20 per cent. of Members who have died in harness since this Act was passed have made no provision for their widows. One wonders, if anything like that proportion of the 615 Members of Parliament have not made adequate provision for the future, whether the actuarial calculations upon which the Fund was founded may not have to be entirely revised. As you, Sir, remember, when the Departmental Committee recommended the drawing up of what is now this Act and the Government Actuary made his estimates it was not expected that a very large number of widows' pensions would be required. The experience of the last four years has overthrown that in a very serious degree.

190. Was it clear in the Actuary's report approximately what percentage of widows' pensions was estimated for in calculating the original finances of the scheme?—Yes, I think it was. It was one widow and one orphan a year.

191. One widow and one orphan each year were expected to come on the Fund?—That is what provision was made for. We have had no orphans so far.

192. But you have had, you say, 12 widows?—After investigation 12 widows' pensions have been awarded.

193. That is at the rate of three a year instead of one a year?—That is so.

Sir Frank Sanderson.

194. I have one question to ask. With regard to the income from investments, is that subject to deduction of income tax or do you recover income tax upon the income received from investments?—It is free of tax.

Mr. Benson.

195. When does the peak liability arise?—The Actuary has to review it in five years, and we have already asked for the Actuary to prepare his report. But my anticipation is that there will be a very considerable number of fresh applications after the next General Election.

196. That does not quite answer the point. Naturally, there will always be subsidiary peaks after a General Election, when Members lose their seats or retire; but at a certain time there will come a peak when you can expect, apart from the effect

of General Elections, that your liabilities will remain stationary?—(Sir Ernest Fass.) That is assuming a constant influx every year, is it not?

197. It is making normal assumptions?—And it is assuming a constant outflow, too. (Sir George Courthope.) I do not think we can answer that question until we have had a great deal more experience than we have had at present.

198. A Member has to have been a Member for ten years before he is entitled to anything?—Yes.

199. The peak then ought to arrive 10 years after the establishment of the Fund, surely?—That is what I had in my mind when I spoke about a General Election. If this Parliament goes on for another year every Member of it except those who have come in at bye-elections will be qualified by length of service.

200. And thereafter the theoretical liability will not increase save temporarily after a General Election? Is not that so?—I could not answer that. (Sir Gilbert Upcott.) Subject to what the Actuary said I should suggest that the peak liability would not arise until much later than 10 years from the beginning, because the pensioners will continue to live. It will be a long time before the number of pensioners will begin to drop off.

201. In that case we cannot form any idea of the position of the Fund for a considerable time?—(Sir George Courthope.) The Government Actuary takes 10 years as the life of the pensioner. (Sir Ernest Fass.) All the Actuary would be able to do would be to say what would be the position of the Fund on the assumption of existing pensions, and then it would be for Sir George to say what would be the expectation of the increases in the number of pensioners. He will tell you the peak if you tell him how many new pensioners, and of what ages, are likely to come in in the course of the years. It is purely guesswork, depending on the second factor.

Sir John Mellor.

202. I see about half the assets are in 2½ per cent. Consols, which have no fixed date of redemption. Is it your policy to keep part of the assets in bonds having a fixed date and the other half in bonds having no fixed date? If so, on what advice do you proceed to invest?—I think the idea was that with such an uncertain position as to the needs of the Fund it was a reasonable thing to do to have at least £10,000 which would be available 100 per cent. during the very moderately near future, and when we had reached that position it was thought we could take an undated security which we would buy for the sake of the yield, this being a permanent fund. I do not think we got beyond that as a temporary guiding principle, that we

7 March, 1944. Colonel the Rt. Hon. Sir GEORGE LOYD [Continued.
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thought it would be as well to take a certain amount of our securities in bonds repayable within the next 10 or 15 years, leaving the rest in an irredeemable security. Perhaps you will remember that we had a largish block of Tithe Redemption Stock which we bought in the early days, which is not redeemable until the end of this century, and there was an opportunity of taking the increase in the capital value of the stock out and putting it into the Fund and preserving the same rate of interest. That is the explanation of the £12,655 2½ per cent. Consols. We sold the Redemption Stock which was, for practical purposes, undated, and put it into Consols.

Sir Edmund Brocklebank.

203. If my question were to lead to identification I hope you, Sir George, will not answer it. I think you said there were two Members of Parliament and three widows who had ceased to draw a pension.

(Sir George Courthope and Sir Ernest Fass withdrew.)

CIVIL APPROPRIATION ACCOUNTS, 1942.

CLASS I.

VOTE 2.

HOUSE OF COMMONS.

Sir WILLIAM GIBBONS, C.B., and Mr. A. J. MOYES, called in and examined.

Chairman.] I ought to tell the Committee that I have had a letter from Sir Gilbert Campion saying that, owing to illness at the Table of the House and to the Speaker being in the Chair, he asked to be excused this afternoon from his usual attendance before us, and he has asked Sir William Gibbons, who has had great experience of the House of Commons Accounts and has represented him before in his absence, to be present. We welcome Sir William Gibbons here. I want also to mention the fact that Mr. Luxford, who appeared before us for many years, for over 20 years, I understand, has died since we met last. We deplore his passing.

Mr. Benson.

206. Has he left a widow?—(Sir William Gibbons.) Yes.

Mr. Benson. Might that be conveyed to her?

Chairman.

207. Yes. Will Members turn to the Civil Appropriation Accounts, pages 10 and 11. Will you please tell us whether any Ministers, and, if so, how many, take their Parliamentary salaries rather than their Ministerial salaries?—On 31st March, 1943, there were 13.

Is that on account of death or change in their conditions?—(Sir George Courthope.) 4 deaths and 1 change of condition.

Sir George Davies.

204. In the Report of the Comptroller and Auditor General on the last page he gives the figures. He says: "The income attributable to the year exceeded the expenditure by £6,880 3s. 6d." What was the comparative figure for last year. I have not it here?—(Sir Gilbert Upcott.) £7,598. (Sir George Courthope.) That is greater than our normal income from contributions.

205. Yes, but the surplus is very nearly £1,000 less this year than it was last?—(Sir Ernest Fass.) There is £300 more in pensions and a little more in income of invested securities.

Chairman.] May I take it that the Account is approved? (Agreed.) Thank you very much, Sir George and Sir Ernest.

208. In Note G. at the bottom of page 10 there is a statement that some of the increased expenditure in respect of incidental expenses was due to an increase in the number of annunciators. Could you tell us the arrangements with regard to annunciators and how they are paid for?—They are operated by arrangement with the Exchange Telegraph Company. There are 13 annunciators and the agreement provides that there should be £695 per annum for the 13 annunciators, and that there should be another £20 for each extra machine up to 19.

209. Are you satisfied with the financial arrangements?—That was revised in 1942. It had to be a little more than the old arrangement. The expenses had gone up. The agreement is for the duration of the war unless enemy action or anything makes a revision necessary.

210. But you think those arrangements are reasonable in the circumstances?—I think so.

211. Are you going to put up the extra six—the difference between 13 and 19?—We have not heard of any more machines being wanted.

212. Further in note G there is mention of a sum of £250 in respect of official car

7 March, 1944.] Sir WILLIAM GIBBONS, C.B., and Mr. A. J. MOYES.

[Continued.]

allowances. What are those official car allowances?—They are allowances to certain officials who have made their cars available for the use of the Department in any emergency. I think it is a scheme in use generally throughout Government Departments.

213. They are officials of the House of Commons?—These are officials of the House of Commons.

Sir George Davies.

214. Is that a sort of retainer?—Yes, it is a sort of retainer.

Chairman.

215. It is a new arrangement, is it not?—Yes, it came into force in the year ended on 31st March, 1943.

216. They are sums paid to officials of the House of Commons in respect of their cars for the House to have a claim on them in case of dire emergency?—The House has first claim on the cars if the House wants them.

Mr. Benson.

217. With regard to subhead K, expenses of Committees, what committees would have been involved in expenses, apart from the Select Committee on National Expenditure?—The great bulk was the Select Committee on National Expenditure. The other Committees were the Committee of Public Accounts; there was in that year the Select Committee on the Disposal and Custody of Documents, the Select Committee on Publications and Debates Reports, there was a Select Committee on

(Sir William Gibbons and Mr. Moyes withdrew.)

Equal Compensation; there were the other usual ones, on Consolidation Bills, and so on—the hardy annuals.

218. With regard to the annunciators, you said that there were 13 in the House?—Yes.

219. Whereabouts are they? Where are they scattered about? Are they in Ministers' rooms?—There is one near the new Chamber; there are three in the dining-rooms and three in the Library.

220. You mean the tape machines?—Yes.

221. I thought you meant the ticker?—No.

222. Those are not run by the Ministry of Works?—*(Mr. Moyes.)* No, they are run by the Exchange Telegraph Company.

223. Is it a patent?—I do not know. *(Sir William Gibbons.)* I should think it is unique in this place.

224. Has it always been run by the Exchange Telegraph Company?—Certainly since 1928. I think always.

Sir Edmund Brocklebank.

225. Why should the Exchange Telegraph do it? Why cannot the Ministry of Works do it? It is inside their own building. Or the Lord Great Chamberlain, or somebody?—We have never raised that question. I expect the Office of Works was in a small way when it began. I think it has been going all this century.

Chairman.] May I take it that the Account is approved? *(Agreed.)* Thank you very much for your attendance, Sir William and Mr. Moyes.

CLASS V.

VOTE II.

ASSISTANCE BOARD.

Sir GEORGE REID, K.B.E., C.B., called in and examined.

Chairman.

226. Will the Committee turn to paragraph 29, pages xi and xii of the Report of the Comptroller and Auditor General. Would you tell us, Sir George, if the figure at the bottom of page xi of 32,000 includes prevention and relief of distress figures?—*(Sir George Reid.)* Yes.

227. Are these figures falling as well as these other figures in this paragraph?—Yes.

228. In roughly the same proportion?—I should not like to commit myself to that. Perhaps I ought to explain that that 32,000 was the average number on the live register in 1942. People, however, come and go, and it would not be right to think

that we had dealt only with 32,000 individuals in the course of the year. The number of individuals dealt with would be very much greater than that.

229. Have you any figures as regards the total who have been through your hands?—I could not split up the figure between prevention and relief of distress and unemployment allowance for this particular year. *(Sir Gilbert Upcott.)* The Committee will understand that the total figure includes the allowances in respect of the prevention and relief of distress. *(Sir George Reid.)* Yes, so the Chairman made clear.

229A. It would be rather interesting to know the number you had actually handled during the year. Have you had such a

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Sir GEORGE REID, K.B.E., C.B.

[Continued.]

figure, apart from dividing the two categories?—I think I could give some figures. (Sir *Gilbert Upcott.*) I think you will find the figures at the end of March, 1943. (Sir *George Reid.*) I can say this, that the number of applications in 1942-43 for Unemployment Assistance and Prevention of Relief and Distress together was 321,000.

230. You have no figures as regards the proportion of those which were granted?—No, I could not split that up as between the applications granted and not granted—not for the year. (Sir *Gilbert Upcott.*) I think I can give the actual load at the end of March, 1943, from what I understand to be the Department's figures. The total number at the end of March, 1943, as I have it, was 29,723, of which 8,780 were cases under the Prevention and Relief of Distress arrangements.

Sir George Reid.] That is quite right.

231. That is the figure here substantially, is it not?—Yes.

232. Could you tell us to what extent the administrative expenses are due to the Assistance Board activities, and to what extent they are due to the Supplementary Pensions?—We think that of our total administrative expenses—that is £3,359,000—67 per cent. is due to Supplementary Pensions and 14 per cent. to Unemployment Assistance and Prevention and Relief of Distress.

233. 67 per cent. and 14 per cent?—Yes.

234. What about the balance?—The balance is due to other services which we perform for the Service Departments, for the Ministry of Pensions and the Board of Trade.

235. That is 19 per cent.?—Yes.

Chairman.

Are there any questions on paragraph 29?

Sir George Davies.

236. The Comptroller and Auditor-General says: "The average weekly rate of allowance increased from 22s. 1d. to 25s. 3d. Was that increase the result of Parliamentary action?—Yes, it was due to an increase in the allowances paid by the Board which was provided by Regulations approved by Parliament.

237. By Regulations?—Statutory Regulations, which were approved by both Houses of Parliament.

Chairman.

238. Will the Committee now turn to pages 217 to 219, which are the figures. The note to subhead A. in the middle of page 217 is: "Saving due to the smaller numbers employed." Could you please tell us with regard to those figures what the larger and the smaller ones were?—The numbers were smaller than those for whom we made provision in our estimates, mainly for the reason that, in our estimate, we provided for the contingency of renewed

enemy attacks. We had to take into account the risk of bombing which would be likely to send up very markedly both the Unemployment Allowance and the Prevention and Relief of Distress cases.

239. Have you the figures?—I am sorry if I misunderstood you: I thought you were referring to the numbers to whom allowances were granted.

240. No, to the smaller numbers employed—to Note A. in the middle of page 217?—We provided in our estimates for 12,712, and the average number in post for the year was 11,373.

241. For the reason you have just given?—Yes, partly for that reason—that the amount of work was less than we anticipated, but also for general alterations and economies in organisation.

242. Turning to page 218, subhead G. "Grant in Aid of the National Council of Social Service"; could you tell us how the requirements of the National Council of Social Service are estimated, and what the present functions of this Council are?—Of course the grant to the National Council of Social Service has been going on for many years during the whole of the period of the Board, and previously it was paid by the Ministry of Labour. The amount of grant for each year is looked at in the light of the circumstances of the case. We are in very close touch with the National Council of Social Service, and are represented on their various Committees, including the Unemployment Grants Committee, and we feel it right to see that each year, when the question of the renewal of the grant comes up, everything is done to enjoin economy. The purpose for which the grant is given is the maintenance of an organisation to provide occupation for unemployed people during the period of their enforced idleness.

243. In view of the fact that there is virtually no unemployment now, to what is this £55,000 odd devoted?—It has been continued at a very much smaller figure than it was originally before the war. Before the war it was up to £130,000. It is down to £55,000, which is near the minimum required to keep the organisation in existence. It is an elaborate organisation, depending upon the existence of a number of regional bodies, and it was felt to be desirable that it should not become entirely dissipated, so that it had to be created *de novo* in the event of unemployment becoming again considerable.

244. You do not think there is any waste of man-power to have a skeleton staff standing by in these days?—No, there is no waste of man-power in that sense, because the staff who are employed as the result of the payment of this grant are engaged in other forms of very useful war work.

Chairman.] Are there any questions on those pages 217 to 219?

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[Continued.]

Sir Irving Albery.

245. Following on your question, I should like to ask what kind of work this staff are engaged in?—They are engaged in various kinds of social work; for example, helping with the management of communal feeding centres, and in welfare work for soldiers during their off time. The occupational clubs, for example, for the unemployed are now very largely used for recreational purposes by both war workers and troops in their spare time.

246. About how many persons are employed?—We make a grant towards the total expenditure: there are 12 regional bodies which are associated with the National Council of Social Service, and, as regards the majority of those, a grant is made for their general upkeep. Each one would have a director, and he would have other people in close touch with this occupational club work. I should be rather inclined to think that the total number would be 150, or that kind of number.

247. Men or women or both?—Both.

248. And their ages? Are they reserved occupations?—That is, of course, a matter for the Regional Councils. I believe that a great many people who are engaged in this form of social work are reserved.

Sir Irving Albery.] Mr. Chairman, could we have those details?

Chairman.

249. Yes. Perhaps you would put in some particulars in regard to the salaries paid, the number of people, males and females, and also some information from the age group point of view. I think it would be of interest to us, in view of the fact that very considerable expenditure is still being involved, and it is admitted that it is not fulfilling the original purpose, which was in connection with unemployment, which does not now exist?—Quite. It is regarded as an insurance payment, as I rather tried to indicate—an insurance against the possibility of a recrudescence of unemployment on a large scale. One did not know how long the war was going on, and one kept the organisation in being, because it would be extremely difficult to set up the whole of this organisation again.*

Sir Irving Albery.

250. My last question is this: I notice in the note GG. "Losses and Compensation" on page 218, reference is made to "officers of the Board." What does that mean exactly? Are those officers of the National Council of Social Service?—No, of the Assistance Board.

Mr. Pichthorn.

250A. I did not quite understand the witness's use of the passive. You said it was considered that this was an insurance payment. The decision of your office was that

* See Appendix No. 10A.

it would be a wise insurance to keep this thing in being?—Yes, it was a decision arrived at after discussion, both with the National Council and with the Treasury,

251. I quite understand the National Council of Social Service considered it a good thing. What I did not quite understand is what exactly you mean when you say "it was considered." You mean that was the decision of your office?—It was decided by the Board, yes, after consultation with the Treasury.

Sir Frank Sanderson.

252. I have two points, one relating to the same subject. In regard to the amount of £55,700 expenditure, does any of that amount include the making up of salaries to any member of the staff who has been loaned to other Departments?—I think there may be one or two cases where it does. Mind you, the Assistance Board has no direct responsibility for this staff. We are speaking now of staff in the employment of voluntary bodies—local councils of social service—and some of this grant we are speaking of, this £50,000, goes in the payment of or towards those salaries. Generally speaking, in regard to people who have joined the Forces from the service of these voluntary bodies, the same line has been taken as in the case of temporary Civil Servants, where it has come to a matter of proposing that their pay should be made up to the civil pay.

253. You do not consider that a very large proportion of the £55,000 is due to the making up of salaries?—No, a very small proportion indeed.

254. The other point I would like to ask you about is on page 217, subhead F. "Allowances to Applicants, etc., and Provision for Training and Work Centres, etc." That shows a deduction of roughly one half of the original grant. Is there any special significance in that deduction other than that stated in the note to subhead F.?—It is for the reason that I gave to the Chairman when I misunderstood his question. That is to say, we got Parliament to provide £5,000,000 because we were extremely uncertain what course the war would take, and as to whether there would be a recrudescence of the bombing which would cause a big demand on our resources. The year proved quieter than we thought, and, therefore, the amount we spent was very much less.—(Sir Gilbert Upcott.) It would not be correct to describe it as a "deduction." It is simply an under-spending. It is the amount not required.

Sir Frank Sanderson.] Quite.*Mr. D. O. Evans.*

255. The amount stated here as being a grant in aid, I am sure you realise is a very small proportion of the total expenditure of the National Council of Social Service? There are voluntary subscribers?—Yes.

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[Continued.]

256. You seemed to indicate that this was a form of insurance against any future increase in unemployment. Are you familiar with the work of the National Council of Social Service now?—Yes.

257. You know, of course, that they do a tremendous lot of work. The scope is very wide, even in prosperity?—Yes.

258. Do you agree that it is a wrong idea to suggest that the work of the National Council of Social Service would come to an end supposing the country were prosperous? You would not think their work would, of necessity, come to an end in prosperity? There is still a large amount of work which a Council of this kind could do?—Yes.

259. And which it does do now in industrial areas, where there are munition works, by way of providing recreational facilities, welfare, giving advice and providing adult education, and that sort of thing, which is being carried on now?—Yes, quite. If I may say so, our position is this: we are satisfied that if this grant were not paid to the National Council of Social Service many of these regional bodies to which the bulk of this money goes via the National Council would be in a position of great embarrassment. They all have receipts from voluntary sources and such like, but the withdrawal of this grant, or the portion which goes to them through the National Council of Social Service, would jeopardise their work. (Sir Gilbert Upcott.) Mr. Evans, perhaps I ought to explain that the reason for the reference to unemployment and the unemployed in respect of this grant is, of course, that initially at any rate this grant is on this Vote in respect of the services of the National Council to the unemployed. The function of the Assistance Board is to deal with unemployed primarily. There might be all sorts of other services given by the National Council, but strictly speaking they would more properly appear on some other Vote.

Mr. Benson.

260. With regard to the National Council, do you know whether any other Government Departments give grants?—(Sir George Reid.) The National Council gets a grant from the Ministry of Health in respect of the Citizens' Advice Bureaux. That is a grant aided service for which the National Council is immediately responsible.

261. Is there any other?—(Sir Gilbert Upcott.) It got one from the Commissioner for Special Areas. (Sir George Reid.) The Board of Education I think make a grant to certain settlements towards educational work.

262. Apparently, half the Departments of State make grants to this organisation. There are the Special Areas, yourselves, the

Board of Education and the Ministry of Health. Is it not desirable, when there is an organisation of this kind at work, that the grants should be co-ordinated and that each individual Department ought to make a grant through a central organisation or through a central channel?—As to the desirability of that, I think that is a matter upon which I am not competent to express a view. What is done at present is that specific services are grant aided. As Sir Gilbert Upcott has just pointed out, the grant with which we are concerned here is a grant in respect of a service rendered by the National Council and the regional bodies which it co-ordinates in respect of the unemployed.

263. This grant is given because you hope that they may do that work in the future. At the present moment, on your own showing, the people who did that work in the past are now engaged in other work which seem to be more in line with the Ministry of Labour from whom, I understand, they also get a grant?—(Sir Gilbert Upcott.) I should correct that, if I may. In the year of account they did not get a grant from the Commissioner for Special Areas. It has been discontinued. They did formerly get a grant, but it has been discontinued. (Sir George Reid.) We inherited that.

Chairman.

264. The Ministry of Health is the only Department, is it? Could you tell us, Sir George?—As I say, I think the Board of Education pay a grant towards certain specific educational efforts.

265. There is no danger of overlapping, as far as you can see?—No.

Mr. Benson.

266. Apparently the witness is not quite sure, and I am not certain that he is required to know what other Departments are doing. That is a matter for the Treasury. Could Mr. Brittain give us any light on this subject?—(Mr. Brittain.) I think the Committee can rest assured that each of these applications for grants is considered by us at any rate in the light of what other Departments are doing. In fact, my recollection—I have not seen the papers about this for some time—is that we had a special Committee of the Departments concerned at one stage, to see that they all dovetailed in properly. (Sir Gilbert Upcott.) That is so. (Mr. Brittain.) If it would meet the Committee's wishes, perhaps we could add a paragraph to Sir George Reid's note on this very point, because I could give the Committee the necessary assurances on that.*

Chairman.] I think that would be distinctly helpful.

* See Appendix No. 10.

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[Continued.]

Mr. Benson.

267. You pay unemployment grants through the local employment exchange, do you not?—(Sir George Reid.) Yes.

268. There does not seem to be anything in the accounts here showing that you bear any of the cost of employment exchange maintenance?—No, it is all borne now on the Ministry of Labour Vote. The Committee will no doubt have noted that these accounts are in a different form from those of previous years, when there was in existence an Unemployment Assistance Fund which was charged with the expenses of all Government Departments which rendered services, including the Ministry of Labour. But now the Ministry of Labour is in the same position as other Departments such as the Post Office, the Stationery Office, the Ministry of Works, and so on, and they bear these charges on their own Votes.

269. As to salaries, is there anything in the expenditure on salaries for work inside the employment exchanges, or is it all external?—It is all our own work. It is all the salaries of people in the employment of the Assistance Board.

270. With regard to the Appropriations in aid, I notice that your Appropriations in aid are made up of refunds of overpayments. Is it customary to treat those as Appropriations in aid rather than as deductions from your gross expenditure?—With respect, I think this is the correct Treasury practice. (Sir Gilbert Upcott.) This is right.

Mr. Benson.] I was not querying it; I was only asking.

Sir Edmund Brocklebank.

271. The National Council of Social Service has 12 regions, and, therefore, there is a headquarters staff, I suppose, meeting in London?—Is that so?—(Sir George Reid.) It is hardly that. The regional bodies are all autonomous bodies. The National Council is simply a body to co-ordinate their work, to advise them and form a medium by which they can keep in touch with one another. They are all engaged on similar work, and the National Council is simply for the purpose of providing a nexus between them.

272. It is really a series of regional councils rather than one National Council?—The National Council has its own existence, but the regional councils are for purposes of their constitution quite independent of the National Council.

273. There are a Chairman and members. How many members are there?—They are all voluntary workers. The National Council works through a series of committees. The Council is a very big body indeed. It has, I believe, a meeting once a year, but most of the work is done through committees on which I think I should say the Board is represented. We

have representatives sitting on the Grants Committee, for example. We have a representative on the Emergency Committee. We keep in very close touch with their work, which is done through committees.

274. May I ask a question on page 217, subhead FF. The note at the bottom tells me what these payments exclude, but it does not tell me what these payments of £5,700 include. I thought the local authorities covered all payments. Could you indicate at all what they include? It is a very small payment to a large number of people who are affected by circumstances arising from enemy action. Why are they not covered by the local authorities who do the general payment?—(Sir Gilbert Upcott.) I think you have misunderstood the explanation. The payments were made to the persons mentioned in the footnote. The note is inclusive, not exclusive.

275. The payments were made to persons ineligible for allowances?—They were ineligible, but they were given the allowances by extra-statutory powers.

276. Why were they not eligible, to put it the other way round?—(Sir George Reid.) The persons who are covered by this item fall into two classes. The first class is persons who, following heavy bombing which drove them from their homes, had to travel long distances to their work and incur quite heavy travelling expenses. In many cases it was difficult for them to do that, and the Board, with Treasury authority, met those expenses for a short period, until better arrangements could be made. The second class of case refers also to bombed out people who have lost their stocks of food. The point is highly technical: if the wife of the establishment applied to the Board for some help to enable her to procure fresh food the Board could pay that money without any question of legal propriety. If the husband, who may still be in employment, applied for the allowance, the Board would, technically, be unable to meet his request, because he is in employment and not unemployed. In the circumstances, as the Committee will appreciate, in which these payments have to be made, that kind of arbitrary and highly technical distinction is impossible to draw, and so, therefore, the whole amount is paid, whether a husband or his wife applies, and it is put down here as an emergency payment under special powers. (Sir Gilbert Upcott.) I think, broadly speaking, I should be right in saying that the reason why they are described as ineligible is that they are not unemployed. The function of this Board is to deal with the unemployed. These are persons in distress and the Board act. (Sir George Reid.) The wife could get it because she is unemployed; she is not in employment. The man could not get it because he is employed.

277. I have one other question, on the bottom of page 218. Why could not the

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[Continued.]

receipts be closely estimated? The difference between the estimated and the realised was £6,000. It is £27,000 against £21,000?—I am afraid I cannot add to that. I do not think that the conditions under which these allowances are administered are sufficiently stable to enable us to estimate closely on an item of this kind for an ensuing year from the experience of past years. The variation between one year and another is too great to enable a close estimate to be made. (Sir *Irving Albery*.) I am not quite clear whether the Treasury are going to let us have particulars of all Departments who pay a grant in aid to the National Council of Social Service? (Mr. *Brittain*.) If the Committee desire we will certainly put that in.*

278. Who audits the accounts of the National Council of Social Service?—I do not think they are audited by the Comptroller and Auditor General. (Sir *Gilbert Upcott*.) I do not audit them. They are audited by professional accountants.

279. Are those accounts rendered to the Treasury for inspection?—(Sir *George Reid*.) No. They are rendered to the Board.

280. I thought there were other Government Departments which made grants as well?—(Mr. *Brittain*.) No doubt they each get them and we see them through at least one channel.

281. Would it be possible for this Committee to see the account for last year?—(Sir *George Reid*.) The accounts are published, and I am quite sure that copies of the last Report, which was only recently issued, with all the accounts attached, is available to the Committee.†

Chairman.

282. We should like to see it if you would arrange for that?—We could easily furnish that.

Mr. Pickthorn.

283. You said that each of these 12 regional councils was quite independent of the National Council?—Yes.

284. I understood also that each of them would be embarrassed if it did not get its

share of this £55,000, and that the money is in fact distributed by the National Council among the regional councils?—Yes. Of the payment made—the £55,700 in this year—I think £33,752 went to the regional bodies. The balance was retained by the National Council for other purposes, including the staff which the National Council does keep. It is quite a small staff of experts for the use of the regional councils. But the bulk of the grant, as I say, is distributed by the National Council to the regional bodies. The National Council has the money and then the regional bodies make their requests to the National Council. These requests are considered by the Grants Committee on which, as I say, the Board are represented, and are backed up by statements of the purposes for which the grants are required, and the amount is distributed as seems to be desirable. A certain amount is retained by the National Council.

285. About two-fifths?—I can give the Committee more precise particulars. The National Council in this year retained £3,800 out of its grant for its own use. The Regional organisations had £33,752. Then there was about £17,000 distributed to Settlements, etc., mostly in South Wales, and to model occupational centres in Scotland. This £17,000 is in continuation of a grant which was previously made by the Commissioners for Special Areas. When they ceased to function the responsibility for this grant was transferred to the Board, and this is what remains of it. There was about £12,000 to certain Social Settlements in South Wales, that were intimately connected with various work for the unemployed, £3,800 for certain educational work carried out mainly in South Wales or on Tyneside, and then about £2,000 for the maintenance of what are known as model occupational centres (they are about 16 in number) in Scotland. They were occupational centres built by the Commissioner for Special Areas in Scotland or out of money provided by him, and this amount of about £2,000 is paid to enable them to be kept in being during the war.

VOTE 14.

SUPPLEMENTARY PENSIONS.

Chairman.

286. Now, will the Committee pass to page x, paragraph 25 of the Report of the Comptroller and Auditor General at the beginning of the book. Could you explain the position with regard to the allocation of the charge for these combined pensions? It is not quite clear to me on the statement of the Comptroller and Auditor-General?—(Sir *George Reid*.) Prior to this arrangement, every pensioner who was in

receipt of a non-contributory old-age pension and also in receipt of a supplementary pension was the care of two authorities: there was the Customs and Excise Department, which was responsible for the administration of the non-contributory pension, and the Assistance Board, responsible for the administration of the supplementary pension. It meant that each pensioner got two order books, one for the non-contributory pension and one for the supplementary

* See Appendix No. 10.

† Paper circulated to Members; not printed.

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[Continued.]

pension. The suggestion was made (and it has been acted upon, as the Committee sees) that the two pensions, the non-contributory pension and the supplementary pension, should be rolled up for certain administrative purposes together and the whole amount paid in one sum by means of one order. The Board's officers, therefore, as regards these non-contributory pensioners who are in receipt of supplementary pensions, keep their eye, if I may so put it, on the cases from the point of view of the non-contributory pension conditions as well as the supplementary pension conditions. It relieved the staff of the Customs and Excise Department; it resulted in a certain saving of staff there. It has resulted in a certain saving to the General Post Office, through whom these orders are cashed, so that they deal with only one piece of paper instead of two. And we are sure it results in a certain convenience to the old-age pensioners.

287. And there is a considerable saving from the point of view of man-power, in not keeping two sets of documents in two separate offices?—That is so. That is the point I wish to make. As I say, it relieved the Customs and Excise Department.

288. The Customs and Excise Department deals with the unsupplementary pensions?—Yes, that rests where it was.

289. Have the Treasury any comments to make with regard to this arrangement?—(Mr. Brittain.) No, Sir, I do not think there is anything to add to what Sir George said. It saves man-power, as you have said, and, as the Comptroller and Auditor General says, we think we have a satisfactory statistical basis for ensuring that the non-contributory original pension part of the expenditure is still borne in the right place, on the Old Age Pensions Vote. (Sir Gilbert Upcott.) There is what you might describe as a technical inaccuracy in the apportionment, in that it involves the assumption that the basic pension is in all cases 10s. It is possible that in a small number of

cases some of the pensioners who receive a supplementary pension may receive an old-age pension slightly less than 10s. The amount would be very small—trivial in fact in comparison with the total involved—and, therefore, as I say, I am satisfied that the apportionment is virtually accurate.

290. The Comptroller and Auditor General says that the Assistance Board took over from the Customs and Excise Department the responsibility for the administration and arrangements for payment of non-contributory old age pensions in cases where a supplementary pension was in payment or is subsequently awarded "except in certain areas in Scotland". Why is that exception made for certain Scottish areas, Sir George?—(Sir George Reid.) These areas in Scotland which are excepted from this arrangement are areas in which the Board does not administer directly but through the agency of the local authorities. They are the sparsely populated areas of the highlands and islands, and in those areas the local authority, under an agency arrangement with us, administers supplementary pensions. It was felt, very largely for technical reasons, that this combined book arrangement was not practicable for them to administer as it is for us by our own officers.

291. It functions from the point of view of people doing this work for you?—Yes; it is a very economical and convenient arrangement in those very sparsely populated areas.

Sir George Davies.] Can you give us a rough idea of the amount of man-power which has been saved by this new method?—That is a question for the Customs and Excise Department. When the arrangement was being discussed it was expected that about 80 to 100 women officers in addition to a number of men would become surplus, in the sense that they would become available for transfer to other work in that Department.

STATEMENT OF EXCESS: CIVIL ESTIMATES.

Chairman.

292. Will the Committee pass to page xii, paragraphs 30 and 31 of the Report of the Comptroller and Auditor General in which there is mention of an excess of expenditure over grant. We take at the same time the paper which Members have had; "Statement of Excess, Civil Estimates." Could you tell us something in regard to this excess, Sir George?—(Sir George Reid.) As the Committee will have seen, we came for a Supplementary Estimate of £7,000,000 when the Regulations to which I have already referred, providing for an increase in the rates of allowances, were in prospect. The point is really this, that with every increase in the rate of allowance you necessarily attract or bring within the field of allowances people who, on

the ground of means, were not previously eligible. You press back the point at which people become eligible for allowances. You provide therefore for what we call attraction of fresh classes. We estimated correctly the number of people who would be so attracted. Our estimate of the numbers with whom we should have to deal was I think exact, but we under-estimated the average amount of allowance which these new classes would get. We estimated as well as we could that, providing for these new classes, the average over the remainder of the year for new and old classes combined would be about 13s. 9d. It turned out to be about 14s. That was during the winter. That resulted in an average over the whole year, winter and summer combined, of 12s. 6½d. instead of 12s. 6¼d.

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[Continued.]

293. There is a difference of a farthing on an average throughout the year?—Yes.

294. Have the Treasury any comment to make with regard to this excess?—(Mr. Blunt.) No; it is a very small excess in proportion to the total expenditure.

295. There will have to be a draft report to the House with regard to it. Are there any questions on paragraph 30? We pass to paragraph 31 of the Report of the Comptroller and Auditor General. In paragraph 31 I notice there was an increase of nearly 10 per cent. The figures of 1,078,000 had increased to 1,170,000. Is that increase still continuing?—(Sir George Reid.) The number of supplementary pensioners steadily increases.

296. I suppose you do not happen to have a more recent figure, do you?—Yes. At the end of January, 1944, just over one month ago, the live load was 1,293,531.

297. What was the date of this figure which I have just quoted of 1,170,000?—That was an average throughout the year.

298. I was trying to get the increase up to date proportionately. One cannot quite do it in that case?—We could give you that figure if you wish to have it.

299. It is roughly 10 per cent, over the average figure for the year—the figure you have just given me?—I should like to correct what I said just now, if you please. I said that that figure of 1,293,531 was at the end of January. It was at the end of December, 1943. At the beginning of the year now under review, that is in April, 1942, the account with which the Committee is dealing—the number was 1,125,749. At the end of the year—that is at March, 1943—it was 1,206,772.

300. Five lines from the bottom of paragraph 31 the Comptroller and Auditor General speaks of "exceptional needs," in inverted commas. How are they ascertained?—On inquiry by the Board's officers at the pensioners' homes.

301. How do you secure that the grant is applied to meet the actual exceptional needs in these cases?—By means of a further visit, and generally by getting the pensioner to produce receipts for the articles bought.

302. In the case of blankets, I see you are actually issuing the blankets?—We issued the blankets.

303. Normally you make a pensioner produce the receipts for the groceries, or whatever he has bought?—Yes, that is the general method as regards exceptional needs grants. It works very well. There is no legal power to require him to produce the receipts. The requirement is stated to him: "We shall want to see the receipts in those cases," simply as what I might call a disciplinary measure. It works very well, and I may say that experience has shown that there is very occasional abuse of these grants.

304. From whom did the Board get the blankets?—From the Ministry of Works.

Chairman.] Are there any questions on paragraph 31?

Sir John Mellor.

305. Did not the same difficulties of supply apply to other items of household necessities than blankets? According to this only blankets were supplied in kind, and cash was given in the case of all other necessities?—Exceptional needs grants go for the most part for either bedding or personal clothing. There is very little that goes to anything else.

306. Did not the same difficulties of supply which concerned blankets apply to all those other items you have just mentioned?—Personal clothing?

307. Not clothing, but household necessities?—As I say, there is very little of the exceptional needs grant that does go to household necessities other than blankets.

Chairman.

308. The figures are on page 222. I have only one question. The note says: "Sums amounting to £194,199 ros. 3d. have been included in this subhead in respect of payments made in error." I agree it is a very small sum for your whole turnover, but still the amount itself is appreciable?—Yes. I can give the Committee particulars of that if they wish to have them.

309. We should like to know the general sort of cause for these payments made in error?—The amount of £194,199 is divided up into various sections. £43,000 of that was due to fraud, or suspected fraud or a false representation by the pensioner. That class all comes under consideration, of course, from the point of view of proceedings against the pensioner. Then there was £9,000 (I am giving the Committee round figures) due to non-disclosure of some material fact, where the pensioner's good faith was in doubt. In that case also every effort is made to obtain recovery. There was £81,000 where there had been some non-disclosure of a material fact or some misrepresentation, but there was no doubt about the good faith of the pensioner; it was an honest mistake on his part. There was £57,000 due to errors of one kind and another on the part of the Board's officers.

Chairman.] Are there any questions on page 222?

Sir Frank Sanderson.

310. In regard to the sum of £194,000, is it contemplated that any of this amount will subsequently be recovered?—Yes: £65,441 has been recovered.

Sir John Mellor.

311. The next paragraph of the note says: "This account includes extra-statutory payments . . . (b) amounting to approximately £700 in cases where increased superannuation payments paid by

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Sir GEORGE REID, K.B.E., C.B.

[Continued.]

a miners' trade union were disregarded in assessing supplementary pensions." Will you explain what is meant by "disregarded"?—Yes. It is part of the provision of the Act under which we work that a certain amount of superannuation payments should be disregarded in assessing a pensioner's means. The amount to be disregarded was, until August last year, 7s. 6d. Then the Act was amended and the amount was raised to 10s. 6d. This particular miners' association was paying superannuation of 7s. 6d. a week—that is the maximum amount which could be disregarded. While the legislation raising the amount from 7s. 6d. to 10s. 6d. was pending, the miners' association raised its superannuation from 7s. 6d. to 10s. The Act had

(Sir George Reid withdrew.)

TREASURY MINUTE ON PARAGRAPHS 1 AND 2 OF THE REPORT OF THE COMMITTEE OF PUBLIC ACCOUNTS, 1943.

Sir GILBERT UPCOTT, K.C.B., examined.

Chairman.

312. We pass next to the Exchequer and Audit Department, and Sir Gilbert is our principal witness. Will the Committee turn to the Treasury Minute of 12th February, 1944, on paragraphs 1 and 2 of the Report of the Committee of Public Accounts. I will read the words of our report in the second sub-paragraph of paragraph 1. "Your Committee have been informed that it is now becoming progressively more necessary for Accounting Officers to seek for savings in man-power, over and above those which may be found from simplification of processes, by accepting a higher degree of risk of overpayment and irregularity in the public accounts. The Comptroller and Auditor General stated, however, that in the circumstances prevailing he had no general criticism to make of the standard of accounting maintained by the Departments. In certain cases owing to difficulties of control losses have been incurred, but Your Committee were assured that Departments and the Treasury were trying to avoid the reduction of accountancy staffs below the point at which more labour would ultimately be wasted than was being saved. The Comptroller and Auditor General stated that he would report any case of serious relaxation of control which in his opinion ought to be examined by the Public Accounts Committee. Your Committee need only add that it should always be borne in mind that efficiency of administration is a necessary part of the effective conduct of the war." Could the Treasury tell us something in regard to how they are applying this policy?—(Mr. Brittain.) A number of the larger Departments came a short time ago under the review of the Committee of Ministers, who made certain requests to the Departments for reductions of their staff, and the Departments are now in process of meeting—indeed, a lot of them have probably gone a long way towards meeting—those

not been passed, and, therefore, there was no legal authority to disregard this additional 2s. 6d., but there was general misapprehension about it. The number of people affected was very large—500, who were scattered over a number of areas—and it was found that it would result in a great deal of trouble to overtake these payments and would cause a great deal of feeling, especially as the limit was shortly to be raised by legislation, and Treasury authority was obtained to regard this sum, which had been paid on the basis of 7s. 6d. superannuation, whereas it was 10s., as an overpayment, and write it off in this way.

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

demands by altering processes or rolling up work, and so on. In some of the smaller Departments it was left to a small Departmental Committee of the Treasury, working on the same lines.

313. Could you give me some percentage figures of a very broad nature, with regard to the savings in manpower which it has been possible to effect?—I have not figures here, but I will try to get them for the Committee.*

314. I have heard of an overall figure of, whatever it was—2½ per cent. or 5 per cent.—and I was wondering whether you had any broad figure of savings in Departmental manpower?—It varies from Department to Department.

315. That is the reason I asked for a broad figure?—Some have gone up as high as 10 per cent. May I get the Committee the figures.

316. It would be interesting to know them. You are reasonably satisfied with the present position?—Yes, having regard to the circumstances.

317. Have you any comment to make, Sir Gilbert?—(Sir Gilbert Upcott.) I can speak with precise knowledge only for the year which is now under review—that is, 1942—and that was, of course, before this pronouncement of policy to which the Treasury have just referred was made. As regards that year, it has been very apparent that Departments are very short of staff, and the outside accountancy world is very short of staff. I am prepared to say, as I say in my Report to which the Committee will come in a moment, that I have "no general criticism to make on the standard of accounting maintained by Departments in the year under review, regard being had to the prevailing circumstances and the relaxations of check which have

* Paper circulated to Members: not printed.

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Sir GILBERT UPCOTT, K.C.B.

[Continued.]

been authorised. My Reports deal with the relatively small number of cases which appear to me to call for mention and under war conditions these naturally arise for the most part in connection with expenditure on War Services and Vote of Credit Services, accounts of which will appear in separate volumes." I am bound to say there have been some cases in which it has been necessary for me to criticise the defects, but they are a small number of cases and exceptional cases. As far as 1942 is concerned I think, considering the unavoidable difficulties, the standard has been maintained as well as might have been expected. As regards 1943 and any arrangements made under the policy to which the Treasury has just referred, I am not, of course, in a position to speak until the Accounts have been under my examination, and that will not be until next year.

318. The Treasury Minute on paragraph 2 is: "My Lords note that after a full review of the staff of the Exchequer and Audit Department, made at the request of the Government, the Committee are unable to recommend any reduction in numbers at present. My Lords have no doubt that, as the Committee anticipate, the Comptroller and Auditor General will keep the position under constant review." Will you please tell us about your own Department?—Yes. The position is under constant review so far as the numbers of my staff are concerned. With the exception of fluctuations of two or three from month to month one way or the other, the numbers of my staff have been static since the matter was considered last year. That is notwithstanding the fact that, owing in particular to the activities of the Ministry of Fuel and Power, my responsibilities have been appreciably increased. When I say that, I do not seek to acquire merit. I am making a virtue of necessity, because if I were to ask for a staff which would be adequate to perform the audit which would have been considered necessary on pre-war standards, it would be quite impossible to get it, either in numbers or in quality. As it is, about half my staff—I suppose two-thirds of the staff below the supervisory grades—is temporary. There is very appreciable wastage going on constantly, and there are very great difficulties in recruiting, especially in the Provinces, even to keep up my existing numbers, which I consider to be at the minimum necessary to maintain the standard of audit which I am now seeking to maintain.

Chairman.] Are there any questions on the Treasury Minute on those two paragraphs of the Committee's Report?

Mr. Benson.

319. With regard to loss of man-power in the auditing sections of the Departments and in the Comptroller and Auditor General's Department, has the loss been into the fighting forces or to other forms of audit? The amount of auditing required now is incomparably greater than before the war; also cost accounting has developed. Has the Comptroller and Auditor General, for example, lost staff to similar work or to the fighting forces?—As far as I am concerned, as I explained to the Committee last year, I have lost about 105 members of my staff to the Forces. That is very largely due to the fact that, owing to the age distribution, there was an unusually high proportion of my staff under 25 and they have all been released, so far as they are fit, to the Forces. The bulk of the loss, that is to say, has been to the Forces. I also did explain that I have transferred or lent about 20 experienced officers to other Departments for work for which they are specially qualified. I only transferred officers with very great reluctance and when the public necessity was very urgent, and when, in many cases, it would conduce to the efficiency of accounting that they should do it in other Departments rather than in my own.

320. Could you say whether those lost to the Fighting Forces are on the accountancy side or actually on the fighting side—whether any use at all is being made of their special skill and training?—I think the great majority of them are fighting, but there have been some employed on other duties. There have been two or three whom I have recovered in the Middle East. It is easier to do it there, because they remain in uniform whether they are actually in the Army or in my Department. It was discovered by my officers in Egypt that they were employed on duties which were not considered to be commensurate with their abilities, and the military authorities were good enough to recognise that they might be more useful even to the Army if they were in my office in Egypt. But as a rule I should say the great majority of them are actually in the Fighting Services. They are young men.

Chairman.] Are there any further questions on the Treasury Minute on paragraphs and 2 of our Report?

CIVIL APPROPRIATION ACCOUNTS, 1942.

CLASS I.

VOTE 9.

EXCHEQUER AND AUDIT DEPARTMENT.

Chairman.

321. We pass to the Civil Appropriation Accounts. to, first of all, page iii, para-

graph 1, of the Report of the Comptroller and Auditor General. I want to ask you one question on that. You have told us

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Sir GILBERT UPCOTT, K.C.B.

[Continued.]

something about your standard of audit on previous occasions. Could you say to what extent that standard has not been maintained, or how you are able to keep it up in these days?—(Sir Gilbert Upcott.) I explained to the Committee both last year and, I think, the year before, that, with the staff which I have available—which I think it is impossible to increase—it is necessary for me to make my audit a system of testing the efficiency of the examination carried out directly by departmental staffs, by chartered accountants acting sometimes for the Department concerned, and sometimes as the professional advisers of firms or organisations, by the Auditors General of Canada, South Africa, Southern Rhodesia, and India, who act for me, and by officers of the Colonial Audit Department in various Colonies. The work of direct audit—and even that is not always in very great detail—is almost entirely done in those ways. My officers carry out test (sometimes it is a very slight test) examinations in order to see how the systems work, and of course they see the reports of these departmental examiners, or outside auditors, and they are able to follow up any points that may appear to emerge. That is the utmost which it is possible for me to do in present circumstances, and I have said that I hope that under this system the standard of accounting generally is reasonably maintained, and that it is possible for me to bring to the notice of Parliament and this Committee any matters which I think deserve or require their examination. That is only possible because I feel that I can rely upon the great skill and experience of my remaining staff of permanent auditors, and the loyal assistance which they get so far as it can be given by the temporary staff and by the wise direction of the supervising grades. So far I think I can claim that my undertakings have been fulfilled. The line is wearing very thin, and I think I ought to say that though our positions are being maintained I sometimes have an apprehension that there may be infiltration.

But I hope that the skill and vigilance of my officers has so far always detected them.

Chairman.] Are there any questions on paragraph 1 of the Report of the Comptroller and Auditor General or on the figures which are on page 22?

Sir Irving Albery.

322. On the figures on page 22, can you tell us, in view of the less amount expended on salaries, whether the estimate for the year was considerably above last year?—I think that apparent under-spending is rather misleading. It is mainly due to the fact that, under the system of estimating which we follow under Treasury directions, the full salary of officers on military service is provided in the Estimates, but we pay them only the difference between their military pay and their civil pay.

323. The estimate for the year was not substantially different from that for the preceding year?—The total estimate?

324. Yes?—The estimate for 1941 was £206,000. But, of course, since that date there have been a number of increments granted, because officers are on an incremental scale, and there has been a grant of war bonus which would account for a substantial increase.

Chairman.] Are there any further questions?

Mr. Benson.

325. Are your staff civil servants?—Yes.

Sir George Davies.

326. Are you able to say that as a result of your experience of conditions which the war forces on you any permanent economies in manpower might be established when we return to more normal conditions, or would you think you would want to get right back to pre-war conditions?—No. A good deal of routine has been swept away and will never be restored.

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

VOTE 1.

HOUSE OF LORDS OFFICES.

VOTE 5.

PRIVY COUNCIL OFFICE.

(*On these Accounts no questions were asked.*)

CINEMATOGRAPH FUND ACCOUNT, 1942.

(*On this Account no questions were asked.*)

CIVIL APPROPRIATION ACCOUNTS, 1942.

CLASS I.

VOTE 7.

CHARITY COMMISSION.

7 March, 1944.]

Sir GILBERT UPCOTT, K.C.B.

[Continued.]

VOTE 8.

CIVIL SERVICE COMMISSION.

VOTE 10.

FRIENDLY SOCIETIES' DEFICIENCY.

(On these Accounts no questions were asked.)

VOTE 11.

GOVERNMENT ACTUARY.

Sir *John Mellor.*] On page 24, what was involved in the repayment for Actuarial services?

That was in respect of services for Dominion and Colonial Governments.

Chairman.

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

327. Can you answer that, Sir Gilbert, or can the Treasury?—*(Sir Gilbert Upcott.)*

VOTE 12.

GOVERNMENT CHEMIST.

Sir *Frank Sanderson.*

328. The expenditure of £82,000 seems an extraordinarily small amount in respect of the Government Chemist. Does that include the whole of the expenditure by the Government on their Chemist's Department?—*(Mr. Brittain.)* The activities of the Government Chemists are fairly restricted; they do not do any work for the Ministry of Supply on explosives. Their work is not so extensive as the honourable Member might think.

ture by the Government on chemists?—By no means on chemists as such. There are chemists in other Departments, like the Ministry of Supply. This is purely for the limited staff of about 300 people. *(Sir Gilbert Upcott.)* The Government Chemist works mainly for the Board of Customs, I think. *(Mr. Brittain.)* On testing, and so on

Mr. D. O. Evans.

329. It is routine work?—Very largely.

328A. Does the expenditure shown against subhead A. in respect of salaries of £75,771 represent the total expendi-

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

VOTE 14.

IMPORT DUTIES ADVISORY COMMITTEE.

Sir *Irving Albery.*

330. From the expenditure on Salaries it would rather appear that this is a Department, or Sub-Department, which has practically closed down. Is that right?—*(Mr. Brittain.)* Yes. All the staff provided on this particular estimate and a member

of the Committee were in fact serving in the Army during that year. They had to be borne on this Vote. For 1943 we have suppressed the Vote altogether.

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

VOTE 16.

NATIONAL DEBT OFFICE.

(On this Account no questions were asked.)

LOCAL LOANS FUND ACCOUNTS, 1942.

Mr. Benson.

331. I should like to ask Mr. Brittain this question. This Fund seems to have increased its liquidity by about £10,000,000 during the year under review. It is likely to do the same, I think, in this current year and probably the next year. I see you have something like £12,000,000 invest-

ments in Ways and Means, which pays 1 per cent. In view of the very high liquidity of the Fund, why has it so big a percentage of short-dated investments?—*(Mr. Brittain.)* The demands on the Fund are rather uncertain, and from now onwards they might be rather greater than they have been hitherto.

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SIR GILBERT UPCOTT, K.C.B.

[Continued.]

Mr. Benson.] Yes, but you have a repayment of £8,400,000 and a surplus income of £2,500,000.

Sir Irving Albery.] What page are you on?

Mr. Benson.

332. I am all over the place. The repayment is on page 2, and the surplus income is on page 3 in the Income Account, and the investments are on page 5?—I think it is generally desirable to have a certain amount of liquidity, because we are not quite certain what will have to be met in the next year.

Mr. Benson.] You are paying approximately 4½ per cent. on the money raised?

Chairman.] 4½ per cent.?

Mr. Benson.

333. On the net capital of the Fund money raised was £200 millions and interest £13 millions approximately?—The main investments against the Local Loans Stock outstanding are not these relatively small amounts, but loans advanced to borrowers which produce a higher rate.

334. You are making £2,500,000 on your bulk investments?—Yes.

335. What I queried was the fact that you are so extremely liquid at the present moment, and that the amount of grants to local authorities in the year under review was only £1,000,000. It is not likely to increase much during the war, and you will have a steady influx of £10,000,000 a year, so that if the war lasts another 12 months you will have had an influx altogether of £30,000,000. It seems to me a very high percentage for £12,000,000 out of £28,000,000 of fluid capital to be in three-monthly Stock Loans?—Yes. I should perhaps explain that it has been the policy, in some of the National Debt Accounts, to allow balances to accumulate in this very liquid form, and then they are invested in annuities which are taken for the different Funds. I will inquire, if the Committee would like. That figure may possibly have come down in the next year, but I am not quite certain about that.*

Mr. Benson.] I should like to know what it is at the present moment. You have had

another 12 months' inflow since then, another £10,000,000 inflow.

Sir Frank Sanderson.

336. The net loss on investments of £1,800,000 seems very formidable. Is it a loss sustained through default by local authorities, or is it actual loss in money invested by the Department?—That is the accumulated loss since the Local Loans first began about 60 years ago in 1888.

337. It grew during the last few years?—If we look at six years ago, the accumulated loss was £700,000.

Sir Frank Sanderson.] It seems to me extraordinary for a Government Department to effect a loss upon its investments, in view of the fact that naturally it is usually the policy of the Government to invest in short Stock.

Mr. Benson.] Does not that loss of investments refer to defaults by borrowers from the Fund, which are not written off under the Local Loans Act?

Sir Frank Sanderson.] That is the point I was trying to make.

Chairman.] I am not very clear. Is that clear?

Sir Frank Sanderson.] It is not very clear.

Chairman.] Would you let us have a note in regard to this? *

Mr. Benson.

338. I have one other question. Certain Conversions were guaranteed on the Funds of the Local Loans Account 12 or 18 months ago. Was any call made?—(Mr. Brittain.) The Conversions?

339. Yes?—We actually took up just under £2,500,000 worth of Stocks.

340. Which Stocks were those you took up?—Quite a lot—24 altogether.

341. They were Colonial, were they not, or where they Civic?—Local authorities. We took up about £2,500,000, and we sold them all with a very slight profit.

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

SINKING FUNDS, 1942.

(On this Account no questions were asked.)

CIVIL APPROPRIATION ACCOUNTS, 1942.

CLASS I.

VOTE 17.

NATIONAL SAVINGS COMMITTEE.

Sir Irving Albery.

342. On subhead F. "Advertising and other Publicity" there was a grant of £19,500, and an expenditure of £687,115?

—(Mr. Brittain.) This is a case where the estimate corresponds to the pre-war basis and most of the additional expenditure of the war campaign is borne on the Vote of

* See Appendix No. 6.

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Sir GILBERT UPCOTT, K.C.B.

[Continued.]

Credit. We confined the estimate to the pre-war estimate for that Service.

343. I do not quite understand. Does that mean that the estimate of £19,500 for advertising was made on a pre-war basis and the actual expenditure was £687,000?—The £687,000 is actual expenditure. That is the effect of it, being a War Service.

344. The point I had in mind was why the estimate was so very much less than the expenditure?—(Sir Gilbert Upcott.) It is the pre-war figure.

345. Why would it be pre-war; the accounts ended in March 1943?—(Mr. Brittain.) This is in the nature of a token estimate here. We try to segregate the normal peace time expenditure of the Committee from the wartime expenditure, the wartime expenditure being borne on the Vote of Credit.

346. You mean you kept the estimates on a peacetime basis deliberately?—Yes.

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

VOTE 18.

PUBLIC RECORD OFFICE.

VOTE 19.

PUBLIC WORKS LOAN COMMISSION.

VOTE 25.

TITHE REDEMPTION COMMISSION.

*(On these Accounts no questions were asked.)**(The Witnesses withdrew.)**(Adjourned till Tuesday next at 2.30 p.m.)*

TUESDAY, 14TH MARCH, 1944.

Members Present:

Sir ASSHETON POWNALL in the Chair.

Sir Irving Albery.
Mr. Benson.
Sir Edmund Brocklebank.
Sir George Davies.
Mr. Douglas.
Mr. Glenvil Hall.

Sir John Mellor.
Mr. Pickthorn.
Sir Frank Sanderson.
Mr. Silverman.
Mr. Touche.

Sir GILBERT UPCOTT, K.C.B., Mr. H. BRITAIN, C.B., and Mr. D. F. C. BLUNT called in and examined.

CIVIL APPROPRIATION ACCOUNTS, 1942.

CLASS II.

VOTE 12.

IMPERIAL WAR GRAVES COMMISSION.

(24th Annual Report of the Imperial War Graves Commission.)

Major-General Sir FABIAN WARE, K.C.V.O., K.B.E., C.B., C.M.G., LL.D., and Mr. F. C. SILLAR, called in and examined.

Chairman.

347. Will the Committee turn first, please, to the Civil Appropriation Accounts, 1942, to page viii, paragraph 19, of the Report of the Comptroller and Auditor General. That paragraph is two-thirds of the way down the page. At the same time Members might have in their hands the 24th Annual Report of the Imperial War Graves Commission, which is sent round for information. On the paragraph

in the Report of the Comptroller and Auditor General, could you tell us, Sir Fabian, how the surplus income mentioned in line 3 arises?—(Sir Fabian Ware.) That surplus arises simply from under-expenditure. We have this income coming in, and we do not require that much of it for our purposes.

348. Is that because you are unable to do the work you would normally be doing in, say, France?—Yes. It is, I was going

14 March, 1944.] Major-General Sir FABIAN WARE, K.C.V.O.,
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[Continued.]

to say, almost entirely due to that. As you will realise, all our cemeteries in France are inaccessible at present, and there are something like 2,000 of them. That was the major part of our work in the past, and that, for the time being, is not costing us anything.

349. What provision is being made to meet the cost of the present war?—By direct grants-in-aid.

350. What is the position with regard to the Dominions, as far as the present war is concerned? Are you looking after them as you did in the last war?—In exactly the same way, and they all agreed to share the expenditure on the old basis—that is to say, in proportion to the numbers of the graves of their dead, and they have agreed to accept the percentages of the last war as a working basis for this, the matter to be adjusted, if possible, before the end of the war.

351. Does your Commission intend to keep the cost of the two wars separate?—I do not know what their intentions are. At present it is necessary, owing to what I have just explained to you: we shall have finally to settle these percentages, and we cannot do so unless we keep the accounts separate. Whether or not then the financial policy with regard to the construction and maintenance of the graves of this war will be the same as for the last war (that is to say, it was based largely on the building up of an Endowment Fund) has not yet been decided. If the same system were not adopted it might be necessary to keep the account separate, so that what I might call the museum piece was safe.

352. At the moment you are getting Votes on account of present expenditure?—Yes.

353. Will there not be confusion with regard to that, between this war and the last war, where you have this Endowment Fund?—No, because while the Endowment Fund was being built up we were still receiving grants-in-aid for the current work. That is mainly correct; it is partially correct. The exception is that the Dominions paid up their contributions a good deal more quickly than the United Kingdom, so we were working on the interest on their contributions.

Chairman.] Are there any questions on paragraph 19 of the Report of the Comptroller and Auditor General?

Sir George Davies.

354. In connection with the allusion to surplus income arising from the Endowment Fund, I observe, from the figures of the Endowment Fund on the last page of the Annual Report, that that Fund now stands at very nearly £5,500,000. It has been added to during the war primarily from profit on realisation of investments. Does that Endowment Fund increase from any other sources, or is it now a fixed

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amount which merely increases by such adventitious things as profit on realisation of investments?—All the contributions to the Endowment Fund are complete. There are no further contributions to the Endowment Fund coming in.

355. Are there any contributions from the public towards the maintenance and expenses of your work?—Yes. The Imperial Conference, representing all the Governments, took a very strong line on that question, that no expense should be thrown on the relatives. It was the opinion of all the Governments that the State should bear all the cost of this work of commemorating the dead. That amounted almost to an instruction not to appeal to the public. In spite of that we have quite a little flow of contributions which come in from relatives who wish to do something towards the work. The figures are shown on the last page but one of the Report, in Appendix E—"Fund for the care and maintenance of the graves of the fallen." It amounts to £2,743 5s. 3d.

Sir Edmund Brochlebank.

356. Could you tell me where the direct grants-in-aid are shown in your Accounts? As far as I can make out there are only two grants—for Special Purposes, £5,100 and for General Purposes, £9,500, on page 24?—Is this in the Report?

357. Yes?—That is all that we have required. That grant-in-aid is what you are referring to on page 24 of our Report?

358. Yes?—That is all that has been required to carry out our work during the year under review.

359. It seems a very small sum?—It is small. That is for graves for the present war only.

360. Yes, only this war?—Yes, and needless to say, it has increased since then.

361. Yes; it will increase?—The year under review was one in which casualties were very small.

Mr. Benson.

362. I see from Appendix A to your Report that you hold a balance of £848,000?—Yes.

363. How is that balance held? Is that in free cash or does it appear at all in Appendix G?—(Sir Gilbert Upcott.) That is mainly on deposit with the Paymaster General. (Sir Fabian Ware.) It is the total of the amounts that we have placed free of interest and at call with the United Kingdom Government. It represents money that has not been required for current expenditure, plus a final contribution to the Endowment Fund, the £520,000, from the United Kingdom.

364. You are holding a balance, apparently, of £848,000?—Yes, that is so.

365. Which you say is on deposit with the Paymaster General, but in paragraph

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14 March, 1944.] Major-General Sir FABIAN WARE, K.C.V.O., [Continued.
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19 in the Comptroller and Auditor General's report the amount apparently held by the Paymaster General is only £265,000. How do you marry those two figures?—There is £185,000, and then if you go on further to the next paragraph you will see there is a final contribution of £520,000. Does not that give you the total?

366. Yes, that gives you the total. What I want to get at is this: Is that held in cash? Why is not that invested along with the other investments?—That is deposited with the Paymaster General free of interest, all the participating Governments having agreed to lend it to the United Kingdom Government, free of interest. It is there at call.

367. The Comptroller and Auditor General says that a further £160,000 has been added during the year under review, but the difference between your balance at the beginning of the year and at the end of the year in Appendix A is £118,000 and not £160,000?—Yes.

368. How do you square those two figures?—Sir Gilbert, do you know? (Sir Gilbert Upcott.) I cannot interpret exactly where the surplus arises on your own summary of receipts and payments, because that is not an account of which I have any knowledge. (Sir Fabian Ware.) I have not grasped the discrepancy myself.

Chairman.

369. Would you have it looked into, and let us have a note with regard to it, if that is what you would like, Mr. Benson?—Yes.*

370. Are there any further questions on the paragraph in the Comptroller and Auditor General's Report? Will the Committee now turn to the figures which are on pages 88 and 89. We will take those two pages together. I have no questions on pages 88 and 89. Has any Member any questions? Then we pass to pages 90, 91 and 92. We will take all those three together. Could you tell us, from the point of view of finance, how the position now is with regard to France? Before the Germans had occupied Southern France, was it possible for us then to look after the graves?—Our information is a bit patchy, but as far as it is reliable, the French Government (by that I mean the Vichy Government) are giving grants to the local authorities to look after our cemeteries. We have indications that that work is being well done from their standard, which is not up to our standard. But that is being done. I also know that my own opposite number, who worked with me for 15 years or so—a French General—is in charge of that work. Whether the French are keeping an account of all that and are going to render an account at the end of the war, I do not know. I should imagine that they would.

* Information supplied, not printed.

371. Have you any information at all as to what has happened since the Germans moved into Southern France, which was about 15 months ago?—We have indications that the work is being continued; in fact one of our gardeners was working on a cemetery near Marseilles.

372. With regard to Southern Italy, in view of recent happenings what is the position about our cemeteries in Southern Italy, which is in the occupation of British troops?—You mean the graves of the last war?

373. Yes?—The whole of Italy, if I may deal with it as a whole, did extraordinarily well. We had a very keen Italian, who had been a liaison officer with the English, Count Memmo, who was in charge of our work out there, and we arranged, first of all with the American Government and later with the Swiss Government, that the Italian gardeners who were continuing the work should be paid as in the past, and payments have been made to him. Up to the landing in Italy that went admirably. We got reports from the Swiss Government as to how the work was being done, and on the landing we found our part of Taranto Cemetery well kept by the Italian gardener who was our employee out there. We also heard that a certain amount of bomb damage had been done by us (not to the actual graves) which had been repaired by the Italians. The report was one which gave much satisfaction to the Commission.

374. Will you please turn to page 92? There is an item there about which I would like elucidation. It is in the statement of expenditure for the year ended 31st March, 1943, under "Egypt and Palestine," Item 2, "Payments to contractors," etc., £3 2s. 7d. I could not understand how, in view of the casualties we know of in Egypt and Palestine at that time, the total expenditure on present war graves was such an infinitesimal amount?—That, as you will see, is simply for materials, for wooden crosses. It was altogether very small work. As I think you know, the Commission has decided, with the full approval of the participating Governments—with the exception of Canada—that no headstones should be erected during the war, owing to the shortage of labour and the shortage of material. Canada, where things are different, is erecting the headstones. Here we are not erecting headstones on present war graves or doing anything except putting wooden crosses on them.

375. It is quite clear from the heading that these figures refer only to the present war?—Yes.

376. So that practically nothing at all is being done, from the point of view of expenditure on war graves, in the present war, in Egypt and Palestine?—Yes, by the Army. I do want to make that clear. It

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[Continued.]

is being done by the Army, not by the Commission. The Commission has not yet taken over any of those new cemeteries.

377. You will eventually take them over from the Army?—We are beginning now to take over.

Chairman.] Are there any questions on those three pages, 90 to 92?

Sir George Davies.

378. May I ask one general question which arises really more on the Report. During this past year have any of your staff who were caught in France and Belgium on the outbreak of war, managed to return here or not?—It is very funny that you should ask that, because I asked Mr. Sillar that question while we were on our way here. He received this morning information of one, a Canadian, who actually escaped from Germany. Some have been exchanged.

379. During this past year?—Yes.

380. Had this escaped man been interned in an internment camp?—Yes, he was interned.

381. You do not know anything about the treatment, or anything of that sort, his being a rather special branch of activity?—The French have used one or two for our work. We did what we could to try to get some arrangement with the Germans but we quite failed. We are in constant communication with these men; we always send them a Christmas parcel and exchange very friendly greetings and write letters to them. There is a little letter that goes from me personally to them, to which we get a very nice response. Everything possible is being done that can be done.

Mr. Silverman.

382. Do you anticipate that after the war there will be considerable arrears to make up in respect of the maintenance in France?—That at present is nothing overwhelming. On the whole cemeteries are respected by the Germans. The graves have been respected. The damage to the memorials was not great. The Menin Gate had one bad bump and the Australian Memorial had two holes in it. The damage was nothing alarming. Whether it will be the same when the Germans retreat through the country, I cannot tell you.

383. Quite apart from that, there has been considerable saving in expenditure over the last three or four years?—Yes. That is why we have these big savings which we have been discussing.

384. I was wondering whether at some time that would have to be made up?—We are watching that very carefully. As to the amount of our savings, of which we have at present something like £400,000, we talked it over the other day and made out a sort of estimate showing that that £400,000 would cover the damage that has been done. It all depends on what further

damage they do. It depends on the spirit in which the German withdraws.

385. I suppose because that is so speculative a matter no provision is made for it?—I was not asked to estimate on a peace basis. May I supplement that? We have made it quite clear to the different Governments that we might have to come back to them for a supplementary estimate during the present year.

Sir Frank Sanderson.

386. On page 90, item 7 is: "Remuneration, concession pay and other payments in respect of staff evacuated from France and Belgium" and the figure is £8,441. Could you give any further information in regard to what exactly the word "concession" implies?—There were about 210 left over there and over 300 men returned to this country after Dunkirk, and we did everything we could to receive them well and meet their needs. The word "concession" is used loosely, perhaps owing to the extreme care of the Finance people not to admit liability; that is how I should explain the word "concession" there.

Sir Irving Albery.

387. On that same item, what are these people who came back doing now?—They are all in jobs—we are very proud of that—in comfortable jobs, and, I may say, doing well.

388. As to that item of £8,000 odd which was paid to them for the year under review, were they in jobs when that was paid?—Some of them were: that is to say, it was a past concession for various reasons. It is a long story. At first we agreed to make their pay up to the pay which they would have received with us. That was one concession that was made. If a man was getting £3 a week and in England he got only £2 10s., we paid him 10s.

389. Are there many now who are getting less than you would have paid them?—Quite a small number. Twenty-eight are at present either receiving a concession payment, or getting superannuation, etc.

390. How many men are covered by that payment?—221.

391. What is it mainly expended on, if only 28 are getting their pay made up?—That was the main thing—their pay being made up.

392. That would not cover it?—Then there was the actual relief that was given to them. They arrived with nothing in this country.

393. That would not be in this year, would it? These are the accounts to March, 1943. They would have arrived back in the country before this year's accounts?—That was largely due to superannuation benefits. We have a system of superannuation, a system of insurance, with

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contributions of an equal amount on both sides, and in that item is included the cost of those contributions on our side. Does that meet it?

394. I am not quite clear, because it seems to me that most of these men are now in employment, and most of them are earning as much money now as they were earning in your service?—Yes.

395. So I still do not quite understand the expenditure of £8,000 odd?—May I ask Mr. Sillar, who is dealing with this matter personally, to explain that? (Mr. Sillar.) The explanation is this, that that figure includes the cost of premiums paid in respect of the men who are interned in Germany as well as people who are in this country.

396. That is not made clear by the wording of the item, which says: "Remuneration, concession pay and other payments" unless it is in "other payments"; but in any case it is in respect of staff evacuated from France and Belgium, and, therefore, does not appear to include anybody who is at present in France, Belgium or Germany?—The heading should not refer only to those evacuated from France and Belgium. It does include the superannuation premiums of the men who are still in internment abroad.

397. Can you say how much that amounts to?—It is about £5,000 a year in premiums alone.

398. That is the largest item, and therefore it ought to be included in the paragraph?—(Sir Fabian Ware.) I am sorry that I could not answer that directly.

Chairman.

399. Three-quarters of the way down the left hand side of page 24 of the Annual Report there is an item of £11,814 "Amount received from Iraqi Government in respect of damage at Baghdad Cemetery." That, I understand, arose from the troubles of three years ago. Could you tell us, Sir Fabian, if that amount was sufficient?—Yes.

400. The amount was sufficient?—Yes. We have been repairing those headstones. It was during the riots that they were destroyed.

Chairman.

401. Are there any questions on the Annual Report? May I take it that the Account is approved? (Agreed.) I think that concludes your evidence, Sir Fabian. Thank you very much. If there should be anything you have said about Italy or France which you would like taken out for reasons of not giving information away, will you have a word afterwards with the Clerk of the Committee about it?—I do not think there was anything in what I said. I was very careful, but if I have your authority to modify it if there is, I shall be grateful to you.

Chairman.] If there is anything that might make things difficult for your people.

(Sir Fabian Ware and Mr. Sillar withdrew.)

CLASS I.

VOTE 28.

MINISTRY OF TOWN AND COUNTRY PLANNING.

Sir GEOFFREY WHISKARD, K.C.B., K.C.M.G., called in and examined.

Chairman.

402. Will the Committee now turn to page v, paragraph 9 of the Report of the Comptroller and Auditor General in the Civil Appropriation Accounts. Our witness is Sir Geoffrey Whiskard, whom I think we have had the privilege of seeing in another capacity, if I remember rightly?—(Sir Geoffrey Whiskard.) Yes, in several other capacities.

Chairman.

403. Yes, one or two other capacities. Would you mind telling us the changes which have taken place with regard to your Ministry since we last met you in another capacity?—I think they may be summed up very briefly by saying that the planning work of the Ministry of Works and Planning (as it was) has now been separated

off and belongs to the Ministry of Town and Country Planning, a new Ministry. This account covers two months only of its existence.

404. The first two months of its existence? How are the functions carried out now?—By the Ministry of Town and Country Planning.

405. How many staff did you take over from the Ministry of Health and how many from the Ministry of Works?—We took over from the Ministry of Works the entire staff that was engaged in the Planning Division of the Ministry of Works.

406. About how many?—That would be the whole number shown here—85. How many of those were originally from the Ministry of Health I am afraid, without looking it up, I could not say.

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[Continued.]

407. It is all a little bit confusing?—A good many of them came from the Ministry of Health two years before that.

408. What is your present staff?—At this moment?

409. Yes, please?—Our present staff is 335. I said as shown in the account, 85, but you will see the account includes an item clerical and typing staff, described as other staff. The 85 were only senior staff. The total staff taken over was 173. That includes typists, messengers and cleaners.

410. The comparable figure is 335?—355.

411. You told us a figure of senior staff a moment ago as 85. How many of the 355 would you call senior people?—Roughly speaking, it would be the same proportion, I think. In the previous year (I have it here; I have not the exact accounts for this current year) the senior lot would be 112, and 85 for the year of account. Then the year succeeding the year of account, 112.

Sir Irving Albery.

412. Might we know what "senior" means?—Roughly speaking, excluding typists, messengers, and cleaners.

Chairman] In the last sub-paragraph of paragraph 9 of his Report the Comptroller and Auditor General says: "Under Section 8 of the Minister of Town and Country Planning Act provision may be made by Order in Council for the establishment of Commissions to assist the Minister in the exercise of his functions in relation to the use and development of land. No such Commission has yet been established." What is at present the position?—The same.

413. Are there any signs of its being established?—There are, of course, possibilities. The obvious one is national parks.

Chairman] Are there any questions on paragraph 9?

Sir George Davies.

414. With regard to the transfer of the Planning Division, one of your previous incarnations, was the work so arranged then that the actual transfer was a comparatively simple matter of taking one thing *en bloc* and transferring it, or did it entail very much uninterlocking?—Except for myself and for the work like registry, and so on, it entailed no uninterlocking at all. I, of course, was previously doing both Works and Planning.

415. You were able quite easily to lift a self-contained unit and transfer it from one Ministry to the other?—That is so.

Mr. Silverman.

In the event of the Commission referred to in the last line of paragraph 9 of the Report of the Comptroller and Auditor

General being appointed, have any estimates been made as to the numbers or cost involved?—No proposal for a commission has yet reached that stage.

Mr. Benson] Have you started planning yet?

416. I thought he had just answered that?—That is a question which, I suppose, I might answer trenches upon policy.

Chairman] It is almost a question for the floor of the House. Have you any further questions, Mr. Benson?

Mr. Benson.

417. I should like to know what activities the Department is engaged in at the moment, or if it is all potential?—There is, to begin with, of course, a considerable amount of current activity under the Act of 1932 and the Interim Development Act of 1943. For example, we have at the moment 81 appeals outstanding against decisions by the local authority. There is that kind of thing, which arises under the old Acts. The Legislation and Parliamentary Division have spent a great deal of time on preparing legislation which we hope one day will come before the House. Apart from that, of course, we are doing a good deal of work on matters such as the national parks, the survey of the coast, and what in the widest sense may be called research in general: the work that has to lie at the basis of the criticism of any local authority's plan.

418. Are the appeals you are hearing from local authorities due to local authorities' wartime activities, or are they still hanging on from pre-war?—They are not hanging on from pre-war. They relate largely to extensions of factories, erections of new factories, and so on, which the local authority have not been prepared to permit as a permanency at any rate, and against that decision there is an appeal made to the Minister.

419. Did you say a survey of the coast?—Yes.

420. Have you taken that work over from the Ordnance Department?—No, I meant a survey in the sense that we are preparing, or, in fact, we have prepared a map showing the existing use of all the land round the coast of England and Wales, and, to a considerable extent, the desirable use of land round the coast of England and Wales. That is a work which is largely being done by our local officers, in collaboration with local Planning Authorities, with local committees of the C.P.R.E. and organisations of that kind.

421. Why have you stuck to the coast?—We have not confined ourselves by any means to the coast, but the coast is obviously in need, in many respects, of particular attention and protection.

422. Your survey is rather from the point of view of amenities than a survey in the sense that an Ordnance survey is a

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[Continued.]

survey?—It is from the point of view of what I call land use.

Mr. Touche.

423. Have you any regional organisations?—Yes, we have ten regional officers, and each of them has an assistant and a quite small staff. We have a certain amount of research men as well, working in with the local universities.

Sir Frank Sanderson.

424. I have only one point. In paragraph 9 on page v of his Report, the Comptroller and Auditor General says: "The net Estimate for 1943 is £172,430." We have already been told that the staff runs into several hundreds. Are you satisfied that the staff which is engaged is engaged fully in work?—We have not, as a matter of fact, at the moment the full staff for which we have received Treasury sanction. Staff is not easy to get and we are not able to get them. I think I may say that I am completely satisfied that they are fully engaged.

425. You feel satisfied that there is a credit side to this expenditure of £172,430?—Yes.

Mr. Glenvil Hall.

426. At what rate is your staff expanding at the present moment? I gathered from what you said earlier, that you are having difficulty in finding people to fill positions. Does that mean that you are not trying, or that, as they come along, you are filling posts?—It depends upon the nature of the post. We want five or six more regional research men. They are very hard to come by. I think, frankly, that other Departments have greater need for that type of work, probably, than we have, and therefore we are not making undue efforts to snatch them away from other Departments, but we try to get a man when we can.

427. Does that mean the men are there, but they are engaged on other work?—Very often they are not there, but, if they are there, they are invariably engaged on other work.

428. That is what I thought. Is the Department making any attempt to train men for this work?—We keep a pretty close eye on such training as is now going on in universities, but, of course, you will appreciate that people are not being trained for that just now.

429. No, but it would appear, other things being equal, that this Department is going to have a great deal to do, and will require, after the war, a very large staff—a specialised staff?—That is so.

430. I was wondering, Sir Geoffrey, whether your Department was now taking steps now to look ahead and see what it could do towards training men for the

work which obviously will fall in your Department in one, two or three years' time?—We regard that as a serious responsibility of ours. We are in touch with all the universities, the newer universities in particular, in endeavouring to get their training going on a sound basis for when they can get the men to train. We have all the men at present in the Services earmarked, so that we can pick them up as quickly as possible when the time comes to do so. I do not know that the moment there is much more than that that we can do.

431. How many architects have you on your staff?—Very few. We do not regard ours as a purely Architectural Department.

432. You employ outside architects, do you?—Or we should go to the Ministry of Works for purely architectural advice.

Mr. Pichthorn.

433. I am afraid it is my ignorance, but I do not quite understand this point about training in the universities and university co-operation in research. What sort of research is it? What sort of training is it?—The research would be largely in social and industrial conditions, changes and tendencies.

434. Research means inquiring into the social conditions, actual and probable?—Yes, actual and probable: What have been the changes in the population? What have been the changes in employment as between one section and another.

435. Is that being done by universities on a geographical basis: Cambridge does East Anglia and Reading does the South Midlands, and so on?—What happens is that very often the universities are very glad to put their students on to a local job like that as a form of training.

436. What sort of students at universities do you get to do this work now?—There are a good many women who do it. What we are doing is to arrange that it shall be done as much as possible.

437. With regard to the training in the universities, in what are they being trained?—Most of the universities now, as part of their architectural training—

438. That means architects, does it?—No, training definitely in town and country planning.

439. Training in planning at architectural schools?—At architectural schools.

440. That is not done very much in the universities, is it, really, with the exception of London, Liverpool and Cambridge?—The leading school, I think I might say (I hope others will not see this) is a branch of Liverpool University.

441. I said London, Liverpool and Cambridge?—We are trying to get others going, too.

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[Continued.]

Sir Irving Albery.

442. Have you any town planners on your staff—Yes. We have men who have the technical qualifications, and a good many who have come to us from the local authorities, where they have been engaged in the actual work of town planning.

443. Can you tell me this: in your regional investigations do you consider the question of waterways, rivers, and so on, or the use of them?—No, not the use of them. Of course, we are in very close touch on all things with the Ministry of War Transport, and in so far as the use of rivers, for example, for industrial transport—

444. I was not thinking so much of that; I was thinking rather of the amenities on rivers, the fishing, and getting the rivers back into a good state. Does that come under your Department?—Not *qua* fisheries, but *qua* amenities, yes. In the regions there is our Regional Planning Officer; there is the Ministry of Agriculture and Fisheries Land Utilisation Officer; there is the Ministry of War Transport local Engineer and there is the Ministry of Health regional officer (I forget what they call him). Those four work very closely together. They are always in committee in one another's offices.

445. The question of rivers would concern all of them?—Yes, it would concern all of them.

446. What is the method of co-ordination?—None of them would endeavour to do anything which would affect the others without consulting the others. The Ministry of War Transport, for example, would not undertake some drastic alteration of a river's course, in order to improve its navigation without consulting us from the planning point of view.

447. Might not the situation rather arise that in that case certain work and enterprise would not be the job of any of them?—It ought not to, because if they thought we were unreasonable, they can go to their Minister, and if their Minister thinks our Minister is unreasonable, he goes to the Cabinet.

Mr. Silverman.

448. I would like to ask two more questions—one on the point that Mr. Pickthorn was raising about the part played by the universities. Is what you have in mind, something like what the Liverpool University School of Social Science did in its social survey of Merseyside?—Very much.

449. The other question I wanted to ask was this: do I gather that the work that the Department is now doing is exclusively the work that would still have had to be done if the Acts of 1942 and 1943 had not been passed?—No, that would not be quite

true. We are doing the work that would have had to be done if they had not been passed, but also, of course, there is a great deal of preparatory work to be done for the new system of planning which we hope will come into force in the not very distant future.

450. Have you any extra staff for that which you would not have had if the new Department had not been set up?—Yes.

451. You have?—Yes.

Mr. Glenvil Hall.

452. Arising out of what Sir Irving Albery asks, where do the Catchment Boards that were set up under the 1930 Act come in amongst all these various Ministries dealing with water ways? How do they dovetail into your Ministry, for instance?—Offhand, I could not say where they do come. We are in no way responsible to them, nor are they responsible to us, but the same considerations arise as I mentioned just now, that supposing a Catchment Board were doing, or proposing to do, work which might seriously affect amenities, they would consult us just as, if they were doing work which might seriously affect fisheries, they would consult the Ministry of Agriculture and Fisheries.

453. A good deal of their work, surely, would either dovetail in or run counter to some plans, anyway, of your Ministry, or the plans that you propose one day to make?—The position is the same in the case of the Catchment Board's work, as in the case of the lay-out of roads by the Ministry of Transport. We should not attempt to dictate to the Ministry of Transport how their road system should run. We take their road system from them and see that that is made an integral part of the planning of that area; and in the same way with the Catchment Boards.

Chairman] Will the Committee now turn to the figures on page 52. I have no questions to ask on the figures. Has any Member any questions to ask?

Sir John Mellor.

454. I have just one question. There is no expenditure at all on subhead D, telegrams and telephones. I suppose that merely means that you have not received the accounts from the Post Office?—No; by the end of the year of account we had not yet moved into our present office and we were still in the office of the Ministry of Works, and, consequently, this item goes on their Vote. (Sir Gilbert Upcott.) That is stated in the note to subhead D, at the foot, Sir John.

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

(Sir Geoffrey Whiskard withdrew.)

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Mr. J. H. McC. CRAIG, C.B., and
Mr. W. PERRY, O.B.E., I.S.O.

[Continued.]

VOTE 15.

THE MINT.

Mr. J. H. McC. CRAIG, C.B., and Mr. W. PERRY, O.B.E., I.S.O.,
called in and examined.*Chairman.*

455. Will Members turn to the Civil Appropriation Accounts, pages iv and v, paragraph 7 of the Report of the Comptroller and Auditor General. At the beginning of paragraph 7 the Comptroller and Auditor General says: "The losses falling under this subhead are normally due, in the main, to volatilization, abrasion and to the process of blanching." Would you mind telling a layman something more about those three processes?—(Mr. McC. Craig.) I imagine the Committee know in outline what the processes are.

456. We should like to know something about them?—The raw material, the silver, must first be melted, cast into ingots and those ingots must be cleaned, the ends trimmed off and then rolled to the thickness of a ribbon, and round pieces of the size of the coin punched out by brute force. The round pieces are soaked in acid to clean them, and they are then stamped in automatic presses. In the melting process the heat required is very great, and the metal may remain subjected to the heat for a considerable period. Some of the metal is either evaporated or carried in minute drops away by the stream of vapour. That is volatilization. The metal which disappears in that way in the case of silver has gone for ever. In the case of gold we have sometimes tried recovery. In the case of silver it certainly would not pay. It may be convenient at that stage to explain about leakages. The crucible pot of 4,000 ozs. in which this liquid metal is contained may break. In that case all, or a great part of 4,000 ozs. of silver will flow into the bed of the furnace and into the passages and ground beneath; or, if the pot does not break, it may spring a leak, be flawed, and a dribble of silver does the same thing. When the ingot has been cast it has a rough surface; it may have clinker on it. It has to be cleaned by putting it against a revolving file, and the ends have to be chopped off. In that process a certain amount of metallic dust, of course, drops to the floor. That is abrasion. When the blanks are cut out, in the same way a certain amount of metallic dust is produced, and, moreover, the edges of these round blanks are very rough and jagged; they have little spicules of metal on, and at any stage from then until, indeed, the coin has been in use, those little spicules may drop off. That is abrasion. Blanching is the subjecting of these blanks to the action of chromic acid, hot. That removes the oil, some of the copper and a small portion of the silver. The acid containing the silver is afterwards dropped, and as much as possible of the silver recovered. The dust, of course, is swept up and partially recovered.

457. What you are speaking of now is all as regards silver?—Yes.

458. These same troubles do not arise with regard to bronze?—The same things happen but the value of the metal is so much less that it is not worth bothering about to the same extent.

459. A line or two lower down in his Report, the Comptroller and Auditor General says that the loss was appreciably higher than it had been in recent years. Could you please tell us with regard to the percentage of increase in the loss and the figures involved by that extra loss?—I might explain that of the total metal melted about two-thirds results in coin; about one-third is reduced to scrap and waste of different kinds. The bulk of that comes back. The figures we are dealing with, which in total are some fraction of 1 per cent., are a balance.

460. Yes, but can you give us the percentage of 1 per cent. which used to be lost and the present percentage, and the figures? Can you tell us to what extent has the loss increased?—If one deducts the appropriation-in-aid that is recovered the percentage was .18 of 1 per cent. over an average of the last seven years.

461. And the most recent figure?—.49 per cent.

462. .49 per cent. instead of .18 per cent.—an increase of $2\frac{1}{2}$ times. What about the figures involved?—£12,000 here, and against that we have £800 to deduct, appropriations-in-aid.

463. Instead of?—From £12,616 one deducts £800 first of all.

464. I am afraid I have not followed that.—(Sir Gilbert Upcott.) If you go back before the war the loss was about £1,000, but that was, of course, on a much smaller manufacture. (Mr. McC. Craig.) The corresponding figure for the higher output in 1942 would be about £4,000. It was £1,000 in 1938, I understand. That was on a weight of coin of 18,000,000 ozs., as compared with 46,000,000 ozs. now. (Mr. Perry.) The point is that if it had been on the average of previous years, .18 per cent., the figure would have been about £4,000 this year.

465. Instead of which it is just on £12,000—between £11,000 and £12,000?—Yes.

466. That gives me an idea of the amount of money involved and also of the percentage. At the top of the following page I see a mention made of faulty crucibles. Could you tell us how these breakages happened in regard to faulty crucibles?—(Mr. McC. Craig.) The fundamental reason

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Mr. J. H. McC. CRAIG, C.B., and
Mr. W. PERRY, O.B.E., I.S.O.

[Continued.]

is that the people who manufacture crucibles could not get the right raw material. The territory from which it came was in enemy possession, and they had to use substitutes, and the crucibles will not stand up to the heat and strain.

467. As the pre-war ones did?—No.

468. Is there no fear of misappropriation with your changes in personnel? Have you any anxiety from that point of view?—There is undoubtedly some fear, but I do not think there is any particular fear in this connection.

469. If this silver is in the furnaces, I gather, to some extent, you can get it back, from what you said earlier?—Yes. When the furnaces are allowed to cool down and can be pulled to pieces and rebuilt, then we shall get this back.

470. Most of it?—Yes, most of it. Some will have evaporated in between.

Chairman] Are there any questions on paragraph 7 of the Report of the Comptroller and Auditor General.

Sir George Davies.

471. At the top of page v I observe the principal cause of the increase in leakages and breakages, etc., is unskilled workers. The Comptroller and Auditor General says he was informed that this silver that has been lost could not be recovered, because it is impossible to suspend operations. Does that mean that if one, two or three years hence the suspension of operations can take place, all that silver will be recoverable, though it has accumulated, or will a proportion of that have been lost for ever?—A proportion will be lost for ever. For 18 months now, on average, it has been kept near melting point or above melting point, and some must have evaporated and some must have percolated very great distances; but we should expect to get the bulk of the deposit back when we rebuild the furnaces.

472. Is there any prospect, within a reasonable time, of an opportunity arising whereby you could undertake this salvage operation?—I should hope to do some of it this year; but it is very risky to prophesy.

Chairman.

473. Are there any further questions on the paragraph? We pass to the figures, which are on pages 28 to 31 inclusive. On page 28, could you tell us what activities other than our coins you are engaged on at the Mint?—On coinage, the principal demand has been from Africa. There are a great many others.

474. Heavy demands for East and West Africa I see a note about?—Yes, that was the largest demand.

475. You put that in the principal ones?—And a great many other things besides coins, of course.

476. Where is the expenditure on these services for countries other than this country shown? Is that in General Expenses?—Yes. It is not a separate subhead.

477. It is put in with all the rest. Turning to page 29, on subhead K, "Redemption of Silver Coin," I see from the note to subhead K that "The amount of coin tendered by Eire was less than the agreed programme." Does that account for the whole of the £190,000 expenditure?—That is the whole of it. (*Sir Gilbert Upcott.*) It is not the whole of the £190,000. (*Mr. Perry.*) It accounts for the whole of the difference. (*Mr. McC. Craig.*) The whole of the difference on subhead K.

478. Yes, but what is the balance of expenditure?—South Africa. Imperial coin has been demonetised there.

479. Note O.3 at the bottom of page 29 is: "Profit on additional new silver coin issued." That is a very big increase in the year under review, from nearly £3,000,000 to £8,500,000. Did you make much more silver coin than you anticipated? Was that the reason for it?—Yes, I think the largest amount of Imperial coin in history.

480. An increased demand, I imagine?—Yes.

481. And in this country?—Except for very trifling amounts, in this country.

Chairman] Are there any questions on those three pages?

Sir George Davies.

482. On page 28, subhead H, what exactly is meant by the expression "Token coin"?—Both silver and bronze coin—all coin other than gold—the metal value of which is less than its face value.

Sir Edmund Brocklebank.

438. With regard to subhead H on page 8: "Expenses incidental to the Supply of Token Coin." All coin is token except gold. What are the incidental expenses, then?—Carriage, and bags, and so on.

484. Could you tell us about subhead B, the Police. Which Police are they? Are they City Police?—The War Department Police.

485. Apparently you pay the War Department?—Yes, we pay the War Department, who pay the men.

486. It seems a complicated arrangement?—It is a very convenient arrangement. We could not maintain a separate Police Force for about a score of people. They are responsible for recruitment, replacement, and so on.

487. Why should the War Office do that?—They have all their own Police at Woolwich and such places, at Ordnance Factories generally. They maintain quite a big body of Police.

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[Continued.]

488. So you go in with them?—Yes.

489. Lastly, on subhead F, "Incidental Expenses (Manufacturing)," there is an expenditure of £158,000 for East and West Africa. Is some of that recoverable? Yes, that is for overseas coin. It is all recovered in our charges.

Sir John Mellor.

490. On Subhead I, what are the Medals and Seals referred to?—There were no Seals. The Great Seal would have come in some years ago and the other King's Seals. The Medals are medals that are made for more Departments than one. If they are made for a single Department that Department pays for them. If it is spread over a number of Departments, in order to avoid intricacy of accounting the Mint bears the charge, and it comes in here. The Albert Medal, given for life-saving, is an example.

Mr. Douglas.

491. What is the meaning of the reference in Note A to "war machines"?—The Mint have assisted the Ordnance Factories particularly by the supply of automatic machines for weighing ammunition, to see that it is within the tolerance allowed, for gauging it to see it is the right length, the right shape, and so on, and they have supplied a very large number of master gauges for small arms ammunition and bigger ammunition and for complicated spare parts.

492. You make these?—Yes, we make these.

Mr. Silverman.

493. With regard to the Police, that seems to me, too, a curious arrangement. Is your reliance upon the War Department Police a wartime measure, or has it always been so?—It has been so for over 20 years.

494. What was the arrangement before that?—Before that it was the ordinary Police. I forget whether it was the City Police or the Metropolitan Police. (Mr. Perry.) The Metropolitan Police.

495. Was there any special reason for the change?—(Mr. McC. Craig.) The Police did not like sparing the men. It did not fit in with their arrangements. They were too skilled and useful a force. We, after all, have not much crime to deal with.

Mr. Benson.

496. On subhead K: "Redemption of Silver Coin" (that is on page 29), that coin seems to come primarily from Eire. From the note to subhead K and Note O₁, it almost appears as if you sell the bulk of the coinage which is redeemed from Eire.—This is originally Imperial coin, coin of this country, which circulated there before the changes. We buy the coin back at face value. In the case of South Africa, they melt it down—some of the coin—on the spot. That altered the form of the

transaction. We still pay them the face value and receive the bullion value of the silver that they have. It comes to the same thing in the end.

497. Eire or South Africa?—That was South Africa.

498. South Africa melt it down?—Yes. That is almost the whole of this figure.

499. Of £190,000?—Of the figure in the footnote.

500. You sold that bullion?—(Mr. Perry.) We sold the bullion. (Mr. McC. Craig.) South Africa had seized it, as it were, and melted down the coin and kept the silver. That has been regarded as a sale of silver to South Africa.

501. It was not the ordinary transaction that you redeemed the coin and then sold the bullion?—No.

502. In effect, you compensated them for the face value and they compensated you for the bullion value?—Yes.

503. You have coined some £10,000,000 worth of silver?—Yes.

504. How much silver have you had to purchase? Is that the £2,000,000?—That does not appear here. The Consolidated Fund provides the money for the purchase of the bullion and is refunded eventually.

505. You purchase alloy metals for silver coinage. Why do you not purchase the silver?—It is a very long story. In fact, this arrangement goes back to the beginning of time. The Crown buys the silver. It would be extremely inconvenient on the Estimate to have these very large sums, but in fact the purchase of silver does not enter into the Estimate.

506. You regard the alloy as a small sum that you can put into your Estimate?—(Sir Gilbert Upcott.) Bullion is a statutory charge upon the Consolidated Fund.

507. Normally in the past the coin you have withdrawn, the coin with rather high silver content, has enabled you to recoin the lower silver content coin and show a profit on that transaction, has it not?—(Mr. McC. Craig.) At one time we were actually selling a surplus of silver—a long time ago.

508. What is the position now? Have you practically come to the end of your high content silver coin?—That is practically finished. The amount of silver derived from that is small now.

509. You have practically renewed your coinage with the new nickel silver?—Yes. Very little of the old silver is left, and we have to buy practically all the silver we need now.

510. Who do you find takes 5s. pieces?—I think they are curios. From us they go to the Bank of England. There we lose trace of them.

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Mr. J. H. McC. CRAIG, C.B., and
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[Continued.]

511. You got rid of about 1,200 or 1,300 last year.—(Mr. Perry.) They were not coined in the year. They were last coined in 1937. They were over-ordered by the Banks in those days. We had a small number left. There are no more left at the present time.

512. How much silver coin have you in hand unissued at the present moment?—About £30,000. I am speaking purely from memory. (Mr. McC. Craig.) It varies from day to day.

513. £30,000 sterling value?—Yes.

514. Of all kinds?—Yes.

Sir Frank Sanderson.

515. In the middle of page 29: "Receipts of classes authorised to be used as Appropriations in Aid"—the estimated figure was £3,587,000 and the realised figure £10,467,000. Could you say briefly the prime cause of the great disparity between the two figures?—The Estimate was compiled in November, 1941. At that time it looked as if the demands of this country for silver coin might be 3½ million or 5 million or something of that order. It turned out that they were 10½ million. It was considered necessary to meet them.

516. The difference is really caused through the unexpected increased demand for silver?—Yes.

Mr. Glenvil Hall.

517. I ask this out of mere curiosity, but how did the Department come to lose £35 4s. od. from coins going, I think, to Jamaica?—We supply the West Indies, which use Imperial coin. This shipment, under war conditions, met with some abuse. I think it had to be transhipped at one of the West Indian Islands. I do not know that the conditions were too good, but at any rate, £35 was missing. Every inquiry was made but it was impossible to establish whether it was stolen on the ship or stolen on the quays, which was more likely.

518. One would imagine that if any of it were going to be stolen something more than £35 would have gone, and if the boat had been wrecked the whole lot would have gone. I wondered why the amount was so small?—This was almost certainly larceny. The cases got rather knocked about, and some of it may have been easy to get at. War conditions make things very difficult at times.

Sir Irving Albery.

519. On subhead K. on page 29, "Redemption of Silver Coin," the expenditure was £190,000 odd; down below you have the sale of bullion from silver coin redeemed, realised, £67,000 odd. Would that be the difference between the face value and the bullion value for that amount of

redeemable coin?—Yes, it is the difference between bullion value and face value.

520. It seemed rather surprising, in that case, that from some other figures which you have in the account I worked out that when you come to issue fresh coin, you seem to make about 14 per cent. above the bullion value?—More than that.

521. "Face value of new silver coins issued in replacement of coin withdrawn for coinage." You have "Withdrawal of silver coin for recoinage, £98,000"?—(Mr. Perry.) It should be the same figure.

522. The face value of the new coin is about the same amount, except for 3d.; but down below you have £14,000 for the sale of the bullion which is surplus?—May I answer that? The £98,000 appearing under subhead L—we have to pay the Bank for that coin, and from that we produce a similar amount of coin for which they pay us the same figure, so the two figures balance one another. We have to pay them coin for coin.

523. You apparently save some bullion in doing that recoinage?—Then we had some surplus bullion which comes into the sale of bullion. O.2 (b) is the surplus bullion from that recoinage of £98,000.

524. That is my point?—We have taken roughly half the silver to produce the other coin and we have only half the silver—it is 1.5 ozs. for each pound face value as surplus. (Mr. McC. Craig.) The redeemed coin is that coin containing 92½ per cent. of silver. The new coin contains only 50 per cent. of silver.

525. It is too deep for me. The last question I wanted to ask you was this. I see that you issued £43,000 of silver three-penny bits. Are those still being issued?—That is the West Indies.

Chairman.

526. They are not being issued in this country at the present time?—No.

Mr. Benson.

527. You have done some £260,000 worth of work for Colonial Governments?—Yes.

528. Is that the charge for work done, or does the coinage involved appear in the Consolidated Fund?—It is the cost of the work done, quite irrespective of the face value of the coin.

529. You charge on that for work done?—For work done and cost of metal.

530. Do they provide the metal?—We buy the metal. (Mr. Perry.) They pay for it, but we buy the metal as a rule.

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

(Mr. McC. Craig and Mr. Perry withdrew.)

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[Continued.]

CLASS III.

VOTE 2.

BROADMOOR CRIMINAL LUNATIC ASYLUM.

Mr. *Silverman*.] On page 101, note A is: "Saving due to deductions from civil pay of staff serving with the Forces." How is that saving effected?

Chairman.

531. Can you answer that, Sir Gilbert, or can the Treasury answer it?—(Mr. *Blunt*.) That saving you will find is quite general throughout these Votes, because the Estimate provides for the full salaries of the men serving with the Forces, but,

of course, the Accounting Officer pays only the net sum.

Mr. *Silverman*.

532. You make up his pay to his civil pay?—That is so.

533. But you save his Army pay?—That is so.

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

VOTE 4.

PRISONS, ENGLAND AND WALES.

Mr. *Benson*.

534. I want to ask the same question as Mr. *Silverman* has just asked in a slightly different form on Subhead D on page 112. Is the grant for pay on the basis of the full pay or is it supposed to be an estimate?—(Mr. *Blunt*.) It is on the basis of full pay.

535. So that the £118,000 less than granted was anticipated. It was not the result of an over-estimate?—That is right.

Sir *Irving Albery*.] I would like to ask a question on the notes on page 114. I do not think anybody will be able to answer it. I was wondering how it comes about that prisoners' clothing and various other things are lost in prison.

Chairman.] It is a very small amount.

Sir *Irving Albery*.] It appears several times.

Chairman.

536. Can you, without undue delay, tell us anything about that, Sir Gilbert?—(Sir *Gilbert Upcott*.) I can give you a description of the episode, if you like, Sir *Irving*.

537. Will you tell us very briefly, Sir Gilbert?—The clothing was missing from a suitcase on arrival at Liverpool from the Isle of Man. The prison gave a clear receipt. The lock of the case was subsequently found damaged. Another case is of prisoners' clothing and valuables being tampered with at Wandsworth County Court.

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

VOTE 7.

COUNTY COURTS.

(On this Account no questions were asked.)

COUNTY COURTS FUNDS ACCOUNTS, 1942.

Sir *John Mellor*.] On page 7 of the Account there is an item: "Deduct accumulated net loss on sale of securities—£186,930 9s. 10d." I was wondering how such an enormous loss had accumulated, and over what period that accumulation had taken place?

Chairman.

538. Can the Treasury or Sir Gilbert answer that?—(Sir *Gilbert Upcott*.) It occurred in 1940. The Fund effected a change of securities in 1940 and this loss was incurred. I have no doubt that there were reasons why the change was thought desirable, and perhaps the Treasury could answer that better than I could. (Mr. *Brittain*.) It is the same figure as the year before. It is an accumulated loss—probably some of it from Victorian days.

Could we give the Committee some information about that?

Chairman.] Yes, if Sir *John Mellor* wants it.

Mr. *Benson*.] How far is it due to the fact that these are nominal figures and not purchase figures?

Chairman.] It is an accumulated net loss.

Mr. *Benson*.

539. But the figures given are more related to nominal amounts than to the market value or the cost price?—They go to make up the cost price. There are three columns just above: "Nominal Amount," "Cost Price" and "Market Value." The cost price is given as £8,729,000, and that figure is built up on the right there.

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[Continued.]

Chairman] The market value is slightly more than £300,000 more than the nominal or the cost price.

Sir Irving Albery] I see there is an accumulated surplus of interest of £222,000, which goes against the loss. Sometimes securities which have been held at a high rate of interest are sold while they are above par, but you get compensated in interest for what you lose on redemption. I do not know whether that may explain it or partly explain it.

Mr. Douglas] Is there not an accumulation of interest due to the fact that these accounts are calculated for County Court purposes at a certain fixed rate of interest, but the interest earned may in fact be more?

Sir Irving Albery] That comes in, too.

Sir John Mellor] It refers to "net loss on sale of securities." I do not know whether the figure includes a loss on redemption where they have been purchased above their par value.

Chairman] Do you want a note on that? The Treasury could get it for you.

Sir John Mellor.

540. I should like to know how this figure is made up, and over what period the accumulation took place.—We will supply that.*

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

* See Appendix No. 6.

CIVIL APPROPRIATION ACCOUNTS, 1942.

CLASS III.

VOTE 8.

LAND REGISTRY.

(On this Account no questions were asked.)

VOTE 9.

PUBLIC TRUSTEE.

Sir Frank Sanderson.

541. Three-quarters of the way down page 125 it says: "Receipts authorised to be used as Appropriations in Aid" and the estimated figure is £282,625, and the realised figure £395,273, which shows an amount paid separately to the Exchequer of £112,648. That amount, I presume, represents a profit, though I see at the top of page 126 it states that the fees include £110,311 retained by the Custodian of Enemy Property. Can you state whether the £110,000 will at some future date have to be repaid, or is it in fact regarded as a profit to the Public Trustee Account?—(Mr. Brittain.) It is retained by the Public Trustee as remuneration for services he performs.

542. On the top of page 26 it states: "Fees include £110,311 retained by the Custodian of Enemy Property." Will that money have to be repaid at any time?—(Mr. Blunt.) No. (Mr. Brittain.) No. It is a payment for services he is rendering at present. (Mr. Blunt.) "Retained" is, I think, a technical term.

543. My second question is this. The Public Trustee Account shows a profit of £112,000 for the year. Can you state whether the intention or the policy of the Public Trustee is to make a profit or to reduce the fees in accordance with any profit which is obtained?—(Sir Gilbert Upcott.) The suggestion that there is a profit on this Account as shown to that extent must be taken with a qualification, because this Account does not contain the

whole of the expenses of the Public Trustee. It does not contain all the allied expenditure which would be shown if what are called the gross and net cost returns were still published.

544. In other words, this is not a complete Account?—It does not include things like accommodation and stationery. (Mr. Blunt.) They do keep a statistical account, in which they set out all the costs against the fees. As Sir Gilbert says, it is not a full account.

Mr. Glenvil Hall.

545. Note C at the bottom states that a saving on postages is due to not sending acknowledgments. Is that going to be a permanent saving, or is that just because of the war?—(Mr. Brittain.) I think it is largely because of the war.

546. Surely, if these acknowledgments are not really required, and are purely courtesy acknowledgments, one might as well save the £500 involved as not?—People's expectations differ sometimes between peace and war.

Sir Irving Albery.

547. I should like to ask one question. With reference to the fees of £110,000 retained by the Custodian of Enemy Property, that money is presumably still in the hands of the Custodian of Enemy Property.—(Mr. Blunt.) No.

548. It says "retained by the Custodian of Enemy Property."—Yes, but I think

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[Continued.]

the word "retained" there is a technical term. I do not think it means he has the money actually in his possession.

Mr. Douglas.

549. It means that it has been deducted from money that he had in hand belonging to somebody else.—That is so; it is retained in that sense. The money is in the hands of the Exchequer.

Sir Irving Albery.

550. It cannot be handed over to the Exchequer if it is already in the hands of the Exchequer. On page 125, under "Receipts payable to Exchequer" it says: "Paid separately to the Exchequer."—When I say it is in the hands of the Exchequer, here is the Account showing it in the process of being handed over to the Exchequer.

551. I do not understand it. You get: "Receipts authorised to be used as Appro-

priation in Aid," £395,000 realised. Then there is a balance of £112,000 which is paid separately to the Exchequer.—Yes.

552. Then, when you turn over the page you find: "Fees include £110,311 retained by the Custodian of Enemy Property."—(*Mr. Brittain.*) It is retained in the sense of being withheld from the estate for which he is going to be accountable to somebody else, perhaps after the war. It is withheld from that estate, but he treats it as though it were a fee received from somebody else, and it is included in the £395,000.

Chairman.

553. It is held back by him, and is paid back to the Public Trustee. Is that the position?—Yes.

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

VOTE 10.

LAW CHARGES.

(*On this Account no questions were asked.*)

CLASS IV.

VOTE 2.

BRITISH MUSEUM.

Sir Edmund Brocklebank.

554. On page 163, in the Details of Receipts, there is an item "Proportion of dividends on £30,000 Consols—£500." Where do the £30,000 Consols come from? Could I be told that? What is that £30,000 that seems to be floating around somehow?—(*Mr. Blunt.*) This goes back to

George II. It has some connection with a lottery. The sum of £30,000 was appropriated from the sum of £300,000 raised by public lottery. I am afraid that is a very old question.

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

VOTE 3.

BRITISH MUSEUM (NATURAL HISTORY).

VOTE 4.

IMPERIAL WAR MUSEUM.

VOTE 5.

LONDON MUSEUM.

VOTE 6.

NATIONAL GALLERY.

VOTE 7.

NATIONAL MARITIME MUSEUM.

VOTE 8.

NATIONAL PORTRAIT GALLERY.

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[Continued.]

VOTE 9.

WALLACE COLLECTION.

Mr. Benson.

555. How many of these are open at the moment?—(Mr. Brittain.) We will find out for the Committee.

Chairman.

556. I do not know that we can ask the Treasury that.—(Sir Gilbert Upcott.) I

know that the British Museum is partly open. The Library is open.

Chairman.] The London Museum is occasionally open, I am told. That can be found out for you, Mr. Benson, if you want the information.

Mr. Benson.] No.

Chairman.] May I take it that these Accounts are approved? (Agreed.)

(The Witnesses withdrew.)

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

TUESDAY, 21ST MARCH, 1944.

Members Present:

Sir ASSHETON POWNALL in the Chair.

Sir Irving Albery.
Mr. Benson.
Sir Edmund Brocklebank.
Sir George Davies.
Mr. D. O. Evans.

Sir John Mellor.
Sir Frank Sanderson.
Mr. Silverman.
Mr. Touche.

Sir GILBERT UPCOTT, K.C.B., Mr. H. BRITAIN, C.B., and Mr. D. F. C. BLUNT called in and examined.

CIVIL APPROPRIATION ACCOUNTS, 1942.

CLASS II.

VOTE 4.

DOMINIONS OFFICE.

Sir ERIC MACTIG, K.C.B., K.C.M.G., O.B.E., and Mr. W. G. IVES, M.B.E., called in and examined.

(On this Account no questions were asked.)

VOTE 5.

DOMINION SERVICES.

Chairman.

557. We pass to page vii, paragraphs 12 and 13, of the Report of the Comptroller and Auditor General. We will take paragraph 12 first. Have these accounts mentioned by Sir Gilbert been received yet?—(Sir Eric Mactig.) Yes. The Bechuanaland Report has been received and sent to the Comptroller and Auditor General. The Swaziland Report has just been received in the Dominions Office. It is now under consideration and will be sent to the Comptroller and Auditor General shortly.

558. Are the Bechuanaland and Swaziland Protectorates still not receiving grants

in aid? They were not doing so in 1942.—No, they are not receiving grants in aid, but they are still subject to Treasury control for a few years.

559. For any definite number of years?—For three years.

Chairman.] Are there any questions on paragraph 12?

Sir Irving Albery.

560. Is one to understand from that that the financial position of the Swaziland and Bechuanaland Protectorates has considerably improved in recent years?—As I think I explained last year, war conditions

21 March, 1944.] Sir ERIC MACTIG, K.C.B., K.C.M.G., O.B.E.,
and Mr. W. G. IVES, M.B.E.

[Continued.]

have resulted in an exceptional improvement in the finances. There are special reasons for that. In the case of Swaziland there is an asbestos mine. Since asbestos is much required at the present time this mine is being actively worked and it produces by way of income tax a considerable sum. That is sufficient to make the budget of the Protectorate balance. In the case of the Bechuanaland Protectorate the Rhodesia Railways run through the territory, and as a result of the great increase in traffic the income tax paid by the railways is considerable and has made the difference between balancing the budget and not doing so. I do not think one could say that it was a permanent improvement.

561. There is no material agricultural improvement in Swaziland?—Native cattle are an important feature of the economy of both territories. Cattle and meat are very much in demand at the present time. How far that will be the case after the war one cannot tell.

Mr. Benson.

562. I should like to know why Swaziland and Bechuanaland come under the Dominions instead of the Colonies?—That is a long-standing arrangement. They have always been under the Dominions Office. They are so closely connected with the Union of South Africa that it is convenient for them to be dealt with by the same Government Department here as deals with relations with the Union.

Chairman.

563. Are there any further questions on paragraph 12? On paragraph 13 "Newfoundland", would you like to add something, Sir Gilbert, to your Report on this?—(Sir Gilbert Upcott.) Yes, I should like to say that I have received the certificate of the Accounting Officer to which I refer there.

564. Mention is made that no assistance has been given by way of grant from the United Kingdom since June, 1940. Is not the boot a little bit on the other leg at the moment?—(Sir Eric Machtig.) Actually the Newfoundland Government are very kindly lending the United Kingdom their surplus. That is, of course, a war arrangement. They are lending it to the war effort. Instead of investing it themselves they are lending it to us free of interest for the time being, subject to repayment at short notice.

565. What sort of sum is involved?—I am afraid I have not the total figure at the moment.

Sir Gilbert Upcott.] It is 10,000,000 dollars.

Chairman.] Are there any questions on paragraph 13?

Sir George Davies.

566-7. Does that surplus in the case of Newfoundland arise from a wartime indus-

trial activity, largely, or does the great portion of it arise from leased conveniences to the United States, and so on? (Sir Eric Machtig.) I think it is both. The existence of the United States and Canadian bases has meant a tremendous amount of employment. Also the products of Newfoundland—wood, metals, fish and paper—are very much in demand, and that is having a good effect on the finances. Finally, a lot of Newfoundlanders are out of the country serving in the war and there are consequently remittances to Newfoundland. There is thus a kind of wartime prosperity in Newfoundland at the moment.

568. How big a proportion, at a general guess, would the increased industrial activity bear to this total?—It would be difficult to say.

569. I was wondering, because, of course, that is rather ephemeral. The post-war future is very much in the air?—Certainly.

Sir John Mellor.

570. In addition to these loans to the Imperial Government for war purposes, are any amounts now being repaid by Newfoundland in respect of grants which were made, I think, before the war?—No, there is no question of that. (Sir Gilbert Upcott.) Except under the Colonial Development Act. (Sir Eric Machtig.) The reference was, I think, to the grants in aid.

571. Yes.—There is no question of repaying the grants in aid. They have of course repaid the money that was lent to them under the Colonial Development Act by way of annual repayments.

572. The grants were gifts?—Yes.

Chairman.

573. Are there any other questions on paragraph 13? Will Members turn to pages 67 and 68. In the explanation at the bottom of page 67 there is this note: "Australia—Excess due to the provision of an additional official residence in Melbourne for the High Commissioner, for which no provision was made". Could you tell us the cost of and the reason for this additional residence in Melbourne?—When Sir Ronald Cross was appointed High Commissioner it was decided to raise the status of the post. It was found necessary to provide a residence for him in Melbourne in addition to the existing residence at Canberra. This consists of a house which is leased for a year at a time. £700 a year is the figure of the rent.

574. Although he has an official residence in Melbourne it is not found necessary to have one in Sydney?—That point has arisen this year. Hitherto when the High Commissioner has gone to Sydney he has stayed at a hotel, receiving allowances for that purpose. It is now proposed to rent a flat for him for about 10 weeks in the year.

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[Continued.]

575. A little lower down on the same page there is a note: "Eire"—and I see some of the excess was due to a grant to an officer of an allowance for entertainment—£190. What officer was it who had the allowance made to him for entertainment?—It was the Press Officer.

576. Subhead H. is "Grant in Aid to Eire in respect of Compensation to Transferred Officers". This figure is increasing rather fast. Could you tell us something about it?—The increase is due to the cost of living. It varies with the cost of living.

577. The Irish cost of living *vis-a-vis* ours?—Yes.

578. Then over the page Subhead J. is "Empire Societies' War Hospitality Committee—Grant in Aid". It was a supplementary estimate of £36,500, all of which was spent. What form of activity are they engaged upon?—The object of this expenditure is to supplement the welfare expenditure which the Dominions themselves incur on their Forces over here. It was intended as a gesture on the part of the United Kingdom Government in the way of providing clubs, sleeping accommodation, and so on, for Dominion troops in London and other centres. It is administered through a Co-ordinating Committee of the Empire Societies. The Empire Societies have banded together and run a small administrative Committee on behalf of all of them. We deal with the Committee, who investigate and propose to us expenditure in various parts of the country. It is not only in London; it is also in Glasgow, Hull, Oxford, and so on. That is how the expenditure is incurred.

Chairman.] Are there any questions on these two pages, 67 and 68?

Sir Irving Albery.

579. With regard to the additional residence in Melbourne for the High Commissioner, could you say where the Governor-General has residences in Australia?—At present I think he has only one, i.e., Canberra, but there is a house at Sydney which I think is at present closed.

580. It is difficult to understand why, if the Governor-General has a house at Canberra only, the High Commissioner should require one at Melbourne and another at Sydney?—I do not think so. The High Commissioner has to get in touch with everybody, and the wider his contacts the greater is his efficiency.

581. That would mean he ought to have a residence in every State in Australia.—No, I do not think so. The three important centres are Canberra (which is the centre of the Government), Sydney (which is the commercial capital), and Melbourne, which is also a very important centre. I ought

perhaps to say that it is not by any means the High Commissioner himself who has pressed for these additional houses. It is all part of the Government's idea of enlarging his position.

582. The British Government's idea?—Certainly.

Sir Frank Sanderson.

583. On page 67, Subhead D., is "Swaziland—Grant in Aid", a figure of £25,500, none of which was expended. The note states: "The Territory was able to finance its expenditure on administration without a grant in aid from the United Kingdom". Is there any special significance in that? In other words, did anything arise which it was not possible to ascertain before this grant in aid was made?—I have explained that it was largely due to the asbestos mine in Swaziland. I do not think that could very well have been foreseen.

Chairman.] Are there any further questions on those two pages?

Mr. Benson.

584. On Subhead C. I see you spent £95,000 on "Telegrams on Dominion Service, including Overseas Telephone Calls"?—(Sir Gilbert Upcott.) £95,000 was the amount of the grant. £78,700 was the expenditure.

585. Yes. You do not seem to have spent anything on inland telephones?—(Mr. Ives.) They are provided for on the Colonial Office Vote.

586. The Colonial Office spent £10,000 on telephone services but they do not seem to have spent anything on overseas telephone calls and telegrams. How is it that your expense is so enormously heavy on overseas communications?—Colonial telephones and telegrams are in Colonial and Middle Eastern Services.

587. Your expenditure is extremely heavy—£78,700?—(Sir Gilbert Upcott.) The expenditure in the Colonial Services Account for telegrams is £124,000. (Sir Eric Machtig.) Yes. I thought our expenditure must be less than the Colonial Office's expenditure in that respect.

588. I could not find it?—(Mr. Ives.) It is C.10 on page 75.

589. Have you wireless of your own?—(Sir Eric Machtig.) No.

590. The Foreign Office have their own private wireless service, or they had before the war?—I do not know about that.

591. Is there any reason why you should not have yours?—I take it we regard the present system as quite satisfactory. Our telegrams, of course, go at special rates. (Sir Gilbert Upcott.) I think the Foreign Office had one in China before the war, but I do not think they had one elsewhere.

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[Continued.]

Sir John Mellor.

592. On page 67, Subhead H., what are these transferred officers and how does this grant arise?—(Sir Eric Machtig.) It follows from legislation passed by Parliament in 1929. It is, therefore, a statutory payment on the basis of an Act of Parliament. (Sir Gilbert Upcott.) Perhaps I could go a little further back. It really arose out of a Judgment of the Judicial Committee of the Privy Council in a case known as the *Wigg-Cochrane* case, which decided that certain civil servants who had been transferred to the Government of the Irish Free State were entitled to rather higher pensions and allowances than had been expected

when the Treaty was made. The Irish Free State said: "If that is what your Court says you may pay them if you please." The British Government and Parliament accepted the liability.

593. Over a time this will be a diminishing quantity?—(Sir Eric Machtig.) Yes. It is a dying service.

Sir George Davies.

594. I suppose the same applies to Subhead F. That is an old inheritance?—Yes, that is practically finished.

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

VOTE 6.

OVERSEA SETTLEMENT.

Chairman.

595. We pass next to Oversea Settlement on pages 69 to 71. On page 70, note (b), could you give us some details with regard to these collections from settlers which were very much better than expected?—(Sir Eric Machtig.) The receipts under that head refer to Land Settlement and passages—advances made to settlers in respect of passages and expenses. They are gradual repayments which are coming in in the course of time.

596. £7,000 more was realised than was expected in repayments in respect of land settlement loans, I see. On the next page (b) "Land settlement—Canada" and the loans outstanding were £179,000. Could you tell us something about that, as to whether they are being repaid?—The statement on page 70 deals with that.

597. Have you had to write off large sums?—What is outstanding is £179,000 out of £873,000 worth of loans made in respect of Canadian schemes which are mentioned in the notes on page 70. (Sir Gilbert Upcott.) Perhaps I could supplement that a little. About half that £873,000 has been written off as lost. That was very largely in consequence of the agricultural depression in the last 20 years. This balance outstanding is what is left out of the original settlement loans after the last war, after the writing off of about half the original loans and such repayments as have been made. Those repayments to which you referred on page 70 just now are further repayments in respect of the outstanding remainder of these loans.

Chairman.] Are there any further questions on those pages 69 to 71?

Sir Irving Albery.

598. On page 70 I should like to ask you whether you can tell us a little more about item 4. The Hudson's Bay Company and the Canadian Pacific Railway Company, as

I understand it, seem to have taken care of defaulting settlers, if I understand it rightly?—(Sir Eric Machtig.) I did not quite catch the last words of your question.

599. They appear to have taken over the care of defaulting settlers. There seems to have been some kind of bargain by which defaulting settlers have been handed over to the Hudson's Bay Company and the Canadian Pacific Railway Company?—I think that is perhaps one way of putting it.

600. I was explaining what I wanted to know.—The United Kingdom Government and the two Companies who are partners in the scheme came to an agreement by which we transferred our interest to the Companies for a lump sum. We were satisfied that the interests of the settlers were safeguarded. It is to the interest of the Companies to keep them going as long as possible. It is not as though our interests and those of the Companies differed in any way.

Sir Frank Sanderson.

601. One point, following up what you have just said. This land was originally sold by the Hudson's Bay Company and/or the Canadian Pacific Railway Company?—(Sir Eric Machtig.) The land was provided by the two Companies.

602. When the buyers defaulted it was taken back again by the two respective Companies?—Yes.

603. That is really what it amounts to?—Yes.

Sir George Davies.

603A. I suppose these were the Development of Land grants that were given to the Canadian Pacific Railway Company and others by the Canadian Authorities as an inducement to build; they disposed of these to settlers, with a view to increasing their transportation facilities, and, in a good many cases, that was too optimistic

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and the settlers have failed?—I think that is so. Of course, the economic conditions since these schemes began are largely responsible for the failures.

604. When land or cottages fall back to the Railway Companies—that is mentioned in note (c) on page 70—does that become the complete property of the Railway Company, who can then dispose of it to any settlers or others that they choose, without any strings left on it?—The land reverts to the Company, but I think that in most cases the land was of less value when it reverted than originally when it was given to the settlers.

Mr. Silverman.

605. Why?—(Mr. Ives.) On account of bad farming and the general fall in land values in the last 10 or 12 years since the slump.

606. That is a little difficult to follow. Would they have settled on undeveloped land in the first place?—Partly developed.

607. And then they did something to it?—Yes.

608. But when they went it was of less value than when they started?—I am afraid so, because there was a falling in land values, and the work put in by the settlers was of poor quality.

609. Is it suggested that it was of such poor quality that it depreciated the value?

—It was certified by the authorities that the land was not of the value that it was when the settlers were charged with it.

610. Who would be the certifying authority?—I think the Canadian Government Authorities Land Section. (Sir Gilbert Upcott.) This was a joint venture between the British Government and the Canadian Government.

611. I follow that.—(Sir Eric Machtig.) I have a note here which says: "The appraised value of the land in all cases where the farm reverted to the Company on abandonment was less than the original value on which the settler's contract was based in 1929 and 1930."

612. It would look rather as if the original valuation to the settler was too high?—Not necessarily: land values in Canada have gone down heavily.

Chairman.

613. About what date was this subsequent valuation taken? You said that in 1929 it was originally taken?—(Mr. Ives.) There was a revaluation in 1935 and one in 1938.

Chairman.] There was a tremendous slump in Canada in the early '30s, and that is the only reason one can think of. Are there any further questions on pages 69 to 71? May I take it that the Account is approved? (Agreed.)

VOTE 10.

DEVELOPMENT AND WELFARE (SOUTH AFRICAN HIGH COMMISSION TERRITORIES, ETC.).

(On this Account no questions were asked.)

(Sir Eric Machtig and Mr. Ives withdrew.)

CLASS VI.

VOTE 6.

OFFICE OF COMMISSIONERS OF CROWN LANDS.

Mr. O. S. CLEVERLY, C.B., C.V.O., and Mr. T. R. OSWIN called in and examined.

(On this Account no questions were asked.)

CROWN LANDS ABSTRACT ACCOUNTS, 1942.

Chairman.

614. Will Members turn to the Crown Lands Abstract Accounts, 1942. We will take first the Report of the Comptroller and Auditor General, which is on page 8. On paragraph 2 could you tell us something about these remissions, notably those on the Regent Street property?—(Mr. Cleverly.) You will see the totals set out in the statement on the previous page. The Regent Street arrears have increased from last year but not very much. The remissions have increased very considerably. The arrears are, of course, cumulative; they

carry on. If they are owed in one year and not paid the next they carry on, and so increase year by year, unless they are either paid off or remitted. In the course of this year we examined a lot of the arrears and remitted considerable sums from them, which accounts for the small increase in the arrears and the considerable increase in remissions. Of the total remissions of £223,708, £80,813 were in Regent Street—about a third.

615. Looking through your figures, £150,000 roughly is the figure of increase in remissions. The arrears have decreased in

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[Continued.]

round figures by £50,000; so that but for the large increase in the writings off there would have been an increase of £100,000 in the amount of arrears carried forward?—Yes. If you take the figure for total deductions at the bottom—which includes also discharges and repayments, of comparatively small amounts—the increase this year is a good deal smaller than the corresponding increase last year or the year before, which is, I think, interesting.

616. Have you the figures?—I am afraid I have mislaid them.

617. It would be rather interesting to see them?—I could work them out fairly quickly.

618. What are the Treasury's views with regard to these remissions and arrears?—(Mr. *Brittain*.) The reasons for them have been put up from time to time by the Crown Lands Office. We have come to the conclusion that they are justified, in the exceptional circumstances, in making them. I do not think I have anything more to add than that.

619. Are they caused by bad trade, by the properties not being suitable, or by the blitz?—(Mr. *Cleverly*.) They are due partly to blitz, partly to war damage and partly to bad trade owing to the war.

620. They arise from two or three different causes?—From those two main ones. (Mr. *Blunt*.) I think one might add that a lot of these remissions are on account of the previous year; they are delayed remissions. They relate more to the blitz period than to the period 1942-43.

621. The remission figures increased by £150,000?—Yes: it is rather an accumulation of remissions

Chairman.] Are there any questions on the first two paragraphs?

Sir Irving Albery.

622. On paragraph 2 might I ask whether, in accounting for arrears, any interest is added on?—(Mr. *Cleverly*.) No.

623. Do you debit interest on arrears?—No.

Mr. Benson.

624. Did I understand you to say that the remissions relating to Regent Street amounted to approximately £80,000?—Yes.

625. What approximately is the total rental of the Regent Street estate—to the nearest £50,000?—I am afraid you have beaten me there. I could let you know quite quickly.

Mr. Benson.] It would be interesting to know what percentage of the rent has been remitted.

Chairman.

626. Can you say roughly? Is it one-third? Have you a proportionate figure?—I should not like to venture on an answer to that without the figures.

Mr. Benson.

627. Can you find out in the next few minutes?—Yes.*

Chairman.

628. Are there any further questions on the first two paragraphs? We will take now paragraphs 3 and 4. At the end of paragraph 3 of his Report the Comptroller and Auditor General says: "In reply to a recent inquiry I was informed that no directions had so far been issued, but that the matter was under discussion between the Treasury and the Commissioners." Has any decision yet been come to?—Yes. We have agreed with the Treasury that the capital which has been spent on War Damage contributions shall be repaid over a period of 15 years, commencing from the year following the payment of the last instalment, or the end of the war, whichever is the later.

629. Have the Treasury any comment on that?—(Mr. *Brittain*.) No. We have agreed on that.

630. In the next paragraph the Comptroller and Auditor General says: "It is understood that the valuation of the Commissioners' interests" (in unworked coal and mines of coal and in certain associated minerals) "is almost complete and will amount to a total of approximately £2,000,000. Is it possible to say at all how much you expect to receive?—(Mr. *Cleverly*.) I can say how much we have received. We know there is some to come but it depends on decisions by the Coal Commission as to exactly what the amount will be.

631. You cannot tell what proportion of the £2,000,000 you are likely to receive?—It depends what they do about the global amount, I understand. (Sir *Gilbert Upcott*.) It would have to be scaled down in proportion to the global amount.

Chairman.] Yes; I did not know whether he had any idea of the amount of scaling down. Are there any questions on those paragraphs?

Sir Irving Albery.

632. Can you give us any rough idea as to what difference it will make in the income you received? Before you parted with the coal rights you received so much income?—(Mr. *Cleverly*.) I have not attempted any calculation on that.

633. It will be very much less, I suppose?—Yes, I expect so. Of course, our royalties were divided. Half went to income and half to capital when we were getting royalties. Now we shall have the whole capital sum available for investment—we hope in land eventually, and it will depend on how we succeed in investing.

Mr. Benson.

634. On the question of the income, your mining royalties, if I remember rightly, were bought out and given a number of

* See Question 659.

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years' purchase money?—I think that is rather a question for the Coal Commission.

635. Surely it is a question for you, seeing that you have £88,000 worth of mining royalties a year. I should have thought you would have had some idea of what the Commission were likely to pay you. I forget now, but I think there were two elements—there were the unworked minerals and there were the minerals that were worked. The minerals that were worked have been producing you £88,000 a year, which is charged here on page 7?—Yes.

636. Have you any idea of the number of years' purchase you are likely to get for that income?—The Coal Commission are governed by their Act. It was all worked out in the Act and I have not refreshed my memory with the terms of it. It is not a matter over which we have any control.

637. No; but I should have thought you would be interested to know, though?—(Sir Gilbert Upcott.) The valuation is primarily the figure given in paragraph 4 of my Report.

638. £2,000,000?—Yes. What they would receive would depend upon the operation of the overriding limit in the Coal Act. (Mr. Cleverly.) Before the war our income and receipts from mines were about £139,000.

639. They have dropped now to £88,000?—Yes. Of course, that is not all coal. (Sir Gilbert Upcott.) The total allocation is £66,450,000 and the total amount of valuations will have to be fitted to that.

Sir John Mellor.

640. I want to ask the Treasury a question on paragraph 3 of the Report and Comptroller and Auditor General. I want to ask why the Treasury have now agreed that the War Damage contribution should, over a period of time, be refunded to Capital Account out of revenue, having regard to the fact that the Chancellor of the Exchequer has always maintained that the War Damage contribution is a capital payment to secure a capital asset. It seems to be rather inconsistent with the policy that has always been announced by the Government?—(Mr. Brittain.) No. I do not think the Treasury ever meant to say that no person paying a contribution should ever replace his capital if he wanted to do so. This is just doing what, after all, lots of firms have done. It is charged to capital in the first place, but they have thought it prudent to keep up their capital assets, just as you do by a sinking fund out of income, if you can, over a period. It is within the discretion of the individual person who pays the contribution.

641. No one is ever allowed to treat the War Damage contribution as a charge against revenue for the purpose of taxation?—Exactly.

642. So it does seem hardly consistent that a direction should be given by the Treasury to do it in this instance?—I would not say it was a direction. It was an agreement with the Crown Lands that we should be agreeable, from the point of view of the Exchequer's interest in the income, to their taking the prudent course of maintaining their capital by this means.

643. It says in paragraph 3: "if the Treasury so direct." Surely, it is a question for the Treasury to decide?—Yes. That is a technical way of giving effect to a prior agreement that this is a desirable thing to do. I was talking of the agreement between ourselves and the Crown Lands Department. We came to an agreement with them that it was a desirable thing that they should do this, and, when that agreement was reached, then we gave this technical direction. (Sir Gilbert Upcott.) The Act says that the "sum so charged shall, if the Treasury so direct, be paid out of the income of the land revenues."

Mr. Silverman.] Has it directed?

Chairman.

644. It is if they direct.—(Mr. Brittain): If they direct.

645. Are there any further questions on the Report? We pass to the figures, which are on pages 2 to 7 inclusive. On page 2 is an item "Sales of estates," £282,748 14s. Would you please tell us something about that item, Mr. Cleverly?—(Mr. Cleverly.) The principal item is the £180,438 from the Coal Commission compensation.

646. And the balance of £102,000? What are the main items in it?—The biggest item is £50,000 from the Commissioners of Works and Buildings for a site in London; and £31,447 2s. instalments from the Ministry of Works and Buildings for Whitehall Gardens.

647. With regard to the £50,000 item for a site in London, there is nothing secret about that, is there? Can you tell us what it was?—The purpose for which it is bought has not yet been announced.

648. It has not been officially announced?—No. I think the Ministry of Works should be allowed to do any announcing that is done on it.

Sir Edmund Brochlebank.] Although it is two years old!

Chairman.] Are there any questions on the figures?

Sir Irving Albery.

649. On page 5, on the payments side of the Income Account you have an item: "Maintenance of plantations, etc." Where does any revenue accruing from plantations come in?—That appears in "Sales of produce" on the previous page.

650. And the next item: "Maintenance of shootings, etc.," an item of £7,000.

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Where is the revenue from that?—The revenue from that, in so far as it is game—rabbits, and so on—appears in the item: "Sales of produce." In so far as it is rent from shooting tenants it appears in Crown rents and royalties, which is up at the top.

651. At the bottom of the payments side you have an item: "Farms, etc., in hand," a figure of £57,000. Then on the receipts side there are: "Farms, etc., in hand" a figure of £41,000. Does that imply a loss of about £16,000 on those particular farms?—No. This is, of course, only a cash account, and it is accidental, really. It happens that in that year we took a farm in hand. As a matter of fact, we have now re-let. We had to pay tenant right valuation on it and a payment to the outgoing tenant for fixtures, and all that appears as a debit to the cash in this account.

652. Are you actually farming to any extent now?—Not very much. We have at the present moment two farms in England and two in Scotland.

653. Of about what acreage?—About 700 to 800 acres in hand in England and a similar amount in Scotland.

654. Are those English farms working at a profit at present?—Yes.

655. At a substantial profit?—A satisfactory profit.

Mr. D. O. Evans.

656. With regard to the figure of £41,451 in respect of "Farms, etc., in hand" on the receipts side, what is that money for? Does "farms in hand" mean farms that you are farming yourselves?—Yes. They are sales of produce, and so on.

657. It does not include other items?—The farms in hand are separated from the other headings.

658. It is really the cash results of farming?—Yes.

Mr. Benson.

659. I believe the witness has now the figure of Regent Street rents?—Yes. I am told that the approximate gross rental from Regent Street is £530,000.

660. Your remissions were something like £80,000. Have you any idea what they have been over a period of, say, 10 years?—We could get the figures. I have not them with me. I have the amount of the arrears for several years but not the amount of the remissions.

661. How do the arrears run?—In the year to the 31st March, 1936—£161,868; to the 31st March, 1937—£209,375; to the 31st March, 1938—£176,817; to the 31st March, 1939—£130,601; to the 31st March, 1940—£176,003; to the 31st March, 1941—£246,039; to the 31st March, 1942 (the year we are discussing)—£343,996.

662. Those are cumulative arrears, of course?—Yes.

663. You have just over half a year's rental in arrears at the moment, and you would have had, apart from the remissions, four-fifths of a year's rental in arrears?—The remissions are £80,000.

664. £80,900 plus £343,000 is £423,000. That is £423,000 out of £530,000—about four-fifths of the year's rental. Has there been a big mortality among tenants over the past ten years? Have you had many changes?—I think, generally speaking, no—not unusually so. On the whole the Regent Street tenants go on from one year to another. I do not think there has been anything exceptional in the last ten years.

665. What type of shop is it that is mainly in arrears? Do you let the buildings, or are you merely the ground landlords?—The ground landlords. Very often our lessee has sub-tenants.

666. Do you keep any record of sub-tenancy? It is the sub-tenancy that will change?—Yes.

667. Is there a fairly constant change of tenancies there, or are they fairly stable?—Speaking quite generally I should say stable—above the average in stability for London.

668. Thank you very much. Turning to your Capital Account on page 2, you have the item: "Sale of estates," £282,000, of which £180,000 is coal-mining royalties. Then "purchase of estates," £21,000. On the whole you tend to keep fairly even for periods of years in your purchases and sales?—Our first statutory duty is to invest our capital money in land. We have of recent years been trying to do that, but it is a little difficult just at present.

669. In what circumstances do you tend to sell estates? I see you have accumulated £2,000,000 in investments. What do you usually hold?—That figure has been static for some time. We had not, until this last year which we are not discussing, made any further investments for some little time.

670. Now it has gone up according to the Report. It will be in the neighbourhood of £3,500,000. Reverting to paragraph 4 you received a further sum of £1,200,000?—Yes. After the close of these estimates in the current year we received very large payments from the Coal Commission, and eventually they must be or should be invested in land, but we are not statutorily bound to run out into the most expensive market and buy land the minute we get some capital money, and so for the moment we have invested in Government stocks.

671. What exactly are "unimprovable rents"? That is the third term on page 1.

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[Continued.]

—Rents in perpetuity chargeable on land, including such things as fee farm rents.

672. And what are "encroachments"?—Encroachments are where an unauthorised person establishes himself on manorial land. I speak subject to correction but I think that is right.

673. In other words, an encroachment is an encroachment?—Yes. What happens in practice is that after a while he very often gets his land sold to him at a small price.

674. You say a person who has established himself there. What does "established" himself mean? That he has a squatter's right—that he has been there sufficiently long to maintain a right?—They are very technical points in the law of property and I do not want to commit myself to-day, but I think that is roughly right. A man establishes himself. He is not doing much harm. He ought to pay some rent and he probably agrees some sum to legalise the position.

Mr. Benson.] If a man holds land in despite of the owner for 20 years he has the legal ownership vested in him, but does that run against the Crown? After what time does it run against the Crown?

Chairman.] We are getting into rather nice points of law. I think you ought to have 48 hours' notice of that one, Mr. Cleverly.

Mr. Benson.] I should like to have an answer to that point, as to whether it is possible to establish a right against the Crown.

Chairman.

675. I think Mr. Cleverly would like to look that up?—Might I ask our legal advisers, and let you know?*

Chairman.] Yes; it is too much to ask offhand.

Sir John Mellor.

676. On page 5 there is an item "Property Tax allowed" and also "Land Tax allowed." What is the meaning of the word "allowed" there?—(Mr. Oswin.) It is property tax allowed as a deduction from rent. On the receipts side you get the rent in gross, and that is diminished by the allowance for property tax. It is the ordinary landlord's liability under Schedule A.

677. You are not subject to taxation in any direct form?—No.

Sir George Davies.

678. What exactly is "The Rolls Estate," that it falls to be dealt with under a separate heading from anything else?—(Mr. Cleverly.) That was an estate which was formerly vested in the Master of the Rolls, and in the first year of Queen Victoria it was transferred to the Commissioners of Woods, but the Act directed that the accounts should be kept separately. In effect, it is part of the Crown Lands now.

679. Is it essential to keep it separate in perpetuity, or cannot it be merged in the others?—It would be a thing we should have to have legislation for. It might be worth considering at some time.

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

* Information supplied: not printed.

(Mr. Cleverly and Mr. Oswin withdrew.)

CIVIL APPROPRIATION ACCOUNTS, 1942.

CLASS III.

VOTE 19.

SUPREME COURT OF JUDICATURE, ETC., NORTHERN IRELAND.

VOTE 20.

IRISH LAND PURCHASE SERVICES.

(On these Accounts no questions were asked.)

LAND PURCHASE ACCOUNT, 1942, OF THE SUPREME COURT OF JUDICATURE, NORTHERN IRELAND.

(On this Account no questions were asked.)

21 March, 1944.]

Mr. O. S. CLEVERLY, C.B., C.V.O.,
and Mr. T. R. OSWIN.

[Continued.]

IRISH LAND PURCHASE FUND ACCOUNTS, 1942.

Sir *Frank Sanderson*.

680. There is, I understand, from the Account, a sinking fund. Is the sinking fund allowed to accrue, or is it used for the purpose of cancellation of the stock?—(Mr. *Brittain*.) A large part is applied to purchases of stock but some of it is also invested, or was in the past invested, in further advances for land purchases, and I think those are the two main items. The bulk of it is in securities which have been

purchased in the market. There is also part of it locked up in further advances for land purchase.

681. It is not being used for the purpose of cancellation?—The stock is held against a sinking fund, and the interest is used to accumulate and buy more stock.

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

CIVIL APPROPRIATION ACCOUNTS, 1942.

CLASS IV.

VOTE 1.

BOARD OF EDUCATION

(SALE OF CASTS ACCOUNT, VICTORIA AND ALBERT MUSEUM).

*(On this Account no questions were asked.)**(The Witnesses withdrew.)**(Adjourned till Tuesday next at 2.30 p.m.)*

TUESDAY, 28TH MARCH, 1944.

Members present:

SIR ASSHETON POWNALL in the Chair.

Sir Irving Albery.

Mr. Benson.

Sir Edmund Brocklebank.

Sir George Davies.

Mr. Glenvil Hall.

Mr. Touche.

Sir GILBERT UPCOTT, K.C.B., Mr. H. BRITAIN, C.B., Mr. D. F. C. BLUNT and

Mr. F. G. LEE called in and examined.

CIVIL APPROPRIATION ACCOUNTS, 1942.

CLASS II.

VOTE 1.

FOREIGN OFFICE.

The Hon. Sir ALEXANDER CADOGAN, G.C.M.G., K.C.B., and Mr. F. T. ASHTON-GWATKIN, C.B., C.M.G., called in and examined.

Chairman.

682. We have this afternoon the Foreign Office. Sir Alexander Cadogan, the Permanent Secretary, is our principal witness. Will the Committee turn first to the Civil Appropriation Accounts, 1942, Class II, Vote 1, the Foreign Office, pages 57 and 58. On page 57, Sir Alexander, in the note to Subhead A, at the bottom of the page, I notice there is a considerable continuing increase in expenditure on the Code and Cypher School. Could you tell us a little about the explanation?—(Sir

Alexander Cadogan.) I am afraid there has been an increase, and I am bound to say that that increase is still continuing. I myself am satisfied that it is unavoidable. The work is always growing and there is some urgency, and from the inquiries I have been able to make I do not think that it is over-staffed for the duties which it necessarily has to perform, which are important.

683. There are continually increasing duties?—That is so.

Chairman. Are there any questions on pages 57 and 58?

23 March, 1944.]

The Hon. Sir ALEXANDER CADOGAN,
G.C.M.G., K.C.B., and Mr. F. T. ASHTON-GWATKIN, C.B., C.M.G.

[Continued.]

Sir George Davies.

684. Is the steady increase due to additional branches of activity being taken on, or is it because the existing branches are becoming, as it were, overworked?—It is mainly due to expansion. I do not think there are new branches of activity being undertaken, but the actual existing work is constantly expanding.

Sir George Davies.] It is becoming a very large organisation as far as personnel is concerned.

Chairman.] If there is anything which you think, from a security point of view, ought not to appear on the shorthand note, you will say so.

Mr. Benson.

685. I take it this figure of £69,000 in the note to Subhead A is the increase in the cost?—Yes.

686. What is the total expenditure on the Code and Cypher School?—The total expended for the year 1942-43 was £587,700.

687. So that it is more than half of your total expenditure on salaries?—Yes.

688. Why is it called "The Code and Cypher School"? I take it that it is actually the Department which is engaged in Cypher work?—Yes.

689. Does it work for the Foreign Office only, or for all Government Departments?—Its actual work—its output—concerns not only the Foreign Office but many other Government Departments.

690. Then with regard to postage, apparently it is included in Subhead C.—"Messengers' Travelling Expenses", because the excess expenditure on Subhead C. is due to arrear charges in respect of the carriage of mail by air.—I think—I

may be wrong—that that is our mailbags carried by messenger. (*Mr. Ashton-Gwatkin.*) They are carried by the British Overseas Airways Corporation in many cases. (*Sir Alexander Cadogan.*) Yes, but where it is not a British air line it is carried by a messenger—by a courier. This is not actual postage in the sense of postage charges. When we say "carriage of mail" we do mean carriage of Foreign Office bags.

691. By Foreign Office personnel?—Yes, carried in a bag or bags, either by the British Overseas Airways Corporation or, in other cases, carried by King's Messenger.

692. Is the Foreign Office postage charged on the Diplomatic and Consular Services Vote? You do not seem to have anything for postage in the Foreign Office Vote.—It is in Subhead D., on the Diplomatic and Consular Services Vote. That is where you will find postage, and there is a considerable increase in expenditure.

Mr. Touche.

693. There is a considerable saving in Messengers' salaries. Could you tell me anything about that?—I think that is due to the fact that we anticipated appointing more, but we did not in fact do so.

Chairman.] The note to Subhead B. says that the saving was due to vacancies.

Mr. Touche.

694. Does it mean that you could not get people or that they were not required?—I think they were not required. We had planned that we wanted certain services which it has turned out we have not wanted.

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

VOTE 2.

DIPLOMATIC AND CONSULAR SERVICES.

Chairman.

695. Will the Committee turn to page vi, paragraphs 10 and 11 of the Report of the Comptroller and Auditor General. We will take first paragraph 10, "Relief of Distressed British Subjects". Could you please tell us, *Sir Alexander*, something more with regard to this camp scheme in Cairo or near Cairo?—(*Sir Alexander Cadogan.*) The history of it was that that camp was started by our Consular Office in Egypt to deal with certain refugees coming from foreign countries in 1941. It has subsequently been carried on by the Middle East Relief and Refugee Association administration. I think the point that the Comptroller and Auditor General makes in his Report, if I understand it rightly, is that the Foreign Office were wrong, in charging in their Account only that part of the cost attributed to the relief of certain British refugees, and that they ought to have charged the entire cost, regardless of whether that

part which related to foreigners would be recoverable from their Governments or not. I think he has pointed out, also, that our charges are supported only by acknowledgments by the persons relieved of the amounts attributed to them, on a proportionate basis, and he inquires whether we can produce vouchers to prove the actual cost. He goes on to say that we are arranging, after consultation with the Treasury, to charge the entire cost and to produce vouchers. This has already been done now. (*Mr. Ashton-Gwatkin.*) Yes. (*Sir Alexander Cadogan.*) And I think the Exchequer and Audit Department have declared themselves satisfied.

696. The Foreign Office did authorise the Repatriation Officer to undertake this scheme originally?—Yes.

697. What was the Foreign Office to do with regard to the question of expenditure and the control and checking of it? This

28 March, 1944.]

The Hon. Sir ALEXANDER CADOGAN,
G.C.M.G., K.C.B., and Mr. F. T. ASHTON-GWATKIN, C.B., C.M.G.

[Continued.]

point would appear to have been overlooked, would it not?—(Mr. *Ashton-Gwatkin*.) It was administered by our representative on the spot out in Cairo (I think it was) and he sent his account into us, complete with the vouchers and everything. It was our misunderstanding at this end, that we did not appreciate that the Comptroller and Auditor General would want those vouchers himself. But we have had the vouchers here all the time.

698. I notice at the end of sub-paragraph 2 the Comptroller and Auditor General says: "The expenditure allocated to foreign refugees was placed in suspense, with a view apparently to recovery, if possible". Of course, that was obviously rather a doubtful recovery?—We had some hopes of getting it out of the foreign Governments concerned. We have had some back.

699. Your hopes to some extent have been justified in that regard?—Yes.

700. Could you tell us what the total expenditure under this heading has been?—(Sir *Alexander Cadogan*.) Charges on account of foreigners brought to account with the Foreign Office in the period from the beginning of the operations of the Repatriation Office up to March the 31st, 1943, amounted to £46,600. Of this amount £24,200 has already been recovered, and further claims are being pursued.

701. So that it is a balance, roughly, of £22,000 which is outstanding, and you are hoping to get a certain amount of money in respect of that?—Yes.

702. Have the Treasury any views on this?—(Mr. *Blunt*.) I do not think I have anything to add. When the question did come to our notice we felt quite clear that the Comptroller and Auditor General's contention was right and that this expenditure should have been accounted for in gross. We told the Foreign Office that and they have accepted it and have put it right.

703. Sir Gilbert, have you any comment to make?—(Sir *Gilbert Upcott*.) It has all been cleared up satisfactorily now, but I do not think the procedure was satisfactory, and I think it indicated a rather curious attitude as to the method of bringing expenditure to account in the Foreign Office. In the old days distressed British subjects used to get money advanced to them or tickets bought for them to get them home, and relieve their distress, and it was a very convenient arrangement to use their undertaking to repay both as an undertaking to repay and as a voucher for the charge to the Subhead. That was a method which became totally unsuitable when it came to an attempt to allocate the cost of providing and running a camp for a body of persons which consisted partly of distressed

British subjects and partly of refugees of foreign nationality. The allocation, even for the British refugees, became, of course, very rough and ready, and the money as regards the foreigners was rather in the air. It was really a question of taking the money out of balances and hoping you might be able to replace it, and I do not think that was a satisfactory method of accounting. I think the only moral to be drawn from it is that if the Foreign Office are confronted with an unfamiliar problem in future it is better to go straight to the Treasury and avoid a lot of subsequent argument by getting it right from the beginning. (Sir *Alexander Cadogan*.) We will take note of that.

Chairman.] Are there any questions on paragraph 10?

Sir George Davies.

704. Could you give us an idea of what the total accommodation in this Cairo camp is at any one time?—(Mr. *Ashton-Gwatkin*.) They fed, clothed and passed on to temporary homes in Africa probably 50,000 people in distress. (Sir *Alexander Cadogan*.) That is people passing through. (Mr. *Ashton-Gwatkin*.) Yes; that is not at one time.

705. How many could be accommodated at any one time?—(Sir *Alexander Cadogan*.) I am afraid I do not know the answer to that here and now.*

706. Was this camp specially erected for this purpose, or were existing buildings adapted for it?—Again, I am afraid I do not know, but I can find out those points if the Committee desires to have the information.*

706A. I was wondering what the extent of the thing was, and whether we had to go to the expense of building a special camp, or whether we could have used existing buildings?—I could get all that information, and, if I may, present it in a note.

Chairman.] Yes, if you would not mind doing that.

Mr. Benson.

706B. If I remember rightly, two years ago your accounts were in rather a muddle in connection with refugees—I think it was in connection with the Polish refugees. Have you a trained accounting staff?—Yes.

707. Who is in charge of financial arrangements at the Foreign Office?—(Mr. *Ashton-Gwatkin*.) It is a part of my department. My department is the Finance and Establishments Department of the Foreign Office and we have a quite large accounting department.

708. How are they recruited?—They are established civil servants, most of them of the executive grade, who have been doing that kind of work ever since they joined the Civil Service.

* See Question 712.

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The Hon. Sir ALEXANDER CADOGAN,
G.C.M.G., K.C.B., and Mr. F. T. ASHTON-GWATKIN, C.B., C.M.G.

[Continued.]

Chairman.

709. I did not quite hear that; would you mind repeating your answer?—The people employed in the accounting branch at the Foreign Office are most of them established civil servants who have entered the Service through the executive examination and have been employed continuously on that kind of work.

Mr. Benson.

710. They have been continuously in the Foreign Office? They have had no experience in accountancy in other Departments?—I think they have all, or almost all, been, for the whole of their service, in the Foreign Office.

Mr. Benson.] Have you considered interchange with other Departments of wider experience?

Chairman.

711. That would hardly come within your purview? Would it not be more a question for the Treasury?—I think so. I do not think it is for us to suggest that.

712. It has not been done, I gather?—No. (*Sir Gilbert Upcott.*) I could give Sir George one or two of the facts for which he asked just now. My officers in Egypt have been to this camp, and have some information about it. The camp was set up in buildings belonging to the Egyptian Royal Agricultural Society. It was in operation from May, 1941, till May, 1943. The expenditure for the period up to the December quarter, 1942—which would be the bulk of the expenditure—was £31,000 odd.

Sir George Davies.] Thank you.

Chairman.] Is that all the information you want, Sir George?

Sir George Davies.] Yes.

Chairman.

713. In that case we need not trouble Sir Alexander.—(*Sir Gilbert Upcott.*) I have not given the numbers.

Sir George Davies.] No, I do not think we need have those. I have the general extent of it.

Chairman.

714. Are there any further questions on paragraph 10? We will pass to paragraph 11: "Assistance to Polish Refugees". This was originally authorised by the Foreign Office, was it not, Sir Alexander?—(*Sir Alexander Cadogan.*) Yes, it was authorised by them.

715. I see in the last line of that paragraph the Comptroller and Auditor General says: "I understand that the expenditure in Northern Rhodesia is continuing". What is the present rate of expenditure and how many refugees are there now?—At present there are 423 refugees there. When

they were settled in the territory an estimate was made of the cost per head as reasonable expenditure, and it was agreed with the Colonial Authorities and approved by the Treasury that a reasonable annual cost per head would be £125; so that is the extent of it at the moment.

Chairman.

716. 125 times roughly 400—that is about £50,000 a year, is it not? Is this going on indefinitely?—No, one hopes not. It is difficult to see how we are going to find an occasion during the war at least to cease this gesture to the Poles. I think it would be a bit difficult.

717. Are they men or women?—They are mixed.

718. One would think that employment might be found for them?—It has been in some cases, I think, but there are, of course, very often local difficulties, raised by local trade unions, and so on, but some of them are in employment.

719. What arrangements are there for the financial control and audit of this £50,000?—The actual control of the expenditure at that rate on that basis rests with the Colonial Government. We thought there was a precedent for that. The Colonial Government in this matter acts on lines which were laid down in a general Direction issued in August, 1941, to the East Africa Governors' Conference on the occasion of a transfer to their territories of Italians who were removed from areas in British occupation. It was thought that this was analogous to that case and that, therefore, the financial control could be left in some way to the Colonial Authorities. I do not know whether we were right in thinking that. If we were wrong I can only apologise and ask what different procedure we ought to follow.

720. As far as you know, the Colonial Governments are doing their bit as regards the financial control?—Yes.

Chairman.] Are there any questions on paragraph 11?

Sir George Davies.

721. Is this one transaction dealing with this 500? There will be no more added? Has the experiment, so to speak, ceased?—This is rather a legacy. I do not think there is any prospect of the number being added to. I cannot see it.

Sir Edmund Brocklebank.

722. I suppose they will be going home in times to come?—One hopes so, yes. Plainly, if a home is made for them to go to we shall have to consider discontinuing this then, and get them back as soon as we can.

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[Continued.]

Mr. Benson.

723. Has the Comptroller and Auditor General any further comments to make on this second paragraph? He says that he has not been informed as to the type of control?—No, it is true, as I explained, that we did not (and perhaps in that we were wrong) consult him about the type of financial control. We assumed we could follow this other precedent of the Italians. If we were wrong I can only say I am very sorry, and if it is preferred that we should establish any other type of control, of course we should do whatever was required.

724. Have you anything to say upon it, Sir Gilbert—(Sir Gilbert Upcott.) This is another case which, by good luck, has come out all right in the end, but I should have expected to be consulted as my functions were concerned. It does turn out that the Colonial Administration did what they should have done in all cases and in these circumstances, as I say in my Report: "I have not thought it necessary to call for supporting vouchers". I think it would be more satisfactory in a case of this kind, as it is one in which my duties are involved, that I should be consulted before arrangements are made.

725. I gather that you propose to do that in future, Sir Alexander?—(Sir Alexander Cadogan.) Certainly. We will certainly take note of that.

Mr. Glenvil Hall.

726. I suppose it is possible for a lot of these people to earn their own living, and although they have reached Rhodesia they are being employed?—Some are, but some are not. I have a note here which says: "Employment is found for them as far as possible, but here, again, the opportunities are limited, partly because of difficulties of language and temperament and partly because of trade union objections". I cannot give you any numbers, I am afraid (I have not them here) showing what proportion are employed, but it seems from that that some are, but that most, I should judge, are not.

Sir Irving Albery.

727. The Comptroller and Auditor General states that these 500 Polish refugees were transferred from the Balkans to Cyprus and then to Palestine, then to Egypt and finally to Northern Rhodesia. Was that all on the responsibility of the Foreign Office?—Yes, I think so. The actual migration was, of course, dictated by the development of the war. (Sir Gilbert Upcott.) I think some of them suffered a strange sea change on the way! I think they got substituted by different persons on the

way; otherwise the Foreign Office were responsible all the way along.

Chairman.

728. Are there any further questions on paragraph 11? We will pass to the figures, which are on pages 59 to 64. We will take the first two pages together, pages 59 and 60. On page 60, Subhead J. is "The British Council", for which there was an original estimate of £800,000, and a supplementary of £80,000. Could you please tell us the main items of expenditure in this very large sum on the British Council?—(Sir Alexander Cadogan.) I think the British Council maintain offices abroad in many countries. I have the account here. The main item is salaries. There are also travelling expenses. They also pay a certain amount in the way of furnishing books to libraries abroad, and so on. Their accounts have been audited, I think, by the Comptroller and Auditor General. There is a certain number of grants for British schools in foreign countries and certain other schools.

729. You have not the items separated—the total for salaries, so much, and then so much for each of these various headings that you are mentioning, have you?—I have the account here.

730. Could you give us the main items from the figures in front of you?—I have the account but I am afraid it is very complicated.

731. For instance, how much of the £880,000 goes on salaries?—I have an item here, but the salaries are only £81,000.

732. That leaves you with just on £800,000.—That quite possibly is the London Headquarters.

Mr. Benson.] On a point of order, this figure has now become so large that it might be desirable for us to have the accounts of the British Council in front of us in future.

Chairman.

733. I was going to make that same suggestion in a moment. Sir Gilbert, do you audit these figures?—(Sir Gilbert Upcott.) Yes, I audit them, but I audit them on behalf of the Treasury. I do not audit the expenditure out of the grant in aid on behalf of Parliament. My functions as regards the Parliamentary audit are finished as soon as the grant in aid is paid over. I audit the accounts of the Council on behalf of the Treasury, as I explained to the Committee some years ago. I undertook that audit on the understanding that if anything emerged in the accounts which I thought required the attention of this Committee I should be free to report it to Parliament in the usual way. This is becoming a very complicated account, and owing to the fact that it is expenditure spread over the world, it

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The Hon. Sir ALEXANDER CADOGAN,

[Continued.]

G.C.M.G., K.C.B., and Mr. F. T. ASHTON-GWATKIN, C.B., C.M.G.

is a good deal in arrear. I am afraid for that reason and because of other difficulties my audit is somewhat in arrear. I told the Committee last year that as far as the years 1939 and 1940 were concerned, I was satisfied that there was nothing which required the attention of this Committee. I am prepared to say as regards 1941 that I am satisfied as regards the accounting and as regards the conformity of the expenditure to Treasury authority. The Treasury explained to the Committee, or I did on their behalf, a few years ago, that the Treasury exercise a measure of budgetary control over the expenditure of the British Council, and the accounts for 1942 (that is of this expenditure included in a lump sum here) have only recently been received by me and I am not yet in a position to say anything about them. But I have had in mind that, owing to the very rapid increase of this expenditure—which has in the last few years been almost doubling itself each year—the Committee should have rather more detailed particulars, either in the form of the accounts themselves or an analysis of the actual expenditure.

734. Yes. It rather occurs to me, Sir Alexander, that it might be a good thing, in view of the great increase in this expenditure, and, I gather, the great complications in the expenditure, if a Finance Secretary who is with this body (because I imagine there is a Finance Secretary) appeared with you when we are going through their figures. I think it would probably help you and it would certainly help us.—(Sir Alexander Cadogan.) Yes, certainly.

735. Sir Gilbert, did you not say that Sir Alexander might be coming on some other Vote at a future date?—(Sir Gilbert Upcott.) There is a Vote of Credit Account which is his responsibility. That is not out yet, of course.

Chairman.] If we were to conclude all the other business to-day, and ask Sir Alexander to be so kind, when he came next, to have this gentleman with him, I think that would be the best course, and the Committee could have a look at the figures beforehand. That meets your point, does it not, Mr. Benson?

Mr. Benson.] Yes. I take it they will be circulated?

Chairman.

736. Yes, there is no difficulty about that, is there?—(Sir Alexander Cadogan.) No. Might I make one correction to something I said just now? When you asked me about salaries I gave you a figure (Sir Gilbert probably understands the account better than I do) which appears against the heading: "Administration—salaries and pension contributions". That may be only the Headquarters administration here, because in

further items there are, for instance, recurrent grants to British Council institutes and societies in foreign countries; that is £119,000. I should imagine that a considerable proportion of that represents salaries. There is a further item "Representation abroad" which is £100,000. (Sir Gilbert Upcott.) It is clearly only Headquarters expenditure. It is obviously not expenditure on personnel scattered throughout the world.

Chairman.] We will reserve Subhead J for further consideration later on in the session.

Sir Irving Albery.

737. May I ask one general question? Can you tell me who really controls the limit of expenditure of the British Council, if they want to spend more money?—(Sir Alexander Cadogan.) If Sir Malcolm Robertson, who controls the Council, has new schemes or plans for expansion of existing work that he contemplates, he has to consult the Foreign Office and the Treasury. His plans are discussed with them. I think he has planned a good deal more than has actually been allowed up to the present. It is done in that way.

Mr. Benson.] I take it later we can raise this question not merely on the accounts of the Council but on the control?

Chairman.] Certainly, when we come to deal with it. It would be better to ask questions then than now.*

Mr. Benson.] I agree.

Sir Edmund Brocklebank.] I cannot help noticing that the Witness, the Comptroller and Auditor General and the Treasury all have the accounts in front of them, but we have not seen them.

Chairman.

738. Further down, on page 60, the note to Subhead L is: "Excess due to the creation of new posts, to the re-opening of posts in North and West Africa, to the engagement of additional staff, and to the payment of increased salaries". To what extent would this excess of £51,000 be due to the creation of new posts and the re-opening of posts, or alternatively to the payment of increased salaries?—I am afraid I have not that figure broken down completely, but certainly the greater part is due to the creation of new posts. They were opened (if the Committee wish to know) or re-opened at Algiers, Antananarivo, Rabat, and Kweilin. Those are the Consulates-General. The Consulates were at Addis Ababa, Ismailia, Dakar, Duala, Casablanca, Atlanta, Cincinnati, Denver, Kansas City, Minneapolis and Ponta Delgada. I cannot give you the exact proportion.

Chairman.] Are there any questions on pages 59 or 60?

* Paper circulated to Members: not printed.

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[Continued.]

Sir George Davies.

739. On page 59, Note E, has our Embassy been moved back to Moscow now?—Yes.

740. How long was it at Kuibyshev?—They were at Kuibyshev from about October, 1941, till early this year, as far as I can remember. The Ambassador came back to Moscow about August, 1942, with a Secretary or two, and I think he stayed on almost continuously, and the rest of the staff were finally brought back, I think it was early this year.

741. Do we own the premises of our own Embassy in Moscow?—No, it is apparently a lease.

Mr. Benson.

742. Subhead R. on page 60: "Prison Expenses, Law Charges, etc."—I have a vague idea that those prison expenses relate to China extra-territory. Is that right?—There are no Consular prisoners at present. This is all, I think, law charges.

743. The prison expenses did relate to extra-territorial charges in China?—Yes.

744. Those have gone?—Yes, and will not recur.

745. In that case I take it you will be withdrawing the subhead?—As to whether it ought to be dropped, I suggest it is for consideration. The Subhead ought to be changed. We shall not have any prison expenses anywhere. (Mr. Ashton-Gwatkin.) There is a very little of that kind of thing in Cairo, in Egypt. There are the prisons and they are used under military law.

746. Will that come under the Foreign Office?—The upkeep of the prison buildings is ours, and always has been.

747. Was that under the capitulations?—(Sir Alexander Cadogan.) It must have been originally, but has that not been abandoned? I think we ought to look into that.

Mr. Benson.] If you would.*

Chairman.

748. Are there any further questions on pages 59 and 60? We will take pages 61 to 64. On Subhead EE. at the top of page 62: "Care of British Interests in Territory under Enemy Control," could you tell me how this works in practice? Do the protecting Powers do it?—(Mr. Ashton-Gwatkin.) Yes. The protecting Powers are in charge of the distribution of financial help to British subjects in enemy countries. It is mostly done now by the Swiss Government.

749. On the following page, page 63, in the details of receipts, there is a repayment of £398,000. That is a "repayment of sums expended in relief of distressed British subjects by representatives of the Governments of the United States of America and

* Information supplied: not printed.

of Switzerland in charge of British Interests." What is your machinery of recovery?—A great deal of that is from individuals. We have full lists of the people to whom assistance is given. In those lists are given the names of the relatives or banks who would be prepared to meet the money that is being paid out on behalf of these people, and in a great many cases we have regularly got the money back.

Chairman.] Are there any questions on pages 61 to 64?

Sir George Davies.

750. On page 61, Subhead U. is "Telegrams." That is a very large expenditure of over £82,000. It is explained in the note as being: "Excess due to an increased use of the telegraph, mainly to and from the Middle East, in consequence of the war," but on Subhead W I see the explanation for the excess of £10,000 is: "Expenditure, particularly on telegrams, was heavier than was anticipated." On what basis do you separate telegrams in respect of the passport visa control from the general heading?—(Sir Alexander Cadogan.) Subhead J. relates, of course, to the expenditure on telegrams sent entirely on Diplomatic and Consular business. Subhead W relates to the passport visa control. I am not quite sure why it should be separate. (Mr. Ashton-Gwatkin.) Most of the increase was owing to the creation of a new post in Brazil.

751. Is this the only sub-account, as it were, that has its cost of telegrams allocated to it, whereas all the rest are included in the one pool account?—Yes, I think so, as far as we are concerned, but the big figure you see there under Subhead W is simply in respect of our own Diplomatic and Consular telegrams. We in the Foreign Office send on behalf of other Government Departments an enormous traffic, but then the other Departments pay for it. The account is rendered to them.

752. Why is the passport visa control treated differently?—(Sir Alexander Cadogan.) I cannot really answer that; I do not know why. (Mr. Ashton-Gwatkin.) I think the practice has grown up because it has been convenient for the passport visa control to deal with its own enquiries by telegram. A great deal of their work is in sending instructions to their branches with regard to whether visas should be given or withheld, and they have administered that as their independent branch. It is a very special kind of work. It is not like the ordinary Foreign Office telegraphing. (Sir Gilbert Upcott.) The whole of the passport visa control expenditure abroad is segregated under this head. The expenditure on telegrams is only a very small item in it, between £1,000 and £2,000.

753. I only raised it because it was given as the main reason for an increase of over £10,000.—(Sir Alexander Cadogan.) It

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The Hon. Sir ALEXANDER CADOGAN,
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[Continued.]

says: "Expenditure, particularly on telegrams, was heavier than was anticipated and in addition a new post was created", and I think the new post accounts for the greater part of the excess.

Sir Edmund Brocklebank.

754. On page 61, Subhead T. is "Compassionate Gratuities". Could you say at all who these recipients are—what class? There are 124 of them, apparently.—This applies to unestablished individuals, officers for whom there is no provision under the ordinary Superannuation Acts.

755. It is not annual? It is a gratuity paid down once. Is that it?—I think some are annual.

756. In other words, some unestablished officers become pensionable?—Some of these are simply gratuities on retiring or ceasing to function, but I think some are recurrent. (Mr. Ashton-Gwatkin.) Yes, there are certainly some cases in Japan, I remember.

Mr. Benson.

757. Reverting to Subhead U. "Telegrams", you said that the Foreign Office send a large number of telegrams for other Departments, but that the other Departments pay for them. I take it that means that your telegrams sent by you are greater than the £532,000 shown here?—(Sir Alexander Cadogan.) Yes.

758. This is a net figure and not a gross figure?—This is the cost of the telegrams cyphered in our communications department relating to Foreign Office Consular and Diplomatic work, but other Departments, such as the Ministry of Information, the Service Departments and in fact nearly all Government Departments ask us to carry on our cyphers a large number of messages abroad.

759. They come under you on account of your Cypher Department?—Yes.

760. This is probably more a matter for the Treasury than for you. I take it the bulk of these foreign telegrams are carried by Cable and Wireless, and there are some very heavy departmental payments on account of cablegrams. Could we have the total amount paid to Cable and Wireless and the total revenue received by Cable and Wireless in this country?—(Mr. Brittain.) I do not know whether Mr. Benson's premise is correct that the greater part of this goes by Cable and Wireless. Only the Foreign Office could say as to that. On the second question I will certainly look and see if we have the figure.

761. You are sure to have the figure of the Government expenditure?—It may take some time to collect it.

Mr. Benson.] Yes, that I appreciate. You will probably have to make special

inquiries as to the revenue of Cable and Wireless received in this country. I do not want revenue received abroad for telegrams dispatched abroad that do not go near this country.

Chairman.] Cable and Wireless is a private concern. We cannot insist on their giving us figures.

Mr. Benson.

762. No, I know we cannot insist, but I think it is important, in view of the enormous expenditure on foreign cables, that we should know exactly what percentage of the revenue of this private firm comes from Government sources. That is the reason I was inquiring.* I want to ask one other question in regard to Polish refugees. Are your Polish refugees in this country or abroad?—Which is that item?

763. Subhead AA. on page 61?—(Mr. Ashton-Gwatkin.) These are the people in Rhodesia. (Sir Gilbert Upcott.) These are the Polish refugees we have just been talking about. (Sir Alexander Cadogan.) Yes, those in Rhodesia.

Mr. Touche.

764. On Subhead BB. "Relief of Prisoners of War: Contribution towards the Funds of the International Red Cross", could you tell me on what basis that contribution is fixed?—(Mr. Ashton-Gwatkin.) It is money we subscribe to the funds of the International Red Cross for doing this work on behalf of our Prisoners of War. There was an original grant of £4,000 a year, which was increased, in September, 1941, to a rate of about £20,000 a year, and in August, 1942, a further addition was made at the rate of £1,725 a month, which represented roughly the expenditure incurred by the Committee of the International Red Cross in maintaining their Headquarters in London. The work done is that they transmit mail and parcels to the prisoners of war.

Sir Irving Albery.

765. I have one question on page 64. There is an expenditure of £25,000 odd in respect of the evacuation of Italian Diplomatic Consular staffs from the United Kingdom. Do we have to pay all the expenses of these people?—(Sir Alexander Cadogan.) On the other hand, the Italians pay the expenses of bringing our people back. It balances.

766. I only wanted to know. We do actually pay it?—The bulk of that expenditure arose out of the chartering of a ship from here to Lisbon. On their side the Italians chartered a ship to bring our people.

* Paper circulated to Members: not printed.

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[Continued.]

Chairman.] Are there any further questions? May I take it that, with the exception of Subhead J. "The British Council"

on page 60, to which we are coming back at a later date, the Account is approved? (*Agreed.*)

VOTE 3.

LEAGUE OF NATIONS.

Chairman.] The Account is on page 65. I have no questions to ask. Has any Member any questions?

Mr. Benson.] I should like to know who else, besides ourselves, is paying?

Sir George Davies.

767. I expect it is not a very long list.—(*Sir Alexander Cadogan.*) In 1943 the six members of the British Commonwealth paid their full contributions and six others did likewise, namely, Belgium, Greece, Norway, the Netherlands, Poland and Czechoslovakia; two others paid part of their contributions and four paid arrears. That is to say, I suppose the four paid nothing towards the current year.

Chairman.] Did not Sweden pay? Is not Sweden in the list?

Sir Irving Albery.

768. Could we have the names?—The ones I have been given are the six members of the British Commonwealth, Belgium, Greece, Norway, the Netherlands, Poland and Czechoslovakia.

Chairman.

769. Are not Sweden and Switzerland amongst those who paid?—They have not been given to me.

770. That is very remarkable.—It is.

771. Is their office still in Geneva or has it been transferred here?—The Acting Secretary-General is still established in Geneva, with a very small staff—three or four people.

772. The rest—?—are in America or Canada.

Mr. Benson.

773. Not a single South American State has paid?—Apparently not.

Sir Irving Albery.

774. Which were the countries which paid half, and there were some which paid

(*Sir Alexander Cadogan and Mr. F. T. Ashton-Gwatkin withdrew.*)

arrears, I think you said?—You mean in normal times?

775. No. You gave us just now the names of the countries which paid.—We shall have to find out, if we can.

776. I thought you had them?—I am afraid I have not.

Chairman.] It is hardly your responsibility. Are there any further questions?

Sir Edmund Brocklebank.

777. What has happened to the great Geneva-side lake building?—It is standing there as an empty shell, as far as I know.

778. Is it not being used by the Red Cross or by anybody at all?—Not that I know of.

779. It is just empty?—I believe it is empty. I may be wrong.

Chairman.] It would do for a sorting office for Red Cross parcels.

Sir George Davies.

780. Is there a care and maintenance staff? If not, it would deteriorate?—There was, I know.

Sir Irving Albery.

781. Arising out of that, may we ask whether any consideration has ever been given to the idea that this international building should be made use of by some organisation such as the Red Cross during wartime?—I do not know. I have never heard of it.

782. I imagine the International Red Cross is probably incurring expenditure on accommodation?—I may be wrong; it may be put to some use, but I have not heard of it.

Chairman.] That is quite a legitimate question to put to the Foreign Secretary on the floor of the House of Commons. That is the way to get the information. Are there any further questions? May I take it that the Account is approved? (*Agreed.*)

CLASS VII.

VOTE 13.

STATIONERY AND PRINTING.

Lieut.-Colonel N. G. SCORGIE, C.V.O., C.B.E., and Mr. S. E. LOVATT, O.B.E., called in and examined.

Chairman.

783. We take the Stationery Office now. Our principal Witness is Colonel Scorgie. I think you are here for the

first time, Colonel Scorgie; we are very glad to see you. Will Members take the Civil Appropriation Accounts and turn to page xiv, paragraph 36 of the Report of

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[Continued.]

the Comptroller and Auditor General. Could you tell us about the figures of your expansion and the change of contract system to meet it—in what sort of proportion it has expanded?—(Lieut.-Col. Scorgie.) Do you mean since pre-war?

784. Yes, in the last three or four years?—It is about three times what it was pre-war.

785. What changes have you had to make in your contract system to meet this trebling of your affairs?—We have made practically no changes in our contract system.

786. To what extent is your contract system still competitive? To what extent do you still get competition amongst tenderers?—It is still almost entirely competitive. The range of competition is more limited, but the system is, in the main, competitive.

787. How does the number of tenderers compare roughly with the pre-war number?—It is about half as many.

788. Only about half?—Yes.

789. Would you say that, notwithstanding the war conditions, the competition is genuine?—In most cases it is genuine. There are some cases in which, through lack of facilities and lack of labour, there is an absence of competition, and there, of course, we have to take other methods of testing prices.

790. In paragraph 36 the Comptroller and Auditor General makes this comment: "Fixed price contracts placed as far as possible on a competitive basis and, in exceptional cases, maximum price contracts are employed for non-recurrent supplies and services." Could you tell us what happens in these "exceptional" cases?—The exceptional cases are where either there is almost an entire absence of competition, or we suspect the competition is not genuine, or cases where we are asked to supply something of a novel character, such as, for example, clothing coupons, and neither we nor the contractors have any experience on which really to judge the merits of a price. In those cases we ask for tenders; we sometimes discuss them and we arrive at a maximum price which is agreed, subject, of course, to the costing clause, which enables us to obtain a lower price if investigation shows that is the right price. But we do not use the maximum price clause except in those cases where, in our view, real competition is absent.

791. On the following page, page xv, in line 4, the Comptroller and Auditor General says: ". . . a check on prices is available through comparison with competitive prices." Could you tell us how that works in practice?—What I conceive that to mean is that there are very few

printing jobs which are new in the sense that we have not had many years of printing the same thing. We are not, as it were, producing entirely new kinds of munitions that nobody has ever made before. The great bulk of our work has been made before, and we have years of experience of competitive prices in past years, so that it is quite easy, with the known increases in wages, cost of materials, and so on, to arrive at a technical opinion as to whether a price is reasonable or not.

792. In practice, you can do so. Do you test by post-costing from time to time?—We have a post-costing applicable to the maximum price contracts.

793. Have you any evidence with regard to the profit on capital on some of these rather exceptional transactions?—We have, but I should like that to be treated confidentially.

794. Could you give us the proportion of paper supplies going to your Department, as compared with the rest of the trade, through the Paper Controller? What proportion is used by you for Government service?—It is a matter of some argument as to the actual percentage, but on the official side the official representatives of the Paper Shortage Committee contend that the Government service is using still only between 6 and 10 per cent. of the whole paper consumption of this country. The great bulk, you will understand, goes to newspapers and periodicals. That is a very relevant fact which we have had so often in the discussions about waste. Naturally, the public which has to carry home its parcels is very sensitive to any waste on the part of Government Departments, but statistically, one has the extraordinary position that we are still carrying on this total war with certainly not more than 10 per cent. of the paper consumption of the country.

795. You have no idea how that compares with the pre-war figure?—No.

Chairman.] It would be rather interesting to know that. Are there any questions on paragraph 36?

Sir George Davies.

796. I understand that in those cases where you are unable to get competition, or what you consider genuine competition, you then have recourse to a costing contract system?—Yes.

Mr. Benson.

797. How many contractors have you on your books?—We have about 1,500.

798. Of that 1,500 how many do half your printing? I want to get at the extent of the spread of your work?—I should say about 400 do somewhere between half and two-thirds of our work.

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[Continued.]

799. Have you a few contractors who do big, bulk work? I remember having seen on Government Blue Books: "Printed by Eyre and Spottiswoode"?—Yes, there are several big contractors who undoubtedly regard Government work as one of their mainstays, if not the mainstay, of their business. They specialise in our work.

800. You have 1,500 contractors, 400 or 500 of whom do the bulk of your work. Are they specialists who take special jobs on?—They are not specialists, in the sense that very few of them are limited only to special work, but they do undoubtedly specialise just as the Government printing works themselves specialise in types of machinery. That is to say Contractor A will be better fitted than Contractor B for particular work; but when I say that it must be realised that for almost any part of our work there are at least two dozen contractors who would be very well fitted to do it.

801. With regard to your own work, what percentage of your printing is done in your own works?—In the year of the Account the Stationery Office works were responsible for £693,000 of the expenditure, and contracts for £2,459,000.

802. That is wages, I take it, but not paper?—That is printing costs, but not paper costs.

803. It is £690,000 odd against roughly £2,500,000?—Yes.

804. What type of work do you yourselves take on—the tabulation of figures, or do you take your share of straight work?—We take on mainly printing for Parliament, such things as the telephone directory, practically all the secret and confidential work for the Government, and then our share of the general work. I do not know whether you want me to go into what this Committee has had many times before, namely, the basis on which the trading accounts for the works used to be compiled?

805. I see you print the Civil Appropriation Accounts which we are on now?—Yes, we print all Parliamentary papers.

806. When you are cost accounting, what overheads do you generally allow? Have you any basis for the allocation of overheads?—(Mr. Lovatt.) All the overheads which are normal to a printing establishment would be allowed if we are going into the actual cost of a job.

807. When you cost a job which is perhaps 1 per cent. of the turnover of the firm, on what basis do you allow overheads?—You take the proportion of the work produced to the total output, and allow a corresponding proportion of the overheads—a full costing.

808. Of the 140 costings which you took, how many contractors were involved in that?—(Lieut.-Col. Scorgie.) About 70.

809. Scattered throughout the country or mainly in London?—Scattered throughout the country, but the bulk would be in the London area.

810. Then with regard to your own costing, how do you equate work of this character (the Civil Appropriation Accounts), which is highly specialised, how do you check your own costs for printing this with the costs of a private firm?—I do not agree that that is highly specialised, but, again, I shall have to go into the original basis. The Stationery Office printing works took work at the price of the lowest competitive tender. That was the normal system. It has been departed from to some extent during the war, of necessity, just as, on occasions, we have to go to a private printer who is equipped to do a particular job that is urgently required, and nobody else is able to do it at the moment.

811. But if you print all Parliamentary papers can you get anybody to tender for them?—They have tendered in the past.

812. How long ago?—(Mr. Lovatt.) Seven or ten years ago.

813. So you are working on a check basis of anything from seven to ten years old?—(Lt.-Col. Scorgie.) Yes, but a check basis which does not apply only to these things. It is a check basis which applies over any form of printing.

814. Assuming that there is a general increase of efficiency in printing machinery, which leads to a reduction in your known Parliamentary paper prices, do you proportionately reduce your own prices on Parliamentary papers which are not checked by competition?—That has happened in the case of the telephone directory. The prices have been reduced. The Comptroller and Auditor General's staff are always very alert to make sure that the prices credited to our trading account are fair and reasonable in all the circumstances of the printing trade of the country, I think.

815. I hope you do not think I am unduly suspicious, but we had recently in front of us another Government Department which had its own works and claimed it knew all about costs, and we found it did not.—I would like to make the point that we have had these works ever since the last war, and that all our accounts have been thoroughly tested on a peacetime basis. As I mentioned in the beginning, we are not making munitions. We are not setting up a factory to make something new. We have also a very powerful Federation of British Master Printers, which is, as it were, checking every figure we publish almost with a microscope, to make sure that they are not being unfairly treated.

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[Continued.]

816. If you have started only since the last war you are a comparatively parvenu as compared with this other Department.—Possibly it has had a monopoly.

816A. No, it has not. It is very much in the same condition as you are.

Chairman.] Have you any further questions?

Mr. Benson.] I should like to say how extraordinarily reminiscent what we have been hearing to-day is of what we have been hearing from this other Government Department for many years.

817. I presume, judging from the last paragraph, the mere fact that under Defence Regulation 55 you have these powers means that in practice, normally speaking, it is not necessary to use them. The fact that the powers are there means that the question does not arise?—It is not necessary to use them. There is another point perhaps I should mention, to make it clear to the Committee. We have powers over labour which are most valuable to the printing trade. Those who are engaged on Government work to a large extent can get a certain amount of protection through us which they could not get for private work, so that in general they are anxious to be as helpful and as co-operative as they can and to get as great an amount of Government work on to their books in comparison with private work as they possibly can—and I think they are wise.

Chairman.] Are there any questions on paragraph 37?

Mr. Benson.

818. At the end of the second sub-paragraph the Comptroller and Auditor General says that increases in labour costs, etc. "have been met by extra-contractual allowances." Have those additional costs been handed on to the consumer, so that the price of your goods, such as Government work, and so on, has been increased, or how has the additional labour cost been absorbed otherwise?—Will you tell me please, Sir, which of our consumers you mean? This is public money being spent for public purposes. Very little of this material is sold. On that which is sold to repaying services, of course, the price is adjusted to the cost. So far as the public buying Government publications is concerned, we have not found it necessary to increase the price of publications because of the increased cost, because the consumption has so remarkably increased. One has had the benefit of mass production.

819. With regard to that last statement I take it that that can apply only to a certain small selected group of Government publications? I should not think the Civil Appropriation Account is a best

seller?—No, but taking Parliamentary publications as a whole, they are very good sellers indeed. The public has not enough other literature. It takes an interest in Hansard which it never took before. Documents that were dull and rather poor sellers in peacetime, such as Statutory Rules and Orders, sell in many thousands now because business men just have to have them. Government publications are priced on a scale. We do not take the case of any one individual publication and say: "What are we going to sell of this?" They are priced on an all-over scale which is tested out periodically and the effect of the increased sales has been that it has not been necessary to raise the scales to compensate for the increased cost of labour and material. That is really the position.

820. How do you fix the price? Is it on the cost of printing, neglecting the cost of paper, or so much per page? How do you calculate your selling price?—The selling price, as I said, is on scales which were determined originally, and have since been periodically tested by taking the whole cost of all Government publications for printing and paper and dividing it by the number of copies printed. That was done mechanically, of course, in the first instance, and mechanical accounting enables us to check it periodically.

821. Are the prices supposed to cover the total cost?—The price does not cover any of the costs of compilation, and the price of a book to the public does not take into account those copies which are used for official purposes. The theory is that anybody buying the Civil Appropriation Accounts over the counter should pay the actual cost, including all the Stationery Office expenses on the particular copy which he buys.

Chairman.

822. Are there any further questions on paragraph 37? Passing to paragraph 38, could you tell us how the selling price of these accounting and adding machines is arrived at?—The selling price is determined on this formula: the American list price, less 40 per cent., then a standard 3 per cent. added for freight, and the whole multiplied by 2 to arrive at the British selling price.

823. Multiplied by 2 to arrive at the British selling price. Why 2 rather than any other figure?—These arrangements were not actually made by the Stationery Office. They were made by the Board of Trade and they received Treasury approval, and there is a great deal of background—international background, I believe—which the Treasury, I understand, would be quite willing to explain to the Committee if necessary.

824. It would be rather interesting to know why you multiply by 2—whether the Treasury has a reason for it.—(Mr. Lee.)

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[Continued.]

Quite frankly, I cannot explain the detailed make-up of the price, but a representative of the Directorate of Office Machinery is present who can. I could give the Committee the general background which led up to this particular arrangement and the basis of remuneration which was thought appropriate to these agencies who were distributing the machinery in question.

825. The agent's commission appears over the page, if I remember rightly. I was wondering how the selling price was arrived at. There is a big decrease in the amount of sales. They are not much more than half what they used to be. Is that because they cannot get shipping for them, or is that because there is no demand?—(Lt.-Col. Scorgie.) It is that the machines are not available.

826. The United States cannot let us have them. Is that the point?—(Mr. Lovatt.) That is so.

Chairman.

827. Are there any questions on paragraph 38? We pass to the figures which

are on pages 336 to 339. On page 338, item (f) in the Details of Receipts is: "Advertisements in Government publications". Could you tell us what the present policy with regard to advertisements in Government publications is?—(Lt.-Col. Scorgie.) The present policy is that advertisements are not to appear in Government publications except in technical publications, where there is room without additional use of paper and where it adds to the attractiveness of the publication to have advertisements.

828. Are you going to lose a lot of money in consequence of not taking these advertisements?—Yes, we are.

829. That is a Governmental decision?—That is a Governmental decision for paper shortage reasons.

Chairman.] Are there any questions on the figures on pages 336 to 339 inclusive? May I take it that the Account is approved? (*Agreed.*)

(*Lieut.-Colonel Scorgie and Mr. Lovatt withdrew.*)

CLASS V.

VOTE 2.

BOARD OF CONTROL.

VOTE 3.

REGISTRAR-GENERAL'S OFFICE, ENGLAND.

VOTE 4.

NATIONAL INSURANCE AUDIT DEPARTMENT.

VOTE 5.

FRIENDLY SOCIETIES' REGISTRY.

VOTE 6.

OLD AGE PENSIONS.

CLASS VI.

VOTE 3.

DEPARTMENT OF OVERSEAS TRADE.

VOTE 8.

SURVEYS OF GREAT BRITAIN.

VOTE 14.

DEPARTMENT OF SCIENTIFIC AND INDUSTRIAL RESEARCH.

28 March, 1944.]

[Continued.]

VOTE 15.

CLEARING OFFICES.

*(On these Accounts no questions were asked.)*DEBTS CLEARING OFFICES AND IMPORT RESTRICTIONS ACT ACCOUNTS,
1942.*Mr. Benson.*

830. I do not know whether the Treasury can answer this question on these Accounts—I did not give them notice. On the Spanish Clearing Agreement—United Kingdom Debtors, are those pre-war debtors who have been paid in or are they current debts that have been paid in?—*(Mr. Brittain.)* I think those are current debts because they are meeting current payments.

831. I assumed so. It seems rather large unless the current debtors includes the British Government. Is that it mainly?—Some of it may be, certainly, because the Ministry of Food and other Departments are importing. If that is wrong I will let Mr. Benson know the answer. I am almost sure it is current.

832. There is a receipt to the Central Bank of Turkey of £4,000,000. Is that the repayment of the Turkish Treasury Bills?—I am not sure about the Treasury Bills, but the reason why that figure is so large, as I understand it, is that at present there are very few Turkish goods coming into this country itself. They are going to the Middle East, but they are paid for in sterling. That sterling goes to the Central Bank of Turkey, and the Central Bank of Turkey is under an obligation or has the right to put sterling into this Account if the sterling from other sources is not sufficient to meet our credits on Turkey.

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

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CLASS VIII.

VOTE 3.

ROYAL IRISH CONSTABULARY PENSIONS.

(On this Account no questions were asked.)

VOTE 4.

SUPERANNUATION AND RETIRED ALLOWANCES.

Sir Irving Albery.

833. I notice in all the cases the grant was considerably in excess of the expenditure. Explanations are given, but can the Treasury say whether the grant for the year was substantially bigger than the grant for the previous year?—*(Mr. Brittain.)* I can give you the figures. The total grant in 1942 was £2,757,000. The grant for 1941 was £2,489,000.

834. Then the grant was considerably less?—Rather more than in 1941—£2,757,000 as against something just under £2,500,000.

835. You have gone on—?—To page 360, two-thirds of the way down.

836. I was dealing rather with the Sub-heads A, B, C and D, and so on. Take, for instance, Subhead A?—It was exactly the same in both years, £1,540,000.

837. And Subhead E, for example?—It was slightly more. It was £100,300 as against £91,600.

Sir Irving Albery.] Thank you very much.

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

(Adjourned till Tuesday, the 18th April, at 2.30 p.m.)

TUESDAY, 18TH APRIL, 1944.

Members present:

SIR ASSHETON POWNALL, in the Chair.

Sir Irving Albery.
Mr. Benson.
Sir George Davies.
Mr. Douglas.

Mr. Pickthorn.
Sir Frank Sanderson.
Mr. Silverman.
Mr. Touche.

Chairman.] The Budget, as you know, Gentlemen, is down for next Tuesday. The Committee would normally be meeting at 2.30. The Budget, I understand, is being opened at 2 o'clock, therefore I would suggest we meet at 10.30 in the morning on Tuesday next instead of at 2.30 in the afternoon, if

that suits Members. We obviously all want to hear the Budget, and to meet at 10.30 in the morning gives us time to get through. If you concur I will have a reminder sent to all Members to-day or tomorrow to meet at 10.30 on Tuesday next. Is that generally agreed? (*Agreed.*)

Sir GILBERT UPCOTT, K.C.B., Mr. D. F. C. BLUNT and Mr. D. B. PITBLADO called in and examined.

TREASURY MINUTE ON PARAGRAPHS 21-23 OF THE REPORT OF THE COMMITTEE OF PUBLIC ACCOUNTS, 1943.

ARMY APPROPRIATION ACCOUNT, 1942.

Sir ERIC SPEED, K.B.E., M.C., called in and examined.

Chairman.

838. We have the Army Account under consideration to-day. Sir Eric Speed, Permanent Under-Secretary, is the witness. The first item on the Agenda is the Treasury Minute dated 12th February, 1944. I propose taking that with paragraph 18 in the report of the Comptroller and Auditor General on the Army Account, to which we shall come in an hour or two's time, and to which it is definitely related. The Army Appropriation Account, 1942, page iii, paragraph 1, is where we begin this afternoon. I do not think anyone will have any questions to ask on paragraph 1. On paragraph 2, "Outcome of the Accounts," I have no questions to ask. On paragraph 3, "Decentralisation of Administration," Sir Eric, would you kindly explain to us this change which has taken place with regard to the Command Secretaries?—(*Sir Eric Speed.*) The change consists in this, Sir, that hitherto contracts in the Commands have been placed by the military authorities. In two Commands there have been introduced Civilian Contract Sections, which place all the major contracts in those Commands, including building contracts, and the large contracts for services such as water and electricity. The principle is being extended to a third Command in June of this year, and we hope to extend it to the other home commands as soon as we have suitable staff available.

839. Why, in the last three lines of the first sub-paragraph of paragraph 3, is that difference made between the works services and the R.A.S.C. services and R.A.O.C. contracts?—It is part of the training of officers of the Royal Army Service Corps and of the Royal Army Ordnance Corps and of the Royal Engineers that when they go abroad into the field they should have some knowledge of the methods of placing contracts, and therefore the works services in the Commands below a cost of £2,500 are still placed by the R.E. services. Similarly in the districts and sub-districts which form part of the Commands, the local contracts are still placed by military officers, because those contracts need knowledge of local information and also because we want to continue this system of giving military officers some idea of what they will have to do when they go into fields of operation.

840. Is it not rather confusing having a sort of dual system with regard to contracts?—I think not, Sir. If these other contracts were placed by the Civil Contracts branch it would be a measure of centralisation, which is what we want to avoid. In point of fact, the local smaller agreements and contracts are fixed without reference to Command Headquarters at all. If we wanted to make the system uniform, that is to say, if it were to be done solely by civilian contract officers, we should have to place civilian contract officers not merely

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at Command Headquarters, but at District and Sub-District Headquarters.

841. I see. On the next sub-paragraph, what powers have you given to the Command Secretary of the Middle East Command with regard to these modifications?—The noticeable power that we have given him is the right to approve contracting without competition up to a limit of £10,000, the limit having been lower before.

842. And that is working satisfactorily, is it, as regards the Middle East?—It is a little early to say yet, Sir; we have not had the Command Secretary's report, although we have had appreciative messages from the Commander-in-Chief.

843. Are you thinking of extending it to Commands other than the Middle East?—Not unless they are what can be broadly described as static Commands and non-operational Commands.

Sir Irving Albery.

844. Might I ask Sir Eric this: it is stated in the paragraph, "They have power to deal with certain questions relating to establishments, finance," etc., and you have referred more specifically to contracts. Can you say a little more as to what their powers are as regards establishments and finance generally?—Yes, Sir. I think I gave some replies last year on this subject of establishments. The local Command Secretary advises the Commander-in-Chief on all industrial and non-industrial staff questions; he is the Chairman of Selection Boards for selection and promotion of clerical staff; and he has powers of a minor nature governing increments, promotions and that sort of thing, which previously were referred to the War Office, with great waste of time. On the financial side he has taken with him powers in excess of the powers previously enjoyed by the Financial Adviser. There is a long list of things which he may do; perhaps I could extract one or two, if you would like to hear them.

845. Yes, will you extract one or two?—Where troops are suddenly moved into new areas requiring contracts for their accommodation, he is allowed to authorise a prime cost contract with a fixed fee up to a financial limit of £1,000 in all. That is one example. Where it is clear that competition is impracticable for a building service, he may authorise a lump sum or a measurement contract within a total of £1,000. There is a great list of things which he may now do.

846. Might I ask, are his powers substantially greater financially than those which were formerly possessed by the Commander-in-Chief?—The Commander-in-Chief, by virtue of the presence of the Command Secretary, has in some directions higher powers than he had before without reference to the War Office. It is still the

Commander-in-Chief's responsibility, not the Command Secretary's; but I would not say that the general effect is to give the Commander-in-Chief very much greater powers; it is more in the direction of his seeking the Command Secretary's advice as to what view the War Office would take as to this or that, and acting in the light of that advice.

847. Has the Command Secretary powers, in conjunction with the Commander-in-Chief, to alter the status, the actual rank and the corresponding financial remuneration of certain officers—Staff Officers?—None at all.

848. None at all?—No.

849. In other words, if the Commander-in-Chief wanted to increase an establishment somewhere, so that perhaps instead of (say) a Staff captain and a D.A.A.G. he wanted a D.A.A.G. and a D.Q. and A.A.G., he would not have power to do that without reference to the War Office?—He would have to refer to the Establishments Committee in the War Office; otherwise we find the increase of status and the increase of staff gets quite beyond control.

850. In practice, from what you have said (I would like to be corrected if I am wrong), it rather appears to me that in the general way these Command Secretaries will tend to relieve Commanders-in-Chief of a good deal of administrative work without there being any substantial increase in the powers of the Commander-in-Chief?—They relieve the Commander-in-Chief of administrative work in defined fields—contracts, establishments, stationery and finance—but they do not relieve the Commander-in-Chief of any of his other responsibility at all.

851. And they do not increase his powers?—They do increase his powers.

852. Not substantially?—Not very substantially, no.

Mr. Benson.

853. When a Command goes abroad, why does the Secretary stay at home? Why do you not transfer your purchasing and your administrative machinery along with your fighting force?—The Command Secretaries are appointed to the static Commands of this country, which are geographical Commands which do not go abroad. As you know, the country is divided up into so-called Commands—Northern, Southern, South-Eastern, and so forth—and the Command Secretary is part of that stationary organisation in this country. If you take the case of any operations from this country which may be in contemplation, the Commander-in-Chief will take with him a Financial Adviser; he will not, under present plans, be described as Command Secretary. It is a matter of status more than anything else.

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854. I see; he will take a Financial Adviser who will have the same functions as a Command Secretary?—He will have very nearly the same functions.

855. Approximately the same?—Yes.

856. You said you thought it was desirable that the military men themselves should have experience in contract work?—Yes.

857. Their functions here in that respect are approximately what they are likely to be abroad?—No, they are not. They may run into much heavier contractual business when they get into a field of operations than they have here; but you have the choice of letting them do the very important work here without very much experience, or of confining their activities here to a lower grade of experience and giving them less experience in the higher grade.

858. When you send a force abroad, you send specialists in every respect, apparently, except commercial activities?—I would not accept that entirely. In the case of the heads of the various services—the supply service, the works service, and so on—it is their business to be experts. You can say that they are soldiers and have not had commercial experience: that would be only partly true nowadays, of course.

859. Yes, it would be partly true?—It would be less than half true in the case, for example, of the Royal Engineers; it would be more true in the case of supplies.

860. What I am trying to get at is this: if you find it necessary to have a civilian department attached to a Command here, and you find it not only necessary but desirable, why do you not transfer something equivalent to that abroad?—I suppose the first answer is that the Commander-in-Chief cannot be bothered with a civilian organisation when he is very near the enemy. It is inconvenient, to say the least of it, to have civilian officers immediately behind the front line arranging contracts; they would probably have to be in uniform, to put it shortly. But at the moment the overriding fact is that we have not got civilian officers with the necessary experience, so much so that we have not been able to introduce this system universally in England.

Sir George Davies.

861. I gather that as a result of the experience in these two Commands, it is justifiable to extend this system. Is that extension at present entirely limited because of lack of personnel?—Entirely.

862. And as a result of experience, can you say, is it contemplated that this shall be a permanent feature of Army administration, or is it only a war-time feature?—I should hope that it would be permanent, Sir.

Chairman.

863. Before we leave the subject of the Command Secretaries, would you tell me how they function *vis-a-vis* the Major-General or Brigadier in charge of Administration?—Yes. The Command Secretary is not a Staff officer; he is a representative of the head office in Whitehall, and he is merely an expert adviser to the Commander-in-Chief, which means, in practice, to the Major-General in charge of Administration.

864. He works in with the M.G.A.?—Entirely. For example, he attends all the M.G.A.'s conferences.

865. He is expert adviser to the M.G.A.?—Yes.

866. On page iv the Comptroller and Auditor General mentions agreements come to with the Governments of Australia, Canada, New Zealand and South Africa. As regards the first three (Australia, Canada and New Zealand), do they cover the costs, would you say?—That is a matter of opinion, Sir. It is an extremely difficult thing to ascertain what the costs are, and the agreement with Australia was negotiated not by the War Office, but by the Treasury.

867. Have the Treasury any remarks to make with regard to these three agreements?—(Mr. Blunt.) It is perfectly true, as Sir Eric says, that the agreement with Australia was made by the Treasury, and I think the Australian agreement was explained last year. The capitation rates were arrived at, of course, after consultation with the War Office. As Sir Eric says, it is extremely difficult to say whether they do cover the costs or not, because the elements that go into the costs are multifarious and incapable of ascertainment, but we consider the rate of 9s., which was the rate for Australia, is a reasonable and satisfactory rate.

868. The South African arrangement, I see, is on different lines. Could you explain about that?—That arrangement was also made by the Treasury again, of course, after consultation with the Service Departments, and after consultation on lower levels with the Union. The agreement was finally settled personally between the Chancellor and Field-Marshal Smuts. The agreement has taken rather a different form, as you will see, from that with Australia. Australia, as I said, is on a definite daily capitation rate of 9s., whereas in the case of South Africa the current contributions are round sums of half a million pounds a month each for the Army and the Air Force.

869. Irrespective of their numbers?—Irrespective of their numbers, yes. Those round sums were arrived at after looking at comparable capitation rates, but they are not specifically related to capitation rates; they are just broad settlements made

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between two free parties. I may say in the case of South Africa the settlement was that there should be a payment of £35½ millions up to the end of December, 1943, to cover the whole of the past, and thereafter these two payments of half a million pounds each per month for the Army and the Air Force were to be made from 1st January, 1944.

870. On the first part of the next subparagraph, has any decision yet been arrived at with regard to the Dutch and Norwegian contingents?—(Sir Eric Speed.) No.

871. I see negotiations were proceeding a month or six weeks ago?—They are still proceeding, Sir.

Sir George Davies.

872. I would like to ask, were efforts made to have precisely the same system with each of the Dominions, and was it found impossible, or was it desirable to have a different and varying method in each case?—(Mr. Blunt.) No; I think we started off in the same way. We started off, in the case of South Africa, with the idea of capitation rates, as we had with Australia, but in the course of the negotiations both sides expressed the feeling that it would be more convenient in that particular case to have a round sum settled.

873. What were the particular chief reasons why there should be this difference?—For one thing, in the case of the Union the capitation rate position is complicated by the fact of the native elements of the Force, who cost, of course, a great deal less to maintain; there was that complication, amongst others; but the general feeling was that the Union, I think, definitely preferred a settlement of this sort, and, of course, as far as possible we wanted to fall in with their ideas.

874. If the complete power of selection or decision had been with the Treasury, would they have preferred to have had modifications in these agreements with the respective Governments, or did they have, as it were, to give way?—I do not know that the Treasury had any great predilection for either settlement, so long as the settlement was a fair one. Assuming, of course, that the size of the force does not vary very much, it does not matter very much whether it is a capitation rate or whether it is a lump sum monthly payment. I do not think we are aggrieved at all by that form of settlement.

Chairman.] On paragraph 5, "Military expenditure overseas," I have no questions; it is purely narrative.

Mr. Benson.

875. I would like to raise a general question: it applies to all expenditure abroad. Wherever the Army goes, Sir Eric, it goes like locusts?—(Sir Eric Speed.) Yes.

876. The result is that there is an enormous increase in prices?—Yes.

877. It happened in Palestine, in Egypt and in East Africa. Have you taken any broad general steps to mitigate that?—Yes; you mean in the way of reducing the spending power of the troops?

878. Reducing the spending power, and in addition to that, of course, pouring in supplies to equalise matters?—If I may take the first point first, the pay of the British Army is not terribly high, to start with, and therefore before taking any steps in North Africa to limit the cash issues to the troops we decided to wait and see what the men in fact drew to spend locally, and we also decided to have a look at what the American troops spent locally, because if the Americans took no steps to limit their issues, we saw no justification, in common fairness, to do so for the British troops. We found, rather to our surprise, that the average drawings of both American and British troops was very low, so much so that the two Commands came to the conclusion that there was no occasion to reduce the spending power further. When, however, we got to Italy, the fact that a British soldier will always go into a restaurant or inn if he can find one, quite naturally, did lead to consumption by the Forces of rationed goods. We therefore put them out of bounds, and British troops are not allowed to buy in Italy things other than (broadly speaking) vegetables and fruit. They are in that way, in a different way from that which you suggested, barred from increasing the inflationary tendency. I do not know whether that meets your first point.

879. I was not thinking only of the soldier; I was thinking of you and your organisation. For instance, it was not the Tommies who bought tin canisters in Egypt?—I was prepared to answer that question when we come to it.

880. I had that more in mind, actually?—The overriding feature in these local purchases has been, particularly in this year of account, 1942, the closure of the Mediterranean, the loss of Tobruk, with all its stores, the fact that Egypt, in some people's opinion, was likely to change hands at any moment, and the absolute necessity of getting those stores made locally so as to be able to get them without using any shipping. That is the background. (Sir Gilbert Upcott.) Referring to that later on in my report I say, "Any easing in the transport situation may, however, enable the Army to use other sources of supply if local prices are uneconomic".

881. I quite realise the transport difficulty, but did you take any steps with the Government of Palestine?—(Sir Eric Speed.) With the Government of Palestine. With the Government of Egypt it is not so easy.

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Chairman.] We shall come to that later, Mr. Benson.

Mr. Benson.

882. It was a general question; that is why I raised it; it applies to Palestine, it applies to Egypt and it applies to East Africa and all of them?—Perhaps you will allow me to say this in answer to the general question, that where the necessity for buying locally at a bad price or with a bad effect disappears, we stop buying locally. For instance, we have stopped commercial production of anti-tank mines, etc., in Palestine with effect from the 1st April, 1944. We are not wholly unregardful of that matter.

Chairman.

883. On paragraph 6, do you think these prices, in the absence of effective competition in Egypt for metal containers and other articles, are reasonable and fair?—I think they are, but I do not consider that they were from a strictly Army point of view; but there again you have to take the background. There was considerable doubt about what was going to happen to Egypt; we had lost Tobruk, and it was vitally necessary to replace things like anti-tank mines and petrol and water containers, which we had not got, and which we could no longer ship through the Mediterranean. It takes two to agree to a bargain, and you cannot impose a costings clause on an Egyptian contractor or a Greek contractor. I think I ought to say that in 1941 nobody in Egypt had ever heard of a costings clause; it was entirely new ground. I am ready to admit that the prices we paid were not by ordinary Army standards fair and reasonable. On the other hand, they came down with something of a run, and at the present moment, thanks to the fact that competition is now returning into the Egyptian market, we have now got the standard costings clause into all our transportation and supply contracts and we confidently expect to get them into our building contracts, if there are any, and into our stores contracts.

884. I gathered from Sir Gilbert's report that the contractors were not normally in favour of these costings?—No, Sir, largely because of their fear of the local taxation inspectors, I think.

885. On top of page v there is mention of "a more restricted clause containing no specific provision for recovery of any excessive profits disclosed." What sort of a clause is "a more restricted clause"?—The clause was: "The contractor will furnish such particulars of costings in connection with the contract as may be called for by the representatives of the Secretary of State, and will permit the same to be verified by inspection at his works or at the works of any other sub-contractor or allied firm carrying out a portion of the work, with a view to satisfying the Secretary of State that only reasonable costs are

charged." You will note that the clause omits any stipulation that unreasonable costs may be recovered.

886. And how has it been applied in practice?—Oddly enough, we have got refunds, rather against expectation. We have, after examination of books, succeeded in getting refunds. We got £10,000 from a Greek contractor who roasted coffee beans for us; and there are other instances of refunds.

887. In the next sub-paragraph there is mention of a company. Perhaps you will tell us what the company is, not necessarily for publication, if you prefer that it should not be published?—(*Information given.*)

888. What reason was there for thinking that the prices were fair and reasonable with regard to these large contracts?—The difficulty there was that we could not and did not get access to the contractors' books, and therefore it is difficult to say whether they were fair and reasonable. We have now agreed with the same contractor that he should render us an account, on lines drawn up by our own cost accountant, of all his dealings with us, and we shall hope by persuasion to recover anything which we regard as excessive; but there again it must be persuasion; there is no compulsory power.

889. Have you had very large transactions with this particular firm?—I am afraid I have not here any total of what our transactions are. (*Sir Gilbert Upcott.*) They cover quite a large proportion of the Army's things like anti-tank mines and containers. (*Sir Eric Speed.*) Yes, they are the biggest contracts. (*Sir Gilbert Upcott.*) They form quite a large percentage.

890. The accounts have not yet been produced by the firm, have they?—(*Sir Eric Speed.*) No, Sir.

Sir Frank Sanderson.

891. I would like to ask this question: I think you stated that most of the contracts are with either Egyptian or Greek contractors. Can you state whether there are any companies which are British-owned and which have subsidiary companies in Egypt?—I cannot state that with certainty without further investigation, but I think I can say that where they are British-owned we have had no difficulties about the insertion of the full costings clause. Would the Comptroller and Auditor General verify that? (*Sir Gilbert Upcott.*) The company just mentioned is I believe a British-owned company.

892. Could you state whether the prices paid in Egypt compare favourably with the prices for the same commodities in this country?—(*Sir Eric Speed.*) To take the case of the 2-gallon petrol container, which

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is a welded tin, we compared the price in 1943 with the price charged by the Ministry of Supply. The local price was 3s. 6d., but that did not include contributions by the Army in the way of material; and the Ministry of Supply price was about 9s. 6d. We concluded from that that the two were probably about the same, allowing for the contribution by the Army.

893. Do you not find in the main that, due to the abnormally high spending power in Egypt to-day, there is inflation, that being the primary cause of the higher price of things bought out there?—Yes, certainly.

Mr. Benson.

894. Did I understand you to say that the price of the 2-gallon petrol tin supplied by the Ministry of Supply was 9s. 6d.?—Yes, that is what I said.

895. Is that the thing we used to get for 2s.?—No, it is a specially welded container. I am afraid I have not seen one, but those are the facts, according to my information; I think they are correct.

896. Is it much stronger than the ordinary standard petrol tin?—Yes, I presume it is. If you like, I will find out the facts.

Mr. Silverman

897. Could you tell me how the contracts are arrived at in these cases? What is the basis on which prices are agreed in these contracts? If you have not a costings clause, how do you arrive at the price?—I suppose they asked for quotations, and proceeded to negotiate on the basis of quotations.

898. Without any means of being able to test the reasonableness or otherwise of the quotation?—Yes, except by comparative costs from elsewhere.

899. Except by comparative costs from elsewhere, which might or might not be an adequate test in the particular place where the contract is placed?—Yes, with allowances for local labour.

900. So far as you can make them in the absence of any costings clause?—Yes.

901. Was the cost-plus system used at all?—I think so, Sir; I am not sure whether in these particular contracts it was. (Sir Gilbert Upcott.) Not much, I think—not plain cost-plus. (Sir Eric Speed.) I am not sure, but as stated in the Comptroller and Auditor General's report, the main system was negotiation on the basis of costs which we estimated.

902. That is to say, you estimate a cost, then invite quotations, and try to negotiate a price between your estimated cost and the price quoted to you?—Yes.

903. Bearing in mind the consideration you told us about just now, in answer to Mr. Benson, that you are very much in the hands of the contractors in the absence of competition?—Yes, we were entirely in their hands. You had to take the whole output at the best price you could get.

904. Although there was no competition on the price, neither was there competition for their goods?—No, but they knew very well that we could not cancel the contracts on the ground that the prices were excessive.

905. It looks as though the prices were excessive?—I have no doubt of it, and I have no doubt the circumstances of the case made that inevitable.

906. If you look at the top of page v, in the second sub-paragraph it is stated: "It was further stated that no separate investigation had been made of any one of these contracts"?—They are now being made; they had not been made.

Sir George Davies.

907. Roughly speaking, would the majority of these contractors you had to deal with in Egypt be Egyptians, or were they foreigners—Greeks, Armenians and so on?—They would be of every sort. As already stated, the company previously mentioned was British-owned; the smaller traders are Greeks, Armenians, Turks, foreigners of every sort, and Egyptians.

908. Did Italians figure in it at all?—I should hardly think so, Sir.

909. There was quite an element of Italians in Egypt?—I should hardly have thought they were given contracts.

Chairman.

910. We will take paragraphs 7 and 8 together. With regard to this cost-of-living figure, which has risen to 248, could you tell us how that figure was arrived at? Have you any information on that?—No, I have not. I do not know whether the Comptroller and Auditor General can give you any information about that; it is his figure.

911. I did not know whether you had any information to check up on the official figure?—I am sorry, Sir, I have none. (Mr. Blunt.) There was quite a long report issued by the Committee which arrived at that figure; it was a Committee headed by the Lord Chief Justice.

912. In Palestine?—Yes.

913. I presume in that case the Army authorities, who largely do the spending of the money in Palestine, had no representative on this cost-of-living committee?—(Sir Eric Speed.) We had no representative.

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914. You were just in their hands?—We did not leave it in their hands; we suggested that we might have a representative, but the answer was that it was a semi-judicial body and that it would be inappropriate for an Army representative to serve. On the other hand, the Minister of State in Egypt appointed a representative.

915. In Egypt: but you had no say in Palestine?—I am sorry; I mean the Minister of State in Egypt appointed a representative to sit on the Palestine Committee.

916. Our Minister of State?—Yes.

917. He presumably knew something of the Army viewpoint with regard to these problems?—Yes, he knew a great deal about it, but unhappily he was withdrawn to this country for other duties in the middle of these proceedings.

918. And not replaced?—And not replaced.

919. In the third sub-paragraph there is a mention of an allocation by the Palestine Government of £2,000,000 for the purpose of combating the rise in the cost of living in that country. Have you any information as to how that £2,000,000 is being applied?—No, I am afraid I have not. (Mr. Blunt.) I do not think the War Office would have that information. The £2,000,000 is mainly being applied to cereals and meat. The figure is now running at about £3½ millions.

920. It is being applied on the same sort of lines as in this country?—Yes, mainly for cereals and meat; they are the main things.

921. Could you tell us about the constitution of the War Supplies Board which is referred to about half-way through the paragraph? Army representatives are mentioned?—(Sir Eric Speed.) Yes. There were two representatives from the Army on a Board of seven persons, I think.

922. Two out of seven. That Board was set up with a view to the saving of shipping space; so your views are adequately put forward on these questions?—Yes.

Sir Frank Sanderson.

923. Dealing with paragraph 8 and price control generally, would it not be safe to say that the demand for goods exceeds local production capacity?—It would be quite correct.

924. And that being so, the consequent increase in bonus or salaries or wages is really in effect creating in itself the inflation which has taken place in Palestine?—I think it is the old question of the cat chasing its tail; the prices go up and the wages must go up, and the prices go up some more. It is the old story.

925. The quantity of commodities remains the same, therefore the prices of them must not be allowed to go up, otherwise it causes

inflation?—Yes. (Mr. Blunt.) The Colonial Office are very concerned about the question of inflation. There have been two committees out there, one on revenue and purchasing power, and the other on expenditure. The position is a difficult one, but I think it is being improved.

Mr. Benson.

926. I do not know whether the Treasury can answer this question, but what steps have been taken to increase taxation in Palestine?—As I was saying, there has been a Revenue Committee out there examining the question.

927. Has anything materialised?—Not just at the moment, Sir, I think, but it is just on the point of materialising. I think something may happen in the course of this current year.

Mr. Silverman.

928. I wonder if Sir Eric can tell us (I shall quite understand if he cannot; I am only wondering) what domestic obligations of the Palestine Government were affected by the cost-of-living index figure?—(Sir Eric Speed.) I am sorry, I do not appreciate the question.

Chairman.

929. That is quite outside the witness's province?—I do not quite follow the question.

Mr. Silverman.

930. This figure of 218 goes to 248, and that obviously affects the prices we were paying?—Yes. (Mr. Silverman.) I was wondering what effect the rise in this index figure has had upon local expenditure.

Chairman. It is quite outside the witness's province.

Mr. Silverman.

931. It might or might not be?—(Mr. Blunt.) The rise in the cost-of-living index figure would affect Government employees.

932. I was wondering what the effect was on the domestic obligations of the Palestine Government?—Sir Eric will correct me if I am wrong, but I think the Army is the largest employee; but there is a considerable body of Government employees.

933. What about local Government contracts?—That I cannot say.

934. So there is no means of knowing whether the cost to the Palestine Government arising out of this increase was greater or less than the cost to the British Government?—It is a thing that could be worked up. (Sir Gilbert Upcott.) I think it could be taken as quite certain that the Army expenditure is greater.

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[Continued.]

935. It would be interesting to know?—
(Mr. *Blunt*.) I will see if I can get a figure,
but it may be rather difficult to get it.

Chairman.

936. We come now to paragraphs 9 and 10 over the page. Could you tell us, Sir Eric, the reason for the differentiation mentioned in the first part of paragraph 9 with regard to the placing of these contracts?—(Sir *Eric Speed*.) May I start by saying that the bulk of the food of the Army is not bought locally at all, but is imported. The main Army purchases locally are vegetables, oranges, jam, marmalade and forage, and the sum which the Committee is considering is £2,000,000 in the year of account. The line which the Army takes in placing its contracts for food supplies is not by competitive tender, which is quite unsuited to a market where we are buying the whole output or where the market is limited; instead we adopt two general lines. Where there has been a maximum price put on the commodity by the Palestine Government, we have negotiated prices within that maximum price. A successful example of negotiation is that we get our vegetables for 20 per cent. less than the maximum price. In the case where a maximum price has not been set by the Palestine Government, we proceed to maximum price contracts subject to costing. In the case, for example, of jam and marmalade, the costing clause provides for investigation and reduction in price if the prices are unreasonable, and for that purpose we use the technical costing staff of the Palestine War Supplies Board, of whose technical capacity we have a high opinion. The Board, I may say, does not charge us for those services, although these are estimated to cost the Board £14,000 in 1944. That is the situation as regards food supplies. As regards stores other than food, we place our orders through the War Supplies Board itself, which is divided under two Controllers, a Controller of Light Industries and a Controller of Heavy Industries. The Controllers fix the prices, but the Army reserves the right to agree to the type of contract and to the price. There again we make use of the technical costing organisation maintained by the Palestine Government. That is a broad outline, Sir, of how the Army operates in Palestine.

937. There is mention in the fifth line of the fact that "The terms of certain contracts were not very precise"?—The lack of precision I think arises from the fact that although they were described as fixed-price contracts, they contained a costings clause. The report goes on to refer to a state of affairs where we could have got refunds but did not take them, or it seems to suggest that. I regret that I have not yet got to the bottom of that.

938. I was asking what the reasons for the difference in treatment are?—I am

afraid the answer is that I do not know. I am enquiring and I will put in a note.*

939. It would be interesting to know?—I may know by Thursday; if not, I will put in a note.

940. If you do not know by Thursday, perhaps you will send us a line about it. It is a rather curious state of affairs?—(Sir *Gilbert Upcott*.) My perplexity arose from the fact that I was informed that the contracts were placed at fixed prices subject to a clause protecting the Army against excessive profits, which seemed to be a contradiction in terms.

941. The second sub-paragraph of paragraph 9 mentions a profit of 10 per cent. on estimated costs. Is not this rather a high figure?—(Sir *Eric Speed*.) No, Sir, we did not take that view. Just as in Egypt, here it was necessary to start a new industry to make anti-tank mines and things of that type, and for a new industry of that sort we did not regard 10 per cent. as an undue rate of profit, because the price factor obviously had to have an added measure of profit in it to induce people to make anti-tank mines.

942. That would not apply to preserves, cement, and all sorts of things that they were making before. So far as Sir Gilbert's paragraph is concerned, he says, "The Board generally allowed a profit of 10 per cent."?—I think that paragraph refers to the stores.

943. Does that refer to the stores in bulk or to the special ones you have mentioned?—I have already said that for jam and marmalade we proceeded by maximum prices subject to costing.

944. In the next paragraph Sir Gilbert says, "The War Supplies Board decided to relate profit to the capital employed." Could you tell us what the relationship was?—It was a maximum of 12 per cent. on capital employed.

945. A maximum of 12 per cent.?—It means 12 per cent., of course.

946. That is effective, is it?—Yes.

947. It is appreciably higher than here, but the conditions are so different?—It may be appreciably higher, but I am not convinced that it is, because the home rate is 7½ per cent. on capital plus a percentage on cost for efficiency and a percentage on cost for risk, and I have reason to suppose that those three percentages in some cases work out at more than 12 per cent. on capital, although it is a matter of argument. Incidentally, the maximum legal rate of interest in Palestine is 9 per cent.

948. Has this recommendation been adopted which is referred to in the last line of paragraph 10: "The Board have recommended that the Palestine Government should take all possible steps to lower the maximum legal rate of interest"?—I

* See Question 1084.

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understand from a cable received the day before yesterday that there is no present intention of the rate of interest being reduced.

Mr. Benson.

949. The 10 per cent. mentioned in subparagraph 2 of paragraph 9 is on cost. Your 12 per cent. was related to capital employed?—Yes.

950. Have you any idea, in the case of anti-tank mines, to which you have referred once or twice, what the 10 per cent. on cost meant in relation to capital?—I have no idea at all. Actually the 12 per cent. on capital will not apply to that type of contract at all, because they have now stopped.

Mr. Silverman.

951. Who are represented on the War Supplies Board? You said that the Army had two representatives out of seven. What are the other five?—The Board consists of the Financial Secretary to the Government as Chairman, the Director of War Production, the Food Controller and two Army representatives; therefore my figure ought to have been five instead of seven.

Chairman.

952. The Army have nearly half?—Yes.

Mr. Silverman.

953. You have two out of five, and the other three are Palestine Government officials?—Yes.

954. Can you tell me when the Board recommended to the Palestine Government that the rate of interest ought to be reduced?—I do not think it had anything to do with it at all.

955. It says in paragraph 10: "The Board have recommended that the Palestine Government should take all possible steps to lower the maximum legal rate of interest"?—If the Board recommended that, it is outside my knowledge; but obviously it is not for them to settle that.

956. No, but it says, "The Board have recommended that the Palestine Government should take all possible steps to lower the maximum legal rate of interest". I was wondering when they did that?—I do not know. The Comptroller and Auditor General may know; it is his paragraph. (Sir Gilbert Upcott.) I think it was in October, 1943.

957. I think you said just now, in answer to a question by the Chairman, that your present information is that the Palestine Government do not propose to lower the maximum legal rate of interest?—(Sir Eric Speed.) Yes.

958. Is there any reason given why not?—I have seen no reason, but it is not a question which concerns the War Office as

such; I should expect the Colonial Office to know.

959. It affects the price you pay?—Yes.

960. I should have thought you had a very direct interest in it?—We have an interest in it, and that is why we are in communication with the Colonial Office about it; our contact is with the Colonial Office here.

961. Do you know whether the question is being pursued with the Colonial Office?—No, I do not; there has hardly been time yet.

962. If we are paying more than otherwise would be paid by reason of the fact that the rate of interest is higher than it ought to be, and if that could be controlled by the Colonial Office, one would have thought the War Office might want to make some recommendation to the Colonial Office about it?—Yes, that would be one way of approaching it.

963. You have a Board of five on which two representatives, and the other three, who are Palestine Government officials, all think the maximum legal rate of interest ought to be reduced; that is their recommendation?—From one point of view that would be one factor in the argument. I imagine there would be a good many others before the Palestine Government.

964. That may be right, but it would be interesting to know how they arrived at their decision?—It will be interesting, and no doubt we shall know.

Sir George Davies.

965. On the last subparagraph of paragraph 10, has that aspiration about the easing of transport been realised at all, or is it in process of realisation?—Yes, Sir, all orders for stores such as anti-tank mines, etc. (not food) have been cancelled, or will not be repeated after 1st April this year. No further production orders are being placed.

Mr. Benson.

966. Might I make one further inquiry about the maximum legal rate of interest? It is a curious phrase?—Yes, it is.

Mr. Benson.] And so far as I know, there is no maximum legal rate of interest in this country.

Mr. Silverman.] There is.

Mr. Benson.

967. You can apply for relief against an unconscionable rate, but there is no maximum rate. Is there a maximum rate in Palestine?—What it means is that you have to pay 9 per cent. for borrowed money, I suppose.

968. But there is no maximum legal rate in this country. You can charge what rate you like, provided you can get it?—No, not under the Moneylenders Act.

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969. What is the maximum legal rate in Palestine, how is it fixed, and to what types of loans does it apply?—I do not know.

Chairman.

970. Sir Gilbert might know?—(Sir Gilbert Upcott.) I do not know the precise legal definition of it, but there is nothing new in the principle.

Mr. Benson.] It applied in this country a long time ago; there was a maximum rate of 5 per cent. The Bank of England could not charge more than 5 per cent. before 1844.

Mr. Douglas.] The real question is, have we any evidence that the actual effective rate of interest approximates to the maximum legal rate?

Mr. Silverman.] That is the point.

Chairman.] I do not think we can take it further here.

Mr. Silverman.

971. I am not quite clear myself since Mr. Benson has raised the question; I thought I was before. Does the phrase mean any more than that there is not in Palestine any legal control of the rate of interest, or is there in fact a maximum legal rate settled by law or ordinance, or something of that kind?—(Sir Eric Speed.) If it means anything, it means the latter. (Sir Gilbert Upcott.) It means that there is a 9 per cent. maximum legal rate.

972. There is a maximum legal rate?—Yes.*

973. And a Palestine member of this War Supplies Board thinks that is too high, but his Government does not agree with him?—(Sir Eric Speed.) His Board did.

Chairman.

974. We pass now to paragraph 11, "Purchases of Oranges." Could you tell us why it was thought wise not to have competitive tendering? There is some mention, incidentally, in Sir Gilbert's report about deterioration which might result from neglect. That was the reason, was it?—The orange industry is 90 per cent. of the Palestine export trade, and when the war broke out it looked like being ruined. The Palestine Government tried to persuade us to place contracts for our requirements before the Citrus Marketing Board was established. We resisted their blandishments for some time, but in 1942, when our requirements for export were seven times our requirements for local consumption, we came to the conclusion that the advantages of getting proper arrangements for packing outweighed the advantages to be gained from competitive tendering. We did, however, make a stipulation

* Note by the Comptroller and Auditor General: It is the maximum rate of interest which, under a Palestine Ordinance of 1929, a bank may charge a customer in respect of any loan or overdraft.

that before we would buy our requirements through the Citrus Marketing Board we would go out to tender in order to test the market. As a result of doing so, we persuaded the Board to reduce the prices which they had proposed to charge us. In the opinion of the War Office, it was worth while paying rather more, perhaps, than we might have had to pay for one-seventh of our requirements, namely, the internal consumption, in return for getting a well-organised arrangement for our export requirements, which, as I say, were six or seven times those of our internal requirements.

975. Had you had difficulty with regard to shipments arising from neglect or lack of skill on the part of the contractors when you had competitive tenders?—I am not sure whether there was difficulty in shipping. A large number of oranges were rejected as being unfit for importation into Egypt.

976. They were bad, do you mean?—They were badly packed and they were affected by some disease whose name I forget.

977. Could you tell us the composition of this Citrus Marketing Board?—I am afraid I cannot.

978. Does it consist almost entirely of the local citrus growers?—The Chairman of it is the Food Controller of the Palestine Government—an official.

979. It is not a traders' organisation?—It is a Government organisation; I have no doubt the traders are represented on it. The Chairman is the Controller of Food. It corresponds very closely to the arrangements in this country.†

980. On the last sub-paragraph of paragraph 11, you were asked whether the War Office concur in the action taken by the Command in placing all orders through the Board, and also whether instructions have been issued to test the outturn of non-competitive contracts. May we have the answer to that?—The answer is that where we have power to cost, we do test the outturn of contracts, and we use the information we obtain in the event of deciding to make fixed-price contracts in the next period. In this particular case we preferred to proceed to a maximum price contract subject to costing, with a maximum return on capital. This is 12 per cent. on capital and applies equally to oranges as from 1943.

Sir Irving Albery

981. What officer would be responsible for negotiating these orange contracts: I do not want his name?—The supply and transport officer locally, with the Financial Adviser to help him.

982. Was there a Financial Adviser?—At this time, yes, but at present there is

† See Question 1084.

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a civilian Advisory Contract Section, which consists, I think, of one person, but he has expert knowledge.

Sir Frank Sanderson.

983. I think you stated that there was a good deal of damage sustained and deterioration in the quality of the citrus fruits imported from Palestine to Egypt. Is there any special reason why they should be imported at all from Palestine to Egypt? Egypt herself is a very large and important grower of such fruits. Could you not buy them in Egypt itself?—I think the answer must be No, because the whole of the Mediterranean Forces had to be fed, and now have to be fed, and in 1943 the Ministry of Food entered the Palestine market as well, and I have no doubt they are in the Egypt market, although I do not know that as a fact. It is for this country as well as for the Forces.

984. Can you state whether there is any special reason why the normal procedure should not be carried out as the basis of contracts, namely, open tenders, reserving the option not necessarily to accept the lowest tender?—If, as I think is the case now, the whole orange output is being taken, whether by the Ministry of Food or by the Army, the competition is apt to be unreal, and in our view you are likely to get a safer price if you cost the contract and impose a maximum return on capital.

Mr. Silverman

985. I would like to know a little more about the composition of the Citrus Marketing Board: can you tell me?—I am sorry, without notice I cannot tell it you, but I will try to bring it on Thursday.*

986. I will tell you why I want to know. It is not mere idle curiosity. The reason given for not accepting the lower price offers of other firms is: "It was explained, however, that in the case of oranges required for export heavy losses from deterioration might result from neglect or lack of skill on the part of the contractors. It was therefore considered necessary to place the contracts with firms of sound repute" (nobody would quarrel with that, but then it goes on) "who were nearly all members of the Board"?—I do not know whether that actually means members sitting with the Board or, as it were, associated with the Board. I can hardly believe that they were all members of the Board.

987. It has every appearance of that?—It certainly has.

988. The Board is printed with a capital B, and it apparently refers to the Board mentioned in the previous paragraph, the Citrus Marketing Board?—I agree it reads like that.

* See Question 1084.

989. It would be a curious arrangement, would it not, if this Board consisted of every firm, or nearly every firm, of sound repute?—If it means that.

Chairman.] If you could have the answer to that on Thursday, we should be glad to have it.

Mr. Pichthorn.] Purely on the actual construing of the words, as the paragraph is written I should have thought, if one had to translate it into some other language, one would begin by thinking that this means that the firms were members of the Board.

Mr. Silverman.] That is what I thought.

Mr. Pichthorn.] And, what is more, that all the good firms were members of the Board: there were no good firms that were not members of the Board. But surely firms could not be members of the Board? A firm's largest shareholder or managing director might be a member of the Board.

Mr. Silverman.] That is what I had in mind.

Mr. Pichthorn.] I fail to construe it.

Chairman.

990. Would you let us have that on Thursday, unless Sir Gilbert can throw any light on it now?—I repeat, it is not my report. (Sir Gilbert Upcott.) The words were taken from the reply of the Army Financial Adviser to my officers in Egypt in 1941, who said that whereas they might have gone to speculative contractors, the contract prices would have been more than counterbalanced by heavy losses from deterioration. The reply then goes on to say, "It was therefore necessary to approach contractors of sound repute. As these were nearly all members of the Citrus Marketing Board, they would be unwilling to submit offers lower than those made by the Board." To say that the firms are members of the Board is an inaccurate expression, I confess. (Sir Eric Speed.) These are associate members of the Board, I take it. I can hardly think that they would all be members of the Board.

Mr. Silverman.] One would like to know how the "sound repute" was measured and who applied it.

Chairman.

991. I do not know if you can supply that information and let us have it on Thursday?—(Sir Gilbert Upcott.) The Board was a trade organisation.

Mr. Silverman.] One begins to wonder at what point a Marketing Board ceases to be a trading organisation and becomes a monopoly.

Mr. Douglas.] Surely the object of a Marketing Board is to be a monopoly.

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Chairman.

992. We will take paragraphs 12, 13, 14 and 15, which run together, "Iraq and Persia." Could you tell us why expenditure was incurred by imprest holders to a larger extent than usual?—(Sir Eric Speed.) I think the probable reason is that we inherited the country from the Indian Administration, and they worked on a system of monthly advances to imprest holders, who paid all bills in that manner. The Army system is to pay through paymasters as much as possible, keeping the issue of cash to imprest holders to the minimum. We are investigating all bills paid by imprest holders and restricting future cash issues.

993. Can you tell us the result of the review?—No, Sir, I have not it.

994. In paragraph 13 there is a reference to considerable increases in the prices of barley, rice and meat. Have you any measure of control?—Barley we buy from the United Kingdom Commercial Corporation as an instrument of the Middle East Supply Council, and we have no control over the price. Rice we buy also from them. We buy ourselves meat—sheep and cattle.

995-6. Can you tell us about the taxation issue which was under discussion a month ago?—That refers to Iraq, I think. There we succeeded the Royal Air Force as the responsible Department, and we found that they had in their meat contracts a provision to say that the contractor must pay the tax. The Treasury authorised the Army to follow suit, and the Iraqi Government are now being pressed to pass legislation to say that tax will not be levied directly on cattle for Army usage.

997. You have not yet got a settlement? On the next paragraph, paragraph 14, has any settlement been arrived at with regard to the traffic on State railways?—No. With your permission, may anything I say on this subject not appear on the record?

998. It is taken down, but you will have the opportunity of taking it out afterwards?—The matter is still under negotiation. (Information given.)

999. On the following paragraph, paragraph 15, could you tell us the original arrangement with this European engineering company, and who they were?—This is a Scandinavian firm (name given). They were found in Persia before the war in connection with the construction of the Persian State railways, and the Indian Government, when they were in charge of Persia, employed them to supervise and carry out a road programme of £5½ millions estimate, which was partly based upon the Aid-to-Russia plan and partly upon the likelihood, as it seemed then, of an attack through the Causasus. When we took over the Indian administra-

tion we took over the services of the firm as well, whose contract had not then run out, and we proceeded to vary the arrangements with them to the extent that the Chief Engineer of the Army himself chose contractors with the advice of the firm. He himself applied his scrutiny to the prices on the various contracts, partly from his own personal knowledge of road-making and partly by a comparison of the prices which had been paid for the construction of the Persian railways before the war, and he gradually substituted the firm's organisation by an organisation of military officers and other ranks. Now the contract has ceased.

1000-1. The contract has ceased now?—Yes.

1002. It was not a competitive contract?—It was placed by the Indian Government, but I imagine it was placed with the best firm they could find. (Sir Gilbert Upcott.) The contracts let by the company were competitive. (Sir Eric Speed.) The contracts let by the company. The firm itself was employed by India to run the contracts.

1003 In the last line but two it says: "Since the termination of the agreement the Army have investigated some of the contracts administered by the company and pending completion of this investigation final settlement with the company has not been made". Could you say at all with regard to that investigation and the position about the final settlement?—The general position is that there is £3,000 owing to the company in respect of admitted charges, and there is a claim for additional charges of about £13,000 from the company. First of all, we are trying to satisfy ourselves that the contracts have been placed on as satisfactory a basis as contracts can be placed on in Persia. The general system there is that you place a contract with a group, and they farm it out to another group, and they farm it out to another group, and so on. The only point is whether the firm, with their supposed expert knowledge of conditions in the country, might have secured us better advice and thus better prices. There is no suggestion of dishonesty in any way on the part of the firm: it is merely a question of whether they exercised their knowledge to our best advantage. (Sir Gilbert Upcott.) Those figures that the Accounting Officer mentioned only relate to the company's fees. The expenditure which was administered by the company on behalf of the Army ran into many millions. (Sir Eric Speed.) The estimate I mentioned was £5½ millions. (Sir Gilbert Upcott.) The expenditure was more than that.

Mr. Benson.

1004. With regard to the increases in the prices of barley, rice and meat, can you give us any indication as to how great the

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increase was?—(Sir *Eric Speed*.) Barley rose from £15 a ton in 1942 to £39 a ton in 1943.

Mr. *Silverman*.

1005. What about 1941?—I have not a figure for 1941. (Sir *Gilbert Upcott*.) The increase on pre-war prices was much more than that. The price of barley pre-war was £3 a ton; it rose to £6 10s. a ton in 1941, and it rose to £39 a ton in 1943.

Chairman.

1006. Thirteen times as much?—(Sir *Eric Speed*.) I was dealing with the year of account and the succeeding year. In the case of rice, my figures are for the year of account and 1943. (Sir *Gilbert Upcott*.) The price of rice in October, 1941, was £16 10s., and in July, 1943, it was £89. (Sir *Eric Speed*.) That is right; it was £65 in 1942.

Mr. *Benson*.

1007. Was that due to the Army demand? What do the Army take barley for?—(Mr. *Blunt*.) Perhaps I might say that these purchases of barley and rice were made through the United Kingdom Commercial Corporation, and the Treasury, being very interested in these increases of price and being very much exercised about them, have taken considerable trouble to try to get them down, the main interest being in the price of barley; that is our main purchase; it is six times as much as the purchase of rice. So far we have not done much about rice; it is a difficult problem to control, and we have concentrated on barley. In the case of barley, the figures have been given of an increase to £5 a ton in May, 1941, and to £39 a ton in 1943. Since then it has come down to £31, and then I think it came down to £27, and I think the prospect is that if it has not already come down it will come down to about £22; it is coming down.

1008. What is the U.K.C.C. purchasing barley in those quantities for?—They are purchasing under a programme by the Minister of State out there on an agreed cereal policy.

1009. It could not have been a pre-emptive purchase?—No, Sir, there was nothing pre-emptive about it.

1010. They were purchasing to a central policy, and they in effect forced the price up 13 times. Was the Treasury consulted by the U.K.C.C. about this?—The Treasury are in almost daily consultation about this.

1011. The Treasury were satisfied that that policy was a correct one?—I think I am right in saying that when the price rose to £39 we did hold off the market, and it was that holding off the market which brought it down to £31, as I say.

1012. What I am puzzled at is why it was bought. Was there an urgent need

for barley?—Certainly. With the transport position out there, we had to get it wherever we could.

1013. Any kind of cereal was urgently needed?—Yes. That is not quite the position now, and that is why the price is coming down.

1014. With regard to the statement, "These prices include an element of local taxation, the admissibility of which is at present under consideration," what does "local taxation" mean? Does it mean taxation by the Persian or Iraqi Government?—This is a particular tax called *Ishtalak* tax. It used to be a land tax and it is now practically a sales tax. (Sir *Gilbert Upcott*.) *Ad valorem*. (Mr. *Blunt*.) *Ad valorem*.

1015. What percentage?—(Sir *Gilbert Upcott*.) It used to be 10 per cent.; it was, I think 12½ per cent. in 1943.

1016. So it has not a very material influence on the increases?—(Mr. *Blunt*.) No.

1017. With regard to paragraph 14, you are in dispute at the moment with the Government on the question of railway rates. I think we have spent a very considerable sum there in improving those railways, have we not?—(Sir *Eric Speed*.) Yes.

1018. Has any of that been taken into consideration?—No. The present policy is to hold the capital improvements as part of the post-war settlement, and not to attempt to bring them into the negotiations about current costs.

1019. By "post-war settlement," do you mean that the Iraqi Government will have some major bills against us?—There are bound to be bills on both sides. What I meant was that we did not propose to complicate the current negotiations by these capital additions.

1020. The capital additions will not be forgotten?—No.

Mr. *Douglas*.

1021. Is the barley, rice, and so on, purchased for consumption locally?—No, by no means; some of it is; it is purchased by the U.K.C.C., which concerns itself with the whole of the civilian requirements of the Middle East, and I assume, therefore, they have been buying for other than local requirements.

1022. This is not to supply any Army organisation in Persia and Iraq?—It is not for that purpose, but it does incidentally supply that requirement.

1023. Then a large part of it is exported?—I presume it is; I am not speaking with knowledge. (Mr. *Blunt*.) It was well exported to countries within the Middle East.

1024. Is the argument in favour of this that it is impossible to get supplies otherwise?—It was at that time, Sir.

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1025. Are supplies now being obtained elsewhere?—The position is that we are able now more easily to say, if the price is high, that we will not take it.

1026. Yes, that is what I want to get at. Now you are saying so?—There is some evidence that the figures are coming down. (Sir Eric Speed.) So far as the Army is concerned, we have stopped buying rice in Persia.

Sir Frank Sanderson.

1027. Is not the normal price of barley about £4 15s. od.?—(Sir Gilbert Upcott.) I have a record of a pre-war price of £3. (Mr. Blunt.) In May, 1941, it was £5.

Mr. Douglas.

1028. What is the latest figure?—I hesitate to give it, because I am not sure if it has yet been fixed, but if I may give it provisionally, I think it is about £22.

1029. So there is a very wide margin still left?—Yes.

Mr. Silverman.

1030. I am rather worried about this. Do I gather that the Army was the principal purchaser?—(Sir Eric Speed.) The Army bought none; the U.K.C.C. bought everything that was bought in the way of barley and rice in Persia. From those purchases it supplied what the Army wanted. It supplied the rest to others.

1031. I ought not to have said "the Army"; I should have said "we," generally. Were we the principal purchaser in those countries of those articles?—Yes, in 1942, I have no doubt.

1032. It does look as if there was a direct connection between our purchases and the steep rise in prices?—I think that is inescapable; there must have been.

1033. Yet no attempt was made to control it until it reached these enormous proportions?—For the simple reason that you had to have as much as you could get at that time.

1034. We were in the country, were we not?—We do not govern the country.

1035. I suppose these were the staple articles of living in these countries: what the people live on is barley, rice and meat? I suspect so.

Mr. Silverman.] So if these countries had any cost-of-living index figures, I suppose it must have been something like 700 or 800.

Chairman.] We arranged last year to have the U.K.C.C. before us in future. They will be before us in a few months' time, and these questions which you are now asking are much more germane to them than to the witness you are now questioning, if you will make a note to ask the U.K.C.C. when they come before us.

Mr. Silverman.] I will.

Chairman.

1036. Paragraph 16, "North Africa," in the last line it is stated that negotiations for a refund of taxation are still in progress. Have any conclusions been arrived at yet, Sir Eric?—They are still in progress.

Sir Irving Albery.

1037. It says, "In reply to local inquiries, they were informed that confusion and delays would have occurred if purchasing officers had been instructed to obtain quotations exclusive of tax." Can you enlarge on that at all? Why would there have been undue confusion and delays if the quotations had been free of tax?—We had just landed in Algiers, and we were hurrying along to Tunis, and the Army supply officers went along and bought what they needed without much regard to anything but the need.

1038. Have we a right to acquire things there free of tax? Is that a recognised right?—That is really the point at issue here. Our principle is that we do not accept taxation for purely revenue purposes. If local taxation represents services rendered, like port dues or municipal rates, or that sort of thing, then we pay, and that is really the subject of the doubt here. There are two sorts of tax involved: one is similar to a purchase tax and the other is similar to a production tax.

1039. If the right is not definitely recognised but is a matter of negotiation, the question of getting quotations free of tax cannot have arisen, and the explanation there about confusion and delays is hardly necessary?—The National Committee have agreed that they will refund us any tax we paid known as production tax; they have agreed to that; they are going to refund us that; the only question is, how much? It is on the purchase tax that the doubt arises.

Sir George Davies

1040. What organisation imposes the local taxation? Is that done now by the French National Committee?—It is now done by the National Committee.

Chairman. We pass on to the next paragraph, paragraph 17, "East Africa".

Mr. Benson.

1041. Last year I think we raised the question of the War Supplies Board in Kenya, and if my memory serves me aright, we were not entirely satisfied with the support you were getting?—(Sir Gilbert Upcott.) You will find that dealt with in the next paragraph just over the page.

Chairman.

1042. That is dealt with in the next paragraph, paragraph 18, which we are taking with the Treasury Minute. I just

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[Continued.]

want to remind the Committee that in our report last year it was mentioned that the War Office had decided to send representatives to discuss these matters with the Commander-in-Chief and the Colonial Governments concerned, and the Treasury Minute says, I think, that we should re-examine the matter this year in the light of the investigations and discussions. Have you anything to say with regard to these investigations and discussions?—(Sir Eric Speed.) Yes, Sir. The investigation consisted of two officers; one was a chief accountant with long experience, part of which had been in East Africa at the beginning of the war, now employed in South Africa; the other was a cost accountant from the Directorate of Army Contracts in London. As a result of their report and of other reports which I have had, I am able to say that the statement which I put in to the Committee in June last was correct, with one important exception. In the paper I said that the Controller of Prices and Military Contracts was empowered to fix the prices of all commodities. That was true for a time, but ceased to be true when the problem became one for the Colonial Governments of producing the largest volume of production that they could possibly produce. The Supply Council then took the view that the matter had become a production problem rather than a problem to be handled on the ordinary lines of finance and contractual system, and they therefore transferred the responsibility for fixing prices of primary products from the Controller of Prices and Military Contracts to the Production Controllers. As a result of the demand for everything that could be produced from the country, the Government became satisfied that they must pay inducements to persuade the opening of new acreage, and also to persuade farmers to transfer from one type of crop to another. The result has been that the basis of profit on all ordinary contractual considerations is now obscured by the existence of this inducement factor. I cannot, therefore, say, and I cannot tell the Committee, what is the precise basis of profit so far as concerns these primary products. I have, however, arranged for the second member of the Inquiry, namely, the cost accountant, to be allowed to sit with the Supply Council at the time when the final decisions are taken varying the prices of the primary products, and I hope that by doing so he will be able to analyse the cost paid for these primary products, and to give some indication of the measure of inducement and extraneous factors which would not normally be part of a contract price. If when that information is available it seems that there is an argument that the Army ought not to pay all those elements, the remedy will be, I think, as between the War Office and the Colonial Office rather than as between the Army or the Middle East and the Colonial Governments. Apart from that, everything I

said in this memorandum I think is correct, but I recognise that that is a very big exception.

1043. The U.K.C.C. does not come into this at all, of course?—No.

1044. You have direct dealings?—Yes.

1045. Is there any comparison of your purchases against purchases elsewhere as a check on the prices you pay?—I have had comparative figures drawn up for corresponding commodities elsewhere, and purely on that basis the evidence tends to show that we are getting a fair price; but it is difficult to know how much credence to attach to those figures; I mean, the figures are accurate, but it is difficult to know what conclusions to draw from them. I have figures for South Africa, East Africa and the Middle East for various commodities, and in most of them the East African price is the lowest, although in one or two instances it is the highest. That is not a very satisfactory way of concluding that you are getting a fair and reasonable price in East Africa, but it is the best way I have got at the moment.

1046. Transport comes into it?—I am taking local production costs in these countries without shipping costs.

Mr. Benson.

1047. With regard to your East African prices, you say they seem to compare favourably with those in South Africa?—Yes.

1048. What relationship do they bear to pre-war prices of the same articles?—I am afraid you have stumped me there. Perhaps the Comptroller and Auditor General can supply the missing information. I valued these in East African cents per lb., an East African cent being about $\frac{1}{4}$ d. The price of beef is 35 cents per lb. in East Africa.

1049. $4\frac{1}{2}$ d. a lb.?—In South Africa 58 cents, and in the Middle East it is 58 cents. I give that information for what it is worth.

1050. Have you any idea what it was in West Africa before the war?—No, I am sorry I have not. $4\frac{1}{2}$ d. happens to be the same price as we are paying in West Africa now, and therefore one concludes that the price was lower before the war, I suppose.

1051. Have they any price indices in Kenya? Have you any idea what the shift-up in the cost of living was?—I have not seen any figures corresponding to the figures quoted by the Comptroller and Auditor General for Palestine.

1052. You have no real basis for comparison?—No.

Mr. Douglas.

1053. What are the principal commodities concerned in this?—Beef, mutton, bacon, butter, cheese, milk, oatmeal, rice

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[Continued.]

1054. They are all agricultural products?
—Yes.

1055. So that what has really happened is, that, you wanted to induce them to cultivate land which was not being cultivated before, therefore a higher price was offered for these articles?—Yes.

1056. That higher price is given to everybody, even to those who were able to make a profit at the former price?—Yes, I have no doubt, and it is given also to the native producers.

1057. So it is really giving the same people the price which you have got to give to others to counteract the law of diminishing returns?—That is an assumption, of course, but I have no doubt it is true.

1058. It is a fair assumption, is it not? I did understand you to say that the object was what you described as inducement to produce where production did not take place previously?—Yes. What I meant was an assumption, was that if you have to pay somebody to do something, you may not necessarily have to pay somebody else who is already doing it.

Mr. Douglas.] That is the distinction I wanted to draw, that the result is that in fact everybody gets it.

Chairman.

1059. We pass to "West Africa," paragraphs 19, 20 and 21. On paragraph 19 I have no point. On paragraph 20, could you tell us something about these barter arrangements in Gambia?—Yes, Sir. We import cloth, and we buy meat on the hoof with it, and the price of the meat at the moment in Gambia is 4½d. a lb.

1060. But it is not a price in value, surely: it is a price in cloth?—The corresponding value of the cloth works out at 4½d. a lb.

Sir Irving Albery.

1061. For meat on the hoof?—I must verify that. (Sir Gilbert Upcott.) It is dead weight. (Sir Eric Speed.) Yes. (Sir Gilbert Upcott.) In other words, a cow is valued at £4 worth of cloth. My information is that a cow of 250 lbs. dead weight is bought for cloth valued at £4, and that has resulted on the average in the supply of meat to the Army at 4½d. a lb.

Chairman.

1062. It has been suggested that we are now on a cloth standard in West Africa. In the last sub-paragraph, there is a mention of operations in other parts of West Africa. Are there many other places where this rather primitive arrangement of bartering applies?—(Sir Eric Speed.) Sierra Leone and Nigeria on a small scale.

1063. Is it intended to extend it?—It is not being operated on the Gold Coast because there we get our cattle on the Lend Lease principle from the French in French Equatorial Africa.

1064. There is a mention in paragraph 21 of one-third of the cattle having vanished. Was it a large number of cattle?—That loss was due to lions, tsetse-fly and theft.

1065. Have you any idea of the number of cattle that vanished?—I am afraid I have not, without notice. It is one-third of the total; I do not know how many there were.

Sir Irving Albery.

1066. On the one-third of the cattle disappearing, I take it they were not purchased for delivery to the Army?—They were purchased up-country at that time.

1067. Could not they have been purchased for delivery? Have you had them? The report here says that one-third did not arrive in possession of the Army?—Yes.

1068. In whose possession were they when they disappeared?—They were in the Army's possession; it was an Army loss then.

1069. That does not quite fit in with the Comptroller and Auditor General's report, which says, "Only some two-thirds of the cattle acquired under a cattle-purchasing scheme in that area could be traced as having been received by the Army"?—I think that means, as having been brought into use by the Army. (Sir Gilbert Upcott.) I can only say what the local Colonial auditor said. He said that one-third of the cattle could not be traced as having been received in the Army depot. (Sir Eric Speed.) Meaning that we had taken property in them but they never got down to the Army itself, that is to say, to the eaters. I think there is no doubt about that.

Sir Frank Sanderson.

1070. One appreciates that it is not an uncommon practice to receive short weight in the countries that we are at present considering, but it says here, "Only some two-thirds of the cattle acquired under the cattle-purchasing scheme in that area could be traced as having been received by the Army"?—May I make it clear what I believe to be the position? We send agents up to the hills to buy cattle from the native producers. We buy cattle on the spot, with a yard of towelling, or whatever it is; the cattle then passes into Army property. We then bring it down, either on the hoof or in lorries. There was a shortage of lorries at that time, and the bulk of it came down on the hoof. It was there attacked by the usual hazards of African life, including theft, and by the time it got to the Army depots there was one-third missing, but it had come into Army property and we had lost the money; that is what it comes to.

1071. You mean these cattle are purchased at the farmsteads, and they are driven from there to the place where they are required for consumption, and an

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[Continued.]

amount of approximately one-third (which is not an unduly large amount, I agree) were lost on the way?—Yes.

Mr. Douglas.

1072. The real question seems to be: were these losses inevitable in the circumstances, and can some steps be taken to prevent or reduce them?—Yes. They may or may not be reasonable, but that rate of loss is very frequent, and, as the report says, steps have been taken to reduce the loss. I will detail the steps, if you like.

1073. Will you tell me whether they produce results?—The steps take the form of putting the loss on the contractor instead of on us, and he in his price takes the risk; that is what it comes to.

Mr. Silverman.

1074. I did not understand the answer to Sir Irving Albery's question. I understand that the cattle are bought where they are and passed to the Army. That I understand very well. Then there is an interval of time before they can be brought down and handed over to an Army depot?—Hundreds of miles.

1075. What I wanted to know was, In whose custody are they in the interval?—In the interval they are in the custody of the British Army, which uses as its agents native drivers.

1076. In fact, they are in the custody of native drivers?—Yes, who are in the employ of the Army.

1077. It does not matter whose employ they are in?—I beg your pardon; I thought the point at issue was whether the cattle were Army property or not.

1078. No; I do not think there is any question about that. When you have completed the purchase they are your property. I think what the Committee is interested in is, who has the actual physical custody of the animals?—A group of natives, with a native overseer.

Sir Irving Albery.

1079. It is not quite clear to me. We know from the report that only two-thirds of the animals actually reached the Army depots. You say the other one-third were taken over by the Army after having been paid for in cloth. What evidence have you that the whole of that third were actually taken over?—Locally they know how many animals were bought up-country, and they know that they parted with so many yards of cloth, and they know that the number of animals that arrived at the base was one-third less.

1080. There is an actual check on how many were purchased and delivered to these custodians?—Yes; it is not as primi-

tive as all that. (Sir Gilbert Upcott.) Perhaps it ought not to be left to be understood that this loss of one-third necessarily occurred all over West Africa. All I say in my report is that the Auditor of the Gold Coast has drawn attention to that fact. The Auditors of the other colonies concerned, Nigeria and Sierra Leone and Gambia, have not written to that effect.

Mr. Silverman.] That proves that it is not an insuperable problem.

Chairman.

1081. Paragraphs 22 and 23, "War-time financial arrangements in the Colonies." In the second sub-paragraph on page ix it says: "As a contribution towards the cost of military forces in the Caribbean areas Colonies have agreed to make annual payments which in no case will be less than 125 per cent. of the pre-war cost of local defence forces, and in two cases will be considerably in excess of that amount." Could you tell us what those two cases are, and also what percentage they are paying?—(Sir Eric Speed.) Trinidad is paying ten times as much, and British Guiana is paying three times as much.

1082. On paragraph 24 I have no questions. On paragraph 25, "Soldiers' accounts: agreement of balances," could you tell us a little more about this procedure with regard to soldiers' accounts, and how it differed from the former procedure?—The procedure referred to at the bottom of page ix was that the unit would ask the fixed-centre paymaster to send them a detail of the account of an individual soldier or a number of individual soldiers. On the next page you will see it is stated that we thought that it would be more businesslike and would result in all soldiers seeing their accounts regularly if the pay offices, of their own volition, issued a statement of the account every so often. I am afraid we bit off more than we could chew. We had hoped for great things in the pay alterations which were introduced soon after September, 1942. We expected that there would be a heavy load on the pay offices as a result of those alterations, and we decided to abandon the scheme, which we did abandon. It has had no effect on the individual soldier who wants to know what his balance is. It is a less tidy arrangement than the other; that is what it comes to.

1083. There is a mention at the end of sub-paragraph 4 of the fact that you have not resumed these arrangements. You gave them up in September, 1942, and you have not resumed them?—I do not think there is any likelihood that we will resume them.

Chairman.] We will finish that paragraph, paragraph 25, and leave it at that, unless there are a lot of questions to be asked.

(The Witnesses withdrew.)

(Adjourned till Thursday at 2.30 p.m.)

THURSDAY, 20TH APRIL, 1944.

Members Present:

SIR ASSHETON POWNALL in the Chair.

Mr. Benson.

Sir Edmund Brocklebank.

Sir George Davies.

Mr. Douglas.

Mr. D. O. Evans.

Sir Frank Sanderson.

Mr. Touche.

Sir GILBERT UPCOTT, K.C.B., Mr. D. F. C. BLUNT and Mr. D. B. PITBLADO called in and examined.

ARMY APPROPRIATION ACCOUNT, 1942.

Sir ERIC SPEED, K.B.E., M.C., called in and examined.

Chairman.

1084. We take the Army Appropriation Account. The Witness is again Sir Eric Speed. Sir Eric, I think there were two questions left over from Tuesday which you hoped to be able to inform yourself about to-day?—(Sir Eric Speed.) The first one arose out of paragraph 9 of the Report of the Comptroller and Auditor General and referred to the Constitution of the Citrus Marketing Board. From the papers available in the War Office and also in the Colonial Office I learn that there was appointed in 1940 a Citrus Control Board, composed of three persons appointed by the High Commissioner and eight persons, representatives of citrus growers, known as producer members—three official members and eight producer-members. Below that Board there is an executive body known as the Citrus Marketing Board, which we were discussing last time. That is composed of four members, an economic adviser, the financial secretary and two other members nominated by the High Commissioner, one of whom is the Registrar of Friendly Societies and the other is a producer-member—that is, a representative of the industry.

1085. Did you say that arose on paragraph 9?—On the Palestine paragraphs as a whole.

1086. It arose really, I think, on paragraph 11: "Purchases of Oranges"?—Yes; I beg your pardon.

1087. Are there any questions on the statement which has just been made by Sir Eric? Then you have a second point?—The other point did arise out of paragraph 9, the latter part of the first subparagraph. I said that if I had any further information about waiver of recovery of excess profits I would give it. I am sorry but I have not yet any information. I have telegraphed for it, but I have not had an answer.

1088.* Perhaps you will send it to us when you receive it, will you?—Yes.

1089. We had got to the end of paragraph 25 last time. We begin to-day, therefore, with paragraph 26, which is on page x. Paragraph 26 is: "Debtor Balances on Soldiers' Accounts". Broadly speaking, are you satisfied with regard to these remedial measures taken to prevent the accumulation of debtor balances on soldiers' accounts?—I am hardly satisfied, because the size of the debtor balances has increased. But I am satisfied that there are no other measures open to us at the moment.

1090. Have they appreciably increased?—The number of debtor balances on accounts of soldiers serving at home—those exceeding £5—was 11,000 accounts, which at January, 1943, were in debit £5 or more. The corresponding number for this January is 14,500.

1091. That is an appreciable increase?—There is a partial explanation for it; but only partial.

1092. Could you tell us what that partial explanation is?—It is, I think, that a large number of accounts of soldiers in the Middle East, through the Microgram Service, have come home to roost rather sooner than they would otherwise have done.

1093. These debtor balances are on accounts of soldiers serving at home?—Yes, but a number of the troops from the Middle East have come home.

* Note by Witness: Further investigation has established the fact that there has been a confusion of terminology. The contracts described as fixed price contracts were in fact maximum price contracts with provision for reduction of actual price.

As regards the question of recoveries, in no case was there technical waiver of sums recoverable under the contract, but in some cases there were set off against these recoveries further expenses claimed by the contractor and admitted as valid items of cost. Examples are:—

- (i) Cost of living award promulgated after completion of post-costing but having retrospective effect.
- (ii) Premium to workers for increased production, admitted on appeal after post-costing.

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SIR ERIC SPEED, K.B.E., M.C.

[Continued.]

1094. Two-thirds of the way down paragraph 27 the Comptroller and Auditor General speaks of an increase in the number of debtor balances. Is that what you have just given to me, an increase from 11,000?—That was on the home accounts. (Sir Gilbert Upcott.) Paragraph 27 relates to overseas. (Sir Eric Speed.) The home accounts I have just given to you. The number of accounts abroad at September, 1943, which were in debit over £5 was 30,000.

1095. What was the previous figure?—I have no corresponding figure for the year before.

1096. Sir Gilbert reports that there has been an increase in the number of debtor balances. Have you any information on that, Sir Gilbert?—(Sir Gilbert Upcott.) My information is that the figures were nearly 26,000 in March, 1942, and rather over 31,000 in August, 1943. (Sir Eric Speed.) By September, 1943, they had come down to 30,500. I think that figure is right.

1097. The Comptroller and Auditor General states: "This increase may only be temporary but the large number of debit balances arising overseas continues to give rise to some concern, especially as a review has revealed numerous cases of excessive cash issues, particularly in the case of warrant officers and senior non-commissioned officers." My recollection of soldiering is that it was warrant officers, N.C.O.'s and company quartermaster sergeants who largely had to deal with these matters because company commanders were continually changing, and if it so happens that they are warrant officers and senior non-commissioned officers who are benefiting by these excessive cash issues, one wonders if the two things are linked together?—The proper procedure is for the company officer to make up the pay list with his pay clerk, showing what each member of the company is to draw. He then frequently hands the pay list over to the warrant officer and says: "Pay out these sums". There have been cases where excessive sums have been paid out, notwithstanding what appeared on the pay list. Those cases have been the subject of disciplinary action. But, in addition, the company commanders are not experienced persons, and frequently authorise the issue of excessive sums.

1098. It is the company pay clerk who actually does the figuring out?—The company commander with his pay clerk.

Chairman.] The company commander has very many other duties, as one knows. Are there any questions on paragraphs 26 or 27?

Sir George Davies.

1099. With regard to the accumulation of debtor balances, is that due largely to shortage of staff for dealing with accumulations and inexperience of the staff, or to

the general circumstances of the situation?—No, it is not due to a shortage of staff. It is the inexperience of the staff. Most of the officers have had very short experience of handling pay accounts. There is no shortage because there is always an officer made responsible for the pay of the men—somebody. The trouble is that the somebody has not great experience.

1100. And is continually changing?—And is always changing.

Mr. Douglas.

1101. Would you mind explaining how it comes about? You say it is due to inexperience, but would you exemplify how it is possible for an excessive issue of pay to be made to a man?—I meant to make it clear that it is the company commander's duty first of all to decide how much pay shall be issued to the individual soldier. In the ordinary way it would be safe for him to pay out seven days' pay at whatever pay rate the man is on, but that soldier may have had deductions made from his account for having lost equipment or forfeiture of pay for offences, and, that being so, the company commander ought to make a less issue than seven days' pay and he ought, by looking at the soldier's pay book, to estimate what kind of deduction to make. Frequently he does not. He just says: "Give the whole lot 14s. each" or whatever it may be. That is one way. The other way is when the subordinate, who is told to make the actual cash issues, wilfully makes an excessive issue to an individual friend, and those are the disciplinary cases to which I referred.

1102. I understand the disciplinary cases but I cannot understand the others. Why should not the officer who is responsible for this know the deductions to which a man is liable?—He is in a position to know them.

1103. If he knows them, why does he not act upon them?—I do not know. I suppose it is carelessness. That is all.

1104. It is more carelessness than inexperience?—Possibly. As the Chairman has said, a company commander in the field has many other things to do besides paying out his men.

1105. If that is so, does it not point to the need for the institution of some system by which company commanders are relieved of this duty, if their other duties are so onerous?—It would have to be put on to someone's shoulders.

1106. It would have to be put upon somebody's shoulders, but now it is put on to the shoulders of the man, ultimately, who gets an over-issue of pay quite innocently, and then he or his family has to suffer for it later?—Of course, if he has had pay to which he is not entitled there is some reason to suppose that he ought to pay it back. In fact, as you know, the soldier whose account gets into heavy debt is not required to pay the whole lot back, but so much as he can pay back in

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[Continued.]

a maximum of 13 weeks. That is not the case with officers.

1107. That is only palliating the mistake, is it not?—I was dealing with your point that it hits the soldier himself.

1108. Is anything being done effectively to reduce these over-issues?—Yes; I think some of the measures are mentioned here. The important point is that the company officer should be kept in touch by the fixed pay centre with that man's current state of affairs, and that procedure is greatly simplified by the introduction of these microgram messages, which means that the paymaster in England can draw it to the attention of the unit very quickly if they are in fact issuing more pay than they ought to do in the circumstances.

1109. That has been effective, has it?—It is beginning to be effective, I will say, yes.

Mr. Benson.

1110. You said that the pay officer can get the information from the pay book. How many men, normally, would a pay officer be in charge of? How many payments a week would he be responsible for in a normal unit?—About 150 or less.

1111. If a man has to look at 150 pay books each week, to decide how much to pay out, that is a clumsy method. Have you not proper pay sheets on which the data is all worked out and put down?—He has what is known as an acquittance roll, which shows the man's entitlement; but, to the best of my belief, it does not show any casual deductions which are being made.

1112. Surely that is exactly what it ought to show, if I correctly understood you that these deductions are the cause of the over payment?—The deductions are made in the unit, and, therefore, the unit is aware of what they are.

1113. If you have 150 men it is quite easy to overlook one or two deductions, unless they are marked on the pay sheet?—I cannot tell you on what document the deductions are entered at this moment, but when a deduction is ordered by the unit, it is entered on to some document which is available to the paying officer in each sub-unit.

1114. It ought not merely to be available to him, but it ought to be under his nose when he is making his weekly calculations?—I am sure it ought to be, and I think it is.

Chairman.

1115. Is it not what is called "Part II Orders"?—Part II Orders come back to the home pay office for the correction of the soldier's main account.

Mr. Benson.

1116. The point I want to extract is this. An officer has 150 or more payments to make?—Or less.

1117. Suppose they are at varying rates?—The great majority of them are all at the same rate, of course.

1118. And subject to varying deductions? Yes.

1119. Surely, in his form of pay sheet he ought to have all the spaces for payment and current deductions, so that he can see what he has to do when he is making his calculations?—I have no doubt he has, but unfortunately I have not the form. (Sir Gilbert Upcott.) I think I am right in saying, Sir Eric, that when the pay clerk is preparing the acquittance roll, which presumably he would do with the company officer, he has all the facts before him. (Sir Eric Speed.) He has them before him, but I am not sure in what form he has them before him. That is the trouble.

1120. The form is possibly the trouble. I do not know whether Sir Eric could look into the matter?—Yes, I am very grateful. I will go more precisely into what forms are before the paying officer when he makes up his list.

1121. If he has to refer to several different documents, there is obviously going to be leakage, but if he has it all on one form, that should obviate mistakes?—I am grateful for the suggestion.* (Sir Gilbert Upcott.) It is not at the time of paying out that that is necessary, but at the time of the preparation of the pay sheets.

Mr. Benson.] Yes. Anybody who makes up accounts like these, with varying amounts, knows that unless you have it in the form of various headings, you are sure to be short on some items.

Sir Frank Sanderson.

1122. I understand that over-payments are deliberately made to soldiers. That is so, is it not?—Not as a habit, but they have been.

1123. There are occasions when it is regarded as expedient?—I did not understand you? I thought you meant that as a matter of sin they were made.

1124. Is it not a fact that over-payments are made to soldiers from time to time, in order to assist them over difficulties—in other words, that all the over-payments are not errors on the part of the paymaster, but are made deliberately in order to assist the soldier who requires some temporary help?—No. No over-payment is made except in the way of an advance payment, when, for example, a soldier goes on leave. If that is the sort of thing you have in mind, that is so.

1125. Yes. Would not those be included?—That would not create a debt.

1126. Therefore it would not come into what we are now discussing?—No.

1127. Could you state what is the total amount of debtor balances on soldiers' accounts at home and overseas?—At home and abroad it is £648,000.

* See Appendix No. 7.

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[Continued.]

Chairman.

1128. We pass to paragraph 28: "Allowances of Families and Dependants of Officers and Men reported Missing in the Far East". At the end of the paragraph the Comptroller and Auditor General says: "Under present arrangements however payments will not extend beyond 31st July, 1944, should that date be earlier, but it is proposed to review the situation before this over-riding date." I suppose no decision has yet been come to?—No, it is being reviewed at this moment.

1129. Are there any questions on paragraph 28? We pass to paragraph 29: "Emergency Defence Works no longer required." With regard to these rather complicated arrangements about emergency defence works, could you explain briefly the procedure in regard to the discretionary powers that the War Office have? The Comptroller and Auditor General says: "Under these powers the War Office may (a) reinstate at once land that is required for agriculture or other essential war purposes, (b) retain such land which it is in the public interest to reinstate ultimately, but which cannot be restored immediately, continuing payment of compensation for diminution of annual value under Section 3 (2) of the Act, or (c) release the land in cases where restoration is not required by public policy, and pay the lump sum compensation for depreciation provided for by Section 3 (4) of the Act?—The first step is that the works are no longer required for military purposes. If it is in the public interest that the land should be put back in its previous state—for example, if it is necessary that it should go into agricultural production—then, with Treasury agreement, instead of paying the compensation allowed for by the Compensation Defence Act, we ourselves undertake the work of putting the land back into its proper shape. Whether we use some other Department as an agent or not, we pay for it. That is to say, instead of paying the owner the diminished capital value of the land, which is provided in the Compensation Defence Act, we pay him nothing but reinstate the land, for which provision is also made in the Act. The second case is that it is in the public interest that the land should be reinstated ultimately, but it is not vital that it should be reinstated at once. In those cases we continue to pay the annual sum required by the Act, in spite of the fact that the Army does not need the property. In the third case, where there is no further military use for the land and it is not in the public interest that any special action should be taken, we pay the owner compensation for the depreciated value of the land.

1130. To what extent has effect been given to these various schemes?—We have reinstated many miles of anti-tank ditch.

1131. That is under (a)?—Yes, that is under (a).

1132. Have you also reinstated other things to an appreciable extent?—Yes, we have removed concrete works and barbed wire from what was ploughed land.

1133. Then under (b) has there been much use made of your powers?—Under (b) I think there is a very slight usage made of the authority; but it does arise.

1134. And (c), the release of the land?—I am afraid I have not the figure of how much land we have in fact released.

1135. It is in active operation?—Yes.

1136. In the third sub-paragraph the Comptroller and Auditor General says: "It is recognised that in many cases the cost to public funds of restoration may exceed the amount payable as compensation under Section 3 (4) of the Act, and the Treasury have stipulated that in such cases restoration should not be decided without regard to the comparative expense." Have the Treasury anything to say with regard to that?—(Mr. Blunt.) No. We have not laid down any actual money limits. We have necessarily had to leave that to the Service Departments, but we laid it down as a principle. It is impossible to lay down a limit, because the circumstances in the two cases would be alike. In some cases the extra cost might be quite small, but on the other hand, the need for restoration might be quite small also. But you might get a case where it cost twice as much to do it and it was most important that it should be done. We have left that to the War Office.

1137. Could you say, Sir Eric, whether you have actually had such cases of restoration under Section 3, subsection (4) of the Act?—(Sir Eric Speed.) Where the cost of restoration has exceeded the compensation?

1138. Yes.—Yes. We require Commandants to refer to the War Office any case of restoration costing more than £500, and we judge at the War Office, with the other Departments concerned, whether the public interest outweighs the disadvantage of paying a large sum.

1139. You balance one factor against the other?—Yes.

Chairman.] Are there any questions on paragraph 29?

Sir George Davies.

1140. The last sentence of the paragraph at the top of page xii seems to have a bearing on lines 8 and 9 of the first sub-paragraph, in which the Comptroller and Auditor General says: "The normal procedure would be to release land no longer required and to pay under Section 3 (4) of the Act a lump sum equal to the depreciation in the value of the land, leaving the owner to undertake restoration." Do I understand that if the depreciation in the value is less than it costs the owner in restoration, the difference is then taken into consideration with the Treasury as a special case and adjustment is made accordingly, so that the owner is not damaged?

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[Continued.]

by the fact that he is merely being paid artificial compensation and he has to face the cost of restoration?—No, I am afraid not. The Compensation Defence Act says that the normal method of compensation shall be the reduction in the value. It makes no provision for any exceptions to that procedure. That is the law. Parliament made that arrangement and we carry it out.

1141. It is not quite clear to me what are the cases under the final sentence of the paragraph. "The War Office have accordingly issued instructions which provide for special consideration of cases where the cost of reinstatement is estimated to be substantially greater than the compensation payable"?—May I put it in this way? The owner of land which happens to have a high agricultural value is fortunate, because, under the special arrangement, if it is admitted by the Government Departments that there is a public interest to be served by the Government reinstating that land, then the Government reinstates it, and no cost falls upon the owner. If, however, he is the possessor of land which it is not in the public interest to reinstate, we then give him the money provided by the Act, with which he himself may reinstate it. If that happens to be less than it costs him to reinstate it, that may be a failing in the Act, but it is a fact. (Sir Gilbert Upcott.) Sir George, I think where you have found difficulty is that you have not appreciated that the words "cost of reinstatement" which you have read out from my paragraph mean the cost of reinstatement by the War Office. (Sir Eric Speed.) By the Government.

Sir George Davies.] Not by the owner?

Mr. Benson.

1142. On this point, would it not also possibly be the case that the cost of reinstatement would be very considerably greater than the capital damage?—It might easily be.

1143. What the War Office has done may be very expensive to undo, but it does not seriously affect, or materially affect, the value of the land?—That is quite possible.

1144. It is that case which comes under (c)?—Not necessarily. The criterion in this special treatment is: Is it or is it not in the public interest that that land should be immediately reinstated? If it is, the State does it and the owner is lucky. If it is not, the State gives him the compensation provided under the Act and he may be unlucky.

Mr. Douglas.

1145. The position really is this, is it not, that the compensation payable is the amount by which the land has been depreciated by whatever has been done to it? Is not that so?—The capital value of the land, yes. That is the final payment.

1146. The amount by which the value has depreciated. In the case where it is important in the public interest that the land should be reinstated, it is in effect an *ex gratia* payment to the owner above the amount of compensation to which he is legally entitled?—It can be put in that way. I do not agree with it. (Mr. Blunt.) I am not sure that you could regard it as an *ex gratia* payment.

1147. What is it then?—It is an act of restoration under its powers by the Government. It is something that does not come under the Compensation Defence Act at all. The Compensation Defence Act says that where there is no restoration such and such a sum shall be payable as compensation. It does envisage that the Government may restore, but it does not then say what is to happen. There is no money payable. The Government just restores, and bears on its own account whatever it costs to restore. I rather deprecate the use of the words "*ex gratia* payment". It is not a payment.

1148. It may not be technically correct. It is not a payment to the owner, but it is money's worth which the owner receives. If he does not receive it in cash he receives it in kind?—The owner benefits, as Sir Eric said. (Sir Eric Speed.) I said if he was lucky. (Mr. Blunt.) There is no doubt about that. (Sir Eric Speed.) I ought to make it clear that the owner has no say in the decision as to whether the reinstatement of his land is in the public interest.

Mr. Douglas.] I appreciate that.

Mr. Benson.

1149. Is there any question of luck in this? If the owner gets a lump sum equivalent to any capital depreciation, or if he gets reinstatement, which means whatever the cost may be to the War Office, he has, again, got the equivalent of reinstatement in both cases. He is merely where he was before the War Office started. Is there any question of luck?—I do not think he is in the same position. You have taken the case where it would cost the owner X pounds to reinstate his land. X pounds is not necessarily the same sum of money as is provided for compensation by the Compensation Defence Act.

1150. No, but the Compensation Defence Act has to compensate the owner for any drop in capital value?—Yes.

1151. If the owner is compensated for a drop in capital value, or, alternatively, if, in the public interest, the owner has his land put back into its original state—which means that there is no loss in capital value—neither in one case nor in the other has the owner lost anything?—If he is paid under the Compensation Defence Act and gets a capital sum from the Government, does it follow that that sum will enable him to put his land back into the condition in which it was before?

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1152. No, but if the value of his land is X and the damage done to it capitally is Y, his land is worth X minus Y?—Yes.

1153. If the compensation payable is Y, he gets X minus Y plus Y. He is left with X, which he started off with?—All I can say is that from a cash point of view he may be or is likely to be in a worse position, if he gets compensation under the Compensation Defence Act, than if we pay for the full cost of reinstating his land.

1154. If he reinstates his land?—We are assuming that, of course.

1155. That is not a correct assumption to make. He may choose to spend his money unprofitably?—If you regard it purely as a capital affair, money and land combined, I quite agree.

Mr. D. O. Evans.

1156. Did I understand you to say that you had reinstated many miles of anti-tank trenches?—Yes.

1157. Could you tell us how many miles you have not reinstated which might be reinstated?—No, I am afraid I cannot, but I can say that we have reinstated all the anti-tank ditches (a) which we do not need for defensive purpose, and (b) which occupied land which is required in the public interest for agricultural production.

1158. I know that in certain parts of the country, for instance, in my constituency in West Wales, there are miles of anti-tank trenches which have never been used or are likely to be used?—Are they on valuable agricultural land?

1159. Yes. They have not been reinstated. Does the progress of reinstatement depend upon whether you can get the labour for it?—It depends largely on labour, yes. It depends, firstly, on the Ministry of Agriculture saying that it ought to be reinstated, and, secondly, on the possibility of so doing. (Mr. Blunt.) The initiative comes from the Agricultural Department. (Sir Eric Speed.) That is so.

1160. The prodding must be done by the Agricultural Department?—Yes. I shall be happy to pass on the prod!

Mr. D. O. Evans.] There are miles of anti-tank trenches which are never likely to be used, and which are having a very serious effect on agriculture in the area; they are preventing cattle getting to the water.

Mr. Touche.

1161. Regarding the question of receiving money instead of having the land reinstated, whatever may be the theoretical views about it, is not the owner who receives the money unlucky?—I suppose it hangs on the question of what he proposes to do with the money: does he prefer to use it for other purposes? I think there have been cases of dissatisfaction, but, as I say, it is an Act of Parliament.

Chairman.

1162. Are there any further questions on paragraph 29? We pass to paragraph 30:

“Land used for military Training.” Does this include land lent or leased to the Americans?—Yes, it does.

1163. To an appreciable extent?—Yes, an increasing extent.

1164. At the end of the second sub-paragraph the Comptroller and Auditor General says, with regard to proposals for the use of land: “in the majority of cases it has been possible to secure local agreement to new projects at an early stage.” What happens when you cannot get local agreement? Do you use compulsory powers?—We have compulsory powers.

1165. Have you had to use them in a large number of cases, or not?—It is always a power of compulsion. We have secured agreement on the small cases, but if you take cases like the Wolds or East Anglia, which are enormous areas, obviously there have been great dissatisfaction and disagreement from local areas, and in those cases it has come up through this machinery to the Minister in charge of the Department and thence to the Cabinet.

Chairman.

1166. Are there any questions on paragraph 30? We pass to paragraph 31. In the eighth line of the paragraph Sir Gilbert uses the phrase: “Compensation for damage to established crops”. I think that “established crops” probably came from the War Office. Could you tell us what are established crops?—I am not an expert on agriculture, but I gather it to mean when the crop is above ground, as it were, and is fully established from the farming point of view and you can make some estimate of what the ultimate return from that crop will be.

1167. Have you any idea with regard to the relative expenditure on crops and on livestock?—I can give you an example of that. It depends entirely on the nature of the farming which goes on, but in the Wolds we paid £140,000 for stock and £250,000 for crops. But it is quite untypical. Every area is different.

1168. In the last sub-paragraph the Comptroller and Auditor General says: “Compensation paid in respect of land used under this Regulation amounted to approximately £360,000 in the year under review.” Have you any figure of the total up-to-date on this Vote?—I should say in the following year it was about double that amount.

1169. And the figure for the year before you probably would not have?—I am sorry I have not.

1170. It comes to well over £1,000,000 on that item, anyhow. Are there any questions on paragraph 31? We pass to paragraph 32. Mention is made of the circumstances under which these grounds are taken over. Could you say what the circumstances are?—This refers to requisitions under Regulation 51. The circumstances

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under which the ground is taken over, did you say?

1171. Yes?—We choose to requisition when it is perfectly clear that no farming could proceed except possibly in small areas, in which case we put in tenant farmers; but the general object of proceeding under Regulation 51 is that the damage which is going to be done is so considerable that no farmer could hope to go on with his normal duties, which he can do under Regulation 52.

1172. In extreme cases you virtually take over the whole of the land?—We do take over the whole of the land under 51. It is entirely ours.

1173. Towards the end of the paragraph mention is made of the procedure which is adopted. Is it not much the same as when there is a change of tenant? It is virtually the same thing as a tenant going out, is it not?—Yes, it is.

Chairman.] Are there any questions on paragraph 32?

Sir George Davies.

1174. In the last sentence of the paragraph the Comptroller and Auditor General says: "Where the inhabitants of an area taken over have been evacuated, the Ministry of Health have accepted responsibility for the provision of such alternative accommodation as may be necessary." Responsibility has been accepted by the Ministry of Health. Can you tell us whether they have actually been able to discharge that responsibility, or has there been very extensive hardship apart from sentiment, of course, in the actual moving of large numbers?—I understand they have in fact arranged for the rehousing of the displaced inhabitants, or those who could not rehouse themselves. The total numbers involved were about 1,500 persons. So far as I know their help has been successful in getting rehousing, but I am unable to say in what conditions or where.

Chairman.

1175. Is that number of 1,500 in the year under review?—No; I said there were 1,500 inhabitants who had been turned out of this area. I was talking about East Anglia. I should have made that clear.

Sir George Davies.

1176. I was interested in that one out in the West. That does not come under this?—I do not think the Ministry of Health have accepted that. I am not sure whether they have accepted in respect to that area or not. Normally, a person whose private house is requisitioned has no help from anybody. These were special measures taken in regard to special hardship. These communities who have been expelled are being treated in a special way.

1177. But that does not come under the year under review. It is more recent?—That is so.

Chairman.

1178. Are there any questions on paragraph 32? We pass to paragraph 33: "Civil Administration in Occupied Territories". Sir Gilbert, could you tell us about the audit position?—(Sir Gilbert Upcott.) Yes. My auditors are at Nairobi again this year, and they will be bringing the examination up to a later date.

1179. In your Report you say: "Since July, 1942, the accounts of the East Africa Territories have been largely decentralised and it is hoped that they will be more speedily rendered as a result." 1942 is a long time ago.—Yes. My auditors are there now, and the accounts will be available up to a considerably later date.

1180. In the second sub-paragraph the Comptroller and Auditor General speaks of "apparent delay" in increasing duties proportionately to the devaluation of the lira. Have you anything to say on that, Sir Eric?—(Sir Eric Speed.) The main cause of that delay was that both in Somalia and in Eritrea we turned out the senior Italian Civil Servants because they had Fascist sympathies. In Eritrea the more subordinate staff stayed at their posts. In Somalia they resigned *en masse*.

1181. The subordinates as well?—Yes. The others, the seniors, were thrown out. The result was that we had to produce an administration ourselves, which took time.

1182. Was that done by Amgot on your behalf?—Yes; it was not called Amgot in those days. It was not an Allied Military Government.

1183. At the end of the second sub-paragraph Sir Gilbert says that his officers "have . . . asked for confirmation that all the principal duties levied under Italian administration are now being collected." Have the principal duties mentioned there all been collected?—No. They are being collected so far as is practicable. The two which are not very easy are, first, the Income Tax which previously applied under Italian auspices mainly to Italian Civil Servants, who, as I say, have all resigned, and we are now introducing an income contribution; the other is a native hut tax, and there the opinion of the local administration is that as the tribes are nearly all nomadic, the expense of collecting the tax would exceed the gross revenue from the tax.

1184. Did you say they levied Income Tax on nomadic tribes?—No, it applied only to the Italians, most of whom were Civil Servants. They have the same evil as we have in this country!

1185. They are not nomadic, I gather?—They were, immediately after our occupation!

1186. In the third sub-paragraph there are a good many figures. Are you in general agreement with the figures in Sir Gilbert's Report about these costs?—Yes, I am wholly in agreement.

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[Continued.]

Chairman.] Are there any questions on paragraph 33?

Mr. Douglas.

1187. In the third sub-paragraph the figure of £29,000 is the excess of the cash payments over the taxes, is it?—It is the net deficit on the accounts of the areas.

1188. How much did you raise by way of the taxes?—I have not with me the budgets analysed into various types of receipt.

1189. What were the total receipts?—Unfortunately, my figures here only show the increases or minuses on the difference between revenue and expenditure. I could give you the close analysis of figures which you want, but I am afraid I cannot quote them at this moment. (*Sir Gilbert Upcott.*) It is a little more complicated than merely gross expenditure and gross revenue, because there are also trading operations included. (*Sir Eric Speed.*) If you desire it I will put in a paper giving an analysis.

1190. Yes, if you would?—Do you wish that to cover all the various territories, or do you want it for any particular territory or group of territories? There is rather a number of them. There are Somalia, Eritrea, Madagascar, Tripolitania and others. I can give the whole lot.

1191. This is a figure for a great many territories?—Yes, it is a composite figure.

Mr. Douglas.] I do not know how much labour it will involve. If it involves a lot of labour I will not press for it.

Chairman.] Perhaps you will look into that, Sir Eric, and if it does not involve much labour, yes; if it does, no.*

Mr. Benson.

1192. I am not quite clear whether the larger figures of £1,000,000, £2,000,000 and £3,000,000 are the total cost of administration and occupation of those territories, and why military stores and military pay should be linked up and added to the cost of administration, which one assumes is borne out of taxes, unless the Army were doing a large amount of administration and had many administration costs thrown on them?—I will show out the costs of the administration in the same statement.

1193. Has the Comptroller and Auditor General all these figures together because administration and occupation have been so knit up that it is impossible to disentangle them?—No, on the contrary, it is disentangled—(*Sir Gilbert Upcott.*) I do not think these figures include anything for occupation troops. The Army had to do the whole of the administration in Somalia because the Italians had gone out.

1194. It is a bit difficult to understand in the compressed form. This is the cost of the military personnel who were administering in Somalia? Is that it? (*Sir Eric Speed.*)

The military personnel who were administering the country were paid £436,000. Is not that so? (*Sir Gilbert Upcott.*) Yes. (*Sir Eric Speed.*) The cost of the Army stores and services rendered for the purposes of the administration was £673,000. The actual difference between receipts by way of taxes and revenue of various sorts and expenditure on education, health, and so on, for all those territories was £29,000.

1195. So that the net bill there is £29,000. The other figures are debit items?—The net figure is £29,000, but I think the Comptroller and Auditor General took the view that if you wanted to get a fair picture of what it was costing us to be there, you should add the cost of the military personnel who administer the place, and also the cost of the stores and services provided from Army sources, which are in addition. (*Sir Gilbert Upcott.*) In that financial year it cost rather more than £1,000,000 to run the country. (*Sir Eric Speed.*) Which is rather over £1,000,000 less than it cost the year before.

Chairman.] In that case it will cost nothing this year. Are there any further questions on paragraph 33?

1195A. We pass now to paragraph 34. Would you explain this change of practice which was introduced with regard to claims against officers' estates?—It was merely a change of practice, that where there was a debit against an officer's estate it should not be claimed if the estate was less than £100 in value, or £2,000 in value if there were dependants.

1196. A Question was raised on the floor of the House of Commons in regard to it at one time, I think?—Yes.

1197. Has the cost been appreciable?—I cannot tell you what it has been to date. It cannot be very much yet.

Sir George Davies.

1198. Would you repair my ignorance by telling me what the "General Bowles Legacy Funds" is?—My ignorance was equal this morning. General Bowles died in 1876 and left a sum of money for the benefit of widows and children of men who died whilst serving in the Coldstream Guards and the Scots Guards, and the wives and families of men serving in those regiments. The Secretary of State for War is Trustee of the Fund, which is administered by the officers commanding the two regiments. The accounts are rendered annually to the War Office and a certified copy is sent to the Charity Commission. The capital at the moment is yielding £62 a year to the Scots Guards and £123 to the Coldstream Guards. My own officers obtain proof of the holding annually. The balance on the Scots Guards account at 31st March was £76 and the Coldstream Guards balance was £38.

Chairman.] Are there any questions on paragraph 34?

* See Appendix No. 8.

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[Continued.]

Sir Frank Sanderson.

1199. May I ask whether, in the case of a deceased soldier, the practice is still being continued of charging the funeral expenses to the relatives?—No.

1200. That practice has been discontinued?—Yes, recently.

Chairman.

1201. We pass to paragraph 35: "Store Accounts and Stocktaking." Over the page in the last sub-paragraph the Comptroller and Auditor General states: "Regular stocktaking at depots has in general been continued. Independent test verifications by Army Auditors of stocks held by depots and units have again been carried out but, as in previous years, on a scale smaller than in peace time." You are, broadly speaking, satisfied with this, Sir Eric?—Yes, we have to be. It is a question of staff.

1202. You have not much choice in the circumstances?—No.

1203. Are there any further questions on that paragraph? We pass to paragraph 36:

Chairman.

"Returned Stores Depots." Will you tell us what the system now operating is? It is a little hard to arrive at it?—Instead of trying to keep a Stores Account of every article which comes in and goes out of the depot, which is extremely difficult for the reasons given by the Comptroller and Auditor General, we still have an account of all serviceable articles held and passed out to the ordinary depots, and the staff there keep what you might call a statistical check upon the output of the depot.

Mr. Benson.

1204. Might we have an idea of what these articles are? "Stores" is very vague?—Clothes, bits of every kind of equipment—practically every ordnance store there is which is at the time condemned as unserviceable.

1205. Including clothing?—Yes. Some of it is produce. Others are made up into complete articles.

1206. Produce?—Cloth or scrap metal. I was saying that the staff endeavour to see that the output of the depot is a fair output in relation to staff employed.

Chairman.

1207. To staff employed?—Yes.

1208. And the amount of stuff that goes in?—That is the difficulty.

1209. You cannot check up on that much. You think this is pretty effective?—Yes, from the practical point of view. They are turning out serviceable stores from unserviceable at a high rate which is really what we are after.

1210. In view of the fact that you have no real check on what goes on, have you reasonable safeguards against petty theft and larceny?—The ordinary safeguards which apply to any depot. You are not

allowed to go out of the building with a parcel, and so on; there is a reduction in the number of possible exits and watchers at each exit. Apart from that, none.

1211. Has there been much trouble in regard to it?—I have not heard so, no.

1212. Are there any questions on paragraph 36? We pass now to paragraph 37: "Centralisation of Engineering Accounts in Commands." Would you please describe the change with regard to the centralisation of Engineering Accounts in Commands?—In each Command there is a number of Royal Engineer depots or stores. Hitherto the store account has been kept locally; hitherto, also, the construction account has been kept locally. We decided to centralise both classes of account, and the advantages we hope to realise, and are realising to a limited extent at present, are, in respect of the stores accounts, that the Command will know centrally exactly what stores exist in the whole of the Command at any one moment, and will then be in a position to check provisioning—that is the ordering of stores—by having a global picture of what it has got, whereas before the local depot commander there would normally go out and buy off running contracts when his own store ran short. In the case of the construction account, it is a survival of the old cost accounts of the Army and is itself a cost account. We hope by concentrating a few experts at Command Headquarters to produce an accurate and up-to-date construction account, which account is our method of controlling financially the progress of building contracts. In the old days the local engineer officer produced his own construction account, and they were not accounts experts; they were engineering experts. The staff at the new central office is composed exclusively of chartered accountants who are not Royal Engineer officers at all. The advantage, therefore, is not so much in the saving of staff—though there may be a saving of about 50 persons in three Commands—but in the increased efficiency and control which we expect to obtain.

1213. In the second sub-paragraph mention is made of a failure to carry out a preliminary stocktaking in connection with it. Could you tell us about that?—I think it was a failure due to over-enthusiasm. There were several experts working at this and they were very keen to see it started, and they failed to have proper stocktaking at first, which ought to have been the preliminary. It has not been repeated in other Commands.

1214. You consider the present basis is satisfactory?—Yes.

1215. In the last sub-paragraph the Comptroller and Auditor General says: "Central accounting is being gradually extended to all other Commands." How far have you got with the extension?—Three Commands have got it going; a fourth

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[Continued.]

is introducing it gradually. No command will introduce it until the stocktaking is complete.

Chairman.] Are there any questions on paragraph 37?

Sir George Davies.

1216. At the end of the second sub-paragraph the Comptroller and Auditor General says: "In reply to my inquiries I have been informed that, as it is known that the depot store accounts were in an unsatisfactory state at the date of the change to central accounting, a considerable expenditure of time and man-power would be necessary to secure a reconciliation and the War Office therefore decided to abandon the accounts up to the date of stocktaking without formal adjustment of the discrepancies shown." When it was decided to abandon efforts to secure reconciliation at a given date and you had to start afresh, did that imply a substantial write-off of discrepancies?—The discrepancies might be up or down. The ledgers and the tally cards might show there were more stores than there were actually or might show that there were less stores than there were actually. It might be either way.

1217. There are cases on both sides?—Yes, but we did not go to the extent of finding out how much the discrepancy was in either direction, because we thought it was a waste of time. What we did was to count the stores which were there. We did not attempt to do a formal accounting reconciliation of what stores there were with what there appeared to be in the ledgers.

Mr. Benson.

1218. What type of stores are these? You mentioned some local officer going and making purchases?—The old system was that for cement and sand—building stores of that sort—there would be a running contract made (this system is now defunct but it was the system) and the local engineer would place an order with the local dealer on a running contract.

Chairman.

1219. Are there any further questions on paragraph 37? I have no questions on paragraph 38. We pass to paragraph 39. What measures are taken to see that these stores are not stolen, because in the second sub-paragraph the Comptroller and Auditor General states that large quantities of stolen stores are regularly recovered; it seems to me that it might be better if you could regularly stop their being stolen?—We should have to have another second front to do that. In the desert we have barbed wire all round the stores and we have armoured car patrols going round them all night. We put down anti-tank mines but the Arabs pinched them too!

1220. It is a pity you cannot enlist them! In the last sub-paragraph the Comptroller

and Auditor General says: "Some difficulty is being experienced in carrying out stocktaking at certain ordnance depots and my officers have recently been informed that, owing to shortage of personnel, there is little hope that the slow progress of this stocktaking can be accelerated." That is not very encouraging?—I think everybody recognises the importance of stocktaking, but, as you probably know, it is a tedious and long procedure.

1221. Are there any questions on paragraph 39? On paragraphs 40 and 41 I have no questions. Has any Member any questions on those paragraphs? We pass to paragraph 42. The Comptroller and Auditor General says: "At the time of my officers' visit the accounts of supply depots for the period prior to January, 1943, were not available for examination as they had been destroyed owing to lack of storage accommodation." That did not strike me as being a very good reason for the accounts not being available?—No, I am afraid it struck me in that way. Actually, there was a move from Basra to Baghdad and it is a fact that the accommodation given to the audit staff was not very good; but that is no reason why they should have decided to destroy documents which ought to have been submitted to the Exchequer and Audit Department there.

Chairman.] I hope that fact was communicated to the people concerned—or we might have a lot of documents destroyed. Are there any questions on paragraph 42?

Sir George Davies.

1222. Was it necessary to take any disciplinary action over that?—No, the staff were good staff. It was rather a sudden move. When I say no disciplinary action was taken, it was not—except to the extent administering a written rebuke.

Sir George Davies.] A reprimand.

Chairman.] We pass to paragraph 43: "Losses Statement." I have no questions.

Mr. Benson.

1223. How far are these losses actual losses and how far are they theoretical losses?—It is impossible to say. An enormous proportion was probably spent and spent in accordance with Regulations. We have lost the value of it through the Japanese occupation.

1224. What did you pay with? Money expended abroad is a definite loss, if and when you have to hand out value other than mere money that is printed?—If you would not mind looking at subhead (a) at the top of page xvi, you will see the figure of £2,744,000; that includes £1,600,000 advanced to State engineers as agents. That, under the ordinary Army system, would have been charged to the Vote. It would not have appeared in this item at all. But it seems that the local officers were following the Colonial system, which is different,

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In the ordinary way that ought not to appear there at all. It was money which was properly disbursed for proper purposes and which should have been brought to account.

1225. Money which was drawn locally through some bank?—Yes, or from the Treasury Chest officer.

1226. What I am trying to get at is how far are these debits likely to come home to us after the war, and how far were they made prior to the issue of the cash? Have we transferred actual value from this country?—Yes. We have acquired the currencies of these countries in order to provide ourselves with those currencies and we have issued that currency.

1227. We have issued English currency or gold against it?—(Sir Gilbert Upcott.) Most of it is money actually spent.

Mr. Douglas.] The whole point is whether it is vouched.

Sir Frank Sanderson.

1228. I am not quite clear who derives the benefit of these losses sustained. Does some bank or some Government authority in the evacuated country derive the benefit of these credits which have been transferred?—(Sir Eric Speed.) This is a case where cash has been handed out or lost as cash. The Paymaster or the authorised officer there had say, £50,000 in cash. Some of it was captured with him as cash, no doubt; the rest of it he paid out to individuals for services rendered to pay their wages, or what not. Those persons have got it or spent it. No bank as such benefits or loses. (Sir Gilbert Upcott.) I do not think anybody derives any benefit. I suffer the pain of not receiving vouchers.

Chairman.

1229. Are there any further questions? We pass to the figures which are on pages 2 and 3. I have no questions. Pages 4 to 25 are the Appendices. Turning to page 10 of Appendix iii, which is the Losses Statement, the top item on that page discloses rather a curious state of affairs, where someone dressed up as an Army officer come along with a cash requisition and other documents and got away with £359 all but 6d. Have you any more details about that?—(Sir Eric Speed.) Yes. This was at Tobruk on 10th March, 1942. A person in a Captain's uniform presented to the Field Cashier a normal requisition for imprest cash for the sum of 350 Egyptian pounds. He produced for personal identification the card required by local instructions, and the sum was handed out to him. When in the course of accounting the £350 was to be debited to the unit, it was found that the unit and officer quoted on the requisition did not exist. Shall I go further?

1230. Yes; it is interesting?—Considerable investigation has failed to find who

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actually drew the money. At the time of the loss, books of imprest cash requisitioned were issued by cashiers without a record being kept of the serial numbers of those issued. Records are now being kept which will enable it to be ascertained the person and unit to whom blank forms were issued. That means to say that it will not be so easy to get hold of a blank form in future. The Field Cashier carried out the procedure prescribed by Regulations, and no blame can be imputed to him. With Treasury authority the sum was written off.

1231. Was Tobruk actually being besieged at the time, because if so, he must have been a person of great ingenuity.—You mean that he deserved the money?

Chairman.] I would not have done it for £350! Are there any questions on the figures?

Mr. Douglas.

1232. Have you any further information about item 79?—May I read this: "Under a contract dated 31st January, 1940, the military authorities in Palestine contracted with the Ramleh Municipality for the purchase and removal of animal manure from War Department animals for six months from 1st February, 1940. The rate quoted was 60 mils per animal per week. The Officer who negotiated the contract states that at the time the rate was tendered it was realised that it was an extremely high one and before acceptance of the tender the Municipality was twice interviewed (with an interpreter) to ensure that the Municipality had not made a mistake. When Debit Vouchers were presented to the Municipality for £921 10s. 10d. the Mayor of Ramleh represented through the Palestine Government that he had misunderstood the purport of the tender and believed he was invited to quote a price to be payable by the War Department for the removal of the manure. The question of taking action was referred locally to the Crown Counsel, Palestine Government, who was of the opinion that the War Department had a strong legal case for its full claim of 60 mils per horse per week. The Palestine Government has intimated, however, that Court action would be impolitic, and after lengthy negotiations a sum of £92 3s. 1d. was approved and received, the amount representing 6 mils per animal per week, a rate of one mil more per week than the next highest of the quotations received." Treasury authority to write off the amount was received, and they added to their authority: "Mr. Belloc might find the history good material for a Cautionary Tale!"

Chairman.] Are there any further questions on these losses?

Mr. Benson.

1233. Could you throw any light on No. 33?—"An officer (the imprest holder) states

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SIR ERIC SPEED, K.B.E., M.C.

[Continued.]

that he left his unit headquarters at about 18.50 hours on the 27th November, 1942, carrying all this cash in a linen bag in order to proceed to the men's billets for pay parade. The taking of the unit funds on this occasion, unusually, is stated to have been for audit purposes.—I do not know what that means. "According to the uncorroborated statement of the officer, who was unescorted, he was attacked on the public road and rendered momentarily unconscious by two blows on the head. The officer was examined after the incident by an officer of the Royal Army Medical Corps and a Divisional Police Surgeon; the latter states that from a medical point of view he could not place reliance on the officer's account of how he was attacked. A representative of the Judge Advocate General has been consulted who reached the conclusion that whilst the officer's explanation may be doubted there is no evidence for challenging it or which would justify a charge of fraudu-

lent misapplication of the money. A great deal of time has been spent on investigations, including those of the Special Investigation Branch and a Court of Inquiry; and although it is considered that the officer showed a lack of sense of responsibility in carrying, unescorted, so large a sum of money on a public road in the dark, and that his reasons for taking unit funds with him are open to some question, there are not sufficient grounds to press a case against him." In these circumstances Treasury authority was given for the writing off of the sum.

Chairman.

1234. Was he new to the Service? Has he very recently joined? Do you know anything about his previous record?—Not without looking at the papers.

Chairman.] Are there any further questions?

(Supplement to Army Appropriation Account.)

Chairman.

1235. Will Members turn to the Secret Supplement to the Army Appropriation Account. On the first five Votes I have no questions at all. Has any Member any questions? In the details of Subhead K at the bottom of page 14, item No. 4 is: "Petrol, etc.: Supplies sold." The amount is £419,000. Could you tell us to whom the petrol was sold and in what circumstances and where it was?—It was sold mainly in the Middle East. The heading includes the sale of unserviceable petrol tins and waste oil. The petrol itself, although we have not the details, was probably sold to Red Cross units, to Ambulance units, N.A.A.F.I., Y.M.C.A., and so on.

1236. But not outside what you might call the auxiliary Services?—No, not to my knowledge.

1237. Are there any questions on Vote 6? On Votes 7 to 9 I have no questions. Has any Member any questions on Votes 7 to 9? We will pass to Vote 10 on page 18. Could you tell us a few of the main items that make up the very big item C: "Works—Construction and Maintenance Services," a figure of £36,658,000?—All this is home expenditure. The main items are accommodation for troops, £9,000,000; coast and air defence, accommodation and sites, £6,500,000; £4,000,000 on account of the American Forces accommodation;

£4,000,000 for stores and workshops. That gives you a fair proportion of it. There was £3,200,000 on emergency defence measures.

1238. Could you similarly give us a few details, please, of the item of £4,686,000, Subhead L: "Contributions to Overseas Works Services, etc."?—It is explained in the printed sheet on page 19. It is contributions towards the cost of certain installations in the Middle East, the construction of which was undertaken by United States Military Authorities on behalf of the War Office.

1239. In what part of the world?—Mainly in Eritrea and in Egypt itself.

1240. Have you the details of Subhead W: "War Services in the Field," a figure of £57,700,000?—I have no details of the nature of the expenditure. The distribution of it was £39,000,000 in the Middle East, £10,500,000 in Persia and Iraq, £3,000,000 in East and West Africa together, and lesser sums in North Africa and Malta. There was £2,000,000 in Ceylon. It is normal camps, depots, hospitals, roads and railways. We pay for Royal Air Force works. The money is included here. That is the broad description of it.

Chairman.] I have no further questions on the other Votes. Are there any questions on Votes 10 to 15 inclusive? May I take it that the Account is approved? (Agreed.)

(Sir Eric Speed withdrew.)

ROYAL HOSPITAL, CHELSEA, ACCOUNT, 1942.

(On this Account no questions were asked.)

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[Continued.]

CIVIL APPROPRIATION ACCOUNTS, 1942.

CLASS III.

VOTE 6.

SUPREME COURT OF JUDICATURE, ETC.

(On this Account no questions were asked.)

SUPREME COURT OF JUDICATURE ACCOUNT, 1942.

*(Account of Receipts and Expenditure of the High Court and Court of Appeal, 1942-43.)**(On this Account no questions were asked.)*

SUPREME COURT, PRIZE, ETC., DEPOSIT ACCOUNT, 1942-43.

*(On this Account no questions were asked.)**(The Witnesses withdrew.)**(Adjourned till Tuesday next at 10.30 a.m.)*

TUESDAY, 25TH APRIL, 1944.

Members Present:

SIR ASSHETON POWNALL in the Chair.

Sir Irving Albery.
Mr. Benson.
Mr. Douglas.
Mr. Glenvil Hall.

Sir Frank Sanderson.
Mr. Henderson Stewart.
Mr. Touche.

Sir GILBERT UPCOTT, K.C.B., and Mr. D. F. C. BLUNT
called in and examined.

CIVIL APPROPRIATION ACCOUNTS, 1942.

CLASS V.

VOTE 1.

MINISTRY OF HEALTH.

Sir JOHN MAUDE, K.C.B., K.B.E., and Mr. H. H. GEORGE, C.B., M.C.,
called in and examined.

Chairman.

1241. Will Members turn first to the Civil Appropriation Accounts, 1942, Class V, Vote 1, the Ministry of Health. The witness is Sir John Maude. Will Members turn to pages 190 to 196. I propose to take all the seven pages together. I have really only one question. On page 191, Note C.1, towards the bottom of the page,

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states that there was a lower expenditure than anticipated on special inquiries into diseases. Could you please tell us what these diseases were and the amount spent, Sir John?—(Sir John Maude.) A certain amount of it was spent on Departmental Committees. It was a figure of £3,247 against an estimate of £1,500. Then there was a payment to the Medical Research Council in respect of a particular piece of

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Sir JOHN MAUDE, K.C.B., K.B.E., and
Mr. H. H. GEORGE, C.B., M.C.

[Continued.]

work—some medico-statistical work—of £820; there was a payment to the London School of Hygiene and Tropical Medicine for work on malaria therapy of £305. Then there was work done by the Ministry of Health itself in connection with malaria at Horton, the big hospital outside Epsom, where, as a matter of fact, the Ministry cultivate the malaria mosquitoes. There was work on tuberculosis.

1242. They cultivate mosquitoes, do they?—They cultivate the mosquitoes, yes, with a view to infecting patients.

1243. In the following note, note D., it says: "This subhead includes a payment of £200 to an authority in consideration of legal expenses incurred in connection with a scheme under Section 63 of the Local Government Act, 1929, for treatment of infectious diseases." Could you please tell us something about that?—That was a rather curious case. Under Section 63 of the Local Government Act, 1929, the County Council of a county was for the first time given the responsibility for rationalising the system of infectious disease hospitals which, up till then, was carried on entirely by the County District Councils—that is, non-county boroughs, urban and rural districts in the county. Up till 1929 these councils each had their own hospitals and did it without any preconceived scheme. Under Section 63 County Councils were put under an obligation to prepare and submit to the Minister a scheme for, broadly speaking, the rationalisation of this hospital system. In Essex a scheme was prepared and, amongst other things, it proposed to merge two joint hospital Boards, both of which ran infectious hospitals, both these Boards being themselves combinations of two, or, in one case, I think, three, local authorities. The local authorities were rather strongly averse to losing these powers, and they challenged or threatened to challenge in the Courts the validity of this scheme. Very difficult legal points were involved and the Ministry were very anxious that time and money should not be wasted over litigation, and finally a compromise was reached, under which a satisfactory scheme was made, but on condition that part of the preliminary costs of litigation of one of these bodies—it was the Maldon Urban District Council—should be met. That accounts for the £200.

Chairman. Are there any questions on those seven pages, 190 to 196 inclusive?

Mr. Benson.

1244. With regard to subhead F "Housing Grants" on page 190, the local authority's liability for housing is limited to a penny rate, is it not?—That was the system under the 1919 Act. The liability of the local authority was there limited to a penny rate, and the Exchequer bore the remaining charge. But, of course, there have been many houses built under

that Act, and there are still payments being made under that Act. They go on for 60 years. Since that Act that system of limiting liability to a penny rate has been abandoned.

1245. Roughly, what proportion does the local authority bear to the Ministry of Health?—It is roughly, under more recent legislation, two parts the Exchequer to one part the local authority.

1246. The Exchequer bears the expenditure in the proportion of two to one?—Yes.

1247. That is the total loan figures under the later arrangements?—Yes.

Mr. Douglas.

1248. That is to say, of the subsidy the Exchequer bears two-thirds, and the local authority bears one-third?—I did not quite hear your question.

1249. This computation of two-thirds and one-third arises in respect of the subsidy or deficiency difference between the cost and the rent charged?—Yes. This is all in terms of net expenditure. Of course, the vast bulk of the expenditure is met by the rent.

1250. The bulk of the cost in the first place is met by the local authority. It is responsible for the capital cost of this undertaking, is it not?—Yes, that is true. This is by way of indemnity against loan charges or part of the loan charges.

Mr. Benson.

1251. Does this include amortization charges? The two to one includes amortization as well?—Yes, the usual amortization.

Mr. Douglas.

1252. On page 191, Subhead F.2: "Losses on Repayment before the due dates of Housing Loans made by the Public Works Loan Commissioners in respect of the Sale of Houses erected by Housing Associations"—what is the meaning of that?—That was an arrangement arrived at a good long time ago—I think in 1919 under the Act of that year. We had Treasury consent for an arrangement under which, if a Housing Association paid off the Public Works Loan Commissioners prematurely—that is to say, before, under the terms of their contract, they were obliged to pay it off and the Commissioners charged, as they normally do, a premium for that—the Exchequer would bear the cost.

1253. In fact it is the loss of the anticipated interest on the loan?—Yes.

1254. There would be no loss unless the loan was at a higher rate of interest than the current rate?—The loans were 6 per cent.

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

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Sir JOHN MAUDE, K.C.B., K.B.E., and
Mr. H. H. GEORGE, C.B., M.C.

[Continued.]

CLASS IX.

VOTE 1.

EXCHEQUER CONTRIBUTIONS TO LOCAL REVENUES, ENGLAND AND WALES.

(On this Account no questions were asked.)

CIVIL APPROPRIATION ACCOUNTS (WAR SERVICES), 1942.

CLASS X.

VOTE 5.

MINISTRY OF HEALTH (WAR SERVICES).

(Summary Report of the Ministry of Health for the year ended 31st March, 1943.)

Chairman.

1255. We pass to the Civil Appropriation Account (War Services), 1942, pages xiii and xiv of the Report of the Comptroller and Auditor General. On paragraph 32, "Expenses connected with Evacuation (England, Wales and Northern Ireland)," with regard to the billeting arrangements in connection with evacuation, could you please tell us, Sir John, something of the present arrangements with regard to inspection?—(Sir John Maude.) Yes. I think I told the Committee last year that at the start we had to rely in the main on the ordinary district audit staff of the Department to see that the billeting arrangements were carried out satisfactorily by the local authorities, of what are called the reception areas. Later it was decided to appoint special officers for the purpose whose task it was not to attempt to review every single case of billeting—because that ran into some hundreds of thousands—but to make sample tests to see that the arrangements were going on satisfactorily, and, in particular, that the person billeted in the first place had a good title—had a right—to be billeted, that he had come properly from an evacuation area, and so forth; secondly, that there had been no change in circumstances which affected that title, and, most important of all, that the person presumed to be billeted and for whom the allowances were being drawn was in fact there. We urged upon local authorities with some success, I think, that the major test for them to make was to have a proper system of visiting the actual billetees in the houses in which they were received. That has been done on a considerable scale, and in some cases our own inspecting officers have checked that and actually done a certain amount of visiting themselves. They cannot do very much in that line. Another check which we thought would be a valuable one and which has been carried out on a considerable scale is to take test cases of billetees, as shown in the records of the reception authority, and carry those back to the records of the evacuation authority, whose task it is to collect from the parents the fees that are chargeable. We started a system of billeting officers; we had Treasury authority, I

think, for 33 of them and 30 officers were appointed. Since then the work has become regularised to some extent. We have made a very careful analysis of all the authorities, to see which are the more and which are the less satisfactory ones, and we have economised a great deal in staff now by visiting and inspecting the ones which have shown a good report not more than once a year. As a consequence of that the actual number of billeting officers has now been cut down to 16.

1256. You think the results of these checks turn out fairly satisfactory?—I think on the whole they have turned out as well as could reasonably be expected. We had to invent, of course, some classification. We had the reception authorities divided into four classes, excellent, good, fair and bad. In the first class, excellent, we put 20 per cent.; in the good class, 59 per cent.; in the fair class, 20 per cent.; and in the bad, 1 per cent.

1257. One per cent. only in the bad class?—Yes. Then on the score of recovery (this applies to the evacuation authorities, of course) we had the same classification. Their figures were rather different. We had excellent, 13 per cent. as against 20 per cent.; good, 57 per cent., as against 59 per cent.; fair, 27 per cent. as against 20 per cent.; and bad, 3 per cent.

1258. Presumably you took action with regard to the 1 per cent. and 3 per cent. respectively?—Yes.

1259. Sir Gilbert, have you any observations to make?—(Sir Gilbert Upcott.) This system of inspection was set up, following recommendations by this Committee. It was agreed that any complete system of audit would be impracticable, but this was the best that could be arranged and I think that, as the Accounting Officer has said, the experience has been satisfactory. Therefore I have been able to certify the expenditure of this year. The original aim was to visit each authority twice a year, but as the expenditure has been substantially reduced and the number of persons billeted is much fewer and the local billeting authorities

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Sir JOHN MAUDE, K.C.B., K.B.E., and
Mr. H. H. GEORGE, C.B., M.C.

[Continued.]

have gained a good deal of experience, with the assistance of the guidance which is now given to them, I saw no objection, when the Treasury consulted me, to a reduction in the number of inspecting staff, provided that it was sufficient to enable each local authority to be visited at least once a year. That I think would be adequate in present circumstances.

1260. In the second sub-paragraph of paragraph 32 of his Report, Sir Gilbert says: "In the course of my review I inquired whether any time limit is applied to billeting in a reception area in cases of mothers with children where there are no commitments in an evacuation area and no part of the family income arises there. In reply I was informed that in the view of the Department it would not be reasonable in war-time conditions to hold solely on these grounds that a person has changed his normal residence." Could you, Sir John, tell us the sort of reasons that would make the Department consider a person had changed his normal residence, because the statement that Sir Gilbert makes is very wide?—(Sir John Maude.) This has presented us with a very difficult question. As you know, the billeting allowance for the mothers and children, who are the people under consideration here, was at the rate of 5s. a head, and it was definitely not intended to cover any board, but merely to cover lodgings. The theory was, I think, that if the mother and children evacuated from London they would still, notwithstanding that they were away from home, have the commitments of the old home. It would, I suppose, have been logical to have said that those commitments ought to be wound up as soon as possible, and then it would be reasonable to ask the woman to pay something at least towards the 5s. as rent for the new home. That was in fact found impracticable for various reasons. It might very likely have induced the woman to go home again, and the Government felt it would be impossible to ask people voluntarily to break up their homes. There was the very practical reason that the storage of furniture alone would have made it impossible. So we have not been able to work on the theory that there must necessarily be an old home, so to speak, with its commitments in the way of rent, and so forth, in existence. What happened in many cases was that the man was left at home in the evacuation area. Then at some stage, perhaps a month or possibly even years after the woman had evacuated with her children, he went off; he may have gone voluntarily to seek work elsewhere, or he may have gone in the Army or he may have been directed to take work elsewhere. One had all these cases to consider. On the whole it seemed to us that the right test was broadly to say (I agree it is a very rough and ready test) that one

has to look at the person who is, in effect, the head of the household, normally the man, and see if he definitely shows an intention of moving his residence outside an evacuation area. The extreme case would be if he came down to the same reception area as his wife and set up a house there; then there would be no further title to billeting, of course. But if he went into the Army it seemed to us then very difficult to hold that there was any definite intention of breaking up the home, and similarly if he went either voluntarily or was directed into some temporary form of war work. Then we had the difficult case of a man who went into the Army and was killed. There we have directed our officers that there must come a point of time when the woman has to be considered as the effective head of the family, and that at that point of time her title goes. But we did not think it fair to draw any distinction between a man in the Services and a man outside in that respect, and in all cases the widow is given a reasonable length of time to make her own arrangements.

1261. Sir Gilbert, have you any further comments to make?—(Sir Gilbert Upcott.) I raised this as a general question because I found it rather difficult to see what principle the Ministry of Health were following, and it seemed to me that it may be giving rise to a very embarrassing question. Thousands of families have in fact severed their connection with the area from which they came and have actually moved their residence. But the Ministry of Health, I understand, only stop billeting allowances if the father actually takes up residence in the same house as the mother and children may be living in now. That may not be difficult when it goes on for a short time, but when families have been provided with rent free accommodation for a number of years, the stoppage of it, which I suppose will have to occur at some time or other, will be very unpalatable and difficult to enforce. Therefore I was anxious to find out what principle the Ministry had in view in dealing with these cases, which are likely to be very numerous.

1262. Have the Treasury any comments they would like to make?—(Mr. Blunt.) As far as the present situation is concerned, it is quite true, as Sir John Maude has said, that the serving soldier, for instance—the man who goes into the Forces—or the man who is directed to work, is not regarded as having moved his residence. The Treasury agreed to that, I think two years ago; and that accounts for the large proportion of the cases. There are a miscellany of cases, no doubt, where that has not happened, but it would be very difficult—extremely difficult—to codify them or to lay down any general rules at all. I think all the Treasury could

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[Continued.]

suggest the Ministry should do is, as they are doing, to look at them individually. Possibly their inspecting officers can be asked to look at them and bring them to the notice of the Ministry if they think there are special circumstances. I do not think the Treasury would be expecting the Ministry of Health to do any more than that just now. On the wider question to which Sir Gilbert referred—as to what is to happen after the war—I have no doubt the Ministry of Health are working on that. What is to happen there, one does not know, and one cannot say at the moment. It is a most embarrassing and most difficult question, which has to be looked at as a post-war problem.

1263. One hopes that in the fairly near future the evacuation of children for reasons of safety may not really be necessary. In that case it will be extraordinarily difficult suddenly to close down on all these large numbers who have been away for years. It seems to me it is a question you will be getting rather close to in the months that are ahead of us?—(Sir John Maude.) We have been thinking very hard in recent months about how to unwind this skein. It is going to be a very difficult thing. There will be great pressure on the part of some householders at any rate to bring the arrangements to an end very quickly. On the other hand we are conscious that a substantial number of children—a very small proportion of the whole, but still a substantial number of children—will be very difficult to provide for.

Chairman.] Are there any questions on paragraph 32?

Sir Irving Albery.

1264. From the evidence just given, am I right in understanding that in many cases where the original home is not only no longer occupied but no longer is any rent paid for it—in other words, it is given up as far as the landlord is concerned—the allowance is still paid?—There must undoubtedly be cases of that kind. There may be cases where the home is no longer occupied because it may have been bombed out of existence, but the father or the husband is working elsewhere and living elsewhere; and to that extent there are two homes.

1265. It seems to me rather a different case where a house has been bombed out of existence from the case where a house actually exists. I do not quite see how the person is to go back to that house if somebody else is already occupying it.—No, there will be great difficulties of that kind. But on the question of the billeting allowance being continued, I suppose you may get all these cases: you may get a mother and children evacuated and having the benefit of billeting allowances and the home may still be in existence and the

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family paying rent. On the other hand, they may have given up the house, or it may have been destroyed, and then the man may be either in the Army or he may be elsewhere, having to support himself, having, in effect, a second home—probably not a house but some lodging arrangement.

1266. If their furniture is in it, although perhaps they may be letting somebody else have it furnished, is not that the best evidence that the home is still being kept up? If, on the other hand, they have got rid of it entirely, is not that *prima facie* evidence that a home no longer exists?—Assuming a man is in the Army and has no expenses of looking after himself, if the home has been given up voluntarily, or has disappeared through war damage, it would, I suppose, be logical to say: “Now we shall expect the woman to pay at least some of this 5s. allowance.” On the other hand, if you did that, then it seems to me you would have to have a system under which, whenever it is, strictly speaking, unnecessary to keep a home going, you in effect compel the woman to give it up, and that represents the difficulty that she would have to store her furniture and the still greater difficulty that very likely the action of the Government would bring her back to the big town.

1267. It rather seems to me that if, in those circumstances, the family wanted to keep a home on, they ought to have the right to. I think perhaps it raises questions of policy so I will not pursue it any further. I should like to have an assurance that the matter is now being taken up, with a view to some solution being found.—Might I put it like this? Perhaps I have been at cross purposes with you. The present system has its difficulties, but it does ensure that the Government are not putting financial pressure on these people to give up their homes, and in view of the extreme difficulty there is likely to be of getting homes after the war, it is a consideration that has to be borne in mind.

Chairman.

1268. Are there any further questions on paragraph 32? We pass to the next paragraph, paragraph 33. “Wartime Nurseries.” On the fourth sub-paragraph over the page, Sir Gilbert, you speak of the recurrent expenditure on the nurseries. Would you amplify these statements with regard to nursery expenditure? (Sir Gilbert Upcott.) Yes. This is very abbreviated. Perhaps I had better explain a little more fully what the question was that I put to the Ministry of Health. The position which I found on examination was that the Treasury, in 1941, gave authority for the establishment of these wartime nurseries, subject to a limit of 4s. and 3s. per day per child in London

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[Continued.]

and the provinces respectively. It is not clear to me whether those figures were intended to relate to the number of places provided or to the number of children in attendance. In practice, this makes a considerable difference, because I gather the attendance is barely 70 per cent. on the average of the places provided. In fact I think it has been interpreted to mean places provided. So that per child in attendance the limits would range from 4s. 6d. to 6s. per day. Also, as far as I can make out, it does not apply to individual nurseries but is interpreted as an average, really, because I find a number of cases in which what should have been a 3s. rate in fact ranges between 3s. and 4s. There is also, I believe, a general standard of staffing—that is nursing staff, as distinct from domestic staff—of 1 nurse to 5 children in the case of the non-resident nurseries, and 1 nurse to 4 children in the case of the whole-time all round the clock nurseries. The method of control consists apparently of returns of the cost for the first three months, upon the experience of which the expenditure is authorised after the original preliminary arrangements. My investigators have found that these returns are very belated and as a result, in many cases, they are considerably out-of-date by the time they are received and considered; furthermore, they do not appear to be followed up in any effective way after the original return. Accordingly, I asked the Ministry of Health whether they had considered the question of requiring a prior regional approval of maximum establishments of staff, by numbers of grades for individual nurseries, and maximum rates per staff and child day for expenditure on food, which is the main variable expenditure. The expenditure on accommodation is more or less fixed, and in fact these costing rates do not take any account of capital expenditure. Secondly, I asked them whether they had considered the possibility of recurrent scrutiny by the regional finance officers of running costs within the control of the Management. I appreciate that the Ministry of Health, like all of us, are very much restricted by their man-power difficulties, but it seemed to me it would be desirable, if possible, to apply some selective method of scrutiny and control which would be more effective than the present arrangement. Any methods of control must be highly selective with present staff difficulties, but it is possible, I suggest, by means of selective scrutiny and examination, to make a small staff go further than it might otherwise do. I will not attempt to summarise the Ministry's answer, but no doubt the Accounting Officer will wish to elaborate it a little further.

1269. Sir John, would you like to comment upon what Sir Gilbert has just said?—(Sir John Maude): Sir Gilbert has said, quite rightly, that these nurseries have not been at all times as full as one

would have liked. He gave a figure of 70 per cent. The figure was a little higher than that at the date I have, which was just after the year of account; in July, 1943, they were between 70 and 80 per cent. full. He was also right in saying that the figure of 4s. per child per day in London and 3s. in the Provinces is broadly based on the places and not on the children. You probably know that these nurseries are mostly designed to hold 40 children. The original estimate of need was in terms of about 1,500 nurseries holding 40 children apiece; that is to say, 60,000 children altogether.

1270. You say the average, roughly speaking, is 75 per cent. of places occupied. That means out of 40 places as a rule there are 30 occupied right through the whole country?—That kind of thing.

1271. 45,000 children, in fact?—Yes. I was saying that the 4s. and 3s. is really thought of in terms of places and not of actual children in attendance, and, of course, the fact is, unfortunately, that the absence of children does practically nothing to reduce the cost of the nursery.

1272. The overheads go on?—Ultimately, if a nursery is plainly under-occupied we consult the other Departments—the Ministry of Labour in chief; it is on the advice of the Ministry of Labour that these nurseries are set up, and it may be a question either of closing the nursery, or, what is more common, of at least distributing the staff for the time being, or distributing some of the staff, to help in other nurseries. But it is the fact that if a nursery is not full, apart from a certain amount of saving in food (and the food is mainly covered by the payments made by the mothers) there is very little, if any, saving of expenditure. As regards the letter which the Comptroller and Auditor General wrote to us, he suggested in that, as he told you, the possibility of our fixing a maximum cost in terms of food, staffing, and so on. It seemed to us that it might not be wise to do that, because in our experience we find that a maximum cost almost certainly becomes the normal cost; for that reason we hesitated to do that. As a matter of fact, the biggest item of expenditure in these cases is undoubtedly the staff, because these children between 1 and 5 want a very great deal of attention, and, as you have heard, the staffing is based on the footing of 1 to 5 in the non-residential nurseries and 1 to 4 in the residential nurseries, and that accounts for a very large item. I have here figures (I do not know whether you would like to hear them) of the sort of cost of staffing and what it works out at.

1273. Yes, I think we should be very interested to have those?—The normal staff is this: we have a matron; she must be a State Registered Nurse. Assuming that she is a non-resident she gets a salary

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of about £280. We have a deputy matron, also a State Registered Nurse, at £265; then there is what is sometimes called a nursery nurse and sometimes a nanny at £140. There is a warden at £160, a nursery assistant at £140, and three probationers who get about £200 between them. So that makes an expenditure of £1,185.

Mr. Henderson Stewart.

1274. They are all outside people?—Yes, they are all outside people.

1275. They neither live in the place nor have their food in the place?—These are the figures where they are non-residential. I can give you the figures if they are residential; it comes to a great deal less. The total figure there comes to £960 instead of £1,185. As regards the other items I think it true to say that it is not really necessary to make very much check on the expenditure of these authorities on food, for the reason that they have a great deal of difficulty in getting it. We have these nurseries very carefully inspected by non-financial officers, who are in fact ladies of experience in this kind of thing, of whom we have I think two or three in each region, who keep very closely in touch with these nurseries. But I am bound to say that it is their task not so much to check the nurseries as to see that the arrangements, particularly the arrangements for staffing and also for food, are as good as they should be.

Chairman.

1276. If the costs are standardised as regards the main item, which I gather is salaries and wages, it is rather hard to see why there should be such a variation as between 3s. and 4s. in the cost per head?—Between London and the Provinces?

1277. Yes. The food is presumably the same price?—(Sir Gilbert Upcott.) With the provincial nurseries I find that the rates vary between 3s. and 4s. in particular nurseries in the Provinces. The London rate is 4s. and upwards.

1278. Why should it be such a difference?—(Sir John Maude.) Rates of salary are higher in London. Probably the overheads are rather more expensive. (Sir Gilbert Upcott.) I was not addressing myself to the difference between London and the provinces, but to the difference between different establishments in the Provinces.

1279. Yes, I appreciate that, but I do not see why London and the Provinces should be different?—(Sir John Maude.) It is broadly true to say that the vast bulk of the difference (I do not say the whole difference) between nurseries depends entirely on whether the nurseries are full or not. We have found from rather bitter experience that it takes a long time to fill these nurseries up, or it does in some cases. There is no compulsion about this.

The Minister of Labour has never directed any of these women, the mothers, into the factories.

1280. The costs you have given us are the costs per place. Therefore, whether they are full or not, it does not affect the question of the cost per place. I do not follow your argument on that. The cost per place, you have told us, varies from 3s. to 4s. I cannot see that the question whether a place is full or not makes any difference to the cost of a place?—You are commenting on the difference between 3s. and 4s.?

1281. Yes?—I am afraid I cannot give you the actual figures, but it is notorious that almost everything of this kind is a good deal more expensive in London. You pay more for your houses and you pay more for your staff.

1282. More for houses, I agree, but not for food. Could you tell us the number of women staff employed in relation to the number of women released for war work as a result of the existence of these nurses? Have you any guess figure? You obviously could not give an exact figure. Could you say what is the number of mothers?—Of mothers who are released for war work because of these nurseries?

1283. Compared with the staff of 8 or 10, which I think it adds up to in the case of individual nurseries?—I am afraid I cannot give you that figure. I suppose one might say—this is no doubt an impossibility—that if each mother had four children under five, then there would be no saving at all. That is so, is it not? But if the average were two there would be a saving of half.

Sir Irving Albery.] They would be part-time workers.

Chairman.

1284. It is a rather interesting problem from the State point of view to know the balance, when they are so short of woman power, between the number of women employed on this job and the number of women released for war activities?—I quite agree.

1285. At your leisure, would you think that over? It would interest me a great deal to see the answer.*—It depends on the average number of children under five that these mothers have.

1286. I think if you were to take a few typical nurseries at random you could work that out. It is obviously a bit of a guess, but it would be of interest, I think. Have the Treasury any views on this—not on the special point we are on now, but on the general points?—(Mr. Blunt.) This is a matter primarily for the Ministry of Health to see that their expenditure is reasonable. I do not think we have any special views.

* See Appendix No. 12.

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Chairman.] Are there any questions on paragraph 33?

Sir Irving Albery.] With reference to the point you raised, Mr. Chairman, it would not be very difficult, really, to have got out the figure you were asking for in the case of two or three different nurseries—one or two in London and one or two in the provinces. I was wondering whether we could have that?

Chairman.

1287. It is promised.—(*Sir John Maude.*) We will have a sample taken.

1288. And you will let us see it in due course?—Yes.

Sir Irving Albery.

1289. One question I wanted to ask you, Sir John, was this: Can you give any estimate of the total yearly or weekly budget of an average nursery with 30 places occupied—the complete cost of running a nursery three-quarters full, with the staff you have enumerated, food, rent, and everything else?—We can work it out on average.

1290. Has it not been worked out?—I have no doubt we must have some figures, but on the average one could work it out on the 4s. basis by taking 4s., multiplying that by 40 and multiplying that by 6. Each child costs 4s. a day. There are 40 children; that is 160s. That is £8 a day. You multiply that by 6; that is £48.

1291. Does that cover the entire cost?—Yes.

1292. Is that the only money available?—Yes.

1293. It covers the entire cost of the nursery?—Yes. (*Sir Gilbert Upcott.*) That would be theoretical. (*Sir John Maude.*) Yes.

1294. I wanted the actual.—I am afraid I have not that with me. We could let you have the actual cost, undoubtedly.*

1295. Could we have the actual cost of two or three nurseries?—Yes—of some sample nurseries.

1296. Taking nurseries which are three-quarters occupied, having 30 children. That is about typical.—It is partly or mainly in order to see the difference between the cost of running a full nursery and the cost of running a nursery three-quarters full?

1297. Yes. Have you any idea how much per child it actually costs for a whole-time, all-round-the-clock nursery?—Yes, we know. We know this average figure of 4s. per child per day. The mother pays 1s., and I think I am right in saying that that 1s. covers the bulk of the expenditure on the food. (*Sir Gilbert Upcott.*) That is all pure theory. The point of my question which I put to the Ministry of Health is that they do not know the facts, and I suggested it would be desirable that they should.

* See Appendix No. 12.

1298. If we get two or three examples, that would give it to us, and perhaps we could have included one or two of the whole-time, all-round-the-clock nurseries?—(*Sir John Maude.*) The residential nurseries?

1299. Yes?—Yes.

Mr. Glenvil Hall.

1300. Has your Ministry any test of what is war work? I am not asking that question to catch anyone, but the Comptroller and Auditor General says: "These nurseries provide care for the children (up to the age of five years) of women war workers, though children of other women are admitted in special cases and under special conditions". What is really the test when a child is brought along to one of these nurseries?—As I said, the actual decision to set up the nursery is taken on the advice of the Ministry of Labour. I think we should look to the Ministry of Labour to advise us as to what they regard as war work. If there are places empty in the nursery we have, as stated in this note, admitted children of mothers who definitely are not on war work in some cases—generally but not always, I believe—on payment of something more than 1s. Sometimes on payment of the full cost by the mother. For example, if a mother has to go into hospital we have in those circumstances admitted children.

1301. Surely, almost any work now could be considered war work? May I take a concrete example? A married woman goes on to the buses and becomes a bus conductress. That would be war work?—Yes, that would undoubtedly be war work.

1302. Another goes into a weaving mill in my Division and is weaving khaki: is that war work—or is the test this, that women do go into weaving mills in normal times, but in normal times they do not go on to the buses?—I think it would undoubtedly be regarded as war work.

1303. Almost any work would be considered as war work?—Probably a good deal of that work would be being done for military purposes, would it not?

1304. I was wondering who judged? Does the matron say, when Mrs. X comes to her with a child; "You are not doing war work" and to Mrs. Y: "You are doing war work"?—(*Sir Gilbert Upcott.*) I have taken it that all women who are working are regarded as eligible for these nurseries. The exceptional cases to which I refer, in which children are admitted, are where children's mothers are not working, but are absent or disabled for some special reason.

Chairman.] Where they are ill, or something of that sort?

Mr. Glenvil Hall.

1305. One more question. Have you any sort of information as to the health of the

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children after they have been attending these nurseries for an appreciable period?—I do not think we have any what you may call very scientific information as to whether their health has responded.

1306. Is it your view that money spent in this direction, apart from enabling mothers to go out and do war work, certainly has done the children good and has been well worth while from that point of view?—I should think probably that is so. As you know, there is a very great difference of opinion as to whether nurseries for young children are desirable in ordinary circumstances—as to whether they are preferable to home life. They have all sorts of dangers of their own. Infectious diseases run through them like wildfire. That is partly why they are so expensive, because a very great deal of space has to be allowed. I do not think I can say the experiment so far has shown any very definite results one way or the other.

1307. Arising out of the information for which the Chairman has asked in order that we might arrive at the balance between the numbers who are helping in this direction and the number of women they help to go into war work. I suppose most of the staff are a trained staff and could not do other war work could they? If they were not looking after the children they would be in hospitals?—Of course, the senior staff are precious people, because they are registered nurses and could be valuably employed elsewhere. Most of the junior staff are young girls who have had an elementary and short course of training.

1308. So that in any figures you got out the only ones that really would be relevant would be the number of ordinary probationers and untrained nurses?—(Sir Gilbert Upcott.) There is an ordinary domestic staff, of course, Mr. Glenvil Hall.

1309. Those would be included?—(Sir John Maude.) It is fair to say that if the fully trained nurses were not being used in these nurseries they could be very valuably employed elsewhere.

Sir Frank Sanderson.

1310. I have one point. I think it is really important that we should have some figure which would give an approximate estimate of the number of women who would be freed for war work, compared with the number who are engaged in these nurseries?—Yes, we will get that figure.

Mr. Henderson Stewart.

1311. How long have these nurseries been going now?—They were instituted about the end of the year 1941.

1312. They have been going for about 2½ or 3 years?—Yes.

1313. You were rather required or pressed to institute them by the Ministry of

Labour?—I would not say that, but I would say this, that it was purely a war operation. They were instituted definitely in order to release more women for work in the factories.

1314. The pressure would really come from the Department concerned with man-power and woman-power?—Yes, it was really a woman-power question.

1315. Have your Departments or the Departments together—you and the Ministry of Labour—come to any general conclusion upon the results of this work, not just as to the health of these children, but generally speaking, taking everything into account is this thing worth doing at all?—I think undoubtedly it has proved itself worth doing in wartime—that is to say, when there is a desperate shortage of woman labour. Whether it would be worth doing in peacetime is quite a different matter.

1316. I was meaning in wartime. In view of the fact that you apparently do not have all the facts, at least readily available if at all, do you really know? Have you the facts?—I think we do know. We know there is a net gain in woman-power.

1317. There is?—Yes; not a very large one, perhaps, but definitely there is a gain. If 60,000 children are in the nurseries, I cannot give you the figures but I should suspect that it would mean, putting 1½ children to a mother, perhaps 45,000 to 50,000 women or something of that kind but we will get the figures if we can.

Chairman.

1318. You are going to look into it and give us details?—Yes.

Mr. Benson.

1319. Do you know definitely the child population of these nurseries? Have you the accurate figures?—Yes.

Mr. Benson.] What are the figures?

Chairman.] We worked it out at 45,000.

Mr. Benson.

1320. Is that places or children?—You are speaking now of actual children?

1321. Yes, of actual children?—I have not here the figures of actual children. All I have are the figures at various places—and rather roughly the percentage figures showing how full the nurseries are. (Sir Gilbert Upcott.) If you will excuse my saying so, I think the Ministry of Health do know the actual figures, because from returns which they must have given me I have it that the actual attendances in February, 1944, were nearly 45,000; 44,857.

1322. I think I heard you say that you reckon 1½ children per mother?—(Sir John Maude.) No, I would not put it as a reckoning. That was really more a guess on my part. I am not sure whether we could get that figure of the number of children

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per mother without having a complete questionnaire over the whole country. I was supposing we should do that by sampling.

1323. Yes, by sampling. $1\frac{1}{2}$ was your figure?—Yes. I agree.

1324. That gives you roughly 30,000 mothers for your 45,000 children?—Yes.

1325. And the total cost of these nurseries is about £1,500,000, which represents £50 a year per woman released?—(Sir Gilbert Upcott.) You may take it that the present cost is running at the rate of about £2,000,000 a year.

1326. Without any increase in the number of children?—(Sir John Maude.) It is about £2,000,000.

1327. That means £70 a year per mother, and the number of mothers released is the gross figure. From the number of mothers one has to deduct the number of probationers and highly skilled nurses. Has the Treasury considered the cost per net woman released?—(Mr. Blunt.) No, we have not had any such figures.

1328. It looks as if the cost of the actual labour power released by these nurseries is going to be very high?—We should certainly be willing to have a look at these figures when they are produced, but we have not had them before us.

Mr. Benson.] I think perhaps we might have a memorandum on what these nurseries really do mean. The Ministry of Health do not seem to know. They are most nebulous as to their figures. What we really require are all the data which will enable us to make some assessment of what the net release of women costs.

Chairman.] The financial implications of the scheme after two years of working.

Mr. Benson.] Yes.

Chairman.] I quite agree.*

Mr. Douglas.

1329. You said that you knew the percentage of occupation in these nurseries, did you not?—(Sir John Maude.) I gave you that figure of 70 to 80 per cent.

1330. If you know what the percentage is, obviously you must know the number of occupants?—Yes.

1331. The Ministry pays the whole of the cost of this undertaking, does it not?—Yes, except what the mothers pay.

1332. The mothers reimburse you, but you know what the gross cost is, do you not?—Yes.

1333. Very well: knowing the number of occupants and the gross cost, surely you can find out what the cost per head per week is?—Yes, I agree. Sir Gilbert has said the figure he gave was a figure I have here. It is broadly a gross cost of £2,000,000 a year.

1334. About 30s. per week per child?—Yes. I do not think anybody denies this

is a very expensive operation; but then a good many war operations are expensive.

1335. Have you any idea what wages the mother would earn? Would she earn about £2 a week on an average?—I should not like to give an answer to that. I should have thought it would have been rather higher.

1336. I do not know, but some of them are not working full time, are they? Some of them are only part-time workers?—Yes.

1337. What I am putting to you, Sir John, is that the net gain to the State is in fact the difference between the 30s., or whatever it is per week that it costs to maintain a child there, and the amount of the mother's earnings, whatever that may be? The difference does not look as if it were very great?—It might be that the addition to the cost of the mother's earnings was perhaps one-third to one-half? Is that your point?

1338. No, my point is this. After all, the gain to the State gross is the amount of the output that the mother contributes to war production, or some kind of production, and the measure of that output, presumably, is the wages paid for it. Conversely, what it costs the State to secure that output is the gross expenditure upon these nurseries. Is not that correct?—And the gross expenditure would include the expense to the State of looking after the mother's child. That is the point, is it?

1339. Quite?—I should agree.

1340. That is what it costs to put this woman into industry as against the output that she can give in industry?—I should agree.

1341. I have one other question. In your weekly or daily cost, are you taking account of the initial expenditure which is incurred in opening these nurseries?—The capital expenditure of providing nurseries?

1342. Yes. The expenditure I think you will agree is rather heavy in many cases.—(Sir Gilbert Upcott.) The cost figure does not take any account of capital expenditure.

1343. That expenditure, in fact, has to be amortized over a very short period, does it not, and if you do that, the increase in your cost per week will be quite considerable, will it not?—(Sir John Maude.) It would be substantial, yes.

1344. When you give us some particulars about this matter, could you tell us what the total of your initial expenditure has been on preparing these nurseries, to get them into running order?—The capital cost of the special huts that are put up?

1345. In some cases you put in very extensive sets of lavatories and so on—all extremely expensive work?—Yes, we can give you some idea of the cost of that. (Sir Gilbert Upcott.) The Ministry did in

* See Appendix No. 12.

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fact give to the Select Committee on National Expenditure an estimate of the capital costs up to the middle of 1943, namely, £1,876,000.

Chairman.

1345A. That was in addition to the £2,000,000 annual charge?—That is in addition to the annual cost. (Sir John Maude.) On the first 1,129 nurseries the capital cost was £1,876,000, or £1,662 per nursery. (Sir Gilbert Upcott.) That was about the middle of 1943. (Sir John Maude.) Yes. It has gone up since then.

Sir Irving Albery.

1346. Did I understand correctly that a woman who is on war work does not have to pay?—She pays 1s.

1347. But a woman who has gone into hospital would have to pay a larger amount?—Yes. Mothers who are not on war work (of whom a woman in hospital is just a single example) in some cases—not in all, but broadly, on a rough estimation of means—have been asked to pay more, sometimes even the full amount.

1348. In other words, that would mean that a woman who is earning wages pays a smaller amount than a woman who is incapacitated from working at all?—It might, yes.

1349. It does not seem right, or good public policy.—The nurseries were, after all, provided for the children of women in work.

1350. Whoever they were provided for, they actually offer accommodation to the persons who are admitted; and it does not seem right that the person who is earning good wages should pay less than the unfortunate person who is earning none at all.—The object of the nursery was to persuade women to go into industry.

1351. Another question I wanted to ask you was this. I happen to know that at any rate when this scheme was started there were voluntary workers, presumably in addition to the whole-time staff. Are there voluntary workers still?—I think there are a certain number.

1352. Of voluntary workers?—Yes. It does not amount to a very big proportion of the total staff now.

Sir Irving Albery.] I rather think the voluntary workers were offered not what one would call the pleasantest work to do, such as washing the babies' nappies, and that sort of thing, and that may not have encouraged a very large number. But it would be interesting to know, from the woman-power point of view, approximately what number of voluntary workers there are in these nurseries in addition to the permanent staff.

Chairman.] Perhaps you will see whether you can get any data on that, Sir John?

Sir Irving Albery.] My last question is this. I understood Mr. Douglas to arrive at a figure of 30s. per week per child as the total cost. Is that correct?

Mr. Benson.] Yes; 30,000 children and £2,000,000 cost.

Sir Irving Albery.] If that is the case, does not that throw an extraordinary light upon the allowances we are making to serving soldiers for their children? If the State cannot keep a child for less than 30s. a week, how are we to expect—

Chairman.] That is rather a different point, I think.

Mr. Henderson Stewart.

1353. Are you contemplating increasing the number of these nurseries?—No. There is a certain number still in course of approval and preparation, but I do not think there is much prospect of increasing the number. For one thing, the staffing difficulty becomes greater and greater.

Mr. Glenvil Hall.

1354. To follow up what Sir Irving Albery said, if a woman is on war work and pays the 1s. a day, and then goes into hospital, would that same woman have the amount increased, or does the increase apply only to women not on war work, and the woman who has sort of staked a claim for her child goes on at the old rate? If it is the former, and she pays more, then the anomaly would be even greater?—I think a war-worker would continue to pay the same amount.

1355. Who decides? Does the matron decide?—The people in charge—the matron, yes.

1356. Who is going to decide at the end of the war when these nurseries are to close down? Will Parliament decide or will it be done Departmentally?—Who is going to decide when they should close down? I suppose it will be part of the winding-up of the war factories. When the need for married women workers in the factories goes, no doubt they will close down. It will not require an Act of Parliament. I think it will be part of the general winding-up process.

1357. It seems to me that all this is the beginning of something quite good, and it would be a pity, in my view, if it is lost when peacetime comes. Will the decision be taken in the Department or will reference be made to a higher authority?—I think it will have to be a Government decision. There are possibilities. One possibility would be to convert a good many of these day nurseries into nursery schools. There are some very keen advocates of that policy.

1358. Therefore a lot of this capital expenditure which has been mentioned on the other side of the room will not have been lost?—I do not think anybody pictures the

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expenditure as lost when the war comes to an end. Many of these buildings are of a temporary kind; I suppose they would last for 15 or 20 years; they are not very solid buildings. (Sir Gilbert Upcott.) A good many of them are prefabricated huts.

Mr. *Glennil Hall.*] I know.

Chairman.

1359. Are there any further questions on paragraph 33? Will the Committee now turn to the Account, pages 13 to 15. On page 13, two-thirds of the way down, the note to Subhead A is: "Measures to deal with Casualties and Disease," an expenditure of nearly 17½ million pounds. Could you please give us the main items—those of, say, over £500,000—which go to make up that total?—The broad figures are these: The cost of the beds reserved by local authorities in the municipal hospitals is something over £8,000,000. Similarly, beds in the voluntary hospitals, just under £5,000,000. Then there are the salaries and wages paid to the Emergency Medical staff—largely medical staff employed direct by the Ministry of Health—which come to £1,500,000. There is an item of about £500,000 for inter-hospital transport of the sick. Supplies and equipment come to rather over £300,000—the bulk of them purchased centrally and some of them purchased locally. Then there is a figure for protective work; that is the work of putting up blast walls, and so on, at the hospitals; in municipal hospitals that is just under £250,000, and in voluntary hospitals, £150,000.

1360. Will you give us just the large items, those over £500,000?—There is a grant for the voluntary hospitals for an increase in nurses' salaries. That comes to £100,000. Those are the main items.

1361. The following Subhead, Subhead B is: "Expenses connected with Evacuation (England, Wales and Northern Ireland)," which is a figure of £21,829,000. Will you give us the main items which go to make up that figure?—The billeting payments, England, Wales and Northern Ireland come to £9,500,000. Then there are grants to local authorities for transfer, accommodation and maintenance of evacuated persons, persons who have been bombed out, and so forth, and that comes to £4,000,000. There is an item of nearly £2,000,000 for rest centres: those are the centres in the large towns. There is a grant to local education authorities for additional expenditure in looking after evacuated children in the schools and in the reception areas, £1,500,000. There is a grant of £1,000,000 to the local authorities for their administration expenses, and a grant of £1,000,000 in respect of the health services which have to be provided for the persons evacuated.

1362. Have you the gross figure for the Gibraltar refugees? I see below, in Details

of Receipts, that they contributed £125,000 towards their cost of maintenance?—The net figure is £125,000. You are asking how much they themselves contributed?

1363. That is below; the payment is £125,000?—(Sir Gilbert Upcott.) The gross figure on this Subhead is just over £600,000.

1364. What is the present position as regards the Gibraltar refugees?—(Sir John Maude.) There were, broadly, about 11,000 of them in the country. One contingent of something like 1,200 have quite recently been returned to Gibraltar.

1365. Is it intended that when present travel bans are removed they shall go back?—It is hoped that others will go back. That depends rather on security considerations.

Chairman.] Are there any questions on the Account on pages 13 to 15 inclusive?

Sir Frank Sanderson.

1366. On page 13, Subhead D, is "Provision of bunks in Air Raid Shelters". I notice that there is no figure of expenditure in respect of them. Is there any significance in that heading being put in, since nothing has been expended?—(Mr. Hunt.) I think that is borne by the Ministry of Works now. You will see a note on page 15. (Sir John Maude.) Yes; that has gone over to the Ministry of Works.

1367. I have one other question on Subhead F: "Other Services arising out of the War", a figure of £153,000. Could you state any particular items of expenditure of importance included in that figure?—I have an item here of roughly £50,000 connected with air raid shelters. We share the expenditure on shelters with the Ministry of Home Security. The Ministry of Health are responsible for what you may call the amenities inside the shelter. (Sir Gilbert Upcott.) The other large items are the Citizens' Advice Bureau and the maintenance of French Merchant Seamen. (Sir John Maude.) Yes. There is £30,000 for the Citizens' Advice Bureau; a figure for conveying water to certain points for military purposes; that was a small figure. Then maintenance of French Merchant Seamen, £25,000; Emergency Water Supplies, £15,000; Child Care Reserves, a small figure of just under £3,000.

Mr. Benson.

1368. I think I heard you say that you spent about £500,000 on the inter-hospital transportation of sick people. That seems a rather large figure?—Yes. That £500,000 includes the hire, running and maintenance of ambulance and vehicles of that kind. It is, of course, largely an insurance against the risk of heavy air raiding. That is to say, vehicles have to be kept and kept ready to meet that risk.

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Sir JOHN MAUDE, K.C.B., K.B.E., and
Mr. H. H. GEORGE, C.B., M.C.

[Continued.]

1369. Those do not include the normal ambulance which fetch people from their homes?—It includes the normal carriage of persons from one E.M.S. hospital to another. The biggest single item is the payment which is made to the London Passenger Transport Board. That is a figure of £240,000. Under arrangements with them they keep what are in fact converted buses always ready for dealing with the transport of patients.

1370. Do you pay them a lump sum and they would give you service, if necessary? If they give you service would they charge you for that service?—Yes.

1371. In addition to the £200,000?—It is on a mileage basis. I have the rates of hire here.

1372. You said that the biggest item was a payment of £240,000 to the London Passenger Transport Board?—Yes.

1373. Is that £240,000 an annual sum or does it just happen to be that figure for this year?—It is made up of a standing charge of 3s. per day per vehicle. That is one figure. In addition to that there is the actual cost of maintenance, cleaning, lubrication, driver's wages, and so on.

1374. What is your standing charge to the London Passenger Transport Board? Is it £240,000, or does that figure include running charges and mileage charges?—That includes the whole thing.

1375. How much of that is mileage charges and how much is standing charges?—The standing charge is 3s. per day per vehicle.

1376. That does not help very much.—I do not think I have the number of vehicles here.

1377. There cannot have been very much running about between hospitals by converted buses in the last 12 months.—No, but this is, of course, in the year of account.

1378. The year of account was even quieter than the last 12 months. 1941-42 was a very quiet period.—(Sir Gilbert Upcott.) There are nearly 300 London Passenger Transport Board stand-by buses.

Chairman.

1379. Is it not more in the nature of a retaining fee than anything else, in case of emergency?—(Sir John Maude.) This is really insurance against risk.

Mr. Benson.

1380. That is the figure I am trying to get at. The Comptroller and Auditor General says that there are 300 buses at 30s. a week.—3s. a day. May I give you the figures. At the outbreak of war there were 440 of these buses. Then 164 were released. Some of those came back again, but broadly, in the period of the Account, there were, as the Comptroller and Auditor General says, about 300.

Mr. Benson.] 30s. a day is £500 a year.

Chairman.] £560 a year.

Mr. Benson.] And there were 300 of them: that is £150,000.

Chairman.] £168,000.

Mr. Benson.

1381. That means that two-thirds of your figure is the standing charge and one-third —.—Drivers' wages and the rest.

1382. Does that apply throughout the country in the same way?—No. London is more heavily provided for than the rest of the country in that way. The figure for the provincial buses is just under the London figure; it is £230,000.

Mr. Douglas.

1383. Subhead C on page 13 is: "Advances and Loans to Local Authorities." Does this figure represent the financial assistance given to local authorities which have been in difficulties owing to war circumstances?—Yes.

1384. The figure is going down, is it?—The figure is going down very satisfactorily.

1385. Do you know what the maximum was?—49, 12 of which were Metropolitan Borough Councils.

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

NATIONAL HEALTH INSURANCE FUND ACCOUNTS, 1942.

NATIONAL HEALTH INSURANCE FUND (ENGLAND). WELSH NATIONAL HEALTH INSURANCE FUND.

NATIONAL HEALTH INSURANCE JOINT COMMITTEE CENTRAL FUND AND UNEMPLOYMENT ARREARS FUND.

SPECIAL SUSPENSE AND APPROVED SOCIETIES (OFFICERS) GUARANTEE FUNDS.

(National Health Insurance Fund, England. Approximate Receipts and Payments for the year ended 31st December, 1942.)

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[Continued.]

(National Health Insurance Funds: National Debt Office Statement for year ended 31st December, 1943.)

(On these Accounts no questions were asked.)

WIDOWS', ORPHANS', AND OLD AGE CONTRIBUTORY PENSIONS ACCOUNTS,
1942.

TREASURY PENSIONS ACCOUNT.

THE PENSIONS ACCOUNT.

TREASURY SPECIAL PENSIONS ACCOUNT.

THE SPECIAL PENSIONS ACCOUNT.

(On these Accounts no questions were asked.)

(Sir John Maude withdrew.)

Mr. G. H. HENDERSON, C.B., called in and examined.

(On this Account no questions were asked.)

CIVIL APPROPRIATION ACCOUNTS (WAR SERVICES), 1942.

CLASS X.

VOTE 17.

DEPARTMENT OF HEALTH FOR SCOTLAND (WAR SERVICES).

(Summary Report of the Department of Health for Scotland for year ended 30th June, 1943.)

Chairman.

1386. We take first the Report of the Comptroller and Auditor General on pages xlvi and xlvii, paragraphs 121 to 124. On paragraph 122, "Supplementary Medical Service," would you explain briefly this Service to us, please?—(Mr. Henderson.) Yes. This Service was begun at the beginning of 1942 on a limited basis, limited in two directions. It was limited in area (it was confined to the Clyde Valley Area) and limited in age grouping (it was confined to young persons of 15 to 25). The conception of the Service arose out of the apprehensions that war conditions—long hours of work, the blackout, general strain, and so on—were making young people more susceptible to certain diseases, notably tuberculosis. It was, therefore, felt that if special attention could be paid to the health of these young workers and signs of physical strain detected at an early stage a cure might be effected correspondingly earlier, and they might get back

to work very quickly. With that in view the General Practitioners were invited to co-operate and keep a careful watch on these young persons and refer any appropriate case to the Department's Regional Medical Service, which is substantially the successor of the peacetime Medical Referee Service. The procedure, following reference to the Medical Officer, was that the Medical Officer either himself examined the patient, or, if he thought necessary, he obtained an appropriate consultant, and the patient was examined by the consultant. Following that either the patient was referred back to the General Practitioner with some advice as to treatment or was admitted to a hospital for further observation and further diagnosis, or, if necessary, was admitted to a convalescent hospital for rest and the appropriate treatment. About a year later the scheme was extended to cover all the industrial areas in Scotland and all age groupings. Up to the present time about 8,000 people have been referred

25 April, 1944.]

Mr. G. H. HENDERSON, C.B.

[Continued.]

under the scheme, of whom about 5,000 have been admitted to hospital. One-third of the 5,000 have been admitted to convalescent hospitals.

1387. I gather you in Scotland are rather ahead of England in this matter. Would you tell us your practice in regard to recoveries? The Comptroller and Auditor General mentions that the recoveries from patients were negligible. What is your practice with regard to recoveries?—In regard to the question whether the patients admitted under the scheme should be charged for treatment or not, we had to follow the traditional Scottish voluntary hospital practice, which is that no definite charge is made against a patient; I mean in the sense that there is no contract between the hospital and the patient. It is the normal practice for Scottish voluntary hospitals to invite in various ways their patients to make a contribution, probably when they leave the hospital. We follow the same practice by handing a leaflet to the patient, telling him that this has been a good show, and so on, but I am afraid the recoveries have not been worth while. I take it your question was addressed to recoveries from patients? There is a recovery from the National Health Insurance funds of £1 per patient in relation to the diagnostic facilities that are provided. We regard that as being permissible expenditure from the National Health Insurance funds.

1388. In regard to recoveries from patients, I am afraid you have not set such a good example to England as you have in other respects in Medical Services. In the next sub-paragraph the Comptroller and Auditor General says: "The service was inaugurated with the knowledge of the Treasury but formal sanction was considered unnecessary on the ground that no appreciable expenditure would fall through the War Services Vote on the Exchequer." Was that not slightly optimistic, looking back on it?—Yes. I think, looking back on it, it was very optimistic. When the Report says that no formal sanction was considered necessary, I think I am right in saying that we did informally consult the Treasury. (Mr. Blunt.) Yes. (Mr. Henderson.) I think they knew exactly what we were doing.

1389. Have you any idea about what the post-war expenditure is likely to be? It is £16,000 for war years?—We regard this as entirely a war-time scheme. Presumably, it will be mopped up in the general National Health Service.

1390. Have the Treasury any comments to make?—(Mr. Blunt.) No. We were consulted at the time. It was thought it would not cost anything. It was thought this £1 that they recovered from the National Health Insurance funds would cover the cost. It did cost more than that, and we gave covering authority, and I think we should have been quite prepared

to have given that authority at the time if they had come earlier.

Sir Frank Sanderson.

1391. On paragraph 122, "Supplementary Medical Service", as I understand from the paragraph and from the remarks which you have made, no expenditure whatever falls upon the Department of Health for Scotland; the whole of the expense is recovered from the National Health Insurance funds? That being so, can you say to which account recoveries from patients are credited? Are they repaid to the National Health Insurance funds, or are they paid to the Department of Health for Scotland?—The recoveries from patients?

1392. Yes?—They are, of course, negligible.

1393. To the extent to which you receive recoveries, are they repaid to the National Health Insurance funds?—No. (Mr. Blunt.) There is a net charge which does fall on the Department. The net charge is about £16,000 a year. This small sum which they receive from the patients is in small mitigation of that sum.

1394. It is a contribution towards the expense?—Yes.

Mr. Henderson Stewart.

1395. Do you feel, on reflection, Mr. Henderson that this scheme is on the whole an outstanding success? Would not a large number of these people in any case, had they gone to a hospital, have received extra examination and gone to a convalescent home and so on?—(Mr. Henderson.) It is very difficult to assess its value, but I do know this, that there is a considerable amount of evidence from General Practitioners that the scheme has been very valuable in preventing serious damage to health by taking up the case earlier, and, in doing so, it has probably added quite materially to the productive days in the war effort.

1396. You will put in your report on this special scheme at some time, will you not?—There has already been a published document from the Department on this scheme.

Mr. Benson.

1397. Passing to a different subject, you have nurseries in Scotland, have you not, for the children of part-time workers?—Yes, the wartime nurseries.

1398. Can you give us any figures as to your costs?—The average cost over all the nurseries per child attendance is 3s. 9½d. per day.

1399. How many nurseries have you?—At the moment there are about 120.

1400. What is the average population per nursery? Have you any idea?—The average number of places provided is rather over 40—40 per average nursery. I have no figures with me as to the actual

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Mr. G. H. HENDERSON, C.B.

[Continued.]

number of children, but I estimate it is about 80 per cent. occupancy.

1401. Your 3s. 9½d. seems to be higher than the average in England outside London?—(Sir Gilbert Upcott.) Their figure is per attendance.

1402. Not per place?—(Mr. Henderson.) Per child attendance per day.

1403. So you have to write off about a quarter of that, have you not?—Yes.

1404. Per place it would work out at just under 3s., then?—Yes, I would imagine so—less one-quarter

1405. Are your staffing arrangements pretty much the same?—Very much the same as the English staffing arrangements.

1406. Have you any figures as to the number of mothers released?—No, I am afraid I have no precise figures. The figures could be obtained by sampling one or two nurseries. I should say, offhand, that you would find the 40-place nursery would contain the children of from 24 to 30 mothers. That would be my rough estimate.

Chairman.

1407. That would be an average of 1½, roughly?—(Sir Gilbert Upcott.) If I may say so, this Department, which of course has a much smaller task than England, does what I suggested the English Department should do—it gives prior approval to running costs under specific headings, and it exercises control over recurrent expenditure by examination of the claim forms.

Chairman.

1408. Are there any further questions on paragraph 122? We pass to paragraph 123—"Rehabilitation of Miners." Could you tell us about the division of expenditure between the Department and the Miners' Welfare Fund?—(Mr. Henderson.) The whole of the expenditure falls on the War Services Vote of the Department. The expenditure by the Miners' Welfare Fund is related almost entirely to the travelling expenses of miners. I think there is a provision for payment for welfare. Whether anything has been expended under that head I am not sure.

1409. To what extent is this hospital being used?—200 places were provided originally. I am afraid we have never been able to get the numbers up to more than about 120. They stand at the moment at about 75 to 80.

1410. As a normal figure, about one-third are occupied only?—It was better in the early months but recently it has fallen. We do not know why; but the average occupation for some time has been round about 80.

HOUSING ACT, 1914, ACCOUNT, 1942.

Sir Frank Sanderson.

1417. On page 3 of the Account in the Statement of Expenditure, the first item is: "Department of Health for Scotland: Scottish National Housing Company,

1411. Eighty out of 200 places?—Yes.

1412. Are there any questions on paragraph 123? We pass to paragraph 124 "Tuberculosis." The Comptroller and Auditor General says: "To assist local authorities to reduce their waiting lists of cases requiring treatment for tuberculosis, arrangements were made for their admission, on repayment terms, to certain hospitals managed by the Department and also to a local authority hospital wholly financed by the Department. This repayment service was extended in 1943. The rates charged are 10s. per patient-day for pulmonary tuberculosis and 7s. 6d. for non-pulmonary cases." The rates charged of 7s. 6d. for non-pulmonary cases and 10s. for pulmonary tuberculosis cover the whole cost?—I am not sure that we know the total cost, but they do certainly cover the extra cost which is attracted by the admission of a patient. I am not able to say whether the 7s. 6d. would include also the cost of provision of a hospital bed. But they certainly do cover running expenses.

1413. In the second sub-paragraph the Comptroller and Auditor General says that a number of units for mass radiography are being acquired for allocation to local authorities. Who bears the cost?—The local authority purchase the mass radiography set and they operate it.

1414. Do they pay or do you pay?—There is no payment from the Department.

1415. There is no payment involved by you?—No.

Chairman.] Are there any questions on paragraph 124?

Mr. Douglas.

1416. In the first sentence reference is made to a local authority hospital wholly financed by the Department. That is rather an unusual circumstance. What is the explanation of that?—I think that simply means that the Department took over the whole hospital. As a matter of fact it is a hospital near Edinburgh. The Department took the whole hospital over at the beginning of the war and doubled it by building annexed huts; in fact the hospital was, until it admitted tuberculosis patients, used entirely as a war hospital, administered by the local authority, the practical effect being that the Department were responsible for the whole cost.

Mr. Douglas.] I follow. It is a little misleading.

Chairman.] Will Members turn to the Account which is on pages 50 and 51. Are there any questions on the figures? May I take it that the Account is approved? (Agreed.)

Limited." Is it a company which is directly controlled by the Department?—(Mr. Henderson.) The Department have representatives on the company. It is not directly controlled by the Department. It

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Mr. G. H. HENDERSON, C.B.

[Continued.]

is a company which dated from the last war, when, owing to the development of Rosyth as a Naval Base, a company was formed to build about 1,700 houses. The company was financed to the extent of 90 per cent. of its capital by direct Exchequer grants; one-tenth was obtained by issuing share capital. At the beginning of this war Rosyth was again re-opened and redeveloped, and the same company built another 134 houses. The financial arrangements with the company require them to pay interest of 3½ per cent. on the money originally advanced by the Department, to pay dividends at 5 per cent. on the share capital, and to pay the feu duty on the Admiralty land on which the houses are built, and ¼ per cent. on the loan in redemption over 60 years. These sums appear in the Appropriation in Aid of the Vote.

The company is not able to pay these sums without assistance, and the Department then make a further grant which appears under Subhead F.3.

1418. I understand that whilst interest at the rate of 5 per cent. is paid by this company they do not in fact earn the full 5 per cent., and the balance is payable by the Department?—That is so. They are not able to meet their commitments and a corresponding grant has to be made in order to enable them to do so.

1419. There is no profit being made from any outside source in the way of building houses?—No.

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

NATIONAL HEALTH INSURANCE FUND ACCOUNTS, 1942.

SCOTTISH NATIONAL HEALTH INSURANCE FUND.

(*On this Account no questions were asked.*)

WIDOWS', ORPHANS', AND OLD AGE CONTRIBUTORY PENSIONS ACCOUNTS, 1942.

PENSIONS (SCOTLAND) ACCOUNT.

SPECIAL PENSIONS (SCOTLAND) ACCOUNT.

(*On these Accounts no questions were asked.*)

Chairman.] Thank you very much, Mr. Henderson.

(*The Witnesses withdrew.*)

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

THURSDAY, 27TH APRIL, 1944.

Members Present:

Sir ASSHETON POWNALL in the Chair.

Sir Irving Albery.
Mr. Douglas.
Mr. D. O. Evans.
Mr. Glenvil Hall.

Sir John Mellor.
Mr. Pickthorn.
Mr. Touche.

Sir GILBERT UPCOTT, K.C.B., Mr. H. BRITAIN, C.B., and Mr. D. F. C. BLUNT called in and examined.

TREASURY MINUTE ON PARAGRAPH 24 OF THE REPORT OF THE COMMITTEE OF PUBLIC ACCOUNTS, 1943.

Sir DONALD FERGUSSON, K.C.B., called in and examined.

Chairman.

1420. The Ministry of Agriculture and Fisheries. The witness is Sir Donald Fergusson. Will Members turn first to the Treasury Minute of 12th February, 1944, on the Report of the Committee of Public Accounts, 1943. Paragraph 24 of the Committee's Report was with regard to records of agricultural machinery and implements. Perhaps I might remind the

Committee of what they said last year with regard to agricultural machinery and implements which were missing to an appreciable extent. The figure of value given to us in the Report of the Comptroller and Auditor General was £184,000. The Committee said: "Your Committee recognise that these supplies were issued and put into urgent use under unfamiliar circumstances during the early days of the war, but no evidence was given that any serious

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Sir DONALD FERGUSSON, K.C.B.

[Continued.]

attempt to find these machines valued at about £184,000 had been made by the Committees concerned and in this apparent inaction the Ministry had till then concurred. Your Committee think it a matter for regret that the present position should have been allowed to arise in the case of this machinery as, without an accurate knowledge of its location, it is not possible to ensure that the fullest use is made of it. Moreover, much of it is hired out to farmers and there can be no guarantee that the proper charges have been collected for its use in the past." The Treasury Minute on that paragraph of the Report is as follows: "... My Lords are glad to understand that investigation has since reduced the discrepancy to quite small proportions," and so on. Members have it in front of them. Could you please tell us, first of all, Sir Donald, something in regard to the "quite small proportions" to which this discrepancy has now been reduced?—(Sir Donald Fergusson.) The final result, as shown by a physical stocktaking which we took in 1943 is that out of £8,000,000 worth of machinery, which has been issued to county committees, only about £9,000 worth remains unaccounted for.

1421. £9,000 out of £8,000,000?—Yes.

1422. In other words, of £184,000 worth of machinery which was unaccounted for, all but £9,000 worth has apparently been traced?—It relates to a different date. As to the discrepancy of £184,000, the further investigations which were made disclose that a large part of that discrepancy arose because of a different nomenclature as between our lists at the Ministry and the lists at the Committees. When that had been cleared up, there was a reduction from £184,000 to something under £50,000. Then we had a subsequent physical stocktaking which has reduced the amount unaccounted for to about £9,000.

1423. In their Minute the Treasury say: "A report of the final outcome of the investigation should be furnished to their Lordships." Have you any record of the final outcome, or is that figure of £9,000 final?—It is the result of the final investigation.

1424. In their Minute the Treasury ask for: "any observations the Ministry may have to offer on the concluding sentence of the paragraph in which the Committee refer to the possible loss to public funds in respect of charges collectable from farmers." Have they proved collectable in practice?—Yes. We cannot give exact figures about the amount of machinery that was found in farmers' hands, but we are satisfied that the proportion falling into this category—that is to say, machinery which was in farmers' hands and unaccounted for—was only a very small part indeed of the total original discrepancy, and that in consequence any loss to public funds owing to the failure to raise charges against the

farmers in respect of the machinery hired out to them has been a negligible amount.

1425. Have the Treasury any views to express upon this matter?—(Mr. Blunt.) No. We have had a report from the Ministry in the terms Sir Donald has stated to the Committee, showing that what at one time was thought to be possibly of the order of £184,000 now comes down to a figure of £9,000. He also has demonstrated that there is not really any question of non-recovery of charges. I think the Committee will probably be glad to know that the figures have come down like that.

1426. Sir Gilbert, would you like to add anything?—(Sir Gilbert Upcott.) My officers have not yet had an opportunity to examine the latest returns, so that I cannot say for certain that I may not have further questions of detail to raise. But I think I can say that the Committee may rest assured that the Ministry have made the greatest possible efforts to make sure that they know now and the Committees know what they have got.

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

Sir John Mellor.

1427. I should like to ask Sir Donald how this revised figure has been reached, having regard to the statement in paragraph 24 of the Committee's Report: "In the circumstances the Ministry have decided to abandon the endeavour to secure a complete reconciliation as at September, 1941." If that was the view of the Ministry last year, would you make it clear, Sir Donald, how it has now been possible to reach these revised figures?—(Sir Donald Fergusson.) Yes. We found on further examination that the discrepancy as regards the figures at the date in 1941 was largely, though not wholly, accounted for by the fact that the Committees had different descriptions of the machinery from the lists we had of our issues. They called "lorries" "vans." Where we had them down as "lorries" they had them down as "vans"—that sort of thing. When we had reduced the discrepancy to something under £50,000 by that process, we came to the conclusion that no useful purpose would be served by going on examining those lists dating back in 1941, and that the most practical thing to do would be to take a physical stocktaking (that was last year, in 1943) of what the Committees had actually got at that date, compared with what they had been issued with by us from the beginning of the war—to discover what was the position in 1943, without further pursuing the position of the two lists, the Committees' list and our own, as they were in September, 1941. When we took this physical stocktaking that reduced the discrepancy down to £9,000 worth of machinery. That is the explanation. I hope I have made it clear.

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Sir DONALD FERGUSSON, K.C.B.

[Continued.]

1428. Yes, thank you. What is the position with regard to the £9,000 worth of machinery? How is that to be explained, do you think?—I think it is explained by losses. This is, of course, machinery scattered all over the country. Perhaps I might mention that the biggest item, for example, of agricultural machinery out of the £9,000 is £1,400 in respect of 45 ploughs. Since the beginning of the war 45 ploughs (that is $\frac{1}{2}$ of a plough per county) are unaccounted for.

Chairman.

1429. That is extraordinarily few.—That is the most serious item. Bicycles have been lost and unaccounted for. They have probably been stolen when people were going about the country. All this machinery with the Committees, it will be realised, is largely being moved about the country all the time from one farm or from one reclaimed area to another.

Sir John Mellor.

1430. Now, when machinery is issued, I take it the proper receipt is obtained for it?—Yes.

1431. There is no chance of any confusion arising again?—I do not think so. I think we have now got the matter in a way in which we shall no longer have confusion, and the description of the machinery

on our lists and on the Committees' lists will correspond. As I think the Treasury representative mentioned, we are satisfied that, although there was this difficulty in reconciling the figures, the amount that has been lost to public funds by machinery getting into the hands of farmers and not being properly charged for has in fact been negligible.

Mr. Douglas.

1432. You are satisfied that the proper charges are now being made for the hire and utilisation of all this machinery?—We have issued instructions as to the charges which should be made for machinery, and, broadly speaking, I think we are satisfied that those charges are being properly made and the money properly collected.

1433. What steps do you take to test that?—We have, of course, the records of the amounts charged in bulk, and we have also both machinery inspectors and accountants going round the Committees, and it is their function to satisfy themselves that the charges are being made by the Committees in accordance with the instructions we have issued. (*Sir Gilbert Upcott.*) My officers make some test audits, too.

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

CIVIL APPROPRIATION ACCOUNTS, 1942.

CLASS VI.

VOTE 7.

MINISTRY OF AGRICULTURE AND FISHERIES.

Chairman.

1434. We pass to the Civil Appropriation Accounts, 1942, page xiii, paragraph 32 of the Report of the Comptroller and Auditor General: "Contribution to the Agricultural Mortgage Corporation, Ltd." There has been a change of practice with regard to the payment of this £60,000, I see, Sir Donald. Please could you tell us something about it?—(*Sir Donald Fergusson.*) Yes. The position as set out in the Report of the Comptroller and Auditor General arose in this way, that when the Agricultural Development Act of 1939 was passed, it gave power to the Minister to make grants or loans up to £60,000 a year to the Agricultural Mortgage Corporation, Ltd., and it was explained to Parliament that the object was to avoid the Corporation having to draw on its Guarantee Fund, thereby weakening its credit and the security of its public debentures.

Sir Irving Albery.

1435. Did you say grants or loans?—We had the power to make grants or loans under the Act; we can make either.

1436. Which in fact did you make?—(*Sir Gilbert Upcott.*) The last sentence of my paragraph states the conditions upon which they are made: "The grants remain subject to the conditions that they are treated as loans repayable if at any time the Minister and the Treasury consider that the Corporation's revenue position is sufficiently assured to enable them to do so, and that so long as the Corporation is in receipt of such grants no dividends shall be paid on share capital except with the consent of the Minister and the Treasury." (*Sir Donald Fergusson.*) In the early years, as mentioned in the Report of the Comptroller and Auditor General, we issued £22,500 in 1939 and £10,000 in 1940, and nothing in 1941. The reason for that was that these were the actual losses or deficits which had to be made good in those particular years, to avoid a call on the Guarantee Fund. But the Corporation represented to us that the sum of £60,000 a year was what was calculated under present conditions to be necessary as an average payment over the period up to 1959, and that if we made smaller issues in the earlier years it would be necessary to

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make larger issues than the £60,000 in the later years, and as there was no authority under the Act to make a grant or loan of more than £60,000 in any one year they would not be able to avoid calling on the Guarantee Fund. Consequently, it was agreed by the Treasury and ourselves that that should be done, upon the understanding that these payments should be made to avoid a call on the Guarantee Fund. So we have, for the time being, increased the grant, as from 1942, to the full £60,000 to which we are allowed to go.

Chairman.

1437. The idea being that, as that figure represents the mean, if they are short drawn in certain years they will not have a surplus accumulating in case there are leaner years thereafter? That is the position, is it not?—Yes.

1438. Is it too early to speak of any changes that may come about owing to the Budget that was opened the day before yesterday—because that comes into it, does it not?—Yes. I think the Chancellor of the Exchequer announced in his Budget speech (and I am not sure the Bill has not been presented to the House to give effect to the Chancellor of the Exchequer's announcement) that it is proposed to increase the assistance given to the Agricultural Mortgage Corporation, to enable it to fulfil the function which it was originally designed to fulfil, which was to lend money at low rates of interest. At present I think its lending rate is 4½ per cent., and it is proposed that it should be enabled to reduce it to 3½ per cent.

1439. And further extra sums will be available beyond this average figure of £60,000?—Yes.

1440. Has the Treasury any comments to make on this?—(Mr. *Brittain.*) No, except to confirm what Sir Donald has just said. I think the Corporation were entitled to ask for the full £60,000 from 1939, but in fact they are quite prepared for three years not to make the full claim in view of the war position generally.

1441. In other words, they drew nothing in 1941, but strictly speaking, they might have asked for £60,000 in that year?—Yes.

Chairman.] Are there any questions on paragraph 32?

Sir John Mellor.

1442. The Comptroller and Auditor General states: ". . . no dividends shall be paid on share capital except with the consent of the Minister and the Treasury." Would you remind the Committee who the principal shareholders are?—(Sir *Donald Ferguson.*) The shareholders are the Bank of England and four of the big Joint Stock Banks.

Mr. Douglas.

1443. The assistance to be given was to be a sum "not exceeding £60,000 per annum." Was not the intention of that that the assistance should be equal to the actual deficiency each year?—I think the estimate that was made (I think I am right in this explanation) before the Bill of 1939 was introduced was that it would require something like £60,000 a year to avoid a call on the Guarantee Fund. Parliament provided that we should make a grant or loan not exceeding that amount, that being the estimate which I think had been agreed between the Treasury and ourselves and the Agricultural Mortgage Corporation, Ltd. That was the reason for putting that limit on it—that that is what was contemplated at that time would be sufficient, but no more than sufficient, to avoid a call on the Guarantee Fund.

1444. I have not the text of the Act before me, but this wording implies that it was not intended that it should be a fixed annuity of £60,000 a year which would be paid?—My recollection is, I think, correct: it was contemplated that that is what might have to be done unless circumstances changed. It is made, of course, in the discretion of the Minister and the Treasury. If the Minister and the Treasury are not satisfied that it is or will be required they can reduce the amount. (Mr. *Brittain.*) It is always possible that conditions might in fact prove much more favourable to the Corporation than it looked in 1939 as if they would be.

1445. According to the statement by the Comptroller and Auditor General only £22,500 was required in 1939, £10,000 in 1940 and nothing was required in 1941. It is now proposed to pay the full £60,000 a year. Is not this in effect a device for doing something which Parliament did not intend? The whole object of it, as I understood the explanation, was to provide for a contingency which has not now arisen—the contingency that at some future date the deficit might be more than £60,000 a year?—(Sir *Donald Ferguson.*) Perhaps I might say one word on that. One of the reasons that is likely to cause deficits is the premature repayment of existing loans by the farmers who have borrowed. If the present rate persists that will or might cause deficits in subsequent years. The Corporation were in less difficulty in this particular year and in the last year or two, under war conditions, because they are making profits from lands of which they have taken possession when mortgages have been foreclosed. Exceptional conditions have arisen during the war. Circumstances may change, but, on the best estimate that could be made as to what was likely to happen with these premature repayments and other causes of loss, a loss would arise in subsequent years of more than £60,000, and

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there would not be the power to pay more than £60,000 in the year.

1446. So that it is based upon a hypothesis—upon something that may happen in the future. Will you tell me what happens to the £60,000 in the meantime, which is not required for the purposes of the Corporation?—(Mr. *Brittain*.) The balance which is not required is shown as a reserve in their accounts, and that will be drawn on to meet future deficiencies.

1447. Is it an uninvested reserve or is it a deposit which is not drawing any interest?—(Sir *Donald Fergusson*.) It will be realised that if circumstances do change and the estimate which has been made at present is not realised it is always possible for the Ministry and the Treasury to reduce the grant in some subsequent year. The period runs to 1959.

1448. That is just the point I want to get at. Once you have paid the money over to the Corporation, is it not a means by which the Corporation can extend its operations, and then you would not be able to get the money back?—The Corporation have to satisfy us each year about what their financial position is.

1449. That was my original point, that this was intended to be a grant determined by the circumstances of each year as they existed and not by a guess about the future?—(Mr. *Brittain*.) There is very little prospect that they would ever have such profits in the near future that they would not have to use this £35,000, as it was at the 31st March, 1943, to meet deficits.

1450. Quite. It is a device for extending the scope of their operations in the future beyond what they could have done if this had been restricted to the needs of each year as they arose?—I doubt whether it would be right to put it in that way, because after all their operations are long term operations. They are lending over 40 or 60 years. They could not lock up a temporary reserve like this in very long term operations. They are bound to regard it as a cash or investment reserve for the time being.

1451. You do not know how the reserve is invested?—They have a lot of investments, and, of course, cash assets, which are against several items on their liabilities side. It would be difficult to say whether this particular £35,000 was represented by particular investments or by deposit at the bank. They have a certain amount on deposit. Of course they have fairly large cash balances, but they do invest as much as they can, because that is the only way they have of supplementing their insufficient income.

1452. They are supposed to pay interest upon this grant if it is treated as a loan.

Is there any prospect that it will be treated as a loan?—I would not like to prophesy, because all this will come up again. As Sir Donald has just said, the whole relations between the Government and the Corporation are going to be the subject of a further proposal which involves putting more money into the Corporation than is already in, so I should think it is very unlikely that interest would be paid on these particular advances in 1942.

1453. So that by investing it and earning interest upon it, they are in fact increasing the funds available to them, because they will not pay any interest to you?—Yes, but reducing the demands which they will have to make on us under the new proposals in the future.

Sir Irving Albery.

1454. Might I ask Sir Donald what is the amount of the loans outstanding?—(Sir *Donald Fergusson*.) The loans to farmers?

1455. Yes, the loans made under the Act?—The total loans made by the Corporation amount to about £14,500,000. I am afraid I have not the figure of the amount outstanding at the present time. (Mr. *Brittain*.) It was about £7,750,000 at the end of March, 1943.

1456. Are those mainly covered by what are called Agricultural Mortgage Bonds, or some such title, which have been issued to the public?—(Sir *Donald Fergusson*.) That is where the money was derived from, yes.

1457. Is the charging of a lower interest rate in future to apply only to new loans which are made, or is the rate on existing loans to be reduced?—It will apply to new loans to be made, but the Corporation have always allowed premature repayment of existing loans on a fine of 5 per cent.

1458. The repayment of existing loans carrying 5 per cent., do you mean?—If a farmer wishes to repay a loan to the Corporation amounting to £105, he can do that on repaying £105.

Chairman.

1459. For one year?—Yes.

Sir Irving Albery.

1460. Does that mean that the farmer would be able to repay his old loan by paying £105, and then take out a new loan at a lower rate of interest?—Yes.

1461. Is that a better procedure than to enable him to enjoy some decrease in the rate of interest on the existing loan?—I think it is a better way, perhaps, of dealing with the matter, because that has always been the practice with farmers from the beginning of the Corporation's existence.

1462. I would just like to ask the Treasury, with reference to the point that Mr. Douglas was mentioning, whether they

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are satisfied that there is in fact authority to make a grant of £60,000 for a current year if the need for that grant does not in fact exist? In other words, are they satisfied that there is authority to average the amount that is taken?—(Mr. *Brittain*.) There is certainly nothing in the Act of Parliament to stop our doing it. I am quite certain of that. The Act allows the Minister to make a payment not exceeding £60,000, either by way of grant or by way of loan on such terms as may be agreed. It is a quite unqualified power.

1463. Is it unqualified? The authority to make that grant is for a certain specified purpose?—No, there is nothing in the Act about it. It does not say, for instance, in the Act that we shall pay only so much as is required for the current administration or to meet the current loss. It is an unqualified power.

1464. In other words, you hold that it is a matter within the discretion of the Minister as to whether he gives them £60,000 or a lesser sum?—The Minister and the Treasury, yes.

Chairman.

1465. Might I ask, on that, up to what extent the Treasury think it would be legitimate to allow these reserves to accumulate, the full £60,000 being drawn even if not required? Have they a figure at all in their mind—£250,000 or £500,000—which they would let it get up to before they stopped paying the £60,000?—If it got to anything like that size—which would completely falsify all the estimates we have been making for the last year or two—we should certainly recommend to the Ministry that they should stop making any further payments.

1466. My reason for asking is that I notice the payments for the first three years average only £11,000 a year. Therefore there is nearly £50,000 short drawn each year, and had you started this plan from the beginning they would already have roughly £150,000 accumulated, which is a very appreciable sum?—They are getting near the time when the surplus is turning to a deficit.

Sir Irving Albery.

1467. What is the sum actually accumulated now?—At 31st March, 1943, it was £35,000. Speaking subject to correction by the Ministry I think it might be another sum of about the same amount for 1943-44.

Chairman.

1468. In other words, there is about £70,000 there now?—I think it is something like that. (Sir *Donald Fergusson*.) We have not seen the accounts yet.

1469. It is being watched by the Treasury, is it?—(Mr. *Brittain*.) Certainly, and it will all be reviewed when this new legislation comes before the House of Commons shortly.

Mr. Douglas.

1470. This Corporation is, I suppose, a company under the Companies Act, is it?—(Sir *Donald Fergusson*.) Yes.

1471. Is it a private company? Its accounts are secret, are they?—No.

1472. They are not?—No, they are public.

1473. They are public property?—Yes.

Mr. Douglas. Perhaps we could see them.

Chairman.] Sir Gilbert, have you seen these figures?

Mr. Douglas.

1474. Have you seen the accounts?—(Sir *Gilbert Upcott*.) I have not seen the accounts of the Corporation. I am not concerned with the accounts of the Corporation. I reported on this matter because it seemed to me that original arrangements had been modified. The Company is described in the Act of 1928 as a company limited by shares and registered under the Companies Act.

Chairman.

1475. Are there any further questions on paragraph 32? We pass now to the figures which are on pages 256 to 271 inclusive. I will take the first four pages together, 256 to 259 inclusive. On page 259 there is a footnote G.6: "A considerable saving, which could not be foreseen when the Supplementary Estimate was presented, arose on the provision for the maintenance of one institution." I see "Less Supplementary, £25,000," but the total saving on the original Estimate was not £25,000 but approximately £46,000. The saving was almost twice what you expected. You put in the Supplementary not many weeks before the end of the financial year, and it seemed not very happy shooting at the figure of what the Supplementary should be, taken such a short time beforehand. Perhaps you would tell us what the institution was?—(Sir *Donald Fergusson*.) That was Rothamsted. We had a joint Committee of the Ministry and the Agricultural Research Council, reviewing proposals which had been made for Rothamsted. We expected that Committee to make certain recommendations but it did not do so; the provision made was on the assumption of proposals which had been put forward but which the joint Committee did not recommend.

1476. The eventual saving was £46,000?—(Sir *Gilbert Upcott*.) You increased the saving.

1477. Yes. The saving was, as I say, nearly twice as much as you had apparently

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anticipated?—(Sir Donald Fergusson.) Perhaps I might say that we expected them to recommend certain grants and they did not.

1478. Footnote H.1 is: "Saving due mainly to the reduced incidence of foot and mouth disease towards the end of the year." Could you tell us the present position about foot and mouth disease?—At present we still have one infected area in the West Riding of Yorkshire. We have not had a bad time recently.

1479. Is that a large area?—There have been about 16 outbreaks in seven weeks and none for the last fortnight.

Chairman.] Are there any questions on pages 256 to 271?

Mr. Touche.

1480. On page 258, Subhead F is "County Agricultural Committees: Administration" and the grant was £2,500. What part of their work does that include? It seems a small figure?—That is the County Council Committees, a large part of whose work has ceased during the war, and a good deal of it is being done by the County War Agricultural Executive Committees. The grant we are making for their expenditure is, therefore, small. (Sir Gilbert Upcott.) The expenditure on County War Agricultural Executive Committees is in the War Services Vote. (Sir Donald Fergusson.) That is so.

Sir John Mellor.

1481. The £1,671 is a percentage grant, is it?—No, on administration I think it is the total grant.

Sir Irving Albery.

1482. On that same, Subhead F, "County Agricultural Committees," £2,500, does that mean that they are practically not functioning any more, because I see for the County War Agricultural Executive Committees the amount involved is over £2,000,000?—The work that is being done by County Agricultural Committees under Subhead F is merely the destruction of weeds on land that is not agricultural land—that is to say, building plots and things of that kind.

1483. Is it confined to that, because I see in the footnote F—?—That is why there has been a saving. They have spent less on that sort of work, but it is that kind of work they are doing.

1484. What is puzzling me is this. The Subhead is: "County Agricultural Committees: Administration." I should not have thought that the destruction of weeds would be described as "administration"?—This is the administration of the work of the destruction of weeds,

Sir Irving Albery.] It seems to me a little misleading as a heading. I would suggest in future that the heading to Subhead F should be altered.

Chairman.] It is slightly misleading. Perhaps you will bear that in mind, would you, Sir Donald?

Sir Irving Albery.

1485. It does seem to convey the idea that it is the administrative expenses of the County Agricultural Committees?—That is what it is, but they have very few duties now. These are not the County War Agricultural Executive Committees. They are the County Council Agricultural Committees—the Agricultural Committees of County Councils—and their work is practically negligible in wartime, because it has nearly all been taken over by the County War Agricultural Executive Committees.

Sir Irving Albery.] Cannot that work be taken over, too, then?

Chairman.

1486. It is a peace time survival, is it not?—Yes.

Sir Irving Albery.

1487. Could not that be got rid of too?—The work on agricultural land has been transferred to the County War Agricultural Executive Committees, but these functions in respect of land which is not agricultural land have been left with the County Councils.

1488. Is it economical to continue it on that basis?—I think there might be difficulties in some cases with this type of land in the County War Agricultural Executive Committees being asked to deal with it.

Sir John Mellor.

1489. Has the transfer been carried out under emergency powers, and, therefore, is it purely for wartime purposes, or is it a permanent transfers? That is the transfer of these functions from the County Agricultural Committees to the County War Agricultural Executive Committees?—It has been done under emergency powers, or by agreement.

Mr. Douglas.

1490. Am I correct in thinking that the expenditure upon the destruction of weeds comes under Subhead J.3?—Normally, the expenditure on the destruction of weeds is recovered from the persons concerned on whose land the weeds are, and J.3 is provided for the cases where it is not possible to recover from the person concerned.

1491. Do you know how much is recovered?—I could find out. I have not got figures with me.

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Mr. Douglas.] I was wondering what relation it bore to the £1,671 for administration.

Chairman.] The expenditure was £2 18s. 5d.

Mr. Douglas.] Quite.

Chairman.] Are there any further questions on pages 256 to 259 inclusive? We will take the next six pages together, 260 to 265. Are there any questions on those pages? Are there any questions on pages 266 to 271 inclusive? I have no questions to ask. May I take it that the Account is approved? (Agreed.)

TRADING ACCOUNTS AND BALANCE SHEETS, 1942.

NATIONAL STUD AND FARM, TULLY, COUNTY KILDARE, EIRE.

Chairman.

1492. We pass to the Trading Accounts and Balance Sheets for 1942, pages 4 to 9, which are in connection with the National Stud and Farm at Tully in County Kildare. There was a loss on these horses, I see, in the year under review, of £2,184, was there not, and there has been a change with regard to the procedure there, I gather, in recent months. Could you tell us what has happened?—(Sir Donald Fergusson.) There has been a change in that the stud has been moved from Eire to this country. The Ministry has purchased a stud farm at Gillingham in Dorset for housing the stud. We are hoping to accommodate not only the mares which are there at present, but also the stallion, Big Game, who is at present standing at Newmarket.

1493. You expect the figures to be more

satisfactory than they were in the year under review in that case?—I expect they will be more satisfactory as the result of the profits we may hope to receive from the fees for Big Game. (Sir Gilbert Upcott.) There will be some reconstitution of the accounts because the Ministry have had to part with their property at Eire. That now belongs to Eire. They had to acquire new properties and the items in the accounts relating to capital will require adjustment.

1494. We handed over the Irish estate to the Southern Ireland Government?—(Sir Donald Fergusson.) Yes. It was held, I think, that it belonged to them under international law. (Sir Gilbert Upcott.) There is no doubt it belonged to them.

Chairman.] Are there any questions on those pages, 4 to 9 inclusive? May I take it the Account is approved. (Agreed.)

SUGAR INDUSTRY (RESEARCH AND EDUCATION) FUND ACCOUNT, 1942.

LAND FERTILITY (RESEARCH) FUND ACCOUNT, 1942.

(On these Accounts no questions were asked.)

CIVIL APPROPRIATION ACCOUNTS (WAR SERVICES), 1942.

CLASS X.

VOTE 1.

MINISTRY OF AGRICULTURE AND FISHERIES (WAR SERVICES).

Chairman.

1495 I want Members to be so kind as to look at the first five paragraphs, which are really statistical. We have not had them before us at all. I want Members to look at those first five paragraphs before we come to the Ministry of Agriculture and Fisheries, in case any Member wants to ask any question on them. Are there any questions on those five paragraphs? We pass to paragraph 6, which is the Ministry of Agriculture and Fisheries. "County War Agricultural Executive Committees." The expenditure on these County War Agricultural Executive Committees in the year under review was getting on towards £12,000,000, as compared with an expenditure in the previous year of a little over £5,500,000. Could you tell us the reason for rather more than a doubling in the expenditure? There may be causes for it?

—(Sir Donald Fergusson.) The cause is the steady and large increase in the activities of the County Committees on various items—provision of labour, machinery, reclamation of land, taking possession of land and cultivation of land, possession of which has been taken.

1496. On a greatly expanded scale?—On a greatly expanded scale.

1497. With regard to repayments, the Comptroller and Auditor General mentions a sum of £1,000,000, due and outstanding. Has the money been coming in fairly well?—Yes, I think on the whole it has been coming in satisfactorily.

1498. Have you any figure with regard to the present position on these outstanding? It was £1,000,000 on the 30th June, 1943?—It is about £1,200,000 now, out of a total of about £7,800,000. I may say we

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have had only a very small proportion of debts which have proved irrecoverable. There is a natural delay in getting these payments in (there is bound to be some delay) but the proportion of debts so far which have proved irrecoverable amount only to £4,435. That is .08 of the total amount of goods and services supplied.

1499. Out of over £2,000,000 there is only that small amount which has been lost?—Yes.

Chairman.] Are there any questions on paragraph 6?

Mr. Pichthorn.

1500. I do not quite follow the first sentence, which says that the expenditure incurred amounted to nearly £12,000,000, £2,000,000 of which was accounted for by administrative expenses, £3,000,000 of which was expended on machinery operations, £3,000,000 on gang labour, and £2,380,000 on something else. They do not look, on the face of them, to the ignorant, things comparable with each other. I do not know whether you follow what I mean? I think I understand roughly what "administrative expenses" mean. But then there are "machinery operations." What does that mean? Does that mean all the wages, and everything else?—Wages, fuel, repairs and everything spent on machinery.

1501. And the buying of the machinery?—No, not the buying.

1502. Or a decrease in the value of the machinery during the period?—No, we do not charge depreciation. It is wages, fuel, repairs, and things like that.

1503. All the costs of everything to do with the machines?—Yes.

1504. The next one, gang labour, means the cost of everything where men have to work with their bare hands?—Yes, the wages in respect of all the gang labour employed by the Committees.

1505. The next is on land. That does not mean the buying of land, does it?—No.

1506. It means doing work on land. Presumably, the machine men and the hand men were both doing work on the land anyway?—(*Sir Gilbert Upcott.*) Expenditure on land is further analysed in paragraph 7. (*Sir Donald Fergusson.*) In the case of land there would be involved labour that was not gang labour—foremen and people of that kind; there would be fertilisers, seeds and expenditure of that kind. (*Sir Gilbert Upcott.*) Perhaps I should say these figures are shown in this way in my paragraph, because this is the way they are classified in the Ministry's accounts.

1507. The beginning of the next subparagraph states: "The amount charged out to farmers. . . ." Is there a particular meaning which escapes me in that? I have

never seen before the phrase "charged out to"?—I do not think it means more than charged.

Mr. Pichthorn.] It is just the same as "charged"? It is just in order to use an extra word?

Sir Irving Albery.

1508. Are the comparative figures of expenditure by the different County Committees available? There are 62 County War Agricultural Executive Committees?—(*Sir Donald Fergusson.*) Yes.

1509. You have the figures for expenditure for the different counties?—Yes, we have those figures.

1510. I would not ask you to give them now, but, if it is not too much trouble, I would like to see the expenditure on each county?—The Minister has always refused to give those figures on the grounds of the very great disparities that arise in different counties in the character of the work they are doing. It would be most misleading, without a very full knowledge of the different circumstances in the different counties—as to why one County Committee might be having no expenditure on account of labour and others might be having a large expenditure on account of labour. The expenditure on machinery would be very different, and it would create a great many questions and discussions.

Sir Irving Albery.] I do not suppose that this Committee would want to go into the details of the 62 counties, but if we saw the figures for the 62 counties we might desire to ask some questions about two or three of them, and the information which you are now referring to it might be desirable for this Committee to have.

Chairman.

1511. You do not see this information, do you, Sir Gilbert?—(*Sir Gilbert Upcott.*) The information is available, of course, but I am bound to suggest that it would be extremely uninformative, because the expenditure in Yorkshire is hardly comparable with the expenditure in Rutland. To start with, you would have to have the acreage of each county, to make any comparison at all. I suggest it would be a pure waste of time for the Committee to be confronted with the expenditure county by county. It would not tell you anything.

Sir Irving Albery.

1512. If that is Sir Gilbert's opinion I will not press the matter any further?—Subject to what the Accounting Officer would say I suggest it would be most uninformative. (*Sir Donald Fergusson.*) I do not think it would show anything. It would not be only the acreage of the counties, but you would find every conceivable difference and on the face of it it would be impossible to draw any conclusions from the figures, as figures.

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[Continued.]

Chairman.

1513. Without a lengthy explanation about the difference in the soil, and all sorts of things?—Yes. There was plenty of agricultural machinery in Norfolk but practically none in Devon at the beginning of the war. Therefore there is a large expenditure in Devon and a small one in Norfolk. That is the sort of situation.

1514. Are there any further questions on paragraph 6? We pass to paragraph 7: "Lands in possession: Farming Operations." I see from the first sub-paragraph that, forgetting about the compensation to owners and capital expenditure on improvements, the payments were nearly £2,000,000 and the receipts came to a little over £1,250,000, a loss of close on £700,000. I suppose that is unavoidable, is it?—Yes. A large part of the expenditure is bound to be in the early years, and on the kind of land of which Committees take possession it is bound to be of a capital nature, for reclamation work, cultivation, summer fallowings, and things like that, and it cannot possibly be recovered except over a period of years. I should also add, of course, that the object in these cases has been to produce food, not to make a profit, and part of it probably can never be covered.

1515. At the end of the second sub-paragraph the Comptroller and Auditor General states that accounts have not been received in all these cases. Have they come in yet?—No, we are having difficulty in getting these accounts, not because the basic figures are not available, but simply on the ground of shortage of staff in the finance and other departments of the County Committees, and they have more urgent work to do. That is really what it is. They cannot get these figures out.

1516. The Comptroller and Auditor General states that the accounts which have so far been rendered are at present under examination. Could you tell us at all the results of the examination up to date?—I am afraid I have not the results of the examination we have made so far. The accounts are being examined in the Ministry, but I have not the results ready.

Chairman.] Are there any questions on paragraph 7?

Sir John Mellor.

1517. Approximately 380,000 acres were in the possession of the County War Agricultural Executive Committees, of which rather more than half were being farmed by the Committees. Taking 200,000 acres, say, as being farmed by the Committees or on behalf of the Committees, would you say that represents about 1,500 or 2,000 farms?—It would be difficult to say that, because a very great deal of this land is not what one would ordinarily call farms at all. It comprises moors, places where there are no buildings at all, which have

not been agricultural holdings in the ordinary sense. It comprises building development sites round London; it comprises golf courses and all kinds of land which are not farms. I am afraid I could not, offhand, give a figure of the number of farms.

1518. I am only trying to get a very rough figure. You would say it is at any rate something in excess of 1,000 units?—Yes, I should certainly say that. (*Sir Gilbert Upcott.*) There are 6,548 cases.

1519. It is quite sufficient if I take it as something in excess of 1,000 units. Of these units, accounts are being prepared in the case of only about 30. That is the position?—(*Sir Donald Fergusson.*) That is to say trading and profit and loss accounts are being prepared only in respect of about 30?

1520. Yes. (*Sir Gilbert Upcott.*) There are cash accounts which include all cases. The question is in how many cases there should be a full trading account.

1521. Quite, but are not farmers generally, throughout the country, being encouraged by your Ministry, Sir Donald, to prepare trading accounts?—(*Sir Donald Fergusson.*) Yes. The reason why we are not is that we are not able to operate most of these places as farms, or as economic units. We are, for example, having to move machinery there for a day or two, and then it has to be moved off to another farm. We may have to move livestock from one place to another. We have to move the labour from one farm to a place perhaps 20 miles away. We are not farming them as settled farm units, except in a limited number of cases, and it is extremely difficult to keep trading accounts, if, for example, the machines are being used on farms for only a short period and are then passed on to some other farm, or possibly hired out to farmers.

1522. Surely that does not apply to anything like the total, excluding only 30? There must be considerably more—vastly more—than 30 properties which are being farmed in a very similar manner to other farms in this country at the present time? Surely there must be many more cases than 30 properties in which it would be appropriate for trading accounts to be kept?—There are more than 30 cases in which trading accounts could be kept; that is true. The question is: What is the object of keeping these trading accounts on these farms, many of which, of course, we give up as soon as we have got them round from being reclaimed, if they have been in a bad condition? Our policy is to relet the farm as soon as we can. What is the object of keeping full trading accounts when we have a very limited staff to do it in the finance departments?

1523. What is the point of the ordinary farmer keeping trading accounts? Why do you encourage them to keep trading accounts?—I would not say we encourage

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[Continued.]

the farmer to keep trading accounts which would satisfy the Comptroller and Auditor General, but in any business which is being run on economic lines for the purpose of profit, obviously it is an advantage to keep accounts to show what parts of the business are paying, and where the money is going and where the money is being received. I think it is generally recognised that it is valuable. I do not know what particular reason there would be in these cases for our keeping accounts. (Sir Gilbert Upcott.) Perhaps I ought to say that the Committee decided last year, after discussion of the subject generally, that they did not wish the Government to keep and present to this Committee trading accounts for Government trading operations during the war—partly on the ground of man-power difficulties, which are very great, and partly on the ground that the trading operations are not carried out as commercial operations for the purpose of profit. They are carried out regardless of profit and loss under war conditions. It was decided in this particular case that certain trading accounts should be kept as samples of what, under typical conditions, Government management could show—but only as samples, and the samples were to be definitely a limited number, again for man-power reasons. This Committee has quite deliberately decided that it did not wish the Government to keep trading accounts for trading operations generally during the war, except such as were necessary for administrative purposes.

1524. My point was this. I assumed that farmers were encouraged to keep these accounts because it would make for the more efficient conduct of their farms in the view of the Ministry of Agriculture, and I should have thought the same would have applied to the farms farmed by or on behalf of the County War Agricultural Executive Committees, and that, therefore, it is not sufficient merely to take a few sample accounts, but wherever it is practicable, and in all cases where farms are being farmed by or on behalf of the Committees in a fairly normal way, as wartime agriculture goes, accounts should be kept for the sake of efficiency if for no other reason. I should very much like your comment on that?—(Sir Donald Fergusson.) I think the value of keeping accounts, for farmers or anyone else, is for the purpose of ascertaining their costs and the most economic and profitable way of carrying on their business, and in farming in particular, the question of costs, profits, and so on, is a fairly long-term business; everybody has to make a plan for four or five years ahead. We are not farming this land which we have in possession normally. In very few cases are we farming it with a view to remaining in possession and continuing to farm it for a period. As soon as we can, in the ordinary way, we let these farms to some farmer. I do not think we should find any great assistance—in fact I do not think

we should find any assistance, frankly—in keeping trading accounts for the purpose of efficient farming of these lands for the short time we are going to farm them.

1525. Who are the 30 properties selected by? Are they selected by the Ministry or by the County War Agricultural Executive Committees?—They are selected by the Ministry on the advice of our Land Commissioners. We have Land Commissioners throughout the country and they have suggested where a farm which a Committee is farming is a suitable, typical farm.

Mr. Douglas.

1525A. What compensation do you pay for the land which is taken over?—Compensation?

1526. Yes, for this land on which you are conducting farming operations? What do you pay to the owner?—I think normally it is fixed under the Compensation Defence Act.

1527. That is something related to rateable value, but agricultural land has no rateable value. How do we do it in the case of agricultural land? I forget now. Is there no compensation?—In many cases we should take possession and if there was a tenant in there before we should continue, probably, to pay the annual value of the land as fixed for rent.

1528. If the land is unoccupied what is the annual amount you pay to the owner as annual compensation?—If it were unoccupied I should think we should pay him nothing—anyhow, for the first few years.

1529. In constructing your trading account, what do you debit as the rent of that land—nothing or what?—I do not think we should keep a trading account in connection with land of that particular kind.

1530. I do not know—because I do not know how you have selected it.—(Sir Gilbert Upcott.) There are a few properties which have been deliberately taken as samples of derelict land. In that case you take a valuation given by a qualified valuer. (Sir Donald Fergusson.) It would be the valuer who would advise.

1531. To put it in a nutshell, the point I want to elicit is this, that your trading account cannot have any value unless somebody has at the beginning made an estimate of what is a fair rent for the land?—When we take possession of land that is calculated by a valuer under the Compensation Act.

1532. I wanted to be sure that the amount under the Compensation Act was the kind of sum that I am describing. I thought that the amount under the Compensation Act was fixed by other considerations.—I have not the Compensation Act by me, but I thought it made provision for compensation in respect of agricultural land. Does it not? (Sir Gilbert Upcott.) Yes, there is a section.

Mr. Douglas.] If nobody knows it is no use wasting time on it.

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[Continued.]

Mr. D. O. Evans.

1533. What precisely is meant by "The total acreage of lands in possession"? Does that mean simply land taken over by the County War Agricultural Executive Committees? I see half of it is farmed by the Committees. What becomes of the other half?—(Sir Donald Fergusson.) That would be let to tenants normally.

1534. That would be regarded as land in possession?—We are in possession of the land. We may terminate a tenancy or we may take possession of the land. We may terminate the tenancy of the existing tenant and let it to another tenant.

1535. What would be the usual reason why the County War Agricultural Executive would step in? In this case they would be stepping into the shoes of the landowners?—We take possession of land only when it is not being farmed in accordance with the rules of good husbandry. We step into the position of the landowner.

1536. Either by a tenant or as occupying owner?—Yes.

Mr. Glenvil Hall.

1537. Are these 30 properties that have been selected for the purpose of trading accounts taken in any sequence? By that I mean do you try as far as possible to cover the various counties or does it just happen that because it is the kind of property which is suitable for keeping an account a trading account is kept?—I could not say. It would not cover every county, but we should think of it regionally. We should try to get typical properties in various parts of the country.

1538. It would add to the value of the trading accounts when they come to be looked at as a whole?—They come from 20 counties.

1539. So it is fairly representative?—Yes.

1540. I think we have heard before (you must forgive my asking it again if I should know the answer) what generally are the terms upon which land is handed back. Do we ever hand back to the old tenant or is it always to a new, and if so, what happens to the betterment that the State has put in and spent money on?—We have in the ordinary way the right to retain possession for a period of years—I think three years after the end of the war. We also have the right to recover betterment when we hand back the land to the original owner, and in certain cases we have power to acquire the land. In cases where we should not be able to get betterment for money expended by the State we have the power to acquire the land.

1541. I follow that, but I was wanting, if I could, to take it a step further. You turn out—and I myself think very properly—a bad tenant who is not making full use of the land in an emergency. He should

be turned out at any time, but we turn him out now because the matter is rather important and immediate?—We do not need to take possession of the land to terminate a tenancy.

1542. I know, but I take it that that occasionally happens, that you turn out a bad tenant?—Yes.

1543. Occasion does arise when you put a new man in, often not immediately. Is that so?—Yes. We might terminate a tenancy and to the landowner we should probably give an opportunity to propose another tenant. If the County Committee did not think he was going to be a suitable tenant the County Committee might put in another tenant.

1544. The County War Agricultural Executive Committee would take over immediately, would it not, and then a new tenant comes in. The new tenant is getting something better than the old tenant left; the County War Agricultural Executive Committee has improved the farm?—Yes.

1545. Is there any recovery to the State of that betterment? It may not amount to much. I just wondered. You might even possess a farm or land for a year and the increase might be relatively considerable. Does the new tenant get all that?—I suppose the new tenant would have to pay on an incoming valuation. Some of the money that the County Committee would have spent would be recovered from the new tenant on his incoming valuation.

1546. That would be the practice?—Also, there would be nothing to preclude the County Committee, if it had improved the property, from charging a rent to the new tenant appropriate to the new property.

1547. You said they might do it. I wondered whether you made a practice of doing it where circumstances of that kind arise?—I would not like to say we made a practice of it in the sense that that would be the invariable rule. In some cases the situation would arise that the County War Agricultural Executive Committee would have taken over a derelict farm. It might have effected a certain amount of improvement. It then might find a good tenant farmer who would be willing to take that farm, to pay no rent for, say, one year, and then an agreed rent subsequently, with the condition that he was going to make very considerable further improvements.

Mr. Pickthorn.

1548. I am not sure that I have it right yet. How do you fix a rent? Am I right in saying that what happens is that the County War Agricultural Executive Committee fixes the rent which it thinks would be an economic rent if the transaction were an economic transaction?—If it is letting land to tenants it should charge an appropriate rent.

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[Continued.]

1549. What it thinks in the trade would does a receipt arise in respect of the Women's Land Army?—It arises mainly from what the girls pay for their board and lodging in the hostels.

Chairman.

1550. Are there any further questions on paragraph 7? We will pass to the figures which are on pages 4 to 6 inclusive. On page 4, Subhead A, is "Purchase, Storage, etc., of Tractors and other Agricultural Machinery (United Kingdom)," a figure of a little over £3,500,000. Is that money spent in the United Kingdom?—It is really machinery acquired for the United Kingdom.

1551. Not necessarily spent in the United Kingdom?—No.

1552. What happens about Lend-Lease machinery which has come over? What do you do about charging for that?—That figure would include any expenditure incurred by us subsequent to the machinery leaving America under Lend-Lease.

1553. You charge people for that, of course, in the same way as for all the other machinery?—Yes. (Sir Gilbert Upcott.) You charge as if the machinery were bought. You do not let the purchaser have machinery for nothing. (Sir Donald Fergusson.) We charge the ordinary market price.

1554. Subhead D is "Women's Land Army"—a figure of just over £1,000,000. Could you tell us the main items? How many are there in the Women's Land Army now?—You want the main items of expenditure?

1555. Yes.—Salaries of staff, £79,000; uniforms, £535,000; hostels, £240,000; billeting of land girls, £49,000; travelling and other expenses in connection with moving and placing land girls, £39,000.

1556. How many are there? Have you told us the figure? I do not think you have.—The total numbers on the 29th February of this year were 68,900.

1557. On page 6 there is a note with regard to a loss estimated at £1,100 incurred as the result of a conspiracy between a hostel warden and 36 employees. Could you tell me how it was that the hostel warden was paying wages in this case? That is unusual, is it not?—We do not normally like hostel wardens to have to do that, but sometimes circumstances arise when they have had to be used for that purpose. We have taken further steps to try to prevent it happening anywhere where it can possibly be avoided since this case occurred.

1558. I see that the hostel warden got three years' penal servitude.—Yes.

Chairman.] Are there any questions on the figures?

Sir John Mellor.

1559. On page 5, among the Details of Receipts, there is an item of £204,000 odd in respect of Women's Land Army. How

Mr. Douglas.

1560. Your receipts from the County War Agricultural Executive Committees amount to a sum of £4,700,000 and their expenditure is nearly £12,000,000. How is the difference made up? Why is there not a receipt equal to £12,000,000?—I have some of the figures here. There are expenses of administration, drainage grants—that is grants for drainage schemes by farmers.

1561. Does that come under Subhead C?—(Sir Gilbert Upcott.) All the activities of the County War Agricultural Executive Committees are lumped in that Subhead. (Sir Donald Fergusson.) I can give the figures. They are all lumped. The total salaries are £1,500,000; travelling expenses and so on is another item. There are office expenses. Then there are all those figures mentioned in the Comptroller and Auditor General's Report which we were discussing just now—machinery, gang labour, farming operations, and so on. (Sir Gilbert Upcott.) The expenditure on all these operations, at any rate as regards cash, is so far substantially larger than receipts, even on the repayable operations.

1562. What puzzled me about it was that I imagined that most of that £12,000,000 was for services connected with the production of food, and they appeared on the face of them to be recoverable.—(Sir Donald Fergusson.) Only a part would be recoverable.

Mr. D. O. Evans.

1563. Would you mind repeating the figure you gave representing the salaries of the Women's Land Army?—Of the Women's Land Army?

Mr. D. O. Evans.] Yes, the salaries.

Chairman.

1564. We did not have the salaries. We had the figure for uniforms—The cost of uniforms was the big figure, of £535,000. Then salaries, £79,000.

Mr. D. O. Evans.

1565. Those are salaries paid to those in charge of the Land Army?—Yes, for headquarters and all the county staffs connected with the running of the Women's Land Army.

Chairman.] The wages are recoverable from farmers.

Mr. D. O. Evans.] These are not recoverable?

Chairman.

1566. The girls' wages are obviously recoverable?—Yes, the wages, but not the salaries.

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[Continued.]

Mr. D. O. Evans.

1567. With reference to the note on page 6 with regard to the 36 employees of a County War Agricultural Executive Committee, the conspirators, who were living at hostels, what were they?—They were Irishmen.

Mr. Pichthorn.

1568. On page 4, Subhead D, "Women's Land Army," is an item of just over £1,000,000. Is that the whole cost of the Women's Land Army, not counting the wages which go straight to them and therefore do not come in at all?—The wages are

paid by their employers and do not come into these figures at all.

1569. Exactly. This is the whole cost of the Women's Land Army?—Yes.

1570. So that they actually cost the farmer their wages and they cost the State £15 per head per year, which is this figure?—Yes, gross, including the uniforms, but £12 net.

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

(*Sir Donald Ferguson withdrew.*)

CIVIL APPROPRIATION ACCOUNTS, 1942.

CLASS VI.

VOTE 17. —

DEPARTMENT OF AGRICULTURE, SCOTLAND.

Sir PATRICK LAIRD, C.B., called in and examined.

(*On this Account no questions were asked.*)

CIVIL APPROPRIATION ACCOUNTS (WAR SERVICES), 1942.

CLASS X.

VOTE 16.

DEPARTMENT OF AGRICULTURE, SCOTLAND (WAR SERVICES).

Chairman.

1571. Will Members turn to page xlvii, paragraph 120, of the Report of the Comptroller and Auditor General, "Women's Land Army: Stocktaking of Clothing." How many have you in the Women's Land Army in Scotland, Sir Patrick?—(*Sir Patrick Laird.*) We have 8,600 at the present time.

1572. In his Report the Comptroller and Auditor General says that it is estimated there would be 10,000 by March, 1944. You have not quite reached that figure yet?—No. Recruitment was stopped in July last, and we were unable to go up to the full limit we would like to have gone up to. We had a ceiling imposed upon us.

1573. You are not, therefore, recruiting?—We are now recruiting only to fill up wastages.

1574. In the second paragraph of his Report the Comptroller and Auditor General says: "At the time of a recent local test examination of the accounts relating to this clothing I observed that no reliable stocktaking had yet been effected and I inquired of the Department whether it had yet been found possible to carry out such a stock-

taking. In reply I have been informed that this course has not yet been possible owing to the unsuitability and overcrowded condition of the store-rooms in which the stocks are housed: that the search for more suitable accommodation has been constantly pursued, and that, other means having failed, the Board of Trade have recently been approached with a view to the allocation of premises of such dimensions as will allow of a proper lay-out of the stocks and make possible a satisfactory stocktaking.' Could you tell us something about this question of accommodation which was not available?—Yes. The real trouble there has been the great difficulty of estimating far enough in advance what the likely growth of the Land Army was going to be. That has been the principal difficulty, that we have not been able to estimate very far in advance, what the numbers that we would need to provide uniforms for would be. Secondly, there has been great difficulty in getting the accommodation even when we knew what we could safely look for. Thirdly, the accommodation has been spread over several different places, and as we have kept on getting new places we have had to adjust the arrangement of the uniforms and other equipment—take some

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[Continued.]

things out of one place and put them into another, for easy working, and so on. After the first year or so, anyhow, the rush of girls into the Army so much exceeded our expectations that we have always been struggling with a situation in which the uniforms and other equipment are there and we have not been able to take a proper stocktaking of them.

1575. Now you have reached your ceiling you will presumably know where you are in that regard in the future, anyhow?—Yes.

1576. And you will not have these difficulties. In regard to your search for more suitable accommodation, the Comptroller and Auditor General says that "other means failed" and that the Board of Trade have recently been approached. What were the "other means"?—The usual method was to try to get accommodation through the Ministry of Works, which, as you know, is the Department which normally finds accommodation for Government Departments. Our efforts to get further accommodation failed with them, so we tried the Factory and Storage Controller at the Board of Trade.

1577. With what success?—He announced at the end of March that he was quite unable to help us, but fortunately, since then, the Ministry of Works have been able to find us additional accommodation.

1578. So that you hope to be all right now?—Yes.

1579. Have the Treasury any views on this matter?—(Mr. Blunt.) We have not heard anything of this, but if the Department do find that these new measures are not sufficient and want any help from the Treasury or want to consult the Treasury we shall be very glad to hear about it. But we have not heard anything about it yet.

Chairman.] Are there any questions on paragraph 120?

Mr. Douglas.

1580. What is the significance of this? Are there not sufficient uniforms for the Land Army, or are there too many, or what?—(Sir Patrick Laird.) The significance of what? I do not quite grasp your point.

1581. Of this paragraph we are discussing.—The whole point is that, unfortunately, owing to our inability to take a proper stocktaking, we do not know how many there are. We know we have enough to supply the needs of the Women's Land Army; but it is purely a question of accounting accuracy—of the correct records.

1582. You have the record of all the uniforms that have been issued?—Yes, we have a record of all uniforms issued. (Sir Gilbert Upcott.) I think the records are all right, but the trouble is that the accommodation is so inadequate and scattered that they have not been able to have a proper stocktaking, so as to know what in

fact they have in stock. The reason I mentioned it was that I thought that unless the matter was mentioned there was a danger of the Department being treated as a Cinderella and nobody taking any notice of their requirements.

1583. Are you happy about this? Do you not think that if this state of affairs continues you may run the risk of losing quite a number of these uniforms when it is apparent that no check is kept?—(Sir Patrick Laird.) That has been our worry. We have not been at all happy about it, but we have taken every possible precaution to ensure against the normal risks of theft, and so on. All the premises are very carefully guarded and locked, and it is quite difficult to obtain access to them.

Sir Irving Albery.

1584. On the question of clothing, I notice that during the time that about 9,000 persons have been recruited to the Land Army, over £200,000 has been spent on clothing. Surely, you are much overstocked, are you not? That is over £20 per person.—The number of girls who are now in the Army does not quite accurately give the position as to the number who have been supplied with uniforms, because all along the Women's Land Army has been in process of recruiting girls who have subsequently left the Army, but who have been supplied with uniform and equipment.

1585. What happens to that equipment?—It is brought back. Some of it is sold, but we do not, of course, issue it again to other girls. Actually, the total number of girls who have been supplied with uniform and equipment is well over 12,000.

1586. Even so, does it not appear that you are considerably overstocked with clothing?—There are 17 different kinds of articles. We got rather afraid early on in case we were going to be left without sufficient uniforms to issue.

1587. What is the estimated cost of fitting up one land girl?—I do not think we have ever estimated that cost. It could be done. (Sir Gilbert Upcott.) It is about £8, is it not?—(Sir Patrick Laird.) I beg your pardon, I have a figure. The cost for the first year's equipment for any particular girl is about £11.

1588. £11?—Yes.

1589. The expenditure comes to very nearly £20, so it looks as if you are very much overstocked?—That may very well be so, because all along we have had to issue our demands for uniforms a full year before we expected to be able to use them.

Chairman.

1590. Do they have them replenished each year?—They get certain articles renewed every year.

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[Continued.]

Chairman.

1591. Are there any further questions on paragraph 120? Will Members turn to the Account, which is on pages 48 and 49. Subhead C is "Agricultural Machinery, Implements, etc., Services", a figure of just over £400,000. Could you tell us the main items there?—I should explain first, in case the Committee do not know, that these machinery services in Scotland are run from Headquarters. They are not devolved to the Committees. So that these expenses are comparable with those which are incurred in England by the County War Agricultural Executive Committees—except that, of course, we do not purchase any of the machinery. The Ministry do all the machinery purchasing for us. The main item there is the maintenance and working expenses of the local engineers whom we employ to run the machinery in a particular district. Each district has an engineer assigned to it. That item is £374,000 out of the £415,000.

1592. Is there any other large item?—I do not think there is any other large item. The purchase of a certain amount of equipment is the next biggest; that is £18,000.

1593. That is relatively small?—Yes.

1594. What happens about repayment on these large quantities of machinery?—The machinery is supplied to us through the Ministry of Agriculture, and we operate it, and what we recover are the charges that are paid by farmers for the use of the machines.

1595. Is there much of a loss?—No, not very much. The trading loss may seem a fairly large figure; it was £175,000 in the year under review.

1596. What does that bear relation to—the £400,000 or a larger sum?—The nearest thing to which you could relate it is the value of the work done by the machinery which, in this year, was £392,000.

1597. On Subhead E "Agricultural Labour Services" including Women's Land Army", a figure of £350,000, could you also tell us the main heads there, please?—The Women's Land Army, a figure of nearly £99,000. I do not know whether you would like me to itemise that?

1598. No; I want only the big items?—Gang labour was close on £194,000. Other labouring services, prisoners of war, holiday camps, and so on, £57,000 odd. (Sir Gilbert Upcott.) Perhaps you might add that the gang labour includes gangs of land girls. (Sir Patrick Laird.) Yes. It is partly Irish labour and partly land girls.

1599. And partly, possibly, prisoners of war. Subhead K "Grants for the Assistance of Marginal Agricultural Production"—that is a total Vote of £10 2s. 6d. Could you tell us a little about this Marginal Agricultural Production?—Yes. I should

perhaps explain first why there is only a figure of £10 here. The scheme was actually launched in the spring of the year to which this account refers, the spring of 1943. It so happened that one Committee operated it so quickly that they had a demand for a grant before the expiry of the year, and that was the £10 which had to be paid, but the scheme was actually in full operation during the year 1943-44. Of course, it will come up on that year. The broad object is to give some assistance to farmers on marginal land, or marginal types of production, towards the cost of food production on what is not really economic land for the production of grain—the subsidising of manures, seeds, ploughing, cultivation charges, and that kind of thing.

1600. To encourage people who might not otherwise be doing it in that way?—Yes.

1601. Has much been spent on that?—In 1943 about £126,000. In the current year we estimate it will be rather more than double that figure.

1602. It is rather a new departure, is it not?—Yes.

1603. Note (c) at the bottom of page 48 says: "Expenditure charged to this subhead includes payments totalling £77 3s. 8d. to the railway company in respect of travelling warrants issued on the authority of the Department's agent in Eire to Irish workers, who travelled to Scotland but did not report for employment to Agricultural Executive Committees." You communicated with the Police, I presume, with regard to it? Did you do anything about it?—Those were warrants issued to people who did not report

1604. Was Police action possible?—No, I am afraid not.

Chairman.] Are there any questions on the Account?

Sir John Mellor.

1605. On page 49, in the details of amounts written off as irrecoverable, I see there was only £5 worth of Women's Land Army uniforms not returned by members after leaving the Service. To go back for a moment to what Sir Irving Albery was asking you a little while ago, I am not quite clear how the uniform which is returned, which you say is not reissued, is dealt with in the accounts. Is it taken back into stock at the value at which it stood in the books at the time it was issued, and just kept there, or is the value written down, or how does that stand?—I think perhaps I was mistaken in saying it was never reissued. The normal practice is to clean it, first of all, when it is recovered, and then I think, on reflection, it is sometimes reissued and sometimes sold. There is a receipt (it would not appear in the account, but I could give

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[Continued.]

you the figure) in respect of uniforms of about £878, which must be sale of equipment. (Sir Gilbert Upcott.) Yes. Second-hand uniforms are sold to serving members.

Mr. Douglas.

1606. On Subhead H. "Bracken Destruction," a figure of £12,500 odd, what measure of success have you had in bracken destruction?—(Sir Patrick Laird.) It has been quite successful in regard to the scheme for assisting the hand cutting of bracken by farmers themselves. That has given, I think, a good deal of satisfaction. Although the cost has not been particularly high, the number of acres that have been cut by that method was about 18,000 or 19,000 during the year under review. We also had the other scheme, under which bracken cutting machines which were owned and operated by the departments were hired out to farmers, and under that scheme about 7,000 acres have been cut. But that scheme was not altogether a success. The ground was rough, and we actually found it was rather an unprofitable enterprise. The cost of operation was pretty high.

1607. Subhead I. is "Grants in respect of Breeding Cows on Hill Grazings," an item of £12,167. Would you explain what that means?—This scheme has had a somewhat varied career. It was started in 1941 as a scheme the object of which was to improve hill grazings by getting cattle put upon them. It was limited in the first place to breeding cows, and the grant was a grant of £2 per annum payable in each of the three years for each breeding cow that was kept on the hill grazings and was of a certain character. It had to be a hardy beast, and, therefore, there were certain limitations imposed as to the breed of beast that was to be eligible for the subsidy. Last year, in 1943, the scheme was somewhat altered. I do not know whether you want me to talk about the 1943 scheme at this stage?

Chairman.

1608. We have not quite got there yet, have we?—It involved a very considerable expansion and a considerably increased expenditure of money. Instead of having an annual grant over a period of three years, it was treated as a yearly scheme; that is to say, money was paid in respect of beasts that were kept on the grazings for a period of five consecutive months in the year concerned and the limitation to breeding stock was removed also.

Mr. Douglas.

1609. The idea then is to improve the fertility of these lands?—That is so; but later we extended the objective also to include the encouragement of the home breeding of cattle, as well as the improvement of grazings.

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1610. Do you know what the total number of cattle was in this year?—In the year 1942-43 it was just over 9,000.

Mr. D. O. Evans.

1611. There is one point I am not quite clear about. On page 48 you have the details of expenditure and on page 49 you have the details of receipts. To take one subhead, Subhead C, you have "Agricultural Machinery, Implements, etc., Services" so much. On the other side you have "Agricultural Machinery, Implements, etc., Services." Is there any relation between the two figures? Is the cost of the services the difference between the two, roughly? You have the receipts on one side and the expenditure on the other?—Yes.

1612. You do not recover all the expenditure?—We do not recover all the expenditure.

1613. Does that apply to bracken destruction?—Yes.

1614. You have a big expenditure on bracken destruction, but you only recovered a few hundred pounds. Is that because you charged for cutting or destroying bracken?—In the particular year of account, of course you would not necessarily have the thing balancing, because you might have a carry-over of expenditure or receipts. That would account for a small margin. To get the actual financial results you must have the proper trading account, which we have, to give most of these items, but that would not necessarily appear in these figures. In the case of the machinery, if we take that as an example, the reason why the expenditure exceeds the receipts is that our machinery section is supposed to be a reserve, and it is really dealing with all the land which contractors do not want to deal with. It is a reserve for dealing with difficult farms where the farmers have not their own machinery, and where, perhaps, the contractors do not want to go. Our charging rates are based on the contractors' rates, but the kind of work that they have to do is work that really ought to be charged rather more for. That is the main cause of the difference. (Sir Gilbert Upcott.) These figures are purely cash figures. They are the cash expenditure and cash receipts in the year, and even if you had trading accounts you would have to bear in mind that the operations are not carried on for the sake of making a profit, but regardless of whether there is a profit or a loss.

Mr. Pickethorn.

1615. In regard to the Women's Land Army, I have been trying to compare it in my mind with the English Women's Land Army. Your figures seem to be in quite a different form. In regard to the English Women's Land Army we arrived at the fact that the whole cost and nothing but the cost—not counting the wages, which do

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Sir PATRICK LAIRD, C.B.

[Continued.]

not count anyway, because they just go in and out—amounted to £15 per head per woman. If your whole cost is £98,000—which does not appear in the account, but I gathered from an earlier answer of yours that £98,000 is the whole cost—then your comparable figure would be about £11?—(Sir Patrick Laird.) That would be so, but I think there is a point there that there will be some in our gang labour heading. (Sir Gilbert Upcott.) There is a considerable amount of expenditure and receipts on gang labour in the Scottish account which does not appear in the English account at all. (Sir Patrick Laird.) The reason why it is set out in this way is

that gang labour is employed by the Committee, whereas our Women's Land Army Service as a whole is run from Headquarters, so we have segregated the thing into the Women's Land Army, and then gang labour, which may include Women's Land Army.

1616. So there is not any simple way of comparing the English figures with the Scottish figures?—There is not; but I should doubt if there is very much difference.

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

Thank you very much, Sir Patrick.

(Sir Patrick Laird withdrew.)

WHEAT FUND ACCOUNTS, 1942-43.

(On this Account no questions were asked.)

(The Witnesses withdrew.)

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

TUESDAY, 2ND MAY, 1944.

Members present:

SIR ASSHETON POWNALL in the Chair.

Sir Irving Albery.
Sir Edmund Brocklebank.
Sir George Davies.
Mr. D. O. Evans.
Mr. Glenvil Hall.

Sir John Mellor.
Mr. Pickthorn.
Sir Frank Sanderson.
Mr. Henderson Stewart.

Sir GILBERT UPCOTT, K.C.B., Mr. H. BRITAIN, C.B., and Mr. D. F. C. BLUNT called in and examined.

TREASURY MINUTE ON PARAGRAPHS 6 AND 7 OF THE REPORT OF THE COMMITTEE OF PUBLIC ACCOUNTS, 1943.

Sir PERCIVAL ROBINSON, K.C.B., Mr. A. G. BARNETT and Mr. E. N. DE NORMANN, C.B., called in and examined.

Chairman.

1617. We have to-day the Ministry of Works, with Sir Percival Robinson as the principal Witness on its behalf. I think it is the first time, Sir Percival, that you have appeared for the Ministry of Works, is it not—or did you come last year?—(Sir Percival Robinson.) I came last year, six weeks, or something of that kind, after I had been appointed. You were very kind to me and realised that I did not know much. For only five weeks of this year was I responsible in person.

1618. Will Members turn first to the Treasury Minute of 12th February, 1944, on paragraphs 6 and 7 of the Report of the Committee of Public Accounts, 1943, the heading of which is: "Trade Union Representatives on Building Sites: Levy on Government Contracts." I gather that the employment of the Trade Union officers as

a direct charge on the Vote of Credit is being discontinued?—Very much curtailed. To say it is gradually being discontinued I think would be more correct.

1619. The Treasury, I notice, give an assurance with regard to this. I suppose I may take it from the Treasury that the Vote of Credit will not be used for post-war purposes in this sort of way? The Treasury give us a fairly strong assurance: "My Lords are in full agreement with the Committee that such a proceeding would have been quite improper and it would not in fact have secured Their approval"?—(Mr. Britain.) Yes, we do confirm it.

1620. You reiterate the assurance. Now, on paragraph 7, Sir Gilbert, have you had access to this expenditure?—(Sir Gilbert Upcott.) The expenditure is incurred by the National Federation of Building Trades

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Operatives. The money is issued to them by the Ministry, and they render accounts of the expenditure which are audited by a firm of professional Accountants. Their books and vouchers are examined by a Chief Accountant in the Ministry of Works. My officers see the abstract accounts and the Chief Accountant's reports, and, in those circumstances, as they are satisfactory, I have not thought it necessary to ask to see the original documents of the Federation myself.

1621. You are satisfied with the present position?—The rates of salary and travelling expenses are approved by the Treasury. They are in some respects a little more liberal than would be granted to a Civil Servant, but I understand they are in accordance with Trade Union practice.

Chairman.] Are there any questions on the Treasury Minute on paragraphs 6 and 7?

Sir George Davies.

1622. In the last sub-paragraph of their Minute the Treasury say: ". . . the scheme has been abandoned by mutual

agreement." You were saying, Sir Percival, that it could not be said to be exactly terminated, but that it was in process of disappearance. How much of a carry-over is there going on at the moment?—(*Sir Percival Robinson.*) I thought the Chairman was addressing himself to a different point. I understood the Chairman was addressing himself to the question of the continued employment of site officers. We still have some site officers, but this point raised in the Treasury Minute, of their being paid indirectly through a suspense account, does not any longer arise.

1623. ". . . the scheme has been abandoned by mutual agreement": that means the method?—The scheme for a trust fund is the scheme referred to. That has been abandoned.

1624. But not the scheme for having the appointments?—Not the scheme for having the appointments.

Chairman.] Are there any further questions on the Treasury Minute on paragraphs 6 and 7 of the Report of the Committee of Public Accounts, 1943?

CIVIL APPROPRIATION ACCOUNTS (WAR SERVICES), 1942.

CLASS X.

VOTE 15A.

MINISTRY OF WORKS AND PLANNING (WAR SERVICES).

Chairman.

1625. Will Members turn first to page xliii, paragraph 114, of the Report of the Comptroller and Auditor General: "Profits on Sale of Cement." Can you give us an explanation with regard to the profit-sharing arrangements, of which you have cognisance, between these various firms?—(*Sir Gilbert Upcott.*) May I say that this scheme to which I refer in the first sub-paragraph of paragraph 114 is a scheme made between the cement manufacturers and the Cement Makers' Federation. The Ministry did not come into it until a later stage to which I refer in the next sub-paragraph.

1626. But the Ministry had cognisance of the arrangement?—They were cognisant of it but they did not actually come into it until a later stage.

1627. The Ministry as such had no responsibility for the profit-sharing agreement at all?—(*Sir Percival Robinson.*) I would like to help the Committee as much as I can and perhaps it would help them if I said this: At the time this profit-sharing agreement was made by the industry, negotiations were going on between my Ministry and the industry with a view to implementing what was said in the Report of the Comptroller and Auditor General two years ago, namely, that we had to try to get a system of profit allow-

ance to the industry rather better than had existed in the years 1939 and 1940. I think—though I can speak only from historical research—that it was intimated to the industry at the time that we had in mind something like 10 per cent. on the capital employed. More or less the next thing that happened was, I think, that the industry produced this profit-sharing agreement which they themselves had devised, and which is based not on such and such a percentage on the employed capital, but on a figure for profit per ton sold. It applied only to Portland and rapid hardening cement—those are the two standard cements—and it provided that after paying all the expenses of production each member of the industry could keep 5s. 10d. per ton of those two kinds of cement which were sold. Any individual firm which made more than 5s. 10d. a ton paid the surplus into a common fund, and we believe that any particular firm which made less than 5s. 10d. a ton was entitled to get a subsidy out of this fund to bring it up to 5s. 10d. a ton on the amount of cement which that particular firm sold. The balance that was left over after making up 5s. 10d. a ton to everybody was to be disposed of at the end of the period of the agreement as the Minister of Works might direct. It has always been interpreted that that meant it would be paid over to the Exchequer. The agree-

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ment, as I have emphasised, applied only to the sales of Portland and rapid hardening cements. It did not include profit on the manufacture or sale of the bags or containers in which the cement was sold. The industry, having made this agreement amongst themselves, presented it to the Ministry and said: "Here is an agreement which implements the kind of thing you have in mind." I understand we took a certain amount of time over it and had a good deal of discussion, because we were not satisfied altogether either with the form or the result of this agreement. But ultimately we agreed to accept that as the basis for 1941, and as the Comptroller and Auditor General has pointed out to you, on an estimate we have subsequently made as to the amount of the employed capital, it gives approximately 11.7 per cent. profit on the employed capital. For the two years 1939 and 1940 (which were the two years to which the Committee referred on a previous occasion) the profit on the employed capital was approximately 13.5 per cent. in 1939 and 12.5 per cent. in 1940. So that in 1941 we got them down to 11.7, which is better than the two preceding years, and is not seriously out of scale with the rate of profit in the pre-war years in the industry as a whole. (Sir Gilbert Upcott.) Before you ask any further questions, perhaps I should say that I do not think the Accounting Officer has made it clear that the Ministry's agreement with the Cement Makers' Federation did bring in a little more than the Portland and rapid hardening cement; it also brought in the containers. (Sir Percival Robinson.) May I perhaps get this quite clear? I understand the position to be this, that, in regard to containers, this original agreement was not intended to cover profits on either the sale or the manufacture of containers. Some of the firms manufacture their own paper bags. What we succeeded in doing when we worked on the 1941 agreement as the agreement between us and the industry was to insist upon any profits on the sale of containers being brought into account, but not on the manufacture.

1628. Halfway through the first sub-paragraph the Comptroller and Auditor General says: "Any excess of the total profits in any accounting period over the standard rate per ton . . ." I do not think you have mentioned that standard rate, have you?—That was the 5s. 10d., and we did not agree to its being increased.

1629. You mentioned that lengthy negotiations took place. Those were, I suppose, what Sir Gilbert makes allusion to in the second line of the second sub-paragraph—"protracted negotiations"?—(Sir Gilbert Upcott.) Yes, that is what I was referring to.

1630. You mentioned a figure of 11.7 per cent. profit in the last year, in 1941, but surely in addition to that a sum of £171,000 has been transferred to suspense account,

presumably out of profits, either in 1941 or in previous years?—(Sir Percival Robinson.) In 1941. That would have increased the rate of profit above 11.7 per cent. but for the operation of the agreement.

1631. £171,000 has been transferred to suspense account in addition to the 11.7 per cent. I thought the original idea was that the rate of profit should be in the neighbourhood of 10 per cent. 11.7 per cent. is appreciably above that, Sir Percival?—Yes. There are two points in that. The first point is that I think when we talked about 10 per cent. at that time we were thinking of 10 per cent. on the Portland and rapid hardening cement; that is to say, not taking into account any profit that the industry might make on its "ancillaries," as we call them—that is the different kinds of cement, and so on. The 11.7 per cent. includes the profit on the ancillaries.

1632. So the profit on them has been appreciably higher in order to bring the whole average up from 10 per cent. to 11.7 per cent.? On the cement containers it has been an appreciably higher profit, otherwise it would not have increased the ratio?—No, because when we were talking of 10 per cent., we were thinking of 10 per cent. exclusive of ancillaries. If you include the ancillaries the figure becomes 11.7 per cent. (Sir Gilbert Upcott.) It is an addition to the figure (Sir Percival Robinson.) That is so.

1633. In the last sub-paragraph the Comptroller and Auditor General says: "An increase of 1s. 6d. a ton in the prices of Portland and rapid hardening cement was approved in August, 1942." That was, I think, not the first increase in these prices, was it? Have you any note of further previous increases?—There was one in 1940, I think.

1634. Have you the amount of it?—No, I am afraid I have not.

1635. Sir Gilbert, could you throw light on that?—(Sir Gilbert Upcott.) Yes. When the subject was considered in 1942 full particulars were given of the previous price additions. The price additions up to the date of this last addition were 15s. 6d. a ton altogether. There was a number of additions made from time to time from the middle of 1939 until this date which, added together, amount to an increase of 15s. 6d.

1636. Including this 1s. 6d. increase?—The addition of this 1s. 6d. makes the total increase over pre-war prices, at any rate in the London area, if that is typical, 17s. per ton.

1637. Has the Treasury any comment to make with regard to this matter of profits on the sale of cement?—(Mr. Blunt.) No. The Ministry did consult us, not only on the 1941 agreement, but on the later negotiations which are still in hand, and the

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Treasury felt able to agree that this was a reasonable settlement.

Chairman.] Thank you. Are there any questions on paragraph 114?

Sir Irving Albery.

1638. What was the price for cement in London prior to the 17s. per ton increase? (*Sir Percival Robinson.*) I am afraid you have put your question in a form in which I am not quite able to answer it.

1639. What is the present price after that increase?—The present price is round about 58s. in London, and that represents an increase of something like 30 to 40 per cent. over pre-war. (*Sir Gilbert Upcott.*) I make it 41 per cent. (*Sir Percival Robinson.*) I think the increase is about 40 per cent. altogether over pre-war.

1640. In the last sub-paragraph the Comptroller and Auditor General says: "The rate of profit to be retained by the industry for 1942 and 1943 has not yet been agreed between the Ministry and the Federation." That presumably means that there are negotiations going on. The 5s. 10d. per ton which was originally regarded as profit does not stand?—That does not stand. Perhaps I might say this, that we were not altogether happy with this agreement as a final settlement with the industry for two reasons. First of all, as a matter of form, we did not like the form of the guaranteed profit per ton. Secondly, we were not satisfied that it was not giving them rather too high a rate of profit on their employed capital. We have had long and rather difficult negotiations which have not quite been concluded to substitute for 1942 and 1943, and, possibly, 1944, something which we regard as more satisfactory than the basis embodied in this pooling arrangement.

1641. A different method altogether?—Yes, a different method altogether.

1642. Because on the fact of it an increase in the price of a commodity would not seem automatically to carry with it a reduction in the profit per ton?—It is rather the opposite, is it not? I have always understood that an increase in price usually produces an increase in profit.

1643. Is that what they are trying to get?—No.

1644. But in spite of an increase in the price you are hoping to get a reduction in the profit per ton?—Not in the profit per ton. In the profit on capital employed.

Sir George Davies.

1645. The second sentence of the first sub-paragraph of the Comptroller and Auditor General's Report says: "A profit-sharing agreement operative from 1st January, 1941, was subsequently concluded between the cement manufacturers and the Cement Makers' Federation." Are

all cement manufacturers members of the Federation?—There is one firm which is not a member of the Federation in England and Wales, and I think there are three small firms in Scotland; otherwise the whole industry—and there are some 14 firms, I think—are in the Federation; of course, all the big ones are.

1646. The Cement Makers' Federation has concluded an agreement with its own members, very largely?—Yes.

Chairman.

1647. Are there any further questions on paragraph 114? We pass to paragraph 115: "Works Services for other Departments: Cessation of Recovery." In the middle of the first sub-paragraph the Comptroller and Auditor General says: "In these circumstances the Treasury decided that, with a view to saving clerical labour, recovery from other Departments should for the most part be abandoned." Could the Treasury tell us something about the reason for these arrangements?—(*Mr. Blunt.*) Yes. The Committee knows that we have, for practically the whole of the war, been abolishing adjustments between one Vote and another, where the expenditure of both is met from the Vote of Credit, in order to save clerical man-power and to save discussions between Departments. We did at that time exclude from that waiver adjustments in respect of works services. We thought they had better go on. But when the Ministry of Works itself came on to the Vote of Credit in 1942 we looked at it again, and we thought that it would save quite a lot of time and trouble and would mean no detriment to financial control if we did allow the expenditure by the Ministry of Works to lie where it fell and not be recovered from the War Office or other Service Departments. It meant that the Ministry of Works did not have to prepare a special and a separate bill to put into the Department, and the Department would then feel it would have to examine it with practically no resultant gain at all. You will notice we did leave out one thing—the Royal Ordnance Factories, which are mentioned at the end of the first sub-paragraph. We did that because they were very large affairs, running into millions of pounds; they were practically completed, and they had a rather special arrangement of their own, which did not give anybody any trouble, so we let them go on.

1648. On the second sub-paragraph, Sir Percival, would you say that these arrangements we have just heard about from the Treasury have worked all right from the point of view of your Department?—(*Sir Percival Robinson.*) Yes, quite satisfactorily.

1649. There is no public detriment as regards costs?—No.

Chairman.] Are there any questions on paragraph 115?

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Sir Irving Albery.

1650. I should like to ask the Treasury this question: Under the change of arrangement which they have just described, with which Department would they say the responsibility lies for endeavouring to get work done at the cheapest possible cost?—(Mr. *Blunt*.) The executive Department. In this case it would be the Ministry of Works. It would be the responsibility of the demanding Department—the Department that wants a factory—to take the plans to a certain extent, to get approval in principle from the Treasury that there shall be a factory at a certain spot, and, having got that, then they hand it over to the Ministry of Works, whose job it is to put up that factory as cheaply and reasonably as possible.

1651. In other words, the demand and the size of the demand is the responsibility of the Department which is going to acquire the camp, or whatever it may be?—That is so.

1652. But the responsibility for the actual cost of carrying out that demand becomes the responsibility of the Ministry of Works?—Yes; it is a quite clear-cut division of responsibility. Of course, it may be that the Ministry of Works might be able to advise the planning Department; but the responsibility for the arrangement in principle and for the policy is a matter for the demanding Department. The responsibility for carrying out the job is the responsibility of the Ministry of Works.

Chairman.

1653. Are there any further questions on paragraph 115? We pass to paragraph 116: "Pre-fabricated Huts: General Stock." Sir Percival, on the first subparagraph of the Report of the Comptroller and Auditor General, would you explain the division of responsibility with regard to this question?—(Sir *Percival Robinson*.) Nissen huts—that is, steel huts—are the responsibility of the Ministry of Supply from the point of view of manufacture; but as from April, 1942, the Ministry of Works has taken responsibility for the programming, provision and distribution of all pre-fabricated huts, including the Nissens, but we are also responsible for placing contracts for practically all the huts—certainly all the living huts—which are used for the Government as a whole. The major ones are, of course, those we call the standard huts (which, as the Committee probably know, is a concrete framed hut with any kind of filling—bricks, and everything you can think of) a rather notorious plaster board hut, the asbestos sheeting hut, and the concrete hut—that is to say, the hut which is made wholly of concrete and is not merely a concrete skeleton with fillings.

1654. In the second sub-paragraph the Comptroller and Auditor General states: "Most of the contracts were placed by competitive tender." You can get competitive tenders these days, can you? They are really competitive?—Yes. About half the huts that we have bought have been bought under competitive tender, particularly the standard huts.

1655. At the end of his paragraph Sir Gilbert says: ". . . but the reports on the costing of the contracts so far completed have not yet come under my examination." Have you anything to tell us with regard to costings?—My Accountant General can give you complete details, if you like. We have made very considerable progress with the costings in fact; they have largely been completed, so far as the actual costings are concerned, but they are still under examination, and I am not in a position to say to you, for instance, that they have shown that the prices were reasonable all the way over. But there is no reason to suppose from what we have seen so far that the prices have been unsatisfactory.

1656. I happened to be in a hut this morning in Millbank. Lord Portal was there. Does that type of hut come into this paragraph at all?—Not the new little house.

1657. They do not come into this at all?—That does not, but I believe there is a standard hut there.

1658. We were inspecting it this morning?—I think there is a standard hut which is being used as an office.

1659. It does not arise directly on this Report, but have you any idea of the cost of the hut and similar ones which are now available for the public to see?—Do you mean the cost of the standard hut or do you mean what is now, I believe, known as the emergency factory-made house?

1660. Yes?—I am afraid I have not any information about that.

1661. I was wondering about the figure, having seen it this morning?—(Sir *Gilbert Upcott*.) I say that "the reports on the costing of the contracts so far completed have not yet come under my examination." I am assuming that they will be available to my officers as soon as they have been examined by the Ministry. (Sir *Percival Robinson*.) Certainly.

Chairman.) Are there any questions on paragraph 116?

Sir George Davies.

1662. You said that a substantial number of these contracts have been placed by competitive tender. Have you any reason to believe that is all genuine competition? Is there a sufficient number of tenderers to ensure that?—I think undoubtedly yes. I was discussing this particular matter with

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[Continued.]

our Director of Contracts yesterday morning, and he assured me he was quite satisfied that we were undoubtedly getting reasonable competition in those areas where we are using it.

Chairman.

1663. We pass now to paragraph 117. I do not know whether there is anything you would like to add to Sir Gilbert's Report with regard to the question of reserves of plasterboard huts?—Yes, there is something which I would like to add which I think would interest the Committee on that. Sir Gilbert's Report rather implies that we got ourselves landed with rather more plasterboard huts than we liked. It just happens that about a year ago, when I joined the Ministry, we were rather feeling that. According to figures I think at that time, in April, 1943, we had in hand about 6,600 plasterboard huts. Perhaps I might just interpolate this, that a plasterboard hut is supposed to be 72 feet long. In fact they are used in all kinds of multiples of six feet, although they are ordered in 72 feet lengths, and consequently it is not too easy to keep a record of exactly how many huts you have, because if you issue one of 12 feet or one of 60 feet you have two bays, but you have no longer any ends. Contrariwise, if you issue them the other way. So it is not too easy to keep a record of the exact number you have. You have bought them as units of 72 feet. However, in April, 1943, we reckoned we had 6,600 of these. It had been shown that the roofs were not suitable for snow and that sort of thing, for permanent use, so we held back on issuing them, and were feeling that we should have to keep them rather as a special emergency reserve. However, things have turned out a good deal better than we thought, from the point of view of using them. There have been a lot of demands for very quickly erected huts (one great advantage of the plasterboard hut is that it can be quickly erected) and the stock to date has been reduced to 2,209, which is only £500,000 worth of stock. In addition to that, we have some bits which, on the basis of putting them all together in a line and dividing them by 72 feet, would give us 1,388 huts. We are now ordering some odd bits, odd ends and that kind of thing, so as to keep about 1,000 of them (I think it is) fully equipped. So I think the fear of the Comptroller and Auditor General—and indeed it was our own fear at the time—that we had rather landed ourselves with these plasterboard huts has turned out to be unduly apprehensive, and we have now really used them and are finding a proper use for them.

1664. Did you find that those which you have got rid of rather unexpectedly had deteriorated appreciably or not? There is a mention in the Comptroller and Auditor General's Report of a "risk of deterioration"?—We have taken special steps to

prevent that sort of deterioration occurring. We keep them specially dry when taking them to the site so that the water does not get in at the edges of the panels, and that sort of thing. I think we have been reasonably successful in dealing with these troubles, which, after all, arose out of the fact that at the time when there was this very great demand for huts—or rather, we expected a very large demand for huts—there was no other material of which we could get these huts made. The asbestos sheeting which we would have liked to have for the roofs (we are using asbestos sheeting on the roofs now) we could not get in sufficient quantity at the time.

1665. In the last sub-paragraph Sir Gilbert states: "In addition a stock of 3,300 plasterboard roofs of a value of approximately £300,000, originally intended for incorporation in huts of another type, was held by manufacturers in January, 1944, no issues having taken place for many months." Could you tell us anything about that?—Those are the plasterboard roofs for the standard hut. That was much the same position. That is to say, we would have preferred to have the asbestos sheeting, but there was not sufficient, so we had to have these plasterboard roofs. What is being done now with those is this. It is two sort of sandwiches of plasterboard and paper on each side of a wooden frame which keeps them apart, and we are stripping off the top side of those plasterboard roof panels and putting asbestos sheeting on to the top, leaving the other side panel for the ceiling side, and using, of course, to the full the wood that was in the panel. That is costing us £28 plus £16—that is £42—for each hut.

1666. The Comptroller and Auditor General says: "... no issues having taken place for many months." Those are the last words in his paragraph. Can you say that they are now going into use?—Yes.

1667. To an appreciable extent?—Yes, so I understand.

Chairman.] Are there any questions on paragraph 117?

Sir Irving Albery.

1668. With reference to the 3,300 plasterboard roofs, were those additional roofs, sort of reserve roofs for replacing? They are in addition to the complete hut?—No, those were plasterboard roofs for the standard hut. It is two separate problems. There is the plasterboard hut which is plasterboard wholly, together with a plasterboard roof—

1669. What I do not understand is this. There was a certain number of plasterboard huts on charge?—Yes.

1670. A "hut" presumably means a hut complete with roof?—Quite.

1671. Then these roofs are in addition to those huts?—Yes. If you forget, for

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the moment (I am sorry to put it in that way) the plasterboard huts, we then had standard huts, and, as I explained, the standard hut is a hut with a concrete framework, and you fill in the sides with anything you like, and the roof with anything you like. At that time we had a lot of plasterboard roofs made to be used on the standard huts.

1672. I rather gathered that originally you were dissatisfied with these plasterboard huts and did not consider them suitable for general use. I rather gathered that from the Report; it says so, does it not? It says: "but has proved unsuitable for general use." But since that time they have been issued?—I think originally they were the best thing we could think of at a time when we could not get something better. We then intended them for all uses. Just about a year ago we found, particularly in places like Scotland, that we had been unduly optimistic and that they were not altogether satisfactory. That was about the time to which the Comptroller and Auditor General's Report refers. We decided that we could not use them for ordinary living huts or camps and that kind of thing, but that we could use them for more temporary work — I am guessing: a canteen at one of our temporary jobs, which is going to be finished in a few months' time—that type of thing. There is other temporary work of that kind which will probably occur to the Committee which I do not want to mention. Anyhow, we found quite a large use for them for which they were quite satisfactory, though still we did not regard them as a completely satisfactory alternative to a good standard hut.

1673. Later on, as you stated, you issued a lot of them. Can you say whether they have remained serving a useful purpose?—The ones that have been issued since the beginning of this year?

1674. I do not know at what date. You have explained that the reserve has been substantially reduced because a large number have since been issued. Have you reason to believe that that large number since issued are still fulfilling a useful purpose?—Yes, certainly.

1675. They have fulfilled the purpose for which you issued them?—Yes. For the purpose for which we now use them they have proved satisfactory.

1676. They are not standing empty or discarded?—No.

Mr. *Glenvil Hall*.

1676A. In what way did these huts prove to be unserviceable? Did they let in wet?—Yes, they let in the wet.

1677. There is no method by which it could be rectified? You know better than I do, of course. Was any attempt made to cover them with some kind of wash?—Those already erected have been reroofed with asbestos sheeting.

1678. It was the roof that let the water in?—Practically entirely it was the roof that was the trouble.

Sir Edmund Brocklebank.

1678A. What is the size of these plasterboard roofs?—What is the size of a plasterboard hut?

1679. The roof I was thinking of. I should like to know the size of them, because the cost of them seems to be rather large. Is it a 72 feet hut?—18 feet 6 by 72 feet.

1680. It works out that the roof costs you just under £100, plus £42 with the new arrangement. Am I right? The roof costs you about £135 to £140?—I have not quite followed the calculation.

1681. If 3,300 cost £300,000 that is just under £100 for each roof?—Did I say they had cost £300,000?

1682. That is stated in the last sub-paragraph of paragraph 117 of the Comptroller and Auditor General's Report. In addition to that you have stripped them and added a cost of £42, so that makes it £130 to £140 per roof?—Yes. Is that very much?

1683. It seems to me to be a very heavy price?—The normal standard hut, with the asbestos roof, is £250.

1684. That is the whole hut?—That is the whole hut.

1685. And here is the roof of a hut costing more than half?—I do not know the answer to that.

1686. Perhaps we might have a note about it?—I have lots of figures about costs, but I do not happen to have that particular one in a handy form.

Chairman.

1687. Perhaps you will look at it afterwards?—Yes, and I will send it to you.*

Sir Edmund Brocklebank.

1688. There is another point. It is very nice to have a change made in the roof, but you can get a material which I think they call felt—it is not the felt of the felt hat, of course, but tar and sand—which makes an extremely good roofing. You could have saved a great deal of expense, because it is comparatively cheap?—Am I quite understanding the question that you are asking? What we were faced with was a stock of 3,300 plasterboard roofs which had cost us apparently £300,000. What you have to set against the cost of some alternative type of roof is £42, is it not?

1689. Yes?—So long as we cannot buy any other roof for less than £42 it is worth while spending £42 to use up these 3,300 roofs.

* Note by Witness: The average cost of a hut is about £235, including £96 for the roof. Adaptation of the roof by stripping and partial resheeting with asbestos-cement costs £44, increasing the cost of the roof from £96 to £140 and of the whole hut to £279. The alternative to spending £44 was to scrap the plasterboard roofs altogether and provide new asbestos-cement roofs at a cost for each of £63.

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1690. Certainly, but I was indicating that you could have spent much less than £42 by covering them with a tar-sand felting?—(Sir Gilbert Upcott.) They are using that in certain cases, but I do not know that it is always considered to be adequate. They are using what is called bituminised felt roofing.

1691. That is the stuff?—(Sir Percival Robinson.) That is in terribly short supply. (Sir Gilbert Upcott.) Obviously, this is not a cheap roof, but presumably it is better to spend £42 and save what you have already spent than to scrap all the plasterboard roofs.

Sir George Davies.

1692. When it was decided to purchase a considerable quantity of plasterboard huts, was it then fully appreciated that they were not weatherproof and would, under certain conditions, be unsatisfactory?—(Sir Percival Robinson.) No, it was not. It was thought that they had solved rather successfully a very difficult problem, but obviously not as well as it would have been solved by the recognised standard articles, such as steel.

1693. Had not adequate tests been made to prove the case? How could it have been sprung on you as a surprise?—The nature of what happened in the way of trouble is the answer to that. The plasterboard hut is perfectly all right, so I understand (you are taking me rather into technical fields) so long as you can keep water away from the edges of the panels. The people who designed the huts thought they had succeeded in doing that; they had a slight overlap of felt, which is the way in which they thought they would keep out the water. That is all right, when the whole thing is *in situ* and has been properly stuck down. But if, as sometimes happens, the panels have to stand about in the outside, out-of-doors instead of in properly dried store-houses, or if it rains while the huts are being put up, a certain amount of moisture gets on to the edges of the panels. I am trespassing on technical grounds on which I ought not really to have any knowledge or opinion, but I believe that to be the answer.

1694. On account of the need of speed and the emergency the fact is that they were not fully tested before they were adopted?—In order to test them, we should have had to try to put one up and wait and see what happened to it for three or four months after it was up.

1695. Unless you could reproduce conditions?—Yes.

Chairman.

1696. I did not ask the Treasury whether they had any comments that they would like to make with regard to this paragraph?—(Mr. Brittain.) The Ministry of Works kept in touch with us as the programme went up. We agreed that in all the circumstances they were right in taking the risk of accumulating stocks of these pre-fabricated huts; they could not do anything else.

Sir Irving Albery.

1697. I rather gathered, from what you have just said, that the trouble arose not so much with an erected hut as from parts standing about?—(Sir Percival Robinson.) I think the damage was done before the hut was erected; but when it was erected the trouble began.

1698. Yes; the damage was done before it was erected. It was rather a question of care and maintenance?—We have now learned to watch for that before it is erected.

Mr. Glenvil Hall.

1699. I understood that the real trouble was the roof. Now I gather that it was more moisture or water getting on to the edges?—The edges of the roof panels. The roof panel is a thing like *that*, as I understand it. You get another one going next to it (*indicating*). They are great big square things. It is the water getting in the edges of these panels.

Chairman.

1700. Are there any further questions on paragraph 117? We pass to paragraph 118: "Brick Charges Account." I want Members, as we are talking about brick charges, to look at the same time at the figures which are on page 47. Could you tell us, first of all the number of these brickworks which were closed, and what the proportion was of those closed to the total number of brickworks?—Three hundred and sixty works out of a total of 868 are receiving these contributions. There was a number of brickworks which were closed before we took over control which do not receive care and maintenance. I do not seem to have the number of those.

1701. What was the number that are receiving contributions?—Three hundred and sixty out of 868.

1702. Those which were closed prior to control do not come into this scheme at all?—No.

1703. Those receiving contributions represent appreciably less than half; it is about 40 per cent?—The number of works in operation at the outbreak of war was 1,300.

1704. The difference between 1,300 and 868 had already closed?—They had already closed before we started.

1705. Five hundred and eight are now functioning, I think I am right in saying, out of 1,300?—Yes.

1706. Appreciably less than half?—Yes.

1707. What is the basis of your charge of 3s. per 1,000 building bricks, which is the levy, as it were?—It was estimated, I think, on the advice of the Advisory Committee on Bricks which we had, as being the kind of amount that would be necessary to meet the charges.

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1708. Has it proved about right?—Yes. There is no suggestion that I know of of altering it at the moment.

1709. Because I see on page 47 in the Brick Charges Account that the payments out are only one-fifth of the charges paid by producers. £53,000 has been paid out of a total of over £250,000?—There is a big lag in all these payments, as you will understand.

1710. You will have charges coming along, no doubt?—It is being watched to see whether the amount is right.

1711. Towards the end of the second sub-paragraph of paragraph 118 the Comptroller and Auditor General says: "After defraying the expenses incurred by the Minister in connection with the two Orders the moneys paid into the account are to be applied, in accordance with arrangements approved by the Treasury and the Minister, in making payments in respect of the care and maintenance of brickworks closed by reason of the Bricks (Control) Order or by agreement with the Minister, and for such other purposes as the Minister with the approval of the Treasury may determine." What sort of "other purposes" would those be?—There will not be a big profit. There is a talk that something might be done for the works that were closed before, for the difference between 1,300 and 868.

1712. To give them a chance also of getting something?—Yes.

Chairman.] It seems to be rather an obvious thing to do. Are there any questions on paragraph 118?

Mr. Glenvil Hall.

1713. There is practically £200,000 in the kitty, is there not?—That is on the account at that particular date, yes.

1714. Has most of that now been disposed of during the period that has elapsed since these accounts were prepared?—No, not pro rata. That £53,000, the payments to start with, were spread over nine months.

1715. So it would appear on the surface that far more has been paid in than will ever be disbursed?—Possibly on the surface, but I am quite sure that is not so. We watch it, and the brick industry do as well. We have an Advisory Council for the brick industry and I feel sure they are watching very carefully to see that we do not collect more money than is necessary.

Chairman.

1716. Are there any further questions on that paragraph? We pass to paragraph 119. Are you satisfied with regard to the inspection arrangements with regard to claims, for payment in respect of care and maintenance of closed brickworks?—Yes. Our inspectors visit the brickworks quite

frequently, and we are satisfied that the works which receive this contribution are being maintained in a condition to re-open within three months' notice, which is the condition upon which they get the money.

1717. And presumably, if it were extended to those who were closed before and are not getting the contribution, you would have some arrangement with them?—Yes, we should.

1718. Sir Gilbert, could you tell us about the audit arrangements?—(Sir Gilbert Upcott.) This is a new account, which came as a considerable novelty to me, and I have examined the audit arrangements rather carefully, and I think they are satisfactory. There are two sides: there is the levy side, and in that case the returns are furnished through the Ministry's Area Directors, who are in a position to judge their correctness and they are verified by, as I say, audit certificates from the professional accountants. The collection is made by the Finance Division of the Ministry of Works, which ensures satisfactory financial control. On the expenditure side the claim forms provide for full details to be furnished by the firm's auditors and they are subject to close examination by the Ministry's technical officers. There is also, as I think the Accounting Officer said, a periodical inspection of the closed works. In these circumstances I think I may say the system of control and audit is satisfactory.

1719. Are there any questions on paragraph 119? We pass to the account on pages 44 to 47 inclusive. On page 44, on Subhead A, "Public Offices, etc.—New Works, Alterations, Additions and Purchases" there is a figure of £29,500,000. Could you just give us general particulars—we do not want the exact details—of the main items included in this very large heading?—(Sir Percival Robinson.) Yes. There is £1,250,000, roughly, for the erection of prisoners of war camps for the Ministry of Agriculture; £2,800,000 approximately for the erection of hostels for the Ministry of Aircraft Production. I am taking out the big ones. There is £3,024,000 for cold storage accommodation for the Ministry of Food. There are two lots of £1,450,000 for hostels for bombed out people and hospitals respectively for the Ministry of Health. The erection of hostels and married quarters at the Royal Ordnance Factories, £993,000. Hostels for industrial workers, for the Ministry of Supply, £250,000. The erection of camps, hospitals, etc., for the Americans, £6,500,000, and £2,600,000 for War Office camps, hospitals, etc. Hutted schemes for Government offices generally, £1,180,000, and inland sorting depots for the Ministry of War Transport, £770,000.

1720. Did you mention any big item from the Admiralty? I do not think I heard

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one?—There are not any very big ones. The biggest one is the erection of storage accommodation for the Admiralty, £250,000; then Rosyth married quarters, £178,000.

1721. On Subhead J. "Expenses of Collection and Recovery of Scrap Metal, etc.," could you tell us the tonnage of scrap metal on which we spent the best part of £2,000,000 collecting and recovering?—What we call steel from badly air-raided buildings, 45,339 tons; the national survey, which is bridges and worn-out plant and loose metal in county dumps, and so on (that is another group), 80,794 tons; a small amount from cars, namely, 2,000 tons, and railings, 450,500 tons.

1722. 450,500 tons?—Yes.

1723. It seems an immense amount?—Yes, that is the biggest one.

1724. That comes to well over 500,000 tons, if my sum is correct. It comes to 580,000 tons?—Yes.

Sir George Davies.] Is that the value of recovery?

Chairman.] That is the number of tons recovered. Are there any questions on the figures on pages 44 to 47?

Mr. Glenvil Hall.

1725. Could we be told, if you have the figures, whether an actual profit has been made on the iron railings requisitioned and afterwards sold?—I am afraid I know nothing about the sale of it. We hand it over to the Iron and Steel Control, who do as they like more or less with it.

1726. So that there is nothing on the receipts side?—There is no receipts side to our trading account. (Sir Gilbert Upcott.) The Committee will be able to get the figures from the Iron and Steel Control of the Ministry of Supply. They are ascertainable. The Ministry of Supply, through the Iron and Steel Control, have a subsidiary company for disposing of this scrap.

1727. All the Ministry of Works do is to take it and pay for it?—The Ministry of Works collect it and hand it over to the Iron and Steel Control.

1728. Subhead J. is "Expenses of Collection and Recovery of Scrap Metal, etc." The price of it does not enter into that sum? That is only the cost of collection?—(Sir Percival Robinson.) It includes the compensation paid to the owner, of 25s. a ton.

1729. It includes that?—Yes.

1730. But the receipts go to another Ministry?—Yes.

Chairman.] Are there any further questions on the figures?

Sir Edmund Brocklebank.

1731. On Subhead J, with regard to scrap metal, are you still continuing to collect metal from the county dumps?—I think the answer to that is that at one time we had practically stopped. We have adhered

to the policy that we cannot collect it unless it is really worth collecting, but in suitable circumstances they are collecting it. I will verify that, if I may. That is my impression.

Sir George Davies

1732. May I ask the Comptroller and Auditor General this: If the cost under Subhead J.—the expenses of collection and recovery of scrap metal, etc.—belongs to the Department of the Ministry of Works, but the actual stuff dealt with comes under the Ministry of Supply, is there any means by which we can get, and if so, from which Department, the estimated proportion between the value of what is being recovered and the cost of recovery?—(Sir Gilbert Upcott.) It would be very difficult, probably, to relate the expenditure on recoveries precisely to receipts. Broadly we should be able to tell at the end that we have spent so much in recovering scrap and received so much for the scrap in bulk. (Mr. Blunt.) I do not think you will be able to get any very detailed account. (Sir Gilbert Upcott.) I do not think any precise detailed trading account is possible. Indeed, I venture to think this is a case in which the general principle laid down by the Committee would apply. It was not undertaken as a trading operation. It was undertaken as an emergency measure. The scrap had to be got regardless of the cost.

Mr. Glenvil Hall.

1733. It does become important. If people have to lose their railings at a price which quite obviously is grossly unjust I think it might in certain conditions be very material?—(Sir Percival Robinson.) I do not know whether I could help on that particular difficulty. The price that is offered in compensation to people for their railings is fixed in relation to what they would be likely to get for them if they sold them as scrap. It is the market price, as it were.

Chairman.

1734. They normally would not sell them for scrap?—That is so.

Sir George Davies.

1735. One has the impression that there has been a good deal of miscalculation and misdirected energy over this thing from first to last, and it would be interesting, if not useful, if we could have something definite on which to form an opinion, and compare the effort and the cost with the actual benefit which has accrued to the war effort.

Chairman.] Would it be possible to arrive at that?—I do not think I can do more than tell the Committee of the expenditure which I have incurred.

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

2 May, 1944.] Sir PERCIVAL ROBINSON, K.C.B., Mr. A. G. BARNETT [Continued.
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CIVIL APPROPRIATION ACCOUNTS, 1942.

CLASS VII.

VOTE 1.

ART AND SCIENCE BUILDINGS, GREAT BRITAIN.

Chairman.

1736. Will Members turn to the Civil Appropriation Accounts, to paragraph 35 of the Report of the Comptroller and Auditor General on page xiv: "Rearrangement of Estimates Covering New Works." Could the Treasury tell us something with regard to the distinction which has been drawn, which is mentioned in this paragraph, and also why public buildings overseas apparently are treated differently from public buildings in this country?—(Mr. *Blunt.*) We have had a considerable difficulty as regards the Ministry of Works, an increasing difficulty, in distinguishing between a peace work and a war work. We felt in this particular year, 1942, that as we had set up this War Services Vote the best line to take was that, if you had something which was perfectly clearly a war building without any mistake, you would charge that to the War Vote and the rest you would charge to the Peace Vote. That is what we have done, with the result that, as the Comptroller and Auditor General says, in the 1942 Votes certain expenditure which would have been charged to, say, Art and Science Buildings, has been charged now direct to the War Services Vote. In the following years, as the Comptroller and Auditor General says, we have gone a step further, because of the difficulty I mentioned, of distinguishing between what is war and what is peace,

and we have closed down on those particular Votes, Art and Science, Labour and Health, and Revenue, and have incorporated them in the War Services Vote. Then you mentioned overseas?

1737. Yes—as to why they are differently treated?—I do not know that there is any particular difference between the overseas and the other ones. In respect of all those Votes the same principle is applied. If there was a work, shall we say, to take a case of overseas, at Addis Ababa, which is a theatre of war, that was perfectly clearly a war work, and we charge that to the War Services Vote. Provision had been taken for it on the Overseas Vote. If we had left it on the Overseas Vote we should have been justified in charging the Vote of Credit anyway, and therefore we charged it direct to the War Services Vote.

1738. In other words, your procedure is substantially the same, whether the expenditure is in this country or abroad?—They are charged to the Vote of Credit anyway. I am afraid it has left those Votes in a rather messy condition. I must say that. But we have had our difficulties with it.

Chairman.] Are there any questions on paragraph 35? Will Members turn to the figures which are on pages 310 and 311? Are there any questions on the figures? May I take it that the account is approved? (*Agreed.*)

VOTE 2.

HOUSES OF PARLIAMENT BUILDINGS.

Chairman.

1739. Will Members turn to page 312. Sir Percival, would you refresh my memory with regard to the present condition about the repairs undertaken originally some years ago?—(Sir *Percival Robinson.*) Do you mean the stonework?

1740. Yes?—At the time when the estimates for 1943 were being prepared, the quarry from which the stone came had already been closed down for economic and other reasons, and, in view of the limited quantity of stone available and the reduced number of men employed on the work, it was not expected that the work would continue beyond August, 1943. By the middle of the year, however, the number of men had been reduced owing to the

demands of National Service, and, in the result, the work was carried on beyond that date. Then in October the contractors reported that on turning over the stacks of stone they came across an unexpected quantity of usable stone, and with a reduced output it was expected that the work would extend over the greater part of the year, 1944. The Treasury agreed that the work should be continued, and the provision of £4,000 has been taken in the estimate for 1944—that is, for the current year. The number of men employed is 14 altogether, seven employed by the contractor and seven by the Ministry, and their average age is 59.

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

2 May, 1944.] Sir PERCIVAL ROBINSON, K.C.B., Mr. A. G. BARNETT and Mr. E. N. DE NORMANN, C.B. [Continued.]

VOTE 3.

LABOUR AND HEALTH BUILDINGS, GREAT BRITAIN.

Chairman.

1741. Will Members turn to pages 313 to 315 inclusive. On page 313, Subhead A: "New Works, Alterations, Additions and Purchases," what type of new works are you now doing at employment exchanges and insurance buildings? There is a big expenditure there of £124,000 more than granted?—(Sir Percival Robinson.)

£50,000 odd for Government training and industrial centres and £53,000 for industrial workers' hostels.

1742. These were not foreseen when the estimates were framed?—Quite.

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

VOTE 4.

MISCELLANEOUS LEGAL BUILDINGS, GREAT BRITAIN.

(On this Account no questions were asked.)

VOTE 5.

OSBORNE.

Chairman.

1743. Will Members turn to page 318. The note to Subhead A is "Employment of additional nursing staff was necessary." Are there more beds in use at Osborne now?—(Sir Percival Robinson.) The additional nursing staff was called for after the air raid on Cowes in May, 1942. We were then asked to increase the nursing staff by the Ministry of Health. The authorised complement for nurses is 35; that is to say, what we agreed with the Ministry of Health we ought to have. We had on the 31st March of this year 27.

Chairman.] Are there any questions on the Account?

Sir Irving Albery.

1744. On Subhead D "Maintenance and Repairs," have you anything special to say about that? It seems a large amount, compared with the other items of expenditure?—Since I appeared before the Committee last year, when the Committee took some interest in Osborne, I have visited it. It is an extraordinary place to maintain and to keep. It is an enormous big place. I dare say you know it.

1745. What does "Maintenance and Repairs" mean? Does it mean repairs to the building?—I should think it is cleaning. (Mr. Barnett.) Window cleaning, chimney sweeping, and that sort of thing. (Sir Percival Robinson.) Maintenance generally.

1746. Does it include a lot of employees?—(Mr. Barnett.) Industrial staff. (Sir Percival Robinson.) Yes; it includes the wages of industrial staff.

1747. It seems such a large proportion of the total expenditure. The total salaries are £6,800. Victualling and medical comforts are under £3,000. Do the salaries relate only to a tiny little bit of it?—The hospital side of it.

Mr. Glenvil Hall.

1748. There are grounds there, and the wages of gardeners would come under maintenance?—There are enormous grounds. (Mr. Barnett.) All industrial staff are provided for under that Subhead. (Sir Percival Robinson.) Also small jobs—putting in cupboards, and that sort of thing, come under that heading—anything costing less than £500, such as the working of lifts, heating and lighting.

Sir Edmund Brocklebank.

1749. What has happened to the grounds there, because I know them, and they are pretty large?—The golf course is being used for hay. A certain amount of the grounds has been put down for wheat. They are trying to keep the paths, or most of them, to some extent in order. Those little houses down near the beach have come into a sad state, I think; there are soldiers and people using them, and so on.

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

VOTE 6.

MINISTRY OF WORKS AND BUILDINGS.

(On this Account no questions were asked.)

2. May, 1944.] Sir PERCIVAL ROBINSON, K.C.B., Mr. A. G. BARNETT [Continued.
and Mr. E. N. DE NORMANN, C.B.

VOTE 6A.

MINISTRY OF WORKS AND PLANNING.

Chairman.

1750. Will the Committee turn to pages 320 and 321. On page 321, what services are these for the Ministry of Aircraft Production, a sum of over £6,000,000?—(Sir Percival Robinson.) That is mostly at [situation given.] (Mr. Blunt.) That was a special works.

1751. Then there is a big item for the Ministry of Supply of over £11,000,000?—(Sir Percival Robinson.) That is the Royal Ordnance Factories.

Chairman.] Are there any questions on the Account?

Sir John Mellor.

1752. How does the Canadian Treasury and Records come into this? That is the second item in the list on page 321.—It is an agency service done for the Canadians in this country. (Sir Gilbert Upcott.) The provision of accommodation for them. (Sir Percival Robinson.) Providing accommodation for them.

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

VOTE 7.

MISCELLANEOUS WORKS SERVICES.

Chairman.

1753. Will Members turn to pages 322 and 323. On page 323 in the notes, Note B says: "Includes £3,882 cost of protection against air raid damage of certain monuments and works of art for which grants of £5,000 and £1,800 have been authorised." It would be interesting if you could give us a few details there.—(Sir Percival Robinson.) Those two grants

are in respect of St. Paul's and Westminster Abbey. Westminster Abbey is £5,000 and St. Paul's Cathedral is £1,800. We offered £5,000 to Westminster Abbey, but it was to be paid as they had spent it. It is protection against air raid damage and that kind of thing.

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

VOTE 8.

PUBLIC BUILDINGS, OVERSEAS.

Chairman.] We pass to pages 324 and 325. Are there any questions on this Account?

Sir Edmund Brocklebank.

1754. At the very bottom of page 324: "First instalment on account of sale of site, Rio de Janeiro." Could you tell me something about the site at Rio de Janeiro? The Ambassador used to live at an hotel; then an Embassy was built. What is this site now, which is apparently partly sold?—(Sir Percival Robinson.) It is a site in the Rua Real Grandeza.

1755. Is it the one where the Embassy was built?—No. It was purchased in 1928. The Embassy was never built there. Apparently the local British community did not at all approve of it as a site, and that is one of the reasons why we abandoned it.

Mr. Glenvil Hall.

1756. Was it sold at a profit?—(Sir Gilbert Upcott.) I think it was a case of a change of mind. They bought a site; they changed their minds, and got rid of it.

Chairman.] And then they got another site instead?

Mr. Glenvil Hall.

1757. Has it been sold at a profit?—(Sir Percival Robinson.) No, I do not think so.

Chairman.

1758. That would be too much to expect?—(Sir Gilbert Upcott.) It was bought for £22,000 and sold for approximately £17,000. (Sir Percival Robinson.) That is right.

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

VOTE 9

ROYAL PALACES.

VOTE 10.

REVENUE BUILDINGS.

(On these Accounts no questions were asked.)

2 May, 1944.] Sir PERCIVAL ROBINSON, K.C.B., Mr. A. G. BARNETT
and Mr. E. N. DE NORMANN, C.B.

[Continued.]

VOTE II.

ROYAL PARKS AND PLEASURE GROUNDS.

Chairman.

1759. Will Members turn to pages 331 and 332. On page 332 there is an item in the Details of Receipts: "Sale of produce cultivated in Royal Parks." Is this sale of produce profitable to the State?—(Sir Percival Robinson.) That is a little difficult to say, because of isolating it the other way. But we have done very well. This is the year of Account: We got £133 from Hyde Park and £207 from Regents Park. We got £59 from Greenwich, £162 from Hampton Court Gardens and for field crops £193 from Richmond and £500 from Bushey and Hampton Court.

1760. You have accounted for only a relatively few hundreds of pounds, but the total figure is £4,300?—I am sorry: this is excess of receipts over expenditure. That is profit.

1761. There has, therefore, been a profit?—Yes. (Sir Gilbert Upcott.) I rather deprecate the use of the word "profit" because it is not a trading account. It is a question of cash receipts and expenditure. (Sir Percival Robinson.) I quite agree.

Chairman.] Are there any questions on this Account?

Sir Irving Albery.

1762. I wanted to ask the Treasury a question in reference to Subhead G. "Maintenance and Repairs," on page 331. It is a big item of £147,000. The rest of the items are mainly small, some just over £1,000. None of them is particularly big. It seems to me such a curious way of setting out accounts. I imagine there must be several important items included in the item "Maintenance and Repairs" and if those are not to be stated you might just as well lump salaries, miscellaneous expenses and clothing into the item for Maintenance and Repairs and have one item?—(Mr. Brittain.) In the Estimate it is, of course, set out as against each park and garden, and there is a whole series of totals given where each item is set out against the different parks and different gardens.

1763. I do not know whether I am pernickety about it, but my point is that here you get a whole page of an account; it is prepared, presumably, to give one information. I am rather inclined to maintain that in the form in which it is given it does not give any information. We should have just as much information if there were one item "Maintenance and Repairs" which would save paper and printing. If, on the other hand, we are to have the information there must be items in "Maintenance and Repairs" which ought to be split up.—(Mr. Blunt.) The item "Maintenance and Repairs" is

a general item which runs through all these Votes. In some of the other Votes it would be in a very different proportion to the total Vote

1764. I was referring to this particular Vote.—In this particular Vote it does look, I must say, out of proportion to the total.

Sir Irving Albery.] Could anybody give me the largest what I might call sub-item in "Maintenance and Repairs" which is not disclosed here?

Chairman.

1765. Have you any details?—(Mr. Brittain): That is for the Ministry of Works. (Sir Gilbert Upcott): A considerable amount of detail is given in the Estimates, Sir Irving. Perhaps I ought to say that it is not open to the Treasury or to the Accounting Officer to alter the classification in the Appropriation Account. The classification in the Appropriation Account must follow the classification in the Estimates. These Accounts follow the classification in the Estimates, and that is why you have to address your criticism, if you want to alter the form of the layout, to the Estimates. A good deal more detail of the particulars of the make-up of these figures is given in the Estimate.

1766. I have the Estimate in front of me and I do not see that it helps me much. I get the Maintenance and Repairs divided for different parks and gardens. It does not really meet the point I was making at all. There is one item here, maintenance and repairs, £700. That is practically the whole expenditure.—What I was saying was that the Appropriation Account must follow the Estimate, and if you wish the presentation of the Appropriation Account to be altered you will have to begin by addressing yourself to the Estimate and getting the form of the Estimate altered. That is a matter, primarily, for the Treasury.

1767. That is why I addressed my question to the Treasury.—What I was suggesting was that it is not possible to ask the Treasury or the Accounting Officer to alter the Appropriation Account. The Appropriation Account follows the form in which Parliament votes the Estimates.

1768. You are suggesting it is a matter that I should raise on Treasury Day rather than on the present occasion?—(Sir Percival Robinson): You realise that figure includes all the gardeners. The parkkeepers are uniformed people but the gardeners are all shown under "Maintenance" for the different parks.

Sir Irving Albery.] I readily accept the correction of the Comptroller and Auditor

2 May, 1944.] Sir PERCIVAL ROBINSON, K.C.B., Mr. A. G. BARNETT [Continued.
and Mr. E. N. DE NORMANN, C.B.

General that it is a matter to be discussed with the Treasury if it is to be discussed any further.

Mr. *Glenvil Hall*.

1769. On page 332 the receipts have gone up substantially, have they not, against every item? In fact, all items have vastly increased?—Yes.

1770. What would that be due to?—I think if one were to try to generalise, it is because so many of these receipts depend upon the use of the parks by the public. I should think in the year we are talking about they were using them a bit more than they had done in the year before.

Chairman.

1771. Not going further afield?—That is so.

Mr. *Glenvil Hall*.

1772. It is not due to Army occupation, is it?—They are people who use the parks quite a lot.

Sir *John Mellor*.

1773. On page 331, Subhead D, "Park-keepers, etc." and Subhead E, "Services of Metropolitan Police," do the functions of the park-keepers and of the

Metropolitan Police overlap, or are they quite distinct?—They are distinct. The Police are used in Hyde Park only, I think.

1773A. What is the function of park-keepers?—To keep order in the parks. You asked were their functions distinct. I meant they were distinct in that they do not overlap. We do not have a park-keeper and a policeman on the same beat if we can help it—in fact we do not at all. But they are both charged with the duty of keeping order in the parks, and our park-keepers have, I understand, the right of arrest, too, like a policeman.

1774. Does the employment of Metropolitan Police involve a saving in park-keepers corresponding to the cost of the services of the Police?—I am afraid not, because a policeman is a very expensive thing—much more expensive than a park-keeper. But where we use a policeman we save a park-keeper. I am sure it has always been our policy to use as few policemen as possible.

1775. Cannot you save two park-keepers for every policeman?—May I look into that with regard to the future?

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

VOTE 15.

WORKS AND BUILDINGS IN IRELAND.

Chairman.

1776. Will Members turn to pages 341 and 342. On page 341, Sir Percival, Subhead N is "New Works, Alterations, Additions and Purchases." Could you tell me what those new works were?—(Sir *Percival Robinson*.) An Allied Officers' Club in Londonderry, £17,000, is the big item.

1777. That is £17,000 out of the £27,000?—Yes. As to the rest I am afraid the only figure I have is £9,000 for works between £500 and £5,000.

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

(*The Witnesses withdrew*.)

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

TUESDAY, 9TH MAY, 1944.

Members present:

SIR ASSHETON POWNALL in the Chair.

Sir Irving Albery.
Mr. Benson.
Sir Edmund Brocklebank.
Sir George Davies.

Mr. Pickthorn.
Sir Frank Sanderson.
Mr. Henderson Stewart.
Mr. Touche.

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

CIVIL APPROPRIATION ACCOUNTS, 1942.

CLASS V.

VOTE 8.

MINISTRY OF LABOUR AND NATIONAL SERVICE.

Sir THOMAS PHILLIPS, K.C.B., K.B.E., and Mr. T. W. F. DALTON called in and examined.

Chairman.

1778. We have to-day the Ministry of Labour and National Service, and the principal witness is Sir Thomas Phillips. Will Members turn first to the Civil Appropriation Accounts 1942, to paragraph 26, page 10 of the Report of the Comptroller and Auditor General: "Out-turn of the Account." On that paragraph, Sir Thomas, I notice there is a very considerable increase in the total expenditure, and over £1,000,000, I see from the figures to which we shall come later on, was actually spent more than the grant—the grant, I think, being an appreciable increase on the year before. I am speaking of the expenditure on administration particularly. Could you tell us something about that?—(Sir Thomas Phillips.) That additional expenditure was due to expansion of requirements for war services of various kinds in connection with the military call-up, national service requirements and, generally, regulation of the labour supply. There were two details which came into operation in the year. One was the setting up of the District Manpower Boards all over the country for the purpose of regulating deferments; and the other was the establishment of the Appointments Offices. But in general it was an expansion of administrative work.

1779. Which was unforeseeable when you framed your Estimates?—Yes.

1780. Because it is an increase of over £1,000,000 in the amount spent, as compared with the amount applied for. Is that increase continuing, or have you reached, as it were, high water-mark in this expenditure?—There may be a slight in-

crease next year, but not a very substantial one.

1781. Are there any questions on paragraph 26? We pass now to the Account on pages 206 to 211 inclusive. We will take the first three pages, 206 to 208. On page 208 there is a note L.2 near the bottom of the page: "Included under this subhead are grants to local authorities amounting to (a) approximately £14,580 in respect of continuing liabilities for rent and loan charges relating to closed centres. . . ." Could you please tell us something about those closed centres?—Those were the juvenile instruction centres which were set up in the period between the two wars for the purpose of providing special instruction for boys and girls in areas where there was a large number of boys and girls unemployed. In the nature of things it was a matter of uncertainty in some cases whether the number was likely to continue to be large enough to justify a centre. When the war broke out, the need for them became very rapidly less; in fact they have now all been closed. These centres were set up by the local education authorities with the assistance of a grant from the Ministry, and we necessarily had to enter into an obligation with the authorities as to what was to happen if it turned out that the centre in particular cases was not needed. This charge related to cases where the buildings which had been set aside and adapted for these centres were no longer required for that purpose and could not be used for anything else. As the note explains, where they are used by the local authority for their own purposes, we charge a rent for them, and in other cases, where they are used for Civil

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Sir THOMAS PHILLIPS, K.C.B., K.B.E., and
Mr. T. W. F. DALTON.

[Continued.]

Defence purposes, no rent is charged, because, if it were charged, it would be repayable 100 per cent. by the Treasury to the authority.

1782. There will still be a continuing liability for some little time to come?—I think so,—until we can in some way or other dispose of these buildings.

1783. Or is it your intention, in case of future post-war needs, to keep some of them available?—That will depend on the way in which things shape. As you know, the Education Bill now provides a system of colleges which, when it comes into operation, will cover all these cases.

Chairman.] Are there any questions on the figures on those pages 206 to 208?

Sir George Davies.

1784. On page 207, note A. (iii) is: "Excess due to increased staff of the regional organisation to deal with labour supply, de-reservation and other war-time activities." There has been general criticism of the constantly increasing size of the whole regional organisation, not only of this Department but of others. I was wondering whether the top notch had been reached in that, or whether you contemplate still further augmenting the regional staffs of the Ministry?—The actual total of regional staffs is about 36,000. Owing to the increasing demands for the purpose of regulating labour supply we have had to increase the staff from time to time. A particular case, that I mentioned before, was the setting up of the district man-power boards. That was a piece of machinery primarily for the purpose of dealing with applications for deferment. That meant looking at each case individually, to decide whether or not a man who, up to that point, had not been called up, should be called up. It was an extremely heavy task and had to be done pretty quickly. For that purpose we set up these boards. That was their primary task; but they also dealt with any other question relating to the supply of labour in their area. The other was the setting up of the Appointments Department, which did not amount to a very great deal in numbers. In general there has been a constant addition to the duties we have to carry out in connection with the war. We have recently succeeded in making some reduction.

1785. My own personal experience has been, for instance, that just recently what appears to the lay mind an entirely unnecessary amount of buff paper is being issued for a long series of questionnaires about people in existing employment, which means that there is a constant combing-out process going on. I was wondering whether that is a continuing process—because it evidently employs a

very large personnel and involves a good deal of stationery?—So long as the war goes on I feel certain that the combing-out will go on. We are scraping the bottom of the pot, and each item takes more work to collect. We shall have to go on doing it, I am quite certain. We are trying to do it with as small an expenditure of staff and paper as possible; but I am afraid it must consume a certain amount.

1786. There is one other question I should like to ask you on page 208, Note L.2: "The few remaining junior instruction centres were closed during the year and claims for current and previous years were less than anticipated." Have they been closed down because something more applicable and efficient has taken their place? What was the experience that caused the closing down of those centres?—As I explained, the object of these centres was to deal with the position in areas where there was an exceptional number of boys and girls unemployed. The result of the war in this, as in other cases, was to cause the disappearance of unemployment in nearly every area. Almost immediately the greater number of the centres was closed down. The few centres that remained were in South Wales, where there were a few of them still open. There was still a sufficiently large number to require the continuance of the centres until, I think, December, 1942, when the number became so small that the centres were then closed.

1787. The need for them was really the existence of a large amount of unemployment of young people on the threshold of a career which was not opening for them?—They were set up only if in that particular area there was a sufficiently large number of unemployed boys and girls to require the centre.

Sir Edmund Brocklebank.

1788. On page 207, subhead I.1 is: "Office of the Umpire." Its work must be, of course, very much less than it was a few years ago. What is its personnel and numbers now compared with what they were before?—I have not the actual figure of staff here. The main staff consists of the Umpire himself and several deputy Umpires. It is perfectly true, of course, that the work in connection with unemployment insurance has greatly decreased, but the Umpire now does corresponding work in connection with war service. There is the procedure of the hardship committees, under which any person who says that it would be an exceptional hardship that he should be called up is entitled to go to a local hardship committee. There is an appeal from that committee to the Umpire.

1789. I did not know that.—So that the work has been pretty well filled up on that side to balance anything that has fallen off on the other.

a May, 1944.]

Sir THOMAS PHILLIPS, K.C.B., K.B.E., and
Mr. T. W. F. DALTON.

[Continued.]

Sir Frank Sanderson.

1790. On page 207, Subhead D, is "Telegrams and Telephones," and there was a grant of £180,000 and an expenditure of £310,000—£130,000 excess, or very nearly double the amount granted. The note to Subhead D says: "Excess due to increased use of telephone facilities to meet wartime needs." Does that mean an increase in the actual use of the telephones or the fitting up of more telephones in that year?—This would be entirely the use of the telephones—the charges that would be made by the Post Office.

1791. The point I want to make is this. The amount of telephoning naturally, as one expects, is very formidable, but is there any means of checking between the use of the telephone for general administrative purposes and for purely private purposes by the administrative staff?—Yes, the use of the telephone for private purposes is not allowed—for trunk calls at any rate, except on payment.

1792. There can be no check-up on local calls?—Not on the ordinary local call, no.

Chairman.

1793. Are there any further questions on those pages? The next three pages we take are 209 to 211. On page 209, the note to Subhead O.1 is: "The request for payment of Great Britain's contribution to special work in connection with post-war reconstruction was not made by the League before the end of the year." Could you tell us something about that special work?—That was a proposal for the setting up of a committee to make special inquiries in connection with post-war reconstruction for which we had set down a sum of £13,000 in our Estimate, but the authorities of the League decided that that money should be provided from some other

source, and, therefore, it was not included in the amounts falling to us. That is the reason for this reduction of £13,000.

1794. The application of this £13,000 has not been made subsequently?—I understand it was provided temporarily from a different source, but the question of its being charged to the International Labour Organisation Fund arose in the following year.

Chairman.] A conference is going on now with regard to it in the United States, and I wondered if it had any bearing on that. Are there any questions on those pages?

Sir Frank Sanderson.

1795. On page 209, Sub-head PP, is "Losses and Compensation," indicating an expenditure of £3,695 18s. 1d. Can you give us any information with regard to that? Apparently it is quite a new item of expenditure?—It is not new. You will find the details on pages 210 and 211.

Sir Gilbert Upcott.] It is not new. Provision is not made in the Estimate because Parliament hopes every year there will not be a loss incurred. It almost invariably appears as a blank in the grant and as an item in the expenditure. The details of that, as the Accounting Officer says, are on the following pages. (Sir Thomas Phillips.) If you will look at the bottom of page 210 you will see there is a total of £2,501 7s. 10d. and at the top of page 211 a total of £1,194 10s. 3d. which together I think add up to this figure.

Chairman.] Are there any further questions on pages 209 to 211? May I take it that the Account is approved? (Agreed.)

VOTE 9.

GRANTS IN RESPECT OF EMPLOYMENT SCHEMES.

(On this Account no questions were asked.)

VOTE 10:

COMMISSIONER FOR SPECIAL AREAS (ENGLAND AND WALES).

(Statement of loans and other expenditure, etc., England and Wales.)

Chairman.

1796. Will Members turn to page xi, paragraph 27 of the Report of the Comptroller and Auditor General: "Interest on Loans to Trading Estate Companies." In the first paragraph the Comptroller and Auditor General states: "The agreements with these companies provide that no interest shall accrue or be payable before the expiration of five years from the dates on which the companies enter into possession of the sites." Could you tell us in regard to these trading estate companies when the five years mentioned expired?—At

different dates, according to the precise period when the sums were paid. The dates were, for the North-Eastern Trading Estates, 1st April, 1942; for the South Wales and Monmouthshire Trading Estates, 1st January, 1942; and for West Cumberland, 1st July, 1943.

1797. So that they were just about running out in the year under review. Are the Commissioners doing any financing still in regard to these estates, or is it all a matter of past finance?—It is practically all past finance. Perhaps Mr. Dalton can say whether there are any

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Sir THOMAS PHILLIPS, K.C.B., K.B.E., and
Mr. T. W. F. DALTON.

[Continued.]

current payments. (Mr. Dalton.) There are a few. We agreed with the trading estate companies that if a Supply Department certified that any particular project was essential for the furtherance of the war effort, we would then advance the money for the erection of the factory on the trading estate. There are very few of them.

1798. Has it actually happened?—It has happened, yes.

1799. To an appreciable extent financially?—No, not to an appreciable extent.

1800. In the second sub-paragraph there is mention of a loan to the North Eastern Trading Estates and that "interest for the half-year to 31 December, 1942, was waived." Could you tell us, Sir Thomas, in what circumstances it was waived?—(Sir Thomas Phillips.) They were due to pay their 4 per cent. for that year. They duly paid it for the first half, but, I understand, without sufficiently taking into account their possible liability for taxes, and it turned out that in the second half of the year, having to pay their taxes, they could not pay us as well.

1801. They pay taxes the same as all other trading estates?—Yes.

1802. What is the present position?—Broadly, the position is that of the three estates, at present the South Wales Estate and the Cumberland Estate are paying the 4 per cent.; the North Eastern Estate is paying roughly 2 per cent.

1803. But the South Wales one is paying?—Both the other two are paying.

Chairman.] Are there any questions on paragraph 27?

Sir George Davies.

1804. How many of these trading estates are there?—There are three. I am leaving out those in Scotland. In England and Wales there are the North Eastern Trading Estates, Limited, which has the Gateshead Estate; the South Wales Company, which has Treforest, and the Cumberland group, which has one very small trading estate plus a number of separate factories.

1805. What are the general prospects of their becoming, as it were, financially sound, and, therefore, being able to pay their due interest? Will they always have to be nursed?—It is hard to say for certain. As I have said, at present two of them are paying their interest of 4 per cent. That is possibly due to war conditions. One cannot be certain that when the war comes to an end they will still be able to do so; but I think there is a reasonable prospect that they may do so. The North Eastern Trading Estates is in the position that I have indicated. It has developed only about a quarter of the acreage that is available for factories. It

has rather extensive overhead charges in consequence, and that is largely the reason—in addition to the fact that the area did not attract people at the outbreak of the war—why they have not paid. Certainly more money will have to be spent on them in the way of erecting new factories if they are to pay their 4 per cent.

1806. Yes; I can quite understand that the fact that they are running to only a quarter of their capacity would naturally increase their overheads and not place them in a financial position to pay their way. What I wanted to know was whether you could say that experience up to date has shown that the location was wisely selected and that there is a reasonable prospect that the other 75 per cent. may appeal to post-war industry, and consequently be filled up?—I would not put it higher than to say that there is a reasonable chance. It will depend, of course, on the policy the Government adopt in the way of dealing with these areas, and they will certainly need a certain amount of nursing—particularly the North East Coast one—for a time at any rate.

1807. Why should a question of Government policy come into it? It would be a question of industrial desirability, would it not?—If it were purely a question whether manufacturers would go to that particular area rather than anywhere else in the country, without any influence or financial advantage specially given, I rather doubt whether they would be a success.

1808. It was originally selected and developed largely from the point of view of employment than anything else, was it not?—The object was to try to establish in these two areas, the North East Coast and South Wales, something other than the heavy industries, which alone had been the staple work in those areas. It was thought that a good way of doing that would be to have a trading estate where the factories would be congregated together, and could be provided on the whole rather more cheaply and effectively. The war, of course, meant that as far as factories were there, they were used and occupied. But whether after the war, if there are no special incentives—call them artificial incentives, if you like—the Gateshead Estate could be made a success I should rather doubt.

Mr. Benson.

1809. To what extent has the Government placed its munition factories and Ordnance Factories in these trading estates? Have they taken the opportunity of putting up new buildings for war purposes?—Not on the trading estates. The factories on the trading estates are, from the point of view of a Government factory, tiny. A number of them are munition works operated by private firms. There are no actual Government factories.

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Sir THOMAS PHILLIPS, K.C.B., K.B.E., and
Mr. T. W. F. DALTON.

[Continued.]

1810. Has the Government taken the opportunity to develop these trading estates during war-time?—The South Wales Estate is pretty well full up. The North East Coast one is not, and there were reasons why that was not developed in the early part of the war, owing to the area.

1811. What about the West Cumberland one?—West Cumberland has not a trading estate except, as I say, one very small one. It has several separate factories which it lets out.

Sir *Irving Albery*.

1812. I think, perhaps, the Comptroller and Auditor General can answer this question: We have no accounts in front of us as a Committee, have we, showing the income and expenditure of these trading estates?—(Sir *Gilbert Upcott*.) No.

1813. Do those come under your purview?—No, they do not come under my audit. They are audited by professional accountants. I do not know whether the Ministry of Labour see their accounts?—(Mr. *Dalton*.) Yes, we do get copies of their annual accounts.

1814. For instance, when you forego the interest on loans, I take it that that is based on a study and inspection of their accounts?—Yes; that is the basis.

1815. Does the agreement of the Treasury have to be sought for foregoing these loans?—(Mr. *Brittain*.) No; under an agreement between the Estate and the Commissioners, this matter is within the discretion of the Commissioners. We saw the agreement when it was first made, of course, and approved of that, but the action of the Commissioners in any particular case is entirely within their discretion.

1816. So that the Commissioners can, entirely within their discretion, forego any interest due from these trading estates?—Yes, if it is within the terms of the agreement which provides generally that if the trading estate asks the Commissioner then the Commissioner must satisfy himself that there is a good case for it.

1817. Are these trading estates run on ordinary trading lines? I understand they pay taxes. Are they run on the lines of ordinary profit-making concerns?—I think perhaps the Ministry could answer that better than I could. (Mr. *Dalton*.) They are non-profit-making companies, having no share capital; but they do conduct their business on normal commercial lines.

1818. I take it they are exempt from certain forms of taxation?—They have not been able to secure exemption.

1819. I thought non-profit-making corporations, companies, or friendly societies are usually exempted from certain forms

of taxation?—It is rather a complicated matter, but the major part of their tax falls under Schedule A, tax on the buildings. They do have a certain amount of taxation on trading, but they are not really regarded as purely trading concerns for the purpose of tax.

1820. In that case I do not understand how they have any taxation on trading?—It is really via Schedule A.

1820A. The interest has been foregone in certain cases. Can you give us any information as to how the taxation which they have paid compares with the interest which they have not been able to pay? I do not want to delay the Committee. Perhaps I could have a note on that, if it takes a little working out?—Actually, it is within my recollection that, roughly speaking, the tax for the year was about half the 4 per cent. The interest due for the year was round about £38,000, and the tax they paid was round about £19,000.

1821. In other words, if they had not had to pay tax they could have about paid their interest?—They could have about paid it.

1822. Does the Treasury regard that, from the public point of view, as a satisfactory arrangement, looking at it from the point of view of the public purse? It goes in one pocket and out of the other. Is that a satisfactory kind of arrangement?—(Mr. *Brittain*.) I think there are quite a number of institutions which receive money from one part of the public purse and pay taxes into the other. It is inevitable. I am sure the Inland Revenue do not like altering the Income Tax law to provide for special cases. They have to act on the basis of a law for everybody.

1823. These taxes do not concern Income Tax, do they?—Schedule A.

Mr. *Benson*.

1824. On that point I am not quite clear why, being non-profit-making concerns, if they receive rents, which I take it is their main source of income, they cannot claim repayment of Schedule A. Schedule A tax is assessable on the tenant; but cannot they claim repayment if any non-profit-making concern receiving income taxable under Schedule D can claim repayment of the tax from the Inland Revenue?—(Sir *Thomas Phillips*.) I am afraid I am not very familiar with the details. Broadly, the position was, as I understood, that the money that would otherwise have been paid—2 per cent. for the half year—as interest to us was already due on other grounds to the Treasury. (Mr. *Benson*.) Could we have a note as to the reason why?

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Sir THOMAS PHILLIPS, K.C.B., K.B.E., and
Mr. T. W. F. DALTON.

[Continued.]

Chairman.

1825. I was going to ask if we could have a little note put in with regard to this. It is a little complicated. We should like a note with regard to the income tax, first of all, under Schedule A, and what is paid under Schedule D from the point of view of a trading concern on profits.—(Mr. Dalton.) May I say that I do know the trading estate companies tried to get relief from income tax as non-taxable organisations and they failed. The Income Tax authorities would not admit their claim.

Chairman.] I think that is what you want, Mr. Benson—a little note in regard to it?—(Mr. Benson.) Yes.*

Mr. Henderson Stewart.

1826. May I ask a rather wider question of the Comptroller and Auditor General: To what extent do you have the general accounts of the Commissioner for Special Areas under review?—(Sir Gilbert Upcott.) I audit the expenditure of the Commissioner. Therefore, of course, I audit the grants which he makes to these bodies, but I do not audit the accounts of the bodies to which he makes grants.

1827. The Land Settlement Association is another of the bodies. Do you see their accounts?—I may see their accounts as a matter of courtesy, but I am not responsible in any way for auditing them.

Chairman.

1828. Are there any further questions on paragraph 27? We pass now to the figures on pages 213 to 216. The note to Sub-head C on page 213 is: "Sub-head C includes expenditure amounting to £30,300 1s. 7d. on the acquisition of land for industrial sites and grants to local authorities, amounting to £408 8s. 2d., towards preliminary expenditure incurred on five schemes approved by the Commissioner, but not proceeded with owing to the war." Could you tell us something about this acquisition of land which was not proceeded with owing to the war?—(Sir Thomas Phillips.) Mr. Dalton is familiar with the details. (Mr. Dalton.) That is a remanet of a commitment. We had a large site at East Gateshead, a good deal of which had already been purchased before the war, and we received the support of the Treasury to go on with the completion of the purchase.

1829. We are now in 1943. Why was it that these had only come along three years after the beginning of the war? It is a long time?—Yes. The negotiations were particularly complicated in this case, because the site was occupied by an operative undertaking, and they had to make certain rearrangements as regards their premises. That really accounts for the delay.

* See Appendix No. 9.

1830. On the following page, on the left-hand side, among the items of receipts, there is an item: "North Eastern Housing Association, Ltd.—£44,122 10s. 9d." What would those receipts be? Would those be rents?—(Sir Thomas Phillips.) Those would be payments from the Association in respect of the loan made by the Ministry, derived by them from rents.

1831. They themselves have received rent and passed it on to you?—Yes.

Chairman.

1832. Are there any questions on pages 213 to 216?

Sir George Davies.] On the right hand side of page 214, amongst the payments there is a heading: "Agriculture" and then "Small Holdings—£72,795 11s. 7d." Are those small holdings still being developed and extended, or what does that payment of £72,000 represent?—(Mr. Dalton.) The development of small holdings for unemployed men ceased at the outbreak of war, but the Land Settlement Association were allowed to introduce in place thereof agricultural tenants. In addition to that, under the directions of the County War Agricultural Executive Committees they have to farm all land that is not otherwise utilised. The cost of that work, coupled with administrative costs, is the explanation of this particular item.

1833. This includes the expenditure that the County War Agricultural Executive Committees have had to assume themselves?—The Land Settlement Association do the work under the direction of the Committees; they do the farming.

1834. With regard to the not specially unemployed but agricultural tenants, is there any slow development going on now in the way of arranging for them to acquire these small holdings, or has that practice ceased?—It has practically ceased.

1835. Since this figure has been incurred—or does this £72,000 odd primarily mean the expenditure of the County War Agricultural Executive Committees which they have had to assume?—That is mainly the cause of the expenditure. As a matter of fact we do not assist agricultural tenants at all, because of the limitation of our statutory powers. The agricultural tenant who comes in has to bring his own money in, although the Association have made an arrangement with the banks whereby he can borrow from the bank, but he does not get any money from the Special Areas Fund.

Sir Edmund Brocklebank.

1836. On page 214, on the left-hand side, under receipts, there is an item "Industrial sites (other than trading estates):—Rents, etc. (less management expenses)" £12,000 odd. Could you say what the management expenses are and

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[Continued.]

how they are calculated?—(Sir Thomas Phillips.) These are the sites that are administered by the trading estates on our behalf. They pay over to us the rents collected, less a charge in respect of their own management expenses.—(Mr. Dalton.) It is roughly about 5 per cent. of the rent; I think you can take that as a rough figure.

Mr. Henderson Stewart.

1837. There are two questions I should like to ask. One refers to a question put by Sir George. I take it that while the Ministry does not issue grants to these agricultural tenants on the Land Settlement Association holdings, they nevertheless watch what is happening, I suppose, to see whether they are being profitably run or not—or is that outside your beat?—On that particular issue we leave the Association wide discretion.

1838. The reason I ask is because they started these places, did they not, as a means of relieving unemployment in Durham, Cumberland, and so on. If they are now changing their character and becoming normal agricultural small holdings estates, not associated with unemployment, what is your interest in them? You follow my point?—(Sir Thomas Phillips.) That change, of course, is due to war circumstances.

1839. Yes, I quite recognise that. It is not yet complete, of course?—The whole problem will have to be examined afresh at the end of the war. In the meantime these holdings, which are not occupied by the people for whom they were intended, have to be cultivated by somebody, and

the best way is to put in an experienced smallholder simply as a temporary arrangement.

1840. The other question I wanted to ask was this: On the left hand side of page 215 there is the item: "Repayment of working capital issued to settlers." That is the capital which was issued with your authority by the Land Settlement Association to tenants coming down from these depressed areas?—Yes.

1841. Does that mean that these people are in fact paying up pretty well?—I think so. So far as they remain on their holdings, they are doing pretty well just now. (Mr. Dalton.) May I just add to that, that in the case of a man who leaves his tenancy, there is, of course, still a good deal in the soil in the way of seeds, crops and manures, and there is some equipment left; all that is taken over by what the Land Settlement Association call their Estates Service Depot, a transfer being made of funds, and, therefore, the man's loan is reduced by the amount of that valuation. So that the mere fact that a man does not succeed does not mean that you lose all the profits of his labour.

1842. Would you say that as a result of the fortuitous advent of the war, shall we say, you are getting back practically all that you advanced to these fellows?—A substantial part of it.

Mr. Henderson Stewart.] That is very interesting.

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

CIVIL APPROPRIATION ACCOUNTS (WAR SERVICES), 1942.

CLASS X.

VOTE 8.

MINISTRY OF LABOUR AND NATIONAL SERVICE (WAR SERVICES). (Directors' Report and Accounts of the National Service Hostels Corporation.)

Chairman.

1843. Will Members turn to the Civil Appropriation Accounts (War Services), 1942, to page xv, paragraphs 35 to 37 of the Report of the Comptroller and Auditor General: "National Service Hostels Corporation, Ltd." We will take those three paragraphs together. On paragraph 36, Sir Thomas, the Comptroller and Auditor General states that the Corporation "discharges its functions under the general financial control of the Ministry of Labour and National Service." Could you tell us the nature of the control which you have over this Corporation financially?—(Sir Thomas Phillips.) We have an agreement with the Corporation in which is included an undertaking by the Corporation that they will furnish the Minister on demand with all information and documents respecting their affairs, as he shall

from time to time require, and that they will permit the Comptroller and Auditor General and any person nominated by the Minister to inspect their books, documents and other records. In the second place, the Corporation have to obtain the prior consent of the Minister before engaging any officer or servant at a salary exceeding £500 per annum. In the third place, they must close down any hostel or hostels under their management if required to do so by the Minister. I should also mention that one of the Directors—the Financial Director—is appointed by the Minister in consultation with the Treasury.

1844. That is mentioned in the same paragraph. With regard to the Director you have just mentioned, what special functions would he have to act as liaison officer, as it were, with the Treasury?—

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[Continued.]

He has the ordinary functions of a Director; and he has special powers in case he thinks the Corporation are doing something they ought not to be doing financially.

1845. Do you mean a veto?—He is charged to report to the Minister.

1846. In the second sub-paragraph of paragraph 36 the Comptroller and Auditor General says: "My officers have also visited the headquarters of the Corporation, and have been supplied with information on the general system of financial control." Could you tell us something about the general system of financial control of the Corporation?—Perhaps Mr. Dalton might explain that. (Mr. Dalton.) The control is based on the same kind of control as is undertaken in Government Departments. All banking arrangements and the like are made from headquarters, and the authorisation of a good deal of the expenditure also takes place at headquarters. In addition, there is an accountant at each hostel who reports direct to the financial people at headquarters. On top of all they have an internal audit system over and above the professional audit. Actually, the professional auditor has not yet covered the hostel expenditure itself. He has examined the internal audit system and he is satisfied that they have the proper control. That is the general picture of how it works.

1847. With regard to the charges for accommodation, how are these rates arrived at, and what sort of rates are charged?—(Sir Thomas Phillips.) The rates for the greater part of the year covered by the accounts were 27s. 6d. for men and 22s. 6d. for women. That included the charge for what was called a snack each day.

1848. A snack meal?—Yes. That was cut out and the charges then became 25s. for men and 20s. for women, which are the current amounts. That includes two meals a day, except on Sundays when full meals are provided.

1849. I thought you said it included one snack only?—That was in addition to the two meals.

1850. Two meals and a snack?—Yes—when it was provided.

1851. There is an appreciable deficit I see here amounting to something like 50 per cent. Is that deficit unavoidable?—Assuming the present charges and expenses, I think it is.

1852. The expenditure amounted to £771,000 odd, and exceeded the income by £357,000—a very big difference?—Yes. The hostels are about 80 per cent. full.

1853. That makes a difference, of course?—Yes, but I do not think there is much reason to expect that that proportion will get very much higher, so one must suppose that this sort of loss is inevitable.

1854. Towards the end of paragraph 37 the Comptroller and Auditor General says: "Cost statements prepared by the Corporation for these hostels show appreciable variations in costs per resident week as between the various hostels." Could you give us some idea of the extent of these variations, and whether they cannot to some extent be remedied?—I do not know that I have any figures for the variations, but they would depend largely on the extent to which the particular hostel was full or not, and various other things which would account for discrepancies.

1855. Have you any light on the appreciable variations, Sir Gilbert?—(Sir Gilbert Upcott.) They are pretty wide. The average cost for food varies from 5s. to 10s. per resident week. The average cost for power, light and fuel varies from 1s. to 10s. I have no doubt it is due to a very appreciable extent to the variations in the numbers in residence. But my information is that the Corporation is not entirely convinced that that is the sole cause of the variation between the different hostels, and they are, I understand, making some investigation into what may be avoidable reasons for differences.

1856. The difference between 1s. and 10s. on power, light and fuel cannot be accounted for by whether a hostel is 80 per cent. or 100 per cent. full, can it, Sir Thomas?—(Sir Thomas Phillips.) No.

1857. It is a very big difference. But that is being gone into?—(Sir Gilbert Upcott.) That is my information. The Ministry of Labour are in a position to confirm it. (Sir Thomas Phillips.) That is so.

1858. It is a matter we may want to come back to. They are very big differences?—(Sir Gilbert Upcott.) It is quite possible that the differences may be accounted for in some degree by difference in management.

Chairman.] Are there any questions on paragraphs 35 to 37?

Sir George Davies.

1859. In the last sentence of paragraph 37 the Comptroller and Auditor General says: "The temporary hostels and camps for building operatives have for the most part not been needed for their original purposes and have been used for military and other purposes." Was that due to an original miscalculation or to changed conditions; and what loss has that involved the nation in, establishing these hostels for building operatives, and then having to divert them to other uses?—(Sir Thomas Phillips.) These hostels are not within our scope, as it happens. The temporary hostels were Ministry of Health places, and quite obviously they might not have been required for their original purpose, because they were put up in

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[Continued.]

case of a blitz. That is the reason why they have not been required for their original purpose. I do not know about the camps for building operatives; but in neither case do they fall within my purview.

Sir *Gilbert Upcott.*] The Ministry of Labour is, of course, generally responsible for the management of the Corporation—the all-over Corporation. The Ministry of Labour is responsible for the control of the Corporation. (Sir *Thomas Phillips.*) The arrangement was this: Here was the Corporation set up as a body to run this sort of organisation. The Ministry of Labour made an arrangement with them for running the hostels. The Ministry of Health made an arrangement with them for running these temporary hostels for blitzed people. The Ministry of Works made an arrangement for dealing with the camps for building operatives. I am not in a position to say why they required a camp for building operatives in a particular place, or why this hostel set up for this purpose was not required.

Sir *George Davies.*] Mr. Chairman, is there any means of our ascertaining why there was this miscalculation, and to what extent the public have had to suffer for it?

Chairman.

1860. If it is a question of work done by the Ministry of Works it must come up under them. The Corporation is working for three separate Government Departments, I understand?—I imagine that amount would be on the Ministry of Works Vote, would it not? (Sir *Gilbert Upcott.*) The Committee had before them last year the cost of the hostel set up by the Ministry of Works for building operatives at or near Coventry, and that was explained. It was set up following the blitz. I think that is now used by a Service Department, but I am not quite sure. But the Committee investigated the Ministry of Works hostel last year.

Mr. Benson.

1861. First of all, I should like to know what exactly are these hostels? What type of buildings are your own hostels?—(Sir *Thomas Phillips.*) They are a collection of what you might call bungalows, I suppose; they are single storeyed buildings, spread over an area, containing sleeping accommodation, a place for meals, and a hall for entertainments or some sort of theatrical performance.

1862. Are they something like Army huts?—Yes, but pretty extensive, and inside quite nicely got up.

1863. Does the expenditure of £750,000 include any charges for amortization, interest or rent?—No, it is exclusive of any rental charges.

1864. Or capital charges of any kind?—Yes.

1865. Why did you establish this Corporation? Why should not the Ministry of Labour have run these things themselves? The effect of establishing the Corporation seems to me merely to put a barrier between the Committee and the management?—This was thought to be rather a technical and professional job—running hotels is what it comes to—and it was thought, from the point of view of practical management, that this was the best plan. The hostels cater for the employees of firms who may be working for the Ministry of Supply, the Ministry of Aircraft Production or some other Department. Therefore, there was no particular reason why the Ministry of Labour should have run the hostels rather than the Ministry of Aircraft Production should have done it for their factories, the Ministry of Supply for theirs, and so on. It was thought that, instead of having a clutter of arrangements of that sort, it would be better to set up one organisation which would do the whole thing.

1866. You were sure Lord Rushcliffe was experienced in the technical job of hotel-keeping, whereas the Ministry of Labour was not?—I speak for the Ministry of Labour. I have no knowledge of Lord Rushcliffe's qualifications in this connection.

Chairman.] He was for many years in the Ministry of Labour.

Mr. Benson.

1867. The evidence is that this was a technical job and that you must have people experienced in hotel-keeping to run it. I look at the Directors and I find Lord Rushcliffe and Major Laughton?—Major Laughton is an experienced man.

1868. In hotels?—Yes. He is the Managing-Director.

Mr. Benson.] And Lord Rushcliffe is not.

Chairman.] He is Chairman, is he not?

Mr. Benson.

1869. What about this investigation that is going on as to the relative costs?—I understand the Corporation are looking into this as they are looking into a great many other things. If it would help the Committee at all I could get from them an account of exactly what they are doing and how far they have got.

1870. To whom are they going to report?—In the first instance it is their own concern. It is part of their ordinary day-to-day responsibility to know whether charges vary materially as between one establishment and another, and, if they do, to correct it.

1871. What is the Ministry of Labour contribution towards the big deficit?—So far as concerns the hostels for which we are responsible, we pay the whole of the money.

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[Continued.]

1872. How much does that amount to in this current year?—It is stated here—£247,000.

1873. Surely it is your concern as well as that of the Directors? If you are responsible for footing a bill of a quarter of a million pounds, surely you are very directly and urgently concerned in the efficiency of the concern?—Certainly, and we think that the Corporation are likely to get to the bottom of it as efficiently as we ourselves could.—(Sir Gilbert Upcott.) I may say the Ministry have put their former Accountant-General on the Board, no doubt with a view to satisfying themselves in regard to the financial management.

1874. Is that Mr. Bindloss?—(Sir Thomas Phillips.) That is Mr. Todd.

1875. He is not on the Board according to this document?—(Sir Gilbert Upcott.) He has been added to the Board.

1876. Are you going to receive the full report?—(Sir Thomas Phillips.) We shall know what happens as regards these discrepancies.

1877. That means that you will receive a full report?—Yes.

Mr. Benson.] I think we might have a memorandum on this matter, Mr. Chairman.*

Chairman.

1878. Showing what steps have been taken and showing what success they have met with?—On the discrepancies?

Chairman.] Yes.

Mr. Benson.] Yes, on the discrepancies, and an explanation not merely of the stage which the investigation is at, but of the result of the investigation.

Chairman.

1879. A note with regard to any that have been investigated, explaining the reasons for the variations?—Certainly.

Mr. Henderson Stewart.

1880. It is clear that these hostels are under the financial control of your Ministry. Earlier on you said you thought that a continual loss on these hostels was inevitable. Why should it be inevitable, since they are 80 per cent. full throughout the year? No other hotel that I know of at the moment is losing money; they are all making fortunes. Why should the one operated by the State be such a failure?—I imagine the costs cannot be reduced—at least, broadly speaking. Therefore the only way to make both ends meet would be to put up the charges. That is not a matter for me, but I think my Minister would feel that the primary object of these hostels is to make sure that the workers concerned get properly housed, fed and looked after, and the question whether there is a loss on the proceedings of a moderate amount is relatively unimportant. I think that would be the view my Minister would take.

* See Appendix No. 11.

1881. The Report of the Comptroller and Auditor General shows that this loss of three-quarters of a million pounds is excluding interest on capital. What would it be if you included interest on capital, as everybody else has to do?—This loss as it stands amounts to about 6s. or 7s. a week, or that sort of figure, and the rent would be another 2s. or 2s. 6d. on top of that.

1882. One-third more?—That sort of figure. I have not any precise figures.

1883. Then it would be up in the region of £500,000 loss?—Yes.

Mr. Henderson Stewart.] The expenditure amounted to £771,000 and exceeded the income by £357,000; that is to say, the loss would be up to about half a million pounds.

Chairman.

1884. Excluding interest on capital?—25s. is the charge for a man. The cost, exclusive of rent, is somewhere in the neighbourhood of 32s.

1885. You are, in other words, charging three-quarters of the cost, roughly speaking—25s. out of 32s.?—And rent is on top. It might be another 2s.

Mr. Henderson Stewart.

1886. Has the Department thought of making an inquiry into that as well as into the smaller point of the variations, considering the peculiar circumstances of the times? No other hotel is doing other than making a big profit at the moment, and it seems very odd that there should be this loss?—The question is: Should the charges be put up by about 10s.?

1887. There might be the other question: Is the thing which is being run by this body being run thoroughly inefficiently? Might it not be that?—We have had no reason to suppose that they are inefficiently run. They certainly are not run in what I should call a cheese-paring fashion. That is not what my Minister would want to be done. There is a considerable expenditure on welfare, nurses and all that sort of thing. So I think substantially the point is: Should the prices be put up by 10s.? If we could put them up by 10s. we should make a small profit.

1888. I find it a little difficult to accept that until I know a little more about it?—I am not advocating it.

Mr. Henderson Stewart.] That is merely your opinion. It is not based upon any facts you have presented to us, and I find it difficult to accept that as being the only solution. I do not know quite what we do about this, Mr. Chairman?

Chairman.] We are going to have a note with regard to the variations in cost, and

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[Continued.]

it may be they will have found that certain of the higher costs can be reduced. We are getting a little bit on to questions of policy, which are at Ministerial level, really.

Sir *Irving Albery*.

1889. I understand the Financial Director on the Corporation is appointed by your Ministry?—Yes.

1890. I suppose his functions are mainly to scrutinise accounts and to sanction expenditure?—Yes, and he in fact—

1891. —holds a watching brief?—In fact he considers himself responsible for seeing that the whole of the financial machinery of the Corporation is in proper shape. He looks after that.

1892. When you say: "proper shape" do you mean by that that it will bear scrutiny by an auditor, or do you mean to see that it is efficiently managed from a financial point of view on what one might call a commercial basis?—Both.

1893. Would he be a person who has any experience in that last sphere?—This individual was the Accountant General of the Ministry for a number of years and had some outside experience before he came to us.

1894. Of running a business concern?—Not of business, but outside Government service.

1895. It seems to me he would appear to be a distinguished official with very full accountancy experience. I am wondering whether putting somebody in like that as a Financial Director—I take it on the Board he is regarded as the financial personage—altogether tends to produce what one might call business results. This is really a trading concern. It is perfectly true it is not run to make a profit, and your Minister wants to run it on good lines; but it seems to me it is desirable that there should be a Financial Director on the Board who has experience in making ends meet and scrutinising expenditure, not merely from the point of view of whether it can be justified to the Comptroller and Auditor General or some other Auditor, but whether it is being done as economically as it could be done on an efficient basis?—I should have thought that would be largely the business of the Managing Director, and for that position we have Major Laughton, who is a man with very considerable experience in hotel management.

1896. Are these hostels, taken individually, given what one might call a guiding budget? Are they told: "We expect you to be able to cater at so much per head," or anything of that kind?—I am afraid I could not answer that.—(Mr. Dalton.) They have a catering controller at headquarters who is continually scrutinising, I think, both the purchase and consumption

of food at the hostels, and they do get a good deal of guidance and control from headquarters on that kind of issue. The catering controller himself is a man who has some experience in the catering business.—(Sir *Gilbert Upcott*.) I can give a little more information now in answer to Sir George's questions about the user of the hostels. I understand there is an inter-departmental committee over which an officer of the Ministry of Labour presides, which does consider the user of these hostels, representing the various Departments concerned. Sir George also asked about the Ministry of Works hostels. The Ministry of Works said in evidence last year that their hostels were being used, two of them by Service Departments, one by building trade workers, and another by dockers.

1897. Are these hostels for men and women, Sir Thomas?—(Sir *Thomas Phillips*.) Some for men and some for women, but very commonly for both.

1898. Are the charges the same for both?—No; 25s. for men and 20s. for women.

Mr. *Henderson Stewart*.

1899. You told us you thought the responsibility should rest largely upon Major Laughton's shoulders, as Managing Director. Probably that is true; but have you had any complaints from Major Laughton that he is not able to run these hostels as ordinary commercial concerns? Does he complain, as people sometimes do, about red tape, for example, and Government control?—I would not say that he has never any troubles. He has, of course; he is bound to have—but not that sort of complaint to any considerable extent. He accepts the position that the charge that he is entitled to make is laid down for him. He is not in the position of a commercial firm in being able to charge what the traffic will bear, or anything of that sort. He can charge what is laid down and nothing more. Therefore, the whole of his efforts must be directed to running the thing efficiently and cheaply. I have not heard of any suggestion that he has been impeded in that direction.

Chairman.

1900. Are there any further questions on paragraphs 35 to 37? We pass to paragraphs 38 to 42: "National Dock Labour Corporation Ltd." This interests me a good deal, because when, some 15 years ago, I was at Montague House, one of the gravest problems that Sir Arthur Steel-Maitland had to consider was in regard to this floating dock labour. It is interesting to see these efforts that have been made to get over it. Could you tell us, first of all, on paragraph 39, how the levy was collected?—What actually happened was this. It is one of the functions of the National Dock Labour Corporation Ltd. to make the actual payment of wages to

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[Continued.]

the dockers. Each employer reports how much is due from him to the particular docker. The details are collected and the payment is actually made on the pay day by the Corporation. To the sum represented as due as wages a proportion of 20 per cent. or 25 per cent. is added, and that addition is paid into the funds of the Corporation. For every £1 in wages another 20 per cent. or 25 per cent. is added.

1901. What check have you on amounts being paid in to you as being correct?—This is, of course, the job of the Corporation. I imagine they have various checks. The employer has to protect himself; and it is the employer who reports to the Corporation how much wages are due from him to the particular docker. That is paid out and is then charged to the employer.

1902. What check have you that you are getting full particulars of the right amount of the wages and the personnel employed?—The docker would see to it that he got his wages.

1903. And as regards the personnel employed also?—Outside the scheme, do you mean?

1904. Have you any check at all on employers as regards amounts they have to pay in to you?—I do not quite follow. So far as dockers are employed they get their wages not from their employer but from this central paying station. The employer informs the Corporation.

1905. The employee would be the first to know if the employer had sent his name in and he did not draw his money?—He would let us know very quickly.

1906. The charges on the Fund are the wages that are paid out less these deductions to the employee?—The 20 per cent. or 25 per cent. is mainly the payment that has to be made to the docker who is not employed as a docker.

1907. It is put into a pool, as it were, and paid out afterwards?—Yes.

1908. How would you say it is working?—On the whole it is working quite successfully. It has enabled the position at these docks to be regulated in a way which was very important and necessary.

1909. It was, I remember, an extremely difficult problem. Arising out of what the Comptroller and Auditor General says in paragraphs 40 and 41, have they had to draw upon the reserve? There was a debit balance at one time but now there is a credit balance of £450,000.—No, the 20 per cent. proved to be quite sufficient. It has since been reduced and the whole of the money collected for the Reserve Fund is still in the Fund.

1910. The present figure of the reserve was calculated at £450,000. Could you tell us how it stands now?—At this date?

1911. Yes, at the latest convenient date?—In paragraph 41 the Comptroller and Auditor General says that the balance of the Reserve Fund: "was expected to amount to some £750,000 at 31 December, 1943."

1912. "Expected to"—that is what I queried?—In fact it exceeded that figure and at that date further contributions ceased.

1913. Is this being held against future contingencies?—Yes; it remains in a Reserve Fund.

1914. It is in a Reserve Fund in case of its not doing so well. In paragraph 42 the Comptroller and Auditor General says: "I have been furnished with copies of the Corporation's audited accounts and with papers showing the general control exercised by the Ministry." Could you tell me how the control arrangements in regard to finance work?—As stated here, there is a Financial Director who looks after that side of the business.

1915. And who renders particulars to your Ministry from time to time?—Yes. (Sir Gilbert Upcott.) The Corporation renders periodical statements of costs and estimates of their financial position to the Ministry, and their audited accounts are published.

Chairman.] Are there any questions on paragraphs 38 to 42?

Mr. Benson.

1916. I did not quite understand Sir Thomas Phillip's reference to the functions of the Corporation. He said the fund of 20 per cent. was to pay the wages of dockers who were not employed as dockers. What exactly does that mean? Does that mean dockers who are unemployed?—(Sir Thomas Phillips.) I did not want to call them "unemployed," and that is the reason I used that phrase. If you like, you can say they are unemployed although they are liable to be used for some odd jobs if required.

1917. Really, this 20 per cent. is an additional unemployment insurance. Is that its purpose?—If you like to call it so.

1918. Is it? I want to call it by its proper name?—The docker is placed in the position of a person on the staff and is entitled to a wage for every day in the week whether actually at work or not. This money you might call a wage or you might call it unemployment pay; you can choose which name you like to apply to it.

1919. You say that he might be used for odd jobs, not actually stevedoring. What exactly does that mean?—Supposing there were a blitz, for instance, he could be required to help clear up.

Chairman.

1920. Are there any further questions on those paragraphs? We pass now to the

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[Continued.]

account which is on pages 21 to 23. Two-thirds of the way down on page 21 Sub-head D. is "Expenses in connection with the Transfer of Workers," a figure of £8,500,000 odd. Could you give us some idea of how this large sum goes?—That consists principally of the lodging allowance of 3s. 6d. a night paid to transferred workers.

1921. It is a very big sum. On page 23 Note No. 5 is: "During the year overpayments of lodging and other allowances made in 1942 and previous years, to an amount of £74,127 15s. 7d. were brought to light and recorded. Recovery is proceeding where possible, £13,308 os. 5d. having been recovered during the year and included in the receipts detailed on page 21." This compares, I think, rather unfavourably with the year before, when the figure was, I think, about £40,000. Can any steps be taken with regard to these overpayments?—This is not related to a particular period. The total is cumulative. It is in the neighbourhood of 1 per cent. of the total; it is a matter of considerable difficulty to avoid wrong payments in a number of cases.

1922. I think it is almost double the figure we had before us last year?—Yes.

Chairman.] Are there any questions on the Account?

Sir George Davies.

1923. On page 21, Subhead D: "Expenses in connection with the Transfer of

Workers." The Chairman has asked certain questions on that. Does that include also a certain amount of travelling expenses of the workers going from one place to another?—Yes, it would cover the cases where travelling expenses are paid.

1924. And does it cover any official salaries to anyone?—No, not this item.

1925. It is entirely money paid out, whether in the form of 3s. 6d. or travelling expenses to the individual concerned?—Or the various other allowances that are paid.

1926. But all of them of that nature?—Yes.

Sir Frank Sanderson.

1927. On page 21, Subhead A. is "Training, etc., Schemes:—(i) Schemes for men and women (including training on behalf of Service Departments), other than special arrangements for disabled persons"—a figure of £4,370,000. Can you give an approximate idea of the number of persons who are trained?—Perhaps I may give the figures off the record.

Sir Frank Sanderson.] I quite agree. I am sure the Chairman would agree. (The information was given to the Committee.)

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

UNEMPLOYMENT FUND ACCOUNTS, 1942.

Mr. Benson.

1928. With regard to your securities held, I see you have £13,559,000 in Treasury Bills; that is on page 6. That is about 3½ times your outgoings of last year, or equivalent to about two months' income. It is a very heavy percentage, surely?—(Sir Thomas Phillips.) On Treasury Bills?

1929. Yes?—It is £13,000,000 out of £250,000,000.

1930. No—it is not a question of what percentage it is of your securities held. It is a question of percentage of your income or of your outgoings. Your outgoings were about £3,500,000 last year and your income was £75,000,000. Is there any good reason why you should hold two months' income in Treasury Bills or 3½ times your outgoings?—As things are now £13,000,000 would last us a long time, but supposing there were some demand of serious importance, £13,000,000 would not last us a very long time; it would be only a very few weeks' supply.

1931. But you are not depending on your £13,000,000. You have an income of six times that. Your Treasury Bills

are surely merely a reserve if and when your income proves too small to deal with your outgoings; and there is no evident danger of that at the moment?—It may be, of course. I would not wish to contest it too strongly.

1932. Who decides that figure—you or the Treasury?—Legally, the Treasury or, rather, the National Debt Commissioners. It is done, of course, in close consultation with us and in agreement with us.

1933. I should like to ask Mr. Brittain about this point. I raised this question of the holding of Treasury Bills by these Funds before. The impression I get is that the Treasury is using all these Funds to finance the war, and there is a much higher percentage of Treasury Bills held than before the war. Is that so?—(Mr. Brittain.) I am not sure about the pre-war percentage, but we certainly use these funds as far as we can. It is generally accepted Government policy that Funds like that, that have surplus balances, should be put into securities which help to finance the war.

1934. I am merely questioning the type of security?—We should like more to come into tap. It is a self-denying ordinance

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Sir THOMAS PHILLIPS, K.C.B., K.B.E., and
Mr. T. W. F. DALTON.

[Continued.]

to put it in Treasury Bills. We do it because we think that a proportion like this is a reserve that they ought to keep for the period immediately after the war.

1935. The last time I raised it was on the Local Loans Fund. There, again, there was very much more in Treasury Bills than there need have been for any foreseeable contingencies. Why do you regard it as a self-denying ordinance to leave money in at 1 per cent. as against 2½ per cent.?—Because it is repayable in a period of three months.

Chairman.] You want short-dated securities in case of actual need?

Mr. Benson.

1936. I know that was the argument but I query whether there is the actual need there, seeing that there is a steady income of £75,000,000—six times this fund?—We do not want this fund or any fund

(*Sir Thomas Phillips and Mr. Dalton withdrew.*)

CIVIL APPROPRIATION ACCOUNTS, 1942.

CLASS I.

VOTE 26.

SCOTTISH HOME DEPARTMENT.

Mr. D. MILNE, C.B., and Mr. C. C. CUNNINGHAM, C.V.O., called in and examined.

Chairman.

1940. We now have the Scottish Home Department, and our principal witness is Mr. Milne. Will Members turn to the Civil Appropriation Account, 1942, to pages 49 and 50—"Scottish Home Department." The only question I have on those pages is on Subhead E. Over the page there is a refund. In addition to the £20,000 you did not draw there is nearly £19,000 refund in excess advance on account of the subsidy to the Western Highlands and Islands Transport Services. In other words, the State was £38,000 up. Could you tell us something about that?—(*Mr. Milne.*) The sum of £18,000 referred to was due from the Post Office for the period from April, 1941, to November, 1941, but had not been paid by them. At the time when it ultimately became possible to look into the Company's accounts and consider the final apportionment of this subsidy between the Departments concerned, I understand—although it is a matter between the Ministry of War Transport and the Post Office—that the Post Office reminded the Ministry that this contribution of £18,000 odd due from the Post Office was outstanding. The sum was thereafter paid by the Post Office to the Ministry of War Transport in January, 1943, and as by that time it was clear to the Ministry of War Trans-

port that the Company had already received provisional payments up to the maximum sum which was due to them under the agreement with the Departments, the sum which the Post Office paid was refunded by that Ministry to my Department.

1937. It does not make very much difference, because once the money is in Treasury Bills it is sold, and if the fund wishes to encash its Treasury Bills it is up to the Government to find the cash from somewhere else?—We should certainly find the cash on the Treasury Bills.

1938. It is not the policy of the Government to accumulate these funds for the purpose of showing a low rate of interest?—Not in the least. That point of view is always put to us by the Ministry of Labour every time the question arises.

1939. They do put that point to you?—Certainly.

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

1941. This is finally settled now, is it?—I hope so.

Chairman.] Are there any questions on pages 49 and 50?

Sir George Davies.

1942. On page 50, Subhead J, is "Grant towards Repair of Flood Damage." What was the flood damage which is referred to?—That was rather exceptional damage to roads in a small burgh caused by a cloudburst at Cromarty. It was a very unusual affair. The damage to the roads was such that this small burgh would have had to put up its rates by over 11s. to meet the expenditure, so the Treasury in the circumstances authorised this special advance.

1943. Was it damage to what had been permanent roads, or roads under construction?—Existing roads in a small burgh.

1944. Subhead K on page 50 is "Grants for Physical Training, etc." and I see the

9 May, 1944.] Mr. D. MILNE, C.B., and Mr. C. C. CUNNINGHAM, C.V.O. [Continued.]

note to the subhead says: "It was not possible to form a close estimate of the sum likely to be required. A substantial saving was effected as a result of negotiations." Negotiations over what?—This is the last pre-war scheme under this Physical Training Act. We anticipated that we should be liable for a final settlement in respect of this particular scheme—which I think was for a swimming pool in Glasgow, and which had been terminated and left uncompleted because of the war—for the amount of £10,000 for which we took provision, but by negotiation we secured their agreement to settle on the reduced sum shown in the second column, of something over £4,000.

Mr. Henderson Stewart.

1945. Subhead F on page 49 is: "Salaries and Expenses in connection with Scottish Juvenile Welfare and After-

Care Office" and the expenditure is £1,651 less than granted. You explain that in the note by saying: "Savings mainly due to staff changes and to the transfer of certain duties and staff to the Scottish Education Department." May one assume that all that was intended to be done on behalf of Juvenile Welfare is now being done? In other words, this smaller expenditure than the amount granted does not mean that anything has been scamped on this particular work?—No, this is merely a transfer of staff from my Vote to the Education Department.

1946. The note speaks of changes in staff?—That is staff transfers. They went over from my Department to the Scottish Education Department.

Chairman.] Are there any further questions on pages 49 and 50? May I take it that the Account is approved? (Agreed.)

CLASS III.

VOTE 12.

POLICE, SCOTLAND.

Chairman.

1947. We pass now to paragraphs 20 and 21 on pages viii and ix of the Report of the Comptroller and Auditor General: "War Damage." In the second sub-paragraph of paragraph 20 the Comptroller and Auditor General says: "In order that police authorities whose property (other than houses) appears in a valuation list or roll should not be in a worse position as regards liability for paying war damage contributions than other police authorities, the Treasury have agreed that contributions paid in respect of such property, instead of attracting police grant of 50 per cent., shall be reimbursed in full." It is a little complicated. Could you tell us very briefly what the Scottish position is?—(Mr. Milne.) The Comptroller and Auditor General is referring to the liability for contributions under the War Damage Act. In Scotland police stations, which are primarily the property in question, appear in the valuation roll, but nevertheless are not liable for local rates because they have been held

to be Crown property essentially. Similarly, for the purpose of these contributions it was felt that they should not be liable any more than the comparable property in England, and provision was therefore made to reimburse the local authorities for the sum which they have paid in War Damage contribution.

1948. In order that you should not be at a disadvantage compared with England?—Yes, to put us in the same position as the English authorities were.

1949. Are you in the same position with regard to recovering War Damage contributions?—(Sir Gilbert Upcott.) Yes. The authorities both in England and Scotland recover.

Chairman.] Are there any further questions on paragraphs 20 and 21? We pass to the account which is on page 132. I have no questions on the figures. Has any Member any questions? May I take it that the Account is approved? (Agreed.)

VOTE 13.

PRISONS, SCOTLAND.

Chairman.

1950. We pass to pages 133 to 135: "Prisons, Scotland." On page 135 the first item in the Statement of Expenditure on New Buildings and Alterations, etc., is: "New Criminal Lunatic Asylum and State Institution for Defectives" on which the total expenditure to the 31st March, 1943, was £172,000 odd. Has that been completed now?—(Mr. Milne.) Yes.

1951. For what purpose is it used—the original purpose or some other?—I think it

has been reported to this Committee before. It was taken over first by the Department of Health for an emergency hospital, and was subsequently transferred to one of the Service Departments.

1952. For the time being?—Yes, for war-time.

Chairman.] Are there any questions on the Account?

Mr. Henderson Stewart.

1953. On page 133, Subhead O. is "Ordinary Repairs of Buildings, etc." and

9 May, 1944.] Mr. D. MILNE, C.B., and Mr. C. C. CUNNINGHAM, C.V.O. [Continued.]

the expenditure was £1,256 less than granted. It looks as if there had been a hold-up on repairs of buildings. I suppose these might be policemen's houses as well as actual prisons. Has there been much of a hold-up on policemen's houses?—This is a very small item, really. It does not relate to police. It is prisons we are talking about here. I do not think there has been any serious hold-up or curtailment.

1954. On the top of page 134, Subhead Q. is "Gratuities to Prisoners, etc." What are gratuities to prisoners? Who gives the gratuities to the prisoners?—That is under a scheme which applies in England also, whereby certain prisoners can earn certain small gratuities for industry and good conduct in a prison.

Sir Frank Sanderson.

1955. On page 133, Subhead P. is "Maintenance of Prisoners and Defectives otherwise than in Prisons." Could you say what that means? Is that in respect of persons who are being transported?—It refers to legalised police cells, etc.

Sir Irving Albery.

1956. With regard to gratuities to prisoners, is the procedure the same in Scotland as in England, do you know?—Yes, I think so.

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

CLASS V.

VOTE 18.

COMMISSIONER FOR SPECIAL AREAS (SCOTLAND). (Statement of Loans and other expenditure, etc., Scotland.)

Chairman.

1957. Will Members turn to page xi, paragraph 28 of the Report of the Comptroller and Auditor General. The Comptroller and Auditor General says he understands that the Commissioner for Special Areas (Scotland) is considering whether the financial condition of the Scottish Industrial Estates, Limited warrants the payment of interest on loans at a higher rate than 2 per cent. Could you tell us whether any decision has been arrived at?—(Mr. Milne.) Yes. Since the date of the Report the Commissioner for Special Areas (Scotland) has received further payments amounting to over £23,000. Also there has been a payment to the Inland Revenue of Income Tax amounting to, I think, £3,950. That really works out in terms of the financial year, if one could add the Income Tax to the interest repayments, as a payment of 2½ per cent. for the earlier period, ended March, 1943, and a payment of 2¾ per cent. for the following full year.

1958. In the next sub-paragraph the Comptroller and Auditor General says: "The net revenue of this company has been adversely affected by deficiencies of £14,604 and £16,973 in the years 1940 and 1941 on the working of the installation for the generation and distribution of steam on the estate." What was the trouble with regard to this installation?—It has not, I am afraid, been a very successful installation. The Company were not very well advised, and certain defects have disclosed themselves. These defects have been examined by the chief engineers of the Ministry of Fuel and Power and the Ministry of Works, and certain recommendations have been made which, I hope, will go some way to reduce the losses which have

occurred in the past. We have already managed to reduce the losses substantially.

1959. Could you say what the installation cost?—I think the total cost of the installation was of the order of £150,000.

1960. The deficiencies are shown as only £14,000 and £16,000 in those two years?—(Sir Gilbert Upcott.) The underground mains, which were the cause of the trouble, would have cost not much more than about £60,000. (Mr. Milne.) That is so. I understood the Chairman to ask for the total cost of the installation.

1961. Yes. Whose responsibility was this?—The estate was developed and this work was done under the Trading Estates Company, who are a commercial body of business men, and I think the trouble was really the inexperience of their first consulting engineer.

Sir George Davies.

1962. Was this installation for heat or power?—For both.

Mr. Henderson Stewart.

1963. Apart from that, I should have thought that Company would, at any rate in the last two years, have been doing pretty well?—It is doing better.

1964. The estate is full, is it not?—No. There has been a considerable development, but even so, I should think there is getting on for one-third of the estate which, although serviced to some extent, is not yet developed. Factories have not been built on it.

1965. Perhaps this year will see it much nearer to a balance of income and revenue?—We are getting on. It will be 2¾ per cent. for this past year.

9 May, 1944.] Mr. D. MILNE, C.B., and Mr. C. C. CUNNINGHAM, C.V.O. [Continued.]

Chairman.

1966. Are there any further questions on paragraph 28? We pass to the Account which is on pages 231 to 233. On page 232, among Receipts is the item "Scottish Special Housing Association, Limited"—£26,000 odd. On the other side, the Payments side, I see "Scottish Special Housing Association, Limited"—£46,000 odd. Will you tell us something about those receipts and about the outgoings?—The outgoings were an instalment towards the cost of a number of houses—I think about 1,400 of them—which this Housing Association arranged to build before the war in other than brick. The £46,000 is an instalment towards the cost of these houses, which have now been completed. In fact a further 300 are now being built. The Receipts on the opposite page are loan repayments to the Commissioner.

Chairman.] Are there any questions on those three pages?

Sir Frank Sanderson.

1967. On page 233 there are two items under No. (4), which is "Housing," namely "(a) Scottish Special Housing Association, Limited. (b) Second Scottish National Housing Company (Housing Trust), Limited." Can you state who owns the shares of these companies? Are they more or less local authorities which form a company for the purpose of their Housing programmes?—The Scottish Special Housing Association, Limited, like an industrial estates company, is a non-profit-earning company which was set up really by the Commissioner for Special Areas.

1968. It is non-profit-earning?—That is so.

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

CLASS VI.

VOTE 18.

FISHERIES, SCOTLAND.

Chairman.] We pass to pages 302 to 304. Are there any questions on those figures?

Mr. Henderson Stewart.

1969. On page 303, in the Details of Receipts there is an item: "Loans to herring fishermen: interest and repayment of principal." Generally speaking, are the loans that were granted by the Herring Board, for one thing, for boats, being repaid now?—(*Mr. Milne.*) Yes.

1970. Pretty well?—They are being very well repaid. There is a very small percentage of write-offs.

1971. I notice a little further down on that page you indicate that certain loans have been written off, which is rather the other way round?—These are very old schemes—1930 and 1934—of the late Fishery Board for Scotland.

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

VOTE 19.

HERRING INDUSTRY.

Chairman.] We pass to pages 305 and 306. Are there any questions on the Account?

Mr. Henderson Stewart.

1972. On page 306: "Loans to Herring Industry Board outstanding at 31st March, 1943"—I take it those are loans from the Department to the Herring Industry Board?—(*Mr. Milne.*) Yes.

1972A. In respect of these nets, boats, etc., and it is the repayments of those loans which you have just said are coming in quite well?—There are two sets of loans, the loans by the Board to the fishermen and the loans which the Board have had from the State. In both cases repayment is ahead of the obligation.

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

9 May, 1944.] Mr. D. MILNE, C.B., and Mr. C. C. CUNNINGHAM, C.V.O. [Continued.]

HERRING INDUSTRY ACTS, 1935 AND 1938, ACCOUNT, 1942.
(On this Account no questions were asked.)

CLASS IX.

VOTE 2.

EXCHEQUER CONTRIBUTIONS TO LOCAL REVENUES, SCOTLAND.
(On this Account no questions were asked.)

CIVIL APPROPRIATION ACCOUNTS (WAR SERVICES), 1942.

CLASS X.

VOTE 18.

SCOTTISH HOME DEPARTMENT (WAR SERVICES).

Chairman.

1973. Will Members turn to the Civil Appropriation Accounts (War Services) 1942, pages 52 and 53, and at the same time we take paragraph 25 of the Report of the Comptroller and Auditor General on the Vote of Credit Appropriation Account, 1942: "Check of inventories and equipment, stores, etc., handed over by local authorities." In the last sub-paragraph the Comptroller and Auditor General says: "Similar delays and difficulties arose in Scotland and the work of verification of the unchecked inventories is now being limited to major items." Could you explain the position with regard to this?—(Mr. Milne.) Might I ask Mr. Cunningham, who has been dealing with it, to answer that question? (Mr. Cunningham.) I think the position is that, as in England and Wales, the local fire authorities were asked to submit inventories of the fire brigade equipment that they were handing over. There were 190 such inventories, all of which have been received. The position at the moment is that of the 190 188 have been certified by the Fire Force Commanders as correct. In the case of 159 they have been certified after a complete check of all equipment, both major and minor. In the case of the balance of 29, they have been completely checked as regards major items of equipment, and the Fire Force Commanders are satisfied that the information about minor items of equipment is reasonably accurate. In any cases of doubt detailed inquiries were made. So that the present position is that there are only two of the inventories still waiting to be finally checked.

1974. Two out of 190?—Yes.

1975. Have the Treasury any views to express on this?—(Mr. Brittain.) No. The general principle has been applied of trying to get the thing through on a less meticulous basis, and trying to get it through quickly. We thought the facts warranted it.

Chairman.] Are there any questions on the Account?

Sir Frank Sanderson.

1976. In the Details of Expenditure Subhead A is "National Fire Service"—

£2,645,617 12s. 1d." In the Details of Receipts the first item is: "Repayment Services carried out by National Fire Service—£3,313 16s. 11d." It seems an extraordinarily small amount of receipts. Am I to take it that Scotland is not quite as generous as we are in this country?—I think the position is exactly the same. The Fire Service is a service which is provided free where it is required, and the small amount represents payments for special services carried out by the National Fire Service, doing pumping work for a local water authority, or something of that sort.

1977. That may be so in Scotland, but I think I am right in saying that in this country, when a fire takes place, a charge is made for the services rendered?—I think not; not since 1938.

1978. Yes, in England?—I think not, with respect. It has been abolished since 1938.

Chairman.

1979. He is responsible only for Scotland. There is one question I would like to ask you. On page 52, Subhead C is "Fire Prevention," a figure of £800,000. What was that mainly?—That is the reimbursement of subsistence payments for the most part to firewatchers. It falls into two broad categories: Firstly, payments to firewatchers at local authority buildings, where the Secretary of State is the appropriate authority, and, secondly, the reimbursement of payments made to firewatchers on the smaller business premises where the local authority is the appropriate authority.

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

Chairman.] We now have to take some Accounts without Witnesses. Although you have no personal responsibility, Mr. Milne, perhaps you would not mind staying for a moment, in case any Member has a question to raise on any of the Accounts which you are able to answer.

9 May, 1944.] Mr. D. MILNE, C.B., and Mr. C. C. CUNNINGHAM, C.V.O. [*Continued.*]

CIVIL APPROPRIATION ACCOUNTS, 1942.

CLASS III.

VOTE 14.

APPROVED SCHOOLS, ETC., SCOTLAND.

VOTE 15.

SCOTTISH LAND COURT.

VOTE 16.

LAW CHARGES AND COURTS OF LAW, SCOTLAND

VOTE 17.

REGISTER HOUSE, EDINBURGH.

CLASS IV.

VOTE 13.

PUBLIC EDUCATION, SCOTLAND.

VOTE 14.

NATIONAL GALLERIES, SCOTLAND.

VOTE 15.

NATIONAL LIBRARY, SCOTLAND.

CLASS V.

VOTE 16.

BOARD OF CONTROL FOR SCOTLAND.

VOTE 17.

REGISTRAR-GENERAL'S OFFICE, SCOTLAND.

*(On these Accounts no questions were asked.)**(The Witnesses withdrew.)**(Adjourned till Thursday next at 10.30 a.m.)*

THURSDAY, 11TH MAY, 1944.

Members present:

SIR ASSHETON POWNALL in the Chair.

Sir Irving Albery.
Mr. Benson.
Sir George Davies.
Sir John Mellor.

Mr. Pickthorn.
Sir Frank Sanderson.
Mr. Henderson Stewart.
Mr. Touche.

Sir GILBERT UPCOTT, K.C.B., Mr. D. F. C. BLUNT and Mr. C. E. I. JONES
called in and examined.

TREASURY MINUTE ON PARAGRAPHS 29 TO 35 OF THE REPORT OF THE
COMMITTEE OF PUBLIC ACCOUNTS, 1943.

(Copy of letter from Metropolitan Boroughs Standing Joint Committee.)

(Memorandum by the Association of Municipal Corporations relating to paragraphs 33-35
of Report of the Committee of Public Accounts, 1943.)

(Notes by Ministry of Home Security on the Memorandum of the Association of
Municipal Corporations.)

Mr. O. C. ALLEN, C.B., C.B.E., called in and examined.

Chairman.

1980. We have to-day the Ministry of Home Security and our Witness is Mr. Allen, in the absence of Sir William Brown, who I understand is out of the country. Will Members turn first to the Treasury Minute dated 12th February, 1944, on the Report of the Committee of Public Accounts of last year, paragraphs 29 to 35. In the third sub-paragraph, Mr. Allen, of the Treasury Minute it says: "My Lords have no doubt that in the event of further large schemes of this nature being undertaken the Minister will take care to arrange that it shall be an obligation on all concerned to take such measures as will secure that Their Lordships shall be informed as soon as it is apparent, and without waiting for a detailed estimate, that the work is likely to cost substantially more than the approved estimate." Could you comment on that with regard to the position of the Department?—(Mr. Allen.) I think we have taken note of that statement, but happily there has been no occasion to practise the doctrine if the sense of "large schemes" means anything comparable to this tunnel which gave rise to the comment.

1981. In the fourth sub-paragraph the Treasury in their Minute say: "The Minister will note the comments of the Committee in paragraphs 29 and 35 and Their Lordships will doubtless be informed of the outcome of the inquiry into the matter dealt with in the former paragraph." Could you tell us what is the position with regard to the outcome of the inquiry?—The two cases referred to were one in Surrey and two tunnels in a North West Town. So far as the Surrey one is concerned the matter is still active although it is approaching a settlement. The cases in the North West Town, I am happy to say, we have now settled.

1982. Have the Treasury any comment to make on these cases?—(Mr. Blunt.) No. With regard to the case in a North West Town, which has been settled, the Ministry discussed with us the lines on which negotiations should proceed, and I understand that the settlement is in accordance with our ideas of what would be fair and reasonable.

Chairman.] Are there any questions on the Treasury Minute on paragraphs 29 to 35 of the Report of the Committee of Public Accounts, 1943?

Sir George Davies.] There was a little confusion of thought between the liability of the Ministry of Home Security and of the local authorities, if you remember, when the matter came before us previously on the question of certain works done by local authorities, and, apparently, a wrong interpretation—

Chairman.

1983. That comes later, Sir George?—(Sir Gilbert Upcott.) That did arise on the deep shelters. The question you are just coming to is the surface shelter. The liabilities of the local authorities did arise on the deep shelter. (Mr. Blunt.) Yes, and in the North West Town case that is recognised by the fact that in the one case the excess over the estimate was being borne by the local authority and in the other case the Ministry have negotiated a settlement whereby a certain proportion of the cost is left with the local authority.

1984. We pass to a consideration of the Treasury Minute on paragraphs 33 to 35 of our Report, "Defective Surface Shelters." Would you tell us briefly the Ministry's views on this printed Memorandum which has come to us from the Metropolitan Boroughs Standing Joint Committee?—(Mr.

11 May, 1944.]

Mr. O. C. ALLEN, C.B., C.B.E.

[Continued.]

Allen.) I sent the Committee two memoranda, one of which dealt point by point with the memorandum of the Association of Municipal Corporations, the other of which is less polemical and deals with the matter in a more general way. It is not an easy task that you have set me to give you briefly the Ministry's view on this issue, but if I were to try to summarise it adequately I should say that the Ministry does not feel that the local authorities concerned are entitled to complete exoneration any more than the Ministry itself was. We accepted the censure of the Committee on a previous occasion. We do not seek to place any blame that we ourselves ought to shoulder, but we do not think the other people can claim complete exemption from all criticism.

1985. In other words, with regard to paragraph 2 of this memorandum, which reads: "The paragraphs in question are calculated to leave the reader under the delusion that the Ministry may have been blameless," you do not claim in the least to have been blameless in the very difficult circumstances in which you were placed?—No.

1986. To that extent the memorandum is misleading. Could you say whether any advice was given supplementing regionally the advice which had been given in writing?—Yes. I think it is undoubtedly true that at the material time local authorities were telephoning or receiving visits from regional officers, and I am quite sure that the advice was given. I believe the advice given was very cautious advice in the main, and that even when permission was given to use lime mortar without any cement very clear indications were given as to the mixing of that lime in order to ensure a satisfactory job. But I am bound to point out that it happened a long time ago, at a time when I doubt very much whether accurate and full minutes were kept of every conversation, and I can only give my general impression and hope that it is a right one.

1987. Sir Gilbert, have you any comments to make with regard to this rather involved question?—(Sir Gilbert Upcott.) I think the main issue that arises is that the local authorities or their representatives have drawn a number of inferences from the Committee's report of last year. The Committee only expressed one definite opinion, namely, "Your Committee trust that every endeavour will be made in future to ensure that the Ministry's instructions to local authorities are expressed clearly and definitely and are free from ambiguity." The Committee did not express a judgment on the question as to whose was the precise responsibility in all cases for the misfortunes which happened, and, indeed, without a very elaborate series of local investigations I think it would be quite impossible to do any such

thing. It has appeared, of course, since last year, that in the case at any rate of one region a circular was issued which was for a short space somewhat ambiguous; otherwise there is no ground for saying that any general instructions were issued which would justify the local authorities in using insufficient material, and the Ministry itself, in view of the possible ambiguity of their own instructions and of the difficulty of ascertaining any precise responsibility generally, have taken the line that local authorities should only be penalised where there was quite definite evidence of lapse of supervision. I think the Accounting Officer will agree that that is the line which has been taken. The local authorities ask for a very sweeping exoneration of all the very large number of persons and bodies concerned. That I suggest is a duty which does not rest upon this Committee, and in fact it would be one which it would be quite impossible for them to fulfil.

Chairman.] Are there any questions on the Treasury Minute on paragraphs 33 to 35?

Sir Irving Albery.

1988. I would like to ask Mr. Allen this. Would you agree that in any work involving the mixture of cement of some kind, whatever the specification put out, unless there was very careful supervision and more or less expert personnel available to do it there would always be a considerable risk of something being wrong, quite apart from what particular mixture is used?—(Mr. Allen.) If I had known that question was going to be asked I should have had to take technical advice, because I have no practical knowledge of the building trade. I think that is very likely true.

1989. What was rather passing through my mind was this: if suddenly a good deal of work of this kind is put on local authorities, with the difficulties which exist, I take it it would be difficult probably for them to get adequate supervision?—Yes, we have recognised that. For that reason it is only in cases where a very careful investigation has been made and it looks to us as if the degree of supervision, having regard to all those qualifying circumstances, was not what it should have been that we have taken the step of making no grants.

1990. A large measure of responsibility would rest on any ordinary contractor who was given that kind of work to do?—The same qualification applies, that he, too, had his difficulties at that particular moment of time. I imagine not all but many contractors were working as hard as they could to do something in the way of defence works. To that extent they probably had their expert foreman and supervisors also engaged elsewhere.

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

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[Continued.]

CIVIL APPROPRIATION ACCOUNTS (WAR SERVICES), 1942.

CLASS X.

VOTE 6.

MINISTRY OF HOME SECURITY.

Chairman.

1991. We pass to the Civil Appropriation Accounts (War Services) 1942, pages 16 to 18. On page 16 would you please tell us, Mr. Allen, something about the big item, Subhead F, of just over £5,000,000: "Equipment and Materials". What did that mainly go on?—(Mr. Allen.) If you would like that to be gone into in detail—

1992. No, I do not want any detail. I want the main items—anything over, say, £100,000.—I can give you the main classifications if I may.

1993. Yes, please?—In the first group, item 1 is civilian respirators for which the estimate was £10,069,000. In that group the total is £1,544,000 and it covers anti-gas preparations; civilian respirators, civilian duty respirators, protective devices for babies, respirators for small children, respirator helmets, etc. That is the anti-gas group. The next group, which is a matter of £2,000,000, covers other forms of protective clothing, steel helmets, sandbags, and detector paint. The next big item is equipment for various services; medical stores, gear for decontamination centres and rescue parties. Then there is a fairly large item of £260,000 for stirrup pumps. That second group is £2,608,000. Then there is a considerable expenditure in connection with steel shelters—indoor shelters, bunks, concrete shelters, basement shelters and the transport of materials. There is another group—equipment for the various services, shoes, leggings, civil defence garments and breathing apparatus.

Sir George Davies.

1994. Are these all in the £2,000,000 figure you gave us?—No. That is a separate category. Equipment for various services is a figure of £1,235,612.

Chairman.

1995. Subhead I is: "Grants to Local Authorities (including balances for Emergency Fire Brigade Services and in respect of Emergency Water Supplies)". Have you any measure of control over the number of personnel local authorities are employing?—Surely. The establishment is fixed by the Department, both the whole-time and the part-time establishment, which gives us control not only of the payment of wages but the amount expended on uniforms.

1996. I take it there have been appreciable reductions in the personnel which

you allow local authorities now to use in view of developments?—Yes. Within the last few weeks there may have been some slight increase here and there, but by and large there have been very considerable reductions.

1997. You have been pruning it down?—Yes, very considerably.

1998. Subhead J is: "Other Grants"—a figure of over £2,000,000. Could you tell us the main items, please?—The largest item was for air raid shelters in factories—not domestic shelters. That was an estimate of £1,250,000 and an expenditure of £1,038,000. The next big grant was a grant for the obscuration of glare at blast furnaces and works of that kind. Then there was a grant for camouflage.

1999. Camouflaging establishments?—Yes; it is all industrial establishments.

2000. Those are the main items in the figure of just over £2,000,000?—Yes; they are in connection with the air raid protection of industrial establishments—one kind of protection or another.

2001. Three-quarters of the way down, page 17, under the heading "Losses and Compensation—Subhead U," there is an item: "Compensation for loss of use of property and furniture on compulsory evacuation (1,336 cases)," and that was an item of £21,550. What was that?—I take it that I am at liberty afterwards to see that the full details do not go on the record?

2002. Clearly.—It was compensation in connection with the compulsory evacuation of 1,336 cases from certain areas ordered by the War Office to be evacuated. The persons whose property was requisitioned for use by the Army received compensation in the usual way from Army funds, but in the cases where the premises which had been evacuated were not taken over by the Army it was thought equitable to make a corresponding payment to the people who had been displaced. It is the parallel of Army compensation for evacuation for military purposes.

2003. How do you differentiate between those which are done by the Army and those which are not?—The fact of the requisitioning of the properties is the test—after people had gone their property was requisitioned and used. Other people went and their property was not requisitioned and used, but they had suffered losses, and

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[Continued.]

the measure of compensation adopted in their case was the same as that adopted in the case of the Army ones.

Chairman.] Are there any questions on the Account?

Sir Frank Sanderson.

2004. On Subhead J, on page 16 "Other Grants," a figure of £2,000,000; I think you stated that included in that was the cost of air raid shelters in factories. Does that refer to air raid shelters in national factories only?—No. There was an obligation under the Civil Defence Act for industrial undertakings of a certain size in which over 30 or 50 people was employed to provide shelter for their workpeople.

2005. Provided by the Government?—They received a grant towards it. They did not receive the full cost of provision.

Mr. Henderson Stewart.

2006. In order that I may understand how the finance is worked between the local authorities and the Ministry, could you tell us what happens in the case of one example? The example is, we will say, a Morrison shelter. Some people can claim the Morrison free if their income is less than so much; other people are required to pay £7 for their shelter. What happens to that £7, just as an example? It goes to the local authority?—The local authority gets, as it were, an agency fee on servicing the customer, but the balance of the money comes back to the Ministry of Home Security.

2007. Has the local authority first of all paid for this shelter?—No. The local authority gets delivery of the shelter from us, and it retains a fee for the business of transporting and delivering the shelter.

2008. What sort of a fee do you give them for that?—I understand—I should have to verify this—it is in the nature of 5s. per shelter.†

2009. I see, for example, on page 17, amongst the details of receipts, there is an item: "Sale of Shelters and Components," a figure of £163,526?—That represents the £7 per shelter received by the local authorities.

2010. I was wondering about the 5s. items; there must be thousands and thousands of them?—It is probably a set-off in the annual accounts with the local authorities. They send in a statement of disbursements for which they claim grant aid. I will make inquiries, but I should anticipate that the adjustment is then made.

2011. There must be a pretty huge sum of money involved in the sale of those appliances?—I do not want to give the full numbers, but the total number of Morrison shelters is not very, very large, and the number of sales, as distinct from free

† Note by Witness: Where a shelter is sold the local authority receives a fee of 5s.

Morrison shelters, is a relatively small proportion. Most of the shelters go to the people who are entitled to receive the shelters free of cost.

Mr. Benson.

2012. Subhead N at the bottom of page 16 is: "Annuity in respect of Issues under the Defence Loans Acts, 1937 and 1939." I was under the impression that under the Defence Loans Acts it was only the fighting services which were responsible for repayment of loans?—(Mr. Blunt.) It was extended later to this Service.

2013. Was it extended under the 1939 Act?—I think under the 1939 Act; I have not the Act here, but I think it was in 1939.

2014. When was the Ministry of Home Security formed?—(Mr. Allen.) In September, 1939, at the beginning of the war.

2015. Was the second Defence Loans Act after the commencement of the war?—(Mr. Blunt.) It is difficult to carry one's memory back. I am not sure whether the Ministry of Home Security were specified by name, or whether there was a general extension such as would include the Ministry of Home Security. I rather think it was a more general extension. I am relying on my memory, which is rather imperfect on this.*

2016. The Defence Loans Acts have now fallen into desuetude, have they not? They are not used?—They are not used, but the annuity is being carried on. We thought we had better carry on the machinery.

2017. The Defence Loans have finished, save in so far as the repayment of annuities is concerned?—There are no further issues under the Act. All that has happened is that these payments are going on.

2018. How did it come about that this rather clumsy machinery was re-enacted after the war had broken out? I forget?—As I say, it is asking me to go back five years on a subject with which I am not very well acquainted. (Sir Gilbert Upcott.) I do not think the power to issue to other than Defence Departments was post-war; I think it was pre-war. (Mr. Blunt.) I rather think the extension was pre-war. The Defence Loans Act, 1939, was somewhere about May, 1939, if I remember rightly. (Sir Gilbert Upcott.) In fact, £40,000,000 was issued from the Consolidated Fund as an appropriation in aid of air raid precautions. It was then administered by the Home Office. (Mr. Blunt.) Yes. I think it was before the war, when nobody knew quite what was going to happen.

2019. The power rests in the 1937 Act to extend it beyond the three fighting services?—No; the power was taken in the

* Note by Treasury: The Act was in fact passed in March, 1939, and extended Defence Services to include Air Raid Precautionary Services.

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[Continued.]

1939 Act to extend it beyond the three fighting services, I think, but I believe that was a pre-war Act, somewhere about May, 1939.

Sir George Davies.

2020. Mr. Allen, in breaking up the £15,000,000 odd under Subhead Q on page 17: "Shelters: Cost of Materials and Construction," you enumerated a good many items which sounded like material and equipment. Under Subhead F on page 16, what is the figure of £5,000,000 odd for equipment and materials? Wherein do you differentiate between the two headings for equipment?—(Mr. Allen.) The equipment I mentioned under Subhead F was the personal type of equipment—civilian respirators and protective clothing. I mentioned indoor shelters and I mentioned shoes, civil defence garments and a whole miscellany of sums of money. I did not mention and should have mentioned an item of £36,000 which was a reimbursement to the local authorities for materials.

2021. Yes, but there was some quite similar equipment under Subhead Q?—I understand the distinction lies in this, that Subhead F relates to items supplied by the central authority whereas Subhead Q relates to items provided by the local authorities and charged to us. It is a distinction between the central and the local authority supply.

Mr. Pickthorn.

2022. I am not quite sure whether it is Mr. Allen's business, but I know a good many Departments are spending a great deal of money on keeping a sort of historical record, and I wondered whether there was any kind of scoresheet being kept for items of equipment, and particularly for different sorts of shelters; is there a scoresheet showing how many lives Mr. Morrison's shelter has saved and how many it has cost, or Sir John Anderson's,

(Mr. Allen withdrew.)

CIVIL APPROPRIATION ACCOUNTS, 1942.

CLASS VI.

VOTE 4.

EXPORT CREDITS.

SIR FRANK NIXON, K.C.M.G., C.B., called in and examined.

Chairman.

2025. We take the Export Credits Department and our Witness is Sir Frank Nixon. Will Members turn first please to the Civil Appropriation Accounts, 1942, Class VI, Vote 4, Export Credits, pages 251 to 253. On page 251, Subhead C. is: "Payments under Guarantees," and the expenditure was £270,977 more than granted. The Note to Subhead C. is: "Due to large payments on claims resulting from the extension of the war area since the date of the estimate." Could

and so on? Is that being kept up-to-date?—We have full information about the casualties, and even classifications of how they occur. We know of certain examples of the saving of lives directly attributable to the protection afforded by one kind of shelter and another. I would hate to think it was possible to collate so exactly: of so many air raid casualties which have occurred during the war—rather it is the negative, that, of so many lives saved during the war, this number can be attributed to that kind of protection, and so on. Again, it is a general impression, because, as I said, we are keeping a pretty full tally of the raiding casualties, and our Medical Research know a great deal more about how and why they are caused.

2023. You will be able to make a sort of statistical guess at how many hundreds of thousands of pounds it costs to save a life or not?—I think in the last war an attempt was made to show in tons of metal how much each casualty cost, but nobody was very convinced about it.

Sir Frank Sanderson.

2024. Do you keep any statistics showing the number of lives lost due to ineffective shelters?—There is a technical report on any known incident. Five people may have been in a shelter which has been damaged; if it had a direct hit that is certainly just too bad. If, on the other hand, it turned out on further investigation that it was due to some technical defect of construction, that may cause a different inference to be drawn. There was, as you may probably remember, a prosecution in Hammersmith in the case of a faulty shelter. But a very precise analysis of a borderline case is not very easy to make.

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

you please tell us something about that item, Sir Frank?—(Sir Frank Nixon.) Yes. The general understanding in preparing the estimate for this Department is that we do not make provision in advance for quite catastrophic things of that kind, and although we knew we were in the middle of a war the Treasury agreed with our view that we should not load up the estimate with large contingent provisions for things that might or might not happen. Consequently, when the Japanese aggression took place we were involved in heavy payments

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[Continued.]

in respect of transactions in the Far East which amounted to some hundreds of thousands of pounds, and are the chief item referred to there.

2026. Were those the chief reason for the expenditure of £270,977 more than granted, or were they sort of normal things plus the losses in Japan?—Perhaps I could explain that figure of our actual expenditure of £920,977. About one half, roughly, was in respect of payments which we knew pretty certainly in advance we should have to meet in respect of things that had gone wrong a year or two before, and the other half—roughly a half—was this unexpected or somewhat unexpected happening in the Far East.

Chairman.] Are there any questions on pages 251 and 252?

Mr. Benson.

2027. I take it that any allocation from the Vote of Credit reduces the amount that you have to write off the balance shown in your trading account balance-sheet? You actually make greater losses than your balance-sheet will show?—No. The balance-sheet is intended to give a picture of the whole situation. The distinction between the Vote of Credit and the Vote is due to the constitutional channels through which we obtain the money that we need.

2027. You show on this duplicated paper your maximum liabilities outstanding, and you show the balance of income. How does the Vote of Credit allocation enter into those figures?—I am not sure that I can quite connect up the two things. (*Mr. Blunt.*) I do not think it enters into it at all. I think you are looking at the trading account. The allocation as between the Vote and the Vote of Credit has no relevance to it at all. That is merely a matter of the Government cash accounting. (*Sir Gilbert Upcott.*) The Vote is the cash transactions which concern the Exchequer. The trading account, which is the next item, is the display of the transactions on a commercial basis.

Chairman.] We are coming to the trading accounts and the balance-sheets in a minute.

Mr. Benson.] I was trying to find some connection between the two. I am afraid I am rather muddleheaded about it.

Chairman.] It would be better to deal with it when we come to the trading account. It is easier to hark back than to go forward.

Mr. Benson.

2029. I should like to know first of all what are the sources of income of the Export Credits Scheme? First of all, there are premiums?—(*Sir Frank Nixon.*) Yes.

2030. Then there are appropriations in aid. Those are premiums, I take it?—Premiums, and odds and ends.

2031. There is what is borne on the Vote. That consists of the machinery of the scheme—the sellings and the like?—Yes. (*Sir Gilbert Upcott.*) And the losses.

2032. The losses are borne on the Vote?—Payments under guarantees.

2033. They are another source of income?—(*Sir Frank Nixon.*) It does not seem to me very complicated. The Department is selling guarantees. For that it gets a premium; that is its main source of income, and the losses that it has to meet when it pays on its guarantees are its main source of expenditure, apart from staff and incidentals. So far as it can it balances the two. It is only when there is some excess of expenditure over its own revenue from its own business that it has to come to Parliament for money. When it comes to Parliament for money, being a Government Department it has to go through the Vote procedure, and, therefore, it has to show these sources of expenditure and the different sources of revenue as appropriations in aid.

2034. So that what is borne on the Vote is the loss that the scheme sustains?—I think I would like to qualify it: it is the net loss in any particular year.

2035. The net loss in any particular year. Does that mean?—That means that when you make an annual surplus that would have to be surrendered. We cannot set one off against the other.

2036. The net loss in any particular year—that is the actual loss and not the computed loss on that particular year?—Pure cash outgoings. That is the excess of outgoings over income.

2037. So that your trading account is a purely fictitious account? You do not retain that balance. You surrender each year any surplus?—That is so. The trading account has no real existence, but it shows you what the picture would be if this were conducted as a business. (*Mr. Blunt.*) You were asking about a link, and I was wondering whether it might help if one showed that there was a link between the £920,000 cash expenditure under Sub-head C and the trading accounts. If you will look at page 12 of the trading accounts, against the first item there: "Payments under guarantees", you get £431,000; then on page 14, under the War Emergency Scheme you get a figure of £476,000, the two together being about £900,000. There is a further figure lower down on the page of £14,000. Those three together do in fact more or less equal the figure in the Vote Account of £920,000.

Mr. Benson.] That answers my question; thank you very much.

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Sir FRANK NIXON, K.C.M.G., C.B.

[Continued.]

Mr. Henderson Stewart.

2038. On page 252, Sir Frank, I see in the notes: "The following amounts have been written off by the Executive Committee:—Guarantees, £4,598 13s. 9d.; Recovery charges, £4 2s. These losses related to 81 policies spread over 37 countries in respect of 109 individual cases." On the face of it, that looks as if you have had extraordinarily little writing off to do per case, does it not?—(Sir Frank Nixon.) Yes.

2039. Is that normal?—That is fairly normal in these days. The ordinary losses of that kind are in present conditions comparatively small. The big losses are coming through catastrophe occurrences.

2040. What happens in normal peacetimes? It will not be like this at all? You have big losses, do you?—It varies very much. You may get into a slump in one country and find a lot of people default, and then you may have a whole run of losses.

Mr. Henderson Stewart.] Could you give us an idea by and large of what would be the net result of it over the whole period of years?

Chairman.] We have those figures in the confidential statement "Credit Insurance Scheme."

Mr. Henderson Stewart.

2041. Is that the same point?—(Sir Gilbert Upcott.) Yes. When you come to the trading accounts you will see the position that arises on trading over a period of years.

Chairman.

2042. On page 253, on the payment side of the Acquisition of Guaranteed Securities Fund Account, there is an item: "Acquisition of securities," a figure of £1,164,000. What securities do you acquire, Sir Frank?—(Sir Frank Nixon.) I do not know whether the Committee will remember, but this came up a year or two ago and we tried to explain the position. These are securities which are created by the guarantee of the Department. They are mostly the Treasury Bills or promissory notes of various foreign Governments. Our procedure was that we would guarantee within limits agreed a certain number or amount of these notes given by one particular country, and before the war we sold them in the market. In that way our guarantee was turned into cash which was used, under our control, for paying for the export of British goods. We were carrying the risk on these notes.

2043. You have an advisory committee on these matters, have you not?—Yes.

2044. Is it still functioning?—Yes, indeed.

Chairman.] Are there any questions on page 253?

Mr. Benson.

2045. The procedure was that the foreign Governments drew a note and you accepted it. Was not that it?—They issued a Treasury Bill. That was the more common procedure.

2046. You sold those on the markets?—We guaranteed them and sold them on the market.

2047. You guaranteed them. Who sold them?—We sold them.

2048. You issued money to the country which gave you the Bill?—No. They gave us a Bill. We put our guarantee on it and sold it in the market for what it would fetch, and that money was paid into an account which was under our control. We controlled that account to be spent on British goods to be exported to that country. The country, therefore, had paid for them simply by giving this Treasury Bill; that is all it had done. We had taken the risk.

2049. You got a differential rate of interest, did you not?—Yes. We were able to sell these on the basis of British Government rates.

2050. You sold at 3 per cent. and got 5 per cent.?—The borrowing country was naturally paying a higher rate of interest and the difference was in effect our premium.

2051. On the receipts side there is the item: "Advances from the Consolidated Fund." Does that mean you have ceased selling those?—Yes. At about the beginning of the war the Treasury thought it was undesirable that we should be peddling our own form of British Government securities on the market, independent of the general Treasury activities on the market, and, therefore, they arranged with us that they would buy them from us. That is what this Fund is.

2052. Is this Fund just the residue of what happened prior to the war, or have any securities been sold during the war period?—This is what happened during that year. Securities during that year to the amount of £1,164,000 were purchased by the Fund and were sold.

2053. What countries were these?—I wonder if I might ask whether the Committee would be agreeable to the names of those countries not being published?

Chairman.

2054. You will have a chance of seeing the transcript afterwards?—I think that information has not yet been made public.

2055. You will have an opportunity of seeing the transcript and of eliminating anything which you think it would be against the national interests to make public?—Thank you very much.

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

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Sir FRANK NIXON, K.C.M.G., C.B.

[Continued.]

TRADING ACCOUNTS AND BALANCE SHEETS, 1942.

(Confidential Statement on the Export Credits Guarantee Department Credit Insurance Scheme.)

Chairman.

2056. Will Members turn to the Trading Accounts and Balance Sheets, 1942, pages 12 to 17, and with it we have the confidential statement on the Export Credits Guarantee Department Credit Insurance Scheme. I think last year, Sir Frank, we were told that the expectation was that there would be about £1,500,000 on the right side. Could you bring that figure up-to-date?—(Sir Frank Nixon.) Yes. We have gone into this again in the last few days, in order to see whether that estimate we gave was far from the mark, and we find it is working out extremely closely. We think it will be just about £1,500,000.

2057. On page 14, with regard to the payments under guarantees, an amount of £476,000, that I presume is mainly the Far East losses which you mentioned a few minutes ago?—Yes.

2058. On page 15, two-thirds of the way down, there is a note: "In respect of these premiums the Department undertook during the year potential liabilities aggregating £32,716,388 on contracts covering transactions to the value of £63,982,751." Could you tell us something about the nature and duration of these liabilities of £32,000,000 odd?—Yes. They vary, but the great bulk are for goods which are sold on comparatively short terms of credit—consumable goods, such as textiles and similar standard British exports.

2059. So the risk runs off pretty quickly?—The risk runs off very quickly.

2060. A great deal of that risk has presumably already run off?—Yes.

2061. Are they two or three months' risks? Could you say at all how long the liability accrues for?—I have not quite understood that?

2062. For how long do the risks accrue in the average case?—These are short-term policies. We reckon on the average they run through our books and off our books in about two years.

2063. As long as that?—Yes, because of the particular method by which we give the guarantees—taken from the earliest date to the end.

Chairman.] Are there any questions?

Mr. Henderson Stewart.

2064. May I revert to my previous question? Could you tell us shortly what has been the general result of all this from the point of view of profit and loss over the whole period?—Yes. It started in 1926 from scratch. It had no business at all. Its business went up year by year, until the amount insured was round about £100,000,000 a year when the war began.

It had gone up quite steadily. During that time it had accumulated reserves; that is to say, it had met all its expenses and all its losses and put everything else to reserve (it did not have any profits or anything of that kind) and the reserve at the outbreak of the war was just about £4,000,000. That was not an attempt to make a profit. In the few years before the war the advisory council who were responsible for advising us on this knew quite well that there was a grave danger of war, but they nevertheless thought it was their duty to go on helping to get certain selected goods into certain selected markets, and they charged premiums which enabled them to say to the Treasury that they were not carrying an undue risk. When the war began, which they had in that sense foreseen—they knew there was this great risk—they had £4,000,000 with which to meet the catastrophe which suddenly fell upon us, and that catastrophe straightaway led to our being involved in payments of about £2,500,000 out of our £4,000,000. On that picture, when the war broke out, we still had left a reserve, as I mentioned to the Chairman, of about £1,500,000 when all that had been taken into account. The war extended its area still further, and that has involved us in further losses, but it is hardly possible to cater for everything.

2065. This may be a matter of policy, but the idea is that you are proposing to go on with the same policy when peace comes. Is that so? That depends on a lot of things?—I suppose that is the Government's idea, yes.

2066. I might ask you this question: you are planning now for a peacetime effort in the same direction?—The Government are certainly thinking of that kind of thing, yes.

2067. Are people coming to you now and saying: "Post-war we are going to do this, that and the other thing. Will you help us?"—I think the great bulk of traders in ordinary commodities—consumable commodities that are sold on short-term credits—take it for granted that the scheme in some form or another will go on after the war.

2068. Surely the essence of the recent loan to China is that we are going to sell them a lot of goods when the war ends, and therefore, you must be involved; must you not?—If I may go on a little bit—I do not know whether this is entirely official—I think perhaps the problem is going to be what happens on the big sales of capital goods, plant and equipment, where the borrower is fairly impecunious and will want long terms of credit, and the real problem is whether the British nation can

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Sir FRANK NIXON, K.C.M.G., C.B.

[Continued.]

afford to sell large amounts of capital goods on long terms of credit where there is a good deal of risk.

Chairman.

2069. That is a question of high policy, is it not?—Yes. I think it will have to be worked out. To the extent to which those kinds of facilities are made available by His Majesty's Government, some machinery—either the present Export Credits Department or some comparable machinery—will be required to handle it, because nobody else can do it.

Mr. Benson.

2070. Again I am completely fogged by the War Emergency Scheme Account. On the right hand side it says: "Premiums—1940, 1941 and 1942." What exactly do those figures represent? The Scheme, I assume, started when the war started?—It started in 1940.

Mr. Benson.] Are those premiums the residues, or what?

Chairman.] They are surely cash receipts.

Mr. Benson.

2071. Those are in the middle of the Account, on the right-hand side?—Could I try to explain this Account?

2071A. I wish you would?—I have the greatest sympathy with people who do not understand it. We are not responsible for the form of the Account. I will start with the year 1942, which is the year under discussion. I would like to start on the right-hand side. We start doing a lot of business and we get on our new business in 1942 that figure of £315,000 premiums. Those are policies issued during that year. We did not recover any payment under guarantees that year, and we did not do anything else on that side. That was our sole source of income during the year 1942-43. Against that we paid out, under our guarantees, £31,000. We repaid some excess of premiums, and, therefore, we had this balance of £273,000 which shows against the figure of 1942, and that is the whole of our income and expenditure on underwriting during that year, in respect of business started in the year. During 1942-43 (that is this year and this Account) we were continuing to carry on the business we had started underwriting in the year before, so what we put in this Account against the year 1941 is the income and expenditure during 1942-43 in respect of business that we started underwriting in 1941.

2072. On that, why did you receive an income in 1943 in respect of business started in 1941? Do you not receive your premium at the time the goods are shipped?—No. We have all sorts of arrangements, but by and large we get a lump sum deposit when a man insures with us, and

then the rest comes in as the goods are shipped, and so inevitably it flows over two years.

2073. If a man insures £1,000,000 worth of goods and ships those in 12-monthly instalments, you consider the last group of monthly instalments as business of the previous year if the contract has been entered into the previous year?—Yes. We do not regard it as business when the money is paid to us but in the year when the contract is made.

Chairman.

2074. I have been connected with Lloyds for a good many years, and it is exactly the same plan as at Lloyds, is it not?—It is based entirely on the Marine Underwriting.

Chairman.] I have had 34 years' experience there, and it comes easy to me.

Mr. Benson.] I have not.

Chairman.] It is rather complicated at first. Have you finished, Mr. Benson?

Mr. Benson.

2075. I should like Sir Frank to go on; I am quite prepared to listen. There is just one other point. The premiums in 1940 were approximately £3,000 in this Account?—Premiums received during 1942 in respect of business underwritten in 1940.

2076. If one wanted to construct what you had done one would have to have the three accounts for the three years?—One of my colleagues picked it out for me. There it is—each year separately (*document was handed to the Honourable Member.*)

Chairman.] Each year is treated as a separate entity, the premium being received in subsequent years in respect of the first year.

Mr. Benson.

2077. There is one other question and that is with regard to the premiums of 1942 on which there is a note (a) which says: "In respect of these premiums the Department undertook during the year potential liabilities aggregating £32,716,388 on contracts covering transactions to the value of £63,982,751." Does that mean that the insurers merely took cover for approximately 50 per cent. of the business that they undertook?—No, it does not work out quite like that. May I give you an example? One of our friends in Manchester who is exporting piece goods comes to us and says: "I estimate that I am going to sell £100,000 worth of goods this year."

2078. Abroad?—Abroad—yes, entirely abroad; he says: "Will you insure me?" We say: "We will give you a 75 per cent. insurance." He says: "This will not all be going out at once. I send my goods out whenever business requires them to be sent out. They will normally be on

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[Continued.]

about three months' credit, so that I shall have about a quarter of my money outstanding at any time—perhaps a bit more, because of delays in shipments; I might have as much as half. So, when the year has got up into its full swing, I may be owed about £50,000 by my customers." We say: "75 per cent. of that is £37,500; we must put in our policy some limit to our liability; we will give you a limit of £35,000 or £40,000." We negotiate with him about that, and that will cover him on his outstandings. We fix a figure in agreement with him. That is not difficult. We are always prepared to meet him on these things. But it is generally about half the face value of the policy. Now in this note we have to write in the face value of the policy, the £100,000, and all those figures add up to £63,000,000, but our maximum liability adds up in this case to £32,000,000.

2079. If I understand it rightly it is this, that there is a steady outflow of goods which may amount to £1,000,000 in the year, but at any one time the maximum loss—owing to the fact, that certain goods have been previously paid for and

the accounts closed—a merchant is liable to is, say, half or one-third of his total export?—In this particular case. It varies from trade to trade.

2080. He is being paid every three months?—Yes; some money is always coming in.

2081. Some money is always coming in. His outflow is steady, and, therefore, his liability to potential loss at any one time is only a fraction of his total turnover?—Yes. Where the shoe pinches is that before the war he might have to go to his banker and say: "Will you advance me money to carry on my business?" The banker would look at this and say: "You need your advances up to a limit of £40,000." We try to insure that limit.

2082. In other words, because his money has been turned over regularly during the year you insure what you might term his turnover at any one time?—The debts outstanding to him at any one time.

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

VOTE OF CREDIT APPROPRIATION ACCOUNT, 1942.

EXPORT CREDITS GUARANTEE DEPARTMENT.

Chairman.] We pass to the Vote of Credit Appropriation Account, to page 11, Service 43. There are some figures on the top of page 11 relating to various Governments. I have no questions to ask.

Mr. Benson.] These, I take it, are defaults?

Chairman.

2083. They are payments made?—(*Sir Frank Nixon.*) They are payments made.

Mr. Benson.

2084. Is the payment written off definitely, or do you hope to recover?—There is a large element of hope in all our business.

2085. You do not write it off if you feel that you may have a bad debt?—We do not write it off finally.

Chairman.] Thank you very much, Sir Frank.

(*The Witnesses withdrew.*)

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

TUESDAY, 16TH MAY, 1944.

Members present:

SIR ASSHETON POWNALL in the Chair.

Sir Irving Albery.
Mr. Benson.
Sir Edmund Brocklebank.
Sir George Davies.
Mr. D. O. Evans.
Mr. Glenvil Hall.

Sir John Mellor.
Mr. Pickthorn.
Sir Frank Sanderson.
Mr. Henderson Stewart.
Mr. Touche.

Sir GILBERT UPCOTT, K.C.B., Mr. H. BRITAIN, C.B., Mr. C. E. I. JONES
and Mr. P. D. PROCTOR, called in and examined.

TREASURY MINUTE ON PARAGRAPH 9 OF THE REPORT OF THE COMMITTEE
OF PUBLIC ACCOUNTS, 1943.

Sir CYRIL HURCOMB, K.C.B., K.B.E., called in and examined.

Chairman.

2086. We have to-day the Ministry of War Transport. Our Witness is Sir Cyril Hurcomb. Will Members turn first, please, to the Treasury Minute dated 12th February, 1944, on paragraph 9 of the Report of the Committee of Public Accounts last year: "Road Fund. Extra-contractual Payments." This is a matter with which we dealt at some length last year in regard to an alleged excessive payment. Could the Treasury kindly confirm that they are

satisfied with the new arrangements with regard to this difficulty that arose last year?—(Mr. Britain.) Yes, I think they have been distinctly clarified now, and there ought to be less opportunity for misunderstanding between ourselves and the Ministry of War Transport.

2087. Such as happened in the year before on that particular question?—Yes.

Chairman.] Are there any questions on the Treasury Minute on paragraph 9 of our report of last year?

CIVIL APPROPRIATION ACCOUNTS, 1942.

CLASS VI.

VOTE 10.

ROADS, ETC.

Chairman.

2088. Will Members turn to the Civil Appropriation Accounts 1942, page xiii, paragraph 33 of the Report of the Comptroller and Auditor General: "Road Expenditure of an abnormal character or outside the scope of the Road Fund." There has been a change of procedure in regard to where this expenditure is borne. Could you please explain to us, Sir Cyril, something about the change that has taken place?—(Sir Cyril Hurcomb.) Yes. As was explained in a footnote to the Estimate, road expenditure of an abnormal character or expenditure outside the scope

of the Road Fund incurred for war purposes was to be made chargeable to the Vote of Credit. That has now been done.

2089. The Ministry, of course, is responsible for seeing that the expenditure is economical?—Yes.

Chairman.] Are there any questions on paragraph 33? Paragraph 34 is purely formal. Are there any questions on that paragraph? We turn to the Account which is on pages 276 and 277. I have no questions to ask on the figures. Has any Member any questions to ask? May I take it that the Account is approved? (*Agreed.*)

ROAD FUND ACCOUNTS, 1942.

(*On this Account no questions were asked.*)

CIVIL APPROPRIATION ACCOUNTS, 1942.

CLASS VI.

VOTE 2.

MERCANTILE MARINE SERVICES.

(*On this Account no questions were asked.*)

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Sir CYRIL HURCOMB, K.C.B., K.B.E.

[Continued.]

VOTE II.

MISCELLANEOUS TRANSPORT SERVICES.

Chairman.

2090. Will Members turn to pages 278 to 283 of the Civil Appropriation Accounts. On page 281 in the Caledonian Canal Account of Receipts and Payments for year ended 31st March, 1943, there is an item on the Payments side: "Emergency lighting," a sum of a little over £9,000. Could you please tell us about that, Sir Cyril?—(Sir Cyril Hurcomb.) That is due to the necessities of the war. We have to keep the canal lighted under special arrangements. It is, of course, a non-recurring item of expenditure. It will cease with the emergency period.

2091. I notice on the previous page, page 280, what is evidently a misprint. If you add up the receipts you will find the figure does not come to £7,008. "Rents" should be £4,534 instead of £5,434. I do not know whether any Member noticed that?—They have got transposed in the printing. (Sir Gilbert Upcott.) It is one of those mysterious mistakes which creep into printing in these days.

It occurred in the later stage of printing. It was right in the proof.

Chairman.] Are there any questions on pages 278 to 283?

Sir George Davies.

2092. On page 282 in the Crinan Canal Account there is a small item of £703 for dredging. Is that because in normal times the dredging is assumed by a company and the cost thereof now has to be undertaken by the Government for war conditions, or is that emergency work?—(Sir Cyril Hurcomb.) I think that is part of the normal maintenance of the canal.

Mr. Henderson Stewart.

2093. Who owns that canal?—The Government owns it. It is vested really in the Ministry of War Transport.

2094. Does the same apply to the Caledonian Canal?—Yes.

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

CLASS VIII.

VOTE I.

MERCHANT SEAMEN'S WAR PENSIONS.

(On this Account no questions were asked.)

CIVIL APPROPRIATION ACCOUNTS (WAR SERVICES), 1942.

CLASS X.

VOTE 14.

MINISTRY OF WAR TRANSPORT.

Chairman.

2095. Will Members turn to page xxxv, paragraph 92 of the Report of the Comptroller and Auditor General: "Fishing Vessels: Compensation for Loss or Acquisition, and Insurance against Loss." Could you please tell us, Sir Cyril, why there are differences between this scheme and those for ordinary Mercantile Marine ships such as tramps, for instance?—(Sir Cyril Hurcomb.) We had a great deal of discussion with the Fishing interests and the trawler owners, and it was a long time before we were able to get them to accept the principles of the Government Tonnage Replacement Scheme at all. When that was done they represented that the circumstances of their industry were really very different from those of the general ocean-going or even coasting shipping and that some modification in the scheme was necessary. After full consultation with the Ministry of Agriculture and Fisheries and

the Scottish Office, we agreed. The main difference is that the moneys which are paid into the Deferred Account are to be applied not necessarily to the replacement of trawlers but to some scheme for the development and revival of the fishing industry. The particulars of those schemes will require approval, and if there were no scheme the Minister of War Transport would have discretion as to how he would release the credits to owners, and, if he released them, on what conditions. We thought that was a reasonable modification in the general principle of the Tonnage Replacement Scheme, well suited to the circumstances of this quite special industry.

2096. Replacement on the lines of the Mercantile Marine Scheme would not lend itself to fishing vessels?—That is by no means excluded, but there is some latitude here. If that does not fit the case in relation to every owner then it is open to them to put up a scheme which must still have

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[Continued.]

for its objects the restoration, improvement and development of the fishing industry.

2097. Plans have not yet been formulated, have they?—No.

2098. They are still under consideration. Could you tell us what the liability incurred to date is?—I am not quite certain what you mean by liability, but the amount that has been put into the Deferred Payments Account up-to-date—

2099. That is what I mean?— . . . is about £600,000 in round figures.

2100. The figure that has accumulated to their credit is about £600,000?—Exactly

2101. In the second sub-paragraph of his report the Comptroller and Auditor General says: "The sums credited in the Deferred Payments Account bear interest at 3 per cent. per annum from the date of loss or acquisition." Is that treated as on capital account or is tax at 10s. in the £ to come off that?—No, that is accumulated in the Fund.

2102. Does it accumulate at 3 per cent. or at 1½ per cent. net, after paying tax?—It accumulates to the advantage of the Fund and is not liable to tax.

Chairman.] That is what I gathered. I was not quite sure on that point. Are there any questions on paragraph 92?

Sir George Davies.

2103. In the second sub-paragraph of paragraph 92 the Comptroller and Auditor General says: "The deferred payment is calculated at percentages rising from 3 per cent. to 25 per cent. of the basic value, according to the date of loss or acquisition." What is the basis upon which this sliding scale is fixed?—Generally we took the vessels which were in existence at the beginning of the war and agreed basic values for those, and increased values were fixed at 25 per cent. of the basic value, which, as the Committee will no doubt remember, was broadly the precedent adopted for shipping in general under the Government Tonnage Replacement Scheme. That applied from June, 1940. Requisitioned vessels lost earlier than that date were given proportionate increases, varying according to the date of loss, and the percentages varied from 24 per cent., or slightly less than the general rate for vessels lost in May, and ran down to 3 per cent. as you travelled back to the early days of the war. We have made no further upward increases in the increased values since the scheme was brought into operation.

2104. In the closing sentence of his paragraph the Comptroller and Auditor General says: "In the event of failure to arrive at an approved scheme" and so on. Are steps already under way to approach an approved scheme, or has nothing been done?—That has not yet been discussed. I do not think anybody can foresee what the

position will be after the war, how many of the trawlers will survive, how many of them will have a useful further life for fishing, or what will be needed to restore the fishing industry; but at the right moment we shall discuss that both with the fishing industry, and, of course, with the Minister of Agriculture and Fisheries.

2105. The real basis on which such an approved scheme can be founded must await the end of hostilities before you can really know anything to get ahead, even in a preparatory way?—I think so. No doubt the industry is turning it over in their minds, and I do not see how in present circumstances one can usefully try to formulate a scheme.

Mr. Benson.

2100. Why is it necessary to have a special scheme for trawlers? If you compensate on a proper value it does not matter whether the ship is a trawler, a tramp or a liner, does it?—Broadly, the basis is very much the same. As I explained, the difference is in the purpose to which the accumulated moneys can be devoted when the time comes to release them. At the moment the trawler owners are unable to replace their ships. So long as the money is held in trust for the future of the industry I think the situation is properly safeguarded. There is no reason why the money should not be applied to replace the lost vessels.

2107. I am not quite clear on what basis you calculate this sliding scale. If I understood you correctly, the earlier the ship was lost the smaller is the percentage added to the basic compensation. Is that right?—Yes, because there was a rising scale of values in relation to any test of value during those months, and as we fixed 25 per cent. as being the appropriate increase in June, 1940, the vessels which had disappeared at some earlier date had to take a lower value.

2108. Your basic figure is the value at 1939? Is that correct?—The basic value varied with the size and age of the ship.

2109. Based on 1939 prices?—It was based on estimated building costs in 1939, depreciated for each year of age. Ships were of varying ages, but we said: "What would it have cost in 1939"? If it was built 10 years earlier we wrote down the necessary depreciation.

2110. It was based on 1939 prices?—On 1939 building costs.

2111. If that is a reasonable basis for compensation why do you add 25 per cent. if the ship was lost some nine months later?—The compensation is made up of the two elements, both the basic and the increased value, and, as the Committee are aware, and as has been explained to them in previous years, the general settlement of this question of values, which was done as an agreement with the shipping

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[Continued.]

industry, had to have regard to a great many circumstances, and the values that were agreed were regarded as fair and reasonable for the purpose. They were not tied in any way to any particular level.

Mr. Benson.] But if the purpose of this additional grant is the replacement of the fishing fleet, the question whether a ship was lost in January or June is immaterial, and the actual loss suffered is immaterial, because there was no question of replacement. I still fail to understand why a ship lost in June should be compensated 25 per cent. and a ship lost in January at, say, 3 per cent. or 4 per cent. There seems to me no rational basis for it.

Chairman.

2112. Can you add anything further to the answer you have already given?—I do not think I can make my previous answer any clearer.

Mr. Benson.

2113. With regard to this Fund, will the whole of the Fund be paid out?—The Fund will be held and, as the Comptroller and Auditor General has stated, the manner and conditions under which the money will be released eventually will be determined after the war by a scheme for restoring and developing the fishing industry, if one is agreed, and if no scheme is agreed then it will be open to the Minister of War Transport to determine on what conditions he will release the moneys standing to their credit to the individual owners.

2114. Why was this 6 per cent. gross regarded as reasonable interest? Comparing that with the War Damage payments, value payments bear $2\frac{1}{2}$ per cent. less tax and less future contributions. Why is shipping treated so much more extravagantly?—I do not think it is treated extravagantly. The circumstances are not the same. No other industry, so far as I know, has had its compensation split into two parts in this way and had part of it held for a particular purpose like this.

2115. As regards the War Damage contribution, the whole of it is held, and the value payment carries with it $2\frac{1}{2}$ per cent., less tax and less War Damage contribution in the years after the damage took place?—Is not that quite different? This is a case where the ship has been requisitioned by the Government for its own use.

2116. No, it is a question of compensation for loss suffered, surely?—It is compensation for loss suffered through the requisition of the assets by the Government.

Mr. Benson.] If you like to draw a difference, well and good. That still does not explain why 6 per cent. gross is added to the Fund as reasonable interest.

Chairman.] Mr. Benson, the Treasury might be able to help you on this. They presumably agreed.

Mr. Benson.

2117. The Treasury apparently are equally guilty. Has Mr. Brittain anything to say on this point?—The Honourable Member realises that the interest remains in the Fund till the end of the day. It is not income from the point of view of the shipowner. He has to hold it for eventual replacement as a capital transaction.

2118. I am fully aware of that. The point is that the Government is adding 6 per cent. gross to a fund, and I venture to suggest that there is no other fund to which the Government regards itself bound to pay 6 per cent. interest?—The Treasury approved this at the time. (Mr. Proctor.) The figure is 3 per cent.

2119. Three per cent. free of tax, which is equivalent to 6 per cent. gross?—I do not think it has been specified whether it is free of tax or not.

Mr. Benson.] Sir Cyril said that it was.

Chairman.

2120. I asked that question and I was definitely assured that the 3 per cent. was a figure which did not have to bear tax?—(Sir Cyril Hurcomb.) I spoke from recollection. That certainly was my understanding. (Mr. Proctor.) I would not like to say which way it was. I should say that it is a matter for the Revenue authorities. What the Treasury and the Ministry of War Transport were concerned with here was to fix what the rate of interest should be at which the Fund accumulated—that is 3 per cent.

Mr. Benson.

2121. It is very simple to find out whether tax has been deducted or not?—(Sir Cyril Hurcomb.) That is certain, and I ought perhaps to say that this Fund is a purely notional fund.

Mr. Benson.] Yes; all Government funds are notional. They have only one pocket. But if notional money goes into a notional fund, when the money comes out of it it is no longer notional, and if 3 per cent. net has been added to the fund that may be notional until it is paid out, and then it will be actual. May we have a note from the Treasury on the actual rate of interest?

Sir Frank Sanderson.] On that point, is not the answer this, that this is capital and not income? If it were income, income tax would be deducted, but it is capital, and to be added to the original price in order to replace the ship.

Mr. Benson.] 3 per cent. per annum on a given sum may be called "capital" but it looks suspiciously like interest.

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[Continued.]

Chairman.] It would be interesting to have it definitely after it has been considered.

Mr. Henderson Stewart.

2122. I find it difficult to follow how this is going to work. I represent a fishing constituency. Suppose the drifter of one of my fishermen from East Fife is destroyed this year—a drifter which has been acquired by the Government—on your system of paying out rent or an annual sum for it, that owner gets a lump sum. In addition he is credited in this Fund with a certain amount, representing something between 3 per cent. and 25 per cent. of the assessed value of the ship. This Fund to which he is, therefore, contributing, is to be used for the restoration and development of the fishing industry after the war?—When you say “to which he is contributing” part of his compensation is impounded.

2123. Were he not contributing he would have it in his pocket. It is his money that is making the Fund, I think. But out of the Fund, he is told, he is going to get some money after the war. My difficulty is this: Take this individual fisherman,—is it fair that his money in effect should be used for the general benefit of the fishing industry?—If I may say so, surely that question will arise when the industry put up the scheme. It was they who wanted this provision; we did not. We should have been quite content to apply the ordinary provisions relating to all other shipping, but they were extremely obstinate about it. We argued about this for months and months and months. Eventually they said they would accept the principles of the Replacement Account, provided there was rather more latitude as to the way in which the accumulated sum should ultimately be used. It is no hardship or infliction that we forced upon the trawler industry; it is what they wanted. If, when the time comes, they are unable to agree or to formulate a scheme which will commend itself to the Departments primarily concerned, namely, the Ministry of Agriculture and Fisheries and the Scottish Office, then we shall have to fall back upon the other and normal method of releasing to each owner, on proper conditions, the money which is held in effect in trust for him.

2124. I quite understand why the trawler owners argued for that, because the trawlers, as you know, are run by one or two large companies. But my fishermen individually are drifters, and, therefore, it is a different set of circumstances altogether. You can see Mr. Smith being very annoyed if he discovers that the £150 that is left to him in the Fund is to be used for the general benefit of all fishermen, and he is not to get it, especially when he knows that there will be a scheme after the war to lend fishermen money to buy new drifters. The Herring Committee, which has just re-

ported to the House, makes that recommendation. My question is: Were the herring and drifter owners consulted before this scheme was arrived at?—Yes. We consulted the Associations (I cannot say that we consulted every individual owner) and they have accepted the scheme. They have all accepted the scheme, and I venture to suggest that the answer to anyone who might feel aggrieved is that the scheme has to be settled by the representatives of the industry itself in consultation with the Ministry of Agriculture and Fisheries and the Scottish Office. I think they must assume that those Departments will not approve a scheme which is either against the general interest of the fishing people or in any way unjust or unfair to individuals. (*Sir Gilbert Upcott.*) Perhaps I might remind Mr. Henderson Stewart that Parliament will have to be asked to vote this money when the time comes.

Sir Frank Sanderson.

2125. On the same point, in the last sub-paragraph of paragraph 92 the Comptroller and Auditor General states: “The manner and conditions under which the payments will be made are to be determined by a scheme for the restoration and development of the fishing industry after the war.” Do I take it from that that there is in fact no obligation to the trawler owner or the shipowner to replace the ship which has been lost?—(*Sir Cyril Hurcomb*): No, but in the absence of a scheme he might fail to induce the Minister to release his credit.

Sir Frank Sanderson.] There is no obligation upon him, but there is a strong inducement.

Mr. Henderson Stewart.] This is a new point. What Sir Cyril has said now is that unless the owner and his friends accept the scheme the Minister may say: “You are not going to get your money at all.” That is a very new fact.

Chairman.] It is most unlikely to arise, is it not?

Mr. Henderson Stewart.

2126. Is that really what you mean?—It is certainly so with the general Government Replacement Tonnage Account for shipping in general, and I think it is so here. I will make quite sure of that.*

Mr. Pickthorn.] It is stated in the third sub-paragraph of paragraph 92 on page xxxv.

Chairman.

2127. “The Minister of War Transport may release the credits.”—Yes—“may” release them on conditions!

Mr. Pickthorn.

2128. There are two questions I would like to put to you. I am not sure whether one of them is the business of the Committee or of the Witness. It arises out of

*Paper circulated to Members; not printed.

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[Continued.]

one of his answers. Sir Cyril said he did not think it was possible to draw up a scheme during wartime. Does he really think this industry is more complicated than the educational system or international currency?—I do not know what proportion of the fishing fleet will survive after the end of the war; I do not know what physical condition the ships will be in when they come to be handed back after they have been used for mine-sweepers and for every conceivable war use; I do not know what the fishing owners will say as to the type of ship or gear they will want for the future, or the volume of it, or how it will be distributed amongst the various trades; and I certainly feel myself quite incompetent to start up negotiations with them as to what lines this scheme is to take, if there is to be one. I think I have discharged my Departmental responsibility sufficiently by saying that we have been careful to leave that to the Ministry of Agriculture and Fisheries and the Scottish Office, and if those two Ministers think, as a matter of policy, in the current year or at any time before the end of the war, they ought to open up this question with the industry and try to formulate a scheme, I am sure they will do so. My business is to see that meanwhile the financial aspects of it operate according to the intention, and by holding the money in the Deferred Account or Trust Fund I submit to the Committee that I am doing all that I can be expected to do about it.

2129. My second question arises out of Sir Cyril's last sentence—the financial operation of which he speaks and the intentions governing it. Is not the intention that there shall be in this Fund at the end of the war enough money to build them as efficient a fishing fleet as there was at the beginning of the war? Is that the governing intention?—No, we provide only in part for that object. That is an object we wish to see secured, and by tying up this proportion of the total compensation we have, as I said just now, put very strong pressure on and offered very strong inducements to the owners to replace their ships; but we have not, of course, retained control of the basic element in the total compensation.

2130. Is not the fixing of the proportion to which you referred just now in your first sentence in effect a guessing—a perfectly proper guessing—about the factors which you told us just now were so unpredictable that at present it is not worth considering them?—It had in mind the cost of replacement.

2131. Is the object of the 3 per cent. that the Fund should increase at the rate at which the £ depreciates?—No. The object of the Fund was that, as we said, "we will pay you this compensation as from the date from which you lost the

ship, but on the part of it in the fund we are bound to pay you interest on money to which you could have laid claim as from the date of loss." The owner is entitled to compensation, of course, as at the date when his asset is destroyed. As we do not pay him his compensation at that date we are bound to make him some allowance for interest during the period when it was held in this account for him. Whether there is some point which one of these days Somerset House will want to pursue about the rate of interest I do not know, but I hope I have satisfied the Honourable Member that it was right to allow interest from the time the owner became entitled to the payment.

Chairman.

2132. Are there any further questions on paragraph 92? We pass now to the next paragraph, paragraph 93, "Ship Repair Facilities Abroad." Could you please tell us, Sir Cyril, why it was necessary to have a limited liability company to do what the Ministry could really quite well have done for itself in the Middle East?—I would not say that it was necessary to do this under the form of a limited liability company, but we felt that in the special circumstances it would be at least an extremely convenient course. I would like to say at once that in adopting this method we have not really weakened our control in any way or withdrawn the operation of this concern from the control and review of the Comptroller and Auditor General. Indeed, I think he says that we have already undertaken to make the accounts available to his officers. I would go further than that and say that we should be very glad indeed if his officers in the Middle East were able to go and look at these accounts.

2133. What are your own financial control arrangements over this company?—The capital of the company is purely nominal and all the directors are Government servants. We have, fortunately, as our representative in Cairo a very able and experienced shipowner to whom this project is really due. If I might just mention how it arose I would like to do so. He became aware that there was certain mining plant in Cyprus—lathes and things of that kind—which was not being utilised and which could make the nucleus of a small ship repairing concern, and he himself went over to Cyprus and eventually got this plant transferred to Haifa and got this company going. I have discussed it with this gentleman, Mr. Murrant, when he was back in this country, and he assures me that it is not only very useful indeed but it is a great reinforcement to him in being able to deal with the various other commercial concerns in that area. It gives us some small alternative to being in the hands of the people on the spot, and it gives us some measure of finding out what this kind of

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[Continued.]

work really need cost, and it is as closely controlled Departmentally as if it were itself a piece of Departmental organisation. I think the commercial form has certain other advantages. We want to keep it on a commercial basis; we want to be able to charge neutral countries a commercial price for any work we do in the East, and though I agree that it is a somewhat unusual form of organisation to adopt, it seemed to us there could be no objection to it and many advantages.

2134. I notice that Treasury approval was obtained. Have the Treasury any views on this rather uncommon departure?—(Mr. Proctor): We accepted the arguments for this form of organisation very much as Sir Cyril has just put them forward. We thought they were conclusive.

2135. What security, Sir Cyril, have you for sums advanced—the fact that you have the Board?—(Sir Cyril Hurcomb.) And of course we have the site, the plant and the earnings of the undertaking.

2136. Could you tell us how much has been borrowed up to date? There was an initial £10,000?—The capital expenditure up till the 30th June last year was £71,000, covering buildings, workshops, plant, machinery, equipment, furniture and things of that sort. By the end of July the total value of work done and in progress was about £116,000. (Sir Gilbert Upcott.) I have a rather later figure. According to my information the advances up to the 30th November amounted to about £144,000. (Sir Cyril Hurcomb.) That is about right. I had left out work in progress.

2137. And what was the work in hand up to that date?—We have got well beyond the year of account which is under review. I have not the figure. (Sir Gilbert Upcott.) I might mention a point upon which the Accounting Officer might be able to assist me. I appreciate that there may be advantages in this enterprise taking the form of a commercial company, but, from my point of view, there is a disadvantage in that commercial organisations are sometimes later in making up their accounts than Government Departments, and I hope the Accounting Officer will be able to obtain accounts of this expenditure at a rather earlier date than would be usually the case in the ordinary form of commercial account. (Sir Cyril Hurcomb.) I will give instructions to our representative to do all he can there, and perhaps Sir Gilbert's local people would see him on the matter, because I am sure that he would be only too anxious to give every possible facility.

2138. In the last sub-paragraph of paragraph 93 of the Comptroller and Auditor General states: "It is intended that the charges made for repairs to Ministry-controlled vessels shall be assessed to cover actual costs and that charges for work done to other vessels should contain an element of profit." Is it too early yet to say

whether there will be a profit to be included?—We should only be doing work for ourselves and the Admiralty at cost and getting a proper commercial rate of profit—a reasonable but still proper rate of profit on any work we happened to do for other shipping.

2139. It is too early yet to say whether you have been successful in regard to that?—Yes, but I have no doubt we shall be. I have discussed this with Mr. Murrant and he is very anxious, when the time comes to liquidate this concern, to be able to say it has been kept on a proper even financial keel.

Sir George Davies.

2140. Was the decision to establish this special company arrived at because there was a lack of facilities, or because you had reason to think that local undertakings were holding you up in regard to price?—Of course, this is a very small thing, but the prices for work done abroad now, and for ship repairing, are very heavy indeed and we were therefore glad of any opportunity to do something direct in this way, and also to get the material for knowing what it really need cost. That was the first thing. Secondly, the aggregate facilities are hopelessly inadequate to the need, and, therefore, again, any augmentation was valuable. Thirdly, we do owe it to Mr. Murrant's assiduity that he saw this opportunity, and the Naval people in the Eastern Mediterranean knew of this plant in Cyprus and said they would help us to get it away. So it was a combination of all three circumstances. We wanted some direct means of checking work; we wanted to increase the facilities and we saw a chance of utilising valuable plant which was just idle.

2141. The facilities were, without this, inadequate for the work and in addition I gather, from what you say, that there was an unjustifiable holding up for high prices that you wanted to break?—I put it the other way—not a holding up, but prices are very high, and any means of checking them and of ascertaining what they need necessarily be was valuable even on a small scale.

2142. On the other hand, it is hardly comparable with an organisation with Government backing, which undertakes that no profit element shall be made on Government work, and then having got itself established competes with others with regard to outside work for which they are allowed to charge a competing profit. That may be all right if the facilities were inadequate, but if facilities have been developed in this way one wonders whether it has been completely an economic proposition, unless the overruling idea was that facilities were inadequate and that you had ideal facilities in Cyprus.—The ship repairing facilities throughout the world are lamentably inadequate to repair the damage which the war has caused and is causing. We could have left these

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lathes and things idle and useless in Cyprus. We took the other view and thought that if they could be got to Haifa, where there were no facilities for repair at all, it would do something to ease the strain. I confess I should be completely impenitent if this had the result—I do not say it has had it—of helping us to check the prices which we might otherwise be charged by someone who has a ship repairing establishment in Egypt or in Palestine. If it has that result, as I say, I do not think we need feel we are indulging in any unfair competition with outside enterprise. That would be a very mild way of stating the case. If we were thinking of stopping in business after the war it would be quite another matter, but we are not, and I venture to say that that is another useful argument for having done this under a commercial type of organisation which we can liquidate very easily when the time comes.

2143. Has the engagement in outside work, apart from Government work, for which you charge a reasonable profit, resulted in the cutting down of what had hitherto been the costs of such work from the other competing firms?—I do not want to put that too high. I merely said it was very useful for our representative out there, who has to negotiate on the ship repairing bills each day, to have something under his own eye and to be able to say: "I know what that job can be done for". In the hands of an able commercial man that is a very useful lever; but I do not want to claim that it has had any very great effect yet. This arrangement is of a very limited scope, as the Committee see from the figures I have mentioned.

Mr. Benson.

2144. I agree that Sir Cyril has put up quite a reasonable case for the limited company, in that he wanted to charge our Allies?—I certainly did not say that. I said if we did any work for neutral or outside interests.

2145. We have had one or two cases recently of Government Departments establishing limited companies. Could the Treasury give us some indication as to how many limited companies have been established by the Government since the war started?—(Mr. Brittain.) I could find out if the Committee would like to know. I cannot answer the question at the moment.*

2146. If it runs into large numbers I should like to know. If it is a few then it does not matter.—(Sir Cyril Hurcomb.) May I submit to the Committee that this is merely a matter of form. The share capital consists of 10 Palestinian pounds divided into two ordinary shares. There are five directors who consist entirely of representatives of the Ministry of War Transport and the Admiralty.

* Paper circulated to Members: not printed.

Mr. Benson.] I am not objecting to this particular company, but we have had other Departments who have also set up limited companies.

Chairman.] It is a question of precedent, I think.

Mr. Benson.] If it is not too much trouble, and the information is easily available—I do not want to put the Treasury to too much trouble—I should like to know the number.

Mr. D. O. Evans.

2147. You say there are five directors all representing the Ministry?—The Ministry of War Transport and the Admiralty, but in fact it is run by our representative.

2148. Are they Civil Servants?—They are not whole-time Civil Servants. Mr. Murrant is the Ministry of War Transport's principal representative in Cairo in the Middle East and the others are Naval authorities.

2149. Would you say that the management of this concern is in the hands of experienced people who know something about ship repairing?—It is in the hands of people who know a great deal about ship repairing, and the Superintendent and technical staff have been very carefully chosen and sent there because of their knowledge of the business.

2150. What proportion, so far, would you say, of the ship repairing of controlled ships is done by this company? Is it a very small proportion?—It is an absolutely negligible proportion. It is a small useful check and device for helping somewhat the difficulties of an extremely difficult area, where the facilities for repairing ships are, outside the big Egyptian ports, almost nil.

2151. Can you tell the Committee whether, as a result of establishing this company, in fact the cost of ship repairing has gone down?—I can only say that Mr. Murrant assured me that he has found this a very useful lever, because it furnishes him with knowledge of what this work need cost in that area.

Mr. Henderson Stewart.

2152. Suppose your Department had established this organisation itself directly with Mr. Murrant in command and with all his technical assistants doing the same kind of work, what difference would it have made?—I do not know that it would have made very much difference, but it is not really part of our business to be running a ship repair yard, and I think perhaps if we had done it as part of the ordinary Departmental organisation we might have been even more open to criticism for setting up in business ourselves in a direction which is not directly within our own sphere.

2153. Even with a Ministry of War Transport yard you could still have done work for neutrals and charged them what price you liked. I am not quite clear why

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you adopted this organisation at all—never mind about the criticism?—It is something outside our ordinary beat. It is a purely commercial operation, and it seemed to us (and the Treasury agreed) that there were advantages in doing it in a commercial form.

2154. Everybody out there must know that it is you who are running this?—Yes.

2155. They know it is only nominally a commercial company, and is in fact a purely Ministry of War Transport undertaking. Therefore, why not call it that?—We could set up a Ministry of War Transport (Haifa) Ship Repairing Branch, with the result that all its transactions, I suppose, would have to be referred here and kept in our books, or we should have to devise some machinery, perhaps, to avoid that.

2156. In other words, what it amounts to is that you are satisfied that in this case there are some things which a Department, because of the various Parliamentary checks and other things, cannot properly run, and that it is better that it should be run by some outside organisation. That is really the answer?—I would not say that we could not run it properly, and I think at the beginning I said I did not regard it as absolutely essential to have done it under this machinery. I merely say that it was very convenient to do it, and I see no mischief in having done it in this particular case for this limited time in this way.

2157. How long has it been running now?—For about 18 months, I should say.

2158. You will know more about it next year?—(Sir Gilbert Upcott.) Perhaps I may intervene and allay Sir Cyril's apprehensions a little if I say that if it were managed by the Ministry of War Transport its accounts would be dealt with in exactly the same way as any Government Ordnance Factory or dock-yard, of which, of course, there are a great number.

Chairman.] We should see them.

Sir Frank Sanderson.

2159. The Committee was incorporated under Palestinian law. Is there any special significance in that?—(Sir Cyril Hurcomb.) No.

2160. What occurred to me was that had it been incorporated under our own laws the company would not have been subject to Palestinian income tax in the event of a profit being earned. Had it been incorporated under British law the income tax on the profit earned would have belonged to the Treasury. You do not know of any significance in its being incorporated under Palestinian law?—No; I do not know what difficulties we might have encountered if we had not adopted that procedure.

Mr. Glenvil Hall.

2161. Who will take the decision to close this repair depot down when the war is over?—The Minister of War Transport.

2162. It will not need the assent of someone, if I may use the phrase, higher up?—We should naturally consult the Admiralty and make sure that we did not withdraw facilities while they were still needed.

2163. It seems to me an excellent thing and that the Ministry should be congratulated for having done this. It might be a pity in the earlier years after the war to close it down, because at Portsmouth and other places ships are repaired on behalf of the Government; they are still mostly warships, but there is no reason why other ships essential to the life of the community should not be repaired in other parts of the world, and it struck me that this might be an excellent way of starting that kind of work really going?—As I said, we should certainly consult the Admiralty, but whether they would want to keep a Naval establishment permanently in those waters I do not know. We should certainly not maintain it as a trading organisation, except for the transitional period, while the consequences of the war were being liquidated. Whether it ought to be a small Admiralty repairing depot or not I do not know. I rather think the mining company whose lathes and other things we removed have the option to get them back if they get back into business.

2164. The equipment has been bought, has it? To whom does it now belong?—Yes, it was bought, but I think they have an option to reacquire it.

2165. The repair yards and, I suppose, the docks and quays have been hired?—They have been rented, I think.

2166. They have only been rented?—Some land has been bought, but I think also partly rented.

2167. Would there be an option to continue if the Government were so minded the occupation of the property?—I think that would probably have to be negotiated.

Sir Irving Albery.

2168. May I ask who the managing director is and what is the nature of his remuneration?—I am afraid I have not the figures of salaries with me.

2169. Can you say if the managing director is paid by salary or by share of the profit?—He would be paid a fixed remuneration.

Sir Irving Albery.] That is all I want to know, then.

Sir Edmund Brocklebank.

2170. My recollection of Haifa is that it is a very small place?—Yes.

2171. What size ship will these quays and facilities that have been spoken of take?—It is really a very small affair, but of course we have a lot of the smaller kind of tonnage using the North African coast and the Mediterranean coast.

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Sir *Edmund Brochlebank*.] It sounds as if the Queen Mary or the Queen Elizabeth could go there, from what has been said.

Chairman.

2172. They are tugs and drifters mostly?—Rather more than that.

Chairman.

2173. Are there any further questions on paragraph 93? We pass to paragraph 94: "Revision of Rates of Hire." Could you please tell us something of the changes that have been made in the hiring rates?—We have reviewed from time to time applications for revision of rates of hire by the different groups of tonnage, and on sufficient proof that their operating expenses have gone up we have raised the rates to allow for those increases.

2174. In the middle of the first sub-paragraph the Comptroller and Auditor General says: "An investigation into the adequacy of the rates of hire had been carried out by the Ministry's Financial Adviser during 1941 from information supplied by shipping companies" and a little lower down he says: "The statements of running costs furnished in 1942 were subjected to careful scrutiny in the light of the information gained during the earlier inquiry." Could you tell us about those two inquiries and if the results showed much damage in conditions?—We have applications for further revisions, I think, before us, or we are informed that they will shortly be made, but the second investigation which is being undertaken by Sir Alan Rae Smith, our Financial Adviser, is not complete. It has had rather a wider scope than the first examination, including a bigger proportion of the total tonnage of a larger number of ships and a rather larger number of owners.

2175. Sir Gilbert says: "As a result of subsequent negotiations with the industry a broad settlement of rates for deep-sea liners and tramps was effected, designed to produce substantially the same returns to the industry as were contemplated under the original agreement." Could you tell us about that also?—Where we were satisfied that the operating costs for the different types of ships had gone up and sufficient evidence had been adduced to satisfy us of this, we raised the rate in order to restore the position and give the owner, therefore, the remuneration which we had originally intended he should have.

2176. The Treasury, I gather, expressed some doubt about the adequacy of the information available in the 1941 investigations. Could they say something about it?—That is the reason why in the second investigation the net has been cast rather wider and a bigger amount of tonnage has been brought in. Perhaps the Committee would be interested to know, for example, in the liner group the proportion of total tonnage which is coming within the inves-

tigation. We are examining nearly two-thirds of the gross tonnage.

2177. Well over half.—Yes.

2178. The expansion of the number of tons you are considering is the broader basis, is it?—Yes, that is the main point.

2179. That still leaves over 2,000,000 tons.—We think this will be a sufficiently representative sample. It was not to be an examination of 100 per cent. of the results. In the tramp tonnage I may say the examination will cover rather more than half.

2180. Have the Treasury any views with regard to present developments, in view of their anxieties on the 1941 investigations?—(Mr. *Proctor*.) We are very pleased with the broader basis on which the second investigation is being done.

2181. There is mention of a later investigation. That is the one of which you have just spoken, I presume?—(Sir *Cyril Hurcomb*.) Yes.

Chairman.] Are there any questions on paragraph 94?

Sir George Davies.

2182. The Comptroller and Auditor General says that a broad settlement of rates has been effected, that the rates for tankers were settled and are now under revision, and that the original rates for coasting tramps are also under revision. Do you anticipate that will mean a finality, or will those rates have to be subject to revision from time to time?—They will have to be subject to revision from time to time. In fact we are now under notice of a request for revision. Costs will tend to go upwards and so long as that continues owners will come along at intervals and ask for a revision.

2183. At any intervals they may choose, however long or however brief?—No, not however brief. In point of fact these negotiations take a long time, and we usually have to ante-date the revision.

2184. By the time you have finished your decision on a revision are you not going to have an application for another, because in the meantime costs have increased? In other words there is no finality in sight of reaching any permanent decision.—I think so long as costs are changing we cannot say that there is finality. We may hope that the time will come when the turn of costs may go the other way.

2185. Unless you have some kind of algebraic formula to which actual variations in cost can be applied.—That would be very difficult in so complex a matter.

Mr. D. O. Evans.

2186. The "broad settlement" of which Sir Gilbert speaks was designed to provide or to produce substantially the same returns for the industry as were contemplated

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under the original agreement. That is the same returns to the industry as were contemplated in 1940?—Yes.

2187. Would you mind telling the Committee how that standard was fixed of the returns under the agreement of 1940? Was it in respect of some pre-war period?—The basis of our settlement was that we would meet the operating costs and give a 10 per cent. return on capital to cover depreciation, interest and profit. In other words, we allowed the actual cost of operation, the full depreciation and a percentage commonly put at 5, though we never state it in quite that way, for interest and profit.

Mr. Henderson Stewart.

2188. This paragraph deals with rates of hire for requisitioned liners and tramps. What about requisitioned trawlers and drifters? Where do we get information about that?—There are separate agreements in relation to those classes of tonnage. As I said before, the trawler owners were certainly the most difficult and argumentative of all the classes of owners with whom we had to deal, and our negotiations dragged on interminably. But they did come to an end, and I think we have now an agreement with all of them, or possibly all but one.

2189. I take it the Comptroller and Auditor General must have been satisfied with that agreement because he does not mention it here?—(Sir Gilbert Upcott.) You mean the trawler agreement?

2190. I am talking about the trawlers and drifters?—It is not very fresh in my recollection at the moment.

Chairman.

2191. It was in a previous year, perhaps?—I will look it up.

Mr. Pickthorn.

2192. The Comptroller and Auditor General says: "The rates then agreed upon were intended to cover owners' costs, to make adequate provision for depreciation . . ." Does that really mean what, in common language, one may call deterioration—that is to say, for the wearing out of the ships? It does not include any depreciation of the currency?—(Sir Cyril Hurcomb.) No.

2193. It merely means the deterioration of the ships?—Yes, the wastage of the asset.

Chairman.

2194. Are there any further questions on paragraph 94? We pass to paragraphs 95 to 97, all three of which can be taken together. Could you please tell us something in regard to the differentiation between "Organisation Expenses" and "Payments to Third Parties for Management," because not infrequently I under-

stand the Management is the same virtually as the shipping firm themselves?—That is so, I believe, in some cases, or at any rate there is an overlap or close connection; but the organisation of the lines varies a great deal. Many of them maintain their own administrative organisation direct. Others employ a number of agencies or managers, and our agreement recognised the prevailing practice. We were concerned, in addition to getting the use of the requisitioned ships, to have at our disposal all over the world the great network of services necessary to move this shipping round, and we, therefore, undertook to meet the organisational expenses and to follow the understood and established practice of the lines. The Committee will understand that the liner companies have many hundreds, indeed, thousands of offices or establishments in various parts of the world, at home and abroad, engaged in all sorts of business. They are far too diverse for us to attempt any method of costing them or remunerating them by some flat rate per ton or anything of that kind. We saw no alternative but to accept the basis which we did. I might perhaps make the position a little clearer by saying there are 128 regular lines within the scope of these agreements. About 80 of those are for organisation purposes on a basis of actual cost. The other 48 are on a different basis wholly or partly. They, of course, deal with a considerable proportion of their expenditure on the basis of actual cost or fixed fees which they recover separately from us and not through the Voyage Accounts, and the rest is met by percentage commissions.

2195. In the second sub-paragraph of paragraph 95 the Comptroller and Auditor General says: "The Treasury, who were consulted by the Ministry as regards the payment of management charges, expressed the opinion that, in considering their obligations under the Liner Requisition Scheme, the Ministry should keep in mind that, in accordance with the principle generally followed in similar dealings with commercial interests, the remuneration should not be greater than that payable for similar services before the war, taking into account any difference in actual costs incurred." I am not sure that that applies to the firms where the arrangements are somewhat different. Is that the case? In paragraph 96 I do not think there is any mention of the pre-war remuneration which is mentioned specifically by Sir Gilbert in paragraph 95?—We took it that what the Treasury had in mind there was the generally accepted principle that we should pay only a reasonable remuneration for the services actually rendered, but we have not found it practicable to investigate the pre-war expenses of these numerous agencies and organisations throughout the world. What we have done is to try to assure ourselves that their wartime remuneration is reasonable in

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relation to the services which they perform.

2196. In the latter part of the first subparagraph of paragraph 96 the Comptroller and Auditor General states: "The claims are certified by approved accountants as to the accuracy of the amounts of actual expenditure incurred, but the Ministry reserve to themselves the duty of determining on grounds of principle whether the claims are admissible as rendered." The principle followed is that which you have just stated—that the amounts asked for are fair and reasonable?—Partly that and partly also that the approved accountants who certify these claims are not expected by us to deal with issues of principle or policy, but merely to satisfy us that the expenditure has in fact been incurred. If they have paid out commissions to third parties and so on, the approved accountant's certificate will only go to show that that has been paid out. Whether it ought to be charged to our account or not is a matter we have reserved for ourselves.

2197. Have you any control at all over the numbers employed and the rates of pay?—Not over the rates of pay in detail, but we should, of course, object to any departure from general practice or to anything that was in itself unreasonable. As to the numbers, we have not sought to control those in detail, but we know that as the result of the squeeze for man-power and for other reasons there is very little risk of any shipowner having more staff than he needs. They are in fact all suffering heavily from shortage of staff, and on this question of expenses (and of course the main item of expenses is salaries and wages) it is interesting to know that in the London area the local staffs are now only 55 per cent. of their pre-war figure, and in the Mersey and Clyde only about 70 per cent. of their pre-war figure—one of the reasons why, I am afraid, we are so often so much in arrear in these accountancy matters. They have not got the staff to deal with it. We have arrived at certain rules to prevent any unreasonable increase of expenditure. For example, we would not admit an increase in directors' fees without very strong justification. Where salaries have been paid free of income tax we have said that tax must be related to the pre-war level and not to the current one, that the scale of war bonuses cannot be enlarged at will, and things of that kind; but we have not tried to exert a detailed sort of establishment officer check over the commercial establishments of the liner companies.

2198. In the second subparagraph of paragraph 97 Sir Gilbert states: "A number of Lines employ managers who provide the whole or part of the organisation of the Line. The management agreements date generally from before the war, and the remuneration is frequently ex-

pressed as a percentage commission on the freight earnings of vessels. Such percentages have remained unaltered despite wartime increases in freight rates". If the freight rate doubled the amount paid, as the percentage has remained unaltered, would automatically double also?—We foresaw that, and have limited the increases on the freights to which these commissions may be applied, and in one important instance we have reduced the rate of commission itself.

2199. At the end of that second subparagraph Sir Gilbert says: "It appears that there are certain cases in which, owing to close financial inter-relation between the Lines and the managers, the agreements were not, in effect, made between independent parties." That would apparently be where the liners and managers were the same financial entities?—There are such cases. We have looked at them, of course, especially.

2200. You are satisfied that there is no, what I call, abuse when they are in a dual capacity?—There would be no abuse for that reason, but it is a matter that puts one on one's guard, if one may say that, without any sort of offence.

2201. At the beginning of the third subparagraph Sir Gilbert says: "The Ministry have stated their attitude to be that the management agreements are primarily a domestic matter between the owners and the managers and that they should only be asked to reimburse such remuneration as is reasonable for services rendered under the Liner Requisition Scheme." Could you give us any idea of the word "reasonable" in that connection?—We have had to take a great many circumstances into account. We should resist and have resisted any claim we thought was excessive, and the main tests must be the amount of work and the services rendered under wartime conditions. Though in many cases, of course, the volume of tonnage has fallen off, the difficulties of the work have very much increased.

2202. Have you any information at all as to the profits earned by these firms, either agents or principals?—Not in detail. We have attempted to estimate what the total claims on the Ministry for organisation expenses in a representative year would be, if that is of any interest to the Committee.

2203. We should be interested if you have any figure on that.—In the year of account there is about £11,000,000 charged, but we think, if we were trying to find the expenditure in respect of the year—that is to say, ignoring the very heavy lag from previous years—the annual expenditure under the head of "organisation expenses" would run at about £7,000,000 a year, and of that in one way or another over £6,500,000 is submitted to the test of actual cost, and

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the remaining £400,000 is earned by way of percentage or fixed fees. That, roughly, gives the order of the claims upon us. Of course, what ultimate profit there is to the organisations in that sum I cannot say.

2204. But as far as you are aware the excessive profits are not being earned because of this scheme?—Not under this head, no.

2205. Have the Treasury any views with regard to these complicated arrangements?—(Mr. Proctor.) The basis of this, from our point of view, was the Liner Requisition Scheme which, as a matter of policy, had been settled right from the beginning of the war. It gave a pretty wide guarantee to the liner companies of meeting their organisation expenses, that is the expenses of maintaining their organisations. That was part of the Liner Requisition Scheme. That is the basis, accepted right from the beginning of the war, which governed our approach to this Scheme, and we for our part very much welcomed the various suggestions which the Ministry of War Transport put to us as to the ways in which they could reasonably keep some working control over those organisation expenses while still keeping within the spirit of the arrangement made in the Liner Requisition Scheme. Sir Cyril has mentioned one or two things, such as keeping reasonable oversight of the war bonus of employees, and I think another matter in which they managed to exercise considerable control was advertising costs. (Sir Cyril Hurcomb.) Yes. (Mr. Proctor.) It was not accepted as reasonable that a liner company should continue its expenditure on advertising as it had done before the war. In various ways of that kind, all the companies differing so much among themselves that it is very difficult to generalise about it, the Ministry kept in touch with us as they went along and showed us how they were tackling these problems. It is very much a matter of *ad hoc* arrangement as between one company and another, the circumstances of all these arrangements differing so much, but we were in touch with them all the time and felt quite satisfied that they were doing all they could to keep a check on these expenses and keep them down within the governing terms of the Liner Requisition Scheme itself.

Chairman.] Are there any questions on those three paragraphs?

Mr. Benson.

2206. I am not quite clear what the principle is on which you base your estimate of whether costs are fair and reasonable. Apparently, you do not take pre-war earnings into consideration. What, then, is the guide you take?—(Sir Cyril Hurcomb.) We would look at pre-war earnings. What we had not done was to investigate pre-war expenditure.

2207. In the last sub-paragraph of paragraph 97 Sir Gilbert says he was informed

that no inquiry is made into pre-war earnings.—I think that is meant to refer to the result of their expenses and their earnings. We have in some cases accepted the pre-war remuneration as being in itself reasonable. It was the basis of the Scheme. We have looked at the work done and we have been able to satisfy ourselves that that was still a proper figure to allow. But in other cases we have had to have regard to all the changes in circumstances, the amount of work that is involved and things of that kind. (Sir Gilbert Upcott.) Perhaps I may interrupt to say that my difficulty in this matter is that whereas the Treasury have laid down a definite principle as regards the payment of management charges, in respect of which they say the principle should be that followed in similar dealings with commercial interests namely, that remuneration should not be greater than that payable for similar services before the war, I understand no such principle has been laid down and applied to organisation expenses. In those circumstances, as Auditor, my difficulty is that I have no test or criterion by which I can judge whether the claims admitted are fair and reasonable, and I have not been able to ascertain what is the principle that is applied to the admission of these claims.

Chairman.

2208. Sir Cyril, would you like to make any comment on what Sir Gilbert has said?—(Sir Cyril Hurcomb.) The first point I would like to make is the high proportion of this total expenditure which is related to actual cost. When that is so high and we have taken steps to satisfy ourselves that there is no improper departure from pre-war practice and no extravagance in the arrangements made, I think we can be satisfied that there we are not being overcharged, especially when we know the very great increase in the difficulty of husbanding ships round the world and also know the very great reductions in staff that these organisations have suffered.

Mr. Benson.

2209. May I ask on that point whether, if they have suffered reductions in staff, their total remuneration has fallen?—In some cases their actual costs will certainly have gone down, in some of the organisations abroad.

2210. But in this country?—Yes.

2211. For instance, London has dropped to 55 per cent. and the Mersey to 70?—Under that head their staff costs obviously will be down, in spite of war increases in remuneration, but there are a very large number of items of expenditure where there will have been no such saving—rents and other overhead charges which cannot be adjusted.

2212. But when their charges to you, if I have read this correctly, are expressed as a percentage commission on the freight

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earnings of a vessel, what effect has the reduction in staff there?—None, but where we have accepted that basis, as I say, we have limited the level of freights to which it may be applied.

2213. That is not the point. There you say that you have not allowed the basis on which the percentage is charged to rise, but this is a case—you have given us the two major ports—in which there is a 55 per cent. and 70 per cent. fall in staff. What I want to know is what has happened to those firms or those organisations that have been apparently on a percentage which is still a pre-war percentage?—I am afraid I do not follow that.

2214. May we have a memorandum on that?—No, I am not quite clear what your point is. I say that the falling off of staff shows that the organisations have not staffed themselves extravagantly simply because they might have done so at our expense, but when you get to the remuneration of the managers, if that is the point, it seems to me entirely distinct from this. I ought, on the question of staff, to say that we meet the expenses of staff who are on war service and whose salaries generally if not always continue.

2215. There has been a big reduction in staff. Has there been any reduction in costs to you?—Yes, where we are paying the actual cost of staff we should benefit there, except in so far as those men are on war service and are continuing to receive their salaries.

2216. In that case, if people who are paid on cost have a reduction, why does not the reduction also apply to the people who are paid on percentage? Why do you allow them to stabilise their prices?—(Mr. Proctor.) Perhaps I can clear it up a little, if I say what the Treasury position in this was, which answers Sir Gilbert's query as to why, as I understood it, the Treasury had laid down this rule as to the basis of pre-war payments for the management remuneration alone, but not for the whole of the liner organisation expenses in general. The two things are very different. The liner organisation expenses in general, as I tried to indicate in what I said just now, are governed by a pretty sweeping provision in the Liner Requisition Scheme, by which the Government agreed to meet those expenses on a basis of cost—on a basis of maintaining the pre-war costs, subject to any wartime changes in costs, but without reference to specific wartime services rendered. It was not a basis of a reasonable remuneration for specific services rendered; it was not on a basis of saying that the costs should be such and such a proportion of the voyages made by a particular ship or a particular company, or of the size of the fleet of a particular company, or anything of that sort; it was simply agreed initially, as part of the requisition arrangements,

that it was in the national interest that these organisations should be maintained. Therefore the governing factor from the financial point of view is what are the actual costs, starting from the starting point of the pre-war costs, subject to wartime changes, and as Sir Cyril has indicated, I think it probable that to a large extent the wartime changes have actually been reductions rather than increases of costs, simply because the staffs of the organisations, which represent such a large proportion of the total expenditure, have been decreased because the men have gone to the war. It may be that the main change between the pre-war level of expenditure there and the current wartime level of expenditure is a reduction because the costs have actually gone down, but nevertheless that is more or less guaranteed to the companies and they get their actual expenditure reimbursed, without any attempt to equate them with services actually rendered or work done. When you come to the management payments, which are charged to the voyage expenses, we said there was a part of the running costs of operation that should be scrutinised in accordance with the general principles which all Departments of Government have observed during the war, of trying to arrive at a reasonable rate of remuneration for services rendered, and, therefore, they are related to the freights carried by those ships. The starting point there is what was the pre-war reasonable rate of remuneration based on—it might be the freight rate or for other bases, as Sir Cyril has explained—but it was to that class of payments that we wished to insist on this principle of reasonable remuneration for services rendered being applied. That is the difference between the two classes. That is the reason for the difference and that is why the ruling to which reference is made in the Report, related to the management expenses only and not to the total liner organisation expenses.

Chairman.] Does that clear up your point?

2217. No.—(Sir Cyril Hurcomb.) I think there are two difficulties about this matter. The first is that I am bound to confess that our files have not always recorded the reasons why we have regarded as reasonable some of the settlements we have accepted, and I think Sir Gilbert's people may sometimes feel that, on just looking through our files, as they do, they have not really before them a note or a clear argument as to why we accepted certain things as reasonable. I have already given instructions that the files in that respect should be more informative in future. Questions have often been settled by senior officers discussing with one another what should be done and just recording their conclusion without detailing

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the processes. I think some improvement might be effected there. The other difficulty is the impossibility of finding any one yardstick or sort of costing method which will apply automatically to this vast range of differing services under so many differing conditions. It does not lend itself to that, and we failed to find any flat rule which could be applied. The only thing is to get what knowledge we can—and it is a good deal—of the circumstances and the kind of work that is done, and say: "For that amount of work, and having regard to what it would have attracted pre-war and to any other information we have, that is or is not reasonable." I do not think I can define the rule of reasonableness in any specific terms.

2218. Reasonableness is, of course, purely a relative matter. Am I to understand that as far as organisation expenses are concerned they are based primarily upon pre-war costs, and that management remuneration is based upon services rendered?—The organisation expenses are based very largely upon actual cost, as the figures which I have given to the Committee show. (Sir Gilbert Upcott.) My difficulty is that apparently the pre-war cost is not applied to the organisation expenses. Perhaps I might make one comment on what I rather thought the Treasury suggestion to be, that this reimbursement of organisation expenses was not related to services rendered. I have quoted in my paragraph the actual words out of the White Paper, which are: "In consideration of the Lines continuing to employ their organisation, including their offices and their staff, in the management of their ships on Government account, the Minister would reimburse them the net cost of maintaining those organisations"—which appeared to me to relate the reimbursement to services. (Mr. Proctor.) What I meant to convey was that to put it to the logical point of absurdity, it might be the company would say it wanted to maintain the whole of its organisation, although it had only very few ships left running, say, and it would still be agreed

that that organisation should be maintained. There was no attempt made to reach a formula as to what proportion of the total turnover of the company should go on organisation expenses.

2219. You told the Chairman that you had no knowledge of what profits were involved in management.—(Sir Cyril Hurcomb.) Yes.

2220. Your next sentence was that you assured the Chairman that there were no excessive profits. I could not quite square the two statements.—I may have expressed myself badly. I cannot say how far these arrangements with managers may have left some margin in the past. We can only satisfy ourselves now that as between ourselves and the Liner organisation they have actually paid out these amounts.

2221. So that so far as the management is concerned you have no idea of the profit?—I should say generally there is no unreasonable or excessive margin in the amount we allow for organisation expenses.

2222. What about management?—On management they are payments to the managers, and it must be a matter of opinion whether they are adequate or not. Of course, we have had cases where the managers have come back and said that the allowances are inadequate. At certain establishments abroad, for example, where they have been on some commission basis, the tonnage has fallen off to such an extent that it has left them with very little earning at all. But we have not admitted that they have any claim to be put in the position they would have been if it had not been for the war, any more than we automatically accept pre-war earnings where that might look favourable to the managers.

Chairman.] Are there any further questions on those paragraphs? We pass next to paragraphs 98 to 101, which deal with bunker oil prices and bunker coal prices. On this there are several mentions of the Ministry of Fuel and Power, and, therefore, I thought it would help the Committee if we had the Deputy Secretary from the Ministry of Fuel and Power, Mr. Duke, present.

Mr. R. N. DUKE, C.B., D.S.O., M.C., called in and examined.

Chairman.

2223. We will take the three paragraphs 98 to 100 together. I might remind the Committee that we have still a great many more paragraphs ahead of us. On paragraph 98 could you tell us the composition of the Bunker Prices Committee which is mentioned?—(Sir Cyril Hurcomb.) It is a Departmental Committee, presided over by Sir Alan Rae Smith, our Financial Adviser.

2224. Departmental or inter-Departmental?—Departmental.

2225. Not with other Departments. On paragraph 99 could you explain briefly the pre-war practice with regard to oil prices—

it is rather confusing—and the words "origin differential" I find a little bit hard to appreciate at first?—I would, with great diffidence, try to be clearer than Sir Gilbert has succeeded in being. To me his report read, knowing a little about it, very clearly. Perhaps I might say first that we have attached a very great deal of importance to both bunker oil and bunker coal prices, because the price of bunkers is far and away the largest item in our operating expenses. This is an expense we incur, of course, all over the world, and, therefore, it is a matter to which we have given very close attention. As regards the oil bunker prices my understanding of the position is briefly

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this: Before the war the prices at which oil bunkers were sold at ports overseas were influenced by (I do not say that they were absolutely based on but in ordinary commercial practice they were influenced by) the published f.o.b. prices quoted at production centres in the Gulf of Mexico, to which, of course, there would be added freight and insurance from the Gulf port to the actual bunkering port, in order to give a c.i.f. price. This selling price was applied to all the oil sold at a given port, regardless of its actual source of origin. So the result was that the effective f.o.b. prices of oil derived from some port other than the Gulf of Mexico port differed from that price in the Gulf of Mexico by an amount depending on the geographical position of the source of origin in relation to the port at which the oil was sold. It would be easier, perhaps, to take an example: if oil were supplied in Bombay from Abadan in the Persian Gulf it would normally show a higher f.o.b. return than the Gulf price, because of the low cost of freight from Abadan to Bombay on a very short haul, that freight obviously being much less than a freight from the Gulf of Mexico to Bombay. On the other hand, if Abadan oil were sold at some point further away from Abadan than the Gulf of Mexico, then it would normally produce a lower return than the Gulf price, and it is this difference in f.o.b. values which was known in the jargon of the trade as the origin differential. When we first came across this point I myself took the view, and the Bunker Prices Committee took the view, that we certainly could not accept what may be and no doubt was in ordinary commercial times under ordinary practice a perfectly reasonable way of doing business. We could no longer accept this origin differential automatically as a proper element in bunker prices in overseas ports, mainly because owing to the vital necessity for getting the utmost possible service out of tanker tonnage it was a matter of policy and principle to draw supplies from the nearest available source. It was no longer a matter of commercial competition. It was a matter of imposed policy that every ton of oil that could be drawn from a near source had to be taken from that source, and from none other, and, therefore, as a result of that policy, to take this one example, we were no longer sending oil from the Gulf of Mexico to India and the Middle East—at any rate not bunker oil (certain special products which could not be obtained elsewhere, of course, had to move) and, therefore, as regards bunker oil the conditions which very properly, no doubt, or naturally enough, governed prices in the pre-war oil trade were no longer present. We had a great deal of discussion with the oil interests before we convinced them that we should have to find some other basis. Eventually, as for various reasons they could not give us the actual cost of production at Abadan, we said; “Well, we will adopt the Gulf

f.o.b. costs as the measure of that, and for the rest we must build up our price not on this origin differential but on the real costs of the freight transactions as they existed under the actual conditions.” As Sir Gilbert narrates, we carried that arrangement and made certain other adjustments in the prices which they had claimed, and as regards the ports abroad we had it introduced from the 1st January, 1942. We then pursued a similar argument in relation to bunker oil prices in the United Kingdom, and the same basis was eventually accepted with effect from 1st August, 1942.

2226. As from 1st January, 1943, according to the end of paragraph 99.—That is the general arrangement by the Ministry of Fuel and Power for other oils. I am afraid I must have failed to make this extremely difficult matter clear to the Committee, but I think if you keep the Abadan-Bombay example in mind that really is the simplest. It is not just a fanciful one but a very real one.

2227. It is the difference really in haulage costs from the various oil production places to where the oil is wanted?—Yes. If you think of South Africa in normal times, whether it went down from the Gulf of Mexico to South Africa or down from the Persian Gulf to South Africa it might not have made very much difference. Then one oilfield would have been heavily producing and wanting to sell its products or something of that kind, and the area from which the oil from one source would benefit would depend upon the competitive conditions. They said: “We will have the one price” and somebody or other had to cut his price to get into the market. We said: “All that sort of thing ceases to have any application under present conditions.”

2228. Would you tell us what the respective responsibilities of the two Ministries with regard to the fixing of prices is, because I read in the Report of the Comptroller and Auditor General: “While discussions were taking place between the Ministry of Fuel and Power and the oil companies, the Ministry of War Transport had rejected the freight differential in their settlements with the oil companies”. It was apparently while discussions were taking place with regard to it that you rejected the differential?—I do not think I shall find myself at variance with Mr. Duke. We said, at any rate as regards the oil prices abroad, there can be no argument. His writ does not run there, and it was a matter of vital concern to us and we were very deep in this argument with the oil companies, and eventually we settled it. We told the Ministry of Fuel and Power that we were about to settle it and then settled it. I think as regards bunker oil prices in the United Kingdom we felt again that we had a very special interest and I do not think the Ministry of Fuel and Power or the Petroleum Department

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(as it then was) took any exception to our handling that particular aspect of it.

2229. You regard yourselves as mainly responsible?—We felt that we were so thoroughly involved in the negotiation as regards bunker oil with these very same people in the ports abroad that we had better finish it off and come to an arrangement about the United Kingdom also. In one way or another the Ministry of War Transport is the principal consumer of this product, but we do not on that account say that we ought to settle all oil prices, because oil is consumed in motor cars and lorries. But we thought the shipping problem really was one and had better be put through as part of the same series of negotiations. I do not think we were seriously or at all at difference with our colleagues on that point.

2230. Perhaps Mr. Duke might like to add his quota.—(Mr. Duke.) I subscribe to everything that Sir Cyril has said. We do not in the Petroleum Division dispute the primary concern of the Ministry of War Transport with bunker oil prices. We do, however, approach this question looking at it through slightly different eyes and from a slightly different angle. I do not know whether you would like me to say something about the general history of origin differential throughout the war.

2231. I do not think so, quite frankly. We have a great deal more before us. On paragraph 100, at the end of the first sub-paragraph, Sir Gilbert says: "The total savings to the Ministry of War Transport, although considerable, are not readily ascertainable". Could you give an approximate figure?—(Sir Cyril Hurcomb.) It is very difficult, but we thought that the total savings on the 1942 offtake of bunkers in Cape Town and east of it would be of the order of one million a year.

2232. In the second sub-paragraph Sir Gilbert says: ". . . but the companies have recently been informed that in the Committee's opinion these conditions no longer obtain and that the f.o.b. prices at Suez and Haifa should now be equated to Gulf prices." Has that suggestion been adopted?—Yes.

2233. It has been settled on those lines, has it?—We have recently told the companies that the reasons which justified the higher f.o.b. prices at Haifa and Suez no longer obtain, and as from the 1st January this year they must be adjusted to the Gulf of Mexico prices.

2234. I do not know whether the Treasury would like to add anything to what Sir Cyril has said on these special oil prices?—(Mr. Brittain.) No, thank you.

Chairman.] Are there any questions on those paragraphs?

Mr. Benson.

2235. Did I understand that this adjustment has only taken place at the beginning

of this year?—(Sir Cyril Hurcomb.) As regards Haifa and Suez.

2236. Why were those the two ports? Why were they left out?—They were not, but as the Report says, higher prices were agreed for these production centres mainly on the grounds that their costs of production had been increased as those in the Persian Gulf had not, by interruptions due to air raids, the difficulty of working under black-out conditions and other circumstances, and while we accepted these reasons as being good for an increase in price at those centres during 1942 and 1943 we have said that they had ceased to operate any longer, and, therefore, the prices should come down.

2237. You said something that rather puzzled me, that they did not know the cost of oil at Abadan and so you took their f.o.b. price. If they did not know the cost of their oil, how did they fix the price—merely take the Gulf price?—(Mr. Duke.) Perhaps I ought to answer that. The general basis for the pricing of oil throughout the world in pre-war times was the f.o.b. Gulf price at U.S. ports in the Gulf, plus the actual freight cost from the Gulf to the importing country. That was the general basis all over the world, with certain exceptions with which I need not trouble the Committee. (Sir Cyril Hurcomb.) The difficulty is for them to say what is the cost of producing this amount of bunker oil among the whole amount of their production. That is what we should have had to determine, the cost of producing bunker oil. That was an investigation which I have no doubt could be undertaken but it would have been a very difficult one and probably a fruitless one.

Chairman.

2238. Are there any further questions on those paragraphs? We pass to paragraphs 101 to 103 "Bunker Coal Prices." Could you please tell us how the composite rate mentioned in the third line of the second sub-paragraph was made up: "To that end a composite rate to cover agents' commission, the allowance for profit, and other costs"? The "other costs," for instance?—I shall have to take some particular price and analyse it out. These charges cover overhead costs, commissions, financing and various margins.

2239. I wondered if you could have expanded at all the statement of the three items charged, agents' commission, allowance for profit, and other costs, but you have not the data there?—Certain overheads amount to about 1s. 6d. a ton. I am sorry I have not got them more fully.

2240. In paragraph 102, do the selling prices cover cost with regard to these stocks of bunker coal?—Yes, they are intended to.

2241. In paragraph 103 Sir Gilbert says: "In general the Committee have not examined the make-up of prices at coal

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shipping ports in the United Kingdom, on the understanding that these prices are subject to the general control of the Ministry of Fuel and Power." Could you tell us something about that general control, Mr. Duke?—(Mr. Duke.) I am, very sorry but

(Mr. Duke withdrew.)

Chairman.

2243. We pass now to paragraph 104: "Shipbuilding Grants." Perhaps you will tell us, Sir Cyril, the method of assessment of the second of these grants mentioned in the paragraph?—(Sir Cyril Hurcomb.) The grants were claimable on a specified scale according to the class of tonnage, varying from 16s. 6d. a ton for the highest class to 10s. a ton for certain tramp ships. The question whether the grant should be made is examined each year, and hitherto it has been decided, with the approval of the Treasury, to make the grant, and payment of the fourth grant was approved in respect of last year. The Committee may like to know that the total amount of the grant was £215,000.

2244. Have the Treasury any comments to make with regard to this?—(Mr. Proctor.) No.

2245. Are these grants or loans still continuing?—(Sir Cyril Hurcomb.) Yes. I think the next year would be the last in respect of which the grant is claimable.

2246. Are there any questions on paragraph 104? We pass to paragraph 105: "Receipts for Freight and Passages." In the second sub-paragraph there is a mention of accounts outstanding, which were appreciably increased in the year under review and had risen to 8,000 at 31st December, 1943. Is that increase in the accounts outstanding continuing to expand?—It gets no less, I am afraid, and I do not see any prospect of improvement until both we and the shipowners can get some skilled accountants back.

2247. Are there any questions on paragraph 105? On paragraph 106, how are these arrangements with regard to certification working?—Apart, again, from pressure of staff, they are working as planned.

2248. It is the accountancy staff difficulty of which we all know?—(Sir Gilbert Upcott.) I should say the progress was quite satisfactory, because I understand that nearly all the 1942 Accounts have been dealt with. That represents quite satisfactory progress.

2249. At the end of the paragraph Sir Gilbert says: "I propose to accept the figures in those accounts on the understanding that there is no undue delay in the completion of the subsequent audit." Are there any questions on paragraph 106? We pass to paragraph 107: "Sea Transport Stores and Merchant Ships' Fittings."

I cannot. I came here to deal with the bunker oil cases. I am an oil specialist.

2242. I thought that you might be ambidextrous and deal with both.—I will convey an inquiry to the Ministry of Fuel and Power.

In the second sub-paragraph the Comptroller and Auditor General says: "The discrepancies between book figures and actual stocks held at depots revealed at the stocktakings carried out prior to the introduction of the new system have recently been reported to the Treasury for sanction to make the necessary adjustments." What has the Treasury done about that?—(Mr. Brittain.) They are still under consideration at the moment. (Sir Cyril Hurcomb.) We have really overhauled that system which the Committee examined last year, and very great improvements have been effected. I do not think that the amounts we have asked the Treasury to write off are at all unreasonable in relation to the size of the transactions, especially when you have regard to all the immense difficulties in the ports in the early days of the war, and in the blitz periods, in getting proper inventories or stocktakings made at all.

2250. In the next sub-paragraph Sir Gilbert states: "It is understood that considerable stocks, particularly of sea transport stores, are held at depots abroad, but I have insufficient information on which to express an opinion as to the adequacy of the records kept and of the control exercised." Could you tell us something about the position of the stocks abroad?—We should also like to be able to give more attention to that. We have instructed our representatives abroad to keep an eye on the position of these stocks, and, of course, with the occupation of the Mediterranean the matter has become of even more importance. There, again, if we had staff we could send out on inspections we should feel more content with the position. But we shall get on to that as soon as we can.

2251. Are there any questions on paragraph 107? We pass to paragraphs 108 and 109: "Government Control of Railways." On those paragraphs I have no questions. Has any Member any questions to ask on those paragraphs? The next paragraph is 110. I could not help noticing Sir Gilbert's comment: "... it is anticipated that the Pool Account for the first accounting period, 1st September to 31st December, 1939, will be submitted for certification by the Minister within the next few months"—which did not seem very quick progress.—We have made a very great deal of progress in examining the accounts for these first four months of the war, and indeed for later still; but, as the Committee will realise, it has been a very heavy

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task to settle all the material for comparing the current period with the base year on which the maintenance and other charges have to be founded. All that preliminary work or a very great deal of it has been done, and a great deal of other work which will immensely lighten the burden of dealing with the accounts of later years. But we have not succeeded in finalising yet the transactions even for 1939.

2252. Once you have done that I imagine it will be relatively easy to deal with subsequent years—once you have your bases settled?—Yes. Important questions of principle upon which we may be at variance with them will arise, but there will not be the heavy donkey work of ploughing through a vast mass of detailed accounts. I am in fact seeing the railway managers to-morrow on this subject, with a view to urging them to do what they can to help us to expedite the investigation.

Chairman.

2253. Are there any questions on that paragraph? Then paragraphs 111 to 113 we can take together; they deal with road haulage. Sir Gilbert states: "The account includes charges to Subhead Q . . . mainly for vehicle hire and transport facilities under three schemes, (a) conveyance of meat and livestock." Is the conveyance of meat and livestock a going concern?—That is functioning now and functioning smoothly. It was the first established of these haulage schemes. It is getting on satisfactorily. (Sir Gilbert Upcott.) It was established by the Ministry of Food. (Sir Cyril Hurcomb.) Yes; it started with the Ministry of Food and was eventually taken over by the Ministry of War Transport.

2254. Then "(b) the Road Haulage Scheme, 1942." Could you briefly tell us something about that scheme?—That was an interim measure under which we tried, in a sort of partnership with the road haulage industry, to conduct a control over the operation and hiring of lorries for carrying Government cargoes. It had an element of duality in it. It was not in all respects satisfactory, though we might eventually have made it so, but circumstances changed, and it became clear that we should have to take a stronger degree of control, which we have since done, and that led up to the present scheme.

2255. To the present revised scheme, as it is called?—Yes.

2256. Sir Gilbert mentions an expenditure of £2,707,000 for casual hirings. How is that made up?—That is in respect of vehicles hired for a job or for a short time by our local staff and not taken over on a long-term charter. They supplement the fleet.

2257. What receipts do you have against this large expenditure?—If we carry Government traffic we do not collect freight from the other Department, but, of course,

if we carry commercial traffic we see that we collect the charges.

2258. The Government Departments are not charged?—No; but they have to certify that the commodity was on their account or was entitled to be carried under the scheme.

2259. On paragraph 112, on the new scheme you have just mentioned what control have you over costs in regard to these firms?—We fix their own remuneration on a pre-war basis, and we determine what they may pay by way of remuneration. As regards the running of the vehicles we of course keep a close check upon that, as to the mileages they run and the various classes of expenditure. We have also put a ceiling upon their maintenance expenditure and said we will not admit claims beyond a certain level without special justification.

2260. On repayment there is a mention at the end of paragraph 112. Presumably all non-Government traffic pays?—Yes.

2261. How are the rates assessed? Are they the pre-war rates?—That is a difficulty. In this particular industry there were a very great many different rates charged by different hauliers. We have not found it possible to unify those rates or adopt a general scale or standard. We thought of various possible alternatives—for example, applying the railway exceptional rates which, as you know, are rates fixed by reference to competitive conditions before the war, but that would not have given equitable results, and we have had to carry on very much with what was the prevailing practice, and, on the whole, the trading community does not seem to object. They seem to have become quite used to paying somewhat different rates to two different hauliers between the same points, and though we have always kept in mind the desirability of introducing some greater degree of order into that rate structure, we have not seen our way to do it in the stress of the war.

2262. You are merely charging pre-war rates?—No, as regards the level of rates, they went up appreciably in the first year of the war. We have more or less stabilised them since the end of 1940.

Chairman.] Are there any questions on paragraphs 111 to 113?

Sir George Davies.

2263. In paragraph 112 the Comptroller and Auditor General states: "Controlled firms are guaranteed their net profit . . . the Government retaining any excess or making good any deficiency". Can you give us any idea of the relationship between the excess and the deficiency?—Not yet. The scheme has not been running long enough for us to get out the plans of these operations.

2264. You have no idea how it is running—whether it is likely to result in a large amount on one side or the other?—That

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will depend on how hard we are able to work the scheme. It has two objects. It was to enable us to shut down road transport if it were necessary to do so in the interests of economy of fuel and rubber, and if other means of transport could carry the traffic. At the same time we have control so that if we must bring road transport in to fill up the gaps which military requirements make on the railways or coastwise shipping, then we could drive it very hard. At the moment we are driving it very hard, but how we will end up over the year it is rather difficult to say.

Chairman.] Are there any further questions on that paragraph?

Sir Irving Albery.

2265. I wanted to ask this question. I see from the Comptroller and Auditor General's Report that: "Controlled firms are guaranteed their net profit for the average of any two accounting years between 1st January, 1935 and 31st March, 1939,

selected by them". Does that mean what it says there—any two years, or must they be consecutive years? In striking an average of profits can they just take the two highest years?—Yes, they are not tied to two consecutive years.

2266. They need not be consecutive years?—No.

2267. With reference to what you said just now, if for purposes of economy you discontinue a haulier's service, would their plant be shifted somewhere else?—You cannot move his garage. His vehicles might be immobilised for the time being.

2268. They would get a rate of profits . . . —On the stabilised basis.

Chairman.] Are there any further questions on those paragraphs 111 to 113? We pass now to the Account which is on pages 41 to 43. I have no questions to ask on the figures. Has any Member any questions to ask? May I take it that the Account is approved? (*Agreed.*)

TREASURY MINUTE ON PARAGRAPH 42 OF THE REPORT OF THE COMMITTEE OF PUBLIC ACCOUNTS, 1943.

The Confidential Account of the War Risks (Marine) Insurance Fund, 1942, was approved.

Chairman.] We turn to the Treasury Minute dated 12th February on paragraph 42 of our Report last year. I have no

questions to ask. Has any Member any questions to ask on the Treasury Minute?

VOTE OF CREDIT APPROPRIATION ACCOUNT, 1942.

ELECTRICITY COMMISSION.

Chairman.] This was dealt with last year. I have no questions. Are there any questions?

BRITISH SHIPPING (ASSISTANCE) ACT, 1935, ACCOUNT, 1942.

(On this Account no questions were asked.)

CUNARD INSURANCE FUND ACCOUNT, 1942.

Chairman.

2290. I have no questions either on the Report of the Comptroller and Auditor General or on the Account?—(*Sir Cyril Hurcomb.*) This, I may say, is a case where we are, of course, interested in purely Marine risks. It is under a pre-war Statute.

2291. The amount involved is so large that the Underwriters would not take it, if I remember rightly?—Yes.

Sir Irving Albery.

2292. Is not this the first year during which there have been no claims? In

paragraph 3 of his Report the Comptroller and Auditor General says: "No claims were paid during the year." Is not this the first year when no claims were paid?—I think possibly it is. The claims have been very small. I think they have been mainly Underwriters' commission. (*Mr. Brittain.*) In 1940 there were not any claims.

Chairman.] Thank you very much, Sir Cyril, for helping us. It has, I am afraid, been rather a long afternoon.

(The Witnesses withdrew.)

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

THURSDAY, 18TH MAY, 1944.

Members present:

SIR ASSHETON POWNALL in the Chair.

Sir Irving Albery.

Sir George Davies.

Sir Edmund Brocklebank.

Mr. D. O. Evans.

Sir John Mellor.

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

CIVIL APPROPRIATION ACCOUNTS, 1942.

CLASS II.

VOTE 7.

COLONIAL OFFICE.

Sir GEORGE GATER, G.C.M.G., K.C.B., D.S.O., called in and examined.

Chairman.

2293. We take the Colonial Office today: Sir George Gater is the Witness. Will Members turn first to the Civil Appropriation Accounts, 1942, pages 72 and 73. On Note A., two-thirds of the way down page 72, there is a mention of the cost of the staff of the British Colonies Supply Mission. Could you please tell us something about that Mission?—(*Sir George Gater.*) That is a Mission on the same footing as the Missions representing other Government Departments. It works in touch with the main British Mission. Its purpose is twofold, to obtain commodities for the Colonies, and also it has been very much concerned with looking after the food supply of the West Indies.

2294. The Colonies presumably pay for the supplies, do they?—Yes. A new arrangement has been made recently. 1½ per cent. addition has been made to cost price which will, I think, be sufficient to cover all the charges of administration.

2295. Of this Mission?—Yes.

Sir George Davies.

2296. When you speak of food supply, are you concerned at all with the development of home-grown food, or is all this imported food?—Most of it comes from either Canada or America in wartime, because of the difficulties of transport to the West Indian Islands; it is a short carry.

2297. This has nothing to do with the fostering of home-grown foodstuffs?—It is connected with it, to this extent, that we have had a very big campaign fostered by the Governments and also by the Comptroller, Sir Frank Stockdale, to make the Islands as self-supporting as possible, and a very great deal has been done, thereby diminishing the quantity of foodstuffs to be brought in; but the crops are very often subject to climate, storms, and so on, and sometimes the results are not as good as they might be.

Chairman.] May I take the Account is approved?—(*Agreed.*)

VOTE 8.

COLONIAL AND MIDDLE EASTERN SERVICES.

Chairman.

2298. Will Members turn now to the Comptroller and Auditor General's Report, page vii, paragraph 14. On that paragraph, Sir George, could you tell us at all how these missing accounts are turning up? In the case of 12 Dependencies I see the Comptroller and Auditor General had not the audited accounts for 1942.—(*Sir George Gater.*) I am afraid it looks rather a bad picture from the statement here, and perhaps you will allow me just to make some general explanation, and first of all, to bring the matter up-to-date. I am glad to say that two accounts have in the last three days been forwarded on to the Comptroller and Auditor General. Of five of the remaining ones, the examination has been completed at the Colonial Office and the accounts have been sent to the Treasury, and will shortly, I hope, be signed and

certified and sent to the Comptroller and Auditor General. Of the remaining ones, in the case of Cyprus and St. Lucia we have the accounts, but unfortunately certain further information (detailed and supporting abstracts) has not been sent, and we have had to ask for it and we are still awaiting it. We have not yet received the accounts of St. Helena. I think members of the Committee will know that there is no regular transport service to St. Helena; it is dependent upon such ships as may call there; and in consequence the posts are extremely irregular and very often the journey is very protracted. The remaining two include the Gilbert and Ellice Islands, which, of course, have only fairly recently been reconquered, and the whole of the accounts are being shifted from Sydney back to Suva in the Fiji Islands, and the whole thing is in a state

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[Continued.]

of some disorganisation, but I hope the whole thing will be put right soon. The remaining one is Malta. There has been a reference, I think, to three accounts that have not been received. The accounts for 1940-41 and 1941-42 have been received. The account for 1942-43 has not yet been received. That is referred to in another paragraph.

2299. Yes, paragraph 16.—I am afraid one of the causes of delay has unfortunately been inside the Colonial Office itself. Last autumn and winter we did have a very unusual amount of illness, and also the staff of the Accounts Department became extremely overworked. I had to look into the whole position and I did reinforce the staff very considerably in the early part of the year. That has been done, and I think I can give a reasonable assurance that as far as one can see the delay which did undoubtedly take place in passing the accounts will not occur in the future. I must apologise to the Committee.

2300. Thank you. On paragraph 15, could you tell us how this £10,000,000 which was given to Malta is being dealt with? Is it being invested?—£9,000,000 at the moment is invested in Government securities. The remaining £1,300,000 (the £300,000 is accrued interest) is on deposit and available for immediate use.

2301. In case goods and shipping are available which Malta might want?—This is mainly for restoration of war damage and rebuilding, and, apart from that, any other purposes that may be beneficial to Malta. Owing to the shortage of staff, materials and so on, I do not think that any large amount can really be spent until the end of the war.

2302. The Comptroller and Auditor General mentions at the end of that paragraph that he understands that the figures are to be sent to him for information. Can you confirm if that is to be the case?—Yes, that is so.

2303. Will the Public Accounts Committee see them also if they so desire?—(Sir Gilbert Upcott.) I should regard myself as being under an obligation to report to this Committee.

Sir George Davies.

2304. It is impossible, of course, to know accurately what the cost of the restoration of Malta will be, particularly as there may be additional damage due to enemy action before the end of the war. It says here in the Report: "if the actual expenditure should fall short of the sum voted." What is visualised if the actual expenditure should turn out to be in excess of the sum voted?—(Sir George Gater.) I think it is almost unpredictable at the moment. I think it would be very difficult to say what the cost would be; so much must depend upon the cost of building after the war, and that is an extremely uncertain figure at the moment.

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2305. If it should be in excess of £10,000,000 you would have to come to Parliament all over again for additional money?—There is certainly no authority beyond the £10,000,000, and it would be necessary for a further application to be made.

Chairman.

2306. On paragraph 16, Malta, which you did mention just now, you told us the position of the audit there, Sir George.—The position there is that we have the accounts for 1940-41 and 1941-42. The Governor held out the prospect that the account for 1942-43 would be sent in February, but it has not yet reached us.

2307. We all of us appreciate what Malta has been through, but it is about a year since things got more or less normal there, and a year did seem a long time?—Yes. I think really the difficulty has been, Mr. Chairman, a question of catching up arrears; they were so far behind; the work almost ceased in the worst time. (Sir Gilbert Upcott.) The Committee will remember that there were reductions made in the scope of the audit in order to meet that. (Sir George Gater.) I recognise that most gratefully.

2308. Have the Treasury any comment with regard to the Malta position?—(Mr. Brittain.) Do you mean on the last subparagraph of paragraph 16?

2309. Yes?—We have agreed, as is stated here. This was merely a question whether there should be an adjustment between two accounts which were both fed out of our funds, and we decided that it was not worth it. The sum of money was no longer repayable to us.

2310. On paragraph 17 I have no questions. On paragraph 18, "Middle Eastern Services: Sundry Grants in Aid", has this question been cleared up yet with regard to the Ethiopian refugees in Palestine?—(Sir George Gater.) Yes, the account for 1941-42 is in. In the case of 1942-43 there will not be a separate account for expenditure arising out of disturbances in Palestine; it will all be merged with the Grant in Aid.

2311. There still are Ethiopian refugees in Palestine, are there? One hoped that they might have gone back to Ethiopia with things as they are. It is probably a small remanet of people who are very old, or something of that sort?—Yes; I think this is really the clearing up of the account, because with a few exceptions all the refugees have now returned to Ethiopia, and expenditure from the grant ceased after 31st March, 1943

2312. We pass to the account on pages 74 to 80. We will take the first 3½ pages first, pages 74 to 77, down to the word "Receipts" on page 77. On page 76, sub-head C.14, there is a supplementary item of £750 "Colonial Department, Institute of Education, University of London." Could you just tell us what that was for?

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[Continued.]

—That was a contribution to make good 75 per cent. of the deficiency caused by the cessation of the normal grant from the May Esther Bedford Fund. The balance in the Fund was exhausted. The main object of the assistance is to enable the Colonial Department of the Institute of Education of the University of London to continue publication of the Colonial Review.

2313. On the same page, the note to Subhead D.1 says: "The grant in aid was not issued on the basis of the formula." Could you tell us what was the alteration in the basis of the issue of this grant?—The grant is now a normal grant in aid, but the last grant that was made was fixed in relation to the amount of balance available. The idea was to maintain a balance of £3,000,000, and for that purpose a grant of half a million pounds was made.

2314. The item on page 78 with regard to the Palestine-Kantara-Rafa Railway made my mouth water a little bit. I see you expected to receive £4,000 and the receipts were £580,000, which is a little uncommon, may I say, with railways in this country at all events! Could you tell us about that? It is one-third of the way down page 78. £4,000 was estimated and £580,000 was realised. Presumably, it is owing to Government use?—Yes. Are you referring to the amount of £580,662? Is that the figure?

2315. Yes; I was commenting on it as compared with the £4,000 estimated, because an increase of well over a hundredfold is a little unusual in railway receipts?—Yes. It represents a payment on account by the Palestine Government of H.M. Government's share of the profits from 1st April, 1936, to 31st March, 1943, less payments made for that period on a rental basis.

2316. There is a note about it a page or two later on, but even so the disparity was very striking?—That is really the explanation.

2317. You expected, apparently, about £600 a year, and it comes out at nearly £100,000 a year, dividing both those figures by seven.—Yes. We are asking the Palestine Government to furnish an audited statement up to 31st March, 1943, and also annually thereafter. (Sir Gilbert Upcott.) There was an alteration of the basis of the settlement. It is rather more than the receipt of an unexpected amount

under a similar scheme. The basis of the settlement has been altered because of the increased importance of the railways owing to their military user. The Colonial Office and the Treasury have altered the arrangement, which was previously based on a fixed rental; they are now taking a share of the profits.

2318. I do not know whether the Treasury have any comment to make on those rather striking figures?—(Mr. Brittain.) No, Sir, except to agree with what Sir Gilbert said. Instead of £4,000 we are now getting a much larger sum.

2319. Very much larger.—Not only in those years did we get a much larger sum, but a much larger sum than we were getting before will come along in the future.

Sir George Davies.

2320. At the foot of page 76 the note on Subhead C.13 says that the amounts charged to this subhead included loans and grants to students, etc., temporarily in need of assistance. Who decides what students are sufficiently in need of assistance to enjoy these grants? What is the process whereby they are dealt with?—(Sir George Gater.) These are students who are sent to this country by Colonial Governments for further education. Their circumstances would be investigated by the department of the Colonial Office which is responsible for welfare. We have a department for that purpose who keep in touch with the students and look after their welfare and housing and any other matters.

2321. Would it be settled on a sort of means test basis, as it were, after inquiring into all their circumstances?—Yes, certainly. I am afraid I cannot say precisely what is done, without notice, but I would put in a note to the Committee if they wished it.

2322. It is not important. It is done directly by a certain branch of your office, and not from an outside educational institution or anything of that sort?—That is so; my office is responsible for it.

Chairman.] We pass to page 80: "Bureau of Hygiene and Tropical Diseases". I have no questions on that. May I take it this Account is approved? (Agreed.)

VOTE 8A.

SITE FOR MOSLEM MOSQUE.

Chairman.

2323. Page 81, "Site for Moslem Mosque". Could you tell us, please where that is?—(Sir George Gater.) That is in Regent's Park.

2324. Is the purchase completed?—The purchase of the site is completed, yes.

Sir George Davies.

2325. Has any work been started or is it merely an acquired site with a view to

building after the war?—At the moment it is an acquired site. I do not think any building has been done up-to-date.

Sir John Mellor.

2326. In whom is the property being vested?—There is a Committee, of which the Egyptian Ambassador is a prominent member, which is responsible for taking over and making the arrangements. The

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[Continued.]

idea is that it should be used as a place of Islamic culture. The actual construction of a mosque, which is in mind, will probably not be started (it cannot be) till after the war.

2327. Who will appoint the trustees? I take it the Committee to which you referred will be the trustees?—I am sorry; I am aware that it has been conveyed to this special Committee and I think there are also trustees, but I am afraid I cannot give their names.

2328. I asked who appointed the Committee or the trustees, as the case may be?

—I am sorry; I am afraid I shall have to make some further research into that. It actually started before I came to the Colonial Office. I have been aware of all the subsequent happenings, but I am afraid I do not know what was the genesis of the Committee. I know that the Egyptian Ambassador has been a very prominent member of it.*

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

* Information supplied; not printed.

VOTE 9.

DEVELOPMENT AND WELFARE (COLONIES, ETC.).

Chairman.

2329. We turn now to pages 82 to 85. On page 82, Subhead C, there is a very striking underspending of almost two-thirds of the total amount of £1,000,000 which was granted for Development and Welfare Schemes. Was it not possible to get closer to the amount required when you framed this estimate?—(*Sir George Gater.*) I think I must say quite frankly that we fixed our estimate in relation to our hopes, but actually this particular year 1942-43 was practically the worst year for work of this kind, because of course the war was absorbing the energies, in staff and material, of the Colonies concerned, and it was really quite impossible for them, although schemes were approved, to put them in hand and to spend the money. I am very glad to say that for the year 1943-44 the position is appreciably better. For Development and Welfare Schemes the provision in that year was £1,500,000, and the expenditure has been £1,333,000. That is, of course, far below our desires, because the annual provision is £5,000,000, but I only mention it because it is an indication, I hope, in the right direction.

2330. You got much closer that time: six-sevenths instead of not much more than one-third on these figures?—I am sorry about it, but it really was due to causes outside our control.

2331. Have the Treasury any comment to make with regard to this?—(*Mr. Brittain.*) No, Sir. (*Sir George Gater.*) I am afraid the Treasury have always been doubters as to our power to spend this money.

2332. It is clearly understood that this Committee expects the Treasury to do what they can to see that there is no avoidable over-estimating.—(*Mr. Brittain.*) Yes, and I can assure the Committee that at the time the estimate is presented that sort of thing is always taken up, but we were in the same difficulty as the Colonial Office.

2333. You could not foresee that the difficulties would be so great that you could not spend much more than one-third of the amount for which you budgetted?—That is so.

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Mr. D. O. Evans.

2334. Could you give us a breakdown of this figure of £373,000 which was spent on Development and Welfare Schemes in the Colonies? Have you any details at all of what kind of schemes they were?—(*Sir George Gater.*) Yes, I can give you some information as to that. If I might take one or two quite at random, first of all in the West Indies, in British Honduras, road construction and improvement of airfield involved a total issue of £24,000. In the case of Cyprus, for various developments, very largely water supply, irrigation and the improvement of agriculture, the total issue was £75,150. In the case of Dominica, for various purposes, road development, improvements to hospital, investigation of possibilities of tobacco-growing, £11,650. In Jamaica a total of £84,000 made up of agricultural development and reclamation and surveys, a considerable sum on medical development of various kinds and small sums in connection with various education schemes, the whole coming to about £84,000.

Mr. D. O. Evans.] Thank you very much.

Sir Edmund Brocklebank.

2335. May I ask you a question on page 83. The largest sum granted under the Colonial Development Act, 1929, was to Tanganyika, £22,000, but there is a kind of remanet of £600 for a loan. Why was not that included in the grant, so that the thing would have been cleared up? It seems such a small sum.—That was in relation to the old Act, you will remember, the 1929 Act. Then it was quite frequently the practice to give assistance partly by grant and partly by loan.

2336. Yes, but it is the only instance of a loan during that period—it happens, I suppose, that the others have been worked out; I should think that is probably the explanation. (*Sir Gilbert Upcott.*) You will see the total loans outstanding under this Act on page 85.

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

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[Continued.]

VOTE OF CREDIT APPROPRIATION ACCOUNT, 1942.

Services 26-31 administered by the Colonial Office.

Chairman.

2337. We pass now to the Vote of Credit Appropriation Account, page vi. Paragraphs 11 to 14 run together. On paragraph 12, Sir Gilbert, could you tell us the present position? I think you have recently asked for information?—(Sir Gilbert Upcott.) I have received answers to those questions. I understand that accounting instructions have been given from time to time that audit of the accounts must be carried out locally under a member of the Colonial Audit Department. These are funds for which, of course, this country is much more directly responsible than for the ordinary administrative expenditure of Malta. As regards the accounts, as I think the Accounting Officer said a little while ago, the audited accounts for the years 1940 and 1941 have been received, but I understand they are not yet available to be rendered to me. The Colonial Office also inform me that proposals for the regulation of the selling prices have been received from the Government from time to time and agreed by the Treasury, though I do not gather that any principles have been laid down, but rather that *ad hoc* decisions have been come to; and no principles appear to have been laid down by the Treasury as regards the treatment in the account of losses, which I am afraid must be expected to be considerable on these transactions.

2338. Would you like to comment on that, Sir George?—(Sir George Gater.) I am afraid I must admit that everything here has been conducted under very great difficulties, and we have received, I think I can say, the utmost consideration from this Committee in past years, and also from the Treasury; but of course it was the case at one time that quite half the supplies getting to the Island were lost, quite apart from actual bomb damage on the Island.

2339. Yes?—Now we have received the full report from Mr. Hodges, who was there from the Director of Colonial Audit's Department and who left last autumn; he has sent in a full report on the two year's accounts. On the subject of losses I am bound to agree that there have been no fixed principles laid down. We have consulted the Treasury as cases arose, and I am afraid it will undoubtedly result from an examination of the accounts that there will be a number of other losses which will have to be dealt with, on which we shall have to consult the Treasury. On the question of price-fixing, the most important element I think has really been the cost of living. It was essential to keep the cost of living down as far as possible, and the Treasury were consulted on that, and that was a

very considerable element in the price-fixing, but in a sense it had to be done from hand to mouth to meet the local exigencies.

2340. Have the Treasury any comment they would like to make?—(Mr. Brittain.) No, except to agree entirely with Sir George's statement. He explained why it had to be *ad hoc*: no principles could be laid down in advance. It is very similar to the subsidisation of food prices over here, where the cost of living is kept low and the loss falls on the Exchequer.

2341. There is a reference towards the end of paragraph 13 to a reply from Jamaica having been received, and that it is now under consideration by the Colonial Office. Could you tell us now the results of your consideration on Jamaica, Sir George?—(Sir George Gater.) Yes. We have now received the accounts for the years 1940 and 1941. The main points that we raised with the Governor were in relation to expenditure on staff, and so far as we can see we think the points have been satisfactorily dealt with, but we have passed on the information to the Treasury now and I do not think it has yet got to the Comptroller and Auditor General. (Sir Gilbert Upcott.) No.

2342. Of course, one appreciates very much the difficulties of Malta, but in the case of Jamaica, frankly, as it is affecting the accounts of 1940 and 1941, it does seem as though a little pressure could advantageously be employed.—(Sir George Gater.) Yes; we have employed considerable pressure. I think it is perhaps fair to Jamaica to say that this was a task entrusted to them which I think naturally they would not have assumed themselves; it has been a very troublesome business for them. I do not say that that is a sufficient excuse, but it perhaps entitles them to a little leniency.

2343. On paragraph 14, could you tell us the present position there regarding the negotiations mentioned?—The hope there is that the Greek Government will be induced to refund the expenditure incurred by the Cyprus Government for the maintenance of these refugee Greeks who arrived in the Colony from Turkey. Those negotiations, of course, are being conducted by the Foreign Office.

Chairman. Are there any questions on paragraphs 11 to 14 inclusive?

Sir Edmund Brocklebank.

2344. Have you any kind of idea of the relative cost of the evacuation of civilians from Gibraltar to Jamaica and Madeira?—I have not really worked it out. I am afraid I cannot answer that without notice. I should have thought that Madeira was more expensive, but that is just a guess.

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[Continued.]

2345. I see the Comptroller and Auditor General has no comment to make on the expenditure in Madeira; therefore I understand from that that it must have been very well done and very cheap.—(Sir Gilbert Upcott.) I would not like it to be suggested that if I do not comment, everything is very cheap. In this case I found nothing to criticise.

Mr. E. C. TANSLEY called in and examined.

Chairman.

2347. We had got as far as page vii in the Vote of Credit Appropriation Account, "West African Produce Control Board," and I was asking for some particulars about this rather, as I gather, complicated arrangement with regard to the Oil Seeds and Cocoa Control. Are you going to tell us about it?—(Mr. Tansley.) Yes, Sir.

2348. Would you mind just telling us something of it.—The Board purchases in all the British Colonies in West Africa the whole production of cocoa beans, oil seeds, oil and ginger. It purchases through the merchants, acting as buying agents, up to what we call the f.o.b. point in Africa. The Board here is responsible for selling and distributing those commodities to this country and elsewhere in the world, usually in accordance with the direction of the Combined Food Board in Washington and the Ministry of Food here. That is the general picture of what the Board does.

2349. There is a mention of a rather unusual arrangement at the end of the paragraph, with regard to finance: "Settlement of the sums due to the company may be deferred until the end of each trading season (i.e., 30th September), interest at the rate of 1 per cent. being allowed by the Colonial Office on sums outstanding."—Yes.

2350. Will you give us a general idea of that?—As I mentioned, the Board buys through merchants in Africa, acting as buying agents. As soon as these merchants report purchase, the Board pays the merchants, although the produce may not be delivered by the merchants to the Board at the f.o.b. point until some months later. In the case of the United Africa Company, they asked whether the Board would be willing to defer payment and credit the United Africa Company with interest at the rate of 1 per cent.

2351. Free of income tax, or does that 1 per cent. pay income tax?—I could not answer that, Sir.

2352. It makes a difference, with income tax at 10s. in the £.—We pay 1 per cent. interest, so it would be free of income tax as far as we are concerned. As the Board has to pay 3 per cent. interest on any money borrowed from the Treasury through the Colonial Office, it was an

(Mr. Tansley withdrew.)

Chairman.

2346. On paragraph 15 I have no questions. Paragraph 16 is: "West African Produce Control Board."—(Sir George Gater.) This is a very complicated matter, and I have brought with me the Director of Marketing of the West African Produce Control Board, Mr. Tansley, if you want to ask him any questions.

obvious advantage to the Board, so the matter was placed before the Treasury, and they did not object to such an arrangement being made.

2353. Could the Treasury tell us something about this rather unusual arrangement?—(Mr. Brittain.) It is rather unusual, because of the unusual circumstances.

2354. Yes.—I am not sure that I can add much to what Mr. Tansley has said as to the reasons for it. We did not see any objection.

2355. You keep the money and just let it accumulate at 1 per cent.?—Yes.

Chairman.] Are there any questions on paragraph 16?

Sir John Mellor.

2356. Can you give the profits and losses up to date?—(Mr. Tansley.) Yes. In the first year of the war the control of cocoa was under the Ministry of Food, and during that year the loss was £208,000. In the autumn of 1940 the present Control Board was set up, and in the second year of the war the profit was £2,040,000. During the third year of the war the loss was £314,000. Those three years are the only complete seasons which come within the account under consideration. In the following year (the fourth year of the war) the profit has been very satisfactory and amounts to something over £2,000,000.

Sir George Davies.

2357. Has any progress been made in any experiments with regard to manufacturing the product of the cocoa plant or cocoa bean into products other than merely food for human consumption, in order to get a bigger market?—I have not heard of any, Sir. The only thing was that during the war cocoa had been used as an oilseed as against purely for cocoa manufacturing, but I have not heard that cocoa beans have been used in any other way at all.

2358. There have been some experiments along that line, have there not?—I have not heard of them, Sir.

2359. I seem to recall reading that efforts were being made in that direction, in order to extend the potential market and to do away with the necessity of applying the system of destruction to surpluses, and so forth.—No, I have not heard so, Sir.

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Chairman.

2360. We pass to paragraph 17: "Purchase of Jamaican Bananas." In the sixth line of the second paragraph there is a mention in the Report of information being asked for as to the quantity sold locally, the price obtained, the gross amount realised and the charges incurred. I do not know if you have that information, Sir George?—(Sir George Gater.) We have that information now, Sir. It was considered first of all that probably it would be necessary to destroy the greater part of the crop which could not be exported. Fortunately, it had been found that the banana has become a very valuable article of local food and it has been possible, at admittedly low prices, to sell a good deal locally. What has not been sold has been given away to charitable institutions, schools, and so on. The arrangement first made was that the three companies principally concerned in the banana trade (the United Fruit Company, the Jamaica Banana Producers' Association and the Standard Fruit and Steamship Company) should be responsible for the disposal of unshipped fruit, and they disposed of the fruit at prices which ranged from 10s. to 20s. per 100 stems. The total sales during the period from the commencement of the scheme up to the 31st March, 1941, were £8,903 gross, and as against that there were expenses amounting to £3,166.

The three companies remitted the gross proceeds from sales and then rendered their accounts, but from the 31st March to 31st December, 1941, while the same methods of disposal were followed, the companies deducted the expenses from the gross sales and then remitted the net proceeds. From the 1st January, 1942, it was felt desirable to make a different arrangement, and then a banana disposal Committee was appointed and the previous arrangements were reorganised. Disposal depots were opened up throughout the Island and the unshipped fruit was disposed of by these depots. One of the difficulties, of course, was that, owing to the low prices, it was not worth while spending a great deal on transport to get it about from one part of the Island to another, so sometimes it was really more economical to dump the fruit, where there was a surplus, rather than to transport it to some other part of the Island, where it might have been wanted but the actual cost of getting it there would probably have offset any return from sales. I have figures here, Mr. Chairman; I do not know whether you would like me to put them in; they are a little complicated, but I have figures showing what the actual sales were in this period, from January, 1942, up to the middle of 1942.

2361. The sums involved are very small, are they not?—The sums involved, I am afraid, are small. I think the figure actually mentioned here was £20,000 in 1941-42. I think the figure is rather higher in the

next year, but they are relatively small sums, I am afraid, in relation to the very big amounts which have been disbursed.

2362. I do not know what the Committee think. In my view it is hardly worth while to have the figures. Is that the general view? (*Agreed.*) It will not be necessary in that case for you to give the figures?—I think that particular statement has been sent to the Comptroller and Auditor General. (Sir Gilbert Upcott.) What it really amounts to is that it is very nearly giving away the bananas, because what we have spent over the three years is about £2,000,000. (Sir George Gater.) I am afraid that is the case, but I do not really think anything else could have been done. The benefit which I think we may claim is that they have been of very considerable nutritive value.

2363. Have the Treasury any views on this?—I do not think they have had time to consider the matter. (Mr. Brittain.) We have had various conferences with the Colonial Office as the scheme has progressed, and I can only say, I am afraid, that we went into this expenditure with our eyes open, knowing that there was not much that could be exported, with the shortage of shipping, and that they might have to be almost given away.

Sir Irving Albery.

2364. These companies that own the banana plantations are mainly American companies, are they not?—(Sir George Gater.) One of them at least is. I do not know about the Jamaica Banana Producers' Association. I think the United Fruit Company is. I am not sure about the Standard Fruit and Steamship Company.

2365. Can you give us any idea what was the original production; I mean, what sort of sum was realised from the sale of bananas from Jamaica in an ordinary average pre-war year: do you know that?—I think I would rather not give a shot without notice, but I should be very pleased to supply the figure.*

2366. I would rather like to have it if it is not much trouble?—With pleasure; it is no trouble at all. I am sorry I cannot give it, but I would rather not make a guess.

2367. Can you give any idea as to what proportion of the crop was actually dumped or destroyed or got rid of, as compared with the portion that was used for food purposes?—In more recent times I think only a very small proportion has been dumped. To begin with, two years ago the greater part of the crop was dumped; it was not possible to get people accustomed to eating bananas; and as a matter of fact the shortage of food in 1942, at the height of the submarine campaign in the Caribbean, was, of course, rather an important factor in leading people to eat their own bananas.

* Information supplied; not printed.

18 May, 1944.] Sir GEORGE GATER, G.C.M.G., K.C.B., D.S.O.

[Continued.]

2368. I suppose that means that they almost had to subsist on bananas at that period?—Well, I would not say that.

2369. As far as I remember, they always used to eat bananas?—Yes, but not in such quantities.

Chairman.

2370. Now we pass to paragraph 18: "Compensation for Losses on Sugar not exported from Fiji." Could you please tell us how this £6 5s. 8d. per ton was arrived at which is mentioned in the third subparagraph of paragraph 18?—Its main components are the cost of transport and milling of the cane, £3 6s. 1d., and then there was the actual purchase of the cane, £3 19s. 2d.; there were various small offsets against that, but those were the two main components. (Sir Gilbert Upcott.) I do not think those particulars have yet been furnished to me, and of course I should like an opportunity of examining those figures when they are available.

2371. Would you let the Comptroller and Auditor General have them?—(Sir George Gater.) I will, most certainly.

2372. As mentioned in the last line but two, certain figures from Fiji are now under examination. Have you yet got the results of the examination? It says: "A certified account has been received from Fiji."—I do not think that we have. The certified account is under examination by the Director of Colonial Audit, but I do not think we have yet had the details from the Governor.

Sir George Davies.

2373. At the bottom of page vii the Comptroller and Auditor General says: "As, however, an increase in production of sugar on the Islands had been encouraged." What form did that encouragement take? Was that financial encouragement by artificial price or subsidy?—No; what happened was that at the beginning of the war a telegram was sent to all the sugar colonies, urging them to increase their production of sugar. It was thought to be a desirable thing then. The Ministry of Food wanted us to do it, because they thought there might be difficulties in the matter of sugar, and they wanted to rely upon the British Colonies. It was partly on account of that request which had been made that it was felt to be essential to come to the assistance of the sugar colonies, who had in some cases put themselves out to increase production, and then found that owing to transport difficulties they could not get rid of the crop.

2374. To what extent did that increased production go over the average Fijian crop? Was it a substantial increase?—I should not say it was very substantial; I should think it is more of the order of 10 or 20 per cent., or something of that kind. The sugar, you see, is the main crop of Fiji.

2375. Quite.—And there is a limit to the extent of the increase.

(Sir George Gater withdrew.)

2376. When we were faced with having to destroy nearly 40,000 tons of a commodity of which there is a considerable shortage, for instance, in this country, was any outlet looked for in the United States? Was there any possibility of shipping any of that surplus to the United States of America?—I think every possible avenue was examined, but at that time everything turned upon the question of shipping, and of ships being available to lift the cargo. (Sir Gilbert Upcott.) Subject to correction, I think the 1941 crop was shipped. (Sir George Gater.) Yes, that was so.

Chairman.] At what time of the year is this sugar crop gathered? As Japan came into the war in December, 1941, it makes rather a difference when the crop is gathered. Do you know that?

Sir George Davies.

2377. It generally begins quite early in the year and is generally finished by shortly after the middle of the year?—Yes, I think it is pretty early in the year.

2378. Roughly speaking, from January to July?—Yes.

Sir John Mellor.

2379. Cannot it be stored?—Some of it can be stored. Of course, one of the difficulties was not having enough storage accommodation.

2380. But I take it as much was stored as could be stored?—Yes, certainly.

Sir Irving Albery.

2381. About what would be the normal annual crop of Fiji? Can you tell me that?—Fiji's share of the British Colonial quota, under the International Agreement, was 141,000 tons, and the actual exports in the three years 1937-1939 averaged 127,000 tons.

Chairman.

2382. About one-third was destroyed: 40,000 out of 120,000 odd tons. One-third of the normal crop had to be destroyed?—Normally about 60,000 tons would be shipped to Canada and the balance to the United Kingdom.

2383. The destruction was just on 40,000 tons, which is roughly one-third of the normal shipments, I gather?—(Sir Gilbert Upcott.) The production in 1940 was a good deal less than the pre-war export; it was about 114,000 tons in 1940.

2384. Are there any questions on paragraph 19? The figures come on page 9: Services 26-31. I have no questions. Are there any questions on Services 26 to 31? If there are not, I think, Sir George, that finishes your evidence. Thank you very much?—(Sir George Gater.) Thank you very much, Sir. I will send that information which was asked for.

Chairman.] We are very much obliged to you.

18 May, 1944.]

[Continued.]

CIVIL APPROPRIATION ACCOUNTS, 1942.

CLASS VIII.

VOTE 2.

MINISTRY OF PENSIONS.

Sir ALEXANDER CUNNISON, K.B.E., C.B., J.P., and Mr. R. A. LEDGARD, C.B.E., called in and examined.

Chairman.

2385. As we were delayed by Divisions and all sorts of things we are not taking the Dominions Office Accounts to-day. The only other Account is that of the Ministry of Pensions, and Sir Alexander Cunnison is the principal Witness. Will Members turn to the Civil Appropriation Accounts, 1942, pages 347 to 356. On page 350 there is a note which I think is mentioned later on, on page 352, under Subhead M, "Pension, etc., Contributions under Empire Air Training Scheme." There is no grant for that. Could you tell us something about the expenditure, and how it goes, other than what appears in the note before me on Subhead M, on page 352?—(Sir Alexander Cunnison.) The actual expenditure in 1942-43 was £13,605.

2386. There is a mention of a Memorandum of Agreement. Could you tell us rather more with regard to what this expenditure was?—There was a Memorandum of Agreement between the Governments of the United Kingdom and the Dominions of Canada, Australia and New Zealand for the establishment of the Empire Air Training Scheme. This provided that the Government of the United Kingdom should pay contributions in respect of Dominion Air Force personnel trained under the scheme, but killed or disabled while seconded for service with the Royal Air Force, at the rates of pension provided by the United Kingdom legislation.

2387. If they are serving over here, in fact?—Yes. (Sir Gilbert Upcott.) Or if they were serving in Canada. They are being trained in Canada.

2388. They are being trained in Canada?—(Sir Alexander Cunnison.) They are being trained in Canada under the Air Training Scheme. (Sir Gilbert Upcott.) With the Royal Air Force.

2389. As they are being trained in Canada for service here, we take the responsibility for them: that is the point, is it?—(Sir Alexander Cunnison.) Yes.

2390. On page 351 there are two items halfway down the page: "Capitalised value of pensions." Could you tell us something with regard to those items?—Yes. This is an amount received from the Mutual Crew Insurance Fund for the Netherlands Mercantile Marine, and it represents the capitalised value of pensions awarded under the Mercantile Marine Scheme to the dependants of British officers and seamen who were killed while serving on Dutch vessels on time charter to the Ministry of War Transport.

2391. Do you buy a pension for them, or how in fact is it done?—Perhaps you would allow Mr. Ledgard, the Accountant-General, to answer that question.

2392. Yes?—(Mr. Ledgard.) The amount was received from the Mutual Crew Insurance Fund for the Netherlands Mercantile Marine, representing the capitalised value of pensions awarded under the Mercantile Marine Scheme to the dependants of British officers and seamen who were killed whilst serving on Dutch vessels on time charter to the Ministry of War Transport.

2393. But you bought a pension?—(Sir Gilbert Upcott.) It is the other way round; we sold a pension. (Mr. Ledgard.) Yes, we sold a pension.

2394. I am afraid I cannot quite follow that. It is a receipt?—Yes.

2395. The Dutch gave it to us?—Yes.

2396. As a lump sum, in view of the fact that our men had been serving on their ships, and therefore they were responsible while that service went on?—Yes, that is right. It came out of their fund.

Chairman.] Are there any questions on pages 347 to 356? If there are not, may I take it the Account is approved? (Agreed.)

VOTE OF CREDIT APPROPRIATION ACCOUNT, 1942.

Services 48 (a), (b) and (c), administered by the Ministry of Pensions.

Chairman.

2397. We pass next to the Vote of Credit Appropriation Account, 1942, page xi. Paragraphs 28 and 29 run together. Could you please tell us how these excess grants mentioned in paragraph 29 arise, Sir Alexander: how it happens that excess grants are erroneously put into payment each week?—(Sir Alexander Cunnison.) I am afraid that the answer is that this is a rather complicated scheme which has had to be worked by inexperienced and not very highly trained staff, owing to the impossibility of obtaining any large number with previous service. The work had to be done

in a very great hurry in order to give effect to a Government decision; and it is of the essence of these grants that they should be made quickly; they are grants intended to provide for the families of serving men, and clearly quick payment is one of the first essentials. Unfortunately, the result of endeavouring to make these grants quickly has been that much too large a proportion of mistakes has been made; but it is only fair to say, I think, that the scheme ought to be an elastic scheme, but in order that it may be carried out by inexperienced staff, it is necessary to lay down very definite rules, and the fact that a payment

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[Continued.]

is not strictly correct under those rules does not necessarily mean that it is not a good grant; it does not necessarily mean that that amount would not have been paid, or some amount between the two, if it had been possible to deal with the case on the basis of pure discretion. One other thing I think I might say, that although at that time only 45 per cent. of the awards were audited by our internal audit department, it does not necessarily follow that the same proportion of mistakes would have been discovered in the remaining 55 per cent., because the audit is conducted not on a mechanical basis, but on a basis of intelligent selection. The auditors are directed by the Accountant-General to exercise that kind of selection, and naturally they put the greatest weight of audit at the points where, in their experience, the mistakes are most likely to occur.

2398. Have you any figures at all as regards the number of these War Service grants in operation either in the year under review or now?—Yes, I can give you the figures.

2399. It runs into hundreds of thousands, if I remember rightly?—At the present time it is well over half a million.

2400. And this organisation had to be entirely created in the early part of the war, had it not?—Entirely.

2401. It was a sudden very, very big new responsibility for you. Have you anything to say, Sir Gilbert?—(Sir Gilbert Upcott.) Last year the Treasury explained to the Committee that owing to the shortage of man-power it would be necessary in certain cases to reduce accounting staffs to an extent which might involve some risk of loss. I think the Committee accepted the fact that there must necessarily be some risk of loss, owing to inevitable man-power difficulties, but, as they desired that it should be kept within the narrowest possible limits, I undertook to bring to the notice of the Committee any specific cases in which it was evident that the man-power difficulties were involving losses. I think this is quite a fair example of a case in which, while it may be inevitable, there have been losses owing to man-power difficulties. It may be that the losses are subject to the qualifications which the Accounting Officer has mentioned, but I think there can be no doubt that there have been substantial losses, and they are continuing to be incurred.

(Sir Alexander Cunnison and Mr. Ledgard withdrew.)

CIVIL APPROPRIATION ACCOUNTS (WAR SERVICES), 1942.

CLASS X.

VOTE 3.

MINISTRY OF ECONOMIC WARFARE.

(On this Account no questions were asked.)

(The Witnesses withdrew.)

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

2402. Have the Treasury any comment they would like to make?—(Mr. Brittain.) No, Sir, except to agree with what Sir Gilbert has said and to say that I think the Ministry of Pensions are doing all that they can in the present circumstances to maintain a proper audit.

Chairman.] Has any Member of the Committee any questions to ask on paragraphs 28 and 29?

Sir George Davies.

2403. In the last line but one of paragraph 28 I see the words: "approximately £12,000 resulting from over-payment by postmasters." There is no suggestion there, is there, that that was due to any dishonest practices, but purely to errors?—(Sir Alexander Cunnison.) There is no such suggestion. The losses arise there through the failure of the Post Office to substitute a new payment book at the correct date, and through occasional payment after a stop notice has been issued. That is really quite inevitable with the volume of payment work that has to be done in the Post Offices. (Sir Gilbert Upcott.) It is quite a small proportion of the loss which is attributable to fraud. There are a certain number of cases in which there is evidence of fraud on the part of the applicants, but it is quite a small proportion. (Sir Alexander Cunnison.) I thought the question referred only to the Post Offices. (Sir Gilbert Upcott.) Yes; I say it is only quite a small proportion where there is any ground for suspecting fraud.

Chairman.

2404. We turn now to page 11, Services 48 (a), (b) and (c) in the same volume. The total of these War Service grants in the year under review was £14,500,000. Have you the estimated figure for the following year, Sir Alexander?—(Sir Alexander Cunnison.) Yes.

2405. They are steadily increasing?—It was roughly £13,500,000 for the first 9 months, so that would be approximately £18,000,000.

2406. If they were in the same proportion. That is an increase of £3,500,000?—Yes.

2407. They are going up steadily, with extra administration as a rule involved?—Yes, the extra numbers are coming in quite regularly.

2408. The limit was put up?—The limit was put up from £2 to £3.

2409. That is the maximum?—Yes.

TUESDAY, 23RD MAY, 1944.

Members present:

SIR ASSHETON POWNALL in the Chair.

Sir Irving Albery.
Sir George Davies.
Mr. Douglas.
Sir John Mellor.

Mr. Pickthorn.
Sir Frank Sanderson.
Mr. Henderson Stewart.
Mr. Touche.

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

CIVIL APPROPRIATION ACCOUNTS, 1942.

CLASS III.

VOTE I.

HOME OFFICE.

Sir ALEXANDER MAXWELL, K.C.B., K.B.E., called in and examined.

Chairman.

2410. We have this afternoon the Home Office. The witness is Sir Alexander Maxwell. Will Members turn first to the Civil Appropriation Accounts, 1942, Class III, Vote 1, Home Office, pages 96 to 99. On page 97, Sir Alexander, halfway down the page, there is mention of the Anthrax Prevention Act, 1919. There used, of course, to be trading accounts in regard to this which are not now published, but could you tell us what is now being done with regard to anthrax prevention?—(Sir Alexander Maxwell.) There is still a certain amount of goathair and bristle being imported into this country which it is necessary to disinfect because of the dangers of anthrax. The work is going on at the old anthrax station, though on a considerably reduced scale, to deal with such imports as are at present arriving.

2411. On page 98, Subhead L. is: "Central Committee for Refugees" for which the expenditure was £302,432 less than granted and Note L. states: "Due to the continued employment in industry of the able bodied refugees." Are most of these able bodied refugees now being employed?—Yes, there are very few unemployed now. Those who are unemployed are almost entirely aged people or invalids.

2412. The expenditure was less than half the amount of the grant?—Yes.

2413. And that may be the reason for it?—That was it. At the time when the estimate was prepared we did not venture to hope that such a very large number of them would be absorbed into industry.

Chairman.] Are there any questions on the Account, on pages 96 to 99?

Sir George Davies.

2414. Does Subhead L. include the refugees from Malta?—No. This is a grant made to the Central Committee at Bloomsbury House which deals with the refugees from Austria and Germany.

2415. It is confined to those two countries?—Yes.

2416. At the bottom of page 98, in the Details of Receipts, there is a small amount against the item: "Aliens change of name fees." Are we still permitting aliens now to change their names?—Yes, in very rare cases, when there is some special justification for the change.

2417. What sort of consideration would make a justification now?—I am afraid I myself have not seen any of the recent cases, but occasionally it happens that a man who is a friendly alien or a refugee alien of a friendly disposition has some good reason for suggesting a change of name. It is very rare, as this figure shows.

2418. Is it a security reason or a social reason?—No, in the security cases we do not charge a fee; there would be some special social reason.

Sir Frank Sanderson.

2419. In reference to the Anthrax Prevention Act, 1919, which is mentioned on page 97, can you say whether there were in fact any outbreaks of anthrax during the year under review?—I could not be certain about that. As far as I remember, there was none in connection with this kind of material.

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

VOTE 3.

POLICE, ENGLAND AND WALES.

METROPOLITAN POLICE FUND.

Mr. F. C. JOHNSON called in and examined.

Chairman.

2420. We pass to Vote 3, "Police, England and Wales". Will Members turn to pages viii and ix, paragraphs 20

and 21 of the Report of the Comptroller and Auditor General: "Metropolitan Police Fund Account. War Damage." This we dealt with last year on paragraph

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Mr. F. C. JOHNSON.

[Continued.]

20. Could you please explain the last sentence in paragraph 21: "In consequence, to relieve the Metropolitan Police Fund of an expense not borne by other police authorities, the Treasury have agreed to make, in supplementation of the ordinary Exchequer grant payable, a special grant of 50 per cent. of the cost of war damage sustained by such property?"—(Mr. Johnson.) The position is that paragraph 21 refers to the insurance of chattels. The earlier paragraph refers to property. The Receiver's property, Metropolitan Police property, is deemed to be Crown property, and, therefore, cannot be insured under the Act. Other police forces can insure their property. Those other police forces who insure their chattels get full compensation. The Treasury, in the case of the Metropolitan Police, because we cannot insure, have agreed to give us a special grant of 50 per cent. of such damage as may be sustained in the case of chattels.

2421. What happens with regard to the other 50 per cent. of the war damage?—We get that in the ordinary grant.

2422. The ordinary grant covers it? This is to make up for what the Metropolitan Police would otherwise lose by different arrangements applying to the rest of the country. Is that the position?—Yes.

Chairman.] Are there any questions on paragraphs 20 or 21?

Sir George Davies.

2423. That 50 per cent. is apparently a sort of rough and ready halfway division? As a matter of experience, does it cover the demands made for rehabilitation?—No; the 50 per cent. is because the Treasury already pay 50 per cent. of all police expenditure; that is to say, the ordinary Exchequer grant in aid of police expenditure is 50 per cent. of everything, and this is the balance.

2424. The Treasury now assume responsibility for the 100 per cent.?—100 per cent., and this is the balance.

Chairman.

2425. Are there any further questions on the Report of the Comptroller and Auditor General? We pass to the Account which is on pages 102 and 103, on which I have no questions. Are there any questions on the figures? We take next pages 104 to 111, all of which we can take together: "Metropolitan Police Fund." On page 104, Subhead D, is: "Deductions from pay of Police towards Pension," the amount expended being £24,442 more than estimated, and the note at the bottom of the page states: "The reduction in strength was not as rapid as anticipated." Is the strength being reduced?—The strength is steadily reducing as the result of two factors; more and more men are going to the Forces, and although retire-

ments generally have been stopped, now, in the fifth year of the war, we are getting to the point when the Commissioner has to let certain men go on account of the state of their health. There is, of course, no recruiting, and those two factors together are making the Force drop in strength.

2426. This is the Regular Police, no doubt?—Yes, it is the Regular Police I am speaking of.

2427. To what extent are you getting non-Regular Police—supplementary Police, or whatever they are called—in to take the place of those Regular Police?—The Auxiliary Force is dropping. In 1940 it was far larger than it has been since. The Auxiliary Force has also been dropping all the time.

2428. For somewhat similar reasons?—Not for exactly the same reasons. Round about 1940 it was expected that the Commissioner would want very large numbers of men, and the Force was recruited up to quite a big figure—to more than double the peace-time strength. As the Committee are well aware, circumstances have changed since, and it has been felt that perhaps not so many men are wanted. There has been a movement not only to release men to the Forces but to allow men to go to industry. Those two factors together have led to the reduction of the Auxiliaries.

2429. On the following page, page 105, D.(1) is: "Purchase of land, purchase, erection and reconstruction of buildings" and the expenditure was £40,764 more than was estimated. The note says: "Due to unanticipated purchase of a building site and to expenditure postponed in the previous year." Could you tell us about that site and whether it is being used?—That was a site adjoining a repair shop and garage which we have just across the river, in Lambeth. It was part of the site we rented, and an opportunity came to buy it and to add it to the rest of the land that we have, and we took the opportunity. Apart from that, of course, it has not been the policy to buy a lot of land during the war.

2430. You are using that site apparently?—We were renting it before. It is used as a part of the garage and repair shop for the motor vehicles.

2431. On page 107 item G.(5) is: "Contribution to M.P. Food Service." I presume "M.P." means Metropolitan Police in this connection?—Yes.

2432. We went into this exhaustively a year or two ago. Have you anything to say with regard to the financial control of these contributions towards Metropolitan Police Food Services, an expenditure of £91,000?—The Committee, I know, were very interested in that. There have been two features that they might like to know

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about. The excessive expenditure over receipts, as they will remember, was because we had to maintain a 24-hour service in canteens to meet the needs of the Commissioner all over the district. That has to some extent been curtailed willy nilly, through inability to obtain staff. Because we cannot get staff some canteens have had to be cut down to a 16-hour service instead of a 24-hour service. That has tended to reduce the expenditure. On the other hand the reduction in the strength of the Force which we have already been speaking of has so reduced the trade that, while the standing charges have otherwise remained the same, I am afraid we are still running as we were before, at about £90,000 a year excess of expenditure over receipts.

2433. But you are satisfied that the financial control is as good as it can be in the rather difficult circumstances?—Yes, I can say that.

2434. You estimated a year or two ago that it would be about £92,000 a year. It is very close to that figure in the year under review?—Yes.

Chairman.

Are there any questions on those pages 104 to 111 inclusive?

Sir George Davies.

2435. Referring again to D.(1) on page 105: "purchase of land, purchase, erection and reconstruction of buildings", I suppose that does not include any reparations in connection with war damage to buildings, does it?—Yes, there is some war damage expenditure in there.

2436. You have to do reconstruction?—Patching up. We have not done any out-and-out reconstructions, but we have, of course, had to do patching up work to put the buildings into a condition to be usable. (Sir Gilbert Upcott.) I suggest that the war damage expenditure would be mainly under E.

2437. Yes: "Alterations, improvements, special works and repairs."—(Mr. Johnson.) I beg your pardon; the war damage is under E. (1).

Sir Frank Sanderson.

2438. On page 105, in regard to the same point which has just been raised on D. (1) "Purchase of land, purchase, erection and reconstruction of buildings", an expenditure of £52,764: when land is purchased in this way, or buildings are constructed, is there any central Government authority which collates the whole of the purchases of what are tangible assets, or is the position this, that each Department of the Government is responsible for its own purchases of land and its own buildings which are erected thereon?—So far as the Metropolitan Police are concerned, we have to have Home Office approval for what we do. We cannot, for instance, buy land without the approval of the Secretary

of State; nor can we accept a tender for putting up a large building. We do not do that in wartime, of course, anyway. But in peacetime we have to have the sanction of the Secretary of State for that also.

2439. It is not the purchase of the land or the erection of the buildings about which I am really concerned. What I want to determine is whether there is any central Government Department which is responsible for the purchase of all lands and all buildings which are erected by the Government for the respective Departments? In other words, it is a tangible asset; it is not an expenditure, and I wondered whether all the money which is expended on assets such as buildings and land is controlled by any one central authority so that we may know the extent to which the Government have money invested in lands and buildings?—There are only two things I can say on that as far as the Metropolitan Police go. For this purpose the Receiver is a corporation sole and holds the property himself. It is not held centrally. The second point is that this is not, of course, entirely Government property. It is rather peculiar in that it half belongs to the ratepayer; so it is not exactly in the same position as property held, for instance, by the Ministry of Works on behalf of Government Departments, which entirely belongs to the Exchequer.

Sir Frank Sanderson.] The point I raised hardly applies to this particular transaction.

Chairman.] It does not, really.

Mr. Pickthorn.

2440. The Chairman drew attention on pages 104 and 105 to the notes D, and D. (1) and (2). I hope I may be forgiven what may appear a mere pedantry, but I take it there the word "anticipated" really means expected? I am not really being funny, quite honestly. Surely above all in these financial matters "anticipated" does have a meaning which is not the same as "expected". Is not "expected" meant on both these occasions?—By "anticipated" I suppose we should mean that we knew it was coming and took money in the estimates.

2441. That is what "expected" means.—(Sir Gilbert Upcott.) I suggest it does not. You may expect something, but it does not follow you take steps to meet it. I think in these Accounts the word "expected" would have quite a different meaning from the word "anticipated." (Chairman.) I do not think we need go further into it really. It is near enough, surely.

Sir Irving Albery.

2442. In the Statement of the Receipts and Payments of the Metropolitan Police Loan Account from 1st April, 1935, to 31st March, 1943, on pages 110 and 111, there is, on the left hand side (on page 110)

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[Continued.]

a loan received prior to 1st April, 1942, and on the other side, on page 111, there is the expenditure of that loan prior to the 1st April, 1942, on several different items, the total of which comes to exactly £2,000,000. May I have an explanation as to how it happens that all those various expenditures should come to exactly £2,000,000?—(Mr. Johnson.) This was all part of the programme which Lord Trenchard sponsored when he was Commissioner. He was very anxious to improve the buildings, and so on, of the Metropolitan Police, and he got the Government to agree that money should be borrowed for the purpose. Parliament sanctioned it in the Metropolitan Police (Borrowing Powers) Act, 1935. That Act sanctioned the borrowing of £4,000,000. In fact we borrowed £2,000,000, and we have, as the Account shows, spent it all. It comes exactly to that amount because it was so made to do as a matter of arithmetic. If there were balances over and above they came out of the Metropolitan Police Fund and not out of borrowed money.

2443. Then the payments out do not at all represent the total expenditure on those items?—No, they represent what came out of the Loan. (Sir Gilbert Upcott.) Further expenditure will be on the Metropolitan

Police Fund Account. In fact reference has just been made to some of the expenditure, which is under D. and E.

Mr. Douglas.

2444. It is paid out of revenue direct. There is one question I would like to ask. The Witness said that the property of the Metropolitan Police was half the property of the ratepayers. What do you mean by that?—(Mr. Johnson.) What I meant was that theoretically at any rate they had produced half the money that went towards buying it.

2445. I appreciate that. But that is quite a different thing, is it not?—The point I was making when I said that was that our property is in a different position from the property held by the Ministry of Works for a Government Department. Perhaps I took it too far, but what I was trying to lay stress on was the source of the money.

2446. I appreciate that. I do not think you would admit that the ratepayers have any property in it, would you?—I do not think I might.

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

(Mr. Johnson withdrew.)

VOTE 5.

APPROVED SCHOOLS, ETC., ENGLAND AND WALES.

Chairman.] We pass to pages 117 and 118, "Approved Schools, etc., England and Wales." Are there any questions on this Account?

Sir George Davies.

2447. On page 117, on Subhead D., "Remand Homes," there is a considerable expenditure. Of course, there has been a good deal of public anxiety and agitation about the shortage of desirable accommodation for people who go either to remand homes or approved schools, of whatever they are called. Is there a policy still being practically pursued of making substantial extensions to this accommodation due to the increasing malfeasance of juveniles?—(Sir Alexander Maxwell.) Yes. As regards remand homes which are provided by local authorities very substantial additions have been made in recent years. The accommodation has been enlarged, although it is still not more than adequate for the needs. As regards the schools also additions have been made to the accommodation. It has been, of course, especially difficult during the war years to start new schools, but nevertheless a number of new schools has been started. In the year under review there were 10 additional

schools opened, and in the subsequent year another 10 have been opened.

2448. Have we now got away from what was rather, I will not say a scandal, but rather an undesirable situation, in which these juveniles had to be put in prisons and unsuitable places because there was no room for them in the institutions?—There are still, unfortunately, a few children sent to prisons on certificates that they are too unruly to be detained in remand homes. We are doing everything we can to check that tendency, because although sometimes it may be that in the case of a boy who is very big for his age that is inevitable, yet it is a very unfortunate policy which we are anxious to avoid, and I think now one can say that there could be no excuse for sending to prison a child who could be managed in a remand home merely because there was not room for him. I hope we have reached that position. But I do not want to give too golden a picture, because the situation is liable to alter from month to month if the number of children who misbehave happens to increase.

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

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Mr. P. R. HIGGINS.

[Continued.]

VOTE 18.

NORTHERN IRELAND SERVICES.

(On this Account no questions were asked.)

CLASS VI.

VOTE 15.

STATE MANAGEMENT DISTRICTS.

(On this Account no questions were asked.)

TRADING ACCOUNTS AND BALANCE SHEETS, 1942—STATE MANAGEMENT DISTRICTS ACCOUNTS.

(State Management Districts: Confidential Trading Accounts, 1942.)

Mr. P. R. HIGGINS called in and examined.

Chairman.

2449. We turn to the Trading Accounts and Balance Sheets, 1942, pages 30 and 31, State Management Districts Accounts. We take also the Confidential Trading Accounts, 1942. I have one question on the confidential figures. I notice that the figure of total production or turnover increased in the year by £173,000, but the profits were £1,000 down. It seemed rather a remarkable juxtaposition, the small decrease in profits with such a large increase in production or turnover. The net profit in the year under review was £145,000 and the year before it was £146,000. That is a decrease of £1,000, and the production or turnover on the right hand side is £173,000 more?—(Sir Alexander Maxwell.) The alteration in the figure of turnover is largely accounted for, of course, by the increased taxation.

2450. Hardly to the extent of £173,000, surely, in the year under review? There was an increase in the Budget Duty in 1942, I remember, but not, I should have thought, to that extent?—(Mr. Higgins.) The rate of gross profit fell from 25.50 per cent. to 20.98 per cent., and the rate of net profit fell from 19.26 per cent. to 15.57 per cent.

2451. Have you a reason for it?—It was due, of course, to the increased duties which we only recoup, as it were, without profit.

2452. I did not realise that the duty increase could account for as much as £173,000 on £758,000. It is one-quarter more?—The increase of duties was actually about £128,000.

2453. But the difference between £931,000 and £758,000 is £173,000, so there is still about £40,000 to be accounted for. You follow my figures?—Yes. That is entirely due, as I say, to these changes in the rates of gross profit.

2454. You said the duty increase was £128,000?—Yes.

2455. There is still over £40,000 at issue between us?—Yes.

2456. Is there any special reason for that?—No special reason, except, as I say—

2457. It seems such a very big increase—nearly £45,000 in your sales, as it were

—the total production or turnover—and yet there is £1,000 less in profit at the end of the year. That is the point I am making?—Yes, but that great increase of turnover only represented about £2,000 increase on gross profit, and the wages and charges increased by £3,000.

2458. Even then you are £40,000 out?—Not, I think, on the profit. One was £145,000 and the other £146,000.

2459. Yes. I am trying to correlate those two figures. I am afraid you have not satisfied me with regard to the difference of £40,000.—Out of that £45,000, on account of the decline in rate of gross profit, we only made an extra gross profit of £2,000. (Sir Gilbert Upcott.) I think what the Chairman wants to know, if I may say so, is whether you sold more beer.

2460. That is what I am trying to find out. Did you sell appreciably more beer or spirits?—(Mr. Higgins.) No, we sold less whisky. We could not get it to sell.

2461. It is a rather curious anachronism, as it seems to me, in your figures?—We did in fact sell very slightly more beer—very little more—and considerably less spirits.

Chairman. All right—there is £40,000 I cannot quite account for. Are there any questions on the Trading Accounts and Balance Sheets or on the confidential figures?

Sir Frank Sanderson.

2462. The figure of material used is £286,000 and the figure of net profit £145,000. You do not think by any chance that it might be regarded as profiteering by a Government Department?—I do not think we are worse than other persons in the same line of business.

Sir Irving Albery.

2463. Following the Chairman's point on the increase in the total production or turnover and the very small extra gross profit, I feel that if the Witness cannot give us the explanation now, we ought to have a short note explaining how it is that the increased turnover resulted.—(Sir Alexander Maxwell.) I should like to analyse that myself more carefully and let you have a note.*

* Paper circulated to Members: not printed.

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Mr. P. R. HIGGINS.

[Continued.]

Chairman.

2464. Yes. Doing a very quick sum, three-quarters of the increase of £173,000 is accounted for by extra duties. That leaves about one-quarter, which is, quite frankly, from my point of view unaccounted for. Perhaps you would not mind looking into that and letting us know. It is such a large sum that we should like to know about it. There is one further point. On page 30 of the Trading Accounts and Balance Sheets there is an asterisk note at the bottom: "Cash remitted to Exchequer in excess of accumulated profits". That note is in respect of a figure of £6,254: "Balance carried to Statement of Liabilities and Assets below". Is that a loss—a minus instead of a plus?—It is a minus but not a loss. It arises from the fact that the Exchequer in the case of this undertaking is both the banker and the owner of the undertaking. When the accounts were recast in 1929 to meet the wishes of the Committee of Public Accounts there was a capital figure taken to represent approximately the capital originally put into the undertaking. That figure was fixed at £732,000, but the net value of the assets was £1,123,000, and that uncapitalised difference of £391,000 was shown in the Statement of Assets and Liabilities as a liability, and it appeared in the Profit and Loss Account as a balance of accumulated profits retained in the under-

taking. Then in the Accounts for the subsequent years the profit for the year has been added to this outstanding balance of accumulated profits retained in the undertaking. There has been set against it the total amount of the cash transmitted to the Exchequer. In normal times when substantial expenditure is being incurred on capital improvements the cash available for transmission to the Exchequer is reduced, with the result that the balance of accumulated profits retained in the undertaking has increased, but during the war it has been impossible to undertake any substantial capital works and the cash transmitted to the Exchequer has exceeded the profit for the year because the profit for the year has been reduced by substantial writings off of the cost of improvements no longer considered as being of capital value and by large allocations to reserves. It follows that the balance of indebtedness to the Exchequer in respect of retained profits has been diminishing, and in the Gretna district the indebtedness has been liquidated and cash has been transmitted to the Exchequer to the amount of £6,254 in excess of the accumulated profits.

Chairman.] It is rather involved, is it not? Are there any further questions on the Trading Accounts or on the confidential figures? May I take it that the accounts are approved. (*Agreed.*)

(*Mr. Higgins withdrew.*)

VOTE OF CREDIT APPROPRIATION ACCOUNT, HOME OFFICE.

Mr. O. C. ALLEN, C.B., C.B.E., called in and examined.

Chairman.

2465. We pass to the Vote of Credit Appropriation Account, page x, paragraph 25 of the Report of the Comptroller and Auditor General: "Check of Inventories and Equipment, Stores, etc., handed over by Local Authorities". In the third paragraph of his Report the Comptroller and Auditor General says: "Further, in consequence of the lapse of time between the date when the inventories were received by the Home Office and actual stocktaking supplied by the Fire Force Commanders, considerable difficulties arose in reconciling actual stock with inventory figures." Could you tell us how these difficulties have been dealt with?—(*Mr. Allen.*) The position has improved since the Comptroller and Auditor General made his Report. Since the discussion with the Treasury to which you have just made reference, all the outstanding inventories except three have been satisfactorily dealt with. As to the three still outstanding, those provided by the Bletchley Urban District Council, the Bristol County Borough and the London County Council, it is anticipated there will be no difficulty in satisfactorily clearing all outstanding points at an early date, with the possible exception of the London County

Council. The peculiar difficulties in the case of the London County Council are due to the fact that the final schedules of the inventory, which is a very long document, were not provided by the London County Council until April, 1944. That is not said with any idea of censure; that is merely the physical difficulty of providing them in time. Again, the London County Council was divided, at nationalisation, between the five separate Fire Forces. Since then there has been a reorganisation and they have become four—which, again, adds to the complication. A third point of difficulty is that the London County Council Area was subjected, just before the period of this Account, to severe enemy action, and during that period a good deal of reinforcement in and out of the Area took place, with the consequent dispersal of some of the items which have to be accounted for. But at the request of the Treasury special checks have been made in no less than ten inventories in three widely separated provincial fire forces. A special check was made of all vehicles and all trailer pumps in one fire force area. The results of these checks were regarded by us as generally satisfactory. We transmitted an account to the Treasury on the 29th April, but I do

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[Continued.]

not know whether the Treasury have had time yet to digest the very full information which was sent in.

2466. Is that the test check mentioned at the end of that sub-paragraph?—Yes. We made it rather more comprehensive than was originally contemplated.

2467. The Report says: "The Treasury asked the Home Office to review the inventories so certified, to apply a check to one area at least . . ." and you mentioned ten, did you not?—We took the opportunity of making a check in three widely separated provincial fire forces, and then we did a fourth check, which was even more complicated still, referring to all vehicles—a physical check—and found the results very satisfactory.

2468. Have the Treasury had a chance of digesting this yet?—(Mr. Jones.) This is now with the Treasury. We are generally satisfied that the Ministry has done as much as possible in the circumstances. They have carried out their investigations in three areas, whereas we only asked them to carry out an investigation in a single area as a sample. For the major items of equipment on which we asked them to concentrate, the result of their investigation has been satisfactory.

2469. In those three areas?—Yes.

2470. You have reason to think that is a fair test of what has probably happened up and down the country?—We have no reason to believe that it was not a fair sample which was taken.

Chairman]. Are there any questions on paragraph 25 of the Report of the Comptroller and Auditor General? We have already dealt with the last sub-paragraph when we had the Scottish Office here.

Sir Irving Albery:

2471. There is one question I should like to ask: I take it there is now in force a system by which all the articles of equipment are on list?—(Mr. Allen): A standardised system has been brought into force, avoiding, one hopes, a repetition of this transitional state of affairs. There is now a standard stores accountancy procedure.

2472. What I meant was that although you may not be able any longer to make a very accurate comparison with what is compared with what was, at any rate statements exist now of what is?—The Fire Force Commander now takes everything on account and there is no question about that now. We are not at all anxious about that.

Chairman.

2473. Are there any further questions on paragraph 25? We pass to the figures, which are on page 10, Services 33 to 37. At the top of the page there are payments amounting to £35,000,000 odd. Could you tell us the main items there—of, say, anything over £1,000,000?—Yes. The biggest single item is £21,988,801 under the heading of "Pay and Allowances." The next item to which I would refer is £1,519,000 for fire appliances, equipment and stores. There is an item for canteens and messing of £1,583,157. The rest of the amount is made up of travelling and incidental expenses—a little more than half a million; telegrams and telephones, a little more than half a million; accommodation, £811,920; and there is an item of £220,000 for insurance. The rest of the items are quite small. Do you wish me to go into them?

2474. I did a very quick sum as you went along and it seemed to me to be about £10,000,000 short.—There are 12 items, but you asked me to deal with those which are large.

2475. Each of the others is a relatively small item?—(Sir Gilbert Upcott): There is a very large item of expenditure by the local authorities. (Mr. Allen): I beg your pardon. There is an unallocated sum of £8,000,000 expenditure by local authorities. The total payments, excluding local authorities, are £27,425,000, and an unallocated expenditure of local authorities was £7,919,359, which brings it to the figure of £35,000,000.

2476. I was nearly £10,000,000 short on the figures you gave, and that £8,000,000 just bridges it?—It is unallocated expenditure. I ought to have mentioned it. (Sir Gilbert Upcott): If I understand it aright, that expenditure is incurred under the same headings as those to which the Witness has referred, but it was incurred by the local authorities and has not been allocated by the Ministry over these headings.

Chairman]. Quite. Are there any questions on those items 33 to 37?

Sir George Davies.

2477. Item 35—what exactly are "war zone courts"? Where are they set up?—(Sir Alexander Maxwell): They have never in fact been established, but there was a scheme designed for creating special courts if England were invaded, and the ordinary courts could not function.

2478. Like the regional organisation originally?—And certain expenditure was incurred at one place in printing forms for a court which, of course, never functioned.

Chairman]. Are there any further questions? Sir Alexander, I think that finishes your evidence. Thank you very much.

(Sir Alexander Maxwell and Mr. Allen withdrew.)

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Sir ROBERT FRASER, K.B.E., C.B.

[Continued.]

CIVIL APPROPRIATION ACCOUNTS (WAR SERVICES), 1942.

CLASS X.

VOTE 13.

WAR DAMAGE COMMISSION.

(Statement of the payments by the War Damage Commission and Contributions received by the Commissioners of Inland Revenue under Part I of the War Damage Act, 1943, year ended 31st March, 1943.)

Sir ROBERT FRASER, K.B.E., C.B., called in and examined.

Chairman.

2479. We now take the War Damage Commission, and the Witness is Sir Robert Fraser. Will Members turn to the Civil Appropriation Accounts (War Services) 1942, to page xxxii, paragraph 85 of the Report* of the Comptroller and Auditor General: "Determination of the Appropriate Type of Payment." In the second sub-paragraph of his Report, the Comptroller and Auditor General says: "Following steps taken to classify claims in accordance with certain broad rules, coupled with a review by the District Valuers and supplemented where necessary by joint inspection of the properties by one of the Commission's assessors and an Inland Revenue Valuer, it appeared that the number of cases likely to require detailed calculations under Section 7 would be such as seriously to delay the completion of classification." Could you please tell us something with regard to those difficulties which apparently caused delay, and under what conditions payment has been made?—(Sir Robert Fraser.) The difficulties were simply the physical fact that if you have to inspect every property and do an elaborate formula, involving both valuation and an estimate of what the works will cost, it would have taken two or three years to finish the job. The Commission had decided, towards the end of 1942, with the approval of the Chancellor of the Exchequer, that they must make a big effort to classify into total losses and not total losses all the damage which had been done by the end of 1942, and this was the only way in which it could be done. That is to say, the direction which the Treasury gave us was partly a short cut to enable us to dispense with detailed valuations and estimates of probable cost of works in a very large number of cases.

2480. Could you tell us what percentage of cases were simplified in that way?—I should explain that the vast majority of war damage is of such a slight character that anybody can tell straight away that it is a cost of works case—that is to say, that it is going to be economical to repair the damage; but after one had done that preliminary test, there were a number of cases which required looking at, and they were looked at by a team of two in each case; that is to say, by one member of the War Damage Commission staff and one member of the District Valuers' staff of the Inland Revenue Department, but it was found that the percentage of cases remaining doubtful

which we marked "D" on the file was something like 5 per cent. That sounds a small percentage, but in numbers it was a very large number—something like 130,000.

2481. Therefore you would agree with the last sub-paragraph of paragraph 85, in which the Comptroller and Auditor General says: "The result of these arrangements is that the majority of dwelling houses that have suffered war damage will be exempted from the application of the test prescribed by Section 7, which will be applied therefore only to a very small percentage of damaged properties"?—Yes. The great majority of properties will still be under the test prescribed by Section 7; but in a very vast majority of cases that test can be applied merely, as it were, on paper.*

2482. And to a very small proportion?—Yes.

2483. Have the Treasury any comment on this? Do they agree?—(Mr. Usher.) We entirely agreed that it should be done. There were over 2,500,000 dwelling houses to be dealt with and it was clearly quite impossible to put numbers of properties like that through a test which involved first a calculation of cost and then two valuations, only to arrive at a result which a competent surveyor would be able to tell at a glance. (Sir Robert Fraser.) Ninety-two per cent. of the damaged properties are dwelling houses.

Chairman. Are there any questions on paragraph 85?

Sir George Davies.

2484. At the bottom of page xxxii the Comptroller and Auditor General says: "Accordingly, after discussion with the Inland Revenue Valuation Department, the Health Departments and the Ministry of Town and Country Planning, the Commission obtained the approval of the Treasury in April, 1943, to a method of classification the effect of which is broadly that all dwelling houses built after March, 1914, and all earlier houses that were of modern design, possessed modern amenities and were structurally sound before the damage, will attract cost of works payments." "All earlier houses that were of modern design." That can be a matter of opinion. Who decided on that no

* "The intention of my answer was to explain that, although the Treasury Direction enabled houses to be classified without working out details of values and costs for a full test in accordance with Section 7, it was nevertheless clear in the great majority of cases that the working out of such figures would produce the same classification as that which in fact has been given."

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[Continued.]

man's land?—The Commission has to decide whether a pre-1914 house is reasonably similar to post-1914 houses in general.

2485. That in itself necessitated a good deal of detailed investigation. Roughly, what would be the proportion or number (you gave us the rough number of the total) of these earlier houses which needed a special consideration?—There were 90,000 houses altogether which were put in the doubtful category, and I should think about half of those have been turned into cost of works. I should not say "turned into cost of works"—we have been able to decide that they are cost of works under the direction, but it does not follow that if there had never been a direction, and we had in fact gone through the detailed rigmarole of the test, they might not have turned out to be cost of works.

2486. Are there any arrears in numbers, or have they caught up, with decisions reached in all of them?—Decisions have not been reached in all cases, but in practically all cases. With regard to all damage done to the end of 1942 decisions have been reached, but those decisions are preliminary. The person who receives our intimation that he is in a certain class can object if he wants to, and then we have to look at it again, but in the vast majority of cases there has been agreement.

2487. To whom do they appeal if they have an objection?—To the War Damage Commission.

2488. Not to a law court?—There is an appeal to Referees if you wish to contest the amount of the value payment or the values used for the Section 7 test.

2489. Have you any indication that that machinery is being availed of largely?—No, because we have not sent out the actual determinations of what the value payment is. We have merely sent out an intimation that in the Commission's preliminary view this is a total loss and a value payment case.

2490. The owner is still in the air as to what the final amount allotted will be?—As to what the final amount will be, yes.

[Sir John Mellor.] What is the average lag, now, between damage and payment?—In the cases where we do pay for cost of works?

2491. Yes?—Five weeks. It was six weeks a year ago, and it was five months in the first year.

2492. That is taking the average over the number of cases, but is there not a tendency for the larger amounts to be rather longer delayed in payment than the smaller amounts?—Yes, but of course we do, under proper conditions, make payments on account.

2493. In the case of the larger amounts, too?—Yes.

2494. So that there is no discrimination as a result of a deliberate policy of postponing payment of the larger amounts?—No; but, of course, you are speaking now of what we call cost of works payments.

2495. Yes?—That is where you are getting your bricks and mortar back at Government expense. If you are a total loss and entitled to a value payment what you get is money at the end of the war, or later than that. It depends on what date the Treasury decide we are to release value payments.

2496. In the case of the larger amounts you make an early payment on account?—If we are asked, and if we are satisfied that it is due.

2497. But taking that into account, the payment is just as prompt in the case of the larger amounts as in the case of the smaller amounts? Is that right?—Yes. The vast majority of cases are, of course, small amounts. 94 per cent. of our cases are under £100, and the average payment we have made (we have made about 1,250,000) is £57.

2498. Does that involve a change of policy at all, because am I right in saying that earlier in the war there was a tendency to delay the payments of the larger amounts to a considerable extent, as compared with much prompter payment of the smaller amounts?—I think there will always be a certain amount of that, because the larger payments will almost certainly go for full technical examination, whereas as regards the smaller amounts there will be only a test number selected for technical examination. We obviously could not put every small amount through full technical examination.

Mr. Douglas.

2499. How many cases remain over in which it has not been settled whether the payment shall be a value payment or a cost of works payment?—Roughly, 40,000. That number is being added to every day, where there is still bombing.

2500. Is it not being reduced every day?—Yes, it is also being reduced every day.

2501. At what rate is it being reduced?—I could not tell you that offhand. Most of these cases which remain are very difficult and sticky cases—cases coming under special rules.

2502. Are they spread fairly equally over the country?—No. I think in some areas the pressure on the valuation staff has been greater than in others. It is all a matter of staff.

2503. Are you doing anything to even it out?—We are doing what we can.

2504. Have you been successful?—There are very great staffing difficulties in wartime. It is quite impossible, as you know, to move staff about in the same way as you can move them about in peacetime. If you get an area where staff are slack for a week or two you cannot send them over to another town suddenly.

2505. Do I understand that it is only a question of a week or two's difference in the amount of delay?—Are you speaking

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of delay in payment of claims or in classification?

2506. My question was directed to those cases in which you have not yet decided whether it is to be a cost of works payment or a value of payment.—It does vary by locality, and, of course, the decision requires the staff who know the values in that particular locality, and so on.

2507. The inequality may be quite considerable?—The delay does not really affect a claimant, because if you have a value payment you are not going to get paid until after the war, whereas if you are a cost of works case we will always take it out of its turn and classify where a claimant is in a position to do something with his property. If he is in a position to put repairs in hand we will always give a decision as to whether those are repairs for which we will pay under the cost of works procedure.

Sir Irving Albery.

2508. The Comptroller and Auditor General says: ". . . and all earlier houses that were of modern design, possessed modern amenities and were structurally sound before the damage." All those qualifications have to be complied with. They are not separate?—No.

2509. They are collective—all together?—Yes.

2510. That seems to imply that any old house, however well it may have been kept up, cannot get a cost of works payment?—It can, if it is only slightly damaged or if there is no structural damage.

2511. But if it were heavily damaged?—If it were completely destroyed? A great many houses are completely destroyed which will be rebuilt at our expense if they were thoroughly good houses before the damage.

2512. I take it that all dwelling houses built after March, 1914, if those are destroyed, get a cost of works payment?—Yes.

2513. Now take a house which was built earlier and was almost destroyed: if it was an old house it would, under this, be shut out, I take it, no matter what condition it was in?—Not if it satisfied what is said in the direction about it being reasonably similar to a post-1914 house—if it was well maintained before it was destroyed, and if it had modern amenities and was not on an underdeveloped site.

2514. Then it would be covered?—Yes.

2515. There is one other point I wanted to know. In the case of a value payment, can the owner of the house do anything with what is left if he wants to dispose of the material or use it for rebuilding?—We take into account the value of what is left in assessing the value payment.

2516. In other words, if he were able to use anything of what was left you would deduct the value of it eventually from the value payment?—What we pay him is the

depreciation in his investment due to the war damage.

2517. I do not quite follow that. My point is this. Take a house where you do not give a cost of works payment; you say that it is a valuation payment. There may be a good deal of material of value, although the house has been practically destroyed. Are any steps taken of any kind to safeguard or make suitable use of that material?—Valuable materials are taken into account in the value of assets left after the damage, and, therefore, we pay less of a value payment than we otherwise should. If they are useless materials, then the cost of removing those materials is taken into account also. If, before we declare a value payment, he carries out temporary works to preserve his property, then we would pay for those temporary works, but not if they are carried out after we have decided that it is a value payment case.

2518. You said just now that these are preliminary notices. That seems to me rather peculiar. Whenever you may declare whether it is a value payment or a cost of works payment it must be in everybody's interest—the owner's interest and the public interest—that any material of value should be preserved, so why, in that case, if the owner then takes steps to preserve it, should he not be paid the cost of preserving it?—I cannot criticise the terms of the Act, I am afraid.

2519. You mean that it is so laid down in the Act?—It is laid down in the Act that we may pay for temporary works if they are necessary to deal with the circumstances created by the damage.

2520. Would that date from the time when you give a final decision as to whether you give a value payment or a cost of works payment, or only from when you have given the preliminary notice?—It is in Section 6, sub-section (2), which says: "Where either a payment of cost of works or a value payment is made in respect of war damage to a hereditament, there shall be made, in addition to that payment, a payment (in this Act referred to as a 'temporary works payment') of an amount equal to the proper cost of any works reasonably executed for temporarily meeting the circumstances created by the damage." The works have to be "reasonably executed." Then there is a reservation that: "where a value payment is made, works executed between the occurrence of the damage and the time when the Commission's determination to make that payment, and not a payment of cost of works, has been notified to all persons having an interest." So we are not allowed to pay for temporary works executed after we have determined to make a value payment.

2521. But when you say "determined" do you mean finally determined, or do you mean when you have issued the preliminary notice?—I mean final determination, but it

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[Continued.]

does not follow that in every case we should pay for the temporary works. We have to be satisfied that they are reasonably necessary in order to meet the circumstances caused by the damage.

Chairman.

2522. Are there any further questions on paragraph 85? We pass to paragraph 86: "Cost of Works Payments. Aggregation of Repairs by the same Contractor." Could you please describe this arrangement with regard to the aggregation of repairs by the same contractor?—A great deal of this work is, of course, carried out on the basis of the prime cost plus a percentage, and it is the general rule in these percentage cases that the lower the amount of work the higher the percentage. There are cases where jobs are put up to us as being two jobs, which are in fact, to all intents and purposes, one job, and in those cases we insist on aggregation and pay a smaller percentage of profit.

Chairman.] Are there any questions on paragraph 86?

Sir George Davies.

2523. In the last three lines of the paragraph the Comptroller and Auditor General states: "Instructions have now been issued that where such works can reasonably be regarded as forming one contract the cost shall be aggregated for the purpose of calculating overhead expenses and profit." Is that retrospective, or from that date onwards?—We have been dealing with claims coming in weekly for three years. If claims have been settled we should not reopen them.

Chairman.

2524. Are there any further questions on that paragraph? We pass to paragraph 87: "Contractors' Remuneration on Sub-Contracts." Sir Gilbert speaks of a number of claims in which the charges by contractors for supervision have been allowed at amounts exceeding 5 per cent. of the total of the sub-contracts, and he goes on to say: "It appeared from my examination that claims for a higher percentage had been fairly numerous and that there had been some inconsistency in their treatment by the assessors, particularly where the main contracts for the work were placed before the War Damage Act, 1941, was passed, or before the Commission's procedure became known. The Commission have recently decided that no exception to the general rule should be made in future in favour of early contracts." Could you just tell us your views with regard to what has happened about this matter?—Quite frankly, the Commission have wobbled considerably over this matter. It must be remembered that in the early days of the Commission they were completely swamped with claims. It was very necessary to deal with them with speed, sympathy and simplicity—which was the

slogan of the Commission when it started. It was impossible to instruct our regional offices by general rules for dealing with everything. That had to exercise a considerable amount of discretion, and there is no doubt that in some regions or parts of regions certain claims were dealt with more sympathetically. If the contract had been settled before the Commission had made its rules known—and there were a good number of these cases—and people said: "We made this contract before we knew anything about the Commission or its rules," and it was the usual rate they had charged for generations, possibly to the same customer, in those cases there were a considerable number of concessions made; but recently, of course, our rules have become more and more widely known, and the Commission decided recently that they must be square-toed on this matter in all future cases, and they would not admit what one might call fashionable silk fees.

Chairman.] Are there any questions on paragraph 87?

Mr. Douglas.

2525. That means that the treatment differs according to whether the claim has been made recently or at an earlier date, irrespective of when the work was carried out?—The treatment differs according to when the claim is paid.

2526. That is what I want to get at?—The practice has changed over a period of three years. Particularly as you are making practice all the time, it is quite impossible that all claims being dealt with now should be dealt with in precisely the same way as all claims were dealt with in the first six months of the Commission's existence. We have paid nearly 1,250,000 cheques since we started.

Chairman.

2527. We pass to the next paragraph, paragraph 88: "Contractors' Usual Charges in Excess of General Rates." The circumstances in connection with this would, I think, interest us?—I am sorry, but I think I was answering paragraph 88 in my remarks on paragraph 87.

2528. The same thing applies. It is very much the same point, is it not?—It is very much the same point. The "fashionable silk" comes on paragraph 88.

2529. We will pass to paragraphs 89 to 91, "Highway Payments." These paragraphs we can take together. In paragraph 90 the Comptroller and Auditor General is dealing with war damage claims by Highway Authorities, and with the charges that may be included in them; he mentions that having regard to the long intervals which has elapsed in many cases since the damage occurred, the Divisional Road Engineers would not be able always to certify specifically that the claim was solely for making good war damage, and then he goes on to say: "In England and Wales an additional check on the accuracy of the claims will be

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[Continued.]

provided by a limited test examination by the District Auditors of the Ministry of Health." Do you consider that is sufficient?—I think so.

2530. As far as you can tell from these limited checks, the results are fairly satisfactory?—So far as we have gone we have had very few claims. There were no payments of this kind in the year of account because the rules were not approved of by the Treasury until later.

(Sir Robert Fraser and Mr. Usher withdrew.)

Mr. R. J. P. HARVEY called in and examined.

TREASURY MINUTE ON PARAGRAPHS 3 AND 4 OF THE REPORT OF THE COMMITTEE OF PUBLIC ACCOUNTS, 1943.

Sir CYRIL RADCLIFFE, K.B.E., K.C., called in and examined.

Chairman.

2532. We now take the Ministry of Information and our Witness is Sir Cyril Radcliffe. We begin with the Treasury Minute dated 12th February, 1944, on paragraphs 3 and 4 of our Report of last year. This is with regard to the control of expenditure of the British Broadcasting Corporation. I notice in the first sub-paragraph of their Minute the Treasury say: "The Committee will recognise that the circumstances are such that the day to day control should be exercised, and can only effectively be exercised, by the Corporation itself, and that the functions of the Ministry must be first to satisfy itself that a proper system of financial control exists in the Corporation." Presumably you have taken steps with regard to that, have you not?—(Sir Cyril Radcliffe.) Yes, we have. We have been into that very thoroughly since we were here last. We have had an officer down there who has discussed the system (and it has been largely reorganised inside the B.B.C., since the arrival of their new Director-General), with the Director-General and several officers there, and although the system of internal control is not the same as that which you would find in a Government Department it is a satisfactory system and is one which the B.B.C. themselves accepted and are now working satisfactorily.

2533. In the last sub-paragraph of their Minute the Treasury say: "The arrangements concluded in principle have since been under the continuous test of practical experience, and My Lords would hope that it will be possible to give a further assurance to the Committee when the Broadcasting Vote is under examination in the forthcoming session." That further assurance you are now in a position to give, I gather?—Yes. We can assure you that there is a satisfactory internal system, and we can assure you that as between the B.B.C. and the Ministry and the Treasury the document which we call the Principles of Control which was finally settled in October, 1942, has been satisfactorily observed by the B.B.C.—in 1942 with one

2531. The Treasury, presumably, are also satisfied in regard to that?—(Mr. Usher.) Yes.

Chairman.] Are there any further questions on paragraphs 89 to 91? We pass to the Account which is on pages 39 and 40. I have no questions to ask on the Account. Has any Member any questions. May I take it that the Account is approved? (Agreed.) I think, Sir Robert, that concludes your evidence.

or two exceptions, which have now been ironed out, but in the subsequent year with accuracy and speed. They were up-to-date with their forecasts and their estimates and their various statements that were called for. They provided very full information in response to all questions that were put to them.

2534. The Treasury are able to concur, are they, in this reassurance given to us by Sir Cyril?—(Mr. Harvey.) Yes. There is one point I would add. On the staff side, with regard to man-power, a special inquiry has been going on from time to time now in regard to Civil Service man-power, and the B.B.C. has been brought within the scope of that inquiry. The final results as regards the B.B.C. are not yet known.

2535. In paragraph 4 of our Report of last year, mention is made of a sum of about £1,000,000 for which the Corporation had still to seek approval in detail. Has approval of that £1,000,000 now been sought?—(Sir Cyril Radcliffe.) Yes; that has now all been cleared up.

2536. Are there any other material questions outstanding with the Corporation?—No, there are no material questions outstanding with the Corporation except the one which I think was raised by the Committee last year, which I think must remain in abeyance until the end of the war, and that is the question of how the capital assets which are purchased by the Corporation out of the Grant in Aid made available for them by the Government are ultimately to be disposed of. That we have left by agreement in abeyance.

Chairman.] Are there any questions on the Treasury Minute on paragraphs 3 and 4 of the Report of the Committee of Public Accounts, 1943?

Sir Irving Albery.

2537. I think this arises on the Treasury Minute. I wonder whether we could be told quite briefly what is the system of financial control, roughly, which has been installed at Broadcasting House?—Inside the Corporation?

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Sir CYRIL RADCLIFFE, K.B.E., K.C.

[Continued.]

2538. Inside the Corporation building?—It is this. They have broken up the Corporation into a number of independent administrative units—some 20 odd, I think. The head of each unit is supplied, if it is a big unit, with an administration officer who covers finance, and an establishments officer who covers man-power. They are responsible to him instead of, as hitherto, being responsible to an independent organisation inside the British Broadcasting Corporation called Establishments or Finance. He is allotted by the Director-General (and this is a highly centralised system) an actual budget to cover all that his unit is responsible for doing. It is expressed in an annual rate, expressed under various subheads of the kinds of activity with which his unit is concerned. His budget is allotted to him, and is then reviewed annually by the Director-General. If in the course of the year he wants to add to the activities of his unit he has to apply for an addition to his annual rate. If he is abandoning some activity he gets his annual rate reduced accordingly.

2539. Might I ask you this, in order to get it quite clear? I rather gather from what you say that the head of a department, although he has a financial adviser, does not frame his own budget by saying: "I estimate that I can carry out the duties required of me for such and such a sum," but he has allocated to him a sum which he may expend?—He has allocated to him an annual rate, which is framed as the result of what he puts in as his budget.

2540. That was not quite clear.—I am sorry; I ought to have brought that out; I did not. It is a very highly centralised system, because it really depends on reference to the Director-General, and no doubt it was brought in because of the re-organisation and the new Head. There has been started now a very limited measure of delegation under which the head of the unit is allowed to incur certain additions on his own, and the accounting system has been remodelled so that he has available every quarter a statement of his expenses to check up, to see that he is not exceeding his annual rate.

2541. In what way is there an inducement adequately to control expenditure—not so much in the sense of what you are doing, but whether it is being as economically done as possible? For instance, if any works have to be undertaken or equipment purchased, what method is there of ensuring that that is done as economically as possible?—I think the only answer I can give to that is that he has available the advice of a central management unit, which is not a controlling unit of the work of the administration, but is skilled in questions of staff administration and also of financial administration, and in dealing with his budget estimates or in the administration of his unit he has the help of a controller of finance.

2542. I understand in regard to any contract given out by the B.B.C. at the present time during the war, the procedure is quite different from that followed by a Government Department. A Government Department would be different in any case, I suppose. But there is no limit to the profits which a contractor can make in working for the British Broadcasting Corporation, provided he can secure the contract. To that extent it is quite different from working for any Government Department?—They do the bulk of their contracts through the Ministry of Works, and they have their advice as to the kind of terms which they should accept from a contractor, and the Ministry of Works keep their eye on the working out of them.

2543. Would the Ministry of Works expect anything like the same conditions to apply to a contract for the British Broadcasting Corporation as those they would expect to apply for a Government Department?—I am told the answer is no, that they do not regard them as under the same obligations as with regard to a Government contract. (Sir Gilbert Upcott): It was not a very large sum in 1942. It was only £104,000. That was the agency expenditure of the Ministry of Works on the British Broadcasting Corporation in 1942.

2544. There are expensive items such as engineering, plant, and all that kind of thing. I do not know whether that involves contracts?—(Sir Cyril Radcliffe.) The bulk of the plant is got for them. A great deal of the plant has come from America in recent years. I agree that the installation is conducted here, of course, by contract.

2545. I notice in the accounts of the British Broadcasting Corporation (to which we are coming later) the item of creditors is a large one. There is a figure of £1,460,000 in the balance-sheet. Can you give us any idea of what the largest item in that figure would be?—I am told that they are mostly engineering contractors—the installation of plant and the maintenance of plant.

2546. That rather contradicts the idea that they do not have much to do in the way of contracting, and their plant comes under Lease-Lend, or something?—The obtaining of the material comes under Lease-Lend, or is bought in America, but the installation of these large transmitters has to be done in this country and is done by contract.

2547. It does come to this, that a large proportion of the item "creditors" is due on engineering and other contracts. Therefore, generally speaking, it is reasonable to suppose that the total amount of contracts is larger than the amount owed. They must be pretty substantial contracts?—Yes.

2548. Then I think the question arises again as to whether the system under which these contracts are placed should

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[Continued.]

not be more in line during wartime with that of other Government Departments, especially in view of the fact that it is the Ministry of Information money—in other words, the money of a public Department—which is being spent?—Of course, the Vote is the Broadcasting Vote. The Ministry of Information are the people through whom it passes to the British Broadcasting Corporation, but one must reconcile that with the fact that they are regarded as an independent organisation, and indeed they are running themselves. It is not our contract: it is their contract that they administer.

2549. I would like to ask the Treasury whether they would regard an organisation which was under the control of a Department and financed by the Department as being autonomous in the matter of expenditure?—(Mr. Harvey.) I think we have to recognise the history of the Corporation, and the arrangements which have been made between the Government and

the Corporation are related to what was the practice in the past. So far as buildings and that sort of thing go we discussed this matter with the Ministry and the Corporation, I should think, about 1941. We arranged that the Corporation should keep very closely in touch with the Ministry of Works so that the same standards in materials, labour, and so on, were applied, because labour and building materials were, as we all know, extremely short, and we were anxious to ensure that the standards adopted by the Corporation were in fact the same as the standards adopted elsewhere. But that sort of general approach represented as far as we thought we should go.

Sir Irving Albery.] I do not think I will pursue it any further.

Chairman.] Are there any further questions on the Treasury Minute on paragraphs 3 and 4 of our Report of last year?

CIVIL APPROPRIATION ACCOUNTS, 1942.

CLASS IV.

VOTE 12.

BROADCASTING.

(Accounts of the British Broadcasting Corporation.)

Chairman.

2550. We pass next to the Civil Appropriation Accounts, 1942, Class IV, Vote 12, page 178. We take also the Accounts of the British Broadcasting Corporation, which are now in the possession of Members. On page 178 I notice that the grant was £10,000,000 but the expenditure was under £8,500,000. That was rather a long way off, £1,600,000 less than was granted, was it not? There is, I know, a note with regard to it?—(Sir Cyril Radcliffe.) There is a note with regard to it. It is a very big underspending. The principal reason was, I think, an unavoidable one, if I may say so. The B.B.C. had been working out over a period of years a very large expansion scheme for providing overseas services that did not exist before. Their expectation when they applied for their grant in aid for 1942, which was, of course, before the year began, was that that scheme would get ahead very much more quickly than, owing to the shortage of labour and the difficulty of obtaining material, was possible in that year, and the great bulk of the short fall was that they fell behind with their progress in that development. But I am not putting it forward as good estimating. Obviously it was estimating a long time ahead for a Corporation whose activities were rapidly expanding and changing, and they did not get it right.

2551. Is it possible to say at all how much is spent on overseas transmissions and how much on home transmissions? Have

you any definitions, roughly, of that sort?—Yes, although, owing to there being so much common expenditure, it is rather a rough break-up of the two. I could give you figures, I think, for the two.

2552. An approximate figure would be interesting.—If I could take the year 1942, the year with which we are dealing on the accounts, the net expenditure at home was £3,450,000, and the net overseas expenditure was £5,159,000.

2553. The overseas expenditure was roughly half as much again?—Yes.

2554. Those proportions are 40 per cent. and 60 per cent. as near as may be?—Overseas expansion is going ahead all the time, and, therefore, the expenditure is getting ahead of the home expenditure.

2555. My recollection is that out of the total expenditure, roughly half comes from the ros. per head contributed per set here?—Yes, that is right. The total wireless licence revenue is between £4,500,000 and £5,000,000.

2556. Out of a total expenditure here of £8,500,000. It is approximately half?—Yes.

2557. In other words, on the figures you have just given us, your domestic expenditure is somewhat less than your domestic receipts?—(Sir Gilbert Upcott.) I must demur to that. They have no receipts.

2558. The receipts which the State collects?—The licence revenue all goes to the Exchequer. The Exchequer gives the Corporation what it thinks fit.

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[Continued.]

2559. But the country does collect some £4,500,000 for the domestic performance, and of that the expenditure is about £3,750,000, or some figure of that sort. The two things can, not unfairly, be correlated?—(Sir Cyril Radcliffe.) There is that relation. (Sir Gilbert Upcott.) The principle before the war was that the Corporation got a proportion of its revenue. Now, of course, the expenditure bears no relation to the revenue.

Chairman.] No, but for the reason we have just heard the £4,500,000 is spent on overseas transmissions. Are there any questions on the Account?

Sir George Davies.

2560. On the right hand side of the balance-sheet in the accounts of the B.B.C. which has been circulated to us the first four headings are "Land and Buildings," "Plant," "Furniture and Fittings," "Musical Instruments, Music and Books." In the case of all of those the balance from the previous year is brought forward at cost; there is added to it the value of additions acquired during the year, less the book value of items discarded, and a fresh total is brought out. There does not seem to be any provision for what must be a very substantial item, and that is depreciation—for example, in musical instruments and music. Even that which they have not discarded but have retained must surely be depreciating in value. Where does provision for that come in the balance-sheet?—(Sir Cyril Radcliffe.) The B.B.C. do not make provision in their balance-sheet for that because, by arrangement with the Treasury, when this system of financing by grant in aid was established at the beginning of the war, it was regarded as inconsistent with that system that they should charge depreciation in their accounts, because the grant in aid provides them with money for purchasing new assets as they come along. (Sir Gilbert Upcott.) There is a note on the accounts—on the other side from where you are looking—to say that there is no charge for depreciation.

2561. Yes, but when some final post-war point is reached, we may have on paper an asset which actually does not exist?—(Sir Cyril Radcliffe.) Yes.

2562. At least, which is very much less than it would appear to be?—Yes.

2563. That is a situation we are just postponing until the Greek kalends?—They are renewing assets as they fall out during the course of the war. (Sir George Davies.) That is maintenance, not making provision for depreciation of the main edifice. It seems a queer kind of finance.

Sir John Mellor.

2564. On the left hand side of the balance sheet you have "Bank Loan (Secured)," a figure of £200,000, and on the other side "Cash at Bank and in hand," £358,000 and £46,000 respectively. I was wondering what you had a secured bank loan for?—

That is the B.B.C.'s arrangement—not ours. This is all that I have learned from them; it is not our arrangement: before the war they raised £500,000 from their bank to finance their main building in Portland Place. They did not, in fact, pay off the debenture in full when they could, but by arrangement they kept that debenture outstanding on condition that they kept £200,000 current balance with their bank. That enabled them to overdraw on the security of that debenture at any time they wanted to do so. That is the origin of that arrangement.

2565. With regard to Sundry Debtors, £377,000 odd, what are the main items making up that figure?—I am told that the main item is for the publication business which they run—the *Radio Times*, *London Calling* and *The Listener*. Those are the outstanding accounts, the current accounts.

Sir John Mellor. Is that due from the wholesalers or the retailers?

Chairman.

2566. From W. H. Smith and Sons and suchlike people, presumably?—The wholesalers, I gather.

Mr. Douglas.

2567. The additions during the year to freehold and long leasehold land and buildings were £681,000. Would that be represented by new building?—Land and buildings, I take it.

2568. I wanted to get at whether they have been purchasing land or whether it is additions to buildings—or perhaps it is both?—I am afraid I cannot tell you.

Chairman.

2569. It seems a very big figure, does it not?—They have certainly been installing three very big transmitter stations for the overseas service during these years, and those would represent the bulk of that expenditure.

Mr. Douglas.

2570. You are paying for it, you know. To take the next item, plant, there is an addition of £874,000. That gives us about £1,500,000, and the Comptroller and Auditor-General says that the Ministry of Works was responsible for about £100,000. So that the rest is dealt with otherwise. Is that right?—I think that the Comptroller and Auditor-General's statement was that the Ministry of Works bore on their own Vote £100,000—not that they were not in touch with the B.B.C. on the bulk of all this expenditure.

2571. I thought that was the amount which the Ministry of Works had expended as agents for the B.B.C.?—Carrying on their own Vote.

2572. So that is something additional to your £8,400,000, then?—£1,400,000.

2573. You say that is borne by the Ministry of Works. It is not reimbursed

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[Continued.]

by the B.B.C.?—I took what the Comptroller and Auditor General said to refer to an agency account.

2574. I thought you were contradicting me?—I was not intending to do so. I was referring to what I understood the Comptroller and Auditor General to say, which was that about £100,000 was borne for the B.B.C. in that year by the Ministry of Works on their own Vote, as agents. (Sir Gilbert Upcott.) On repayment terms.

2575. That is the point I put to you, that that will be repaid. It is not an addition to the £8,400,000. The other inference I drew was that that is the only item of expenditure that there is any Government control over out of this £1,500,000?—(Sir Cyril Radcliffe.) Yes. The control of the Government, so far as it is exercised, consists in approval of the schemes and the estimates before they are undertaken.

2576. Quite, but you have no check upon the reasonableness of the price which is actually paid for these schemes?—Only so far as it is provided by the Ministry of Works keeping in touch with the B.B.C. in the placing and working out of contracts.

2577. To what extent do they keep in touch with the B.B.C.?—That is the general arrangement, that they should do so.

2578. So that they are in touch with the B.B.C. on the whole of that £1,500,000, are they?—So far as I know, yes, whenever it refers to land and buildings, which is a very large part of the expenditure.

2579. But land and buildings are the smaller part of the expenditure. Additions to plant is the larger part, and over that you have no check at all, I gather?—So far as the B.B.C. plant goes, obviously it is a skilled engineering matter on which we ourselves are quite unable to control the actual reasonableness of any particular price or work executed. (Sir Gilbert Upcott.) The only Department which could give advice on technical equipment is the Post Office. (Sir Cyril Radcliffe.) The Post Office could give some help on the technical equipment.

2580. "Excess of expenditure over grant in aid"—£522,000: who is going to pay for that?—That will be expenditure which will be claimed by the B.B.C. to be made good by grant in aid in subsequent years to 1942.

2581. You will take that into account for the next year, will you?—Yes. That is brought out on an income and expenditure basis, and they have been put in funds by the grant in aid on a cash basis.

2582. Does that represent an excess over their own estimates?—No; that represents the difference between the income and expenditure which includes, therefore, demands and requirements which will accrue in the way of cash in the next year, and

the actual cash that had to be found to carry them through 1942.

2583. The cash which you gave them in 1942 is, presumably, based upon an estimate which they submitted to you, was it not?—Yes, estimates checked by subsequent figures.

2584. Did you reduce the estimate which they submitted to you?—No. The original estimate was very substantially reduced; in fact the original claim was over £11,000,000 for this year and in fact, as you see, only £10,000,000 was provided by the Vote. (Sir Gilbert Upcott.) I do not think that figure of excess implies any excess of authorised expenditure. It is simply, as Sir Cyril has said, due to the fact that whereas the grant is on a cash basis, that account is on an expenditure basis.

Mr. Touche.

2585. Would it not be convenient if we had the figures for the previous year published in parallel columns in the Revenue Account?—(Sir Cyril Radcliffe.) It could be done. As a matter of fact the B.B.C. balance-sheet for 1942 has different sub-heads, owing to their internal reorganisation, from those that were observed in the previous year, but normally, of course, you could compare year by year. I am not responsible for the form in which they draw up their balance-sheet. It is their document.

Sir Frank Sanderson.

2586. I have one question with regard to the capital side of the balance-sheet. I understand that the B.B.C. is financed by grant in aid?—Yes.

2587. And all the physical assets, I assume, are the property of the B.B.C.?—The qualification on that is that those that are bought out of grant in aid under this system during the war are reserved as to what the ultimate disposal of them shall be when the settlement comes at the end of the war, the major question depending on what is going to be the system for running overseas broadcasts when the war is over.

2588. Since the major portion of the capital is provided by grants in aid, it follows, does it not, that the principal assets will in fact be controlled and are in fact controlled by the B.B.C., so that does it amount to this, that after the war there will require to be a settlement between the B.B.C. and the Treasury?—Yes.

2589. In regard to what is to be paid for the physical assets which have been purchased during the course of the war?—Not quite that, because I think it depends more upon the system by which the Government will grant income to the B.B.C. after the war, these being not revenue-producing assets in themselves. They are not like an electric light company which has its right against people who use it.

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[Continued.]

Sir *Irving Albery*.

2590. Turning to the Revenue Account, to take the item, performing rights, £345,000, how does the B.B.C. come to an arrangement for the payment in respect of performing rights, because it seems to me it would hardly be comparable with any ordinary undertaking?—I do happen to know because when I was at the Bar before the war I was in an Arbitration about it. They have an agreement with the Performing Rights Society under which there are fixed scales for what they pay all the people represented by the Performing Rights, and those scales go up and down, according to the results of Arbitrations over a period of years.

2591. Do you know what is the highest fee they pay to a speaker?—I do not know at all.

2592. You do not, of course, know the highest fee which they pay to an artiste, either?—No, I do not.

Sir *Irving Albery*.] If there is no objection, Mr. Chairman, might we have a note of that?

Chairman.

2593. Is that information easily available from your point of view, or is it rather outside your ken—an internal question of that kind?—I have not regarded it as being within our ken, because it is part of the B.B.C.'s administration of their own business, in which they are experts and we are not.

Sir *Irving Albery*.] I am not asking to be told any particular name. Personally, it seems to me it is a matter which is of some interest, in looking through their accounts.

Chairman.] Is it not the sort of question one might ask the Minister of Information on the floor of the House?

Sir *Irving Albery*.

2594. From my experience of Questions to the Minister on the floor of the House I do not remember his ever having answered on that line at all; he usually says: "I do not interfere." Personally, I take a different view about the responsibility of this Committee for the expenditure of this money from that which he appears to take of his responsibility on the floor of the House?—After those declarations of principle, I do not concern myself with what the B.B.C. pay in these ways, and if I did ask them, quite apart from what you told me to ask them, they might tell me to mind my own business, in effect.

Sir *Irving Albery*.] It seems to me that if that question is asked—if you permit it to be put on behalf of the Public Accounts Committee—they can hardly tell Sir Cyril to mind his own business.

Chairman.] I am not sure they will not.

Sir *Irving Albery*.] I should like to put that to the test, because I claim in substance that these are public funds which are

being spent, and this Committee is entitled to inquire into their expenditure.

Chairman.] I am not going, obviously, to rule it out of order. Sir Cyril might find out from the B.B.C. what their reactions would be, in view of this question having been raised, and whether there would be any objection, and if so, what, to telling us.

Sir *Irving Albery*.] With all due respect, that is not what I am asking you that we should be allowed to do. I desire to put the definite question as a Member of this Committee, if you do not rule it out of order, as to what is the highest fee paid for a speaker by the B.B.C.

Chairman.] The Witness has already said that he does not know.

Sir *Irving Albery*.] I am asking that it should be ascertained.

Mr. *Henderson Stewart*.] As it would be a question from the Committee, may one put another side to this? Surely the question asked in that bald way would not produce very much information, because it would depend to whom the fee was paid; it would depend upon what kind of artiste it was. For example, American artistes who broadcast get infinitely bigger money than British artistes get. If you have a figure of, say, £500, it would not convey any information—at any rate to me—without knowing who it was or what it was for. So the question would have to be considered a bit before it was put, I suggest. It would have to be framed in such a way as to get some real information.

Sir *Irving Albery*.] I do not take quite the same view about that, but we shall probably be discussing this as a Committee.

Chairman.] Yes, later on.

Sir *Irving Albery*.] Possibly we might take that point then.

Sir *John Mellor*.] With regard to these accounts, I just want to ask why it has been considered necessary to mark them "Secret"? Is there anything in the accounts which would be of interest to the enemy?

Chairman.

2595. They should be marked "confidential." I believe they have always been treated as confidential. I understand that there is no "Confidential" stamp in the office, and in order not to have to write the word "Confidential" a great many times, the word "Secret"—which is somewhat stronger—has been used?—They are not published during the war.

Sir *John Mellor*.

2596. I assume that they were published before the war?—Yes.

2597. What is the reason for not publishing them during the war?—I think it must be a security reason. I do not know the history of it.

Sir *John Mellor*.] Can you see anything in this account at all which could possibly be of the slightest interest to the enemy?

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Sir CYRIL RADCLIFFE, K.B.E., K.C.

[Continued.]

Chairman]. Might it not be of interest to them to know the amount we spend on foreign broadcasting, which is largely done for propaganda reasons?

Sir John Mellor.

2598. That is not disclosed in this account, is it?—I think it is a question of the addition to the Broadcasting equipment and transmitters, some of which are, of course, in use for secret purposes.

2599. You think it might be of some interest to the enemy?—Just some, yes. (*Mr. Harvey.*) I think that was the reason—the fact that the expenditure on overseas broadcasts had been increased.

Sir Irving Albery.

2600. Are the Treasury satisfied that there is any adequate and substantial reason for contracts, which appear to be substantial ones, placed by the B.B.C., being on a completely different basis from that applying to other contracts placed during the war?—That question really raises the issue of the relations between the Government and the B.B.C. We have felt bound in the past to treat the B.B.C. not on the same basis as a Department. We have tried to work out a technique for control-

ling expenditure, and so far we have not gone so far as to say that the contracts placed with the B.B.C. should be vetted in detail by the Government. It would, I think, be a very large step to take to insist that that should be done. On the buildings side, as I have explained, we have arranged for consultation with the Ministry of Works, and there is the closest touch maintained, so that the standards are the same between the Corporation and Departments; but we have not so far taken the step of arranging for the contracts to be vetted. That would, I think, raise a very large issue. It really raises the issue of how far the Government can control the Corporation.

2601. It seems to me there is an even larger issue involved. Most of the B.B.C.'s expenditure at the present time is on behalf of the war effort; most of these items that have been quoted, for instance, by Mr. Douglas, are wartime expenditure on behalf of the war effort?—It is about 60 per cent. special war effort, yes, the remaining 40 per cent. representing the maintenance of the Home Service as it was before the war.

Chairman.] Are there any further questions on the Confidential Accounts or on the Account on page 178? May I take it that the Account is approved? (*Agreed.*)

CIVIL APPROPRIATION ACCOUNTS (WAR SERVICES), 1942.

CLASS X.

VOTE 7.

MINISTRY OF INFORMATION.

Chairman.

2602. Will Members now turn to the Civil Appropriation Accounts (War Services) 1942, page xiv, paragraph 34 of the Report of the Comptroller and Auditor General: "Delay in the Rendering of Accounts from Overseas." I notice, Sir Cyril, from this paragraph, that the amount outstanding increased during the year under review by some £300,000. Are you being successful with regard to your remedial steps to get these large lags cleared up?—(*Sir Cyril Radcliffe.*) The difficulty has shifted from getting the accounts in from the overseas posts, which is now pretty satisfactory (they come in quarterly) to getting them cleared with the staff which we have in our financial division in the Ministry, and although it has been nearly doubled between September, 1942, and March, 1944 (I was taking it up the other day) we still are facing a pretty serious lag, I have to admit, with regard to clearing them here. When they come in they very often provoke a long period of correspondence with the overseas posts as to the form of the account and as to the explanation of items which are not brought in in the right way or are

not explained, and that correspondence is capable of going on for a very long time. We have in the course of these last two years trained a number of accountants who have been sent out to our major posts to take charge there. People have gone to New York, Chungking, Lisbon, Moscow and Cairo, and I think we are gradually getting the thing in order, but it is not clear yet. The increase in that figure you quote over the amount which was uncleared in last year's accounts must be considered in relation to the fact that our own activities very much increased over the year.

2603. One appreciates that. There is a special mention of the account from the post in Cairo for the quarter ended March, 1942, not being received in time, and at the 31st March, 1943, a balance remained to be charged to a future account, and Sir Gilbert states: "The accounts uncleared included those for New York for the last three-quarters of the year under review." Have you any information with regard to the clearing up of those, which are not very inaccessible countries in these days?—The difficulty with the Cairo account was that all the

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Sir CYRIL RADCLIFFE, K.B.E., K.C.

[Continued.]

vouchers were destroyed when the Germans got in the vicinity two years ago. By order, all our papers were destroyed. Therefore the whole of the accounts had to be made rather in the air, and there will never be any vouchers. It is now in process of being cleared, and so are the New York accounts. We are better with New York now. We were behindhand with New York, I am afraid.

2604. Have the Treasury any comments to make?—(Mr. Jones.) No, Sir. We have met the request of the Ministry for additional staff at certain of these posts abroad, and, as Sir Cyril has said, the flow of accounts from these overseas stations is increasing. The difficulty of finding accounting staff in London is one which is experienced by all Departments.

2605. Have you any information, Sir Cyril, with regard to the Swiss position?—(Sir Cyril Radcliffe.) There we have to deal with facts as they are, because we cannot get the papers out of Switzerland. Therefore the only practical thing to do was to employ the local accountants, a well known firm, and get the figures by cable.

2606. A Swiss firm?—An English firm, Messrs. Price, Waterhouse and Company. We employed their local people—(Sir Gilbert Upcott.) The Committee might like to know whether it has been possible to get any report through from them.

Sir George Davies.

2608. Is the delay in clearing accounts in New York due to shortage of staff, or what is the reason?—Shortage of expert staff on the spot in New York. It has now been remedied. We have sent two trained people out there.

Chairman.

2613. You understand that if some of these matters are secret or confidential, you will have an opportunity to look through the transcript and take anything out before it is published?—(Sir Cyril Radcliffe.) I will, certainly.

2614. There have been several matters mentioned which would be rather useful to the enemy at the moment, I think. Are there any further questions on paragraph 34? We turn to the figures which are on pages 19 and 20. There is a very big item for publicity, nearly £3,500,000. Would

you tell us the main items, please?—Yes. It includes all the work that is done by the Ministry at home in the furthering of Government propaganda; that is the various campaigns which the various Government Departments run at home for the furtherance of the war effort. A very large item therefore necessarily occurs in the accounts for display advertising in the national and provincial Press. Then there is a big item in the publicity under Sub-head D, our films branch; a further item is a thing which has developed in the war very much, namely, the exhibitions which we run on behalf of the various Government Departments for enlightening the public by visual means as to the various aspects of the war effort. It also includes the local expenditure on our posts abroad, of course excluding the salaries expenditure. There is a big item for their work over there. It includes the distribution of photographs, pamphlets, Government publications and books.

Chairman.] Are there any questions on the Account?

Sir Frank Sanderson.

2617. On page 20, amongst details of losses and compensation, Sub-head I, there is an item "Ex-gratia payment towards expenses incurred in anticipation of an appointment abroad." Do you know whether the individual was successful or otherwise in securing the appointment?—No. He was going out to one of our overseas posts, and it was discovered that at the last moment, after he had made all the arrangements, that he would be *non-grata* to the local authorities there. The Treasury Solicitor settled up with him for us.

2618. Why I ask is this. In the event of an individual securing the post, would you in the normal course collect the amount of money loaned, or regard it in the nature of a gift?—I am not quite sure that I follow. He would get some very small overseas allowance if he were going on overseas service.

2619. It would be deducted, would it?—Yes.

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

(The Witnesses withdrew.)

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

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[Continued.]

THURSDAY, 25TH MAY, 1944.

Members present:

SIR ASSHETON POWNALL in the Chair.

Sir Edmund Brocklebank.
 Sir George Davies.
 Mr. Douglas.
 Mr. D. O. Evans.

Sir John Mellor.
 Mr. Pickthorn.
 Sir Frank Sanderson.
 Mr. Touche.

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

TREASURY MINUTE ON PARAGRAPH 8 OF THE REPORT OF THE COMMITTEE OF PUBLIC ACCOUNTS, 1943.

TRADING ACCOUNTS AND BALANCE SHEETS, 1942, BRITISH PHOSPHATE COMMISSION ACCOUNTS.

(Confidential Report and Accounts of the British Phosphate Commission for the year ended 30th June, 1942.)

(British Phosphate Commissioners—Dealings in outside Phosphates—Memorandum by Treasury.)

Sir ERIC MACHTIG, K.C.B., K.C.M.G., O.B.E., and Sir ARTHUR GAYE, C.B., called in and examined.

Chairman.

2620. We have to-day the Dominions Office. The Witness is Sir Eric Machtig and the additional Witness is Sir Arthur Gaye. Will Members turn to the Treasury Minute on paragraph 8 of our report of last year in regard to the Trading Accounts of the British Phosphate Commission. We will take at the same time the Trading Accounts and Balance Sheets, 1942, page 3, paragraphs 3 to 6 of the Report of the Comptroller and Auditor General, and also the Confidential Report and Accounts of the British Phosphate Commission and the Treasury Memorandum on dealings in outside phosphates by the British Phosphate Commissioners. First of all, I must remind the Committee of what our report of last year said in regard to this. I will read the paragraph, if I may: "Your Committee were informed that, as a result of the situation created by the damage done to, and subsequent occupation of, Nauru and Ocean Island by enemy forces, the British Phosphate Commissioners were called upon unanimately by the fertiliser manufacturers of Australia and New Zealand and by the Governments of those Dominions to make arrangements for the supply of phosphate from other sources. The Commissioners felt they had no alternative but to comply with this request, and have since employed their organisation and financial resources in the purchase (for resale in Australia and New Zealand) of phosphate in various parts of the world. No entry relating to these transactions is included in the trading accounts laid before Parliament, except for the commission charged to the fertiliser manufacturers for distributing the phosphate, and this commission is utilised for paying the administrative expenses. The balance sheet, how-

ever, includes assets and liabilities arising from dealings in 'outside' phosphates. The British representative informed Your Committee that these purchases and sales were not included in the trading accounts because they were outside the Commission's proper functions under its constitution, but he was perfectly satisfied that the Commission's capital was not being jeopardised in any way. Your Committee have no desire to suggest doubt of the validity of this assurance, but they think it is a matter for consideration whether further information should not be made available to Parliament in regard to the amounts involved and the financial results of these transactions which were carried out by means of resources entrusted to the Commission by the partner Governments under the agreement of 2nd July, 1919, confirmed by the Nauru Island Agreement Act, 1920. They recommend that the Treasury and the Dominions Office, acting, if necessary, in conjunction with the Dominion authorities, should invite the Commission to consider whether the financial results of all its dealings should not be incorporated in the trading accounts." Members have seen the Treasury Minute on that paragraph of our report: "Following the recommendation of the Committee My Lords have arranged for this matter to be brought to the notice of the Commission and have made certain suggestions which should meet the evident wish of the Committee that the dealings in 'outside' phosphates should be more closely interwoven into the official accounts of the Commission." Sir Gilbert, will you tell us your point of view with regard to these transactions?—(Sir Gilbert Upcott.) Perhaps the Committee would refer also to paragraphs 1 to 5 of my report on the Trading Accounts and Balance Sheets, relating to

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and Sir ARTHUR GAYE, C.B.

[Continued.]

the British Phosphate Commission. They have also before them a Memorandum by the Treasury on dealings in "outside" phosphates.

2621. Yes. I mentioned that.—They have that Memorandum, together with certain tables furnished by the Commission. As the Committee know, the British Phosphate Commission was set up to deal with and supply to the partner Governments, Great Britain, Australia and New Zealand, phosphates from Nauru and Ocean Island which they own. Those were first of all damaged by enemy action and there was difficulty in maintaining supplies, and they were subsequently occupied by the Japanese. To meet the short supply in Australia and New Zealand, where most of these phosphates go, at the request of the fertiliser manufacturers in Australia and New Zealand and the Governments of those Dominions, the British Phosphate Commission made arrangements for the supply of phosphates from other sources. The Committee were given to understand last year that the transactions relating to these "outside" phosphates, as they are called, were not appropriate to the trading accounts, except as regards certain commission charged to the fertiliser manufacturers for distributing the phosphates, this commission being utilised for paying the administrative expenses, but that a balance appears in the balance-sheet arising from those transactions. In addition to that, Sir Arthur Gaye explained to the Committee last year that the "outside" phosphates were sold at cost plus a commission and that there was a loss on the normal trading operations. In connection with the accounts before the Committee my officers were supplied with various supporting schedules by the Commission, giving the figures which lie behind the published accounts and the confidential accounts which are furnished to this Committee, and I have found it very difficult to reconcile the version of this matter which was placed before the Committee last year with various entries in these schedules. It appeared, as the result of the examination of accounting entries, that losses had been incurred on the "outside" phosphates which had been made good out of receipts on the Island phosphates which were in Australia, by means of various surcharges. I raised the matter with the Accounting Officer. I said to him that I was not furnished with full details of the transactions in outside phosphates but that my people had been allowed by the Commission to see the detailed schedules leading up to the entries in the balance sheet and trading accounts, and after referring to the various figures I said: "It may be that these figures do not bear the construction I have placed upon them, but at the moment it looks as if moneys have been diverted from the trading account for Island phosphates, in which the United Kingdom Government

is interested, to enable the Commission to sell "outside" phosphates in Australia and New Zealand at a low cost. I should be glad if you would let me know if this is the true position, because, if so, it places me in some difficulty in giving my certificate to the account." I have in fact qualified my certificate to the account, and I state in my report: "I have recently asked the Dominions Office for further explanation of these transactions which appear to affect the income from sales of Nauru and Ocean Island phosphate included in the Trading Account." The Accounting Officer replied to me to the effect that while Sir Arthur Gaye was absent at that time he had been into the matter with the London Manager of the Commission, and "it appears to us that your conclusion is correct, and that the Commission have, by surcharges on their stocks of Nauru and Ocean Island phosphates, been able to sell the 'outside' phosphates at a lower price than would otherwise be necessary. I find, however, that the Treasury view is that *prima facie* it is a matter of book-keeping only, and they would expect to find, on full information becoming available, that what has been done has been quite innocent in intent and that there has been no adverse effect in the arrangements adopted." I am not quite convinced that it is purely a question of bookkeeping only, because, on such information as is available to me, it seems that if these adjustments had not been made there would apparently have been on the trading account of the Commission a surplus which would or might have been available for the payment of the interest and Sinking Fund due to the partner Governments which has in fact been suspended. I am not claiming that that should of necessity be done; and it is not for me to judge. It may be that it was expedient in the general interest that the "outside" phosphates should be made available to the Australasian farmer at a lower price than might otherwise have been necessary; but I do venture to claim that the accounts which are rendered to this Committee should disclose and not conceal those transactions if they are legitimate and desirable, so that the Committee may form their own independent judgment on them; and I feel bound to draw the attention of this Committee to the fact that in 1933 the Public Accounts Committee referred to a somewhat similar incident in relation to these accounts. In their second Report of 1933 they said: "The Comptroller and Auditor General also drew attention to the fact that in the year ended 30 June, 1931, a profit of £493 13s. 8d. was arrived at only after a reduction in the provision for depreciation and a transfer of approximately £100,000 from reserve, an item which is included in the published accounts in the figure for receipts from phosphate sales

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[Continued.]

and sundry credits.' The accounts, therefore, as published indicate a profit when in fact there was a substantial loss. It is true that in the year ended 30 June, 1932, it was found possible to make provision for a partial restoration of reserve and for the normal allocation for depreciation. But these successive adjustments are not disclosed in the condensed form in which the accounts appear in the volume of Trading Accounts and Your Committee consider that, where public funds are concerned, the published accounts should be drawn in such a way as to exhibit the material facts from year to year." The Treasury have furnished a memorandum and also various tables supplied by the Commission, but I venture to think that they do not altogether elucidate the precise adjustment which has been made. To my mind, certainly, reading the Treasury memorandum and the supporting documents, the impression is derived that the trading in these "outside" phosphates has yielded a surplus which has been carried to the balance-sheet and appears as an asset. Well, if I am correct in my interpretation of what has occurred, this is not really the true nature of the transaction, and I think that if carefully scrutinised the Treasury memorandum supports the view I have formed of the nature of the adjustments made. In paragraph 5 the Treasury say: "The published Trading Accounts have thus been left free of transactions which in the view of the Commission are proper to the 'outside' phosphate Account." That is a statement to which I should demur. But the memorandum goes on to say: "but the Commission have prepared a special Account, with additional notes, for the information of the Committee and copies of these are attached. Both the Accounts and the notes are certified by the Auditors to the Commission. The Accounts shows a provisional credit balance of £83,212, arrived at after allowing (a) for stock at cost and (b) for the surplus of sale proceeds of island reserve phosphates at the common selling price over the landed cost of those phosphates." My interpretation of that is that by selling the island phosphates and the "outside" phosphates at a common price there has been a surplus on the Island phosphates over the landed cost of those phosphates which has been transferred to meet losses on the "outside" phosphates. I think this matter can be resolved by an answer to a very simple question. If the Committee will look at the document appended to the Treasury Memorandum—the foolscap document—described as "Summary of transactions in outside Phosphates from Australia and New Zealand, January, 1941, to 30th June, 1943," which is certified by the Chartered Accountants, they will see that those transactions yield a credit balance carried forward at 30th June, 1943, of £83,212, which I have already

mentioned. A little lower down they will see, under the heading of "Credit," the item "Sales and Sundry Credits," an amount of £4,000,000 odd. I think the true nature of the transactions will be elucidated if the Committee are informed what those Sundry Credits are—what is their amount and whence they are derived. I think that would, as I say, elucidate the nature of the transactions. I ought to say that I am not, of course, in any way questioning the validity of the certificate of the Chartered Accountants in Australia. They have quite correctly certified the result of the transactions which appear in the books of the Commission. But what I do say is that it does not seem to me, if my interpretation of the transaction is correct, that they are displayed in the Accounts, either the published Accounts or the confidential Accounts, before this Committee, in a way which would enable the Committee to judge the nature of the transactions and to form their own opinion upon them.

2622. Will you, Sir Eric, just give us your views, and also, incidentally, perhaps, answer the question which Sir Gilbert has just put?—(Sir *Eric Machtig*.) I would suggest that the question of the arrangement of the Accounts and what they mean had better be dealt with by Sir Arthur Gaye.

2623. Yes. Sir Arthur, perhaps you will be good enough to give us your views?—(Sir *Arthur Gaye*.) Might I ask Sir Gilbert to be kind enough to repeat his question. I had not before me when he was reading it the paper from which he was quoting. (Sir *Gilbert Upcott*.) The Treasury have furnished a Memorandum. (Sir *Arthur Gaye*.) I have that Memorandum. (Sir *Gilbert Upcott*.) Appended to that Memorandum there are three statements furnished by the British Phosphate Commissioners. One of those is on a foolscap page and is described as "Summary of transactions in outside Phosphates for Australia and New Zealand, January, 1941, to 30th June, 1943." (Sir *Arthur Gaye*.) Yes. I have that now. (Sir *Gilbert Upcott*.) It is dated "Melbourne, 9th December, 1943." It contains in the lower part of the page an entry: "Sales and Sundry Credits," which amount to £4,000,000 odd. My conjecture is that the surcharges must be credited there. The question to which I suggested the Committee ought to have an answer is: "What is the amount of the Sundry Credits and whence are they derived?" (Sir *Arthur Gaye*.) I am afraid I cannot answer that question without inquiry; I did not know that it was going to be put to me to-day. If I may deal generally with the points raised by Sir Gilbert, perhaps I may come back to this point. Firstly, I take the point of the surcharge of our reserve phosphates built up in Australia and

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[Continued.]

New Zealand before the war, used to equalise the cost of phosphates to the manufacturers: There has been no concealment about those surcharges. Neither I nor either of my colleagues is an accountant. We employ a firm of Accountants in Australia of the highest possible standing to advise us on all accountancy matters and to audit our accounts. They have advised us that the Accounts are in order, and, not being an accountant, I do find myself in a difficulty in dealing with these matters which Sir Gilbert himself admits are difficult to understand. With that preface, may I proceed? Under the Nauru Agreement Act, 1920, we have always taken the view that the partner Governments are only interested in the f.o.b. price of phosphate at the Islands. That is clearly laid down in Article 11 of the Agreement. Unfortunately, from an accounting point of view, for almost the whole term of our existence—certainly for over 20 years—we have been living I might say a double life. We tried at first to sell phosphate f.o.b. at the Islands, but it did not work. The buyers had to arrange their own shipping, and the difficulty of getting ships there at the right time proved to be most inconvenient, to put it mildly, to the business. So at their request we undertook all the shipping of the phosphate as well. But that does not alter the fact, I submit, that from the point of view of the Agreement, the interest of the partner Governments in the phosphate ceases when it leaves the Island. You will also note in Article 11 that the f.o.b. price is to be fixed on a basis of cost, and in calculating that cost the Commissioners have to take into account a number of matters, including interest on capital and Sinking Fund for the redemption of capital. Our view was, when we ceased to ship phosphate from the Island at the end of 1941, that we could no longer pay interest and Sinking Funds on the capital advanced by the Governments because we were getting no phosphate out of the Islands. The three Governments accepted that point of view. Any profits made after the phosphate leaves the Islands are, strictly speaking, I submit, not material to our official accounts under the Nauru Agreement. I am afraid it is difficult to make myself clear. It is a complicated matter. These reserve stocks of phosphate built up during a period of three years were credited as shipped in the trading accounts for those years, and their cost value appeared in the balance-sheet. Now, if we had sold that phosphate subsequently at less than cost I could well have understood the criticism. In fact we sold it at more than cost, taking into account freight charges, insurance, and various other charges incurred after the phosphate was landed; and we did so for this reason: during the year in question we were obtaining phosphate from three other sources entirely outside our statutory

functions—from the Island of Makatea, Christmas Island and from the Red Sea. It is absurd but true that during that year, owing to war conditions, the highest grade of phosphate was also the cheapest. The cheapest of all was our own reserve stock phosphate brought down into Australia and New Zealand. The next cheapest was the highest grade, Christmas Island, equivalent in grade to our own. The next was Makatea, also high grade—only just, if anything, below the grade of our own phosphate. The Red Sea phosphate, much lower in grade, was much more expensive. That caused a ridiculous position, because the different sorts of phosphate could not be distributed in exactly right proportions to the various manufacturers—

2624. In Australia?—In Australia—and naturally, those who got a high proportion of low grade phosphate at a very high price would have had a grievance against those who got a high proportion of high grade phosphate at a very low price. It was an impossible situation, I am sure the Committee will agree, so what we did was to put an arbitrary price on the three high grade phosphates, our own, Makatea and Christmas Island, above their actual cost to us, and an arbitrary lower price on the low grade phosphate from the Red Sea, well below the cost at which we bought it. It was the only possible way in which to conduct the business. According to academic book-keeping it may be wrong, although our own auditors say that it was the right thing to do. From a practical business point of view I cannot see what else we could have done.

2625. It was an upside down arrangement in regard to prices. Is that all you wish to say?—Yes.

2626. Have the Treasury any view with regard to this rather upside down arrangement of prices?—(Mr. Britain.) The policy was not for us but looking at it from the Treasury's angle we did not see what alternative they had, as a practical proposition, to averaging the price over the different kinds of phosphates which they were selling. Of course, the prices are not stable for all time. They move the price up or down—mostly up, I think, these days—according as new supplies are received, and so on; but it seemed to us a reasonable proposition, and I think in fact Sir Arthur will tell you that it was perhaps the only proposition which would have been acceptable to the Australian and New Zealand manufacturers and Governments. It would not have been reasonable to expect those two Governments or the manufacturers to pay full cost for the high grade "outside" phosphates and also the f.o.b. cost plus a surcharge for the Island phosphates; that would have meant that they would have been paying very much more than the average cost of the Commission as a whole, and we should have been "profiteering." I would stress one

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[Continued.]

point which Sir Arthur incidentally mentioned, that these Island reserve phosphates have in fact been taken into the trading account at their f.o.b. cost when they were shipped originally from the Island to the Dominions, and in so doing they did in fact bear their share of any interest and Sinking Fund to which they would have been liable, and which represented a part of the interest and Sinking Fund which was payable to us at that time. It would not have been possible, I think, for us to suggest that the three Governments were entitled to more interest and Sinking Fund over again on those particular phosphates; but that is rather a detail. The main point on which I think the Treasury would like to express a view is that we think their pooling of the prices was reasonable in all the circumstances.

2627. Sir Gilbert, is there anything you would like to say with regard to Sir Arthur Gaye's statement?—(Sir Gilbert Upcott.) The British Government is interested in this fact, that the payments of interest and Sinking Fund have been suspended. I am not saying that the pooling of the prices of these Island phosphates and the "outside" phosphates was an unreasonable arrangement. It may be that it is desirable that the British Government should not press its claim to interest and Sinking Fund in order that the Australasian farmer may, in present circumstances, get his phosphates at a lower price than he would otherwise have to pay. But what I do say is that these transactions ought to be displayed in the Accounts in such a way that the Committee would be aware of them and would be able to judge of them. Sir Arthur Gaye said last year that the "outside" phosphate was sold at cost plus a commission. I am afraid I disagree with that. It appears to me, on my understanding of what he has just said, that the "outside" phosphates have been sold at a loss which has been met by surcharges on the Island phosphates. I am afraid I must demur entirely to Sir Arthur Gaye's suggestion that the partner Governments are concerned only in the transactions f.o.b. from the Islands. Article 11 of the Agreement of 1920 said: "Phosphates shall be supplied to the United Kingdom, Australia and New Zealand at the same f.o.b. price, to be fixed by the Commissioners on a basis which will cover working expenses, cost of management, contribution to administrative expenses, interest on capital, a sinking fund for the redemption of capital, and for other purposes unanimously agreed on by the Commissioners and other charges". I think it is plain that that Article is meant to debar the Commissioners from discriminating between the three countries. Article 12 says: "All expenses, costs and charges shall be debited against receipts; and if by reason of sales to countries other than the United Kingdom, Australia, or New Zealand, or by other means or circum-

stances, any surplus funds are accumulated, they shall be credited by the Commissioners to the three Governments in the proportion in which the three Governments have contributed under Article 8 of this Agreement". Article 13 says: "There shall be no interference by any of the three Governments with the direction, management, or control of the business of working, shipping, or selling the phosphates", and in fact the Commissioners owned a fleet which they used to transport the phosphates to Australia and New Zealand, and the transactions arising out of the operations beyond the point of shipment have—by somewhat complicated adjustments, I agree—been incorporated in the Accounts which have been presented to Parliament and this Committee. The point, if I may repeat it, is that while I do not set myself up to judge the propriety of these transactions, I think the Committee ought to be aware of them, and I think that accounts should display and not conceal the true nature of the transactions. (Mr. Brittain.) Might I add a word on that?

2628. Yes, certainly.—We should be entirely at one with the Comptroller and Auditor General in giving the Committee any further details that they wish to have on these Accounts, and I would like to emphasise the fact that I do not think any alteration in the method of accounting for these transactions would have produced a penny more for the partner Governments. (Sir Gilbert Upcott.) That is, if I may say so, accepting the method adopted. If you accept the method adopted as proper the result will be the same. What I am suggesting is that the Committee were not able to judge what the method adopted was by reason of the fact that it was not displayed in the Account.

2629. I notice in their Minute on paragraph 8 of our Report of last year the Treasury say: "My Lords have arranged for this matter to be brought to the notice of the Commission and have made certain suggestions which should meet the evident wish of the Committee that the dealings in 'outside' phosphates should be more closely interwoven into the official accounts of the Commission." You made certain suggestions with regard to the matter. Have those suggestions been carried out in the accounts before us?—(Mr. Brittain.) They have been carried out partly in the explanation in the Memorandum and partly in the subsidiary information which we obtained from the Commission and which was given to us, of course, subject to the views of the other two partner Governments. We realised the right and the desire of this Committee to have everything it wishes, but there are three Governments concerned in the Commission, and we have to respect the views of the other Governments on questions, such as for instance, whether these things should pass through

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their trading accounts or not. We cannot force our view on the Commission.

2630. You cannot force your view upon them, but I understand that this Committee is regarded as functioning not only for the United Kingdom, but also for Australia and New Zealand.—(Sir *Eric Mactig*.) I do not think that is so. The Australian and New Zealand Governments have their own Public Accounts Committee.

2631. And they themselves deal with these figures, do they?—No doubt. I do not know whether you would like me, as the Accounting Officer, to say something from the Dominions Office point of view. There are, it seems to me, two points. One is the arrangement of the Accounts, which was commented on by this Committee last year. They felt that the "outside" phosphate transactions ought to be incorporated in the trading account. Secondly, there is the point which has been raised by the Comptroller and Auditor General as regards the treatment of the surcharge which has been levied on the Island phosphates in order to cover losses on "outside" phosphates. On the first point, we have been in touch with the United Kingdom Commissioner, and he with the Australian and New Zealand Commissioners. We found that they did not share the view taken by the Committee as to the desirability of incorporating the "outside" transactions in the trading account. I do not pretend to say whether they were right or not, but one must bear in mind that we are not in a position to dictate to them. The Commission is not a United Kingdom body. It is not for me or for some other authority here to say that this must be done. All we could do would be to approach the Australian and New Zealand Governments, asking whether they, for their part, would join with us in giving the Commission such instructions. I think that, having regard to the interests of the Australian and New Zealand Governments, they would not be willing to do so. I only suggest that the Committee should take that position into consideration. On the second point, as to the treatment of the surcharge, I would not really question the argument of the Comptroller and Auditor General, which is, I think, that the way in which the Accounts are presented do not make clear what happened. At the same time, looking at the matter broadly, I am advised that the transaction was certainly not prejudicial to the financial interests of the United Kingdom Government, and, that if the question had come up and the United Kingdom Government had been consulted about it, they would have agreed to the treatment of the surcharge. Therefore I feel that there is not really any point of substance in question and that it is ultimately an accounting question. (Sir *Arthur Gaye*.) May I say a word more on a point raised by Sir Gilbert. He referred to an answer which

I gave to a question put to me by this Committee last year. I think I ought to apologise to the Committee for having given not an untrue answer, in my opinion, but a misleading answer—and I am sure, the Committee having known me now for some 20 years, they will acquit me of any intention to mislead. I said, in answer to a question, that all this phosphate was sold at cost plus commission. What I had in mind was all the phosphates brought from all these sources, and, as a whole, it was sold at cost plus commission.

2632. High grade, low grade—all of it?—Yes, it was all lumped together. It was sold at cost plus commission. (Sir *Gilbert Upcott*.) That means the Island's phosphates and the "outside" phosphates lumped. (Sir *Arthur Gaye*.) The phosphate which had been credited in the trading account and was now lying as a balance-sheet item in Australia and New Zealand.

2633. In reserve in Australia and New Zealand?—Yes, in reserve. But my answer was entirely wrong in this sense, that all the phosphates we were dealing with were sold either above or below cost price. None of the phosphates was actually sold at cost. I hope I have made myself clear.

2634. It has evened itself out?—Yes, it has evened itself out, and that is the way I was looking at it when I gave my answer last year.

2635. I understood you to say a moment ago that the low grade phosphates had got artificially high in price and you had to fix a maximum price for them, which was appreciably below their value at the time?—Yes.

2636. Who is bearing the loss if they are being sold at a figure appreciably below their value?—By the system we adopted there was no loss, because it was all evened out.

2637. The low grade phosphates, which were non-Island phosphates, were sold at a price which showed a loss; the losses were made up from the high grade phosphates, coming mainly from the two Islands, which are 42½ per cent. in United Kingdom possession?—Yes. At each fertiliser works the different grades of phosphates are mixed. Just as we mixed the price, so the phosphate was mixed in the process of conversion into superphosphate or fertiliser.

2638. In Australia?—Yes.

2639. Or wherever it is; and your contention is that the price did not matter once the phosphate had left the shores of these Islands? Your contention, with which Sir Gilbert does not agree, is that that price did not matter?—Yes, and the surcharge, as it is called, might have been related to the cost of freight, the cost of handling, the cost of insurance, the cost of distribution, or anything, but the f.o.b. price was fixed once for all when the phosphate left the Island.

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2640. You disagree with Sir Gilbert?—
(Sir Gilbert Upcott.) My view is that this Committee is interested in the whole of the trading operations of the Commission.

Sir Frank Sanderson.] I should like to raise one point; but I would like to put to you, Mr. Chairman, a point first. We have before us this afternoon a very comprehensive statement of the Accounts and the Profit and Loss Account of the British Phosphate Commissioners. I submit with all humility that it is not possible to examine these and to ask intelligent questions upon them without having some opportunity of seeing them in advance. Would it not be possible, in such circumstances, to arrange that Members of this Committee could be here, let us say, in the morning, when those who are interested could study these Accounts?

Chairman.] May I call your attention to the Agenda paper which says: "Confidential Report and Accounts of the British Phosphate Commission will be available in the Committee Room half an hour before the meeting"? These figures were available for half an hour last week before the meeting, when, through pressure of time, we were unable to deal with them, and, therefore, the Members of the Committee have had a whole hour to go through these, and if longer time is required you have only to say so to the Clerk to the Committee.

Mr. D. O. Evans.] Before we go on, may I support the remark of Sir Frank Sanderson. I thought I had had some experience in these matters of trading accounts—I think I have—and I really do not consider an hour is enough time to study these accounts. I do venture to think, when we have complicated accounts like these, we should have a little longer time.

Chairman.] The difficulty is that some of these accounts which we have are of a secret nature and we are not supposed to part with them from the House of Commons. I will have a word with the Clerk about it, and see what arrangement can be made for allowing longer time when they are difficult accounts. In this case the accounts have been available for one hour, and any Member could have looked at these particular ones at any time between last week and now.

Mr. Douglas.] Is there anything secret in these? Is there any reason why they should not have been circulated to Members?

Chairman.] These are marked "Confidential."

Mr. Douglas.] I know they are marked "Confidential." I appreciate that. But there is no question of security in it, is there?

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Chairman.] Not security; but the usual rule is that we treat "Confidential" documents and "Secret" documents in the same category. It is rather hard to find a dividing line between the two. Now, Sir Frank, have you any questions?

Sir Frank Sanderson.

2641. I fully appreciate that, in view of the fact that only three-tenths of the capital in the British Phosphate Commission is held by the British Government, it is quite obvious we cannot dictate our policy at all.—(Sir Gilbert Upcott.) It is 42 per cent.

2642. That is roughly the same thing. The figure for the United Kingdom Government is £1,270,000 out of a total of £3,024,000.—You will be misled if you are taking the percentage on the right hand side of the table. That is not the percentage of the total capital owned by the United Kingdom Government.

Sir Frank Sanderson.] I do not want to detain the Committee with it in detail. We are at any rate the junior partner. We do not hold more than 50 per cent. of the shares.

Chairman.

2643. I do not think that word "junior" ought to go uncorrected. My recollection is that we are the largest shareholder, although we do not own the majority of the shares. Is that not the position?—The United Kingdom and Australia hold equal shares.

Sir Frank Sanderson.

2644. How are the phosphates distributed? In so far as this country is concerned are they sold to people like I.C.I.? Do they not distribute them throughout the country?—(Sir Arthur Gaye.) In this country?

2645. Yes. You do not actually distribute them save to the large chemical manufacturers such as I.C.I. Is not that right?—Since 1940, for obvious reasons, we have not been able to send any phosphates here. A few years before that there was a trade being built up here, and the phosphate was sold to manufacturers. I.C.I., as a matter of fact, did not buy any; they did not want it, but the other superphosphate manufacturers bought it from us.

2646. Do you control in any way the price at which manufacturers sell to the consumer?—No.

2647. You have no control over that?—No.

Mr. D. O. Evans.] Could you tell us what the margin is between the price at which you sell to the manufacturers in this country or Australia and the price at which they sell the phosphate to the farmers or to the dealers?

Sir Frank Sanderson.] I think I can put Mr. Evans right on that point. It is not sold to the farmer. It is sold to manufacturers, and there it is converted into something else. It is merely a raw material.

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Mr. D. O. Evans.

2648. Could you say what is the margin between the price at which you sell to the manufacturer and the price at which, taking his cost of manufacturing and converting into account, he sells to the consumers?—I do not know what his costs are, but in Australia and New Zealand the price at which the manufacturer sells to the farmer is controlled by the Government, and the Government examine the manufacturer's costs and fix the price.

2649. Do I understand that your case is (if I may refer to it as "your case") that this is really the best commercial transaction you could have made in the circumstances?—That is my contention.

2650. And the other point is a mere question of accounting or book-keeping?—Yes.

2651. Do you agree that this Committee should have the fullest information regarding the origin of the transactions, the method and so on?—Absolutely.

2652. And the accounts should be disclosed to the fullest degree—the nature of the transactions, how the money was spent, and so on?—I am always prepared to give the fullest information, if I am asked for it.

Mr. Douglas.

2653. The Phosphate Commission, I take it, is in effect an agent of the three Governments, is it not?—It is a body sent up by Act of Parliament in the three countries by the three Governments concerned, and the whole of its capital was provided proportionately by the three Governments.

2654. I think I might go so far as to say that in effect you are the trustee for the three Governments, are you not?—Yes, to a certain extent.

2655. What is the limit to the extent?—I would submit we are only trustees for the Governments for the purposes defined in the Nauru Agreement. As regards other matters we are not. We are much more trustees for the agricultural industries in the countries concerned.

2656. That is an interesting doctrine, but you are using the capital which has been subscribed by the Governments of the three countries, are you not?—Not entirely.

2657. What else are you using?—A very large part of our business in normal times, and, to a less extent, now, is freight paid for by the buyers, and they supply a great deal of the money which we are using, because we charge a ship's agency fee and ship's management commission on all the freighting that we do for them, and so the money is not all provided by the Governments.

2658. All you are telling me is that out of the money provided by the Governments you earn a profit which adds to the disposable money that you have in your hands. Is not that so?—The capital belongs to the Governments.

2659. Quite, and in the course of your operations you get certain revenues, such as you have described, out of freight charges, or whatever it may be, but those are revenues which are earned by your initial capital, are they not, in the course of your operations?—I should submit not wholly so.

2660. Would you submit that money comes into your hands which you are not obliged to account for to the three Governments?—I should like to say that I would be glad to have notice of that question, so that I could consider it, but as I am not coming back here it is not much good my asking for notice. (Sir Gilbert Upcott.) I suggest it is provided for by Article 12 of the Agreement.

2661. It is elementary, is it not? You have been in this business for a very long time, you told us, Sir Arthur, although I have not had the pleasure of seeing you here so often. Surely by this time you know what the powers that you have are and what your responsibilities are?—I think I agree that almost entirely, if not entirely, any money we receive we receive in trust for the Governments. There may be some exceptions. I do not want to press my doubt on that point. I do not mind being called a trustee.

2662. I think we ought to assume that you have to account for all the money that is received. With regard to the question of the price of the phosphates, you have talked about a surcharge. What do you mean by a "surcharge"? Do you mean that in fact you have sold the Island phosphates which you had in hand in Australia or New Zealand at a higher price than you anticipated getting?—No, at a higher price than the phosphates had cost us to put in Australia and New Zealand. We did not anticipate any particular price at which they would be passed on.

2663. That is all you mean by the word "surcharge"—that the price was higher than the cost of production?—Yes.

2664. Now you are supplementing your activities by the purchase of "outside" phosphates, is there any reason why the whole of those transactions should not have been included in your Accounts?—Our auditors in Australia advised us that they should not be. We have no objection whatever to disclosing everything that is required. It is simply a book-keeping question, on which I think Sir Gilbert and our auditors may not be in agreement, as to whether the details of the outside phosphate transactions should be incorporated in our trading accounts or submitted in a supplementary account. There is no unwillingness on our part to disclose everything that is required.

2665. You have an organisation, I suppose, of some kind? You have an office, a staff, and so on, have you not?—We have.

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2666. And accountants in your office who prepare the books, keep the accounts, and so on?—Yes.

2667. Is it not the business of the Commission to give the instructions to its own officers as to how they are to keep the accounts?—On the advice, I submit, of our auditors as to the form of account.

2668. Your auditors, I understand, are a firm of Chartered Accountants in Australia whom you employ, as any company might, to audit your accounts. It is their business to comment upon the accounts if they are not kept properly, and so on, but surely it is your business in the first place to tell them what the form of the accounts is before the audit?—And in settling the form of our accounts I think we are entitled to follow precedent. For seven years previous to this we were buying "outside" phosphates and the accounts were in the same form as they are now, and the "outside" phosphates transactions were not included in them. That was approved by our auditors and was never criticised by this Committee or by any Government Department in this country, in Australia, or in New Zealand.

2669. Then you were buying outside phosphates before the troubles arose at the Island which prevented you from continuing to get the Nauru phosphate?—We did so from the year 1926 to 1933.

2670. I was left with the impression before that you only started this because of your difficulties owing to the war?—We started it again on that account.

2671. Was there anything in your accounts in those earlier years which disclosed that you were doing this?—No.

2672. You made some observations with regard to prices and you referred to something which you called a "pooling" of prices. What do you mean by that?—I mean that all the high grade phosphate, which is very much of a muchness, whatever its cost was sold to the manufacturers at the same price. All the low grade phosphate was also pooled and sold at another price.

2673. So that the price was based upon what you considered to be the value of the phosphate and not upon what it had cost you?—Yes.

2674. Is there any reason why your accounts should not disclose those facts?—None, as far as I am concerned. It is a question of how much you can get into the accounts without making them unduly unwieldy, but we are quite prepared to supply any information that is asked for. I may say that the accounts which the Committee have before them to-day were presented to the three Governments no less than 14 months ago, on the 24th March, last year, and it is only since I have come back from Australia in the last week or two that I knew that any criticism was arising on them. If I had been told last year I could have dealt with all these questions

when I was in Australia, and I should have been able to give, perhaps, much more satisfactory answers to the Committee.

2675. Last year you misled the Committee, as you yourself have acknowledged, because I asked you some questions, when it appeared that you had brought into your balance-sheet items which related to the trading in "outside" phosphates which were not dealt with in your profit and loss account. You distinctly conveyed the impression to this Committee that as far as the "outside" phosphates were concerned, what you were doing was buying them and selling them plus a commission, and, therefore, there could be no possibility of any loss in respect of them?—I still maintain there was no possibility of any loss, because as a whole they were sold at cost plus a commission.

2676. You say that the "outside" phosphates as a whole were sold cost plus commission?—Yes. (Sir Gilbert Upcott.) Not the "outside" phosphates. Including the Island reserve phosphates, yes, but not the "outside" phosphates. (Sir Arthur Gaye.) It is only a very small proportion. (Sir Gilbert Upcott.) I am sorry, but I must entirely demur. The "outside" phosphates were sold at a loss, which has become a very considerable loss. (Sir Arthur Gaye.) To which year are you referring? Are you referring to the year ended 30th June, 1942? (Sir Gilbert Upcott.) I was invited to study the statements furnished to me with regard to these accounts, and I found very substantial losses made on the "outside" phosphates.

2677. What you told me last year was that there was a loss upon your normal trading operations, and that, in conjunction with your statement that you were selling the "outside" phosphates at a cost plus commission, led me to the belief—and I think the Committee would inevitably so believe—that as far as Nauru Island phosphates were concerned you were selling them at a loss. Now it appears that you are selling them at a profit which has gone to make good the loss upon the purchase of "outside" phosphates?—(Sir Arthur Gaye.) I find it a little difficult to cast my mind back to the questions put to me and the answers I gave more than a year ago.

[Chairman.] Perhaps it might help Witness to have his evidence in front of him.

Mr. Douglas.

2678. Would you like to read it, or shall I read it to you?—You have referred me to the questions and answers now.

2679. I thought that you had refreshed your memory about it when you volunteered an explanation to the Committee a little time ago that you had misinformed me?—I did so in answer to Sir Gilbert's criticism.

(The Witness's evidence of last year was handed to him and perused by him.)

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The last question is: "So that there is, then, a loss upon your normal trading operations?"—For this particular year, yes. That was the year ended 30th June, 1941, and that was the only year to which I was referring in that answer.

2680. I do not know—you may have changed your policy, but surely you did not have more of the Island phosphates in 1942 than you had in 1941, did you?—No, on the contrary.

2681. Because even in 1941 you were trading mainly upon the stock which you had already taken to Australia or New Zealand.—In the year ended 30th June, 1941, we were drawing phosphates from the Islands for a period of five months only. Our expenses, of course, went on. That was why it was an exceedingly unprofitable year.

2682. I have just one further question. You talked about the f.o.b. price at the Islands and you conveyed an impression—perhaps I am mistaken about it—that you did not feel obliged to account for anything more than that, and if you got a higher price for the Island phosphates in New Zealand and Australia than it cost you to bring them there you could do what you pleased with the excess. Would you like to qualify that in any way?—I certainly did not mean to imply that I would resist being called upon to account for any such receipts. I thought I had made that clear. I am perfectly willing to account for anything, and so are my colleagues.

2683. I want to take it a stage further as regards the policy. It is surely your business to obtain the best price that you can wherever the point of ultimate disposal is for the Island phosphates, because the Commission is a trustee for the three Governments and is not entitled to take less than the best price?—I am not quite sure what is meant by the "best price." The sky seems to be the limit in these days, and I think we should have got into serious trouble, and there would have been serious trouble between the United Kingdom Government and the Australian and New Zealand Governments, if we had charged a highly inflated price for these phosphates.

2684. Let us look at it from another point of view. As far as the "outside" phosphates are concerned that is really being done, as I understand it, in order to help the Australian farmer to get a supply of phosphate?—And to help the Australian Government and the New Zealand Government.

2685. That may be so; indirectly, no doubt it helps them, because they want to see a large production of agricultural products. But that is the reason why you have embarked upon the purchase of "outside" phosphates and gone beyond the original purview of the Commission?—Yes, to increase food production.

2686. Quite. Do you say that you are entitled to use the profits of the Island phosphates in order to reduce the price of the "outside" phosphates which you are purchasing?—I do not admit that that is a fair description of what we have done. I say that we have pooled all the phosphate we have bought in order to be able to sell it at a reasonable price, according to its grade, and at the same time to show a reasonable profit for ourselves.

2687. I understood from you that the low grade phosphate was all entirely outside purchase?—Yes.

2688. I also understood that it was on the Island phosphate that you were getting a profit above cost?—Not only our own Island phosphate, but also phosphate from Christmas Island and from Makatea. We resold those phosphates considerably above the price we paid for them. (Sir Gilbert Upcott.) Not all the time. There were certainly substantial losses at some period.

2689. All that at any rate appears to indicate the necessity of producing an account which shows clearly and distinctly what were your purchases of phosphates from different sources, what were your costs in connection with each of these branches of your transactions, and what were the amounts realised from each. If that is not produced, how can this Committee possibly understand what you have been doing?—(Sir Arthur Gaye.) All those particulars have been submitted to the Audit Department, I think. If they want anything more they may have it.

Mr. Douglas.] They are not in the accounts.

Chairman.] They have not been submitted to us.

Mr. Douglas.

2690. You do not suggest that they are in the accounts, do you?—It would be a very big document; it would take much more than one hour to read and digest.

2691. That may be so, but that is no reason why we should not have it?—If it is asked for I have no doubt my colleagues will agree to supply it. (Sir Gilbert Upcott.) It was because my examination of the returns which lie behind the Accounts disclosed that payments were being made from the trading account which were not disclosed in the trading account that I raised this question. (Sir Arthur Gaye.) If someone would specify precisely what is the information which we are alleged to have concealed and which is required, I will obtain it. If only I had been given a hint of this before I left to meet my colleagues at the end of last year it might have saved the Committee a great deal of trouble.

Mr. Douglas.] We might have given you a hint about it if we had not been misled by the answers you gave us.

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[Continued.]

Sir John Mellor.

2692. I understood you, Sir Arthur, to say, in answer to a question by Mr. Douglas, that you considered yourselves partly trustees for the three Governments and partly trustees for the agricultural interests in the three countries?—Yes.

2693. What constituted you trustees for agriculture in any sense?—The request of the two Governments of Australia and New Zealand.

2694. Then surely the whole thing is covered by your trusteeship for the Governments?—Yes. As I said to Mr. Douglas just now I do not press the point that in any respect we are not trustees for the Governments.

2695. You are responsible to the three Governments and you are not responsible to anyone else?—No, certainly not.

2696. With regard to the Sundry Credits which the Comptroller and Auditor General asked you about, and as to which you said you had not, I think, the information available—you were asked the nature of the Sundry Credits and whence they are derived—when shall we be able to have that information?—I will telegraph for it at once.*

Chairman.

2697. It is not in this country, is it?—No.

Sir John Mellor.

2698. By what date can we reasonably expect to get it?—I should think within a week. (Sir Gilbert Upcott.) I should be surprised if it were not available in the London office. (Sir Arthur Gaye.) I should think it is very unlikely that it is. All these accounts are kept in Melbourne, and I should be very much surprised if it is in my office, but I will see.

Sir John Mellor.] Can you give us any general idea of the nature of these Sundry Credits and their sources?

Chairman.] Sir John, perhaps I might intervene on that. I propose to ask the Witness to be so kind as to give us some details in regard to the Sundry Credits before we pass these Accounts. I propose not to pass the Accounts until we see them, and, therefore, I think we shall have to have full details at a later date, and it is not impossible that we may have to consider them, and as the Witness would be rather guessing, it might be better not to go into detail on the Sundry Credits now.

Sir Edmund Brocklebank.] All I want to know is covered by what you have said: I want to know the details of the item Sales and Sundry Credits.

Sir George Davies.

2699. You have made it clear that there were two standards of phosphates, the low and the high grade?—Yes.

2700. Curiously enough, the high grade turned out to be cheaper than the low grade. To dispose of each separate type at its relative price would have created an absurd and unfair position to the ultimate consumer?—Yes.

2701. Am I right that you, therefore, decided to mix the phosphates and to pool the price?—We did not mix the phosphate. We sold as near as possible in proportion to each manufacturer.

2702. You pooled the price?—Yes.

2703. Can you give us an idea, as far as your Commission is concerned, whether you gained or lost or came out exactly even on that pooling as compared with the position if you had sold the high and the low at their market prices?—At the cost price?

2704. Yes?—I think we should have lost. I should like to consider it.

2705. If you had sold all the low grade at the absurd high price and all the high grade at the absurd low price, and had not pooled, how would the result have compared with what you actually did do, which was to pool the prices?—I am inclined to think it would have come out exactly the same.

2706. I was wondering whether you could tell us that that would be the result, or whether, if you had disregarded the way the prices and the grades were out of balance, you would actually have gained or lost if you had not pooled?—I think it would have been exactly the same.

Chairman.

2707. Is there any generally recognised market price, or is it purely an artificial price in accordance with what the trade can bear?—It is a purely artificial price to-day.

2708. Do you know at all how the price now being charged compares with that of, say, 1938, 1939 or 1940, when the normal supplies were coming forward?—In 1939 we were selling, of course, only our own Island phosphate, and, to the best of my recollection, we were selling it at about 28s. a ton, Australian currency.

2709. Because the average cost per ton here is 180s., in 1940-41?—in 1940-41.

2710. I was wondering how the present figure which is being paid compared with the figure charged before the war—in other words, to what extent you passed on to the Australian consumer any increase there would have been owing to the war? If you have not that figure now, as we are getting some other figures from you perhaps you will let us have it. It would be rather interesting to know?—Yes. (Sir Gilbert Upcott.) I would like to say a word with reference to what Sir Arthur said as to previous transactions of this nature. My attention was called recently to them and I

* See Appendix No. 17A.

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[Continued.]

looked into the history, and I find in 1928 my predecessor raised with the Treasury a matter to which his attention had been drawn, that the Commission had undertaken certain transactions in outside phosphates. In those transactions there was a deficit in the year 1926 which was converted into a credit in the succeeding years. The then British Commissioner did not advocate publication of the facts, in view of the position of the Commission at that time in relation to its possible trading competitors. Sir Malcolm Ramsay considered it necessary that the Public Accounts Committee should be informed of the operations. The Treasury communicated with the Commissioner, who informed the Treasury that they charged prices and commission for the outside phosphates which recovered all their expenses and left a balance which they carried to sundry profits. The letter from the Treasury to my predecessor indicated that in those circumstances the best course would be to leave the Commissioner to explain the outside transactions in his own way, and that they had accordingly given formal authority to the Dominions Office for the transactions in outside phosphates being included in the Account. The letter goes on to say "I believe the financial position now is that the Account is in credit and is unlikely in future to go into debit on account of these purchases. I do not know what passed at the Committee on the subject; I fancy that in those days confidential discussions were not recorded.

I should conjecture that neither my predecessor nor the Committee would be likely to take exception to the transactions, as they yielded a profit to the Account, and as the Commission were at that time paying the full interest and Sinking Fund due to the partner Governments.

Mr. Douglas.] It was understood that it would be recorded in the Accounts.

Chairman.

2711. I think you are going to let us have those particulars, Sir Arthur, with regard to the Sundry Credits as soon as you can?—(Sir Arthur Gaye.) Yes.

2712. If they are in London so much the better; if not, you will ask Australia with regard to them?—I will get them very quickly.

2713. We should want to consider them. In the meantime we will not pass the Account until we have those rather vital figures in front of us. We have not circulated these accounts in the past; they have been marked "Confidential", but they are not secret, and you have heard Members of the Committee complain that they hardly have time thoroughly to digest them. I presume that there is no harm in sending these out by post? They are marked "Confidential"?—(Sir Eric Machtig.) So long as they are not published. (Sir Arthur Gaye.) So long as they are not published, I do not think it matters a bit.

(Sir Arthur Gaye withdrew.)

VOTE OF CREDIT APPROPRIATION ACCOUNT, 1942.

DOMINIONS OFFICE.

Chairman.

2714. We pass now to the Vote of Credit Appropriation Account, 1942, to pages v and vi, paragraphs 8 to 10 of the Report of the Comptroller and Auditor General: "Maintenance, etc., of Civilians removed from Ethiopia and Iraq and interned in Southern Rhodesia." Have you any observations to make with regard to these arrangements?—(Sir Eric Machtig.) The Comptroller and Auditor General's Report gives a statement of the position. I can expand it a bit, if you wish.

2715. Yes, please—briefly.—The story is this. In the early part of 1941, when the Abyssinian campaign was coming to an end, great anxiety was expressed by the War Office as to 5,000 Italian prisoners who were in Abyssinia and whom they wanted to remove, so that the British troops there might go to other theatres of operations. The Southern Rhodesia Government had previously agreed to take about 5,000 elderly Italian civilians, but that was found to be unnecessary, as it was subsequently arranged with the Italian Government that civilians should be re-

patriated to Italy. As a result, the Southern Rhodesia Government were asked at very short notice to take 5,000 able-bodied Italian ex-soldiers as prisoners-of-war. They very pointedly refused for the following reasons: They had no guards to look after them; they had no accommodation and could not put up any, because their public works department was engaged on other work; the rains were imminent. They were in fact not prepared to do it, and firmly declined. Finally, very strong pressure was brought to bear on them by high authority and they somewhat unwillingly agreed. It must however be said that we for our part knew that the conditions would be extremely unfavourable. What happened was that in the short time available, not having any European staff or technical supervision, they put up very inadequate quarters for them. Later they had to add to the quarters and also to reconstruct them. The rains were exceptional heavy—43 inches.

2716. In what period?—For the season, instead of 31 inches. Thus additional expenditure was incurred. There was an

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[Continued.]

estimate of £50,000 which rose to £120,000. The reason why this came to light in a rather sensational way was that the Southern Rhodesia Auditor General drew attention to it. The matter was then considered by the Southern Rhodesia Public Accounts Committee, who absolved the Government. It was subsequently discussed in the Southern Rhodesia Parliament, and no less than three Ministers spoke about it. The Ministers made it clear that this sort of thing might have been foreseen in view of the circumstances in which they had been more or less compelled to take these people, and contended that no blame attached to the Southern Rhodesia Government. The Minister concerned said that if the Southern Rhodesia Government had felt that there had been any negligence in the construction of these buildings or that the fault of their not being as satisfactory as they might have been lay with the Government, the Southern Rhodesia Government would have had no hesitation in paying for repairs and alterations instead of asking the British Government to pay. I think the conclusion is that the Southern Rhodesia Government's defence is good. They accepted these people with reluctance as the result of considerable pressure from the British Government. They had pointed out the difficulties inherent in the haste with which the move had to be arranged. Their own Parliament has absolved them from criticism, and I think it would be difficult for us to criticise their action.

2717. What is the present position? Are they still there?—Owing to the somewhat changed situation of the Italians, they are employed on agricultural work, and the guards are not so strict as they were before; but they are still there.

2718. What about your financial responsibility with regard to the expenditure? Who looks after that on your behalf?—The arrangement was that we would accept the expenditure certified by the Southern Rhodesia Auditor General. He has certified it, in spite of his comments, and we have no alternative but to accept it. I should perhaps explain that the greater part of the total sum is in respect of maintenance; there is no question at all about that. It is only the additional capital expenditure which has given rise to question.

2719. And the continuing maintenance amount you are satisfied they are looking after on your behalf?—That is all right. The Southern Rhodesia Government were asked to pay the appropriate rates for civil internees in Southern Rhodesia, and have done so.

2720. Have you any comments you would like to make, Sir Gilbert?—(Sir Gilbert Upcott.) I thought the Committee ought to be aware of the matter. It attracted a great deal of attention and discussion in Southern Rhodesia, and the Auditor General in Southern Rhodesia who, as has been said, reported on it, acting on my behalf, drew my special attention to his report. I think the Committee will be glad to know that the Auditor General of Southern Rhodesia has regarded it as a part of his duty to be the watchdog on behalf of the British Exchequer in regard to the expenditure out of moneys provided by Parliament, and also that the Public Accounts Committee and the Legislative Assembly of Southern Rhodesia did pay very careful attention and make a thorough examination of the criticisms which he made. I appreciate that the position of the Accounting Officer in the Dominions Office is somewhat delicate when the Agent which spends money on his behalf is the Government of a self-governing Colony, but I am sure that in this particular case the Committee may rest assured that the fullest and most impartial inquiry has been made into this matter.

Chairman.] We are very much obliged to the Southern Rhodesians for what they have done. Are there any questions on the Report of the Comptroller and Auditor General? We pass to the figures, which are on page 8, Services 22 to 25. I have no questions to ask on those figures. Are there any questions?

Sir Edmund Brocklebank.

2721. On Service No. 22: "Children's Overseas Reception Board," that is now wound up?—(Sir Eric Machtig.) It is not wound up. The scheme was closed down in 1940 after a few months, but the children sent out are still in the Dominions and they will have to be brought home. (Sir Gilbert Upcott.) There are 2,400 children still involved.

(The Witnesses withdrew.)

(Adjourned till Tuesday, 6th June, at 2.30 p.m.)

6 June, 1944.]

Sir HENRY FRENCH, K.C.B., K.B.E.,
and Mr. R. G. LEACH, C.B.E.

TUESDAY, 6TH JUNE, 1944.

Members present:

Sir ASSHETON POWNALL in the Chair.

Sir Irving Albery.
Mr. Benson.
Sir Edmund Brocklebank.
Sir George Davies.
Mr. Douglas.
Mr. D. O. Evans.

Mr. Glenvil Hall.
Sir John Mellor.
Mr. Pickthorn.
Sir Frank Sanderson.
Mr. Touche.

Sir GILBERT UPCOTT, K.C.B., Mr. H. BRITAIN, C.B., Mr. C. E. I. JONES
and Mr. G. S. DUNNETT called in and examined.

TREASURY MINUTE ON PARAGRAPHS 44, 45, 46 AND 47 OF THE REPORT
OF THE COMMITTEE OF PUBLIC ACCOUNTS, 1943.

Sir HENRY FRENCH, K.C.B., K.B.E., and Mr. R. G. LEACH, C.B.E., called in and
examined.

Chairman.

2722. We are dealing to-day with the Ministry of Food. We go first to the Treasury Minute dated the 12th February on our Report of last year, and I will take paragraphs 44 and 45 together. Have you any information, Sir Henry, with regard to the statement in the Treasury Minute that "Information as to capital employed and the rate of profit thereon has been obtained by the Ministry"? Can you tell us anything with regard to this information?—(Sir Henry French.) Yes, Sir. The standard pre-war profits of the milling industry are estimated from the information we have received from the industry to be slightly in excess of £4,000,000 per annum. We have not examined all the returns yet, but we think that that figure is very near the mark. This profit represents about 2s. 8d. per sack of flour.

2723. 2s. 8d. per sack on the whole of the turnover?—Yes.

2724. Have you yet settled the sum payable with regard to the first two or three years of these transactions in the way of profit?—The amount payable to the millers under our Agreement is, of course, their actual out of pocket expenses plus their pre-war profits; the pre-war profits are estimated now at £4,000,000. Therefore that will be the approximate amount we shall pay into the Millers' Pool for subdivision among their individual members.

2725. That is the final figure, is it, because I understand this may go back three or four or five years—into the first years of the war?—Yes. The only formal Agreement we have made with the millers covers the first three years of the war. There was one Agreement covering those years.

2726. Those terms are finally settled?—Yes. How far those terms will be modified for the remaining years of control I cannot, of course, yet say.

2727. You cannot say what would be the terms of the Agreement for the fourth and the fifth years?—The previous Agreement has been extended to the fourth year on identical terms, but there is a question outstanding as to whether the Government should expect the millers to turn out more flour and get no profit in respect of that additional output. That is a point that is still under discussion between us, but the actual Agreement has been extended to the fourth year.

2728. Then, turning to the last three lines of the Treasury Minute on paragraphs 44 and 45, they mention the question of incentive to economy. Could you tell us anything in regard to any action that has been taken about that?—Yes, Sir. This is to us an extremely difficult problem. The Treasury are anxious that we should introduce into the Agreement some new provision with regard to incentive to economy. The difficulty that we are experiencing is that under control we are obliged to require a particular milling firm on a particular day to do something or other, and that may cost them money, and if ultimately we are to look at their accounts and say: "Well, one particular mill has expended more this year than it expended last year on their operations and therefore they are not entitled to any payment in respect of incentive," it is going to be extremely difficult for us. We have not come to any final conclusion on this matter, but I am bound to tell the Committee that we have studied it with great care and we are unable in the Ministry of Food to find a scheme for carrying out the Treasury's wishes which we think could be reconciled with the system of control. We have asked the milling industry themselves if they would consider it, and although I have got no final reply from them I think the indications are that they are finding the prob-

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Sir HENRY FRENCH, K.C.B., K.B.E.,
and Mr. R. G. LEACH, C.B.E.

[Continued.]

lem as baffling as we have found it. I do not wish to say that we are beaten, but at the same time I should be misleading the Committee if I said I thought the prospects of finding a scheme for this were very good.

Sir George Davies.

2729. You gave us a figure of the relationship of the rate of profit to the capital employed in terms of a sack of flour. Can you give us a figure, though not a final one, I suppose, showing what the rate of profit is compared with the capital employed?—Yes, Sir, with the same limitations and qualifications, that is, because we have not examined every account finally, but we can give you an estimated figure. For this purpose I must exclude mills which are owned by the Co-operative Wholesale Society (I will explain why in a minute). Excluding those mills, we estimate that the return on capital of what I may call the other mills, or the privately owned mills, is about 13 per cent. The Co-operative Wholesale Society's accounts show a higher percentage. I have no doubt that the reason is that for the most part they brought their mills into existence as new ventures, whereas many of the mills which are owned by other large milling companies have been bought up and quite possibly have been bought at prices which represent a higher figure than in the case of mills owned by the Co-operative Wholesale Society.

Mr. Benson.

2730. First of all, with regard to the rate of profit, which is 13 per cent., and the Agreement you made, you guaranteed the pre-war profit?—Under the Agreement which we have made we pay them their expenses plus their pre-war profit.

2731. And the Treasury agreed to that?—Yes.

2732. Was your answer intended to suggest that the non-Co-operative millers have really inflated their capital in that they purchased mills for consolidation at higher rates than were warranted?—I am not myself qualified to express an opinion of that sort. One will realise than the conditions under which private mills are worked are quite different from the conditions under which the mills of the Co-operative Wholesale Society are worked, and I can imagine that a large milling firm wanting to go into a new district might think it would pay them to buy out an existing mill, modernise it and develop it, and thus have a volume of goodwill with that business. The methods of the Co-operative Wholesale Society are different. They have a very close relationship with their retail Societies; and although the retail Societies are not bound to buy from the Co-operative Wholesale Society, the fact is that many of them do, and their attitude towards the trade is

rather different. I should find it difficult to compare those two figures, and it was for that reason I thought it was not fair to the Committee to average them.

2733. You say that with the Co-operative and modern factories you are paying a price which, in an efficient modern factory, gives the return you stated?—Yes; that is the information that I have from the Co-operative Wholesale Society.

2734. There are only a few very large firms in this, are there not?—Yes.

2735. Can you give us some idea of how the milling is divided?—Yes, I think I can. I have to speak about what happened before the war, because that was when the industry was running by itself. Since then some of the large firms have had disasters owing to mills being knocked out, and the situation is different; but before the war you may take it as nearly accurate that 60 per cent. of the milling strength of this country was divided between three firms, Rank's, Spiller's and the Co-operative Wholesale Society, with approximately one-third to each; that is to say, each of them did 20 per cent., the remaining 40 per cent. being divided amongst about 400 different millers.

2736. With regard to Rank's and Spiller's, have you any idea what rate of profit they show?—I think 13 per cent. is their average. Their output so dominates the remaining mills, the privately owned mills, that the profit that I have mentioned is really their profit.

2737. Yes; but they only mill half, or the Co-operative Society do; the Co-operative Society mill 20 per cent. and Rank's and Spiller's mill 40 per cent.?—20 per cent. each.

2738. That means there is 40 per cent. left for the other 400 mills, so that they cannot dominate them. They may dominate them as to price, but they cannot dominate them as to rate of profit?—We have obtained the information that I am giving you from the Accountant, Sir William McLintock, employed by the milling industry, and these figures which they have supplied show the particulars of the standard profits and the capital employed of the three big milling combines and of three medium-sized firms, and it is upon that information that I have based my 13 per cent.

2739. That includes the Co-operative?—No.

2740. They showed a higher rate?—Yes.

2741. Spiller's and Rank's show what? What rate of profit does each one make?—I have not got it for them only, but I would say for Rank's and Spiller's and the three medium-sized firms the average is 13 per cent.

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[Continued.]

2742. That does not tell us anything, because the three medium-sized firms may be making a low rate of profit?—No.

2743. Are they making approximately the same?—No, they were making a rather higher profit.

2744. I see. Now what about costs? Do you allow uniform costs throughout the country for each miller?—No, we pay on the basis of actual costs incurred by each firm.

2745. Actual cost and guaranteed profit in each individual firm?—Yes.

2746. You do not guarantee the industry as a whole?—We guarantee each individual firm its expenses and we pay the industry as a whole a national profit.

2747. Can you tell us the cost of milling in the Co-operative mills, Rank's and Spiller's and some of the representative smaller firms?—No, I have not got that information. I do not think it will be available for some little time.

2748. Do you mean to say you have not got it from the beginning of the war?—No.

2749. When will it be available?—I have mentioned to this Committee before that we did not conclude the Agreement for the first three years of war until towards the end of the first three years, and at that date we had no accounts at all from many of them. The Agreement was expressed in general terms without any specific figures. Last year when I was before the Committee I said that at that time we had not yet received any figures. The position now is different. We have received a very considerable number of the accounts; these accounts are for three pre-war years and for the four years of control, but they are not all complete yet; they are coming in, and we have got a considerable volume of them. They are being examined, but the examination has not gone sufficiently far for me to give any reliable estimate of the cost of milling at different mills.

2750. Do not the Co-operative know what it costs them to mill? Have you asked them? Surely they must have a costing system and they must know what it costs them to mill?—I have no doubt they have, but I cannot tell you the figure. I do not know it.

2751. Surely you are interested in that?—Yes; but, as I say, I have not got the figure.

2752. The Department has not asked for it?—No.

2753. You heard the evidence, Mr. Dunnett, that the profits are 13 per cent. in the case of the private millers, the guaranteed profits, and above that figure for the Co-operative Society. Now, this Committee has been led to understand that the Treasury aimed at a profit of about 10 per cent. I should like you to square

that with the guaranteed profits. A profit of 10 per cent. is what the Treasury thought was the maximum that ought to be made, but here you are guaranteeing a profit of nearly double in one case?—(Mr. Dunnett.) We have looked at it in this way, Sir, that in the case of the Ministry of Food and their arrangements for the remuneration of the industry we did not begin the period of control with the policy of fixing remuneration by reference to the capital employed. The Ministry of Food was taking over to a larger or greater or less extent the distributive system as it existed, and it had to do so, and it has been the general policy to fix these remuneration Agreements in the field of the food trades by reference to pre-war experience. That is still the general line on which we understand the Ministry of Food proceeds in fixing these Agreements. The Committee asked for information about the capital employed in this case, and we thought it would be only proper and sensible to check up what we had been doing in regard to that policy I have just described, and see whether it was resulting in something that was wrong. Looking at the results which the Ministry of Food have obtained, it does not seem to us that there is anything so very wrong in this present arrangement when you take into account all the factors which make it necessary for us to urge the Ministry of Food to revise the whole basis on which they have been dealing with the food trades since the period of control started.

2754. May I just read a short paragraph from the Report of the Public Accounts Committee which was written as a result of evidence given by Sir Richard Hopkins. It is paragraph 66: "Your Committee note that the contract policy is to regard a profit of 7½ per cent." (I am afraid I was wrong when I said 10 per cent.) "on capital employed as a standard starting point from which to negotiate contract prices. The addition for efficiency is intended to be an incentive for performance by the contractor." The Ministry of Food say they really do not know what the costs of milling are, so that they have no guarantee whatever as to what is an efficient and what is an inefficient firm, and yet, despite the fact that Sir Richard Hopkins says that 7½ per cent. is your basis, you are allowing the Co-operative Society to make a higher return without any check on efficiency and the rest of the industry to make 13 per cent., in the one case twice what your standard price is and in the other case still more?—I think we have been reluctant to think that there was no check on efficiency.

2755. But how can there be a check on efficiency when the Ministry of Food does not know the milling costs of a single firm? How do you square doubling and more than doubling your basic price on the ground of efficiency? Is not the truth that

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[Continued.]

the Treasury have never attempted to apply their 7½ per cent. to the millers? Is not that the real truth?—I think the procedure that we followed in this case is as I have described, Sir, that we have not based ourselves throughout the period of control on the capital employed for the food trades as a whole. It would in most of the fields covered by the food trades be quite an impossible test to apply, and we thought the proper thing to do, having started on that line, was to carry on with it, subject to making ourselves reasonably satisfied that we were achieving the broad objects of the policy of preventing profits from getting out of hand.

Mr. Benson.] May I ask you to consider that the expression "food trades" is a very nebulous phrase and certainly does not apply to milling. Milling is an industrial process. There might be milling of sand or iron filings just as easily as of wheat, and to lump milling in with the food trades is really an inadequate defence of these profits. I should like the Treasury to inquire and see whether they can square their 7½ per cent. with the higher percentages which have been disclosed.

Sir Frank Sanderson.

2756. In the first place, do I understand aright that you tell us that the profit is based upon the pre-war profits?—(Sir Henry French): That is so, Sir.

2757. Am I not right in suggesting that the Ministry of Food provide the cereals which are to be milled?—Yes.

2758. In other words, the Ministry of Food finances to-day the whole of the raw materials, which in the case of flour milling is wheat?—Yes. We sell the wheat really to the millers at a price.

2759. Do you sell the wheat or do you —?—We sell it.

2760. You are quite sure you do?—Yes.

2761. You do not hand the wheat to the millers to mill on account of the Ministry of Food?—We do not pay them a processing fee for milling our property; we sell them the wheat admittedly at an uneconomic price, and that is how the subsidy comes into the loaf, but they buy it, mill it and they sell it and they find their customers.

2762. Yes; but surely it is customary—and I should like to be absolutely sure that you are right in your reply—for the wheat to be supplied to millers and then they are paid for processing it; and the point I want to make is that if I am correct in my surmise this 13 per cent. on the amount of capital employed to-day would be equivalent to 7½ per cent. on the capital employed in pre-war days, when millers had to finance their own wheat?—I do not think that is so, Sir. They need approximately the same amount of capital

to run their businesses because they have to pay for the wheat.

2763. My second point is this. Do I understand that the rate of profit per bag of flour produced varies according to the mill in which it is produced?—Yes, there is a variation.

2764. Is not it a fact that, due to the complete destruction of many flour mills in different parts of the country which are well known to us all, the opening of more uneconomic mills which normally would have been closed, but which are merely opened because of the shortage of milling power, was necessitated?—I do not want to mislead the Committee about that. We have set up a special company which is financed by the Ministry of Food to run these reopened mills, and they do not come into this general Agreement with the milling industry. We are financing the losses in the case of those mills direct.

Sir Frank Sanderson.] Thank you.

Mr. Pichthorn.

2765. I may be a little muddled about this, but is the distinction between the 7½ per cent. and the 13 per cent. this, that the one is the maximum profit upon war contracts and the other is upon the principle that where the industry is continuing to do what it did in peace-time its profit shall continue to be the same number of pounds sterling? Is that the distinction?—That is very near the distinction. Can I re-word it, at the same time trying to follow what you have said? We have regarded the milling industry as an essential part of the food trade of the country, and in all food trades, whether manufacturing and processing trades or distributing trades, we have fixed our margins in such a way as to give the industry approximately its pre-war profit. In fixing a margin for wholesalers handling butter or rice or sugar, that has been the principle we have gone on; we have tried to find out what they made out of that transaction in pre-war days, and that has been our starting point. It is in that way that we took this starting point of pre-war profits with the milling industry. In the case of the milling industry they are, of course, making a good deal more flour than they made in pre-war days, so that we are not saying to them: "You will get the same profit per sack"; we are saying that we will give them the same total profit in terms of sterling.

Sir Irving Albery.

2766. From what the witness has just said, am I to understand that the turnover during the war has been considerably larger than it was before the war?—Yes.

2767. Would not that involve the employment of a larger capital than before the war?—It may be so. As far as I am aware, their capital has not been increased

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during the war. They are making more flour, and, of course, the Committee will realise that milling flour is not the only thing that these firms do. That has been a part of our difficulty in analysing their accounts.

2768. It is rather difficult sometimes to know how to arrive at capital. Supposing that a firm had its plant and machinery and had in reserve a good deal of money invested in, say, Government securities, and needing a bigger turnover wanted more money and sold their securities and used that money for the bigger turnover, from their point of view would they be using more capital or using the same capital?—They would be using more capital, because we would exclude any money that they had invested in Government stocks. We also exclude any dividends that they derive from such investments.

2769. Have you any information or have you considered at all as to whether they are in fact using more capital on those lines?—I am afraid I could not say.

Chairman.

2770. We pass now to paragraphs 46 and 47. The Treasury Minute says: "My Lords understand that the Ministry is in process of obtaining the information desired by the Committee." Can you tell us anything with regard to that, Sir Henry—the information we asked for?—I think, Sir, this is again a question of return on capital invested in the industry. We have now got more information than I had twelve months ago; I was then giving some estimated figures based on estimated capital. I think perhaps the most satisfactory thing would be to give figures now based on the actual capital as disclosed in a costing investigation which we undertook consequent upon the Report of this Committee. The information we now have is that the actual profit of the cold storage industry during the first year of the control based on a sample (I shall have something to say about the sample in a minute) was 15.87 per cent.; in the second year of control 15.80 per cent. Now, this is an industry which, as Members of the Committee may know, was very depressed before the war. Cold stores were being closed down. Even immediately before the outbreak of the war there were some that were closed down, and I have no doubt that capital was very much written down. The situation has been completely changed as a result of the war. These cold stores are now, I am glad to say, full to overflowing, and the whole position of the industry has been completely changed. Moreover, these percentages are based on what you might call their pre-war capital. If any of these cold stores had to be replaced at present prices they would probably cost at least twice as much as they stand at in the books of the companies to-day.

Sir Irving Albery.

2771. Might we know a little how the capital is estimated?—On the Excess Profits Tax basis.

Chairman.

2772. On similar lines to what you answered Sir Irving a moment ago.—Yes.

2773. Could you say how the profits now compare with the pre-war profits?—Yes. We estimate that the pre-war profit was 6.85.

2774. That is on capital?—That was on capital in the pre-war years.

2775. The present figure is what?—15.8.

2776. That is a very big increase?—Yes.

2777. Of course, it is, strictly speaking, outside our province, but that is subject to E.P.T.?—Yes.

2778. And the differences are because the cold storage accommodation is now being fully utilised instead of only being partly utilised, as it was before the war?—Yes.

Mr. Douglas.

2779. So that they are getting two and a quarter times the pre-war rate of profit?—Yes; I have given the figures.

2780. Do you really defend that upon the ground that if they had to put in their plant now it would cost them double what it cost them pre-war?—I am really not trying to defend anything; I am trying to give facts. If you would like to know a little more about the history of this matter, it is this, that the Ministry of Food pays these cold stores a storage rate for goods which it asks these storekeepers to hold for us; this rate was negotiated in the early days of the war when we had the greatest possible difficulty in getting a figure which we were advised would be reasonably acceptable to the industry. We only got that accepted on the ground that we would look at it again in six months' time if the industry came back and asked us to do so. They did not ask us, but the industry had wanted a minimum rate of profit of 4d. to 5d. per cubic foot. I am using my words very carefully. We forced on the industry a minimum rate of 2d., which they, I think, honestly thought was going to mean ruin, but they had no knowledge then of what imports the Government would manage to bring to this country or to what extent we should ask them to place their stores at our disposal. The fact is, as I have said, that we have been very fortunate in bringing a large quantity of refrigerated produce to this country, and the stores are full; but I am bound to say that at the present time the industry has pointed out that whereas all their costs of labour and so on have gone up since the settlement was reached, their rates have not gone up, and they have

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asked the Ministry for an additional overall increase of $7\frac{1}{2}$ per cent. over existing rates, and that application is before the Ministry at the present time.

2781. But the figure you have given us of profit, I take it, is after charging the increased expenses that you have referred to, is it not?—Yes, it is after charging everything except Directors' fees and items of that sort. I ought to make it clear that the figures that I have given apply only to the first two years of control, and I could not say of my own knowledge whether they are representative of the later years. The case put to us is that their costs have gone up very greatly indeed since the end of the second year of control.

2782. To which years do these figures relate?—The first year of control ended at March, 1942, and the next one at March, 1943; so that the latest figures are rather more than twelve months out of date.

Chairman.

2783. Upon that you said that the first year of control ended in March, 1942?—Yes. On 27th February in that year to be exact.

2784. Do we understand that there was no measure of control for the first year and a half of the war—no control until the Spring of 1941?—We did not enter into this National Agreement with them; we paid their charges in the ordinary way. They were out to do business, and they were making approximately the same charge for the Ministry's goods as they were making for privately owned goods. We had to step in upon that because it became quite obvious that while these storage charges yielded a very handsome profit to the well placed stores, the smaller stores were almost in bankruptcy, and therefore we had to step in and say: "We must make a National Agreement with you," and the effect of that was to transfer surplus profits from the better placed and larger stores to some of the smaller ones.

Mr. Douglas.

2785. Do I understand that this Agreement is regarded as being only capable of revision upwards and not downwards?—No, that would not be true. If the Ministry gave notice to end an Agreement and started negotiating afresh, we would be quite within our rights.

2786. There is no provision for varying it in accordance with what you ascertain to be the facts from year to year?—No.

2787. And as you do not ascertain the facts until about a year and a half after the end of the year, the surplus profits will always escape you to that extent?—I am afraid I am not being very helpful over this, because I have not really given you a sufficient explanation of this rather in-

tricate scheme we have for using the industry as a whole. Where there are surplus profits the Ministry does take a part of them, and in fact we took in the second year of control very nearly half a million pounds, to be exact £499,610, and that remained with the Ministry less a sum which we had to pay to the stores which were earning below the minimum profit; but even so, after these sums are removed from the larger stores, those which are in the fortunate position I have described are making these profits of 15.8 per cent. as compared with 6.8 per cent. before the war. But my impression is that this is not an average over the whole industry, although the Director of Costings selected his sample with great care. The information I have indicates that over the whole industry the net controlled revenue in the second year of control was less than 10 per cent. and in the previous year it was about 8 per cent., but I give those figures with some doubt, because we have not really got complete figures of their capital, and this is based on what I might call notional capital, the best effort we could make to calculate their capital.

2788. What proportion of the industry have you got definite information about?—That would be within the costings examination. You will remember that the Report of this Committee recommended that there should be a costings investigation. It is obvious that we cannot cost the whole of the industry; there are not enough accountants about; therefore we made a list of 100 stores out of a total of 367 which was furnished to the Costings Division, and they took the sample from those, with the result that their figures are based on a very detailed examination of 24 undertakings. These 24 undertakings include 6 London stores, 9 large provincial stores and 9 small provincial stores. The difficulty that I am in is that although I am confident that these 24 were selected in order to give a representative result, I cannot say that this figure of 15.8 is an average figure applying to the whole industry. I think it is excessive.

2789. You must have some ground for thinking so. What are the grounds?—The grounds are these, that we have now, as a result of the examination of their accounts, because we have to arrange for the transfer of money from firms making surplus profits to those which are making less than the minimum profit, formed the opinion that in the first year of control the rate of controlled profit was 8.08 per cent. and in the second year of control it was 9.93 per cent. There is, of course, a wide difference between those averages and the results of the costings investigation.

2790. It is very strange to me that your sample was selected so badly?—I could not accept that the sample was selected so

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badly. Anyone who has had experience of costings investigations knows, of course, that it is extremely difficult to select your sample; and I know that the Ministry's Costings Division have had very great experience of that sort of work; we have been carrying it out all during the war, and I know that the results obtained have been quite invaluable to us.

2791. You told us just now, as I understood it, that you thought that a fair figure for the whole of the industry would be only about one-half what your costings examination has revealed?—No, I do not think that is really what I said.

2792. Will you explain it?—Yes. The problem here is to find out what is the actual capital invested in the industry. In the case of these 24 firms we have their actual capital, and on the basis of that capital the actual profit made works out, as I have said, at 15.87 per cent. Now, for the remaining firms in the industry we have had to make an estimate—what I have called notional capital—because we have not got detailed information as to what the capital is, and, as I say, we have made a notional capital estimate, and this is based, for instance, on the figure of 5s. per cubic foot. No doubt there is a considerable margin of error there, but the estimate is of considerable interest to us and enables us to compare one year with another. Now, if you apply that 5s. per cubic foot to these 24 undertakings, you get a different result. In the first year of control you get 11.31 and in the second year you get 10.51.

2793. Let us take it the converse way in regard to the 24 firms which you costed: what did you find the capital per cubic foot to be?—I understand it was more than 5s. per cubic foot in the case of those 24 firms.

2794. Why did you say that if you took 5s. per cubic foot for the 24 firms you would reduce the profit from 15.8 per cent. to 11 per cent.?—I am afraid I am getting into very deep water about this. In these profits there were a good number of items which had to be estimated before reaching this 11.31, and I am not sure that I can make the method very clear to the Committee. All I ask you to accept is that the information that we have in the Ministry, which is of a very detailed character, does throw some doubt on the actual profit figure of 15.8 as being representative of the whole industry.

2795. Do I understand you to say now that your 11 per cent. had got nothing to do with the 5s. per cubic foot?—Yes, it had, but there were also other items in the control scheme of profits which were not absolutely comparable with the actual figures which resulted in 15.87. I had a good deal of doubt, as I have mentioned, about mentioning these various percentages, because I quite realise that they are very confusing.

Mr. Douglas.] I must not go on to the conclusion that your estimates are not based upon anything precise, and I cannot pursue it any further, I am afraid.

Mr. Benson.

2796. May I pursue that point in regard to the 5s. per cubic foot? On what did you base that figure?—When we were negotiating with the industry with a view to fixing the storage rates, which was the essential thing in this case, we had to consult the experts in the Ministry of Food itself as to what was a reasonable rate, how they calculated that reasonable rate and so on, and they made very substantial calculations which enabled us eventually, as I have said, to force on the industry this minimum profit of 2d. per cubic foot.

2797. I think you misunderstood me. I wanted to know how you got at the 5s. per cubic foot as a reasonable estimate. Did you go to the Union Cold Storage people and ask them?—No, we asked our own experts in the Ministry.

2798. Would not it have been much simpler to have found out what representative buildings actually did cost to build and then check up? Your 5s. is a purely notional figure. I just want to revert to a point raised by Mr. Douglas. You carefully investigated the actual profits of 24 firms, and they came out to 15.87 per cent. Those are not notional but actual figures?—Yes.

2799. When you try to check up your 5s. per cubic foot you find that these figures are reduced very roughly from 16 per cent. to 11 per cent., which means that your 5s. per cubic foot is very considerably exaggerated and it must be less?—No; it happened that there were quite a number of estimated items in these notional profits and this notional capital, and it happened also that the 5s. was too small.

2800. Pardon me. Taking the 24 firms that you gave us, they were proper cost investigations there, were not they?—Yes.

2801. They were proper cost investigations?—Yes.

2802. And there were no notional figures in that?—No; we have calculated the notional figures so as to be able to get a comparison.

2803. For the 24 firms you have a profit of 16 per cent., which is an actual profit based on actual capital?—Yes.

2804. Is that agreed?—Yes.

2805. Now, when you apply your notional capital to them, that is 5s. per cubic foot, the profit works out at 11 per cent. That is what you stated?—If I stated that I misled the Committee. The 5s. is not the only estimated item; there are many estimated items. I quoted that as an example.

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2806. Reverting to the 24 firms, the profit of 16 per cent. is not an estimated item; it is an actual figure?—Yes.

2807. The only estimated item is the figure of 5s. per cubic foot?—No.

2808. What else is it? Perhaps you have forgotten what you stated. You told us first of all that there were 24 firms which you investigated and the actual profit worked out at 15.87 per cent. There was nothing estimated there; that was an actual costing. Then you said that when you applied to those 24 firms an estimated capital of 5s. per cubic foot you found that on that estimated capital the profit would have worked out at 11 per cent. Is that what you stated?—If that is what I stated, then I have not given you the full story. May I ask Mr. Leach, who is himself an accountant, to explain this system?—Certainly. (Mr. Leach): The difference is this, Sir, that the 15.87 per cent.—

2809. Call it 16 per cent.—Yes—is the actual profit in relation to the actual capital employed. Now, we only have those actual figures for the 24 firms. The figure of 11.31 per cent. is the percentage shown by what we call controlled profits on estimated capital.

2810. Does this relate to the 24 firms?—It relates to the 24 firms, and it is a percentage shown by their controlled profits on an estimated capital of 5s. Now, controlled profits differ from the actual profits which were shown by the costings investigation, and the reason is this, that apart from the profits there are certain items, in direct costs, which are on an estimated basis, that is, a flat allowance for the whole industry; that includes an allowance of 3d. per cubic foot in regard to rent or an allowance in lieu of rent to the storer. Now, some storers will not expend the whole of the 3d. in rent, because some of them will own their freeholds, and consequently out of that 3d. which is included in direct costs they make a certain profit. Therefore the actual profit we can expect to be higher than the controlled profit; but there are two features in comparing these two figures. The main reason why the percentage shown on the costings investigation is higher is that it includes any profit made out of direct cost, whereas the other figure assumes the whole of the 3d. is expended as a direct cost and therefore is lower as regards the capital employed. Actually our figures show that the actual capital employed is slightly higher than the 5s., which is what we expected, because the 5s. excludes the cost of the site.

2811. It is all very muddling, but the fact remains that when you took your 24 firms you got a profit of 16 per cent.?—Yes.

2812. When you apply to them your notional figure you get a profit of 11 per cent.?—Yes.

2813. Sir Henry has told us that he thinks that the rest of the industry is only showing about 8 per cent.?—May I just explain that? Sir Henry pointed out that for the whole of the industry the return of controlled profits on notional capital was between 8 and 9 per cent., which compared with those figures of 11 and 10 per cent.; therefore that implies that 15 per cent. is too high, not too high by 5 per cent., but by the difference between 8 or 9 per cent. on the whole industry and the 10 or 11 shown on the 24 selected stores.

2814. Yes; it means that in order to get that 8 or 9 per cent. up from a notional figure to an actual figure you have to add on something?—Yes.

2815. So that the real figure for the whole of the industry is between 11 and 12 per cent.?—Yes, for the first control year.

2816. That is what I assumed Mr. Douglas was trying to get at, and that is what I have been hoping to get at for the last half hour, that the real actual profit on the capital for the whole of the industry is likely to be between 11 and 12 per cent.?—Yes, or a little more.

2817. The same firm has shown that their costings are tying up to that 16 per cent.?—Yes.

2818. Is the pre-war rate actual or notional?—Actual.

2819. So that the position is that these firms up to twelve months ago, up to their last accounting period that is available, were paying very nearly double what they were paying pre-war, and they have, despite that fact, put in demands for an increase?—Yes.

2820. Again reverting to the Treasury, are the Treasury aware that the cold storage firms are making profits of approximately double what they were making pre-war?—(Mr. Dunnett.) We have only just had that brought to our attention in the information that the Ministry of Food has collected.

2821. What are you going to do about it?—At first sight we think that we shall want to go very carefully into it and consider with the Ministry of Food what is to be done about it. On the face of it, it looks as if we are paying too much.

Mr. D. O. Evans.] The usual method of charge for storage is so much per cubic foot?—(Sir Henry French.) Yes.

2822. Can you give the Committee some comparative figures of the charges that these people were making pre-war and what they are making during the war, per cubic foot?—I am afraid I cannot give them off-hand, but I am quite confident that the storage rate that we are now paying, and part of which we recover ourselves out of excess profits, is a long way below what was being paid for similar commodities before the war, but conditions are entirely different now.

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2823. I take it that the revenue of these people would depend on the capacity of the storage warehouse which was actually being used?—Yes.

2824. I take it that before the war there must have been a big surplus of capacity unused?—Yes, that is so; there was.

2825. Obviously their revenue would be very much less?—Yes.

2826. And when the whole of the warehouse capacity was utilised during the war their revenue would be very much greater?—I think that is exactly the position.

2827. It seems to me to be the simplest thing in the world, when you get a much bigger revenue—it may be two or three times bigger—with practically the same capital employed?—Yes.

2828. I should like to ask, Mr. Chairman, a little more about this capital employed. It is a mystery to me. Would you mind telling us (or perhaps your accountant will) the main items in determining the capital employed in cold storage plant? There are some figures which you have given us. I take it that these figures of 15.87 and 15.80 are based on actual capital employed?—Yes.

2829. Have you got the Report of the Public Accounts Committee, paragraphs 46 and 47, before you?—Yes.

2830. The Committee says: "They were informed in evidence that the returns amounted to 12 per cent. on the capital cost of the premises in the year under review and 14.1 per cent. in the following year," and so on?—Those are figures which I gave last year. I do not think I meant capital cost of the premises; I meant capital of the industry.

2831. The capital employed?—Yes.

2832. That is not quite accurate?—The figures I gave then are those figures that are printed. I think the preceding words are not quite correct.

2833. Does not it come to this, that if these people, these large firms, were now utilising their buildings and plant to the utmost capacity during the war, therefore inevitably their revenue and their profits would be greatly increased, and yet their charges would be considered to be no more than they were pre-war?—Yes, that is the position.

2834. The Ministry themselves have in addition to that driven them down?—Yes.

Mr. D. O. Evans.] We have got E.P.T., have not we?

Chairman.] That is outside our province.

Sir Frank Sanderson.

2835. Are you able to give approximately the percentage of the capacity used before the war and the percentage of the available capacity of cold storage in use to-day?—

I am afraid it would only be guesswork. I used to hear that there were occasions when there was less than 20 per cent. of the cold storage capacity of the country in use, but in those days a great deal of the cold storage space was used for ladies' furs in the summer months, and so on, not a very industrial operation.

2836. Is the available capacity more or less in full use to-day?—Yes, it is at the present time; it is really 100 per cent. used, and in addition the Ministry has itself erected a lot of its own cold stores.

Mr. Glenvil Hall.

2837. With regard to the Agreement with the owners of these stores, how long will that subsist and how soon can you bring it to an end? Last year on your own showing in your evidence, which I remember very well, I think you pointed out that it amounted to 12 per cent. on the capital cost?—Yes.

2838. And something like 14 per cent. in the following year?—Yes.

2839. You have now shown that it is a little more than 14 per cent., have you not?—I did not want to go back into these two figures which I gave last year, which are really comparable with these notional figures of 11.31 and 10.51.

2840. It was a fairly close estimate?—Yes.

2841. But the point I want to make now is this: How soon do you think you can bring this state of affairs to an end?—We control this industry really by Order, and the Minister presumably could repeal the Order at any time.

2842. So that any Agreement subsisting can be brought to an end at any time?—Yes.

2843. It has been going on now for two years?—Three years.

2844. Two years at least?—It started in 1941.

2845. So that there is very little doubt now that they are getting more than what one might call a reasonable return?—If the rather rough calculation which was made was correct it means that the industry as a whole are probably working to something like 10 or 11 per cent.

2846. Which is really more than they got before the war?—I do not think the Minister at the moment will consider it reasonable to go back to 6.85.

2847. Why not?—Because the industry as a whole is doing about four or five times as much work, and very vital work.

2848. You said 6.85—you mean per cent.?—Yes.

2849. You mean they should get more?—I should imagine the Minister, if he revised the Order would think it would be unreasonable to base his storage rates on a profit of 6.85.

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Mr. Glenvil Hall.

2850. I thought I understood you to say that. Might I ask why?

Chairman.] This is guessing at what the Minister might say in certain events; I think it is rather hypothetical.

Mr. Glenvil Hall.] If the Ministry which acts in this matter thinks that 6 per cent. or 7 per cent. is not enough, ought not we to ask why?

Mr. Pichthorn.

2851. I do not hope to understand much of this, but I think one bit of it I understand so badly that I suspect that there was a verbal inaccuracy. I wonder if I may put the figures, and the Witness will tell me where I am wrong. If I understand him aright, the rule of thumb capital cost of a cubic foot of storage space is 60d. and the rule of thumb rent for that is 2d.—That is the guaranteed minimum rent. The Agreement which we have with this industry is—

2852. If I might, I would much sooner go ahead with my figures and then you will understand what I am putting?—Do, please.

2853. I said it was a rule of thumb rent of 2d. and you say it is a minimum?—Yes.

2854. 2d. is one-thirtieth or 3.3 per cent of 60; so that on the minimum rent the man who owns a cubic foot of storage earns 3.3 per cent.; from that he deducts the cost of the site, working capital and his labour costs, and the result is by one reckoning 15.8 per cent. and by the other reckoning 11 per cent. It seems to me that something must have gone wrong somewhere in that calculation. Is it 2d. per month?—No.

2855. 2d. per quarter would not make it enough?—I will ask Mr. Leach to answer the question, if I may. (*Mr. Leach.*) May I explain this, Sir? The position is this, that under the control scheme we guarantee every store their direct costs plus 2d. per cubic foot as a minimum profit. Does that answer your point?

Mr. Pichthorn.] It makes nonsense of my calculation, but I see it may be the basis of a calculation which conceivably might not add to the nonsense. I think on the figures we have been arguing on hitherto the whole thing has been nonsense.

Sir Irving Albery.

2856. On the last statement I now understand—and really that was not made clear before—that the 2d. per cubic foot is the profit rental after all expenses have been paid?—Yes, that is the minimum.

2857. It is the minimum profit rental at that?—Yes.

2858. I think, Sir Henry, that if you look back over the evidence which you gave you will find that that was not made at all clear?—(*Sir Henry French.*) I thought the words I used were the words I have before me, and they are these: "The industry wanted a minimum revenue of 4d. to 5d. per cubic foot, but we forced them into accepting 2d. per cubic foot."

Sir Irving Albery.] But "minimum revenue" does not convey that at all, and even if you take a minimum revenue of 4d. or 5d., coming back to the calculation that my honourable friend on my left made, even then I think we shall only come up to about 6 or 7 per cent.

Chairman.

2859. The word "revenue" means apparently the excess over and above any costs, and the Honourable Member will understand that probably that was the actual amount paid and not the amount in excess?—The minimum *net* revenue. I think that perhaps the omission of the word "net" misled you, Sir.

Sir Irving Albery.

2860. I know it is very difficult in a large Committee to deal with a matter of this kind, with all kinds of questions fired off by Members of the Committee. I have had several answers, and I must say that I do not feel that as a result of all that questioning we are very much wiser than we were. I do not know whether the Controller and Auditor General can help us at all?—May I say I think part of the trouble is this. I have been assuming that last year's Report of this Committee was well known to Members, as, of course, it is well known to me, and the words that appear in paragraph 46 of that Report are: "The maximum and minimum revenues so provided were respectively 6d. and 2d. per cubic foot per annum over and above direct costs." I thought that that was the basis of my examination.

Sir Irving Albery.] Quite.

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[Continued.]

CIVIL APPROPRIATION ACCOUNTS (WAR SERVICES), 1942.

CLASS X.

VOTE 4.

MINISTRY OF FOOD.

(British Sugar Corporation Ltd. Accounts.)

Chairman.

2861. We pass now to the Civil Appropriation Accounts (War Services), 1942, Class X, Vote 4, pages xii and xiii, paragraphs 30 and 31. With regard to the potato drying factories in Northern Ireland, Sir Henry, this scheme has not been very fortunate, I gather. Could you give us your views first of all with regard to the original possibilities of this scheme and also the time factor, because apparently the time it took to put up these factories very greatly exceeded the estimate, which threw the finances very much out. I am referring to the second sub-paragraph of paragraph 30. We are taking paragraphs 30 and 31 together?—The decision to erect these factories in Northern Ireland was regarded in the Ministry as being in the nature of an insurance scheme to prevent waste of surplus which was almost certain to arise if they had a good crop. The factories were not completed, as stated in the Report, in time to deal with the surplus of 1941. Since that date the surplus which was anticipated by the Ministry of Agriculture in Northern Ireland and the available drying capacity to deal with it has been as follows: In the case of the 1942 crop the budgetted surplus was 460,000 tons; the drying capacity available at that time was 156,000 tons. In the case of the 1943 crop the budgetted surplus was estimated to be 500,000 tons and the drying capacity was 216,000 tons. I can give you particulars of the disposal of potatoes in Northern Ireland in 1941, 1942 and 1943, if you wish.

2862. No, I do not think we want that. The time taken with regard to the factories was much longer than was originally anticipated?—Yes, that is so.

2863. Could you tell us the total expenditure?—Yes, the total cost of the Northern Ireland factories is expected to amount to £460,000.

2864. In the second sub-paragraph there is a statement there about surplus. Could you say what the surplus was and how it was disposed of?—A large proportion of the surplus went for stock feed in Northern Ireland: 412,000 tons of the 1941 crop, 408,000 tons of the 1942 crop and 333,000 tons, it is estimated, of the 1943 crop. The quantity of potatoes which were actually processed in the Northern Ireland factories was very small, 27,000 tons for each crop year, 1942 and 1943.

2865. In the third sub-paragraph I read that "some 27,000 tons of potatoes mainly of the 1942 crop, but including a small

quantity of the 1943 crop, were dried in eight factories"—that is 3,500 tons each—but in the previous paragraph I read: "On the assumption that each factory would be able to dry 12,000 tons in a forty weeks' season, the Ministry considered that 17 factories would be necessary at an estimated cost of £400,000." Yet below this worked out at 3,500 tons, which is between one-third and a quarter of the estimate. That seems a very big difference. Is there a reason for that, taking the two sub-paragraphs together?—The larger figure is the capacity of the factories to process potatoes, but actually the quantity that was sent to the factories was very much smaller, because the great bulk of the surplus was consumed on the land by stock.

2866. So that these factories which have been put up have used only about a third or a quarter of the capacity?—Yes, so far.

2867. Are they in full operation yet?—No, not this year.

2868. The expenditure is in the neighbourhood of £400,000?—£460,000.

2869. Have you any figure for the loss up to date?—No, I do not know the figure of current loss.

2870. Have the Treasury any views with regard to this?—(Mr. *Dunnett.*) We regarded the scheme from the beginning as a kind of insurance scheme in this sense, that the production of potatoes had to be encouraged in this country to save shipping as far as possible; but the yield of potatoes is very variable, and if we were to be sure of having enough potatoes we had to run the risk of having too many, and it would then have been very useful to have these factories working to capacity to turn potatoes into meal to mix with the bread and so on. The fact that it was not in the event fully used was fortunate in one respect but unfortunate in other respects.

2871. Yes. With regard to the fourth sub-paragraph, have you any information about the cost of these plants for the production of dehydrated vegetables? It is understood the Ministry's objective was the erection of twenty-one plants. Could you tell us what the objective is now? It is the last sub-paragraph of paragraph 30?—(Sir *Henry French.*) In the year 1943-44 production amounted to 4,262 dry tons and 38,775 tons of raw vegetables, mainly potatoes, but including cabbages and carrots. During this period a further twelve plants came into production, and they are now processing about 2,000 tons of vegetables a week, producing slightly more than 200 dry tons. I think that is the nearest I can give you as to the total capacity of these plants.

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[Continued.]

2872. They are being consumed and are serving a useful purpose?—Yes.

Sir *George Davies*.

2873. Were there political as well as economic considerations behind the decision to bring about this development in Northern Ireland, or was it purely on an economic and food insurance basis?—It was, I think, entirely economic. The difficulty of transporting surplus potatoes from Northern Ireland to this country made it necessary for us to arrange, if they could not be consumed or were not required for human consumption, that we should have the means of drying them and so bring over a much smaller quantity of food material.

2874. In view of the experience up to date and future prospects, is it considered that economically, all considerations taken into account, it has justified itself?—As an insurance measure, I think we would do the same again, but when I said economic I did not mean economic under peace-time conditions.

Sir *George Davies*.] No, nor did I.

Mr. *Douglas*.

2875. You said the cost of the factories in Northern Ireland was £460,000?—Yes.

2876. That, I assume, is the capital cost of installation, is it?—Yes; we have not bought the sites.

2877. No. What is the position with regard to the sites?—That, I think, will very possibly be a matter for general Government decision, and very likely for legislation. It is only part of a very big general problem as to what the Government is going to do with factories and similar places which have been erected as a war measure on requisitioned sites.

2878. Presumably you will have to pay something for them, will not you?—Yes.

2879. What was the cost of processing the 27,000 tons of potatoes?—I am told that the cost of the potatoes in Northern Ireland was £5 per ton—that was the purchase price of the potatoes. The ultimate product is as 1 is to 5—that is 5 tons of potatoes producing 1 ton of dry potato, and that 1 ton of dry potato costs in the processing £8 10s., so that the 5 tons of potatoes at £5 a ton gives a figure of £25, with operating costs £8 10s., making a total of £33 10s. for 1 ton of dry product. (Sir *Gilbert Upcott*.) The cash yield is about half the cost.

2880. It is one-fifth?—What you get in the way of output is about one-half that; the loss is about half and half. (Sir *Henry French*.) I could not say.

2881. Does your figure include anything on account of capital outlay?—(Sir *Gilbert Upcott*.) No. (Sir *Henry French*.) I could not say offhand, but I should think almost certainly no, because these are Government-owned plants, and I think this is just the working cost.

2882. At that figure of 5 per cent. I reckon that the cost of capital for each ton of potatoes processed is 17s. Do you agree that is right?—Yes, I think that is probably right.

2883. What is the finished article worth per ton?—We sold some potato flour at £35 per ton, which you will see just covered our expenditure. We have sold some for industrial purposes to be used instead of wheaten flour, and the price there was £24 14s. For human consumption I do not think we have sold very much, but for human consumption it has fetched £14 14s. in some cases and for animal feeding stuffs as little as 10 guineas.

2884. What was the reason why you only processed 27,000 tons in each year?—When we got near to the end of the season we realised we did not want this potato flour; there was no pressing need for it. As you will see, we were losing money upon it on the process, and it was thought better in the national interests that the surplus potatoes should be fed to stock.

2885. I see; so that it was not for lack of potatoes?—No. We could have diverted potatoes from feeding the stock into the factories.

Mr. *Benson*.

2886. The Comptroller and Auditor General says: "The Ministry were committed to buying the surplus crop and, to avoid the expense of transporting it to Great Britain which would have cost from £3 to £4 per ton in carriage alone, it was proposed to the Treasury that drying factories should be erected to process the potatoes on the spot." Is the implication there that you started these as a result of having committed yourself to buying the surplus crop?—It goes a little further back than that. It is Government policy to give the farmers a guaranteed price and a guaranteed market, and that means in the case of potatoes that if the farmer cannot find a market for his crop, whether in Northern Ireland or in Great Britain, the Ministry of Food is responsible for buying it.

2887. The Ministry actually have to buy the whole of the surplus crop?—We do buy it, yes.

2888. Are you committed to buying it?—We are committed to buying it, because the farmer starts by being told that he will get a guaranteed market for his crop.

2889. The Comptroller and Auditor General continues by saying that the transporting costs of the undried potatoes would be £3 or £4 per ton?—Yes.

2890. Your purpose was to save that?—Yes, and, of course, there was the shipping problem to be considered if they had to travel.

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[Continued.]

2891. It actually works out that you have lost £3 or £4 per ton on every 5 tons of potatoes; you lose £6 on the processing, which is equivalent to what you have saved in transport, because you have lost in the processing, and in addition you have landed yourself with a capital outlay of half a million pounds?—I do not think that that really is the complete story, because in a year in which there was a surplus of potatoes in England there would not have been any use in bringing Northern Ireland potatoes to this country.

2892. True. I am not quite sure what bearing that has on your motive in setting up these factories. The facts are that you have lost on the processing costs just as much as you would have saved on transport, assuming that you wanted to bring them over here, and in addition you have lost half a million of capital. What particular advantage was there in setting up these factories?—The object was that if there was a surplus of potatoes in the United Kingdom, including Northern Ireland, we would have the means of processing them and preserving them for a long period.

2893. Have you set up similar factories in the United Kingdom?—Yes.

2894. How are they working—are they working to different rules?—I think that when I was before the Committee last year I explained we were using sugar beet factories in England during the period when they are not required for the sugar campaign to dry potatoes and also to dry other commodities.

2895. You have not had to build the necessary factories in this country?—No.

2896. Are you selling the stuff at the same price?—The figures would be comparable.

2897. What is your output there? How many tons of potatoes are you processing in the sugar beet factories?—I am afraid I do not know.

Sir *Frank Sanderson*.

2898. Do I understand that the processing of the potatoes in Northern Ireland is done for the purpose primarily of assisting the farmer to grow potatoes but that it is not regarded as an economic measure?—The farmer is induced to grow as many potatoes as he can by the guaranteed price and the guaranteed market, and he does in fact grow a great deal more than he grew before the war. Then the problem arises, what are we going to do with these potatoes if we get a favourable yield and there are surplus potatoes, surplus, that is, to human requirements? One of the methods we employ is to erect these factories so as to be able to convert them into potato products.

2899. Yes; but in England was not the general policy to encourage the farmer to grow potatoes and to guarantee a price of £5 a ton, but when it was found that there was no market for them and that they were not required for human consumption the Government decided to sell them at £3 a ton for the purpose of feeding to cattle?

—Yes; we do that in Northern Ireland too.

2900. Is not that regarded as a much more economic method?—Yes.

2901. You stated, and the Report states, that the factories run 40 weeks a year. Can you state whether the factories run one, two or three shifts a day when they are running?—No, I do not know.

2902. You do not know whether they run 8-hour shifts or three shifts of 8 hours?—No.

2903. Because it must be obvious that if they are only running one shift a day, rather than build three times the amount of factories it would be more economical not to build the factories but to run them on three shifts of 8 hours a day?—Yes, I see your point.

Sir *Irving Albery*.

2904. Can you say how the factories in Northern Ireland are controlled and managed?—They are controlled by the Ministry of Agriculture for Northern Ireland. We have delegated that task to them, as they are on the spot.

2905. Who would that be actually directing and managing—officials of the Ministry?—No. They would be business men who would be put in charge of the factories.

Chairman.

2906. We pass on now to paragraph 35, "Payments to British Sugar Corporation, Ltd.", and there are some confidential figures also in connection with that. Could you tell us, with regard to the matter mentioned in the second sub-paragraph, where it says that "certain items have . . . been dealt with on a different basis", what is this different basis of the calculation?—In 1941-1942 the accounts of the Corporation showed a deficiency payment of very nearly £4,000,000 for that year, and it was thought that the figure was inflated because of circumstances outside the control of the Corporation. The Corporation represented that the current statutory prices for pulp and molasses were uneconomical; the deficiency payment was also being saddled with expenses in connection with the abnormally large stocks of sugar which the Government was asking the Corporation to hold for them and it was these items which appear on examination to give an unfair and untrue picture of the Corporation's activities. The Corporation has therefore been relieved of costs amounting to £540,779 attributable to the carrying of stocks of white sugar in excess of the normal.

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[Continued.]

2907. There is also a difference in the subsidy, £1,000,000 increase. I do not think that is covered by what you have just told us, is it?—No. The increase in the subsidy is due to increased operations.

2908. A larger turnover or a larger sum being given in each case?—Partly. (Sir *Gilbert Upcott*.) The main reason is stated in the last paragraph: it is due to an increase in the price being paid for beet. (Sir *Henry French*.) Yes. (Sir *Gilbert Upcott*.) There is something taken off this subsidy; namely the difference between the maximum price for pulp and the maximum price for bran. (Sir *Henry French*.) Yes.

2909. There is also mentioned a figure of £1,111,000; I do not quite see that. It is described as: "(a) The difference between the maximum price for their pulp and the maximum price for bran which is regarded as a comparable feeding stuff, and (b) the difference between the controlled price of their molasses and the price which would have been received if the molasses had been mixed with pulp and molasses pulp sold at the maximum price for bran". If you could put that to us in rather simpler phraseology—it is pretty difficult to follow—I should be obliged. One has to start with the fact that the Corporation's selling prices are controlled—that is a part of the Government subsidy—and the Ministry, therefore, assumed that the controlled price of bran is a fair measure of the real economic price of sugar beet pulp and molassed sugar beet pulp. The price of bran and pulp was almost identical before the war, but under control the price of pulp was about £2 per ton cheaper than the price of bran, and there is no ground for thinking that the price of bran has been fixed at an artificially high level. The Ministry has, therefore, credited the Corporation with a difference between the income received from sales of pulp and molasses separately at controlled prices and the amount which they would have received if the Corporation had been allowed to follow the normal practice of mixing the molasses with pulp and selling the mixture at bran prices.

2910. Thank you; it was a little bit hard to follow. Then dealing with the figures themselves which have been made available to members, on Table A (A), the third of those which have been submitted to us, you mention there halfway down the right hand side an item: "White Sugar Quota Rights," and I see a figure of £472,000 odd; apparently you take the figure above and you add it to the one down below. What are "White Sugar Quota Rights"?—The British Sugar Corporation is a party to a National Refining Agreement with other refiners. Under that agreement the Corporation receives a quota proportion of five-nineteenths of the tonnage invoiced by all the parties to the agreement for the

home trade in the fiscal year. At the end of the year an adjustment in relation to actual invoicing is made, and on the basis of the current refining margin, those who invoice more than their quota pay an agreed sum per hundredweight of the excess tonnage to those who have invoiced less than their quota.

2911. It is a sort of pooling plan for those who, owing to bad weather, have not been able to produce the normal amount to bring them up to the level of those who have been more fortunate?—Yes.

Chairman.] It is curious, but all the items are exactly the same, less the quota charges, and those are added on down below in the balance-sheet. This is all on paragraph 31 and also on the confidential figures.

Sir Edmund Brocklebank.

2912. These are confidential documents and there are four of them. Which are the confidential parts, or is it all confidential?—A(A) and A(B) are confidential.

Sir Edmund Brocklebank.] Because pages 1 and 2 are also stamped "Confidential."

Chairman.] The Clerk of the Committee has put on a "Confidential" stamp and the printing is done by the Corporation; but the stamp is put on by the Clerk of the Committee.

Sir Edmund Brocklebank.] I see.

Chairman.] The witness is not responsible for the green stamp.

Sir Edmund Brocklebank.

2913. I see. May I be told why these figures are confidential?—As I understand it, Sir, the first two printed accounts, that is the balance-sheet and the profit and loss account, will be published—in fact they have already been published—and, therefore, they are available to any member of the public; but the other two accounts, the General Trading Account and the other account which deals with the Deficiency Payment Account, have not been published, and the Corporation do not intend to publish them. You will remember, perhaps, that when I was before the Committee 12 months ago I was asked if I could arrange with the Corporation to produce further information for this Committee, and it was as a result of that that we have arranged for this additional information to be circulated.

2914. That does not answer my question. Why does the Corporation consider these figures should not be published?—I do not know much about the practice of limited companies, but I believe that it is very unusual for a limited company to publish statements of this kind, such as a General Trading Account.

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[Continued.]

2915. But surely public money is concerned in this, and a great loss of public money.—This has been going on, as you know, ever since this Act was put on the Statute Book, and the Ministry of Food is heir to a practice that has been going on for many years. It seems to me to be a question of policy whether this Corporation should be required to publish accounts, which any other company would not publish.

Mr. Douglas.

2916. The figure of £1,111,000 is in effect a subsidy, too, is it not?—A subsidy.

2917. It is in effect an addition to the subsidy of £4,897,000?—Yes, in effect.

2918. What about the £540,000; is it also of the nature of a subsidy?—No, I think not; I think one would have to say there that we must find storage accommodation and we should pay that wherever we found storage accommodation.

2919. On what basis did you estimate the amount you are paying for storage?—I understand that the totals are made up of two big items: one is war risk insurance, £283,000; then there is interest on the value of stock, £250,000; then there is a small item of fire insurance, and those three items total £540,779.

2920. But I thought this was a payment for storage accommodation?—It is largely for sugar which they are holding instead of selling, and it is a holding charge. The war risk insurance and the interest on the money invested in the sugar are, I think, normal storage charges. (Sir Gilbert Upcott.) It is supposed to represent the cost of carrying the stocks. (Sir Henry French.) Exactly.

2921. What quantity of sugar was produced in this year?—We do not as a rule disclose quantities, Sir.

Chairman.

2922. You will be quite safe in giving this evidence, and then you are at liberty, if you think fit, to remove it from the minutes of evidence afterwards, so long as we have a record of it here.

(The witness gave the figure for the year 1942-43.)

Mr. Benson.

2923. On the balance-sheet there is an item of £10,000,000 advances. I think this is a Treasury point rather than one for Sir Henry. Will that loan of £10,000,000 from the Ministry of Food expand their capital for E.P.T. purposes?—(Mr. Brittain.) I am afraid I could not tell you that, Sir, except as the result of making inquiries with the Inland Revenue Authorities.

2924. Could you let us know that?—Certainly.*

* Paper circulated to Members: not printed.

2925. With regard to Document A (B), loss on beet campaign, the item at the bottom, what exactly is that?—(Sir Henry French.) That is the name that has always been given to the period of the year in which factories are at work actually making sugar. For the remaining part of the year they are overhauling, getting all their machinery back into a good state of repair.

2926. Are these the names of the various factories?—Yes. (Sir Gilbert Upcott.) The location of the factories. (Sir Henry French.) Yes, that is where they are located.

2927. Does anybody investigate the costs of the Sugar Corporation for us; do you keep an eye on their costings?—The Ministry of Food does.

2928. Have you checked up the loss on one factory as against another, and what form of costings do you apply to see that they are working efficiently?—The Ministry is regularly supplied with the full details of each factory, the actual expenditure and how many tons of beet they handle, or what their produce is, and every item of that kind, and those are examined in great detail within the Ministry itself.

Mr. D. O. Evans.

2929. Take the first loss, £210,000. Could you tell the Committee how that is got at? Is it the difference between some costs and what is the value of the sugar produced? How do you get that figure, "loss on beet campaign"?—That is the net figure, showing the difference between the income of the factory and its outgoings in the way of purchases of beet and wages.

2930. Operating costs?—Yes.

2931. They sell the sugar produced to the Ministry?—No, they sell it at our controlled prices to consumers.

Sir Frank Sanderson.

2932. I see the authorised capital is £5,000,000, consisting of Ordinary Shares of £1 each. Who owns the shares in the British Corporation?—I think it is the general public. There were sugar beet companies in existence before this Corporation was formed, and this is some of the original capital; it is owned by the general public.

Sir Frank Sanderson.] It is more or less a public company.

Mr. Glenvil Hall.

2933. How many directors are there?—I think there are 13 directors.

Chairman.

2934. We pass now to the figures which are to be found on pages 11 and 12 of the Account; I have only one question on those figures. On Subhead A. I see the salaries are just over £8,000,000. Could

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[Continued.]

you tell us how much of that is represented by headquarters expenses, how much with regard to commodity control, and how much is expenses at the local offices?—Yes. The headquarters of the Ministry cost £2,303,000, the divisional staff costs £792,000 and the local food offices £4,947,000.

2935. So that the commodity control arrangements do not come into this at all?—No.

2936. That is borne by the commodities

VOTE OF CREDIT APPROPRIATION ACCOUNT, 1942—MINISTRY OF FOOD.

Chairman.

2937. We pass now to the Vote of Credit Appropriation Account, 1942, pages xii to xvii, paragraphs 32 to 46 inclusive. Paragraphs 32 and 33, "Milk Marketing Arrangements," run together. On paragraphs 32 and 33 will you give us details of the settlement which I see at the top of page xiii has recently been arrived at?—(Sir Henry French.) Yes. That is with the Milk Marketing Board?

2938. Yes.—Subject to minor adjustments arising from late returns and the ascertainment of bad debts, the following figures represent the result of the Ministry's relationship with the Milk Marketing Board. The broad thing that we are aiming at is that the Milk Marketing Board should be in precisely the same financial position at the close of this control period as it was at the 31st March, 1940. For the year ended 31st March, 1941, the Board incurred a deficit of £2,190,000; in the year ended 31st March, 1942, it incurred another deficit of £476,000; for the six months ended 30th September, 1942, there was a surplus—that was because it was only for the summer months. The milk marketing arrangements gave the Milk Board a surplus in the summer months, but there was a loss during the winter months. The result is that if you take the surplus which was £5,850,000, and if you take those three periods altogether, covering 2½ years, there was a net surplus of £3,183,000.

2939. In regard to paragraph 33, the second sub-paragraph, could you add anything at all to the statement of the Comptroller and Auditor General there?—Is that the paragraph beginning: "In place of the existing system"?

2940. Yes. "In place of the existing system under which individual producers and buyers entered into contracts for the sale and purchase of milk, the Milk Marketing Board became the sole purchasers of milk except that used by producer-retailers for their own businesses." Then the Comptroller and Auditor General says, lower down: "Margins for milk distribution are fixed by the Ministry, subject to

themselves, is it?—Not quite. The headquarters staff of the various commodity divisions are included in the £2,303,000 that I gave you; but the local trading staff of the various commodity divisions do not come within this figure; they are charged to trading account. (Sir Gilbert Upcott.) They are borne on the Vote of Credit Account.

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

periodical review in the light of the findings of cost investigations during the preceding period, and certain reductions have been made subsequent to the close of the first half-year's working under the new arrangements." Could you tell us what those reductions were?—Yes. The Milk Marketing Board now purchases all the milk which is produced by its members; the Ministry owns it only momentarily; it takes it over from the Milk Marketing Board and immediately sells it to distributors, and the arrangements which we have made with them are based on an entirely new system of margins; it was necessarily rather a shot in the dark to start that. We believed that the margins, although expressed in different terms, did not amount in the aggregate to more than they were making before this new system came into operation. Since then we have had revisions in the light of costing, and each time the effect has been to reduce the margins; for example, we made changes coming into operation on the 1st April, 1943, which was six months after the new scheme started. The retail margin had been 11d. and it was then reduced.

2941. For what unit?—Per gallon; it was then reduced to 10½d. per gallon. There was another rather complicated arrangement called a self-wholesaling allowance, which was based on a sliding scale, with a maximum of 1½d. a gallon, which was then cut by a ½d. per gallon, the total savings in a full year amounting to £2,250,000.

2942. In the last line of that second sub-paragraph I read: "No report by the Internal Audit Division has yet been furnished to me." Could you tell us about the precise position of this account, because I see the one mentioned just above is still under consideration?—Yes. I understand that our Internal Audit Division has not yet finished its consideration of the accounts and has not submitted its report yet to the Ministry.

2943. It has not yet done so?—No.

2944. It is over a year ago, now?—(Sir Gilbert Upcott.) No doubt the reports will be made available to me in due course. (Sir Henry French.) Yes.

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[Continued.]

Mr. Douglas.

2945. You gave a figure of the surplus on these milk transactions, covering 2½ years; that, I take it, covers profit, too, so that it does not give a true picture of the position over three full years?—No. I gave you those figures because the new scheme came into operation on 1st October, 1942, and we have been on an entirely new basis from the end of this six months' summer period.

2946. So that we cannot form any opinion from these figures as to what the outcome will be, can we?—No, I think not.

Chairman.

2947. We pass now to paragraph 34, dealing with production in Northern Ireland. Could you tell us something about this scheme, Sir Henry?—Here, again, we have delegated the actual administration of the scheme to the Northern Ireland Ministry of Agriculture, and that Ministry introduced various schemes during the year, the object of which was to provide improved facilities for handling processing and transporting increased milk supplies to the liquid market. In order to obtain full control of the transport arrangements, they made purchases of lorries and churns, and a transport pool account was opened, to equalise transport charges. The deficit in Northern Ireland on their milk account for the year ended 31st March, 1941, was £361,000; for the year 31st March, 1942, £746,000, and for the year ended 31st March, 1943, £1,020,000, making a total for those three completed years of £2,128,000. This is, of course, all part of the Government subsidy policy.

2948. With regard to financial control, are you satisfied with your position? With the handling of all these millions of pounds, what control can you exercise?—I am bound to say that I think that is a very difficult question. We have delegated the power to another Government Department, that is to say, the Ministry of Agriculture in Northern Ireland, and I am quite satisfied that they are doing their work extremely well. It is difficult for the Ministry of Food in London to exercise the same detailed control over the expenditure of the Ministry of Agriculture in Northern Ireland as we are exercising over any of our own commodity divisions, and that I confess gives me some anxiety at times, but I have no specific reason for any anxiety; it is merely that it is a great deal further away from the seat of control in the Ministry of Food itself.

2949. I read here: "Since 1 November, 1940, all milk producers in Northern Ireland have been required to place their milk at the disposal of the Ministry of Agriculture (Northern Ireland) for purchase and sale

by that Ministry at agreed prices, the resulting deficits being borne by the Ministry of Food." Have the Treasury any views with regard to this?—(Mr. *Dunnett*.) In relation to Northern Ireland?

2950. In regard to financial control of these large sums, which I understand are handed over to another Department to disburse?—(Mr. *Brittain*.) I think that is the practice which is followed in every case where Imperial Services have been carried out in Northern Ireland, and it is a reasonable arrangement—in fact, I think it is the only practical alternative that we had.

2951. In regard to these other things, have you reason to be dissatisfied or satisfied?—They are generally satisfactory.

2952. In the last line of all I read: "Meanwhile an advance of £20,000 has been made by the Ministry of Food." What is the present position with regard to these private creameries which have been cared for and maintained?—(Sir *Henry French*.) There were some 100 creameries in Northern Ireland before the war, but they were mainly serving very small areas; some 70 served merely as separating stations feeding 30 central creameries which were larger, and used for the manufacture of butter; of the latter 11 will be used as depots under this new scheme of economy, and the remainder together with the smaller units, have been or will be closed down as soon as convenient. At present they are on a care and maintenance basis.

2953. This sum of £20,000 more or less sees us through for these particular creameries?—This is an advance, and I do not know that I could say it is a final payment.

Mr. Douglas.

2954. How many gallons of milk are involved per year?—The total daily intake of these depots is 150,000 gallons.

2955. An average of 150,000 gallons per day; is that right?—Yes.

Mr. Benson.

2956. I should like to know (I do not know whether you can work it out) what the cost of the subsidy is per gallon, the cost of handling this per gallon, how does it compare with English prices, what is the English figure, or what does the equivalent English milk subsidy cost?—I think the equivalent figure for England is about £8,000,000. (Sir *Gilbert Upcott*.) £10,000,000 is the total figure.

2957. That is the equivalent figure?—The total for the United Kingdom, including Ireland, is £10.8 millions.

2958. You deduct this £1,000,000 so that it leaves about £9,000,000?—(Sir *Henry French*.) Yes.

2959. Does any of this milk from Northern Ireland come into Great Britain

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[Continued.]

—any large amount of it?—Yes. There have been times, during the war, when we have had some surplus milk.

2960. It is negligible really?—Yes.

2961. The population of Northern Ireland is just over 1,000,000, is it not?—(Mr. *Brittain.*) 1,250,000.

2962. So that approximately it is £1 per head of the population and something under 5s. per head in Great Britain?—Yes.

2963. Can you explain the discrepancy?—(Sir *Henry French.*) I think the circumstances of the dairy business in Northern Ireland were entirely different before the war from what they are now, and very different from what they were in Great Britain. A large proportion of Northern Ireland milk was made into butter for export before the war, but now we are in pursuit of general national policy increasing very largely the sale of milk on farms. For instance, the milk sold off farms has increased from 40,000,000 gallons, pre-war, to 53,000,000 gallons in 1943.

2964. Yes; butter making was not as profitable as milk selling, so that any diminution from the sale of butter to the sale of liquid milk ought to be a movement in the direction of economy rather than expense, but your costs of handling it are four times as high in Northern Ireland as they are in the United Kingdom. This does really require some explanation and investigation?—Yes. I am afraid I cannot do that now.

Chairman.] Would it not rather help if we asked the witness to give us an idea, at his leisure, as to why it should cost four times as much in Northern Ireland as it does here?—The same figure also struck me.

Mr. Benson.] Yes.

Chairman.

2965. He has not got the figure here?—I will gladly supply a memorandum.*

Mr. Benson.] I should certainly like an attempt made to reconcile those figures.

Chairman.] Yes.

Mr. Douglas.] A figure per gallon.

Chairman.

2966. Then we pass on to the next paragraph, which is paragraph 35: "Contracts for Green Vegetables." Could you tell us how that figure of uniform returns of £100 per acre was originally agreed upon?—Yes, Sir. What happened was that both the experts in the Ministry of Food and in the Ministry of Agriculture worked independently on this problem of what would be a reasonable sum to offer market gardeners for their crop, and they both arrived at this figure of £100 per acre. It compares with other figures which I think are generally accepted. Onions, for instance, at an

average yield of 6 tons per acre, give a gross return of £150 per acre, whereas carrots give a gross return of £98 per acre. As you will see, we fixed the £100 pretty close to carrots.

2967. Can you tell us the total loss?—The total loss on this enterprise, which is not being repeated, was £420,000 plus £187,000.

2968. Those are the figures which are here?—Yes.

2969. Roughly speaking, £600,000 was the total loss?—Yes.

Mr. Douglas.

2970. Take the figure of £100 per acre, does that mean that you calculated a price per ton which you estimated would yield that on the average, or did you make an actual payment per acre calculated in that way?—It is quite a common thing for market gardeners to sell crops on the ground, and they very often sell them at so much per acre. This was a contract with the Ministry of Food for £100 per acre, and the Ministry of Food took the whole crop.

2971. So that it was £100 per acre, irrespective of the kind of crop which was grown?—Yes, we had to take the risk of that. (Sir *Gilbert Upcott.*) Subject to correction, I think you paid a price per ton.

2972. That was the question I asked to begin with?—I think Mr. Douglas's suggestion was that if you paid a price per ton—(Sir *Henry French.*) Yes. I must correct my reply. There were two types of contract. One was a contract under which the Ministry could take delivery of the crop whenever it wished, and there was another form of contract under which delivery was to be taken at dates which were specified by the growers. The figures which were specified in the contract varied according to the month of the year. The Ministry's option per ton was £27 in January, February and March, £22 in April, £17 in May and £12 in June. The objective was £100 per acre for the grower. The second form of contract was based on the grower exercising his option. Then, of course, the figures were less: they were £22 in January, February and March, £18 per ton in April, £13 10s. in May and £9 in June.

2973. So that this was based upon certain assumptions as to the number of tons per acre which would be produced?—Yes, that is so.

2974. And it resulted in a miscalculation—the estimate was wrong?—Not quite in that form. The scheme went wrong, because in this year in which we were operating, which was quite different from the previous year, there was a surplus of produce, which was a very good thing for the nation, but it meant that the value of produce was so small that the Ministry could not recover its payments. The

* See Appendix No. 14.

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produce was all right and there was plenty of it; the yield was very heavy—in point of fact the absence of frosts and other adverse conditions meant that nearly every market was supplied with adequate quantities, and prices fell, of course.

2975. Yes, that is what I said: is it not that you under-estimated the quantity which would be produced?—That is so.

Mr. Benson.

2976. Your total contracts amounted to £800,000?—Yes.

2977. That is £100 per acre covering some 8,000 acres?—Yes.

2978. And you lost £600,000?—Yes.

2979. You lost three-quarters of your purchase price. Does that mean that you bought intending to lose or that the price fell on an average to 25 per cent. of what you had estimated?—The quantity of produce was so great where it was delivered to the Ministry that we made a very heavy loss; for instance, the loss incurred on vegetables which were physically delivered represented some £12 per ton. With the abnormally high average yield of 10 tons per acre that represented a loss of £120 per acre.

2980. Can you give us some idea of the price at which you contracted to take a particular vegetable and the price at which you sold it?—I think the answer is that we lost about half of the contract price which we had made with the farmer.

2981. The point is that you estimated that you would make a purchase amounting to £800,000; actually you made a purchase amounting to £1,200,000: is that correct?—Yes.

2982. So that if you lost £600,000 and that represented one-half of your purchase you must have purchased £1,200,000?—The trouble is that we did not carry out our contract in every case. (Sir *Gilbert Upcott*.) Mr. Benson is including the payments you made on account of cancellation of contracts. You actually spent £640,000 on the purchase of vegetables and for that amount you got £350,000. (Sir *Henry French*.) Yes, that is it.

2983. You purchased £650,000 and you got £350,000?—(Sir *Gilbert Upcott*.) In addition to that they had to pay agents' commission and carriage charges, which raised the total loss to £420,000.

2984. I assume that that was also passed on and that there was an equivalent decline to one-half?—(Sir *Henry French*.) Yes.

2985. So that approximately you got a yield which was equivalent to £1,200,000?—Yes.

2986. Yes; you purchased a certain proportion and cancelled a certain proportion?—Yes; the cancellations were made on the basis of around £50 an acre, which is half.

2987. Does that mean that the wholesale price of vegetables fell to 50 per cent. of what you anticipated?—I think it does.

2988. Was that represented in reductions in price to the consumer?—It certainly did mean that the prices to the consumer were far lower than the maximum prices which we had prescribed. In 1942, for instance, in London the peak price of savoys was actually 56s. per cwt.; in 1943 it fell to 30s. 9d. Those are maximum prices.

2989. Are these wholesale or retail?—These are wholesale.

2990. What about retail? You are responsible for fixing prices to the consumer, are you not?—Yes.

2991. Do you fix them on retail prices or on wholesale?—We prescribed what we call ceiling prices, both wholesale and retail.

2992. Could you give the wholesale and retail prices of savoys?—No, I am afraid I have not got them with me.

2993. Did you bring the retail price down to represent that drop?—No, we did not need to bring it down; the market never reached in this year anything like the ceiling prices which were in our Order, either wholesale or retail.

2994. Did you see that the retail prices were reduced adequately to meet the reduction in the wholesale price? In other words, did you see that your loss was reflected in some gain, not merely to the wholesaler and the retailer, but to the consumer?—There is no doubt that was so. We did not do that by Order; the market did it.

Chairman.

2995. We pass on now to the next paragraph, paragraph 36, "Re-commissioned Mills Ltd.". Could you explain the reason for this Company being set up originally?—This Company was incorporated at the suggestion of the Ministry of Food for the purpose of operating certain flour mills which had previously closed down, and the ownership of the capital is vested in the Ministry. The Profit and Loss and Trading Accounts come to the Ministry. It seemed to us to be the only way in which to bring these mills back into operation, but it was not an economical venture. The actual management is entrusted to local millers.

2996. It was admitted that there was a loss, but it had to be done in order to get these mills going again?—Yes.

2997. In the second sub-paragraph, near the top of page xv, I read: "I have been informed by the Ministry that it is not considered that such comparisons would serve any useful purpose". Could you tell us why these comparisons would not serve any useful purpose?—As I say, these mills were not presumably economic propositions, because they were closed down previous to the war. We only brought them back into

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existence in order to meet emergency conditions. The age of the plant, even after reconditioning, would tend to uneconomic running. There was only a small proportion of the output of these mills which was required for local trade; and, secondly, the flour had to travel longer distances than normally. There is a substantially heavier rental charge in the Company's account than in the case of most millers, because most mills are operated by their owner-occupier, and most of the output of those mills is sold on wholesale terms incurring factors' commission, whereas in many cases the ordinary miller escapes these charges by selling direct to the consumer. For all these reasons we felt that a comparison would not serve any useful purpose.

2998. The last sub-paragraph of paragraph 36 reads: "I understand that Re-commissioned Mills, Ltd., have recently been entrusted with the management of certain home-grown wheat silos and drying plants erected on behalf of the Ministry in various parts of the country." Could you give us the reason why this Company with a capital of £2 could do these things?—We had no other agent for doing these things, and as a result of increased production of wheat in this country, and particularly the use of the combined harvester, it was essential that there should be some provision made for drying home-grown wheat and holding it in silos, so as to bring it into consumption, and the Ministry of Food has erected a number of silos in different parts of the country for this purpose. We had to entrust the management to a body of business people, and we felt this was the most economical way of doing it.

Mr. Douglas.

2999. What was the reason for forming a limited liability company to perform this operation? The Ministry was performing hundreds of thousands of other operations without this device; why was it necessary here?—It is true that the Ministry of Food is doing a very large trading operation, but in this case there was a self-contained job of work of a very technical character, and it was considered by the Minister at the time as a very convenient thing to delegate it to a Board of Directors, all of whom were fully qualified, and ask them to undertake this work. We could have done it, no doubt, by setting up a Division within the Ministry, but I do not know that that would have been as efficient as this.

Mr. Douglas.] Why would not it have been as efficient? What is the advantage which you get out of this?

Chairman.

3000. But Local Committees are doing the running?—Yes. Local panels of millers are actually operating each individual mill. I think the question is really rather a large

one. The Committee are probably familiar with the fact that we have set up as agents of the Ministry of Food I do not know how many companies, dozens of companies, of various kinds, and it is a part of the reason why we are able to undertake what is after all a very large trading operation, by delegating whenever we can the functions to particular bodies.

Mr. Douglas.

3001. Am I to understand that the reason is because you got the Board of Directors of this Company to act upon a part-time basis and they are paid by fees in that capacity?—No; these Directors get no fees for their services. The Board consists of seven people, two of whom are nominated by the Ministry, one of whom is a practical miller himself, and the other is an accountant. The remaining five members of the Board are practical millers, but no one draws any fees for his services.

3002. Then could not you have got their services upon the same terms without this device of forming a limited liability company?—I cannot say; I do not know. It seemed to us a very natural thing to isolate a piece of work like this and to give it into the hands of experienced people.

3003. Yes, I agree; but surely that is quite an easy job without forming a company to do it?—I do not think we saw any objection to the formation of a company. That is perhaps the answer I ought to give.

Mr. Douglas.] No; what I want to get at is what is the necessity for it?

Chairman.

3004. It is one of many similar companies, I gather?—Yes. (Sir Gilbert Upcott.) From the point of view of this Committee and myself, the general objection to this device is that it introduces a great deal of complication, because of separate commercial accounts for these small enterprises, and it means a good deal of manpower and unnecessary complication in accounting.

Mr. Douglas.

3005. You have taken five flour mills on a rental basis. How was the rent fixed?—(Sir Henry French.) I am afraid I do not know. These mills were taken over, I think, in 1940, when the Ministry was in its infancy, and I am afraid I cannot at this stage remember on what basis the rents were fixed. I could let you have a note upon that.

3006. Do you know how much the rents are?—No; I am afraid I have only got a rather wide item in the Account, which is described as "Rent, Power, Light, etc." As far as I can see, those amount together to about £50,000 per annum.

3007. It says at the end of the first sub-paragraph that the assets created remain the property of the Ministry; but these

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assets, as I understand it, are fixtures in the building, and sometimes they are reconditioning all the buildings, so how can they remain the property of the Ministry? It has only got the lease of these buildings?—I think that all I can say about that is that in the Agreement which we entered into with the previous owners of these mills that was a condition, that the plant purchased by the Ministry and any assets provided by the Ministry remained the property of the Ministry, and it would be for us to make the best of them whenever the time comes to bring this arrangement to an end.

3008. That is what I want to know: how you are going to make that effective?—I cannot say at the moment.

3009. This Company has a capital of £2. I suppose all its finances consist of advances by the Ministry?—Yes, that is so.

3010. Upon what basis are those advances made—upon the rendering of accounts, or what?—As I said, one of the Ministry's nominees on the Board of Directors is an accountant, and as money is required the Board has to apply to the Ministry for such money and give its reasons. That is examined by the Ministry, and we advance the money if we are satisfied that it is necessary.

3011. Yes; but what I want to get at is this: Is this done by way of an imprest or is it done on the production of the actual account showing the money expended?—No; I am afraid I cannot answer the details. It is a running account between the Company and the Ministry.

Mr. Douglas.] You informed us that you had got a large number of these Companies. Surely you do know how they are run?

Chairman.] Perhaps you will look into this. There are so many of these Companies that I think the Committee ought to be informed with regard to the financial arrangements.*

Mr. Douglas.

3012. Yes. Then I see that the accounts are certified by a firm of professional accountants. That is, I suppose, to comply with the requirements of the Companies Act, is it?—Yes.

3013. Whereas your ordinary transactions which are not affected by this device are not audited by a firm of Chartered Accountants?—No. We have Chartered Accountants within the Ministry.

Mr. D. O. Evans.

3014. I understand that all the capital of £2 is held by the Ministry?—Yes.

3015. And all the money is supplied by the Ministry?—Yes.

3016. All the finance is by the Ministry?—Yes.

3017. Are the accounts published at all?—No.

3018. I mean, they are prepared and audited?—Yes.

3019. Would this Committee be entitled to see them?—Yes. (Sir Gilbert Upcott.) They are rendered to the Ministry and they are available to me, Sir.

3020. The Directors are seven in number? (Sir Henry French.) Yes.

3021. Two are nominated by the Minister?—Yes.

3022. Who nominates the other five, and why?—They were selected by the Ministry as being experienced millers who were prepared to give their services.

3023. Do you distinguish between nominated and selected?—The two Ministry's nominees are also officials of the Ministry and have an overriding power.

3024. You mean that they have the actual power in their hands, although there are five others?—They have.

3025. Voting powers are vested in the two Directors?—Yes; the only people who own shares.

Chairman.

3026. We pass to paragraph 37, "Flour Retailers' Margin." Could you tell us what the present position is with regard to these margins and also with regard to the last line, where it says: "The reply to this inquiry is at present outstanding." Could you tell us what the answer is? They could absorb an increase of 2s. 9d.?—There has been no alteration made since this Report was written, Sir. The position is exactly the same.

3027. But Sir Gilbert six months ago apparently inquired with regard to this position and he asked a question which is implicit in the paragraph?—Yes; the Comptroller and Auditor General, I think, has drawn attention to the fact that it would be possible to reduce the flour retailers' margin by 2s. 9d. per sack. The difficulty we are in is that that only represents one-seventh of the total usage of flour. This would mean a differential price, I think, between flour sold for one purpose and flour sold for another purpose, which is in itself administratively very difficult, and the Minister is not at the moment prepared to decide that this 2s. 9d. should be charged to the retailers if there is any risk of the retail price of flour being increased to the consumer. At the moment the matter is receiving further consideration.

3028. Thank you. I then take paragraphs 38 and 39 together. I have no questions to ask on those. Are there any observations you would like to make with regard to those subsidies? This was dealt with in general terms in the Chancellor's Budget speech?—Yes. I have nothing to say.

* See Appendix No. 13.

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3029. Then on paragraph 40, Sir Gilbert, are you satisfied with the audit arrangements?—(Sir Gilbert Upcott.) I was not quite sure what arrangements the Ministry were making as regards local audits, but I am satisfied that they have now made adequate arrangements, and subject to my discretion to make tests I am quite prepared to say that the arrangement is adequate.

Mr. Douglas.

3030. On paragraph 40, these cold stores have been erected during the war?—(Sir Henry French.) Yes.

3031. I understood from something you said at an earlier stage in our proceedings that the cost of construction there would be very much higher than pre-war; is that so?—Yes.

3032. I think you said double?—I think that is probably correct.

3033. Making the same standard charges, apparently, as you do for the other privately owned stores, there is a surplus of £200,000. Does that include any charge for capital? That is a surplus after charging some percentage for capital, is it?—Yes. There are charges for depreciation, and interest at 5 per cent. on the capital, which are deducted before you get this net figure of £213,000.

3034. Does that indicate that the profit which is being allowed on the privately owned stores is excessive?—I may say that these are, as one would expect, very efficient stores, and they have been erected in the light of the experience of the cold storage industry over a long period of time. Their methods of taking produce in and taking it out at the other side are all of the very best we could devise, and I have no doubt that the working arrangements at these stores, apart from the question of capital, are as good as anywhere in the United Kingdom.

3035. Yes, but still you admit they cost about twice as much?—Yes, I agree.

Chairman.

3036. We come now to paragraphs 41 and 42, Accounts of the Potato Division. We understood last year that this position had been cleared up with regard to these Potato Accounts. I gather now that that is not the case. Could you tell us how things are about clearing up these outstanding potato figures?—I am afraid there is a little misunderstanding, Mr. Chairman. Last year I think I said that as regards one particular question that was raised, concerning £273,571, that particular matter had then been cleared up, but I think I also made it clear that the accounting arrangements for our potato trading account on the whole were by no means satisfactory, and I did in fact say that it was a part of the Ministry's

arrangements of which I was not very proud. Since then we have been working very hard at it, and I think a great deal of progress has been made. We have not overtaken the arrears yet and I do not think we will for some considerable time to come, but the position is that the Ministry decided, as a matter of policy, in March, 1942, to increase very greatly the tonnage of potatoes which it was going to purchase. It was essential, I believe, to come to that decision in order to keep the people supplied with potatoes for the remaining period of the season. The trouble was that the trade were passing into consumption potatoes which would have kept for a long period, allowing other produce to deteriorate, and we had to reverse proceedings by buying; we kept back the long-keeping potatoes and we pressed on the market potatoes which would otherwise not have lasted. From that point of view I have no doubt the result was a very desirable thing, and also from the point of view of feeding the public, but it did mean that these decisions were taken without any adequate arrangements being available within the Ministry for doing the very heavy accounting work that was necessary and we got behind; and although we are struggling very hard with it we are still behind. Then, as bad luck would have it, we had a fire which destroyed a lot of records, and that has made our position even more difficult.

3037. Did you say bad luck, Sir Henry?—Yes, it was extremely bad luck, because it means that in any case, we were in difficulties, but seeing that we were so far behind, it has added to our difficulties. I do not mean to say that it formed a very large part of our total difficulties, but it has certainly added to them. (Sir Gilbert Upcott.) I do not think the loss of the records was a great loss because I doubt whether they were of any value; I am rather more concerned about the 1942 account, because the Ministry have made advances to growers, and the confusion which has arisen through dealing partly with growers directly and partly through merchants and growers has made it very difficult to see whether the advances that have been made are being recovered or not.

3038. Then we come to paragraph 43, "Vouchers destroyed by Fire."?—These are the vouchers to which reference has been made.

3039. Is there anything else upon this, Sir Gilbert?—No.

3040. Then we come to paragraphs 44 to 46; we will take them together. On paragraph 44 I have no questions. In regard to paragraph 45, you deal there with how losses are normally made good. It would be of interest, Sir Henry, if you could tell us something about the loss of £2,000 which is mentioned?—(Sir Henry French.) Yes. If

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there is a loss on a British Restaurant shown in their accounts the Ministry generally send down specialist officers to try to see how that loss has occurred. It may be that the number of meals served is not sufficient to carry the overhead charges; it may, on the other hand mean that the place is not being very well run; or it may mean and does mean sometimes that the actual charge for meals is not sufficient. Whatever the reason is we endeavour to get the local authority who are responsible to make the necessary alterations, and if, as happens sometimes, these alterations are made, the arrears at least may be and even have been worked off in a future period. Occasionally the Ministry have been called upon to pay the loss themselves and we have made one or two payments, but not many, to local authorities, where we are satisfied that the loss is really irrecoverable.

3041. Will you not get left with unprofitable ones, if you are not careful? Is not that a danger you are in with these restaurants?—Many restaurants which have proved to be unnecessary for one reason or another have in fact been closed, and sometimes, our payments for losses have only been made after the account has been completely wound up. (Sir Gilbert Upcott.) I think the Chairman is referring to the scheme in the latter part of paragraph 45, where it says that local authorities have an option on taking over a restaurant.

3042. Yes, that is the danger; they have an option of taking over, but the danger is that you may get left with the bad ones?—(Sir Henry French.) Yes.

Sir Edmund Brochlebank.

3043. With regard to paragraph 44, are you in any way responsible for the scale of wages paid to personnel here? I came across a case the other day of a cashier who is receiving half-a-crown a day, with one meal grudgingly given in the middle of the day. Have you any responsibility for the payment of personnel?—No. That rather surprises me. There are, of course, cases—I know of many—where local women give their services voluntarily, but I did not know there were cases where people were working for a wage at such a rate as that.

Mr. Douglas.

3044. I do not know what the general level is, but is it not the case that in London the wages that are paid are fixed by the Joint Industrial Council?—Yes.

Mr. Glenvil Hall.

3045. Sir Henry, can you tell me whether, since these accounts were made up, the aggregate loss by British Restaurants has gone up from £90,800 mentioned here in paragraph 44?—The latest returns for 1942-43 show that after charging depreciation 351 authorities

showed a profit of £273,000, whilst 347 authorities showed a loss of £175,000.

3046. So that from those figures it would appear that a fair proportion, almost half, were losing money on their British Restaurants?—Yes; many of these would be in the very early stages, probably in the first six months of running.

3047. I understood you to say a little earlier that where a British Restaurant did make a loss and came to you, you helped them to try to make a profit, but if in the upshot they do not make a profit who bears the ultimate loss?—The Ministry is under obligation to repay losses which are unavoidable. If, on the other hand, they are due to bad management or fixing of wrong prices for the meals, then we decline to make the payment, and we have in many cases refused to do so, in which case the local authority continues to carry the loss. Some have, I think, made a grant from the rates, but most of them continue to carry it as a trading loss, hoping that one of these days it will disappear.

3048. But supposing it does not? Many of these British Restaurants were opened under pressure from your Ministry, quite irrespective of what it was costing or whether it was likely to go. You wanted to see these feeding centres opened because of pressure from Parliament?—I can only say we deal with each case on its merits; we look into them very thoroughly and try to get the accounts back into a proper state.

3049. Perhaps I might ask you this: With regard to the two authorities mentioned in paragraph 45, where losses of £2,000 were incurred, what were the special circumstances there? Is Slough one of these?—No. They are Blackpool and Brighton. In the case of Blackpool a Feeding Centre was set up by the Council for the feeding of evacuees. It was rather an exceptional case, which came into existence before the Ministry of Food launched its British Restaurant policy. The responsibility for these and similar evacuee Feeding Centres was transferred from the Ministry of Health to the Ministry of Food as from the 1st March, 1941, and one of the arrangements made at the time of transfer was that the price to be charged for meals should be within the means of the evacuees and that the existing prices should not be increased without the prior approval of the Ministry of Food. It was not a typical British Restaurant at all. A payment of £1,100 was paid to this Council in 1942/43 on account of a loss of £1,165 5s. 3d. incurred in respect of the year 1941/42. The balance of £65 has since been paid by the Ministry together with a payment of £550 on account of loss in 1942/43. The Centre was closed on the 15th August, 1942. The losses incurred

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were partly due to heavy rent and rates which were payable on requisitioned premises;

Mr. *Glennil Hall*.] Thank you.

Mr. *Benson*.

3050. On that question of Blackpool, you say the British Restaurant was opened for the purpose of feeding evacuees?—Yes.

3051. Was it open to the public at all?—No, I do not think so, to start with.

3052. Is it still being run?—No, it is closed.

3053. Are there any British Restaurants in Blackpool?—I do not know.

3054. I should like to know whether there are any and if there are any towns of similar size in which there is no British Restaurant?—I could certainly supply that information.*

* *Note by Witness*.—Blackpool is the only town in the United Kingdom with a population of over 100,000 which has not a British Restaurant. The Council are, however, operating a Cooking Depot, which was set up by arrangement with the Ministry primarily for use in the event of an emergency but which is at present in regular use for the supply of meals to schools, and, to a lesser extent, to factories.

(The Witnesses withdrew.)

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

THURSDAY, 8TH JUNE, 1944.

Members present:

SIR ASSHETON POWNALL in the Chair.

Mr. *Benson*.
Sir Edmund Brocklebank.
Sir George Davies.
Mr. *Douglas*.

Mr. D. O. Evans.
Mr. *Glennil Hall*.
Sir Frank Sanderson.

Sir GILBERT UPCOTT, K.C.B., Mr. D. F. C. BLUNT and Mr. C. E. I. JONES, called in and examined.

TREASURY MINUTE ON PARAGRAPHS 10 AND 11 OF THE REPORT OF THE COMMITTEE OF PUBLIC ACCOUNTS, 1943.

Sir HENRY V. MARKHAM, K.C.B., M.C., Mr. E. A. SEAL, C.B., and Mr. E. C. JUBB, C.B., O.B.E., called in and examined.

Chairman.

3058. We are dealing with the Navy Accounts to-day, and Sir Henry Markham is the witness. Will Members kindly turn to the Treasury Minute dated the 12th February, 1944, on paragraphs 10 and 11 of the Committee's Report, 1943. Sir Henry, would you tell us if you have anything more to say with regard to the financial control arising from our paragraphs of last year?—(Sir *Henry Markham*.) The Admiralty have taken note of the Committee's view and the Treasury's intention, and of course I need hardly say fully concur

in the action which will be taken after the war to investigate this matter. So far as our own organisation is concerned, there has been one major development since last year: an Under-Secretary has been appointed to act as a high-level bridge between Contracts and Finance and to do on my behalf what it is very difficult for me to do fully myself, and that is to keep a constant and close watch on all these matters; and I hope that the Committee will extend the indulgence which they have shown to me in respect of the Director of Contracts and allow me sometimes to pass

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[Continued.]

questions to Mr. Seal, the Under-Secretary, when it seems suitable. Then there is one further development: that is that the Contracts Department for Merchant Shipbuilding has been abolished as a separate entity, and the Director of Contracts (Merchant Shipbuilding) has now been replaced by a Deputy Director of Contracts under the Director of Navy Contracts. I think there is considerable advantage in this, both theoretically and in practice, and there is this one great advantage, that there will be one contracts control over the whole industry as far as the Admiralty is concerned. I should, however, like to make it quite clear that there is no shadow of criticism intended of the way the late Director of Contracts (Merchant Shipbuilding) has carried out his work. He has made a series of admirable settlements.

Mr. Benson.

3059. In regard to the Director of Contracts for Shipbuilding: was that a wartime appointment or did the department exist prior to the war?—It was a wartime department which was created when the Merchant Shipbuilding Department was transferred to us from the then Ministry of Shipping in 1940.

NAVY APPROPRIATION ACCOUNT, 1942.

Chairman.

3063. We pass next to the Navy Appropriation Account, 1942, pages iii to xii, paragraphs 1 to 35 of the Comptroller and Auditor General's Report. The first three are really narrative; I have no questions on the first three paragraphs. If no Member of the Committee has a question on those three paragraphs, we will pass to paragraph 4. With regard to power delegated by the Treasury to the Admiralty, have the Treasury any comment at all they would like to make—that is, on paragraph 4?—(Mr. Blunt.) No, Sir, except that I think this has put the Admiralty on the same footing as the other Service Departments.

Sir George Davies.

3064. One question on this. This extension has been rather gradually stepped up. Is there any likelihood that that process will be continued, or do you think this is probably the final maximum figure?—I should say that this is probably the final maximum figure. We have heard no more grumbles from the Department!

Mr. Benson.

3065. This, again, is a wartime figure?—Yes; it will all have to be reviewed after the war.

Mr. Douglas.

3066. When it says "new works services" what does it mean?—It means works of new construction, Sir; that is to say, other than maintenance and repairs.

Chairman.

3060. I will take paragraphs 12 to 17, "Large profits on Warship Construction." In the Treasury Minute I read that an investigation into this matter has already been instituted. Could you tell us in regard to any conclusion that may have been reached in regard to this investigation?—Yes; but I wonder whether you would prefer me to take that with the other questions arising out of the warship building post-costings of last year; there are certain other questions and they rather fit into each other, so that perhaps it would be easier for me to make a general statement upon it later.

3061. With regard to paragraphs 12 to 17 of last year's report, they would come in upon that?—There is a paragraph in the Comptroller and Auditor General's report of this year.

3062. You will bring that in at a convenient moment when we are dealing with this year's figures?—If I may.

Chairman.] On paragraphs 18 to 20, "Fraudulent claims for ship repairs," which is the next item, I propose postponing this till paragraph 14 of the Comptroller and Auditor General's Report is reached; it comes up directly upon that.

3067. Of ships?—No—engineering works.

3068. You mean shore establishments?—Barracks and the like—or housing, married quarters, and so on. (Sir Gilbert Upcott.) What used to be called Part I items.

3069. It was the word "services" which rather perplexed me.—Yes; it is a technical expression.

Chairman.

3070. Paragraphs 5 to 7 run together. On paragraph 5, Sir Henry, there is this "one case" referred to in the second sub-paragraph half-way through.—(Sir Henry Markham.) The one case of alleged extravagance in paragraph 6, Sir?

3071. No, in paragraph 5, the second sub-paragraph, where it says, in brackets, "In one case to 30th September, 1942." Could you tell us what this one case is?—I think they have all been received now. (Sir Gilbert Upcott.) The case, if I may mention the matter to which I refer in the paragraph "(in one case to 30th September, 1942)" is British Power Boats. (Sir Henry Markham.) No, that has not been received up to the 31st March, 1943, but it has been received up to the 30th of September, 1942, and it will be merged with the account for the following half-year.

3072. A little lower down I read that the Admiralty have reported that they have cleared the greater part of the accounts. Are you satisfied with regard to these clearances?—Yes, we are satisfied in general with

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[Continued.]

the progress that has been made with these matters and in the out-turn of the accounts. We have in the course of the last year taken steps to speed up the procedure. You will remember that we took action to clear large sums from suspense account as rapidly as we could and that has been applied to the agency factories, and we have cleared considerable sums. We have also evolved a rather more rapid procedure for dealing with the accounts themselves, working by a kind of conference or panel, to try to clear up small points, and I think it is fair to say that we are now making as rapid progress as it is possible to make. They are not by any means easy things to deal with.

3073. Sir Gilbert, have you any comment upon that? I see your examination is not yet completed?—(Sir Gilbert Upcott.) In this case I am not first with the news, and at the date of this report I had seen 11 out of 19 cases relating to 1941 and only a very small number of cases relating to 1942. As the Admiralty say that they have cleared the greater part of the cases, including the 1942 cases, I take it that very shortly, if not at once, the reports will be available to my officers? (Sir Henry Markham.) Yes, that is so.

3074. Then on the next paragraph, can you tell us the tenor of the report from the Technical Costs Officer, from whom you called for a report?—The basis of it, Sir, is that he was somewhat critical of the fundamentals of the Principal Accountant's criticism. You may remember that the question came up last year. The Board had received the Principal Accountant's report on this firm and had also just received the report of the Principal Technical Costs Officer. Those reports were at variance in certain essential particulars, and as a result of the synthesis, meetings have been held with the firm, with Admiralty officers and with representatives of the Principal Accountant and the Principal Technical Costs Officer, and we are satisfied now that the firm is running, so far as accountancy is concerned, quite satisfactorily. There never has been any doubt about their production, which has been quite—almost fantastically—good. I think I can fairly say that we have now got no cause for alarm in the accountancy field.

3075. There is a mention of a communication being sent to the firm. Was that dealing with the question to which you have just alluded?—Yes. It was written in somewhat austere terms, calling attention to certain apparent shortcomings. It was the reply of the firm, made after several meetings had been held, which has led us to the conclusion that although there was some very considerable excuse for the complaints which we had to make, some of them were not really well founded when we had all the facts.

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3076. Presumably you took up the points of "extravagant expenditure" and "uneconomical production" mentioned in lines 3 and 4 of the paragraph?—Very strongly.

3077. Sir Gilbert mentions something about discussions; I gather that those discussions are now satisfactorily terminated?—We have not reached quite the final stage because the report has not yet reached the Board, but it has been considered by the Department and an agreed view has been arrived at on a lower level.

3078. Presumably these items of expenditure have been going on for a long time?—Not so very long, because the firm started production in 1941. We got the first big report from the Principal Accountant on the accounts in the autumn of 1942, but before that there had been certain subsidiary reports and a number of reforms had been instituted in the business.

3079. Are you safe in advancing 90 per cent. as stated in the last sub-paragraph of paragraph 6?—I have no reason to think that we shall be in any position to say, or that we would wish to say, that we shall want to make any recovery at all.

3080. On paragraph 7, could you tell us with regard to the investigations which have been made and their result?—The activities of the Principal Technical Costs Officer apply mainly to the ordnance and armament firms. He does not go to the shipyards and he does not go to the one or two highly technical firms which are dealt with by the Director of Scientific Research and the Director of Electrical Engineering, but his reports are, it is fair to say, quite satisfactory. I think it has been a good move sending him round, I think it has been helpful to the firms, and it has certainly been reassuring to us.

Mr. Benson.

3081. With regard to the firm mentioned in paragraph 6, might we have the name?—Yes; I understand I shall have the usual facilities with regard to the record?

Chairman.

3082. Certainly.—It is [name given].

Mr. Benson.

3083. What was the product they were making?—Guns.

3084. What was the price per gun before they received your austere letter?—For the period ending the 31st March, 1942, which would be before they got the letter, the cost of the unit was £362 10s. 2d.; on the 30th September, 1942, it had already come down to £219. It was after that that we wrote. On the 31st March, 1943, the cost of the unit was £174 9s. od., on the 30th September, 1943, it was £165 12s. od. The cost up to the 31st December, 1943, was £157 11s. od. Of course, you will understand, Sir, that production has been rising very steeply all that time, so that the fall in cost is not surprising.

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3085. When did they start making guns?—The first guns were produced—five of them—in March, 1941; they were given the order in 1940, the beginning of the year, and they were put under considerable pressure in June, 1940.

3086. Could you give me the size of the contract which was let at £362 per gun; that is in 1942—or the size of the order?—(Sir Gilbert Upcott.) They are making the gun as Admiralty agents. (Sir Henry Markham.) Yes, it is an agency factory.

3087. I see. What was their monthly output of guns in 1942 to which the price of £362 applied?—The monthly output of guns?

3088. Yes—or in any other terms if you have the information?—I can give you the figures. [Figures given.] I think those figures give some impression of the stupendous nature of their undertaking. They certainly did us extraordinarily well.

3089. As a result of your investigation what exactly did you find wrong?—The two main objections which were urged by the Principal Accountant were that, first, the wages were too high, and, secondly, there was not an adequate scrap control. Further investigations showed that it would have been exceedingly difficult for them to avoid that rate of wages as a commercial firm under extreme pressure to get their work done with the maximum speed; and so far as the control of scrap was concerned, a great deal of that I think must be put down to the fact that everything was turned on to rapid production to start with; a great deal of the scrap which was wasted was due to the green labour which they had to use. It had been thought, when this place was first selected, that there would be an adequate labour supply, but in point of fact that hope was disappointed, and they had to be given special priorities and also receive labour of very inferior quality. That accounted for a great deal of the scrap waste.

3090. With regard to the rate of wages, you say they had to be high. I assume "high" means relative either to that particular job or to the labour in that particular district. Why had they to be high?—I am speaking subject to correction, but I think the rate of wages which they were given to start with was the rate for the district, or approximately the rate for the district, but when it came to piecework and the pressure was put on to get rapid production the rates of wages were inflated, and undoubtedly then the rates were high as compared with those in the district and as compared with those possibly elsewhere, though we have found that their costs generally and their costs of production compare favourably now, and have done for a considerable time, with those of other firms doing this work.

3091. Has there been a reduction in the piecework rates or are they still high?—Yes, there has been a reduction. I do not know, but it is conceivable that that was done in the course of manufacture, because in this case the firm themselves were able to modify the original design. Incidentally, there was another difficulty which they were in—they had very poor drawings to work on; but they were able to make considerable savings in man-hours on the job, and I have no doubt that it was in the course of that process that they were able to review and revise the piecework rates.

3092. One general question relating to all agency factories: I think you have a number of agency factories of various kinds?—Yes.

3093. What is your normal machinery for maintaining vigilance in a factory?—We have a resident accountant at each one of them, and also the Principal Technical Costs Officer makes periodic visits to all the armament factories. So far as the shipyards are concerned, the technical officers from the naval construction department or the dockyard department, as the case may be, do the same thing.

3094. Do you post-cost the production at your agency factories as well as the others?—It is really a case of ascertaining the costs all along. Accounts come in half-yearly and are then subjected to examination by the Principal Accountant and that in a sense is costing. (Sir Gilbert Upcott.) There is one point of criticism which emerged in the report which I saw and which may not have been explained fully: that is, the number of men who in certain cases worked exceedingly long hours; a certain number of men were credited with working 160 hours a week, which, allowing for time and a half, overtime and double time, meant that they were paid for 264 hours a week. Of course, there may be an explanation for that. (Sir Henry Markham.) There were a limited number of cases. One of the difficulties that the firm was up against and which emerged later when we went into the matter was that, first of all, their accounts were run from their headquarters mainly. Then they started with an accountant on the staff at the new works who was not, in fact, so good as he should have been; there was no impropriety imputed to him, but he was not as efficient for this purpose as it was hoped he would be.

3095. But even when they were working 24 hours a day, according to what the Comptroller and Auditor General said, their time sheets must have shown that they were working 24 hours a day.—Yes; I do not know what was done on this particular site.

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Mr. J. M. MACKAY called in and examined.

(Mr. Mackay.) We found out that the men working 24 hours a day simply had to be there to be on call, but we did take steps to see that they were not in fact paid for 24 hours.

3096. They were paid sleeping time?—Yes.

3097. What sort of men were they?—I think they were probably maintenance men, who had to do with machines, the setting up of machines, the making good of repairs, and so on.

Mr. Douglas.

3098. What volume of money is involved in these agency accounts in total for a year?—(Sir Henry Markham.) I am afraid I have not got that figure; I will get it.

3099. I just wanted to have some rough idea of what this really meant.—I will certainly get that figure.*

3100. How frequently do they render their accounts?—Half-yearly.

3101. Only half-yearly?—Yes—to the Admiralty.

3102. Is it not desirable that they should render them more frequently than that?—They have a resident accountant, an Admiralty accountant, on the spot, who is in touch with all their operations.

3103. You say that they are subject to a continuous check, do you?—Yes.

Sir George Davies.

3104. With regard to the increase in wages costs, is that partially attributable to the application of a rate for the job as compared with a district rate?—Yes.

3105. One other thing. Do I understand from what you have told us, referring to the communication sent to the firm regarding operations at the factory, that certain criticisms made with regard to extravagant expenditure and uneconomical production were really unfounded, and that when certain additional information was at your disposal the criticism was not as serious as you originally had thought was justified?—Yes; that was when we received the company's reply. Of course, there had been

* See Question 3466.

TREASURY MINUTE ON PARAGRAPHS 12 TO 17 OF THE REPORT OF THE
COMMITTEE OF PUBLIC ACCOUNTS, 1943.

Chairman.

3108. Then we go to Treasury Minute, paragraphs 12 to 17.—(Sir Henry Markham.) When I came before this Committee last year, and when my examination was concluded, there were really three big problems confronting us in relation to warship prices. First of all, there was the settlement of outstanding warship prices. As the Committee will remember, we suspended the settlement of warship prices (except for group settlements negotiated later) when we began costing in 1941. The second thing which we had to do was to devise as far

conferences in the meantime with them, though, as I say, the Board have not yet taken a decision. But I am pretty confident the view they will take when they have got the recommendation of the Department is that we have nothing about which to proceed against the firm in the sense of reducing their agency fee or disallowing costs. I think we shall find that.

Chairman.

3106. On paragraph 8—"Warship construction"—in the second sub-paragraph there is mention of a group price settlement scheme. Could you refresh our memories with regard to this group price settlement scheme?—May I ask Mr. Jubb to answer that?—(Mr. Jubb.) The essence of the group price settlement scheme is that the various firms concerned submitted figures to the shipbuilding conference—figures which were based on actual costs as far as available, plus estimated costs to completion. Those were submitted by the shipbuilding conference to the Admiralty, an average figure was ascertained, and on that average figure we negotiated a lump sum for profit. There were certain checks, and after the event the firms have to declare any over-estimate and the Admiralty get the benefit of such over-estimate, plus the appropriate rate of profit. If the firm have under-estimated they bear any loss so sustained. In addition to that, the Admiralty's Principal Accountant would exercise a spot check in any cases where we desired it. There is one further safeguard: the shipbuilding conference will give us for a complete year an audited overall profit certificate, showing the profits that the industry has made on those settlements during the year.

3107. Then, broadly speaking, this would appear, from your point of view, to be a very satisfactory solution, would it not?—Yes, I think so. (Sir Gilbert Upcott.) I think it is on this paragraph that Sir Henry thought it would be appropriate to make his statement with regard to paragraph 12 of the Treasury Minute. (Sir Henry Markham.) Yes, Sir.

as we could a sound method of fixing warship prices for the future for those vessels which were not susceptible of settlement by group settlement—larger vessels, at any rate—and in that matter, of course, we should have to have particular reference to the question of fair and reasonable certificates provided by the technical departments and what part they should play in this matter. The third matter was the obtaining of information to which I referred last year about the capital turnover ratio in the industry. Our first essays in these directions were to try to combine the first and

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second of these objects, that is to say, to devise a method of settlement which would not only enable us to settle the outstanding prices, but would also give us a satisfactory system for the future, and with this in view we called into conference a representative number of the warship builders themselves; four of them came, we sat round and we reviewed this problem from every conceivable angle. They were in as much difficulty as we were; one thing that particularly struck me in the course of those conversations was the very great difficulty of exact estimating in the matter of warship prices. We considered numerous formulae—one in particular where we thought we could ensure that the profit margin would be kept down to what we had in mind when the estimate or the tender was accepted—but we found that it really was impossible to devise a system—as it were, an automatic system—which would put an absolute restraint on profit and at the same time provide an incentive to low costs. In the end we had to abandon that. That brought us at once up against the question of the technical certificates, and we formed a committee to which I shall refer very shortly, with terms of reference based on your Report of last year, saying that the functions of the technical departments appeared to call for drastic review. In the meantime, we decided that the only way to deal with outstanding settlements was to have an over-all negotiation between representatives of the warship building people and the Director of Contracts; that was done, and the Board approved a series of settlements—it was in a sense one over-all settlement—to cover all those ships that had been completed and were in service, based on a certificate of costs certified by the firm's accountant and by the managing director. That was accompanied by a reservation on the Admiralty's part of a right to spot check and also a right to investigate sub-contract prices, and get the benefit of any reduction there. Profit was calculated on the basis of a percentage of $6\frac{1}{2}$ on cost, including disbursements. That was the basis of the settlement which was made, and having in mind all the circumstances the Board are satisfied that was a good settlement. To turn back, if I may, to the Committee and our intention to provide a permanent method of dealing with warship settlements, we realised, as I think emerged last year in my evidence here, that the possibility of having a fully competitive industry after the war is probably rather remote, and that whatever we do must be something pretty durable, and something which gives the Department a very close control over the estimates of costs. I cannot give, I am afraid, specifically, the results of the Committee's deliberations because these are now before the Board, but if I may I will give an indication of what I think is likely. [The witness did

so.] The third point was the capital turnover ratio; this has been an extraordinarily difficult matter. I think the capital structure of the shipbuilding industry is probably as difficult as anything of that kind that there is. We have got a great deal of information, and we have made a good deal of progress—so much so that, as far as warships are concerned, at any rate, I can give, with reservation, a probable figure. I think we shall find, when the figures are complete, that the warship builders' turnover to capital ratio is something a little under two to one.

3109. I do not quite follow?—The turnover represents two to the one of the capital employed: that is the ratio. (Sir Gilbert Upcott.) They turn over their capital twice a year.

3110. I see. That is the point you wish to make?—(Sir Henry Markham.) Yes.

Chairman.] I am sure we fully realize the extraordinary difficulty of relating this matter to actual cost and also to capital, and I think the Committee appreciate, especially in view of the evidence we had last year, the difficulties that have been encountered. We will take the Treasury Minute, paragraphs 12 to 17, together with paragraph 8 on Warship Construction of the Comptroller and Auditor General's Report on the Navy Appropriation Account.

Mr. Glenvil Hall.

3111. Earlier on you spoke definitely of the appropriate rate of profit as being $6\frac{1}{2}$ per cent.?—That was the settlement in regard to warships, completed by the 31st December last year.

3112. That is what I understood you to mean. How does that compare with previous arrangements, and is it going to be fixed for the coming year?—On the whole it is probably a little less than a normal settlement.

3113. A little less?—Yes; a little less, for instance, than the group price settlement so far made, which were more like 7 per cent. I think.

3114. I thought it was more than that?—The group price settlement ran to about 7 per cent.; this is $6\frac{1}{2}$ per cent.; there is about a half per cent. difference.

3115. I gather that where they make more profit than this $6\frac{1}{2}$ per cent. it again comes back to the Government, but if they underestimate what they are going to spend they have to bear the loss?—(Mr. Jubb.) No; I think you are confusing this with the group price settlement which I described just now.

3116. I am taking the whole of your evidence and asking questions on points that occur to me?—(Sir Henry Markham.) But the settlements are different, because the settlements to which I referred covering about 150 ships deal with completed ships; the group price settlement normally deals with ships which are in course of construction.

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[Continued.]

3117. I think I understood that; but I gathered that it was part of the policy of the Admiralty now, where they under-estimate for them to bear the loss?—(Mr. Jubb.) I think the point in the warship settlement is that it has been based on the actual cost, so that there is no question of under-estimating in all these cases.

3118. Then this question of under-estimating will not apply to the future at all?—It will not apply to this settlement that Sir Henry has just described.

3119. I think that perhaps we are at cross purposes; I understood that. But I also understood that it would be the general policy that as and when estimates were given, if they under-estimated—well, that was their funeral, but that if the thing went the other way the extra profit came back to the Exchequer. Am I correct in that assumption?—That is correct if the price is settled on the group settlement basis.

3120. Is that always quite fair on the contractor, because I gathered it was very difficult to estimate in those circumstances?—Yes.

3121. Whilst one does not want to see their getting an enormous profit, or even more than an ordinary profit, one has to be fair to all concerned. Have any representations been made by them about its being unfair or anything like that?—No; they are quite prepared to accept it in the very difficult circumstances.

3122. Does not it lead to their over-estimating in order to be on the safe side, and has not that got its drawbacks?—There is that danger, but as a matter of fact we have had several cases of under-estimating disclosed by our spot check. (Sir Gilbert Upcott.) Mr. Jubb will correct me if I am wrong, but I think, with great respect, that the estimate is not made before the ship is begun to be built; it is usually made in the course of construction. (Mr. Jubb.) Yes. (Sir Gilbert Upcott.) The firm knows something about cost before it gives its estimate.

3123. Undoubtedly. They have probably been in the business for years?—Not merely that, but the estimate for the ship is made during construction.

3124. But obviously the total cost cannot be known, otherwise it would not be an estimate. We did have evidence that occasionally they might under-estimate, so that quite obviously there is room for error; and I wanted to make sure that the Government was fair to all concerned in this matter?—(Mr. Jubb.) I think so. They are quite prepared to accept a settlement upon that basis.

Chairman.] It has been accepted.

Mr. Benson.

3125. With regard to the group price settlement, you said that you fixed a lump sum for particular ships. Is that gross or net profit?—Net profit.

3126. In the costings overheads are taken as part?—Yes, overheads are part of the costs.

3127. When the lump sum is settled do you then divide the profit by the number of ships and say so much profit on each ship, or do you allow the firm concerned to allocate profits as they desire?—What we do is to assess an average cost. If one ship was excessive as regards costs we might exclude that from the average, but we should get what we call a reasonable average, assess our lump sum upon that, and then we should pay that average cost plus the lump sum to each of the firms. Under their group settlement they would give that lump sum to each firm and their costs they would adjust amongst themselves.

3128. So that it means this, that you decide what the value of a particular type of ship is on the costs that you have seen, and then, irrespective of what it has cost a particular firm for that ship, they get the average cost throughout the industry?—They would, from us.

3129. From you?—Yes.

3130. So that now if one ship cost, say, £50,000 and another £100,000, and your average price was £75,000, then one firm would get a profit of £25,000 and the other firm would get a loss of £25,000 from you?—I am afraid if one ship cost £50,000—

3131. I am giving simple figures, but that is the principle?—On those figures the £100,000 would be discarded for the purpose of averaging. If you took figures very much closer together, say, from £45,000 to £55,000 with an average of £50,000, and, shall we say, £3,000 for the lump sum profit, then each of those firms would get from us £53,000.

3132. I see—irrespective of what it cost them to build?—Yes. That has the advantage that the lower a firm's costs the bigger the percentage of profit they get.

3133. Yes; I thought it was that; I was trying to get at that. Now, Sir Henry referred to a settlement of approximately 150 ships on the basis of, I think he said, 6½ per cent.?—(Sir Henry Markham.) Yes.

3134. Were those the same ships that were referred to in the Comptroller and Auditor General's report of last year, 128 ships on which you got back £2½ millions?—No; these are the ships which had been held up as soon as we started post costings and which formed the subject of discussions last year. We had made no settlement

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since that started, and by the autumn of last year the firms had got to a state when they said: "We must have a settlement of some kind."

3135. The ships whose costs we got last year were definite contracts, and costs were paid on those figures?—Yes, fixed price contracts.

3136. With regard to your group price settlement normally, what number of ships compose a group—I suppose it will vary according to the type of ship?—(Mr. Jubb.) Yes.

3137. How many destroyers, for instance, will you let as a group?—Probably about 12, I should say.

3138. And 6,000-ton cruisers?—Cruisers have not been the subject of a group price settlement; they come into this 6½ per cent. settlement.

3139. It is smaller stuff, ships of 2,000 tons and so on?—Yes, what I might call naval auxiliary craft, like corvettes, trawlers, minesweepers and tugs. They might run to more, but you have asked me about destroyers, and I should say the number of destroyers would be about 12.

Mr. Benson.] Thank you.

Mr. Douglas.

3140. In your settlement of the 150 ships you say that was made on the basis of 6½ per cent. on turnover, and the turnover is twice the capital, so that the settlement yields 13 per cent. on the capital employed? Is that right?—(Sir Henry Markham.) I should think probably a little less than 13 per cent., because it is just under 2 to 1—between 12 and 13 per cent.

3141. The group price settlement reveals a somewhat higher profit on turnover and therefore on the capital employed; is that right?—That is so.

3142. I understand from the answer given just now that the group price settlement only applies to smaller vessels. How are you dealing with the others now?—The others are being dealt with, or so far have been dealt with, on the basis which I have just indicated. We have dealt with all the ships which were built up to December of last year; we have not made any further settlement on the large ships since then, and we shall not do so until we see our way clear on the basis of this Report.

3143. Does that mean that you are going to settle prices on the basis of what they cost?—We may; it is quite possible that we may have to do the same as we did in making the December settlement of last year.

3144. What is the Shipbuilders' Conference to which reference has been made?—I do not think I referred to it.

3145. Somebody did?—Yes; I beg your pardon. That is a Conference formed, I think, in 1935 or 1936, which was representative of all the shipbuilders concerned. Perhaps I could express it this way: It is what you might call the materials equivalent to the S.E.F., the Shipbuilding Employers' Federation; it deals with materials, where the other one deals with personnel, trade unions, wage rates and so on. It is the big authoritative body of the industry for almost all purposes.

3146. Do I gather that this body is operating some kind of trust or cartel by which they are redistributing profits or losses between themselves?—(Mr. Jubb.) Yes. They arrange what each firm shall receive on the average price, and we have negotiated over a series of firms.

3147. So that in effect there is no competitive tendering left in this industry at all?—(Sir Henry Markham.) No, I think not; that is one of our difficulties.

3148. That indicates the necessity for extreme caution, does it not?—Yes, we appreciate that.

Sir Edmund Brocklebank.

3149. It also indicates the necessity for the application of the doctrine of co-operation?—Yes, certainly; we try to appreciate that too.

Mr. Douglas.] That may be good or bad.

Mr. Benson.

3150. There is a body of gentlemen who are supposed to advise the Admiralty, but their qualifications appear to be that they have nothing whatever to do with ships. Are they still functioning?—No, I think it is fair to say that they have not functioned since the war. (Mr. Jubb.) I would not be quite sure upon that, but certainly they have not functioned for the last few years.

Chairman.

3151. For the years under review anyhow. We pass to paragraph 9, "Group Price Settlements." Sir Gilbert, could you tell us what report you have had in regard to this?—(Sir Gilbert Upcott.) These settlements which have been reported to me are concrete examples of what Mr. Jubb has been explaining. They relate to three firms each of which built two ships of the smaller kind that Mr. Jubb mentioned just now, and as I understand the particulars in the case of two of the firms the costs turned out to be higher than the estimates. In those cases the firms were paid, if I am right, the group average plus an appropriate profit, being less than the costs. In the third case the estimate was higher than the cost, and in that case I think the firm was paid the group average together with a

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profit, and I understood they were asked to make a refund; but there I confess I am rather at sea in the application of the method, and possibly Mr. Jubb will be able to explain it better than I could.

3152. Perhaps Mr. Jubb will comment on what Sir Gilbert has just said?—(Mr. Jubb.) Yes. The position is this, that if they have overestimated they repay to the Admiralty the amount of the overestimate plus the appropriate rate of profit. If they have underestimated they do not get any more from us; it simply means they make less profit than they bargained for.

3153. But do not they get it back from the group price pool?—No; if it costs them more than they estimated they have to bear that.

3154. They stand the racket themselves?—Yes.

Sir George Davies.

3155. Have you heard of a case where they have incurred an actual loss?—No, I have not heard of such a case.

Chairman.] With regard to the refunds, mentioned in line 3 of paragraph 9, can you tell us anything about those?—The refunds, I think, so far have totalled about £180,000.

3156. Mention was made a moment ago of what happened if the cost exceeded the estimate. I think you have told us already about that?—Yes.

3157. I wish to ask you something about the last line of paragraph 9, which reads: "No audited profit certificates have however yet been supplied to the Admiralty." What is the position with regard to that?—(Sir Henry Markham.) The Conference have had considerable difficulty in getting their certificate, as they pointed out, from some firms; it is impossible to get their final conclusions until the guarantees which go with some of the ships are terminated, and that may be in some cases a year after construction. They have also had difficulty, I think, with Inland Revenue calculations and so on; but I do not think that the absence of an audited profit certificate is very material to the control of this matter, because the group settlement is controlled by figures which each of the firms supply and the spot check which the Principal Accountant carries out, and it is interesting to note there that the spot check has confirmed the various companies' figures very well.

Mr. Glenvil Hall.

3158. On this paragraph, and in the light of what was said earlier, have you any evidence that contractors have attempted to build up their costs to their estimates; that, having given you an estimate, they have attempted to inflate their costs?—(Mr. Jubb.) I have no evidence of that.

3159. I suppose the Admiralty has looked at that possibility?—(Sir Henry Markham.) We have that possibility in mind. That would probably appear through the progressing of the work after it happened. (Mr. Jubb.) And if they put in an excessive estimate we should exclude that from the averaging process, as I explained just now.

Mr. Benson.

3160. With regard to excessive price, did that arise from unexpected efficiency or from high estimating?—It might have been both, but I should think rather from over-estimating.

3161. As they are a group price you obviously know and you can compare like with like?—Yes.

3162. Where you have had a refund it has been from the firms whose estimates were high, has it, or merely whose costs were low? In other words, where does the centre of gravity lie, so to speak?—It is difficult to say, but I think we have had overestimates from the good firms and bad ones, from the low estimate people and the high estimate people.

3163. The low estimate people found that their prices were even lower than they thought, and the high estimate people found that their costs were not as high as they thought?—Yes.

3164. Do you find that particular firms consistently overestimate, or is it a random distribution?—That is rather a difficult question to answer. We find that some firms are rather consistently high because they are not so accustomed to building the particular craft which are under consideration. We have high cost producers and others which we recognise as low cost producers.

3165. I was thinking of the estimate—whether some had a bias towards high costs, because so far as costs are concerned it may be that you see to it that they are working as efficiently as they can be made to by setting one firm against another?—I do not think a firm likes to be found out as being a high cost producer.

3166. Have you methods for checking their particular shipbuilding methods to make them work to an efficient standard? Can you go into shipbuilding yards and say: "Look here, so-and-so works quite differently. Why cannot you?"—That is hardly a question within my province. We have the overseers of our Technical Departments at each of the works.

3167. Is there a comparison of methods—do you change your Technical Overseers about from one dockyard to another?—(Sir Henry Markham): Yes, they move as between the dockyard and the shipyard districts.

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3168. And they make one firm work up to a given standard of efficiency?—I think it is fair to say they do; that is one of their principle functions. (Mr. Jubb): I would also say this, that if we find that one firm's costs are very much higher than those of the others we take that up with the Shipbuilding Conference and ask them to look into it for us.

Mr. Douglas.

3169. Would you explain in a little more detail what the mechanism of this group price settlement is: do you ask for tenders for, let us say, a dozen destroyers, and then is it on the basis of those tenders that the average is ascertained?—We do not get tenders in the group price settlement; we get figures of estimates through the Conference representatives.

3170. You do not get them individually from each shipbuilder?—No, only after we have discussed the matter with the Shipbuilding Conference.

3171. I see. Now, you said something or other about certain estimates being excluded in forming the average. What is the point of that?—Just this. Supposing you have half a dozen firms constructing the same craft, and the sixth firm's costs are very much higher than those of the other five, I should say that the sixth firm's costs must be excluded for the purpose of ascertaining a reasonable average cost, so that I should get a lower average cost from the five than from the six.

3172. Does it ever work the other way, that one of them is very much lower than the rest?—Not to that extent, I think; it might be that one firm was making a greater quantity than any of the others, and they might have substantially lower costs.

3173. In that case would you exclude them from the average also?—I have not done so as yet. I have not had any case where I have excluded a low cost firm from the average—only a high cost one.

3174. In the case of how many ships have you come to a final settlement under this scheme?—I could let you have that figure; I have not got that in my head.

Chairman.

3175. An appreciable number?—Yes. I could give you the amount of money. I think it is about £35,000,000 up to the end of December, 1942.

Mr. Douglas.

3176. Reference was made to delay in settlement because of guarantees given by the shipbuilders. What bearing has that got upon the question of settling the price for the ship?—Nothing on the question of settling a price for the ship, except that,

of course, you have to allow in your margin for any risk, such as a machinery guarantee for twelve months.

3177. That is a question merely of retention moneys?—No, there is a price for the ship, and they run the risk of having to carry out any work as a result of any defects disclosed during the twelve months guarantee period. The point is that until that twelve months period has elapsed and they know whether they have to carry out any work they do not know what their final cost is.

3178. But that is just the thing I want to get at. Surely that work is not part of their cost, otherwise what is the point of the guarantee: it disappears entirely, does it not?—It is part of their final cost. Let me put it this way: it is part of the margin over the estimated cost given to us. (Sir Henry Markham.) It affects the overall profit.

3179. What do you mean by "part of the margin"?—(Mr. Jubb.) If the margin is 7 per cent., that covers profit and the risks that they carry under this machinery guarantee. Any costs which they have to incur in the twelve months period they have to bear.

3180. They come out of their profit?—Yes.

3181. It has got nothing to do with the price of the ship?—Yes, it has, because if there were no machinery guarantee we might give them a lower margin than, say, 7 per cent. if they had no such risk to carry. (Sir Henry Markham.) But it would affect the audited profit certificate, of course.

3182. In other words, you are bearing the cost of the guarantee?—(Mr. Jubb.) That all depends what the cost is.

3183. You cannot have it both ways. Now, the other question I wanted to ask was this: You say that the settlements in regard to prices are delayed because of negotiations between firms and the Inland Revenue. What has that got to do with the price of ships?—(Mr. Seal.) It is a question of obsolescence. (Mr. Jubb.) It is a question of an allowance for depreciation and things like that that may be outstanding.

3184. I see; part of the cost of production?—Yes.

3185. You do not allow them any more than the Inland Revenue allow them as allowances in computing their liability to tax?—If the allowances have not been finally settled and if they obtain bigger allowances than they have got now, that would increase their costs.

3186. Yes; so that the amount of depreciation allowance you give them is the same as the Inland Revenue give them

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for tax purposes?—(Mr. Seal.) No, I think it is only in the calculation of profits, but before they are in a position to discover what their profit is they must know what the Inland Revenue will tax them upon in respect of depreciation and what allowance they will get.

Mr. Douglas.] That is what I am asking you. Thank you.

Chairman.

3187. We pass to paragraph 10, "Profit on Capital employed," and paragraph 12 deals with "Merchant Shipbuilding." Could you tell us, Sir Henry, with regard to the naval shipbuilding investigations as regards these rates and profits?—(Sir Henry Markham.) We have not quite completed the investigations, but I think we shall probably find that the ratio is just under 2 to 1.

3188. That is a similar figure to what you gave us before?—That is the one.

3189. Or paragraph 11, "Costs of Small Craft," what firms were these?—In the third sub-paragraph?

3190. The second sub-paragraph?—(Sir Gilbert Upcott.) The first and second sub-paragraphs. (Sir Henry Markham.) [Name given.]

3191. And lower down there is a mention in sub-paragraph 3 of three other shipbuilders.—Could you tell us their names, not for the record?—[Names given.]

3192. I see that the Comptroller and Auditor-General has been informed?—(Sir Gilbert Upcott.) I have been informed, as I say, by the Admiralty, "that the costs of the firm and of typical sub-contractors have now been ascertained for certain types of craft and are under consideration. Costs are also being ascertained in respect of orders placed direct with other firms where prices appear high." I have not been informed in that case what the prices ascertained are; the Admiralty have ascertained them, but that was only quite recently and I have not yet heard them.

3193. Could you give us that information, Sir Henry? The costs have been ascertained but have apparently not been passed on?—There will be a number of figures of cost which relate to a variety of craft. (Sir Henry Markham.) These are the small craft.

3194. Yes?—The L.C.A.'s. (Mr. Jubb.) After the big settlement on the first order there have not been any further prices settled, because we are carrying out certain cost investigations.

3195. They are still going on?—Yes.

3196. You cannot give us any information as to how far the ascertainment has gone?—In the case of one type of craft

I think there are 18 sub-contractors and we have ascertained the costs of four, but those are still under consideration.

3197. In the first sub-paragraph, Sir Gilbert, I see you were informed "that the post-costing of the earlier orders placed with two of the latter showed that the firms had made large profit on cost." Have you anything to add to that?—(Sir Gilbert Upcott.) In this case they informed me of the price, and I understand that for two firms prices paid were 25 per cent. and 53 per cent. above the ascertained costs. Three of the firms have agreed to forgo profit on the subsequent order, and negotiations are proceeding with the fourth firm. The extent to which the Admiralty get their money back depends on the relative size of orders, and if I am not mistaken the orders for the fixed price standard are considerably larger than the orders on which the firms have agreed to forgo their profits.

3198. Could you give us any information as regards the extent of the subsequent order and how the figures compare?—(Sir Henry Markham.) I could give you the sort of net result allowing for the fact that these firms will not make a profit on later orders, and I think the figures of 53 per cent. and 25 per cent. will come down to something like 35 per cent. and 17 per cent. over-all; that will make the total profit, but it is still high.—(Sir Gilbert Upcott.) It is on cost. (Sir Henry Markham.) Yes.

3199. With regard to capital, is it 2 to 1 there?—I do not know what the capital ratio of those particular firms is, but on the basis on which we are working I think we shall have to take it as 2 to 1.

3200. In that case it becomes 34 and 70, does it not?—Yes.

Mr. Benson.

3201. I should like to refer to the question of cost where the contracts were accepted on the basis of technical certification. Has Sir Henry any figures relating to costs and the prices of those particular contracts?—I could ascertain those figures.

3202. Could you give us some figures for next Tuesday's meeting?—Certainly.*

3203. Just one other point. Perhaps we can consider those figures later when we get them next Tuesday?—Yes.

Chairman.] Yes.

Mr. Benson.

3204. I take it you have now dropped entirely the process of letting contracts on technical certification?—So far as warships are concerned; there are certain stores where we might still use technical certificates.

* See Questions 3466-3469.

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3205. Are you convinced that you are likely to have them more than on warships?—Yes, much more.

3206. They are repetition things?—Yes, they are much more exactly computed.

3207. Do you have competitive tenders?—Sometimes, not often. (Mr. Jubb.) The competitive field is very small.

3208. For so many years this Committee has been told that technical certification was based on wide and accurate knowledge that one becomes rather sceptical?—I can understand that. (Sir Gilbert Upcott.) You will find cases in my Report which have been checked very effectively by technical estimates. (Sir Henry Markham.) Yes; that is how we check them. (Sir Gilbert Upcott.) Not by knowledge of the technical department but by actual detailed technical costing. That is what I refer to in paragraph 23.

3209. I have not got as far as that?—I only put in that demurrer, that it would not be fair to say that technical costing does not in some cases prove effective.

3210. You do not use that in shipbuilding at all?—(Sir Henry Markham.) No.

Mr. Douglas.

3211. With regard to the third subparagraph, the result in two cases, as I understand it, where profit on turnover was 25 per cent. on the earlier orders, means that that has now been reduced to 17 per cent. and in the other case from 53 to 35 per cent. There are two other firms concerned. What are the figures in their cases?—(Mr. Jubb.) We only obtained the costs of two firms out of eleven.

3212. What happened to the rest; what is the position?—The prices were fixed. (Mr. Seal.) All the four firms agreed.

3213. Those were the cases you investigated?—Yes.

3214. Why should not others be investigated?—Because they had no follow on orders.

3215. Therefore you thought there was no chance by negotiation or otherwise of having anything back from them: is that it?—Yes. (Sir Gilbert Upcott.) Only as regards reduction. (Mr. Jubb.) We costed two firms to obtain information required for settling prices of later orders.

3216. In the two cases, but in the others you did not make any costs investigation?—No.

3217. Therefore the Committee has no reason to think that the profit in turnover in those cases might not range between 25 and 50 per cent., or in other words between 50 and 100 per cent. of the capital employed?—That is so.

3218. Now, do you think that in the two cases where you had follow on orders it was satisfactory merely to reduce profit on turnover to 17 per cent. and 35 per cent.?—I think the point is this, that the four firms which got follow on orders agreed to forego profit on the follow on orders, but the prices already agreed stood.

3219. I see, that is how you did it? But if there were four firms, would you mind giving me the figures for the other two, because we have only had the figures for two so far?—You have had the figure of profit. Of course, we have no figure of profit for any except the two firms who were actually costed out of the eleven. We have cost figures of the four who got follow on orders.

3220. Well, I confess I cannot understand it. This paragraph refers to four firms of shipbuilders, does it not?—Yes.

3221. Am I to understand that in the case of the other two the prices revealed on the costs examination were not excessive?—(Sir Gilbert Upcott.) They have not been costed.

3222. But the Witness has said that four were costed?—(Mr. Jubb.) No; two were costed, but four received follow on orders.

3223. Yes; then that accounts for the four which are here mentioned?—Yes.

3224. Follow on orders were given in the case of two in respect of which no costings examination was made at all?—Yes. (Sir Henry Markham.) But they all forewent profit, so that we got the maximum comeback, as it were.

Chairman.

3225. Three.—I beg your pardon and the fourth is under consideration now. (Mr. Jubb.) The fourth has agreed. They have all forgone their profits.

Mr. Douglas.

3226. The two you have not investigated were in the same boat as the others?—I think that is a fair assumption, probably.

Sir George Davies.

3227. Do I understand that the fact is that the only recoverable amount that you could really take into consideration was estimated profit on future contracts, that those that were closed you were unable to reopen or recover on, and that the later ones you could not recover anything on as regards agreed costs, but you could recover on estimated profit, and that they have agreed to forgo?—(Sir Henry Markham.) Yes. It is our normal practice not even to urge that fixed price contracts should be reopened.

3228. Yes, I gathered that. Could you give us any idea of what the difference is, roughly, between what you have been able

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to recover because they have forgone this profit and what might have been saved to the Department had they been fully acquainted with the position before they let those original contracts on which these unexpectedly heavy profits were made? You understand what I mean? You have merely done the best you could to recover there?—Yes. We could get that figure out.

3229. I was just wondering how badly we had come off.—These are not large vessels, so that there is no big money in it, as there was last year. (Mr. Jubb.) Eighty ships would cost, say, a quarter of a million.

Chairman.

3230. It is a relatively small sum?—(Sir Gilbert Upcott.) It is for landing craft and so on.

Mr. Benson.

3231. With regard to these firms, are they normally shipbuilding firms who are running on the contract or are they firms of a different type?—(Mr. Jubb.) The warship builders.

3232. Are all your landing craft built by warship builders?—No.

3233. The eleven firms were warship builders?—Yes.

3234. What about firms which were not warship builders: were they in the same boat?—No.

3235. Their costs were not so high?—Their costs are higher.

3236. I see—these are the earliest?—Yes.

Mr. Douglas.

3237. One other question: Have you got any idea how long it takes to build a landing craft as compared with, let us say, a cruiser or a battleship?—(Sir Henry Markham.) A battleship takes about four and a half years and a cruiser somewhere about three and a half. A landing craft would take two or three months.

3238. I think it would be erroneous for us to go away with the impression that the ratio of turnover to capital is 2 to 1. It might be as much as 4 to 1, in which case this profit would range from 150 to 200 per cent. on capital?—(Mr. Seal.) I do not think the actual time of building has any bearing on the ratio between turnover and capital: it depends on the total business of the firm during the year, the total turnover in terms of cost, and whether they are making small barges which are built in two or three months or battleships the ratio may be the same. It is unaffected by that.

Chairman.

3239. I will take paragraphs 12 and 13 together—"Merchant Shipbuilding, New Basis for Settlement." With regard to the end of the first sub-paragraph, I see it says: "The results of the Admiralty's in-

vestigations were to be reported to the Treasury." Could you tell us about that, Sir Henry?—(Sir Henry Markham.) Yes. We have made that report to the Treasury, Sir, and it is quite satisfactory.

3240. In the second sub-paragraph, there is mention there that these profits "do not generally reveal a high rate of profit on cost." Could you give us some sort of figure as to what they reveal?—Between 6½ and 7½: that is the sort of range.

3241. Then towards the end of that sub-paragraph it says "that further investigations are required." Could you tell us anything about those "further investigations"?—It is rather difficult to go as far in this case as I did in the case of the warships and give you any sort of figure. It is possible that it will be a little higher than in the warships case, though I feel considerable diffidence in committing myself even to that extent. It has been a very difficult investigation, quite apart from the normal factors of pressure on our own accountants and the considerable shortage of firms' accountants, and it has not always been easy for firms to give us readily the figures we want, though they have done their best, and sometimes when they have given us figures they have required a good deal of interpretation and in some cases a good deal of adjustment. There have been cases where firms have actually reported figures really against themselves which ought to have been in their own favour, if they had tackled the job properly. As I indicated before, the capital structure of the industry is one of great difficulty, and I think the Treasury will agree with us that it is something quite astonishingly complicated. It is exceedingly difficult to get any reliable figures. (Mr. Blunt.) I would support that, Sir. All our information is that it is an extremely difficult job to get reliable figures in regard to capital employed for the shipbuilding industry. We are going to get a further report (we have only had a provisional report upon that point), and upon that we shall consider whether the profit rates on cost ought or ought not to be reduced.

3242. On the next paragraph, paragraph 13, this rate of 7½ per cent. is mentioned, which was "intended to provide some allowance to the builders for the risk borne by them in accepting fixed prices based upon estimates of cost." But a line or two later I see apparently 7½ per cent. was also allowed in cases where there was no risk at all involved, and the prices were negotiated after completion of construction, so that they still had the 7½ per cent. although there was still a risk in it?—(Sir Henry Markham.) Yes. That was the case of five ships; the negotiations were difficult, and the firms were demanding a high price. We insisted on a costs investigation, which

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took place; then, of course, there were negotiations with the firms, and that was the best we could do.

3243. But it is a little bit odd that the same percentage should be allowed with no risk in the one case and with a risk in the other?—If we could have imposed a price it would have provided for a slightly smaller profit margin.

Mr. Douglas.

3244. Would I be right in assuming that the ratio of turnover to the capital employed in this case is also of the order of 2 to 1?—We are not quite sure yet, but it is probably a little bit more than in the case of the warships.

3245. Then in that case the rate of profit on capital employed is a bit more too?—Yes, that would be so.

3246. When you enter into a contract for the building of a ship, a merchant ship or battleship, does that provide for advances of money to the contractor as the work proceeds?—Yes.

3247. Up to what percentage of the value of the work done?—(Mr. Jubb.) There is usually a scheme of instalments in connection with a battleship.

3248. It is based upon some scheme, surely? You have got some system about it; it is not absolutely arbitrary?—No.

3249. What is the basis of it?—It depends on the stage of the construction of the ship. They would receive a certain proportion of the contract price.

3250. Yes, it is related to the value of the work done, is it not?—It would be related in a fixed price contract to the fixed price, or in a contract where the price is not fixed to some provisional price for payment purposes.

3251. So that the contractor is not out of the whole of the money which he has had to expend upon purchasing materials and paying out wages. He is only out of the residue. Is not that so?—Yes; he is out of his money for a time.

3252. Then that supports the point which I put to you a few moments ago, that when you are building landing craft and building them at the rate of one every two or three months, the ratio of turnover to capital employed will be higher?—(Mr. Seal.) In the capital employed would appear a figure for value of work in progress less the instalments which have been paid.

3253. Exactly. That is my point; but the fixed capital which is employed, of course, does not earn any instalments and it is wholly unremunerative until the job is completed?—Yes.

Mr. Douglas.] Thank you.

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NAVY APPROPRIATION ACCOUNT, 1942.

Chairman.

3254. We pass now to paragraph 14, and with that I want Members to refer back to the Treasury Minute, paragraphs 18 to 20, which I deferred, with regard to "Fraudulent Claims for Ship Repairs." In the Treasury Minute of last year, the last line of all, on page 4, it is mentioned that a report of the final outcome of this case and on the working of the revised arrangements will be furnished to us in this Session. Could you tell us with regard to this case, Sir Henry?—(Sir Henry Markham.) Yes. When I gave evidence before the Committee last year, I gave the Committee some idea of the mechanism of the Porter frauds. I pointed out that they had for the most part been employed as sub-contractors to the Ministry of War Transport and that it had not previously been the custom to check the concurrent charges of sub-contractors with the aid of recorders, which is the only really effective way of bowling out a fraud of the kind which happened here. I pointed out to the Committee that there is a limited number of recorders available and that any concurrent check by recorders of sub-contractors' work could only be at the expense

of a check on the main contractors. I added that nevertheless the Admiralty would concentrate for a period on sub-contractors' work, and at the same time I outlined certain other measures which were in process of being taken for the prevention, or at any rate the early detection, of future malpractices of this kind. I referred particularly to the flying squad of an accountant and a recorder who were to make sudden descents upon contractors, and I also said that in order to avoid overlapping of investigations, the Admiralty would take over the accountants of the Ministry of War Transport and operate the accountancy examination and concurrent check examination of all ship repairing contracts for both Departments. The working of the new arrangement is as follows: Our first step was to inform all our main contractors that they should tell the Supervising Admiralty Recorder immediately whenever orders for work under the Emergency Repairs Agreement were placed with sub-contractors, and we also drew the attention of main contractors to their obligations under the Agreement to ensure that sub-contractors were properly advised of the Admiralty's rights to in-

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investigate sub-contractors' accounts. The main contractors have co-operated very loyally with us in this matter and have in fact welcomed the extension of the concurrent check by Admiralty recorders to include their sub-contractors' work as well. Many of the main contractors are, of course, themselves sub-contractors to other main contractors and were therefore quite familiar with the Admiralty's requirements under the Agreement. Sub-contractors who had had no previous experience under the Emergency Repairs Agreement in general also co-operated and afforded every facility for the examination and verification of their costs. They displayed a readiness to modify their time-keeping procedure where considered necessary, and in cases where their existing systems were deemed inadequate they welcomed and in fact adopted suggestions for their improvement. Various errors of commission or omission were brought to notice by the Supervising Recorders. Generally speaking, the extensive check on sub-contract work has not revealed any flagrant cases of overcharging. It is probably true to say that the real value of the recorders' presence on this class of work lies more in its moral effect on the sub-contractors than in any savings effected. The institution of the flying squad has also had a good effect. Unsatisfactory practices have been remedied in certain cases, while investigations are still proceeding in other cases where suspected irregularities or overcharges have appeared. Now, with regard to the particular case of Porter's, I think the Committee will be very glad to learn that the firm through the medium of their present Directors have agreed to make full restitution of the sums fraudulently obtained from the Government by their predecessors. A full investigation has been made by the accountants of both sides, and the Company have agreed to refund to the Crown the sum of £730,000.

3255. Is that the firm referred to at the end of paragraph 14, where I see the words "under discussion with the latter firm"?—Yes, that is right—F. H. Porter, Ltd.

3256. That is a refund by Porter's?—Yes. The accountants of the Admiralty and the Ministry of War Transport are satisfied that this sum fully represents the overcharges made by the Company. I should like to say one other thing. The assessment of these overcharges, covering as they did a period of well over two years, has necessarily involved very considerable work on both sides, and I should like to pay a tribute to the patience and reasonableness which have been displayed by the representatives of both sides in this unfortunate matter. As I explained to the Committee last year, a sum of approximately £310,000 had already been recovered by the police and has, pending the settle-

ment, been invested on the joint account of the Treasury Solicitor and the solicitor for the late Mr. Porter's executors.

3257. That is included in that?—Yes. It has been agreed that this sum will be immediately released in favour of the Exchequer as soon as the sanction of the Court has been obtained. The Company have made a further payment of £100,000 on account, and arrangements are being made for the payment of the balance as soon as practicable. In the meantime the outstanding balance carries interest at the rate of 4 per cent.; so that I think we can say that is a satisfactory ending of a very unfortunate business.

3258. Thank you. Now, in the second sub-paragraph of paragraph 14 of the Comptroller and Auditor General's Report on the Navy Appropriation Account there is mention of "a wide variety of errors." Is that entirely separate from the Porter affair? Could you tell us anything about the "wide variety of errors" and the amount recovered or credited?—There are a number of things: no allowances credited for scrap, and payment of subsistence allowances in excess of the rates customary in the trade or district or sanctioned by the Ministry of Labour. Then there is welding work charged at rates applicable to commercial work; and on-cost items included in direct charges. Those are, I think, fairly good examples of the sort of thing.

3259. Your flying squad helps with regard to those things also, no doubt?—Yes, that is mainly by the Supervising Recorders and Accountants, but the flying squad would unearth those too.

3260. The third sub-paragraph deals with the Porter case again, and I see the words "another ship-repairing firm". Did the main firm itself discover this fraud or was it you who discovered it and called the attention of the main firm to it?—No, it was not found out by the main firm; I think it arose on a police investigation. (Sir Gilbert Upcott.) I think the Chairman is referring to the fraud which occurred inside the place. (Sir Henry Markham.) I am sorry. I thought it was the Porter fraud you were referring to.

3261. No.—Yes, that was bowled out by the police.

3262. That is the case where a £2,500 fine was imposed?—This is the £5,000 fine case.

Mr. Glenvil Hall.

3263. This particular Treasury Minute is not worded in quite the same way as Treasury Minutes usually are, is it?—(Mr. Blunt.) I am sorry to hear that, Sir.

3264. There is a suggestion here that you fully recognise the special difficulties, and the implication is that the Public Accounts Committee does not?—No, Sir, there is no

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suggestion of that. This was just an honest expression of sympathy with the Admiralty; that is all.

Mr. Douglas.

3265. The second sub-paragraph refers to "a wide variety of errors." Are these found also in a wide variety of places and firms?—(Sir Henry Markham.) Yes, they are fairly widespread. There is no particular district.

Chairman.

3266. We turn next to paragraph 15, "Fraudulent Alteration of Tenders." Could you tell us anything about this?—This is a very sad and unpleasant case—I say sad because it relates to a senior officer in a very honourable corps, and it is a particularly crude and unpleasant thing. This was exposed because a member of the firm, the Blyth Dry Dock Company, the Manager, was tried and sentenced and imprisoned for a fraud on the firm. When the police authorities came to look over the papers they discovered evidence which suggested that there had been collusion with an Admiralty official who at one time had been the Warship Production Superintendent there, evidence that he had received some money from the firm. The case mentioned here is the worst feature of a most unsatisfactory relationship. The Blyth Dock Company had been encouraged rightly to tender for these vessels—minesweepers, I think they were—and they had put in tenders about which they were probably quite honestly a little doubtful; they knew nothing about this type of ship, and they were exceedingly low tenders. Undoubtedly they would get the contract. But those tenders were so very much lower than the next highest tender that they could afford to go up if they knew that they would be safe. The Warship Production Superintendent ascertained from the Admiralty what tenders had been put in, and then proposed to the Manager of the firm that the tender which had been put in should be corrected; he suggested that fresh estimate sheets and build-up of the estimates should be forged, and the whole thing depended upon the substitution of a "7" for a "1"; it was a really perfectly simple and perfectly convincing piece of work. It was done, and the Director of Contracts' representative examined it, examined the firm's Manager himself and the estimates, and saw no reason to think that this was otherwise than an honest error; the tenders were accepted and the fraud was perpetrated.

Chairman.] I see the official got three years and the Manager got fifteen months.

Mr. Douglas.

3267. In the third sub-paragraph it is stated that instructions have been given "that tender prices are confidential and must not as a general rule be communicated outside the Admiralty headquarter departments dealing with them, whilst informa-

tion as to accepted contract prices is to be communicated only to persons who must receive the information for the performance of their official duties." Will a lot of information with regard to tender prices be communicated to any wider range of persons than information about accepted contract prices?—I am afraid that perhaps that Order was not very happily phrased. That is not the intention. Tenders before acceptance, of course, are more confidential and more dangerous than afterwards. The point is here that these figures before the tender is accepted must not be communicated to anybody unless it is necessary, and that is well understood. This is really in essence a reminder. It is impossible, of course, to prevent sending communications in particular cases, but this is really to remind all officers that they must not communicate these figures unless they have got to. I agree with your impression, Sir, that the wording is not very happy as it is put on the Paper.

3268. It is the opposite of what it ought to be?—Yes.

Chairman.

3269. I will take paragraphs 16 and 17 together—"Settlement of Prices for Armour". Could you tell us with regard to the settlement mentioned in the first line of paragraph 16, Sir Henry?—May I ask Mr. Jubb to deal with this settlement?

3270. Certainly.—(Mr. Jubb.) Armour is a peculiarly difficult problem; it is one in which the price for successive settlements has continually come down. The 1939/40 settlement covered a very large tonnage. Until we settled a final price for that we paid at a provisional price. When the final price was settled, which was below what anyone either in the firms or in the Admiralty had anticipated, the result was that there was an overpayment. That was discovered in about the Autumn of 1941, and the whole of the overpayment was recovered by the end of that year. It was due to the fact that we secured the lowest price, I think, that we have ever had. It was certainly a price that no one had anticipated.

3271. A settlement with whom?—With three main armour manufacturers.

3272. You negotiated with them on behalf of the industry as a whole?—On behalf of the three firms themselves.

3273. Are not there minor firms involved as well?—There is one other firm which manufactured armour during the war, and shortly before.

3274. With regard to the "considerable reductions" referred to in paragraph 16, could you give us any idea about the extent of those reductions?—Yes. The basis price of non-cemented armour under

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the previous settlement was [figure given] and the same basis price for the next settlement was [figure given].

3275. Then in the second sub-paragraph I read: "The prices agreed have been calculated to provide profit on the firms' own capital and on capital provided by the Government at rates appropriate to the period of production." May we have those rates, please?—[Rates given]. (Sir Gilbert Upcott.) It came down from something like [percentage stated] in 1936. (Mr. Jubb.) That was a figure for profit and risk of rejection on the cost. This is on capital.

3276. Could you tell us with regard to the allowances?—(Sir Henry Markham.) I think when we discussed this before it was a figure of $2\frac{1}{2}$ per cent.; it is now $\frac{1}{2}$ per cent.

3277. Have the Treasury any comment upon that?—(Mr. Blunt.) No, Sir.

Mr. Benson.

3278. What exactly is the difference between cemented and non-cemented?—(Mr. Jubb.) That is technical, of course. I understand that cemented armour is very much better from the point of view of its protective qualities than non-cemented armour. (Sir Gilbert Upcott.) It costs about [figure given] as compared with the [figure given] mentioned just now.

3279. With regard to rejections, is there a steady reduction in the amount rejected? Well, I think rejections have not been great in recent years. We took an average of ten years in order to reach our $\frac{1}{2}$ per cent., and that is what it worked out at. (Sir Gilbert Upcott.) The reason why I questioned the figure of $2\frac{1}{2}$ per cent. was that it appeared to be much higher than the actual rejection, and the $\frac{1}{2}$ per cent. is based on the actual.

Mr. Douglas.

3280. You are allowing [percentage stated] on capital provided by the Government. What proportion of the total capital would that be, roughly speaking?—(Mr. Jubb.) I have not that figure with me.

3281. Have you no idea at all? Would it be one-half or one-tenth or what?—It would be a big proportion.

Chairman.

3282. Perhaps you could let us have that figure on Tuesday?—Yes.*

3283. On paragraph 18—"Settlement of Prices for Anti-Gas Clothing"—could you explain the new scheme with regard to that settlement of those prices?—Our aim in that (we had to negotiate with six firms, and we negotiated with them as a whole) was to settle a fair amount of profit per garment. This we did by taking a typical garment and negotiating a profit of $3\frac{1}{2}$ d. per article, which worked out on the cost of the work that the firm did themselves in every case at less than 10 per cent. of the cost of their own work without making any addition to the cost of the free-issue material by the Admiralty. In order to check that that was a fair allowance, we calculated the ratio of cost turnover to employed capital, putting in turnover the Admiralty free-issue material so that our contracts were on the same basis as any other contract. We found over five firms for whom we got statistics—the sixth had been blitzed and records are not available—the average was about 4 to 1, and that worked out at 11.4 per cent. of the employed capital.

3284. Have you any figure with regard to savings effected?—No, I have not got the savings effected with me.

3285. I take it, Sir Henry, that you are satisfied with regard to this arrangement?—(Sir Henry Markham.) Yes.

3286. Have the Treasury any comment to make?—(Mr. Blunt.) We have no comment, because this is not a case that came to the Treasury; but it did come to the Contracts Co-ordinating Committee on which we are represented, and the arrangements which Mr. Jubb has just outlined are in accordance with the conclusions of that Committee.

Chairman.] Thank you very much, Sir Henry. We meet again on Tuesday next at 2.30.

* See Question 3466.

(The Witnesses withdrew.)

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

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Mr. E. A. SEAL, C.B., and Mr. E. C. JUBB, C.B., O.B.E.

TUESDAY, 13TH JUNE, 1944.

Members present:

SIR ASSHETON POWNALL in the Chair.

Sir Irving Albery.
Mr. Benson.
Sir Edmund Brocklebank.
Mr. Douglas.
Mr. Glenvil Hall.

Sir John Mellor.
Mr. Pickthorn.
Sir Frank Sanderson.
Mr. Henderson Stewart.
Mr. Touche.

Sir GILBERT UPCOTT, K.C.B., Mr. D. F. C. BLUNT and Mr. C. E. I. JONES called in and examined.

NAVY APPROPRIATION ACCOUNT, 1942.

Sir HENRY V. MARKHAM, K.C.B., M.C., Mr. E. A. SEAL, C.B., Mr. E. C. JUBB, C.B., O.B.E., and Mr. C. M. DODWELL, M.B.E., called in and examined.

Chairman.

3287. We continue to-day with the Navy and our Witness is Sir Henry Markham, as before. If Members will turn to the Navy Appropriation Account, 1942, we begin with paragraphs 19 to 22 which, I think, run together: "Investigation of Fixed-Price Contracts. Check by Trading Results and Post-Costing." On paragraph 19 I have no questions. In paragraph 20 Sir Gilbert says in the fifth line: "For other equipment certain test post-costings of orders placed with a large armament firm were carried out. . . ." Could you please tell us the name of that firm?—(Sir Henry Markham.) That is [*firm named*].

3288. Lower down in the same paragraph Sir Gilbert says: "Further information since made available to me shows that in the cases examined the technical cost estimates, which include estimates of establishment charges, were on the average above the actual costs by approximately 20 per cent. for guns of larger calibre and 30 per cent. for a gun of small calibre." Could we be told what those calibres are?—The gun of small calibre is the 2-pounder; the larger calibre guns run from 4-inch to 6-inch.

3289. Have you any observations you would like to make, Sir Henry, with regard to these technical cost estimates?—I should like to make a few general remarks on the whole of this question if I may, covering also the sub-contract field. It does seem to me that in most of the remaining paragraphs of the Comptroller and Auditor General's Report he is putting forward the thesis, with the aid of a number of examples, some of them old ones (not that they are any the worse for that) that constant and widespread control and check is needed by post-costing and by the examination of trading results to supplement any form of wartime price-fixing, including price-fixing with the aid of technical costing. What I would like to make quite clear to the Committee is that the Admiralty fully accept this doctrine, and we are acting upon it within the limits of our available resources, having in mind—and this really

is a very important point—the vast field which we have to cover. I am going, if I may, to ask the Director of Contracts to give the Committee a little later on an idea of the scope of the work undertaken in this direction from the costing of warships downwards, but I would like particularly to emphasise the point that the selection of contracts for post-costing or current costing and the selection of firms for over-all check must be a matter for judgment based upon all the available evidence. There will always, doubtless, be room for differences of opinion in such a matter, and it is inevitable that the question will frequently and properly be asked, in the light of after knowledge: "Why did you not post-cost this or that contract?" I think it is fair to say that it can equally properly be answered in most cases by saying: "I considered that the available accounting staff could be more profitably and more urgently employed somewhere else, because it is a limited resource." The Comptroller and Auditor General has drawn attention to certain cases where the estimates prepared by the Principal Technical Costs Officer have been shown by subsequent post-costing to be somewhat wide of the mark, judged by the emergent result; but as I have mentioned before, we do not proceed upon the assumption that because estimates have been prepared by the Principal Technical Costs Officer there can be no reason for post-costing the contract, based upon those estimates. Nevertheless, the Admiralty have, and I think quite rightly, considerable confidence in the operations of the Principal Technical Costs Officer. He is not always right, and no estimator can ever expect to be so. It is certainly fair to say—and this is a point which, again, I should like to emphasise on the other side—that on occasion his estimating has been so close that firms have accepted fixed prices based upon his figures when post-costings have subsequently shown that the actual costs were larger than his estimate. So that the Principal Technical Costs Officer can estimate very closely, and we find that he generally does. I should finally

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[Continued.]

like to assure the Committee that we shall keep these matters under constant review, and that, in so doing, we shall follow the common policy which has been evolved by the main contracting departments on the Contracts Co-ordinating Committee. That is all I wanted to say, Mr. Chairman, by way of general observations.

3290. Perhaps you will say when the appropriate moment arrives for the Director of Contracts to make the statement to which you have referred. In that same paragraph, paragraph 20, the Comptroller and Auditor General states: "In consequence of the cost investigations, the firm made rebates of some £190,000 in respect of supplies for which prices had previously been fixed, and action has been taken to secure adjustment of prices still on a provisional basis." Could you tell us on what basis that £190,000 was calculated, and what the refund brought the percentage down to?—(Mr. Jubb.) The reduction of £190,000 brought the final prices within about 15 per cent. on the ascertained costs.

3291. Was that the basis on which it was fixed, or on what basis did you agree to £190,000 being the sum which should be rebated?—The original prices were based on the technical costs section estimates, and this was an *ex gratia* rebate, as the prices, of course, were fixed.

3292. It was not calculated on any special basis?—On the basis of the costs that we ascertained by post-costing.

3293. In the last sentence of paragraph 20 Sir Gilbert says: "For certain gun-mountings made by the same firm the prices agreed as a result of partial technical cost estimates were also shown by investigation of actual costs to be too high, and a rebate of approximately 9 per cent. was secured by the Admiralty." Could you tell us how much too high they were shown to be, in cash?—There, again, to bring it within about 15 per cent. the reduction of 9 per cent. from the contract price was agreed.

3294. Did you reduce from 24 per cent. to 15 per cent. or from 15 per cent. to 6 per cent.? I am not quite sure of your reply. You brought it down to 15 per cent.?—It was brought down to within 15 per cent.—a little under 15 per cent.

3295. Therefore it was round about 24 per cent. before?—Yes.

3296. On paragraph 21, what was the article?—(Sir Henry Markham.) These were submarine batteries.

3297. The Comptroller and Auditor General states: "The Admiralty have recently communicated to me the reports on the investigation which disclose substantial differences in the costs of the firms and indicate that large profits were realised." Could you tell us about that

investigation?—This was not, strictly speaking, a post-costing of contracts which had been concluded, but it was a costing of a typical battery. Having made that costing we rejected the offer which the firms had made of a 10 per cent. rebate, and secured the higher rebate which is indicated—10 per cent. from two firms and 20 per cent. from the third.

3298. What was the cash involved in these 10 per cent. and 20 per cent. rebates?—About £54,000.

3299. In all three cases?—Yes, in all. (Sir Gilbert Upcott.) It will also result in a saving on later orders. (Sir Henry Markham.) Yes, that has not been settled yet.

3300. This was on the earlier orders. In paragraph 22 Sir Gilbert says: "I have inquired as to the extent of cost investigations in other cases where it appeared to be specially called for, but I am not at present in possession of sufficient information to say to what extent the tests recommended in paragraph 66 of the Report of the Public Accounts Committee of 1943 are being applied by the Admiralty." Sir Gilbert, is there anything you would like to add to your Report on that?—(Sir Gilbert Upcott.) This raises a general question. The Committee has, as the Accounting Officer has just mentioned, recommended that there should be tests made to examine the validity of price-fixing and technical cost estimating, and the Accounting Officer has just explained that the Admiralty accept that doctrine. The Admiralty have made a number of tests which, as indicated in this Report, have, in many cases, resulted in substantial savings, and, in some cases, substantial recoveries. I am not suggesting any criticism in this paragraph. I am only saying that I have not sufficient information to judge on what principle the Admiralty apply these tests, accepting that they must be, owing to the enormous field to be covered, highly selective in the selection which is made. The Accounting Officer has covered part of the field, perhaps, in what he said just now, but he may possibly wish to supplement that point a little further. (Sir Henry Markham.) With your permission, this would be a good moment for the Director of Contracts to make the statement to which I referred.

3301. Yes, please.—(Mr. Jubb.) As Sir Henry has said, sub-contracts cover a very wide field. I will try to give you a brief sketch of what we have done or are doing in that field. To begin with, there has been a procedure considered by the Contracts Co-ordinating Committee, of which the Treasury representative is the Chairman, and the procedure applies not only to the Admiralty but to the other Government contracting

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departments as well. Under that procedure accountancy investigations affecting a particular firm are allocated to an individual Department, so that one Department investigates overhead charges and results on behalf of all, and under the procedure we get from our Principal Accountant a report giving for a particular firm in connection with a particular year—the latest accounting period available—the cost turnover, the capital employed and the net profit, and, of course, the percentage that that net profit bears to the cost turnover and to the capital employed. If those figures seem to call for further investigation, we approach the firm and ask them to give us the build-up of their sales for that particular year under direct contracts and indirect contracts—sub-contracts—and those two split up into those which are at fixed prices and those which are subject to costing. Having got that information we approach the firm with two objects—to ascertain whether, in respect of the past, where they have made too high profits, they are prepared to make a rebate and reduce the prices to what might be regarded as a reasonable level. We also endeavour to secure that prices for the future should be on a more reasonable basis. That, I think, describes in essence our procedure by means of over-all trading results. As regards warships, since the end of 1941 we have been stipulating in our contracts that substantial sub-contracts shall be subject to Admiralty investigation, with a view to satisfying ourselves about the reasonableness of the price. Then, also in connection with warship prices, we have important items which are called separately priced auxiliaries, and of those we do check the prices ourselves. Such items are distilling machinery, steering gear and capstan gear—important items of auxiliary machinery. It is in connection with some of these items that the over-all arrangements described in the Report have been made. Then there are various other items in respect of which we have arrangements for checking the prices ourselves, both in regard to direct supplies and indirect supplies. Such items are the main structural steel castings and the steel ship's forgings, cold drawn steel tubes and cables—items like those. Then, of course, there are many cases in which we issue materials free. For instance, we buy all the armour which is supplied to the shipbuilders, and there is a vast range of stores—ammunition, guns, gun-mounting and ordinary stores which we supply. The range of free issue material is increasing. We have applied it very much in connection with pre-fabricated frigates. There is the Emergency Repairs Agreement which provides for work done on a cost basis, and under that sub-contracts are specially provided for; that is to say, we have the right to investigate the costs, and that cost investigation is carried out by our accountants over a very large number of sub-contracts. Turning from

warships, we have over a big variety of armaments estimates prepared by the Technical Costs Section, and when they prepare an estimate, if they ascertain that any part is sub-contracted and they have reason to think that the sub-contractor's price is too high, they would estimate the cost of that part in the same way as they would for the work done by the main contractor. If I might turn back to the over-all trading results, that is covering such a wide field and has grown so much that in the Admiralty we have formed a special branch to deal with it. I think perhaps that gives a summary of the steps we have taken to deal with this problem.

3302. You said: "trading results"?—Overall trading results.

3303. Trading results in what sense?—The profit earned in a particular year.

3304. Earned in a particular year?—Earned.

3305. How earned?—(Sir Gilbert Upcott.) They examine the Company's trading results.

3306. It is the company's trading results?—(Mr. Jubb.) Yes.

3307. You mentioned the width of the field. Could you give any approximate idea of how many tens or hundreds of millions of pounds you pass under review in a wartime year—say the year we are discussing?—In the sub-contracting field?

3308. Yes. Could you give some idea of the figure, of the tens or hundreds of millions, the responsibility for which devolves upon you with regard to checking their costs?—(Sir Gilbert Upcott.) I think you would want the direct contracts as well as the sub-contracts.

3309. Yes, I meant on all these matters which come under the Director of Contracts. It would be interesting to have some idea of the magnitude.—(Mr. Jubb.) It would certainly come to tens of millions of pounds—the sub-contracts we have investigated.

3310. To tens of millions?—Yes.

3311. Have you taken out a figure which would give one some idea of the magnitude?—Not a total figure.

Mr. Henderson Stewart

3312. Does the tens of millions apply to sub-contracts?—To sub-contracts only.

3313. What is it for the whole lot?—For a year?

3314. Yes.—I could not give a figure. It would require a good deal of calculation.

Chairman.

3315. I was not asking for the calculation. I did not know whether you had, as a matter of interest, taken out an approxi-

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mate figure of all of this bulked together. It would be rather interesting.—I have not a total figure, but, for instance, the warship settlement to which we referred last Thursday covered about £50,000,000. That was post-costing.

Chairman.] That is the reason I said "hundreds of millions". I thought it was rather more than tens. I have no further questions on those paragraphs. Are there any questions on paragraphs 19 to 22?

Mr. Benson.

3316. On paragraph 20, was the firm which made the rebate the firm that is referred to up above?—(Sir Henry Markham.) Yes.

3317. What other firm was making these 2-pounders for you?—(Mr. Jubb.) No other firm, I think.

3318. How did that come about? Were they specialists?—Yes.

3319. Where possible, do you not try to get two firms to make any particular arm, so that you can test the prices of one against the other?—We are always glad to have two sources of supply, but this firm are specialists in this particular 2-pounder gun.

3320. Is it possible with this firm to check the profits in any particular arm or in any particular department against capital?—Yes, we have done it.

3321. You have?—Yes.

3322. You can isolate a particular department or a particular arm and say that "so much capital is involved in this"?—We did it for armaments. We had a profit settlement on armaments which we dealt with last year, I think.

3323. A profit settlement which related the profit to capital?—Yes, and that was over the armament field, which excluded warships and aircraft.

3324. When you fix a profit on turnover or on a given item—a gun or a battleship or whatever it is—what percentage do you allow on sub-contract work and what on free issue material?—Our general attitude towards sub-contracted work is to allow about half the rate which is allowed to the main contractor on his own work. That is not an absolute rule, because it depends to some extent on the amount of the work that the main contractor has had to do—the amount of supervision.

3325. I am not sure that you have understood me or whether I have, perhaps, misunderstood you. In a battleship there is, say, £100,000 worth of sub-contract work. You allow on that £100,000 roughly half the rate that you allow on the work actually done by the contractor?—Did you say in a battleship?

3326. Yes, to the contractor. It is not the sub-contractor's profit that I am thinking of, but the profit allowed to the head contractor on that amount of his contract, which is represented by sub-contract work?—In the Warship Settlement sub-contracts come in with material and receive the full profit. That was an overall settlement. Originally on armaments we had a discrimination between the rate of profit allowed to one firm on their main work—the work they themselves did—and on the sub-contracted work. For the purposes of simplification we converted that into a rate overall, which was a rate in between the two rates.

3327. That includes also a rate on free issue material?—Free issue material in general carries no profit. That is our general attitude towards it.

3328. They merely receive the profit on the work involved in incorporating it?—Yes. On the work they do themselves.

3329. On paragraph 21 the article referred to, I understand, is storage batteries. There are not very many firms making these accumulators, are there?—There are three.

3330. Are there only three in the country?—There are three in the country.

3331. What about [*firms named*]?—They do not make these particular submarine batteries.

3332. So that there was little or no competition?—There was no competition.

3333. And the difference in cost represented difference in efficiency?—Yes.

3334. Did I understand you to say that you have a new department looking at trading results—or did I run two disconnected sentences together?—A new branch of my department.

3335. Whose sole business is to look at trading results and judge whether the contracts of these firms require costing?—I will not say that it is their sole business, but they are specialising on that.

Mr. Benson.] That is what I want to know.

Mr. Henderson Stewart.

3336. I would like to ask two questions. The criterion of success in all these investigations is, of course, that the firm respond to your invitation. I remember last year we heard of one firm at least that did not always do that. What has been the experience since then?—(Sir Henry Markham.) The experience since that has been, I think, very favourable. I am not aware of any cases where firms have refused or put up a strong obstruction to our action, and the firm to which you were referring is behaving quite happily now.

3337. You have considerable powers which you could apply?—It is [*firm named*] to whom you are referring?

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3338. Yes?—We did not have to apply those powers.

3339. Apart from using the threat of those very considerable powers, what I am trying to get at is do you experience much difficulty in getting the facts?—I think the main difficulty that arises is in getting figures, because of the shortage of accounting staff; but generally speaking there is no lack of good will.

3340. That was going to be my second point—whether you had met that difficulty of the physical job of producing the figures?—Yes.

3341. And whether you were helping the firms at all?—In one or two cases we have done so. We have had to give them assistance ourselves, although of course there I must say that the Director of Contracts and also the finance branches in the Admiralty are in very much the same case; they have an extreme shortage of available staff for this kind of purpose.

3342. I recollect last year that was a point you made, and it was made by other Departments?—Yes. It is a serious matter with us.

3343. Is it so serious that it is holding things up?—It undoubtedly holds up work, yes. I do not think it has been detrimental to the public interest in the sense that the State has actually lost money, but certainly a great many settlements take a very long time, and a good deal of information is very much delayed in receipt. It is a question of man-power priority. That is what we are up against.

3344. Where you have firms, such as mentioned here, which, on investigation of their accounts, are requested to pay back substantial amounts because their profits are higher than it was thought they would be, do you find much reluctance on the part of those firms to do it?—Most contractors are good about it, but there are a few who object.

3345. For example, those who make warships?—(Mr. Jubb.) We have not dealt with warships from that angle.

3346. I thought last year there was a case in which very large sums were paid back?—(Sir Henry Markham.) We did not actually ask them for a rebate on the main contracts, which were fixed contracts, but they did forego extras, and so on, to the tune of about £2,250,000. That was their voluntary act, of course.

3347. What I am trying to get at is this: is it true that many firms, large and small, are in fact playing the game in this business and co-operating well with you, both as regards opening up their books and, where necessary, in making reductions? Is the spirit of these individual companies good in that respect?—I should

say it is. (Mr. Jubb.) On the whole I would say yes, but it is not everybody who acts up to the highest standard.

Sir Irving Albery.

3348. There is one question I would like to ask. I understood you to say that you have now a basis by which the profit on contracts and sub-contracts is, as it were, ironed out?—Ironed out?

3349. Levelled up. Can you give me any idea of what kind of profit would result on a contract with a sub-contractor, counting in the sub-contractor's profit and the profit allowed to the main contractor? To put it in another way, would not the profit actually on that work be much higher than if it were one direct contract?—Yes.

3350. Would not the effect of that be to encourage sub-contracting as against direct work by a contractor?—(Sir Henry Markham.) The contractor would not get so much of his own profit on the sub-contract as he would on his own direct work, generally speaking. (Mr. Jubb.) Our general procedure is to allow a lower rate of profit to the main contractor on the work that he sub-contracts.

3351. I thought I understood you to say just now that you have come to an arrangement by which they get a somewhat lower rate of profit over the whole field, whether it is contracting or sub-contracting?—(Sir Henry Markham.) That is a particular settlement with a particular firm.

3352. That is only with a particular firm?—Yes.

Mr. Benson.] May I put one further question?

Chairman.] Yes.

Mr. Benson.

3353. There are a number of references scattered through the Report of the Comptroller and Auditor General to reductions arrived at as the result of post-costing. Could you give us any indication as to what percentage of post-costings lead to appreciable reductions?—I am afraid I could not offhand. I do not know whether I can readily get that figure.

3354. When I say "percentage" I mean is it your impression, or Mr. Jubb's impression, if he is the one to deal with it, that when he post-costs a contract he expects to get something back, or does he not expect to get something back?—(Mr. Jubb.) I do expect to get something back, more often than not.

3355. So the impression, roughly, is that your technical costing which you have to accept do tend to allow a higher profit than you would permit if you had power to post-cost everything?—I think I might say on the Technical Cost Section estimates that

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we post-costed them for fuses, cartridge cases, primers and gaines, and there was nothing to choose between their estimates and the actual costs.

3356. That has been mentioned?—Yes. But on guns and gun-mountings the post-costing did lead to a reduction, and we obtained valuable information for the future.

3357. If it is not a random selection, that obviously would be the case. There were guns and gun-mountings. Then hulls we had last year, and here, in paragraph 21, batteries. It is correct to say that post-costing is very carefully chosen, not so much to test the cost of a particular article, but to test the cost of a particular firm on that particular contract?—(Mr. Jubb.) We have to limit the field because of the staff available, so we naturally select for post-costing those where there is big money involved, and where we are not quite happy, perhaps, and think there may be scope for a reduction on getting better information.

3358. Are you able to utilise the post-costings of one firm as a lever against another firm, or are there great variations in efficiency?—There would be variation in efficiency, but, of course, the post-costing has given the Technical Costs Section valuable information for checking their estimates, not merely for that firm but for other firms, too. (Sir Gilbert Upcott.) May I make one remark before the Committee pass from this paragraph. As regards the investigations which Mr. Jubb has been describing, my officers have become aware of the result if the price is altered, but not if it is not altered. Therefore I may get an unfavourable impression of the results of these investigations which I may unwittingly perhaps have conveyed to the Committee. I should be able to get a fairer impression and be able to give the Committee a fairer impression if the Admiralty could give me facilities for seeing whatever is the result. (Sir Henry Markham.) There will be no difficulty about that.

Chairman.

3359. It would be a good thing if that were done?—Certainly.

3360. Are there any further questions on paragraphs 19 to 22? We pass to paragraphs 23 and 24: "Check by detailed Technical Estimates." In paragraph 23 Sir Gilbert says: "Paragraph 16 of my Report for 1940 referred to the acceptance of prices for large orders for certain equipment on certification by a technical department that they were fair and reasonable." Could you please tell us what is the equipment?—This is Asdic equipment.

3361. Sir Gilbert speaks of the acceptance of prices on certification that they were fair and reasonable, and a few lines lower down he says the Admiralty stated that

"technical estimates of cost would be prepared by the Principal Technical Costs Officer and the Principal Accountant." Could you tell us how those technical estimates came out by comparison with those which had been thought to be fair and reasonable?—In one case there was no reduction. In the other there was a fairly substantial reduction from £939 to £710.

3362. Per article?—Yes.

3363. Is that the £50,000 referred to in the same paragraph—"This has since been done and reductions at the rate of some £50,000 per annum have been obtained in the prices paid for supplies since early 1942"? Is that the same one?—Yes, that is the same review. That review was carried out two years after the contract had run. The fact was that most of this equipment had been made in the dockyards before, and at the outbreak of the war there was a demand for increased production. We put it into the hands of those two firms, who carried out all the necessary capitalisation required for the increase in the scope of their business, and all the jigs, gauges, and the rest of it. In consideration of that we fixed a price which was due for review in two years' time. That was carried out. It would not, therefore, be right to assume that because there was a reduction of £50,000 on that review the prices originally fixed were not justified.

3364. What percentage reduction does that £50,000 represent?—I am afraid I have not that.

3365. You gave us a figure a moment ago of a reduction from £939 to £710?—That is per article.

3366. Yes; that is a reduction of, roughly speaking, one-quarter, and if the percentage is commensurate with that it would be in the neighbourhood of 25 per cent. But you have not got it, anyhow?—No. (Sir Gilbert Upcott.) There are a certain number of smaller items which would come in as well.

3367. In paragraph 24, in the fifth line, Sir Gilbert says: "A certain type of apparatus for which considerable orders are placed consists of mechanical and electrical portions." Could you tell us what that certain type is?—(Sir Henry Markham.) These are electrical generating sets.

3368. The Comptroller and Auditor General says: "I have observed that prices for the mechanical portions were settled after ascertainment of actual costs, and that substantial reductions, in some cases between 20 and 30 per cent., were obtained from the tendered price. About one-third of the total prices of the apparatus was represented by sub-contracted electrical items, for which the tendered prices were generally accepted as fair and reasonable." What was the reason for that, that you did not agree the mechanical prices as being fair but you thought the electrical ones were?—(Mr. Jubb.) The electrical prices were dealt with

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by our electrical department, and reductions were secured in two cases, but otherwise the prices were considered reasonable.

3369. With regard to the electrical ones, the tendered prices were generally thought to be fair and reasonable?—Yes.

3370. You were quite happy about the one lot of prices, but you were not about the other. The differentiation between the mechanical and electrical goods in that respect seems odd.—(Sir Henry Markham.) I think the answer is that we had what we regarded as better estimates for the electrical.

3371. You had closer estimates?—Yes, closer estimates than for the mechanical gear.

3372. In the last sentence of paragraph 24 Sir Gilbert says: "I have therefore inquired whether any of the sub-contracting firms have been selected for detailed costing under the procedure referred to above." Could you tell us the results of that inquiry?—These sub-contracting firms have been costed for various things, but not on this work. Actually, we are now considering that point. We have not replied to Sir Gilbert yet. I think it is quite likely—I think the answer is that we shall do so.

Chairman.] Are there any questions on paragraphs 23 and 24?

Sir Frank Sanderson.

3373. In paragraph 23 the Comptroller and Auditor General says: "In reply to my inquiries as to the basis of this certification the Admiralty stated that previous prices had been settled on a competitive basis." Do I take it that means by open tender?—Yes, before the war.

3374. My only other point is one referred to by the Chairman. The last sentence of the paragraph states: "This has since been done and reductions at the rate of some £50,000 per annum have been obtained in the prices paid for supplies since early 1942." Does that mean to say that after the last tender had been accepted it was voluntarily agreed that a further reduction of £50,000 should be accepted?—No. The position was that the original contracts were placed just at the beginning of the war and they ran for two years. Then prices were reviewed in the light of increased production, and the fact that it might reasonably be taken that the initial capital expenditure which they had incurred had been worked out and repaid. That is why the prices were reviewed.

3375. The Chairman did ask you if you could give an approximate idea of the total amount involved?—I am afraid I shall have to get that. I have not got it.

Sir Frank Sanderson.] Are you asking for that, Mr. Chairman?

Chairman.] I was not going to press for it, quite frankly.

Sir Frank Sanderson.

3376. It is rather important that we should know whether it is a reduction on £1,000,000 or £500?—Perhaps I could add that in the transcript?*

Chairman.

3377. Yes. Are there any further questions on paragraphs 23 and 24? We pass to paragraphs 25 to 29: "Sub-Contracts." I have no questions on paragraph 25. In paragraph 26 the Comptroller and Auditor General states: "A case in which a contractor's claims included unduly high charges on sub-contracts was disclosed by Admiralty examination of orders for a certain class of work involved in the construction of a particular type of naval craft." Could you tell us what that class of work was?—This was for sub-contract work on tank landing craft, of which we have heard recently.

3378. The percentages in the latter part of paragraph 26 are rather disturbing. Mention is made of the fact that on investigation the charges for work done by a firm were reduced by about 50 per cent., and it was found that they had purchased fittings from another firm at prices which were also investigated and reduced by over 25 per cent. Could you throw a little light on those percentages?—(Mr. Jubb.) Of course, the original prices quoted were never accepted. The contract with the main contractor reserved this particular sub-contract for investigation by our officers, and it was our Technical Officers who drew attention to the fact that this price for plumbing work was excessive. They went into it with our accountants at the firm's works, and it was their investigation that resulted in this reduction of about 50 per cent.

3379. These are comparatively new types, I suppose?—Yes.

3380. They had not any data to go upon in connection with them?—No.

3381. £262,000 was saved as the result?—In those two cases, yes.

3382. In paragraph 27 the Comptroller and Auditor General states: "In the course of my examination I noticed a number of orders placed by the Admiralty for spare items of ships' equipment, original supplies of which would normally be obtained by shipbuilders under sub-contracts with the same suppliers. In one of these cases, where the Admiralty obtained a reduction in the prices tendered for spares, I inquired whether a similar reduction had been secured in prices

* The Admiralty subsequently reported that the total reduction secured for 1942 was £57,706 on an original value of £302,064. Comparable figures for 1943 were £63,830 and £326,509 respectively.

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charged by the firm under sub-contracts to shipbuilders and generally as to the procedure employed for comparing prices paid for direct Admiralty purchases with those charged under sub-contracts." Could you tell us anything about that? The same point arises on paragraph 28, I see?—This relates to a machinery item. There a build-up of the firm's price was obtained, and the prime costs were criticised by our technical departments. The overheads were dealt with by our accountants and the profit was dealt with by my own department, and it was as a result of that scrutiny that the reduction on direct supplies was obtained, and the question of obtaining a reduction on the indirect supplies is now in hand.

3383. In paragraph 28 I see that you also received inquiries from the Comptroller and Auditor General as regards the percentage of the cost of merchant vessels generally found to be attributable to sub-contracts. Are you in a position yet to answer that inquiry?—(Sir Henry Markham.) That is about 7½ per cent. on the hull work and 5 per cent. on the engines. (Sir Gilbert Upcott.) I also asked: "the extent to which the prices charged by sub-contractors are investigated as compared with those paid on direct orders by the Admiralty."

3384. Are those prices charged by sub-contractors also investigated?—(Sir Henry Markham.) We reserve the right to do so. We have not done so very markedly so far. We are satisfied at present.

3385. You would do so in any cases in which you were not satisfied?—Certainly.

3386. In paragraph 29 Sir Gilbert says: "In a further case a firm agreed, in view of the very high profits realised, to refund 15 per cent. in respect of deliveries during the year under direct and indirect fixed-price orders for Government Departments." Has there been anything in the nature of a retrospective reduction, in view of the very high profits realised? There has been a 15 per cent. refund in the year under review, but have there been retrospective reductions prior to that year, in view of the very high profits that have been realised?—(Mr. Jubb.) That 15 per cent. in respect of deliveries during 1942 (I think it was) applied to both direct and indirect fixed-price orders for Government Departments. It was obtained under that overall trading results procedure which I described earlier on.

3387. There has been no retrospective refund in respect of the very high profits during the previous year 1940-41?—No.

3388. The Comptroller and Auditor General says: "In a further case a firm agreed." Could you tell us who the firm was?—That was the [firm named].

3389. In the last sentence of the first sub-paragraph of paragraph 29 Sir Gilbert says: "Reductions have also been secured from contractors generally for certain steel ships' forgings and, under a standing arrangement, for boiler tubes." Do these cover sub-contractors also?—Both direct and sub-contracts.

3390. In the last sub-paragraph the Comptroller and Auditor General says: "Although some of the firms involved in these arrangements are concerned in merchant as well as naval shipbuilding, the reductions agreed appear to be limited to orders for naval supplies," and he says: "and I have therefore asked the Admiralty whether it is intended to extend such arrangements to cover merchant ship supplies." Could you answer that question?—(Sir Henry Markham.) That is the intention, and negotiations are proceeding to that end now.

Chairman.] Are there any questions on those five paragraphs, 25 to 29?

Mr. Henderson Stewart.

3391. As regard merchant shipping, the Chairman asked you how it was that you did not feel it necessary to inquire into costs of merchant shipping. Would I be right in assuming that the reason is because you were dealing probably with a standard ship like the 10,000-tonner which has been built by many yards and about which you know a great deal?—Yes, I think that is very largely true. There is much more fixity of design and it is easier to have up-to-date costs of ships of exactly the same design, recently constructed probably in the same yard.

3392. The Admiralty is doing a lot of that, is it not?—Yes.

Sir Frank Sanderson.

3393. In paragraph 26 the Comptroller and Auditor General says: "On investigation, charges for work done by this firm were reduced by about 50 per cent." If the prices were reduced by 50 per cent., it surely means that the original price was exactly double the amount which was finally accepted?—Yes.

3394. Does not that rather show that there was not the usual care exercised in drawing up the specification of prices? Is there not some significance in the fact that the original price was double that which they finally accepted?—There was no acceptance. (Mr. Jubb.) The price was never accepted. That is what I described. We reserved the right to go into that sub-contract in settling the price with the main contractor. The sub-contractor's price was not accepted.

3395. In other words they doubled the price to be on the safe side?—They very much over-estimated.

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Chairman.

3396. Are there any further questions on paragraphs 25 to 29? We pass to paragraph 30: "Salvage of Ships. Commutation of Admiralty Claims." The Ministry of War Transport has already told us something about this. Are you satisfied from your angle, Sir Henry?—(Sir Henry Markham.) Perfectly.

3397. Are there any questions on paragraph 30? We pass to paragraph 31: "Awards to Crews of Government Vessels." There is a change of practice here. Could you tell us something about it and the reasons for it?—The change of practice really arises from the fact that now, under the 1940 Act, the right of the Crown to claim salvage for the work of its own vessels has been fully established, and it was felt that it was a logical step that in those circumstances crews should either be able to claim a salvage award, or, in the case of vessels, the insurance of which was wholly undertaken by the Government, that they should receive a bonus, which is not such a large award but it is some award for their services. That is the reason for the change in practice here.

3398. Have the Treasury any comments to make with regard to the bonus question?—(Mr. Blunt.) No.

Chairman.] Are there any questions on paragraph 31?

Mr. Benson.

3399. Salvage awards represent a very heavy percentage sometimes of the value of the ship salvaged, do they not?—(Mr. Dodwell.) It depends upon the value of the services, the condition of the weather in which the services were rendered and the salvaged value of the property.

3400. With regard to awards to crews, could you give us any indication of what the relation of those awards would be to the capital value of the ship salvaged?—It is usually related rather to what the Government is awarded than to the capital value of the salvaged ship. A portion of the award goes to the owner Government and a portion also to the crew who help in the salvage.

3401. It varies very considerably?—It varies also with the nature of the services rendered and the conditions of danger in which they were rendered. Those conditions have an effect both on what the owner would receive and on what the crew would receive.

3402. No rule can be laid down. There are very great variations?—There are certainly very wide variations, but the variations are caused by the nature of the services and conditions of the weather and the danger, rather than by other considerations.

Mr. Henderson Stewart.

3403. The Comptroller and Auditor General states: "Until the passage of the Merchant Shipping (Salvage) Act, 1940, consent was in other cases generally withheld unless the service rendered was unusually arduous or accompanied by unusual personal hazard." I understand that the crew of a warship capturing an enemy vessel is able to claim salvage for that vessel. Is that so?—(Sir Henry Markham.) No. That is a ship taken in prize. That is different from salvage.

3404. It does not come under salvage? It comes under prize?—That is so.

Sir John Mellor.

3405. Salvage is only payable, is it not, in cases where assistance has been requested by the ship in danger?—That is a point of law. (Mr. Dodwell.) There are cases of voluntary salvage, and I think it is not essential that the ship should request assistance, although it is very usual. (Mr. Seal.) I think if a ship is abandoned and is salvaged, salvage is still payable.

3406. It does affect the position, I take it, whether assistance has been requested by the vessel in distress or not, from the point of view of whether an award is made at all, or else of the amount to be awarded?—(Mr. Dodwell.) I have not had any experience of its affecting the position actually, and it does not seem to embarrass the Treasury Solicitor whether one of Lloyd's forms of "No cure no pay" is signed or is not signed. So far as an award is concerned the Treasury Solicitor seems to find it equally practicable to achieve a good result in his negotiations.

3407. I am only asking for information. Am I right in saying that it does affect the position or it does not as to whether assistance is requested by the vessel in distress? Does it not at least affect the amount awarded in some way if a request is made for assistance?—I think not. That is not so in my experience.

3408. It does not affect it?—No.

Chairman.

3409. Are there any further questions on paragraph 31? We pass to paragraphs 32 to 34: "Stores. Store Accounting." Have you any observations to make on this matter, Sir Gilbert?—(Sir Gilbert Upcott.) My local examination is on a very restricted scale these days, but I am in a position to say, from such experience as has been obtained, that as regards naval store depots, there has certainly been a substantial improvement in the store accounting in the last year. The position as regards the victualling store depots, which are mentioned in paragraph 33, is,

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I am afraid, not so satisfactory. They have had difficulties of various kinds, particularly as regards dispersal; they have also had a rather complicated accounting system which the Admiralty have attempted to simplify. Possibly experience may show that the difficulties have been reduced. The Accounting Officer may be able to give some information on that.

3410. Would you like to add anything to Sir Gilbert's remarks, Sir Henry?—(Sir Henry Markham.) It is a little too soon to say how far that simplified method in the victualling departments is going to assist. Certainly theoretically it should, because it means that the accounts in the office and the accounts in the store are now kept on precisely the same system, instead of being, as it were, a form of store-keeping double entry, and reconciliation can be effected very rapidly. I certainly hope that we shall find that will assist the situation, from the man-power point of view particularly.

3411. In paragraph 33 there is mention of the fact that the Admiralty examination will be conducted locally by inspecting officers sent from headquarters.—Do you anticipate finding that satisfactory?—I think so, with the assistance of the new system. I think that is undoubtedly the right way in which to do it.

3412. In the second sub-paragraph of his Report Sir Gilbert states: "In order to minimise the difficulties attendant upon the introduction of the new scheme and to utilise available staff on current work the Admiralty obtained Treasury sanction to dispense with the completion of outstanding accounts and to curtail the normal departmental examination of those already completed and rendered." Could the Treasury tell us something about the circumstances in which they gave that sanction?—(Mr. Jones.) It was really part of the arrangements for the introduction of the new system. The examination of the old accounts had fallen into such a state of arrears that in order to give the new system a fair start we had to agree with the Admiralty's representations. On their assurance that past experience had thrown very little up as a result of their examination we agreed to scrap the old accounts and start afresh with the balances shown in the storehousemen's ledgers.

3413. I find it a little difficult to understand paragraph 34, in which Sir Gilbert speaks of "single stock ledgers, dispensing with the separate storehousemen's ledgers normally maintained" and of "single store records" which he states have been introduced at a number of armament store establishments where the office and store are in close proximity.—(Sir Henry Markham.) The normal system, again, as in the victualling stores, is to have two

ledgers, one in the office of the naval store department at the yard and the other in the storehouse itself. The experiment which is being tried here is to dispense with the ledger kept in the storehouse and to keep all the accounts in the office. The transactions in the storehouse are simply confined to issue on the basis of voucher. The voucher is then returned to the office where the accounts are kept. As you will appreciate, this can only be satisfactorily done with the storehouse and the office in reasonably close proximity, because they must be able to check at once.

3414. It saves the need for reconciling the two lots of stocks?—Yes, and it also saves particularly man-power. That is one of our most serious bottlenecks.

Chairman.] Are there any questions on paragraphs 33 and 34?

Mr. Douglas

3415. What steps are taken to become acquainted with the latest and most up-to-date methods of store-keeping and stock-accounting which are used in commerce?—A good deal is being done at present. We have an Organisation and Methods Branch which is in close contact with the Organisation and Methods Division at the Treasury, and they have, as a matter of fact, been experimenting, in connection with this new naval store system, I think with the Roneodex system of store accounting. I would rather not risk going into a detailed explanation of it myself, but certainly they have been examining the more up-to-date forms.

3416. What steps are taken to train your personnel to become expert in using these systems, and in store accounting generally?—At present, under the traditional system, the normal method of training is adopted. They are actually trained in the office as a rule. There is a certain amount of central training, but it does not usually go to the storekeeping staff, I think. But undoubtedly if we adopt a system like this, we shall have to train them; but whether we shall do it by a central system or by each yard making its own arrangements I find it very difficult to say at this stage, because we have not yet determined whether to adopt this or not.

3417. In any event, is it not an essential means of obtaining efficiency and saving man-power?—It is not always certain that a new system does save man-power.

3418. I was not referring to a new system. I was referring to the training of your personnel, no matter what system it is, so that they become expert at doing the job.—We are trying to do that very largely. I am not referring to storekeeping in particular now, but the directing staff at the store department have what is

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almost a college for training new entrants. We have for the clericals in the Admiralty quite an elaborate system of training on entry. We have just introduced a training course for people who may become higher clericals—who may have supervisory duties. We have a training college for typists, and so on. I would rather not commit myself to this question of storekeeping, because I do not know, but I should suspect that the Director of Stores has something of that kind, because his is an efficient department.

Mr. Benson.

3419. How far do you use the same personnel for clerical work and for running the Navy? "Ratings" is the technical term for them, I think.—They are not interchangeable. Though it is true to say that some of our clerical staff are in the Navy at the moment, that is because of the operation of the National Service Act. I think in the traditional Navy Supply Service the distinction is very clear. The Supply Services on shore are civilian, and the Supply Services afloat are, of course, carried out by the accountant branch. When we come to the Fleet Air Arm there is rather less distinction. We have some establishments which are rather mixed; there are ratings and also civilian workers. You understand that I am speaking rather without the book here, but I think that has arisen very largely on the basis of the Air Ministry system. But generally speaking there is a very clear distinction between the functions of the two.

3420. In paragraph 32 of his Report the Comptroller and Auditor General says: "Examination by my officers in 1943, which continued on a restricted scale, . . . could the Comptroller and Auditor General give us any information as to how far the restriction has gone, as compared with peacetime?—(Sir Gilbert Upcott.) I think it would be very desirable that the actual percentage should not be published, because it is not very desirable that people who are going to be examined should know exactly what their chances are.

3421. You want to keep it from the Admiralty?—I do not mind telling the officers of the Admiralty now present. [Percentage stated.]

Sir Frank Sanderson.

3422. In the second sub-paragraph of paragraph 34 it is stated: "In both cases an essential feature of the arrangements is the maintenance of a continuous system of stocktaking." Does that imply physical stocktaking?—(Sir Henry Markham.) Yes.

Chairman.

3423. Are there any further questions on those three paragraphs? We pass to paragraph 35: "Stocktaking." Have you anything to add to what you have already

told us, Sir Henry, about the stocktaking? You have already dealt with it at some length?—I do not think I have anything to add to that.

3424. Have you anything to tell us with regard to the deficiencies of stores of £254,000 which were written off in 1942, under Treasury authority?—Yes. I must say I do not find that a disturbing figure, considering the vast turnover; but what is more important, really, and what leads me to that conclusion, is that these deficiencies and surpluses are really almost entirely of a paper character. They are not necessarily real surpluses and deficiencies at all. It simply means that somebody has not entered something up. The stuff is there and is probably being properly used.

3425. Almost one-third of the deficiencies is made up by the surpluses?—(Sir Gilbert Upcott.) That, I think, means the accounts are wrong both ways. (Sir Henry Markham.) Yes, it does.

3426. Have the Treasury received a further report?—(Mr. Jones.) Not in respect of the year under review, but we have had a further report from the Admiralty, which is referred to in the last sub-paragraph of paragraph 35, for the year to 31st March, 1944.

Chairman.] We shall see that in due course. Are there any questions on paragraph 35?

Sir John Mellor.

3427. On your explanation, Sir Henry, there is no reason why the surpluses should not sometimes exceed the deficiencies?—(Sir Henry Markham.) None at all. They do sometimes. On particular items I have indications of surplus. On naval stores, for instance, there is a net surplus of £97,000.

Sir Frank Sanderson.

3428. In regard to the deficiencies of stores of £254,000, can you give an approximate estimate of the total amount of stores which are involved?—On charge?

3429. Yes—quite approximately?—I am afraid I could not at all. (Mr. Seal.) The annual turnover is somewhere in the neighbourhood of £70,000,000, I should say, at a rough guess.

Sir Frank Sanderson.] I wanted it only approximately.

Mr. Glenvil Hall.

3430. Did you say the further report to the Treasury, which is spoken of in the last sub-paragraph, carries us to March, 1944?—(Mr. Jones.) Yes.

3431. Might I inquire generally whether that is satisfactory, as far as it goes?—It is still under examination by the Treasury. The figures included are rather larger than those reported for the year under current review.

3432. The deficiencies are larger?—That is the report we have, yes.

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Sir HENRY V. MARKHAM, K.C.B., M.C.,
Mr. E. A. SEAL, C.B., Mr. E. C. JUBB, C.B., O.B.E.,
and Mr. C. M. DODWELL, M.B.E.

[Continued.]

Chairman.

3433. Are there any further questions on paragraph 35? We pass now to the figures which are on pages 2 to 10 inclusive. On page 9, item No. 59 is: "Deficiencies of stores found on stocktaking at certain victualling depots on various dates between July and November, 1942. The deficiencies were mainly ascribed to errors in accounting and to losses arising from war conditions. Pilfering was also suspected." Could you tell us anything about the question of pilfering?—(Mr. Seal.) Although pilfering was suspected as contributing towards the total deficiencies amounting to £23,000 odd, it is not, of course, suggested that any substantial portion of the loss was due to pilfering. Indeed, the probability is that the great bulk of the loss was due to the causes mentioned further on—that is to say, wrong invoicing, and that sort of thing.

3434. Pilfering did not represent a large part of that sum of nearly £24,000?—No. (Sir Gilbert Upcott.) I think the fact that the surpluses were larger than the deficiencies rather supports the view that it was the accounts which were wrong.

Chairman.] Are there any questions on the figures?

Mr. Glenvil Hall.

3435. In the losses statement on page 7, item No. 32, there is a figure of £1,786,000 "Balances of public money in H.M. ships and naval establishments, etc., including notes to the estimated value of £83,300, lost during the year through enemy action."—(Mr. Seal.) The largest part of that figure represents money which was lost at Singapore and Hong Kong. (Sir Gilbert Upcott.) That is dealt with in paragraph 3 of my Report.

*(Secret Supplement to the Navy Appropriation Account.)**Chairman.*

3439. We pass to the Secret Supplement to the Navy Appropriation Account. There are items at the bottom of several pages which I want to ask you about. On page 5: "One hundred and fifty victualling store accounts have not yet been received." On page 7: "Thirty-eight medical store accounts have not yet been received." On page 13: "Three naval store accounts have not yet been received." On page 16: "Thirty-nine naval armament store accounts have not yet been received." Could you give us some idea with regard to the total numbers involved. Is it 150 victualling store accounts out of 300 or 400, or out of many thousands?—(Sir Henry Markham.) I should have said out of many thousands, but I think I must check that.

3440. Would you mind doing so?—Certainly I will do that. (Sir Gilbert Upcott.) I will give you an example. It is not

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3436. I am sorry. Is that the whole of it?—(Mr. Seal.) No, it is not the whole of it. It is most of it. The figure for the losses at Singapore and Hong Kong was £1,600,000 odd, most of that being at Singapore. The reason why the figure is so large at Singapore is that the Treasury Chest Officer who gave out the money got away with his accounts and was able to say that the money had been paid to the Admiralty, whereas the Admiralty people did not get away. There is no doubt whatsoever that the vast proportion of that money had been paid out in the meanwhile. We also know that the actual cash that they had in hand they destroyed at Singapore before the place actually fell.

3437. So that from a national point of view the whole of that is not really irrecoverable, so far as the notes are concerned. It would amount in the end to a mere paper transaction?—It simply amounts to the fact that a note which can easily be printed again has been destroyed. (Mr. Blunt.) A lot of it was simply unvouched expenditure. (Sir Gilbert Upcott.) It is technically a loss. It is simply that the money cannot be accounted for under normal heads.

Mr. Douglas.

3438. That depends whether they were English notes or whether they were foreign ones. Some of them might have been foreign ones?—(Mr. Seal.) They were mostly, I think, Malay States currency. The bulk I think would be in bank balances. (Sir Gilbert Upcott.) The great bulk of the figures represents expenditure which was incurred but has not been brought to account.

Chairman.] Are they any further questions on the figures?

this particular one, but in the case of Vote 9: "Naval Armaments", where the statement is that: "Thirty-nine naval armament store accounts have not yet been received" I do know that that is 39 out of 888.

3441. Under 5 per cent.?—Yes; and that figure of 150 victualling store accounts has now been reduced to 36.

3442. In that case it is really not necessary, as far as I am concerned, for you to give us the figures, Sir Henry.—(Sir Henry Markham.) Thank you.

3443. On page 15 there is an *ex gratia* payment of some £21,000. Could you tell us the circumstances in which we paid £21,000 to a firm of contractors for loss incurred in refitting one of H.M. ships with new machinery?—(Mr. Seal.) This is a thing that dates from a long time before the war. It is the re-engining of [*ship named*]. The contract was placed as long

K

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ago as October, 1935, but the ship was very much delayed in coming into hand—in fact, over a year—by the Abyssinian crisis and the Spanish Civil War troubles that were coming on at that time. The ship was late in being put in hand, and when the job was very nearly finished we had to press the contractors very hard to finish it more quickly, because of the imminence of war; it was getting on for 1939. The actual amount allowable under the contract, including extras, was £726,000. In October, 1939, the firm claimed the sum of £42,000 in respect of the loss that they claimed to have sustained under the contract, due to the general disturbance of the conditions, as explained above. We eventually after a good deal of negotiation compromised with them and they accepted £21,000.

3444. It did appear that as these firms had a good deal of smooth, they could put up with a little bit of the rough in a particular instance of this nature.—I think this was rather before the smooth became quite so apparent.

3445. On page 24, Vote 16, Subhead E is "Adjustments of prices of American Steel", an expenditure of £149,000. Could you tell us anything about that?—That was a very special case. I do not think it will appear again. It arises first of all from some sets of crankshaft forgings which were ordered in America at the beginning of the war, when the capacity for forging these crankshafts was very much overstrained in this country, and the crankshafts were actually employed, as to a large number of them, by the firm in ships which they had for commercial contracts, so we undertook to pay the difference, as it was done on our behalf. We intend to recover the amount when ultimately we sell the merchant ships that have been built on Admiralty account.

3446. On the same page, Subhead K is: "Receipts", a figure of nearly £10,000,000. Were those receipts in respect of ships you built and sold?—I am afraid I would not like to answer that. I do not think we have yet actually received any large sums of money for ships sold.

3447. But it is a figure of receipts, and I wondered what the item was?—I could find out.

3448. It is nearly £10,000,000. It would rather interest us.—It is a large sum.

3449. Would you mind looking up the main items of K.?—I am afraid I have not the information here. (Sir Gilbert Upcott.) I can give the Committee the main figures of the build-up now if the Committee wish. £3,500,000 was in respect of the sale to the United States Maritime Commission of two shipyards, which were

mentioned to the Committee last year. Then there is something like £6,500,000—a rather complicated transaction in respect of the sale of certain merchant ships to Canada.

3450. If those are the facts I will not press for a note to be sent in.—He will perhaps correct my statement if it is wrong, but I think that is more or less the brief summary of it.

Chairman.] Unless corrected, it will stand. Are there any questions on the Secret Supplement?

Mr. Douglas.

3451. Vote 8, I take it, covers both the provision of ships of all kinds for the Navy and the repairs and maintenance? Can you say what proportion represents repairs and maintenance and what proportion represents new vessels?—(Mr. Seal.) The repairs and alterations by contract of ships amounts to nearly £31,000,000 out of the total. The total of Vote 8, Section III, which is the total of contract work, is net £171,000,000. I think as a first approximation you could take £90,000,000, shall we say; but I should need notice to work it out in greater accuracy than that.

3452. Do you say £90,000,000?—I am sorry. I have done the sum wrong. I mean £140,000,000.

3453. What about the other two sections of the Vote?—Do not they cover the building of ships?—Section I covers the personnel in the dockyards. Section II is the Naval Store Vote and covers all the stores of the Fleet, and Section III, the contract work, covers the cost of the hulls and machinery of the ships and such items as their repair by contract.

3454. I am asking quite a simple question. All I want to know is how much of the expenditure on Vote 8 in total represents provision of new vessels for the Navy and how much of it represents the maintenance of vessels which you have?—In order to give you a complete answer I should have to add up a lot of these figures. Would you like me to do it now.

3455. I do not want you to waste time doing it now. It is because they are not rubriced and none of these figures indicates under what heading they come that I asked the question?—(Sir Gilbert Upcott.) The expense accounts used to give that information in considerable detail, but they have been suspended during the war. They would have shown quite plainly what you are asking for.

Mr. Benson.

3456. In Vote 8, Section III, on page 15, Subhead D is "Armour for His Majesty's Ships, Vessels, etc.", an expenditure of just over £1,000,000, whereas Sub-

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head C "Hulls of Ships, etc., Building by Contract" is an expenditure of £52,000,000. That is an extraordinarily small proportion.—(Mr. Seal.) A very large number of ships for which we are now building hulls would have no armour. For example, the frigates, corvettes, submarines, and destroyers would have very little. A cruiser also has little, but of course more than a destroyer. It is only when you get to the really big ships, the battleships, that you have large quantities of armour.

3457. What does the armour cost per ton?—(Mr. Jubb.) The basic price of non-cemented armour is [figure given].

3458. That figure represents less than one battleship, does it not?—(Mr. Seal.) I really do not know.

3459. Is there any armour included in that price of hulls?—I think not.

3460. So that in effect you were not building any real armoured ships in this year?—We were building some. (Sir Henry Markham.) We might have had the armour on a previous account. We generally get that early, of course.

3461. Subhead CC is: "Fairmile Patrol Boats." Are those boats from a particular firm, or is that a particular type of boat? (Mr. Seal.) The Fairmile firm are people who co-ordinate on our behalf the whole of the manufacture of these boats that we call Fairmile boats.

3462. Are those the wooden boats which you find inland as well as at the coast?—Many of them are assembled inland. Many of them are pre-fabricated. (Sir Gilbert

Upcott.) This was considered at some length last year.

Mr. Henderson Stewart.

3463. There is one small point on Vote 8 on page 13. Subhead H is "Water," an expenditure of £579,000. That comes under a heading of "Matériel." How does it come about that you have spent so much on water?—(Mr. Seal.) H.M. ships would require large quantities of water. I am not sure about this, but it is more than likely that the water expenditure in the dockyards and shipyards comes in, too. Certainly the water taken by the Fleet and all our Fleet auxiliaries would be a very large item now. (Sir Gilbert Upcott.) Just down below, Mr. Henderson Stewart, you will see that gas and electric current are also matériel.

Mr. Henderson Stewart.] I can understand that.

Sir Frank Sanderson.

3464. On page 19, Vote 11: "Miscellaneous Effective Services," Subhead N is: "Miscellaneous Payments," an expenditure of £1,236,000 odd. Can you give any indication of what is comprised in that large amount? It is a rather large amount to come under the heading of "Miscellaneous Effective Services".—(Sir Henry Markham.) It is a very much larger account than usual. I could not give that offhand. I must get that for you and let you have it, if I may.*

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

* Information supplied; not printed.

CIVIL APPROPRIATION ACCOUNTS, 1942.

CLASS VII.

VOICE 14.

PETERHEAD HARBOUR.

(On this Account no questions were asked.)

GREENWICH HOSPITAL AND TRAVERS FOUNDATION ACCOUNTS, 1942.

(On this Account no questions were asked.)

Chairman.

3465. Thank you very much, Sir Henry. I think that concludes your evidence?—(Sir Henry Markham.) I have some information which I was asked to supply. Would you like it now?

3466. Yes, please. I think it was Mr. Benson who asked for it?—In the first place may I say that in reply to a question by Mr. Douglas I did less than justice to the system in saying that the current check of agency factory accounts was effected by examination of the accounts submitted half-

yearly. As a matter of fact, in addition to the submission of accounts half-yearly, we receive monthly cost of production statements, showing under main headings the cost of operating the factory and the unit cost of production. Mr. Douglas asked another question about agency factories. The production expenditure of the Admiralty agency factories amounts to £12,600,000 a year, and there are 24 factories. I was also asked what proportion of the capital of the armour firms is provided by the Government. Over the three

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main firms the Government-supplied capital works out at an average of 48.6 per cent. of the total capital. A question was also asked about the landing craft supplied by one firm, which was mentioned by the Comptroller and Auditor General in paragraph 11 of his Report. The information required was, I understand, an indication of the prices accepted for those ships. The figures are: Type A—£1,584. Type S—Approximately £1,655, with the exception of the prototype which was £2,150.

Mr. Benson.

3467. Comparatively small?—Quite small. Then Type M—£3,580. I hope I have those questions right.

Mr. Douglas.] I think so, but I do not myself remember the context at this moment.

Chairman.] Are there any questions on the statement Sir Henry has just made?

(The Witnesses withdrew.)

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

THURSDAY, 15TH JUNE, 1944.

Members present:

SIR ASSHETON POWNALL in the Chair.

Sir Irving Albery.
Sir Edmund Brocklebank.
Sir George Davies.

Mr. Douglas.
Sir Frank Sanderson
Mr. Touche.

Sir GILBERT UPCOTT, K.C.B., Mr. D. F. C. BLUNT and Mr. C. E. I. JONES called in and examined.

AIR SERVICES APPROPRIATION ACCOUNT, 1942.

SIR ARTHUR STREET, K.C.B., K.B.E., C.M.G., C.I.E., M.C., and Mr. V. H. RABY, M.C., called in and examined.

Chairman.

3470. We have to-day the Air Ministry and our Witness is Sir Arthur Street. Will Members turn to the Air Services Appropriation Account, 1942, page iii, to the Report of the Comptroller and Auditor General. I have no questions to ask on the first two paragraphs. Have any Members any questions on those paragraphs? We turn to paragraph 3: "British Commonwealth Air Training Plan." In the second sub-paragraph the Comptroller and Auditor General states: "The United Kingdom Government assumed liability for a sum which is approximately one-half of the estimated cost of the combined organisation . . ." Could you please tell us, Sir Arthur, what that one-half amounts to?—(Sir Arthur Street.) It was fixed at the time at 723,000,000 Canadian dollars.

Mr. Benson.

3468. I am rather vague as to the question I asked. It was the relation of the ascertained cost to the price, was it not, that I was asking about?—I was not quite sure, but I had an idea that Mr. Jubb spoke to you after the meeting. (Mr. Jubb.) I think what you asked was the cost and price paid to the firm for those first orders of 164 altogether of three types, and the position is that we have not ascertained the cost of those first orders. What we have ascertained, in certain cases, are the costs of small craft constructed under subsequent orders for which we have still to settle the prices.

3469. How do the costs of the subsequent craft relate to the prices of the original?—It is very difficult to say, because varying quantities of material have been supplied by the main contractors to the sub-contractors, so that no conclusion can really be drawn.

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

3471. What proportion of the pupils are Canadian and what proportion from this country? Have you any analysis of that?—40 per cent. of the capacity under the new agreement was reserved for pupils from the United Kingdom.

3472. Are the other 60 per cent. Canadian or are there some from Australia and New Zealand?—There was provision for a continuing flow from Australia and New Zealand.

3473. So that approximately 45 to 50 per cent. would be Canadian, 40 per cent. ours and the other 5 or 10 per cent. from the other Dominions?—About that.

3474. In the third sub-paragraph Sir Gilbert says: "The Canadian Government accepted financial liability for all costs and expenses of the combined training organisa-

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[Continued.]

tion in Canada not otherwise provided for in the agreement (approximately half the cost) and also, under a separate agreement, for the following costs from 1st April, 1943, of Royal Canadian Air Force units and personnel serving with, or in conjunction with, the Royal Air Force:—
(a) Royal Canadian Air Force units—all costs." Is that all costs while in Canada or all the costs wherever serving?—All the costs wherever serving.

Chairman.] Are there any questions on paragraph 3?

Sir *George Davies.*

3475. Have the numbers coming from Australia and New Zealand been reduced from the original contemplation because of those Dominions themselves providing a certain form of adequate training which makes it unnecessary for the Canadian facilities to be made use of?—Australia and New Zealand have always provided a good deal of their own training, but it is true to say that, owing to shortage of man-power, those two Dominions may in future send a smaller proportion to Canada than they did when the scheme began.

3476. Is that because their trainees are being used in the Pacific area rather than coming over to the European theatre?—It is partly that, in the case of Australia, but also it is because of man-power shortages in both Dominions; they are employing their man-power in other ways.

Chairman.

3477. Are there any further questions on paragraph 3? We pass to paragraph 4: "Expenditure in the Far East." The Comptroller and Auditor General states about two-thirds of the way through the paragraph: "As explained in the Losses Statement (page 6, item 15) some £690,000 of the latter amount represents expenditure the bulk of which had been allowed as properly chargeable to Air Votes, but which could not be classified owing to the subsequent loss of records. . . ." Could you explain very briefly the difference between "allowed" and "not classified"?—When expenditure is not classified it means that we have not sufficient detail to enable the expenditure to be attributed to the particular Votes and Subheads. When it is allowed it means that there is sufficient collateral evidence to justify us and the Comptroller and Auditor General in saying that the expenditure was properly incurred.

3478. Sir Gilbert states: "It is also stated that the physical loss of cash was comparatively small." Could you tell us the amount of the real loss?—The physical loss of cash was of the order of £33,000.

3479. The rest, presumably, took the form of loss of assets such as aerodromes

and so on, for which there is no cash figure available?—There is certainly no cash figure included for loss of territorial assets. The remainder is, for the most part, unsubstantiated expenditure carried on Command and Base Accountants' Accounts, and what we call the Far East Local Suspense Account. (Sir Gilbert Upcott.) It means that the expenditure was incurred but could not be brought to account under normal heads.

3480. Are there any questions on paragraph 4? We pass to paragraph 5: "Expenditure in Burma, Greece and Crete." The Comptroller and Auditor General says: "Expenditure incurred by the Royal Air Force in Burma during the period January to May, 1942, and in Greece and Crete from February to June, 1941, has not yet been brought finally to account owing to the loss, destruction or delay in transit through enemy action of the relevant accounting records. Reconstruction of the lost and missing accounts is in progress and expenditure properly chargeable to Air Votes and any uncleared balances will be included in later accounts." Could you tell us the amount involved?—(Sir Arthur Street.) So far as we can see, the ultimate loss in the Burma Accounts will be within a maximum of about £16,500. It may be a good deal lower. In the case of Greece and Crete the total loss, as the result of the evacuations, amounts to about £26,000 which is the amount we have asked the Treasury to authorise us to write off.

3481. Is that both for Greece and Crete?—Greece and Crete.

3482. Are there any questions on paragraph 5? I have no questions on paragraph 6. Has any Member any questions on that paragraph? We pass to paragraph 7: "Pay, etc., of the Air Force. Reduction in the Standard of Departmental Audit." Could you tell us something about the serious staff difficulties which the Comptroller and Auditor General mentions, which "have necessitated a reduction in the standard of the departmental audit applied to airmen's pay, and a curtailment, in varying degrees, of the audit of officers' pay and allowances and the salaries and wages of civilian employees at Royal Air Force stations"?—The Royal Air Force has been expanding throughout the war. That has been accompanied by a growing shortage of clerical staff in our accounts branches. On top of this, the pay and allowance accounts have increased in complexity as well as volume as the war has gone on, due to changing rates of pay and conditions of service and to the rapid movement of personnel from place to place. The executive and specialised work in connection with airmen's and officers' pay problems has increased all the time; and we have had to deflect our experienced staff from audit to cope with it. Again, there has, generally speaking, been a reduction in the quality of the staff available owing

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[Continued.]

to the loss of experienced staff to the Forces and to their replacement by untrained staff who take some years to become really experienced in this work.

3483. Could you tell us at all the expenditure on the staff and the curtailments which have been made?—I should have some difficulty in giving at short notice the precise figure of expenditure on this staff.

3484. It is the audit staff?—I have not the information by me. (Sir Gilbert Upcott.) Vote 1 is gross, £190,000,000, which is a measure of the magnitude of the problem. (Sir Arthur Street.) But that is the pay of the Royal Air Force and not of Air Ministry audit staff.

3485. I did not know whether you had any percentage or proportion of the curtailment which you had found necessary?—In general, the reduced scope of audit and of the internal check of airmen's pay ledgers have taken the form of a reduction in the detailed checks on individual accounts; but we continue to pay particular attention first to questions of entitlement and secondly to the application of new conditions so as to ensure that they are fully understood and correctly executed in the various Royal Air Force units.

3486. Have the Treasury anything to say on this point?—(Mr. Jones.) We discussed this matter in detail with the Air Ministry when the proposal was placed before us, and we had to agree that there was no alternative, in view of the manpower situation, but to permit this relaxation of the normal audit procedure. We were satisfied that the reduced programme was not out of line with what was being done in the other Service Departments.

3487. Have you any comments to make upon this, Sir Gilbert?—(Sir Gilbert Upcott.) I say in my paragraph: "I shall report on the working of the new scheme of audit, if necessary, in the light of experience." I am not yet in a position to say in what way it has actually operated. I have looked at the matter theoretically as far as I can in the light of the observations of the Treasury that it was not wholly out of step with what was being applied by the other Service Departments, and while it is very difficult to compare the three Departments, which differ in their organisation and in their methods substantially, I think I should be prepared to say at the present moment that the standard which the Air Ministry are still keeping before them compares not unfavourably with that operated by the other Service Departments.

3488. Are there any questions on paragraph 7? We pass to paragraph 8: "Works, Buildings and Lands. Purchase of Airfield Sites." Could you develop a little, Sir Arthur, the reasons for this policy with regard to the purchase of airfield sites?—(Sir Arthur Street.) The case for the purchase of these sites rests mainly

on economic grounds. I think I can state it briefly as follows: It would be impracticable, in our judgment, to reinstate these airfields after the war, particularly in cases where the land was held in numerous tenancies or is in divided ownership. Moreover, a standard airfield includes about 50 acres of hard runways, about 19 acres of perimeter track, 20 acres of what we call hard standings for aircraft, and 50 acres of technical buildings, access roads, etc. The reinstatement, to its original condition, of the land which has been built over would involve breaking up the concrete, tarmac and hard core to a depth of six inches and removing the material from the site, as well as the re-importation of vegetable top-soil. It might cost £50,000 or more to do that, whereas the value of the land, if we bought it, might be no more than £25,000. So it seemed to us prudent to negotiate voluntary purchases to the extent that we could and to do so now.

3489. Could you say at all how much of the land in the case of a normal aerodrome is destroyed, as it were, from the agricultural point of view and how much would be available?—If you take a normal aerodrome as being about 500 acres, then the figures I gave to the Committee a moment ago show that between one-quarter and one-third of the site would be built over in some way.

3490. Totally unsuitable?—Yes, totally unsuitable.

3491. Could you tell us how many of these places there are and the area involved? The estimated cost is, I see, £8,000,000?—We think there are probably 290 sites which will need to be acquired for economic reasons.

3492. Each roughly of 500 acres, the figure you mentioned a moment ago?—On the average. The average might perhaps be a little less.

3493. So that if one put it in terms of square miles it is over 200 square miles, is it not, doing a quick sum? That is a very large area altogether?—Yes.

3494. Are the prices on the basis of pre-war value—the 1939 value?—Yes, that is the basis on which we have been working.

3495. Have the Treasury any comment to make with regard to these airfield sites?—(Mr. Blunt.) No further comment. Approval was given on the basis that this was an economic proposition, as Sir Arthur Street has said. Of course, it does not in itself decide what shall be done when the Air Ministry has finished with these airfields.

Chairman.] Are there any questions on paragraph 8?

Sir Irving Albery.

3496. Do I understand from the replies given that practically all the aerodromes are being purchased like this?—(Sir Arthur Street.) Not all of them, because some will

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[Continued.]

be grass and there will be no economic reason for taking them over. But in cases where extensive concreting has taken place we think we ought to acquire, because any other alternative would be more costly.

3497. Is it considered probable that all or a very large percentage of those being acquired will remain aerodromes?—It is difficult to say. Some of them will, of course, be required for post-war use by the Royal Air Force. Some, I dare say, will be handed over to civil aviation. Some may be handed over to the Ministry of Agriculture for agricultural uses, even though the runways and the tarmac and hard standings may be retained on a care and maintenance basis for reserve in the event of another war. But the land in between could be cultivated and we should have to look to the Ministry of Agriculture to arrange that. It is possible that other uses may be proposed for reserve aerodromes by the Ministry of Town and Country Planning and other Departments of State. It is difficult to say at this stage precisely what will happen.

Mr. Douglas.

3498. At the end of the first sub-paragraph the Comptroller and Auditor General states that the owner of the land is entitled to a sum equal to the cost of making good the damage to the land provided it is not in excess of the value of the land when it was taken over "exclusive of increases in value due to the war." What do you mean by that?—It means that we are negotiating these purchases at values not exceeding 1939 prices, and that we are taking no account of changes due to the war, either in the general value of agricultural land or in the value of the particular site, say, as the result of works which we have executed on it. (Sir Gilbert Upcott.) Those words you have quoted are, of course, taken out of the Compensation Defence Act, Mr. Douglas.

3499. I wondered how you were able to segregate it.—(Sir Arthur Street.) At the time of requisitioning, or very soon after, a valuation of the land is made in most cases, and that gives us a reliable index of the value at the time we took over.

3500. There is a sum of £8,000,000 mentioned in the next sub-paragraph. Does that cover the 290 aerodromes you mentioned?—Yes.

Sir George Davies.

3501. I suppose this system applies to these aerodromes, whether the user of them is for ourselves or the United States?—Yes.

3502. In the second sub-paragraph the Comptroller and Auditor General says: "With Treasury sanction certain requisitioned airfield sites have been purchased, by agreement with the owners . . ." Have you had any cases in which it has been impossible to come to agreement with the

owners and you have been entitled to exercise compulsory powers of purchase?—In such cases, the properties are remaining on requisition, pending whatever legislation may eventually be brought forward. We are not in fact exercising any compulsory powers of purchase at the present time.

Chairman.

3503. Are there any further questions on paragraph 8. We pass to paragraph 9: "Works Programme." Sir Gilbert refers to the expansion of the Royal Air Force building programme and the new stations and additional accommodation necessary to meet the needs of the United States and the displaced Royal Air Force units and he says: "The present account includes heavy expenditure in respect of these additional requirements." Could you tell us what the expenditure amounts to?—The "heavy expenditure" in the year of account was about £37,500,000 out of a total of £125,000,000 for works services.

3504. On page vi Sir Gilbert says: "Certain stations are however being constructed by United States engineering units." Could you tell us how many of them and the arrangements with these engineering units?—There were 14 airfields; six advance air depots, as they are called, came along later.

3505. What arrangements have we with the engineering units as to their construction?—The actual work of construction is carried out by the United States Army Air Corps engineering units, but we are providing the materials and stores. Normally, our own direct purchases of materials are small, because that is the primary function of the contractors whom we employ to build our aerodromes for us, and when we were faced with this proposition the supply problem was altogether beyond our own resources. Nor could we expand our staff quickly enough to cope with it. So, with the concurrence of the Ministry of Works and the Treasury, we had to adopt the arrangement which is referred to in this paragraph, and employ the purchasing organisation of selected building contractors.

3506. What was the expenditure involved?—The expenditure involved up to 31st December, 1943, was £7,300,000, which was the total value of the stores supplied through those agents.

Chairman.] Are there any questions on paragraph 9?

Sir Irving Albery.

3507. When you incur expenditure on behalf of the American Air Force, is that accounted for separately or is it lumped in with your own expenditure?—It is accounted for separately, and the total costs incurred are included in a central record maintained by the Treasury of mutual aid services rendered to the Americans generally.

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Sir George Davies.

3508. Are these building contractor agents responsible for delivering on the sites the raw material and so on that is indented for by the United States engineering units, and their responsibility then ceases? They are merely providing the Americans with the material they need and the Americans look after the use of it?—The Americans look after the use of it, but the provision of the material, the delivery to site and functions of that sort are carried out by the agents.

3509. They are responsible right up to the moment of delivery on the site itself?—Yes.

Chairman.

3510. Are there any further questions on paragraph 9?—We pass to paragraph 10: "Delegation of Financial Powers." This was a delegation at the beginning of the war to the Air Ministry by the Treasury. Have the Treasury any comment to make upon it?—(Mr. Jones.) No.

3511. In the second sub-paragraph Sir Gilbert says: "In view of the need for the utmost economy in labour and materials and to enable the Air Council to survey works requirements for the Royal Air Force as a whole, the emergency powers granted to Home Commands to authorise expenditure up to £2,500 on local works services have been temporarily withdrawn." Why was that?—(Sir Arthur Street.) Because of the necessity for the central control of labour and materials.

3512. It was for labour reasons, not financial reasons?—That is so.

3513. Are there any questions on paragraph 10? We pass to paragraph 11: "Cost Records of Works Services." In the second sub-paragraph Sir Gilbert says: "At home, with effect generally from 1 April, 1943, stores issues other than larger items such as hutting and hangars will no longer be valued and included in the cost records nor will the actual cost of directly employed labour be so allocated." Could you tell us what these stores issues were?—They are standard Royal Air Force stores which are purchased in bulk for reasons of economy. We do not, in the ordinary way, expect our building contractors to obtain these for themselves; they are articles like stoves, sinks, wash and lavatory basins and electric light fittings.

3514. Could you say at all what proportion of the works these items would form?—The proportion is very small. The small stores such as those I have just described would represent only about 3 per cent. of the total cost of our works projects. Direct labour would represent about 1 per cent. only.

3515. Will it be possible with this altered procedure effectively to compare actual costs with estimated costs in view of the

fact that certain items have not been costed?—Yes, we think it will still be possible to cost sufficiently closely our various works projects.

3516. The items disregarded are so small that it does not make much difference?—That is so.

3517. In the third sub-paragraph Sir Gilbert states: "In Commands abroad cost records were largely discontinued during the year under review and a simplified accounting procedure introduced." Could you please tell us about that?—A simplified accounting procedure was introduced at about the same time in Commands abroad. The overseas Commands, instead of reporting to the Air Ministry the costs of individual projects, now report to us only the total cash expenditure each month on works services. On the other hand they maintain records sufficient to enable them to assess the cost of all the more important constructional works against the possibility that one day a fair valuation will be required: there may eventually be financial adjustments with local Governments or it may become necessary to dispose of the works to some outside body.

3518. Are there any questions on paragraph 11? Paragraphs 12 and 13 run together: "Structural Steelwork." Could you please explain the procedure which is mentioned in the second sub-paragraph of paragraph 12: "Subsequently the Ministry notified me that the association had been informed in July, 1943, following consultations with the Treasury, that the negotiations with the industry for a revised standard rate of profit could not be proceeded with and that, on contracts placed subsequent to 31 October, 1941, the profit would be assessed individually on the basis of a specified percentage on capital employed, with a performance factor where appropriate." It is a little hard to follow.—I could best answer that question, perhaps, by going back a little to explain to the Committee how the position arose. At the beginning of the war the Air Ministry subscribed to an agreement, originally negotiated by the War Office, with the British Constructional Steel Association. That is where the story begins so far as we are concerned. In that agreement there was a profit rate of 10 per cent. on cost of labour and materials supplied and 5 per cent. on materials bought from outside suppliers. The price paid under each contract was subject to an agreed maximum. Then in January, 1941, the agreement was revised to give profit rates of 7½ per cent. on costs and 3½ per cent. on "bought out" items—again, of course, subject to the agreed maximum prices. Then in October, 1941, which brings us to the discussion at the Committee last year, the agreement was terminated as we thought that the rate of turnover was going up and the agreement was tending to give too high

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a return on the actual capital employed. So the Air Ministry and the War Office, we being the leading partner, were charged, on behalf of Departments generally, to negotiate a fresh agreement for a revised profit rate based on a percentage of the capital employed. There was to have been a sliding scale and the percentage would have varied with the ratio of turnover to capital—the point of that being, of course, that rapid turnover was thought to indicate efficiency. Then an inordinate delay occurred, for which we were not responsible, while the Association attempted to discuss the matter with the Iron and Steel Control of the Ministry of Supply, as the Committee will remember. This was unfortunate, as the matter was primarily the responsibility of the contracting Departments. Then in June of last year the Treasury felt unable to agree with the proposal that the profit should increase with turnover. Their view was that efficiency could not be related only to speed of turnover and that there were other considerations; and I believe they expressed that view to the Committee. They considered that the basic rate of profit should be $7\frac{1}{2}$ per cent. on capital, with additions for efficiency and risk which could be assessed only by examining the facts of individual cases. In July, new proposals in that sense were put to the Association, who would not, however, agree to them. The Association maintained that the operation of the agreed maximum prices meant that many members made a profit below the $7\frac{1}{2}$ per cent. which the Government regarded as reasonable, and that something ought to be added to cover the risk involved in accepting maximum prices. So they wrote to the Iron and Steel Control of the Ministry of Supply, saying that they would no longer adhere to the maximum price list which they had voluntarily accepted. The Iron and Steel Control replied asking that they should adhere to the maximum prices. That brings us to January of this year, when the Association at a further meeting seemed more ready to accept the Treasury basis of assessment, but they made it clear that they would accept it only if there were adequate recognition of the risk factor to which the maximum price schedule, so they claimed, exposed their members. In April, they finally informed the Contracts Co-ordinating Committee that they would no longer accept the limitation imposed by the maximum price schedule. Thus the present position is that the maximum price contracts let between October, 1941, and April of this year, and, therefore, based on voluntary price control, will be settled by individual negotiation within the framework of the Treasury proposals. That is, subject to agreed maximum prices, the firms will get $7\frac{1}{2}$ per cent. on capital plus an efficiency award, where that is warranted, and some recognition of the risk they have run. They will not, in any case, get more than 10

per cent. return on capital. For the future it is possible that the firms may quote maximum prices so high that they will incur little or no risk, but if Departments have occasion to enter into future contracts they would have to satisfy themselves that the maximum prices were fair and reasonable, and the higher the maximum price the less allowance would be made for risk in the price finally agreed. So far as the Air Ministry is concerned, we have 59 small contracts remaining, which may require to be settled on the old basis, to a total value of about £800,000, and we are unlikely to have any further substantial requirements for structural steel. I understand that the Ministry of Works' requirements are at present also small. Hitherto, we and the Ministry of Works have been the main customers of the Association.

3519. Have the Treasury any comments to make?—(Mr. Blunt.) I think Sir Arthur has stated the position and I have little, if anything, to add. The fact of the matter is that the arrangement with the firms now will be as he says, that they will be on the ordinary costed basis, that they will be given the normal rate of profit on capital employed plus a profit on turnover for risk and efficiency such as the contract department thinks is appropriate. We are satisfied that that is the best arrangement that can be made, and that is what is going to happen.

3520. In the next paragraph, paragraph 13, Sir Gilbert says: "I pointed out in paragraph 12 of my last Report that in addition to contracts let on a maximum-price basis, subject to costing, substantial orders at fixed prices had been placed in 1941 for steel hangars of a standard design. Further substantial orders for such hangars were placed in 1942 on a fixed-price basis at prices which were considerably lower than those operating in 1941, and as from November, 1942, further reductions were secured on new orders, following estimates by departmental technical cost officers and accountants of the current costs of selected firms." Could you tell us what these reductions are which have been effected?—(Sir Arthur Street.) We were able to secure a substantial and progressive reduction in price in the contracts let during the years 1940 to 1943. In 1940, the cost worked out on an average for each hangar of the type we are here considering at about £6,500 or a little less—the 1940 contracts were in fact maximum price contracts. The agreed fixed prices had fallen by March, 1943, to £5,500 approximately.

3521. In the last line of paragraph 13 there is mention of "the current costs of selected firms." Have you had evidence with regard to the profit rates which these selected firms were earning? Are you satisfied about that?—The whole of our arrangements covered by this paragraph were made on the basis of information

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available to us and of the experience which we had gained—quite considerable experience—since the beginning of the war.

Chairman. Are there any questions on paragraphs 12 and 13?

Mr. Douglas.

3522. You say that the basis so adopted is $7\frac{1}{2}$ per cent. on capital employed plus additions for efficiency and risk. How do you measure efficiency and risk, and what recognition do you give for it?—I said that they would not in any case get more than 10 per cent. on capital, so that the margin available is not more than $2\frac{1}{2}$ per cent. in any case. Efficiency is measured in various ways, for example speed of completion of the contract. The recognition or assessment of the risk depends on the relevance of the maximum prices to current conditions. That is the main contention of the Association. They hold that the prices were agreed some years ago, and, therefore, to work to them now, to require firms to keep under the ceiling of those prices, is not reasonable and involves a substantial element of risk. This has to be assessed in individual cases.

3523. You have made costings, have you not? Do those costings reveal any appreciable number of cases in which the costs have exceeded the maximum price?—The Director of Contracts could perhaps answer that particular point?

Chairman.

3524. Certainly.—(Mr. Raby.) So far as our experience is concerned, we have not found that very many of our contractors have incurred a loss on the present maximum prices. Undoubtedly some have.

Mr. Douglas.

3525. The inference is that the risk is not very great?—From our experience we do not think the risk is as great as the Association appear to think it is, but we, nevertheless, do admit that there is a risk present by virtue of these maximum prices.

3526. Apparently the people who get consideration for risk are those who make the profit and not those who make the losses?—I beg your pardon?

3527. You have a maximum price. You never pay more than the maximum price, do you?—No.

3528. It is only where the cost exceeds the maximum price that the risk takes effect, is it not?—The Association, I think, are more concerned with cases where the margin between the costs of certain firms and the maximum price does not permit them to make the full $7\frac{1}{2}$ per cent.; they make something less.

3529. I do not think you follow my point. It is only where the cost exceeds the maximum price that the firm makes a loss, is it not, and in fact incurs the risk?—On the particular contract, yes.

3530. It is in the other cases where it makes a profit that you give compensation for risk?—No, we should only give a risk compensation where, by examination of the outturn of an individual firm's contracts over a period, they established that they were generally at a risk. The experience of firms varies so with different contracts.

3531. It is not done on each individual contract. It is done over a series, is it?—The experience of an individual firm is looked at over a series of its contracts.

3532. If you find over a series of its contracts that it has made 5 per cent. on the capital employed, let us say for the sake of argument, what do you do?—On average or on a particular contract?

3533. On the average you find that, what effect has it on your assessment of risk?—I think we should admit there that, as they were consistently below the average return which we regard as fair and reasonable, that firm was at certain risk.

3534. How does the fact of efficiency bear upon this? If they make less than the average profit, presumably they are less efficient, are they?—Efficiency we judge normally by output, delivery dates, turnover and the general efficiency of the firm from the knowledge we have of its personnel. The return of $7\frac{1}{2}$ per cent. connotes, of course, what one would term an average efficiency, and it would have to be something above what would be regarded as average efficiency to qualify for any additional percentage.

3535. That is what I want to get at. So that if you find that the average profit is only 5 per cent., let us say, on the capital employed you would not give any addition for efficiency?—No, I do not think we should in a case of that sort.

Chairman.

3536. Are there any further questions on paragraphs 12 and 13? We pass to paragraph 14: "Store Accounts. General." Generally speaking, are you satisfied with regard to this matter of store accounts, Sir Arthur?—(Sir Arthur Street.) Yes, Sir.

3537. In regard to the departmental audit of store accounts, Sir Gilbert says: "All the accounts for 1942, apart from those of certain units abroad, have been examined, but owing to the difficulties created by war conditions a number have not yet been finally allowed." Could you give us some idea of the proportion that have not been examined?—All equipment accounts for 1942, both at home and overseas, have now been examined and normal progress with clearance has been made.

3538. Which are those which have not been examined? You say that all the equipment accounts have now been examined. They have all, of all sorts and kinds, been done now, have they?—We

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call them "equipment accounts" and the Comptroller and Auditor General calls them "store and supply accounts." They are the same thing.

3539. They have all been examined now?
—Yes.

3540. Are there any questions on paragraph 14? We pass to paragraph 15: "Stocktaking: Equipment Depots." Sir Gilbert says: "In paragraph 16 of my last Report I mentioned that the initial stocktakings, commenced at the equipment depots on the introduction of the single stock record system of store accounting, had fallen into arrear and that, as regards the adjustment of discrepancies revealed on stocktaking, a modified procedure which avoids valuation had been approved by the Treasury on an experimental basis." Could you please tell us about this modified procedure?—The modified procedure refers to the action which is taken to seek approval of higher authority for the writing off of apparent deficiencies. Perhaps I ought first to explain that under the normal procedure the powers of write-off are related to values only; that is to say, a Commanding Officer could write off deficiencies not exceeding £10, an Air Officer Commanding £10 to £50, an Air Officer Commanding-in-Chief £50 to £200, and the Air Ministry £200 to £500. For any deficiencies in excess of that we had to go to the Treasury. There were certain obvious disadvantages about this arrangement. For instance, if a unit lost 1,000 watches valued at, say, 30s. each, the total value was £1,500, but if they lost a single main plane of an aeroplane—just one—the value would, of course, be high; it might be £1,500, just for that single item. So we then adopted as a tentative solution an arrangement under which the write-off powers were related to the turnover of particular items. Thus a Commanding Officer would be able to write off up to, say, 5 per cent. of the turnover of an item. (Sir Gilbert Upcott.) It was done quantitatively. (Sir Arthur Street.) Yes. An Air Officer Commanding, for his part, would be able to write off up to 10 per cent. of the number handled. We tested that procedure against a selection of stock sheets in each of the depots and came to the conclusion that the labour involved in ascertaining the turnover figures, with sometimes quite small losses, was really prohibitive and not worth while. So we have now put new proposals before the Treasury which we think will work. They depend on a combination of value and quantity. Thus, a Commanding Officer can write off losses up to £50; this would cover quite small amounts; but if the losses exceed £50 then his limit is a percentage on turnover. In the case of aircraft equipment, for instance, he can write off losses up to £50, but if they are beyond that he can write them off within 5 per cent. of turnover. That is on aircraft equipment. There are smaller ranges for

barrack equipment, clothing, ground equipment, and so on. We think that by this plan we shall, at the very first stages, dispose of minor deficiencies in items of low value, and we shall reduce to something like manageable proportions the number of deficiencies on which the turnover would have to be determined. We have put the proposals to the Treasury, and if they are approved we shall carry them into effect as from a current date.

3541. Perhaps the Treasury would tell us their views in regard to the proposals?—(Mr. Jones.) We viewed the experimental procedure that was in force previously with a certain amount of misgiving, when we approved it for a limited period, because we felt there might be this difficulty in ascertaining the quantitative turnover on which to base the percentages which could be written off under local authority. The new proposals which are put forward to us do avoid a good deal of that work, but they also do necessitate the valuation of each of the cases which has to be submitted for write-off approval that the earlier scheme was designed to avoid. There is a further point that we shall have to take into consideration, and that is that the acceptance of these proposals means that we shall have to accept the adjustment of the past discrepancies without investigation or without detailed report to us as to the values involved. I think I can say that generally speaking we are prepared to approve the Air Ministry's proposals.

Chairman.] Are there any questions on paragraph 15?

Sir Frank Sanderson.

3542. I take it that the discrepancies are not necessarily losses in fact, are they?—(Sir Arthur Street.) No. Sometimes they are paper losses.

Chairman.

3543. Are there any further questions on paragraph 15? I have no questions on paragraph 16. We pass to paragraph 17: "Middle East." Sir Gilbert states: "At certain units, including one large maintenance unit, the accounts have not been accepted by the departmental auditor." Have you any progress to report with regard to this Middle East stocktaking?—The units referred to there are three in Palestine and one in Egypt. The deficiencies in Palestine amounted to about £12,000. We have asked the Command to verify the figures, and we are awaiting their reply. The deficiencies in Egypt result from a series of spot checks carried out between May, 1942, and April, 1943. They showed deficiencies of £35,000 on the one side and surpluses of £71,000 on the other. The deficiencies are believed to be, as was suggested a moment ago in another connection, paper deficiencies; there is no evidence of

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physical loss at all. It can be reasonably assumed, I think, that the deficiencies, like the surpluses, are due to the inaccuracy of the record.

Chairman.

3544. Has any Member any question to ask on paragraph 17? Sir Gilbert states in paragraph 18: "During 1942 it proved difficult to reconcile stores received in overseas shipments with the consignors' issue vouchers. In some instances copies of issue vouchers are enclosed in the packing cases received and these are used for checking the contents of the cases. Store accounting for overseas shipments has recently been modified, and I understand that the Ministry are considering the details of the procedure to be adopted." Could you tell us what the present arrangements are?—There are two sides to this question. There is first the receipt of stores in the Middle East from the United Kingdom—that is one process, with problems of its own—and, secondly, there is the receipt of stores in the Middle East from the United States of America. As regards stores ex United Kingdom, now that normal conditions have been restored to a large extent in the Middle East we are experiencing very little difficulty in reconciling stores received with vouchers dispatched. In the case of supplies from the United States, we have had a great deal of difficulty all through, and we are now adopting a scheme which is referred to at the end of paragraph 18 of the Report of the Comptroller and Auditor General. The Royal Air Force Delegation in Washington prepare schedules of equipment dispatched from North America for ordinary progressing purposes. They get their information from invoices issued by United States authorities or contractors. They will compile, in respect of each ship that goes to the Middle East, what is called an I.B.M. Schedule. "I.B.M." means, I think, International Business Machines. These schedules will be very much like a ship's manifest. The

schedules will be sent by air mail and should get to the consignee units at the same time as the goods. The code number of the ship will be the connecting link between the I.B.M. Schedule and the voucher bringing the goods on charge. The instructions to try out this scheme are about to be issued to the Service.

Chairman.

3545. Are there any questions on paragraph 18? We pass now to the Accounts and Appendices on pages 2 to 10 inclusive. On page 5, Item 1 is a case of misappropriation of over £1,000 by an Accountant Officer who committed suicide when the discovery was imminent. This was rather a large amount to be misappropriated without it having been found out that something was going astray?—A court of inquiry was held and it was found that the primary cause of the loss was lax administration and supervision by the Commanding Officer of the station concerned. In view of the finding of the court of inquiry the Commanding Officer was informed that he had incurred the Air Council's grave displeasure and he has reverted to the retired list.

3546. Items 16 and 17 at the bottom of page 6 are cases of considerable over-issues amounting to £4,000 approximately in all. Was it not possible to recover appreciable amounts?—On Item 16 the amount of money involved was estimated at about £3,150, of which £2,370 was paid to officers who were temporarily attached to that unit before going overseas. A very large number of officers were in fact concerned. Indeed, it was estimated that the average amount paid to each officer did not exceed £1. For this reason, it was not considered worth while to pursue these officers all round the world in order to effect recovery.

Chairman.] Are there any questions on the Account or Appendices on pages 2 to 10 inclusive?

(*Secret Supplement to the Air Services Appropriation Account, 1942.*)

Chairman.

3547. Will Members turn now to the Secret Supplement. On page 11, in the note to Subhead MM at the bottom of that page there were several sums "payments for extra costs incurred by contractors as the result of modifications of contract requirements." Could you tell us what these extra costs are, and also what is the difference between extra costs in that item and the subsequent items, payments in respect of losses?—(Sir Arthur Street.) There are in fact three main divisions under MM. The first represents increases in the cost of labour and materials, due to war conditions, arising on contracts entered into before November, 1939. The second comprises cases of altered requirements, where

the requirements have changed since the contract was let, involving us in extra payments. The third covers cases where losses were incurred because of increased cost of materials and labour, site difficulties, and so on, which were not covered by the normal variation clauses in the contracts.

3548. Actual out-of-pocket expenses, as it were?—Yes. (Sir Gilbert Upcott.) The difference between the classification, payment of extra costs and payment in respect of losses, means that in the first place the payment includes an element of profit and in the second place is merely making good a loss.

3549. On page 14 Subhead J is "Subsidies and Grants," a figure of £2,278,000. What control have you with regard to these

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subsidies and grants?—(Sir Arthur Street.) This Subhead covers in part subsidies to the British Overseas Airways Corporation and in part subsidies to other air-line operators, such as the Tasman Empire Airways. Of this large item of £2,278,946, a sum of £2,030,000 represents advances to the British Overseas Airways Corporation. On the question of control, as I explained to the Committee last time, we have taken the view that in war-time, when the Corporation is operating practically as a Government service and is largely dependent on public funds for its finances, we must be satisfied, at any rate initially, that the activities of the Corporation are being conducted efficiently and with reasonable economy. We continue to receive from the Corporation all the information that we require for this purpose. We also keep in touch with the Corporation on establishment matters. We felt that we ought to be told by the Corporation what was their general system of control of staffs, what was the general lay-out of their staff, and what were the grading, salaries, numbers, and so on, so that we should have an opportunity of commenting and making suggestions, if necessary. We also took the view that it was not unreasonable to ask the Corporation in war-time, before making any substantial changes in their establishment arrangements or any changes that might invite comparison with Government practice, to let us know in advance and give us an opportunity of expressing views. The Corporation have supplied us with all the information on staff matters that we have required, and in general we are satisfied that the remuneration of the staff and the conditions of service are reasonable. On the second point, we have received an assurance from the Chairman of the Corporation that any changes of substance in the terms of employment in the Corporation will be reported to the Air Ministry immediately and regularly; and, further, that, where it is obvious that such changes might affect or prejudice the terms or conditions of employment in other fields where the Government have responsibility, the matter will be reported to the Air Ministry before a Board decision is promulgated. I would not like the Committee to think that we have necessarily got to the end of the road in our negotiations with the Corporation, but we have established an understanding with them. They realise that we have certain requirements that must be met if we, in turn, are to meet the requirements of this Committee.

Chairman.] Are there any questions on the Secret Supplement?

Sir Irving Albery.

3550. I want to ask the Treasury whether the relationship between the Corporation and the Air Ministry is in any way similar to the relationship between the British

Broadcasting Corporation and the Ministry of Information?—(Mr. Blunt.) It is rather similar.

3551. It is?—Yes. The financial arrangements are rather similar; that is to say, we make advances and meet their deficiencies.

3552. But the control is stricter?—I do not think, if I may say so, it is stricter. We have been trying to keep them on a level keel and I think broadly the arrangements that Sir Arthur Street has been describing for the British Overseas Airways Corporation are rather similar in terms to what has been happening in the British Broadcasting Corporation, *mutatis mutandis*, because one is an operational service and the other is not.

3553. On page 11, Vote 4, there is a figure of miscellaneous receipts of £1,425,780. Can you tell us, Sir Arthur, if it is available, what is the largest item in that figure for miscellaneous receipts?—(Sir Arthur Street.) The receipts amounting to £1,425,000 odd are for the sale of surplus works stores and recoveries for the hire of R.A.F. transport lorries and mechanical plant used by contractors in the execution of works contracts.

3554. In Vote 6, on page 13 "Miscellaneous Charges," there is a figure of expenditure of £532,500. Could you give me any information about that?—In part it is accounted for by teachers' deferred pay scheme and superannuation charges; in part by payments for university and other special courses of instruction for Royal Air Force personnel; in part by awards in respect of language qualifications, by fees paid to examiners, by expenditure on laboratory and lecture room apparatus and by a refund of training fees to wireless operators.

3555. Could you say which is the largest item?—I am afraid I have not the details.

Sir Frank Sanderson.

3556. In Vote 4, on page 10, Subhead B is: "New Works, Additions and Alterations, amounting to £2,500 each and upwards" and the expenditure was £139,000,000. I assume it is given in that one figure for convenience sake, but are there not separate figures for the amounts expended on land, buildings and machinery? In other words, have you not the figure for the three separate items?—This is Subhead B on Vote 4, page 10?

3557. Yes.—What are the three items for which you wish to have separate figures?

3558. There is an amount of £139,000,000 for new works, additions and alterations. What I am asking is: have you the separate amount expended on land?—The amount expended on land would be relatively small because the land is mainly requisitioned. (Sir Gilbert Upcott.) The land is in Sub-

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head F. I think I ought to intervene there, Sir Frank, as regards that figure of £139,000,000. In peace time, the figure of Part I, New Works, which was not, of course, as large as that, was always appended to the Vote under the heads of the separate items. It was printed as an appendix to this Vote. At the outbreak of the war, on the grounds of security, that practice of printing the appendix with the Vote was discontinued. In the first place a confidential schedule of the works was circulated to this Committee for their consideration. As the war proceeded this volume of items in the case of the three Fighting Services became of such vast dimensions that it was a matter of very serious work for the Departments concerned to compile this schedule for the consideration of this Committee, and a year or two ago the Committee agreed that in view of the vast mass and com-

plexity of the details involved the schedule should be discontinued, and it should be left to me to report to the Committee any particular item which I thought required their special attention.

3559. Would you mind answering one other question, Sir Arthur. Since the amount of money expended on buildings obviously is a very considerable figure, can you state whether, in the main, they are erected upon land purchased by the Government or upon land leased by the Government?—(Sir Arthur Street.) In the main on requisitioned land. (Sir Gilbert Upcott.) A very large amount of the expenditure is, of course, overseas.

Chairman.] Are there any further questions? May I take it that the Account is approved? (Agreed.) Thank you very much, Sir Arthur, for helping to get us through so expeditiously.

(The Witnesses withdrew.)

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

TUESDAY, 20TH JUNE, 1944.

Members Present:

SIR ASSHETON POWNALL in the Chair.

Sir Irving Albery.
Mr. Benson.
Sir Edmund Brocklebank.
Sir George Davies.
Mr. Glenvil Hall.

Sir John Mellor.
Mr. Pickthorn.
Sir Frank Sanderson.
Mr. Touche.

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

Chairman.

3560. I want first of all, on behalf of the Committee, to congratulate Sir Herbert Brittain on the honour which has recently

been bestowed upon him?—(Sir Herbert Brittain.) Thank you very much, Mr. Chairman. That is very kind of you.

COAL COMMISSION ACCOUNTS, 1942.

Sir ERNEST GOWERS, K.C.B., K.B.E., called in and examined.

Chairman.

3561. We have first to-day the Coal Commission and our Witness is Sir Ernest Gowers. Will Members turn to the Coal Commission Accounts, 1942, to the Report of the Comptroller and Auditor General on page 10. In the third paragraph the Comptroller and Auditor General states: "It was not found possible for Regional Valuation Boards to complete the process of valuation laid down by the Act during the period elapsing between the valuation date, 1 January, 1939, and the vesting date, 1 July, 1942, on which compensation be-

came payable." Could you tell us what progress has been made?—(Sir Ernest Gowers.) I expect that they will all be completed about next November. Four have already finished.

3562. In the same paragraph Sir Gilbert makes reference to the interest rate. Could you tell us what the interest rate is?—The interest which we have to pay on the compensation money?

3563. Yes?—£3 os. 11d.

3564. At the end of the paragraph Sir Gilbert states: "Pending the receipt of the

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Sir ERNEST GOWERS, K.C.B., K.B.E.

[Continued.]

certificates from Regional Valuation Boards prescribed in Section 7 (6) of the Act, the Commission were unable to make final payments of compensation but, in pursuance of the provisions of paragraph 19 of the Third Schedule, payments on account of interest and capital totalling £2,483,674 were made during the year." Could you tell us how much of that sum was interest and how much was capital?—I am afraid I cannot. It is impossible to say that until you know what the final figure of the compensation which you are paying to the man to whom you are paying the money is going to be. Until you know that you cannot tell what interest has been accruing. You will see in the Accounts that we have taken a figure for interest, but it is only a guess. On page 4 you will see: "Provision for interest on compensation (gross)," a figure of £1,498,870.

3565. The last three lines of the last paragraph are a little hard to follow. There is an amount of just over £1,000,000 transferred, and then there is a transfer back to capital account, apparently, of £900,000, making a difference, so far as I can see, of just over £100,000. Could you explain that transaction?—May I deal first with the £900,000? The Act provides that since, of course, we have not any revenue, in our opening years we may meet our revenue expenses out of capital up to the vesting date, that is to say, for four years, to 1st July, 1942, and for one year thereafter. We had to decide the extent to which we would take advantage of that discretion, and it was rather difficult to find any particular pointers as to what we should do. We came to the conclusion that it would be a reasonable thing to charge all our expenses to capital until the time when our revenue started to come in at a rate which was balancing the expenditure which we were meeting, and that was the end of 1943. It is true that that was more than we actually needed, but that had this advantage, that it gave us at the end of the year a surplus—that is this £1,032,000—which went automatically into our reserve fund. Frankly, we thought—this was before the four years' peace had been signed in the coal industry—that post-war years in industry are liable to be rather

troublesome, and there was no harm, if we could legitimately do it, in getting £1,000,000 in our reserve fund as quickly as possible, even at the expense of adding £900,000 to our funded debt.

3566. Have the Treasury any comments to make with regard to that statement?—(Sir Herbert Britain.) No. We accepted the considerations which were in the minds of the Coal Commission, and we did not wish to raise any objection to it in the circumstances.

3567. Turning to the figures, I have only one question. On page 4 there is a figure of expenditure of £239,798 in respect of income tax. Could you tell us what your income tax arrangements are?—(Sir Ernest Gowers.) We pay income tax just like any ordinary trading concern on our income, less our deductible expenses.

Chairman.] Are there any questions on the Report of the Comptroller and Audit General or upon the figures?

Mr. Benson.

3568. With regard to the income on page 5 of the Account, there is a figure of £2,660,000 in respect of "Rents, Royalties, etc. (gross)." Is that the maximum figure you are likely to collect?—No. I would ask you to observe two things about that. One is that it is only for nine months, and, secondly, even if you make allowance for that, it is not really any guide to our probable total annual figure, because the accounting periods under which our lessees pay vary very much. There may be some figures in here for a nine-months' period, some for a three-months' period, and so on. On the best estimate I can get, with the output of coal at about its present level, our gross annual revenue ought to be about £4,300,000.

Mr. Touche.

3569. Could you say how many Regional Valuation Boards there are?—There are ten.

Chairman.] Are there any further questions? May I take it that the Account is approved? (Agreed.) Thank you very much, Sir Ernest. That concludes your evidence.

(Sir Ernest Gowers withdrew.)

TREASURY MINUTE ON PARAGRAPH 5 OF THE REPORT OF THE
COMMITTEE OF PUBLIC ACCOUNTS, 1943.

Sir FRANK TRIBE, K.B.E., C.B., called in and examined.

Chairman. We have now the Ministry of Fuel and Power, and our Witness is Sir Frank Tribe. Will Members turn first to the Treasury Minute on paragraph 5 of our Report of last year; this is with regard to the Miners' Welfare General Endowment Fund. It is of a narrative nature. I have no point arising on it. Has any Member any question to ask upon it?

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[Continued.]

CIVIL APPROPRIATION ACCOUNTS (WAR SERVICES), 1942.

CLASS X.

VOTE 9.

MINES DEPARTMENT OF THE BOARD OF TRADE (WAR SERVICES).

VOTE 10.

PETROLEUM DEPARTMENT OF THE BOARD OF TRADE.

VOTE 10A.

MINISTRY OF FUEL AND POWER.

Chairman.

3570. Will Members now turn to the Civil Appropriation Accounts (War Services) 1942, to page xvii, paragraph 43 of the Report of the Comptroller and Auditor General, "Formation and Functions of the Ministry." No point I think arises on paragraph 43. Has any Member of the Committee any questions to ask on paragraph 43? Paragraphs 44 and 45 run together: "Opencast Coal." The Comptroller and Auditor General states, at the beginning of paragraph 44: "The charge to Subhead K includes expenditure of £1,525,325 on the production of coal by opencast methods." Could you please, Sir Frank, give us the main heads of that £1,525,000 odd expenditure?—(Sir Frank Tribe.) Subhead K includes a larger item than this altogether. It includes £1,651,000 odd. Of that, £1,525,000 is opencast coal expenditure.

3571. Could you please tell us the main item in that?—The main item is the expenditure incurred by the Ministry of Fuel and Power during the early stages of the operation of this scheme on prospecting for coal, producing it, stocking it, transporting it, and on royalties, compensation and capital expenditure. I expect the Committee knows what is meant by opencast coal?

3572. Perhaps you will tell us?—Opencast coal is coal that appears near the surface of the ground which in normal peace-times is not operated because it does not produce economic returns. I believe to a very small extent during the last war and to a small extent during the 1926 troubles a certain amount of work was done on getting coal by this means, and in America quite a lot has been done by strip mining methods, which correspond to what we call opencast coal methods. It has nothing to do with deep mining operations. It is performed in quite a different way. It is really a civil engineering process. The work consists, broadly speaking, in the first place of prospecting—in which we have the help of the geological survey and also of conversations with local inhabitants who can tell us

what was done in past times and where rumour has it that there is some coal under the ground. We have also used the Royal Air Force, who take photographs which sometimes reveal underground seams which are not obvious to the naked eye, and then we sink boreholes in order to find out whether the coal is in fact there and what quality it is. That prospecting work and the sinking of the boreholes has during this period cost us roughly 2s. 6d. per ton. Then when we examine the results of the boring, we decide whether it is worth while going on, having regard to all the factors involved—the quality of the coal and the probable cost of excavation. If it is decided to proceed, the first thing to do is by a civil engineering process to strip the top turf off. It is carefully preserved, with a view to being placed back afterwards, so as not to interfere with agricultural operations. Then there is generally a substantial overburden—that is, earth below the top spit, which does not consist of coal and which has to be removed. Then you get to the coal. The overburden generally has a pretty high ratio to the coal. During this period in question the overburden was running at the rate of about 4½ feet to every 1 foot of coal excavated. Then there is the process of refilling the empty hole with the earth, and then the top-spit, so that we can return it to agricultural purposes as rapidly as possible. The total cost of that during this period—that is, when the Ministry of Fuel and Power was in charge—came out at 30s. 11d. per ton.

3573. I think you mentioned that part of this expenditure of £1,525,000 was on capital account. Could you tell us how much was on capital account?—Out of that 30s. 11d. the capital expenditure is about 1s. 5d. per ton. That does not include, I should say, the capital equipment in the sense of the engineering appliances, because they are owned by the engineering contractors, and are paid for in the contract. It is things like laying roads down, and sometimes laying rail access.

3574. But have you the gross figure for capital in the £1,525,000?—No. It would

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[Continued.]

be about the same relation that 1s. 5d. bears to 30s. 11d.

3575. That is a lovely sum!—I could not do it offhand.

3576. It is about £75,000, at a rough shot. At the end of the first sub-paragraph the Comptroller and Auditor General states: "At 31st March, 1943, approximately 1,800,000 tons of this coal had been produced." Have you any later figure of output than that one to the 31st March, 1943?—Fairly soon after the Ministry of Fuel and Power was formed it was decided that this, being a civil engineering process, could better be handled by the Ministry of Works, who had control of civil engineering labour and plant and knowledge of civil engineering contractors, and the work was, therefore, handed over to the Ministry of Works so far as production was concerned. The Ministry of Fuel and Power retained responsibility for the general policy—that is, for deciding what sites should be worked and for disposing of the coal. We have taken out the best figures we can of the combined period from when we started it in November, 1941, to the end of March, 1944, and during that period there have been produced rather over 7,000,000 tons of coal.

3577. I notice a little lower down Sir Gilbert speaks of the general arrangements with regard to the transfer to the Ministry of Works. This took place only as at 25th November, 1942, and, therefore, it was your Ministry who were responsible for eight months of the year under review, was it not?—Yes.

3578. Could you please explain the new arrangements by which you have a certain measure of responsibility for general policy, and you are also responsible, I see from the Comptroller and Auditor General's Report, for the final decision as to the sites to be worked?—The Ministry of Fuel and Power remain responsible for the general policy involved, because the coal produced has to be brought into our coal budget. It is, therefore, responsible for the programme of opencast production. It decides what sites should be worked, though the Ministry of Works arrange actually for the boring to be done by their contractors. We examine the results of the boring and decide whether to proceed. The Ministry of Works then makes arrangements for the extraction of the coal and its transport to disposal points. We take it over at the disposal point, which is generally speaking the railhead, and then the Ministry of Fuel and Power is responsible for its sale.

3579. Although it is rather a dual responsibility, it works all right, does it?—Yes, it works all right. The result is that of course we shall bear in future, as appropriations-in-aid, on the Ministry of Fuel and Power's Vote, all the proceeds of sale, and the Ministry of Works will have no appropriations.

3580. In the third sub-paragraph the Comptroller and Auditor General states: "Contracts were placed by the Mines Department with civil engineering firms for production . . ." Would you please tell us the terms of the contracts?—The contracts, so far as prospecting work is concerned, were the actual prime cost plus 5 per cent. for overheads and profits. But the bigger part of the cost is in production, and there the general contract when we were in charge provided for payment of 2s. 8d. per cubic yard for excavation and replacement of the overburden, and 3s. per ton for excavation of clean coal. That was a rate agreed between us and the Civil Engineering Contractors' Federation as a reasonable rate for that work.

3581. In the same sub-paragraph Sir Gilbert says: "Schedules of prices, operating from 1st April, 1943, negotiated by the latter Ministry" (that is, the Ministry of Works) "are expected to achieve an overall reduction in cost and to simplify administrative control." I appreciate that the schedules of prices were negotiated by the Ministry of Works, but if you know anything about the overall reduction it was expected to achieve, it would interest us, though strictly speaking I gather it is not your responsibility?—Of course, the Ministry of Works had the advantage of the early stage experimentation we had been making, and they have, I understand, slightly revised the basis of contract. Actually, since they have been in operation the cost per ton has not gone down—but it is only fair to say that in the more recent schemes of which they have been in charge the ratio of overburden to coal has been higher than when we were working it; so it is not really possible to compare the two.

3582. In paragraph 45 Sir Gilbert says: "In the disposal of opencast coal the Ministry of Fuel and Power generally utilise the services of the district marketing organisations established under the Coal Mines Act, 1930." Could you tell us something about the district marketing organisations?—Under the Coal Mines Act, 1930, there were set up district executive boards representing the coalowners in each coal mining district, and you will remember that under the 1930 Act there was a rather complicated system of quotas. It was the Act designed to see that the price of coal was maintained at a reasonable level. These district executive boards were given control over the selling of coal—that is, of deep mine coal. We used that same organisation to sell and dispose of opencast coal, partly because we did not want, at that stage of the war, to set up another organisation for the purpose, which would have been unnecessary duplication, and partly because, for psychological reasons, we were very anxious to get over to the public the idea that opencast coal is coal and is not something

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[Continued.]

different from deep mine coal. Therefore, if it is sold by the same agent it is more likely to be effective than if we set up a separate organisation for marketing opencast coal.

3583. Is there much difference between them as fuel?—During the very early stages, when we had not had much experience, I am afraid we did dig up a fair amount of mud and dirt with it, but we soon got over those teething troubles, and now the quality of the opencast coal is generally pretty high. I think I can honestly say that we have now reached the stage when there is a big demand for it. It does not cover all classes of coal. We find very little coking coal by this means, unfortunately, but the coal that is produced is quite up to the standard of deep mined coal.

3584. At the top of page xviii Sir Gilbert says: "Reliable figures as to cost per ton at the various sites are not available until sites have been worked out and restored . . ." Have you any figures at all as to the cost per ton?—Yes. We have taken out the best estimate we can. Of course it is impossible to say at present over what period the capital cost should be amortized, because we do not know how long the scheme will continue; but taking the whole period of operation from when we started up to the end of March last, the cost of production has worked out at 36s. per ton, and the receipts have worked out, including an estimate of the value of the stock on hand, at 22s. 4d., which means a loss of 13s. 8d. on each ton.

3585. I was going to ask you for the trading results. I gather from that that there is a loss of 13s. 8d. per ton, and there are probably other costs in addition which you have not mentioned, are there not?—We have tried to include all the costs in that figure. I think that is a fair estimate, and, of course, it includes stocks in hand of over 1,500,000 tons. If the price of coal rises still further, as it well may in a very short time, those stocks will appreciate in value and the loss will thereby be reduced. Moreover, we have taken a rather conservative basis of amortizing the capital cost, so I think that that is the maximum loss I should like just to say this, that in a sense we ought to be very grateful for the fact that there is a loss on this. If there had not been a loss, quite obviously private enterprise would have worked these seams in peacetime and we should not have had them, and if we had not this opencast coal at the present time, we should be in very serious straits. The other justification I should like to mention for working opencast coal to the maximum is that it involves a very much lower ratio of man-power to coal produced. One man employed on this work can produce about as much coal as seven underground miners working. We hope to get this coal year at

least 10,000,000 tons of opencast, and if we had not got the opencast coal scheme and had had to employ underground miners, we should have had to utilise something like 34,000 or 35,000 more men to get the same amount of coal, and the men would have had to be trained, and frankly I do not think the Ministry of Labour could have given us that number. That is more than the "Bevin boys" we have had so far.

3586. Have the Treasury any comments to make on this?—(Sir Herbert Brittain.) When the Ministry first told us in the autumn of 1941 that they were proposing to embark on this scheme we were rather led to believe that they hoped to see a profit in it and no net cost to us. It was not until about 15 months later that we were told about a prospective loss on it, and that is when we asked them for the report to which the Comptroller and Auditor General refers in his Report. We had that report from them last week, as a matter of fact, and it will have to be studied rather carefully, because there are large actual and prospective figures involved, and we shall no doubt take account of the great advantages to which Sir Frank Tribe has been referring.

Chairman.] Are there any questions on those two paragraphs 44 and 45?

Sir George Davies.

3587. You gave us the production cost as far as you had it as 36s. a ton, I think?—(Sir Frank Tribe.) Yes.

3588. Does that include all this cost of replacement of the overburden and so on?—Yes, it includes the whole of that. Actually, the cost of production itself is 34s. 6d.; we have added on 1s. 6d. because a certain amount of tonnage has had to be written off because it has deteriorated so badly or sunk into the earth. It is a conservative estimate including actual production costs and a certain allowance for writing off inevitable losses. It includes the replacement of the overburden and the best estimate we can give for the reasonable amortization of the capital costs, too.

3589. If you were allowed, as has been the case, unfortunately, in similar industries in the past, to ignore the question of replacement, would opencast coal compare, in production costs, favourably with the deep mine coal? Is the real loss enshrined in the replacement?—It would certainly improve the financial position very considerably. Judging by these earlier figures we got out ourselves, if we did not have to replace the overburden, we might have saved something in the nature of 6s. a ton, which, if applied would reduce the loss from 13s. 8d. to 7s. 8d.

3590. Can you give me any idea of the estimated untapped resources of this opencast coal?—No, except to say that they are far greater than we thought they were

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[Continued.]

two years ago. It depends partly on how deep one likes to go. We now have in this country an American Mission of American mining experts, who are going round looking at these sites, and they feel that in some cases we should go further than we had so far envisaged, and more or less apply mining operations to the bottom of the excavation. There is quite a lot of coal to be got, undoubtedly, but for the moment we are simply getting the coal which can be got most quickly.

3591. Are you making gradual progress with this question of the dirt you were speaking of, so that your final product is now getting very comparable with deep mine coal?—Yes.

3592. Do you sell it under a different terminology, so that everybody knows that they are getting opencast and not deep mine coal?—No, we do not find it necessary to do that now. We did in the early days, but now, especially since we have screening most of this coal, we find that the coal is so much the same as the other than it is sold just as ordinary coal.

3593. You were saying that your responsibility starts where that of the Ministry of Works ceases—that is in the delivery of the coal which you then take as a fuel?—Yes.

3594. Who is responsible for the portable track which, I suppose, has to be laid into these places in order to get the coal out? Do you take it from dumps on the surface or from some point of delivery?—The Ministry of Fuel and Power takes it over at railhead, and it is the Ministry of Works' responsibility to deliver it at railhead. Frequently it is taken by them to sites on which they have screening plants, and those sites are adjoining railway lines. They undertake the screening and deliver it to us when the coal comes from the screening site on to the railhead.

3595. That screening is the debatable no man's land, because it is really a coal getting job and not a Ministry of Works job, is it not?—That is a no-man's land, and no final decision has been reached about that. As a matter of fact, the two Ministers are still discussing it, but at the moment the Ministry of Works are responsible for that, and we take it over at that place. The screening, of course, is to some extent also a civil engineering job. It is not a deep mining job.

Sir John Mellor.

I suppose some of these sites are being worked profitably, are they not?—There is a very big variation, yes. I think some are at a profit and some are at a loss.

3596. Are any being worked privately?—No.

3597. Is there anything to prevent their being worked privately?—I think they would have to get the permission of the Minister to work them, or anyhow to dispose of the coal. As far as I know the question has never arisen in practice.

3598. In the earlier days were not some of them worked privately, or were they always worked for Government account? Take, for instance, the one, which is rather a good one, at Orchard in Warwickshire. Has that always been worked for Government account? Was it not worked for private account in the earlier days?—I am afraid I do not know. That was before the days of this Ministry.

3599. At any rate during the time you can recollect it has all been worked for Government account?—Yes.

3600. Is there any visible difference to the person who is familiar with coal between the best of the surface coal and similar coal from deep mines?—I am told not.

3601. So that even the merchants, when they receive it, may not know whether it is surface coal or ordinary coal?—I think that is so.

3602. With regard to the amortization included in the estimated capital expenditure, do you take the probable life of the particular working, assuming that it is worked until it is exhausted, or do you take a sort of rough estimate of the period during which it is likely to be worth while working it, having regard to the probable duration of the war and such time afterwards as it is likely to be worth working it?—Of course, certain sites we expect to work out quite quickly. Others will probably go on for as long as the war lasts, and one does not know how long they will go on after the war. If there is a European shortage of coal it may well be desirable to continue these operations it may be for several years after the war. So the basis of amortization which has been adopted by the Ministry of Works, as far as I know, proceeds on a different hypothesis in relation to the probable life of each site. But they recognise it is more or less in the nature of an informed guess. There cannot be any accurate estimation of that.

3603. In the cost of production referred to in the first paragraph on page 18, do you include the sum charged in respect of the capital cost of erecting screening plants in cases where screening plants are on the sites?—Yes, that is included.

3604. All fixed plant is to be written off, is it, over the period of the expected life of the working?—Yes.

3605. There is one further question I would like to ask. Is there also included a similar charge for the cost payable in respect of the requisition of the land?—Yes, that is all included.

3606. And for the restoration of the land to its original condition?—Yes.

Mr. Benson.

3607. How much does the compensation per acre paid to the farmer come out at? I do not mean including crops, but just for the land?—I have not the figure of how

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[Continued.]

much it actually costs. Our estimate was that the compensation would be about 1s. 6d. per ton of coal extracted.

3608. Is that included in the price?—Yes.

3609. Is this included in this 36s.?—Yes.

3610. You said that had it not been for the fact that private persons could not work opencast coal before the war the coal would not have been there, and yet you say it is of similar quality, and it is obviously just as easily accessible. Why should there be a loss on these workings?—I suppose it may be partly tradition in this country (we have not had the tradition of strip mining coal to any extent) and partly our experience up to date, anyhow, does show that the cost of working it is considerably in excess of the cost of working deep mine coal.

3611. Why could not this coal be produced by deep mining methods, by driving a foot rule, as it is called, if the quality of the coal is the same?—I do not think it would ever have paid to have gone to the expense of the process of sinking shafts and so on. In most areas of the country there is quite a small amount of this coal, and the whole elaboration of setting up a coal mine for the purpose would probably not have been justified.

3612. You said that you have to go down about $4\frac{1}{2}$ feet for every 1 foot of your seam, on an average?—Yes. It is rather higher than that now. In the early days we were doing that. In the case of the seams which the Ministry of Works have been working recently the ratio of overburden is considerably greater.

3613. How much?—I am told it is often 7 and 8 to 1.

3614. That is the average, taking a middle point?—Yes, I believe so.

3615. When you gave that figure of $4\frac{1}{2}$ feet you also gave another figure of 2s. 8d. per ton per cubic yard of overburden shifted. That means you have $4\frac{1}{2}$ cubic yards to shift for every ton of coal?—Yes.

3616. At 2s. 8d. per ton per cubic yard that works out at only 13s., and another 3s. per cubic yard of coal gives you 16s. for getting the coal; then 2s. 6d. for sinking trial bore holes. That brings the average cost of your coal on the figures you gave up to 18s. 6d. and yet you say that it cost you 34s. 6d. Even if you allow an average of 7 feet depth, that only gives about 7s., and brings it to about 25s.?—I do not think those costs include the transport to railhead, the royalties we have to pay, and the establishment charges of the Ministry of Works. I should like to make it clear that the figures I am quoting since the date when we ceased operation at the end of 1942 are figures supplied by the Ministry of Works, and I am trying to give

the Committee the best information I can. My Ministry is not responsible for these operations at the present time.

3617. There seems to be a pretty big gap. There must be a large number of other items involved. I have worked it out that the cost of lifting the coal on to the dump on the site was about 18s. 6d. on the figures you have given?—The original estimate we made before we started it was 30s. 7d. Actual experience proved that it worked out at 30s. 11d., so the difference is quite small. Our estimate was that prospecting would be 2s. 6d. Turf stripping at 1s. 3d. per cubic yard would be 2s. 6d. The removal of overburden at 2s. 8d. a cubic yard would be 12s. Excavation of the coal itself, 3s. Refilling, 1s. 6d. Then provision of access roads, 9d. That is what you might call the prospecting and productive costs. We added 1s. 9d. for stocking, 3s. for transport to railhead, 5d. for royalties, 1s. 6d. for compensation, 8d. for regional supervision and for capital expenditure, say, 1s.: that amounted to 30s. 7d. That was the estimate on which we started the scheme, and while my Ministry was in charge the actual costs worked out very closely to that, namely, to 30s. 11d.

3618. With regard to the 2s. 8d. that you pay the contractor, have you costed any of their figures to see how it works out in practice?—I cannot say whether the Ministry of Works have done that.

3619. Does the Treasury know?—(Sir Herbert Brittain.) I do not think we have that information at present.

Mr. Benson.] It is a bit difficult, Mr. Chairman, to investigate an operation on this scale, with a loss of this size, when we have not the relevant information.

Chairman.] The Ministry of Works has been responsible for over 18 months, and Sir Frank, naturally, does not know all the details.

Mr. Benson.] I know. What I am suggesting is that it is rather difficult to discuss this particular operation on this particular Vote.

Chairman.] If necessary we must ask the Ministry of Works to come back here in order that we can go into these questions.

Mr. Benson.

3620. I do not want that this year, but I think next year we ought to have a representative from the Ministry of Works, if they are still in charge of the matter, along with the Ministry of Fuel and Power.—(Sir Gilbert Upcott.) The expenditure will appear next year on the Account of the Ministry of Works. (Sir Herbert Brittain.) We have some figures here about the Ministry of Works side. They gave as the general costs of production 26s. 6d., and then added 8s. a ton for

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these miscellaneous items to which Sir Frank has referred. That makes up the 34s. 6d. That is all we have.

3621. The question I was asking was whether they had costed the working costs of the contractors?—I am sorry, but I do not know that.

Mr. Pickethorn.

3622. I did not quite follow one or two points. One point I did not follow was how the cost of replacing the overburden really affected the ultimate cost, because presumably, if you did not replace it, the amount of compensation you would pay would be greater, would it not? Nor do I understand how it affected the comparison with the pre-war *entrepreneur*. I do not know whether you follow what I mean? It seems to me that either you buy the land and use it for nothing else except for taking coal out of it, or, alternatively, you merely take the coal out of it and put it back in as good a state as it was before, and if that is so, I do not follow your calculations about putting back the overburden?—(Sir Frank Tribe.) I was giving the cost of what replacing the overburden would be. No doubt if the overburden were not replaced the compensation would be higher.

3623. From the Treasury point of view the cost is the same, whether or not you put the overburden back?—I think we pay something more for amenity than the mere economic value, but I am not prepared to say what the amenity element in that is.

3624. Could you say what sort of contracts are made with contractors for doing this work? Is it on a basis of their doing it and then getting cost plus something?—I am afraid I cannot say.

3625. That is a question for the other Ministry, is it?—Yes.

3626. Does the same apply to the buying of machinery? Presumably, the Americans, who had done this kind of mining, did have suitable machinery when the war began, and we did not, and presumably we bought from them. But you would not know that either?—No. I am informed that the Ministry of Works has been taking steps to secure some American machinery in this country, but in the early stages, when we did it on a small scale, we used machinery of the same type as that which was used for civil engineering purposes. For any muck excavation you use more or less the same machinery.

3627. You do not know whether or not we have imported American machinery of a specific kind, and, if we have, whether the importation has been wisely or unwisely done?—No.

3628. And with regard to anything we had already in this country when the war began, would it be right to assume that that was stuff which was previously used for

getting ironstone, and that would be the nearest operation which was habitual in this country?—I should imagine so, and rather similar to cement works, too.

3629. In the contracts, were the prices for stripping turf and for removing overburden (a) if it is soft and (b) if it is hard, and so on, at the beginning based upon the prices habitual in the ironstone trade, or how did you get your first rule of thumb figures?—We discussed those prices with the Civil Engineering Contractors Federation, and the arrangements were made on the basis of such experience as they had of similar operations in regard to other types of excavation.

3630. You did not go behind that? You did not know whether the earlier experience was in ironstone excavation, and, if so, how the prices compared?—This was before the Ministry was created, it was in the old Mines Department days, under the Board of Trade. I cannot speak from any personal knowledge. I was not there.

3631. Would you be good enough to tell me again what were the rule of thumb prices for removing a cubic foot of turf, a cubic foot of soft earth, a cubic foot of rock? You did give them, I think.—Yes. The schedule of prices provided for 2s. 8d. per cubic yard for excavation and replacement of overburden, and 3s. per ton for excavation of clean coal. So there was a financial incentive to produce the coal clean.

3632. Has there been any production of this coal which has proved unsaleable?—A certain amount. That is included in the figures I gave of tonnage written off. In the early stages a certain amount was brought up which we found it almost impossible to dispose of; but it was a very small amount.

3633. What happened to that? Did you give it away or dump it in the North Sea?—I am afraid I cannot say.

Mr. Benson.

3634. May I put one further question? I think Sir Frank gave a figure for the cost of replacing the overburden.—2s. 8d. per cubic yard. That was both for excavating and replacing it.

3635. Was there not another figure for stripping off the turf?—Apart from the overburden we did allow 1s. 3d. per cubic yard for turf stripping.

3636. Did you not also give us a figure as to what it actually cost to replace the overburden?—No, I do not think I gave an actual expenditure figure on that.

3637. What was the compensation per acre paid to the farmer?—The compensation figure which we estimated was 1s. 6d. per ton.

3638. That is approximately 1s. 6d. per cubic yard if you are working a 3-foot seam, and then in addition to that there is the

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turf removal. If you take that at 6d., that gives you 2s. a yard, and that works out at about £450 an acre for agricultural land, which is worth anything from £50 to £60 an acre. It does not seem a very profitable transaction.—We have taken some land which is not purely agricultural land.

Mr. Benson. Have you ever taken land which is ripe building land on the outskirts of a city, which runs to £400 an acre? Mr. Chairman, might we have a paper on it?

Chairman.] I gather that we are going to have the Ministry of Works—or are you content to have it next year?

Mr. Benson.] Have we had the Ministry of Works?

Chairman.

3639. Sir Gilbert, shall we have an opportunity of raising this question with the Ministry of Works?—(Sir Gilbert Upcott.) Not until next year, unless you summon them specially.

Chairman.] Would you prefer, Mr. Benson, that detailed figures were obtained by Sir Frank, either from his own office, or, if he has not got them, from the Ministry of Works?

Mr. Benson.] Yes, of the cost of replacing the overburden, the cost of compensation to the farmer, and the additional cost of turf stripping. What I want to get at is roughly what you could save if you just abandoned the land. On your figures it seems to work out somewhere in the neighbourhood of 2s. per square yard, which is £480 an acre. It seems to me a colossal figure for what is, as I know, in some cases in my own constituency, purely agricultural land.

Chairman.] Perhaps you will look into this, Sir Frank, please.

Mr. Pichthorn.] May I ask for some further information, if we are to return to this matter, either with the present Ministry or the Ministry of Works, or both at once.

Chairman.] We are not going to return to it this year.

Mr. Pichthorn.] Then I should like to ask some questions now.

Chairman.] It is quite likely the Witness has not the information, but if you will put your questions they will appear in the shorthand note, and if Sir Frank has not the information he will take steps to see that the Ministry of Works provides him with it, and he will let us have it. Is it, not the best way to deal with it?

Mr. Pichthorn.

3649. One question I should like to ask is whether there have been any sites where the survey has proved at all seriously wrong—where there has proved not to be any coal?—Many sites on which we have

dug have proved to have either no coal, or no coal that is worth digging. The number of sites prospected has been very greatly in excess of the number of sites worked.

3641. I meant sites on which there has been a considerable expenditure which has not yielded a considerable amount of coal. Are there many such sites?—I can find that out.

3642. Then I should also like to know whether there has been any comparison between the cost of getting a cubic foot of coal under this method with the cost of getting a cubic foot of ironstone, which is a long established process?—I will get the comparable figures if I can.

Mr. Pichthorn.] And I should like to know what the rule of thumb prices have been per cubic yard where it has not been soft—per cubic yard of rock, for instance. Presumably there must have been rule of thumb figures.

Chairman.

3643. That information you will be able to secure, will you not?—I will do my best.

Sir John Mellor.

3644. Could this be added, too: I take it that separate accounts are kept in respect of each site?—Yes.

Sir John Mellor.] So could we have also, Mr. Chairman, some information with regard to the sites where there has been a heavy loss?

Chairman.

3645. You will have to look into that?—Yes. I will certainly ask the Ministry of Works to produce anything that the Committee wants. Would you like me to make myself responsible for obtaining this information and transmitting it to you, or shall I ask the Accounting Officer of the Ministry of Works to transmit it to you?*

Chairman.

3646. I think that is up to you. We want the information one way or the other, and so long as we get it, that is our interest. You had better ask the Accounting Officer for it. Are there any further questions on paragraphs 44 and 45? We pass to paragraph 46: "Prices of Petroleum Products." The Comptroller and Auditor General, in the second sub-paragraph, says: "In paragraph 54 of my last Report I mentioned that the value to be placed upon the capital employed by the Board and the rates of profit to be allowed thereon had been determined. The reconstruction of the Board's accounts necessary as a result of these decisions has not yet been completed, but a report recently rendered by the firm of accountants employed by the Ministry on the trading results of the Board for the period from 3rd September, 1939, to 30th June, 1943, indicates that a substantial surplus had been accumulated at the latter

*See Appendix No. 16.

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date." Could you tell us something about that report indicating a substantial surplus?—Yes. I described to the Committee last year the basis of the financial arrangements with the Petroleum Board, and I then explained that my Minister had put before the Board in November, 1942, a memorandum indicating the basis of remuneration suggested. That was not, at first sight, acceptable to the Board, and various negotiations took place, but finally my Minister insisted that the terms of his memorandum should be operative. It has involved many detailed discussions, not only with the firm and its accountants, but with other Government Departments, but nearly all the outstanding points have now been cleared up, and we hope to get the final accounts up to the end of 1942 quite shortly. On the particular point mentioned about the surplus, the Accountant's report up to the end of December, 1943, which is still subject to examination on certain of these minor points, shows that, broadly speaking, up to the end of December, 1942, there was a surplus of about £7,900,000. During the next six months—that is January to June of last year—there was a trading deficit of £1,200,000, which reduced the surplus at the end of June last to about £6,700,000—call it 6½ million pounds. So far as the last six months of last year were concerned, the accounts just about broke even, so that that means for that period we have to consider a non-recurring surplus of approximately 6½ millions. We have been discussing with the Board and the Treasury how that surplus should be disposed of. It is agreed that it should be disposed of by means of reducing the prices of certain oil products, but in the meantime I am sorry to say that certain complications have arisen, owing to the rather difficult position of the Board in relation to the Inland Revenue, and that is being examined further by the Inland Revenue Department at the moment, and the Treasury have agreed that we should not take any steps to wipe off this non-recurring surplus until the taxation position has been cleared up. I should say that in the meantime, as far as this year is concerned, there has been a reduction in freights and insurance which we had hoped would have produced a recurring surplus as from 1st April, and we have been examining the question whether that should be dealt with by a reduction in the price of the products, but as there is a possibility of a countervailing rise in prices in America we are holding our hands at the moment. But we have this very much in hand, and the moment an opportunity arises we shall adjust the price of different petroleum products so, as to wipe out any surplus there may be.

3647. Are there any questions on paragraph 46? We pass to paragraph 47: "Petroleum Schemes Abroad." With regard to these petroleum schemes, it may

well be that questions will be asked and answers given which it will be undesirable to publish from the security point of view, and if you wish to take anything out from the note, from that point of view, you are at liberty, of course, to do so. Paragraphs 47 and 48 we can take together. In the first line of paragraph 47 the Comptroller and Auditor General makes mention of the inclusion in Subhead N of a sum of nearly £2,000,000 in respect of constructional schemes. Could you tell us something about those, please?—These are constructional schemes abroad. I understand that if I say anything of a secret nature I can remove it from the record?

3648. Yes, I have just said so?—These constructional schemes amount to £1,935,000. The greater part of that, £1,300,000, is dealt with in the second sub-paragraph of paragraph 48, and is in respect of extensions to an oil installation in the Middle East. The other big item is a figure of £635,000, which is referred to in the first sub-paragraph of paragraph 48, and that deals with the provision of certain oil distribution facilities in two areas of the Middle East.

3649. On paragraph 48 you have mentioned the plant at two places. Could you tell us to whom they belong? Do they belong to the British Government?—I do not know if the Committee would like to have a sight of a secret map I have here, which explains these services. Some of the names are rather unpronounceable. (*The map was handed to the Committee.*) It became necessary to modify and amplify considerably the systems for oil distribution in the two areas. As a result of the military authorities requesting us, we undertook in the Ministry of Fuel and Power to arrange for the extension of the existing services and the construction of new facilities as well as the provision of extra storage capacity. With one minor exception the whole of the work was entrusted to an Oil Company, acting as agents of the Ministry of Fuel and Power. They, of course, had all the local experience; they had a knowledge of local contractors and of means of getting local labour, which it was by no means easy to get.

3650. In the second sub-paragraph of paragraph 48, the Comptroller and Auditor General says: "The remaining £1,300,000 relates to progress payments in respect of a grant of 40 per cent. of the cost of certain plant extensions, then estimated to cost £5,500,000. The grant was to be repaid without interest from the proceeds of a royalty over a period of years on sales of the products of the extensions." Could you tell us about the royalty? [*The witness gave details of the plant extensions.*] We have been negotiating with the Oil Company as to the basis of remuneration. They have not pressed for any payment in respect of their original programme, but it has been decided that really it is best to amal-

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gamate the finances of all the extensions, and the proposal is that His Majesty's Government should make a contribution of a percentage of the capital cost, and that as a result the Oil Company should pay to the British Government—that is the Ministry of Fuel and Power—20 per cent. of the selling price of the products in excess of the comparatively small quantity they would have produced if there had been no extensions at all. That is the royalty referred to.

3651. In the same sub-paragraph Sir Gilbert mentions that the terms to be attached to this grant have not been settled yet. Those are, I imagine, what you have just been speaking to us about?—Yes. We have got very near to completion. There, again, it is being held up owing to certain difficulties of taxation. If it had not been for Inland Revenue difficulties I think we should have reached agreement by now, on a basis which, I might inform the Committee, would be, I hope, quite profitable to the British Government. Our total commitments under it will probably be about £6,000,000, and if the extensions are used to full capacity we should be getting an income of £2,000,000 a year.

3652. In the third sub-paragraph on page xix Sir Gilbert states: "The expenditure on these extensions includes substantial payments in the United Kingdom and America for plant and machinery." Could you give us an idea of the figures? It is we who are paying, I presume?—The purchase had to be partly in the United Kingdom and partly abroad.

3653. Have you a figure?—Apart from the fact that our total liabilities for the scheme would be about £12,000,000, I am afraid I have not figures here of the actual payments in the United Kingdom.

3654. Or in America?—Or in America.

Chairman.] Are there any questions on paragraphs 47 and 48?

Mr. Benson.

3655. I am afraid I failed to follow your reference to royalties and a subsequent reference to an income of £2,000,000 a year if the extensions were fully used. The income of £2,000,000 was different from the royalty to which you referred, I take it?—No.

3656. Then it is not income; it is a repayment of royalties? Is that correct?—Could I put it in this way, that the terms which we have suggested to the company and which, subject to any trouble over the taxation position, will be agreed, are these, that the British Government will contribute 50 per cent. of the capital cost of all the three extensions that from the 1st April, 1943, up till the 1st April, 1950, or the official termination of the emergency, whichever is the later, the company will make payments to the Government equivalent to 20 per cent. of the selling price

of all products in excess of what they would have produced from their original pre-war scheme.

3657. That is the royalty?—Those payments are not to be subject to any upper monetary limit, and the rate of payment will only be reviewed if the selling price falls below a certain figure. That is what is meant by the royalty over a period of years on sales of the products.

3658. But that royalty is for the purpose of repaying the grant. It is a repayment of money advanced and not income in the true sense of the word?—Yes; the plant is to remain the property of the Oil Company, and they have made this agreement with us, whereby in a full year of production, the figure of royalties paid would amount to £2,000,000 a year.

3659. You used the word "income," and that is what puzzled me.—I am sorry. I should have said the total of royalties received.

3660. It is repayment of royalty?—Yes.

3661. You are not accustomed to lending companies large sums of money without interest?—They would not of their own accord have entered into any of these commitments. It has not paid them. It was not a commercial proposition to extend the plant to this extent. It is purely a wartime measure, and they would not have extended up to anything like the projected capacity. That is done at the request of the Government. Instead of the Government itself doing it, they were asked to do it, because they had all the knowledge and experience on the spot. (Sir *Herbert Brittain.*) It is very much like similar grants to a Ministry of Supply factory.

Chairman.

3662. Are there any further questions on paragraphs 47 or 48? We pass to paragraph 49: "Purchase of Tinplate, etc." Sir Gilbert mentions in the first sub-paragraph that the two oil companies who made purchases of tinplate on behalf of the Ministry undertook to make sales to the Services and to civil consumers. Could you tell us in what circumstances you sold to civilians?—(Sir *Frank Tribe.*) Yes, quite a small amount of sale is to civilians. In normal times the oil companies hold at these overseas depots certain amounts of tinplates and drum sheet and other materials required in order to make oil and petrol containers. The war came and for military purposes we had to see to it that there was a big increase in the amount of these oil drums and containers which were produced not only for carrying oil but also water. So we made use of the existing arrangements of the oil companies at their overseas depots. The arrangement we made with them was that the companies would maintain their stocks at a level which was double that necessary in peace-time, and

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stocks over that limit should be maintained by the Government, the companies obtaining their stocks that they required from Government stocks. So we did not interfere with the extent to which the companies were already dealing with civilian consumers in those areas, although, of course, the big extension was for Government purposes.

3663. In the next sub-paragraph Sir Gilbert states that a report from the professional accountants on the transactions in one of the two principal areas concerned is now under consideration by the Ministry. Has any decision been arrived at in regard to that?—Yes. This is the report on one of the two principal areas, that is to say the one referred to in the second sub-paragraph of paragraph 49. That report has been received from the firm of accountants operating for us, and it has been under consideration. The stock-taking has been examined, and although there has been a certain amount of discrepancy between stocks and records, I am told it is mostly due to confusion between similar packages, and the net adjustment reveals a surplus actually in our favour of more than £3,000 on a turnover of nearly £5,000,000. It is only an adjustment of .06 per cent.—which shows a really very satisfactory position in the circumstances.

3664. Sir Gilbert states: "I understand that reconciliation of the stock with the accounting record is still in progress."—That is still in progress and being carried out mainly by the War Office. That is a much more difficult thing. The last sub-paragraph of paragraph 49 refers to Egypt, and the position was very confused because all this took place during the fighting in Egypt and the battles that were going on there.

Chairman.] Are there any questions on paragraph 49?

Sir George Davies.

3665. Sir Gilbert in his report states that "the companies have undertaken to maintain their own stocks at a specified figure." Was that specified figure what you were indicating was approximately double what they had been accustomed to before?—Yes.

3666. In the final sub-paragraph Sir Gilbert states: "In the other area the Ministry stocks were taken over by the Army authorities." What was the reason for the Army authorities concerning themselves with one particular case?—The reason was that in Egypt at that time the enemy were very near, and the whole thing was in a hopeless state of confusion, because the Army and the Navy were requisitioning our ships that were carrying this stock. They dumped our supplies on the sides of the Suez Canal if they wanted the ships for other purposes. Everything was in a state of chaos, with the Germans only a few

miles away. Fortunately, similar conditions did not prevail in the other areas, where we were able to make more normal civilian arrangements.

3667. It was a war emergency?—Yes, a pure war emergency.

Chairman.

3668. Are there any further questions on that paragraph? We can take the next four paragraphs, 50 to 53, together: "Coal Charges Account." The phrase in line 3 of paragraph 50 is rather a technical one: "The Coal Charges Order . . . imposed a levy of 7d. per ton on the coal supply of all colliery undertakings." Could you tell us what that phrase that is used means? If you cannot I will ask Sir Gilbert, because it is his phrase, not yours?—Broadly speaking, it means the coal produced at each colliery.

3669. It is production?—Yes, production of coal. (*Sir Gilbert Upcott.*) It is the sales, I think.

3670. Is it the sales from the collieries?—(*Sir Frank Tribe.*) Yes; it is the sales from the collieries.

3671. Towards the end of paragraph 50 the nature of the price allowances is mentioned—"The increase was designed to meet *inter alia* part of the cost of the output bonus and to permit of price allowances being paid in augmentation of district receipts. . . ."—Would you like me to say something about this?

3672. What was the nature of those price allowances?—It is a little difficult to explain this without a little bit of background. During this war the Government have not taken financial control of the coal mining industry. That is where we differ from what happened in the last war. At the same time, from the outset of the war, the Government have had price control over the pithead prices of coal and also over the selling prices. Therefore the Government, obviously, have some obligation to maintain the owners' credit balance, in so far as we control the price at which coal could be sold. In the first two years of the war there were certain increased charges, but these were distributed in the normal peacetime method, except for some very minor adjustments which were made in regard to the war levy scheme administered by the industry itself. But very shortly after the Ministry of Fuel was created the Committee will remember that there was a very substantial rise awarded by Lord Greene's Board to all miners, irrespective of the financial position of the colliery undertaking in which they were engaged. It was impossible for a rise of that nature to be borne equitably by all the different colliery undertakings. In some cases the output per mine is very much in excess of that at other pits, and it was, therefore, necessary that there should be some basis whereby the increased cost which had been awarded on a national

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basis should be spread over the different undertakings in the industry. At the same time the Government had, for the reasons I have explained, assumed a responsibility for maintaining a reasonable credit balance of the industry itself. The system adopted, therefore, was to use the existing machinery set up under the 1930 Act, which operates through the Central Council of Colliery Owners and District Executive Boards, and it was decided that we should aim, by adjusting the price of coal, at a credit balance of 1s. 9d. per ton for the industry as a whole. We did not guarantee that credit balance for each individual undertaking; to have done so would have meant assuming full financial control, and would have removed all financial incentive from the individual undertaking. But it was obviously wrong to say that there should be a uniform credit balance over the whole industry. Before the war some districts had been making far bigger profits than other districts. So we said to the coalowners: "We are prepared, by adjusting the price of coal, to maintain a credit balance approximating to 1s. 9d. spread over the country as a whole. Will you suggest to us how that should be divided between the different districts on a basis proportional, not necessarily arithmetically, but a reasonable basis, having regard to pre-war profits?" They submitted proposals to us which we approved as to how that 1s. 9d. should be split up, and it is done by means of this price allowance which is a district price allowance, so each district gets so much price allowance from the Coal Charges Account in order to bring it up to a reasonable credit balance for that particular district.

3673. In the next sub-paragraph mention is made of machinery set up by the Central Council. That is what you have been telling us about?—Yes.

3674. As to the measure of control which you have, I see that you have a representative on the Central Council. That works, from your point of view, satisfactorily, from the control angle?—We provide the Chairman of a Committee of the Central Council which decides one small part of this, and that is the allocation of grants to necessary pits. That is the point you are referring to, I think. We find the Central Council machinery working satisfactorily, and we have accepted their auditors to examine all their financial transactions on our behalf.

3675. In the next sub-paragraph there is mention of the audit arrangements. As Accounting Officer you are satisfied in regard to these audit arrangements?—I am satisfied that they are as good as we can reasonably expect them to be, having regard to the great shortage of accountants in this country. There is, I confess, a rather larger lag in the audit of some of these accounts than I should like, but the number of accountant firms who are able

to tackle this is limited, and on the whole there are not very big arrears of audit.

3676. Have you any comment to make about this, Sir Gilbert?—(Sir Gilbert Upcott.) The accountancy structure of the coal industry is very complex. It has been built up, I think, on the basis of the original scheme for the ascertainment of wages and profits. There are, I think, nearly one dozen firms of accountants which carry out an audit of about 800 undertakings leading up to the Central Council, and it would be quite impracticable, even if it were desirable, for my officers to attempt to do every one or even to make any extensive test examination of such an extremely elaborate and complicated accounting system. Therefore I have accepted the audit of the professional accountants, subject to examination of their reports on which I should raise any point which seemed to me to require further investigation. So far I have nothing to which I think I ought to invite the attention of the Committee, except one general question, and that is that, as it seems to me, under the system which at present prevails, by which the collieries are allowed to set off their price allowances against the coal levy and pay over a net sum, there has been a considerable delay in the initiation of the collection and a considerable time lag in the getting in of the receipts. That involves advances from the Exchequer which, on the latest information, appear to be increasing rather than being diminished.

3677. In paragraph 53, Sir Frank, the Comptroller and Auditor General states: "The Treasury have decided that the advances should normally be subject to interest at 4 per cent. per annum but have agreed to waive the charge on £5,000,000." Could you tell us why?—(Sir Frank Tribe.) Yes. It is connected with the point which the Comptroller and Auditor General has just mentioned. The Greene Board made their Award near the end of June, 1942, but it was decided to make it retrospective to the beginning of June, 1942. At that time also we had to set up this organisation which I have been describing for the collection of this levy. As Sir Gilbert has suggested, the question did arise as to whether we should be justified in making the collection on a net basis or a gross basis, and the discussion of that—which involved rather high legal considerations—did take some little time. The result was that we were not able to begin collecting the money actually until some little time after the liabilities under the Board's Award became due. That £2,000,000 represented the Greene Board wages during June. There were arrears of levy not collected at the end of March, 1943, of £1,000,000, and, of course, there is always bound to be a lag in the payment of the levy. For one thing we give to the colliery companies a month's period

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of grace, but on the whole we have tightened up on the lag, and there is a reduction of actual arrears from the £971,000 mentioned in the Report to only £371,000 at the present time. But the Treasury, having regard to all the circumstances, decided that it was reasonable that the advances to meet some of these initial costs should be free of interest, although the Ministry of Fuel and Power has always been insistent that the whole scheme should be run on the basis that there was no subsidy from the Exchequer involved. That is why all these charges are borne out of the account ultimately by the consumer of coal and there are no Exchequer subsidies. It is true the loans have been growing, as mentioned, and they stand at present, I am sorry to say, at about £20,000,000. That is largely because there have been subsequent very substantial increases in the Awards to the miners and there has not yet been a corresponding increase in the price of coal.

3678. Are these arrears recoverable? In practice they are not, are they?—Yes, they are recoverable by our raising the prices of coal and raising the levy under the Coal Charges Account. That has taken place with the approval of Parliament from time to time. It has been raised as you will remember—3s. 7d., 5s., and 8s., and I am afraid very shortly it will have to go up still further. By that means we increase the price of coal, and at the same time we increase the levy which we charge on colliery undertakings, and though for the moment we are running into arrears on the loan we hope that by raising the levy further in the pretty near future we shall be able to pay off those loans which we have borrowed temporarily from the Treasury to meet the advances we have had to make owing mainly to the increase in miners' wages and the decreased productivity of the industry, and, to a certain extent, to the strikes which have taken place, all of which have increased the cost of production. We hope, as I say, to raise the price in order to pay off our borrowed money within a reasonable period.

3679. I gather there has been no avoidable delay in collecting the levy; it has been due to legal and other reasons?—Yes.

3680. Over the page there is mention of the Special Purposes Section of the account, which Sir Gilbert says: "is concerned with the purchase of mining plant and equipment for issue to colliery undertakings." Could you tell us a little more about that?—This is quite a separate part of the account and deals only with Exchequer money—Vote moneys—and not with a levy on the industry. It is shown as a special account under the Coal Charges Account rather than in the main Vote, because it was felt desirable to keep all the grants for assistance to the industry separate. It is a fund devoted to the way in which we shall expend up to £3,000,000, which the Treasury authorised,

in the installation of mechanisation in the coal mines in order to produce more coal. The Fund borrows money from the Treasury at 4 per cent. interest, and it hires out plant to colliery undertakings which need it and charges them interest also at 4 per cent., plus depreciation, which is calculated to pay off the cost in a reasonable time. Therefore this part of the Fund should eventually be self-supporting.

3681. You say "a reasonable time." What sort of time?—One does not know whether this will be continued after the war. It depends upon the decision of Parliament as to the future structure of the industry.

Chairman.] Are there any questions on those paragraphs 50 to 54 inclusive?

Sir John Mellor.

3682. I understood you to say, Sir Frank, that it was the intention of the Ministry to recover these advances by increasing the price of coal in due course, and increasing the levy also on the colliery undertakings. I think you said it required the approval of Parliament to increase the price of coal. In what form is the approval of Parliament obtained?—No, we have not to come to Parliament to increase the price of coal, but we have to get an Order approved by Parliament to increase the levy on the undertaking. It is presented in the form of Statutory Rules and Orders such as those quoted in paragraph 50 of the Report of the Comptroller and Auditor General, and these are submitted to and approved by Parliament.

3683. So that from the point of view of recovering the advances it is no use increasing the price of coal until you have authority to increase the levy?—That is so.

3684. The two will be done simultaneously?—Yes, they have to come together.

Mr. Benson.

3685. There has been an increase of about £20,000,000 in the amount owing to the Fund over the year, has there not?—Yes. (*Sir Gilbert Upcott.*) Owing by the Fund to the Exchequer.

3686. Yes—owing by the Fund to the Exchequer. How much of that is due to the delay of the colliery companies in handing over?—(*Sir Frank Tribe.*) The arrears which are mentioned as £971,000 in Note A to the Account have been reduced during the year from £971,000 to £371,000.

3687. Yes; I was not sure that that £371,000 referred to this Account?—Yes, the £371,000 now corresponds to the £971,000 there. The arrears are quite negligible in comparison with the vast figures with which we are dealing, but at any one time—on any day almost—there is a large sum of money outstanding, because the wages have to be paid precisely on the day on which they are due, but the levy does not become payable until a month

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[Continued.]

after the period in respect of which it is levied. (Sir Gilbert Upcott.) That note mentions that in addition to the £971,000 outstanding at 31st March, 1943, there was £5,558,000 which was in respect of the year but became payable after the 31st March. (Sir Frank Tribe.) Yes, that would always be so. There will always be a large sum due because wages are paid on the day, but the levy is not payable to us until a month afterwards. There will always be that lag.

3688. In addition to that there is the £300,000 which ought to have been paid and which has not been paid. Otherwise the £5,000,000, or whatever it is, is in process of collection, so to speak—is not yet due?—Yes, but the big increase to which you were referring, £20,000,000, has nothing to do with this.

3689. No, that is due to the fact that you have not taken steps to raise the price of coal?—Yes.

3690. The figures I want to get are the £5,000,000 that is owing but not yet due, and £300,000—?—(Sir Gilbert Upcott.) I suggest it is due. (Sir Frank Tribe.) The £371,000 is due. I think we have had one bad debt which we have written off, but we do proceed in the last resort by taking legal process to recover this, and as I say, the steps we have taken to secure the payment of outstanding debts to us has been to that extent satisfactory, that we have reduced the figure by that amount during that year, and we are continuing that process, and the amounts which, so to speak, ought to have been paid but have not been paid are, I should be prepared to say, quite small.

Sir Irving Albery.

3691. I understood you to say that the financial control of the industry has not been taken over. I would understand that as regards any individual company, but would you maintain that the financial control of the industry as a whole has not been taken over?—It is a common way in which it is expressed. Undoubtedly the Government have financial control of the industry as a whole, but we have not done as we did in the last war, taken control of each undertaking.

Chairman.

3692. Are there any further questions on those paragraphs? We pass to paragraph 54: "Miners' Welfare Fund Account." Have you anything to say about the development of this Fund? Is it going on all right?—The particular rehabilitation part of it?

3693. Is it going on all right?—The Miners' Welfare Commission are really doing a very good bit of work in making use of the Special Defence Regulation which was passed at the beginning of the war, enabling them to use their pithead bath fund for purposes other than pithead baths. At

our request nearly two years ago now they undertook to provide rehabilitation centres for miners in areas where there were not already facilities through the emergency hospitals scheme of the Ministry of Health for dealing with them. So they have not had to cover the whole country and in some areas, as mentioned in the last subparagraph of this paragraph, at Glénéagles they have made use of an existing hospital of the emergency hospital service.

Chairman.] Are there any questions on paragraph 54?

Sir George Davies.

3694. In regard to the substitution of this treatment—the rehabilitation of miners instead of pithead baths, which was the original conception—I suppose primarily that change is because of the shortage or absence of material and labour for the development of the pithead bath idea?—Yes. At the beginning of the war the Miners' Welfare Commission agreed with the Government that they would not be justified in pursuing their full pithead bath programme because of the greater urgency of other things, but it was felt by the Government two years ago that these rehabilitations were an actual wartime need, because to a large extent they enable miners who have been injured to return to the industry and work.

Sir John Mellor.

3695. Why should this be done only under emergency powers, because if it was considered to be more advantageous to the mining industry to have these rehabilitation centres and so on rather than pithead baths, why was not power taken to do it under the existing scheme, as distinct from any question of war-time emergency powers?—The answer to that, shortly, is that Parliament has laid it down in various Acts it has passed from time to time that the funds of the Miners' Welfare Commission should be divided into two parts, one, money derived mainly from an output levy on coal, and the other from a royalties welfare levy. By Statute, their funds are divided into two parts. One fund it was laid down by Parliament before the war should be devoted only to pithead baths. That fund has a much bigger income than the other fund, and when that fund with its big income could not spend any money on pithead baths during the war a Defence Regulation was passed to enable that particular fund of this Commission to be used for purposes other than pithead baths. That is the only reason. They could have done it all along, without any statutory provision, out of their general funds, but their general funds were not sufficient, and, therefore, they had to use funds which Parliament had allocated to pithead baths.

3696. The justification was on the ground of shortage of materials and labour for constructing the pithead baths?—Yes.

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[Continued.]

3697. When that has ceased to be a difficulty, presumably it is the intention of the Ministry that the original conception will be continued?—Most certainly, and the Committee will remember at the end of last year Parliament passed a short Act to give the Commission the necessary funds for this purpose, by continuing the levy at the rate of a rd. instead of a $\frac{1}{2}$ d. up till 1951.

Sir Frank Sanderson.

3698. Can you state whether miners make any contribution towards the Miners' Welfare Fund?—The miners do not contribute to the main Welfare Fund. The main Welfare Fund is used mainly for providing capital assets. For instance, to take a bath, a bath is established, but a pithead bath, having been established, is not maintained by the Miners' Welfare Commission, but is maintained by local contributions which are forthcoming sometimes mainly and sometimes to a lesser extent from the miners themselves. The practice differs in different pits as to the proportions in which the cost is borne by the miners and by the owners.

Chairman.

3699. Are there any further questions on paragraph 54? We pass to the figures which are on page 24 onwards. In the case of each of the accounts, on page 24 and on page 25, the amount of surplus to be surrendered is £10 only. In Vote 10A on page 26 Sub-head J. is: "Expenses in connection with the Distribution and Maintenance of Supplies of Coal," a figure of nearly £3,000,000. That, I find, is an increase of £500,000 on the year before. Could you give us the reason for that?—This Sub-head J is almost entirely on transport subsidies. £2,664,000 out of that £2,903,000 is in respect of transport subsidies, and they arise, as I think I told the Committee last year, partly through having to subsidise shipping freights and partly through Government-directed coal, which is taken out of its normal channels and sent to a district to which it would not normally have been sent. During this year we had to do more of that diversion than we did in the year before.

3700. Subhead P on page 27 is: "Loans to necessitous Undertakings," a figure of £278,000. What was the main one there?—A gas undertaking. Of that £278,000, a sum of £241,000 is for the Commercial Gas Company, an unfortunate company which operated before the war in the worst parts of the East End of London and the greater parts of its clientele were washed out by the blitz. It was necessary to maintain the company in existence because the houses which remained in that area depended upon it, but it was without any financial resources, and we have had to come to its aid to keep the gas supplies going to the East End of London.

3701. A little lower down on the same page, in the Details of Receipts, there is an item: "Sale of Reserve Stocks of Motor Spirit," a figure of £475,476. Are you selling reserve stocks?—The Committee will remember that before the war Parliament passed an Act called the Essential Commodities Reserves Act, which enabled the Government, in anticipation of the war, to lay in reserve stocks of different commodities. Under that we laid in about 103,000 tons of motor spirit. In 1941—the year before this—the stock position of oil in this country became very serious, largely owing to the submarine campaign, and it was decided to use this reserve stock, and, therefore, it was sold to the Petroleum Board in order to meet the essential requirements and was pooled with the rest of the Board's stock. That is how we obtained this income—by selling this stock to the Petroleum Board. It was decided not to renew the stocks afterwards, because by then there had been set up the whole system of the Petroleum Board, working very closely with the Government, and it was not necessary to have any separately kept reserves.

3702. The next item amused me a little bit, because I could not see why the Ministry of Fuel and Power should repatriate Italian civilians from East Africa, and the item is: "Payment by Italian Government on account of Expenses of Repatriation of Italian Civilians from East Africa." It seems rather far away from your normal activities?—It is rather amusing, if I may tell you about this. You will remember that we had a military campaign in East Africa, and after that the Government agreed to repatriate Italian civilians from that area. The Italian Government undertook to provide the necessary transport and to meet the costs involved. For that purpose the Italians provided four oil-burning liners and a certain number of tankers to carry the oil where it was needed. The liners made three voyages between Italy and East Africa via the Cape of Good Hope, and some 28,000 civilians were by that means repatriated.

3703. To Italy?—Yes. They were taken back to Italy in these three ships. The ships were oil burning and the largest item in the cost was the provision of oil fuel. Other Departments were also concerned—the Ministry of War Transport, the Admiralty, and the War Office—but the Treasury asked us, as we were the Ministry which had the biggest financial interest involved, to be responsible for the whole of it. Naturally, we hung on to the ships until we got our money. The money was paid in Swiss francs through our Legation at Berne and resulted in our getting £677,000, of which we bring £100,000 to account in this Account.

3704. What happened to the rest? Have the other Departments got it?—Either we or the other Departments will get it. I think it was not all done in this year.

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[Continued.]

3705. The country, anyhow, has got the benefit of the other £500,000 odd?—Yes, and we did not release the liners until we were quite certain that the British Government had the last penny due to them.

Chairman.] Are there any questions on the figures?

Sir George Davies.

3706. How could you keep control of the liners when they were in Italy? I conclude that they went to Italy?—My impression is that we landed them at a Spanish port and let the Spanish transfer them.

Sir Frank Sanderson.

3707. On page 26, Subhead K is: "Measures for Increasing Production of Coal," an expenditure of £1,651,000 odd. Does that include the cost of special machinery or is it purely the cost of surveying?—Subhead K is nearly all the open-cast mining operations. £1,525,000 out of that is open-cast coal operations which were mentioned earlier on. Of the balance, £97,000 is assistance to colliery undertakings which had got into financial troubles, but had to be kept going for the sake of production, and there were some grants and the expenses of delegates.

3708. When you use the expression "open-cast" do you refer to the same thing as I refer to when I say: "surface coal"?—Yes, outcrop, if you like.

Mr. Glenuil Hall.

3709. Subhead P on page 27: "Loans to necessitous Undertakings": arising out of the question the Chairman asked you, does the Department get any interest on its loans to the Commercial Gas Company?—No, the loan has been free of interest and the Company has been running at a loss, and we have had to make additional grants. There has been no question of getting any money back from them. A very large proportion of their consumers have had their houses utterly destroyed, and there is no chance of getting any money out of them.

3710. I am aware of that, but I am wondering what will happen at the end of the war, when in all probability this company will be rehabilitated, and possibly will make considerable profits in the future. Have you any lien on the moneys you have lent it in order to keep it going?—We have not made a grant. It is a loan to the company and it is, I believe, a first charge on the company's assets.

3711. That is arranged for, is it?—Yes. The future of the company is, of course, rather obscure.

3712. There is no chance after the war of either the Government or the company wanting to forget these loans and have them wiped off?—I think there is a great chance of the company wanting to, yes.

3713. Who will decide whether the company's wish will prevail or not?—I imagine the Minister of Fuel and Power, in association with the Treasury, will decide what to do with it. I do not know whether it will get any assistance under the War Damage Scheme. (*Sir Herbert Brittain.*) It is only free of interest during the war. We have a right to prescribe a rate of interest after the war.

3714. A quarter of a million pounds is a quarter of a million pounds, and, free of interest, is worth having. An East End gas company which in the past was not noted for its efficiency is not the only undertaking that might be glad of a quarter of a million of money on loan, free of interest?—(*Sir Frank Tribe.*) I can assure the Committee that we do not make these loans without absolutely satisfying ourselves that they are really necessary, and that the company would fail in its supplies to its consumers if they did not have the money.

3715. I quite realise it was necessary, and the East End must get gas. I was only wondering whether all the necessary safeguards had been made?—There is some suggestion that another bigger company might buy it up, but we made it clear to any company interested that the first thing to do is to pay back to the Government the loan the Commercial Gas Company have had.

Sir Frank Sanderson.

3716. On that, did I understand you to say that the Government have a first charge on the whole of the assets of the company?—Yes, that is my recollection.

Chairman.

3717. Are there any further questions on Vote 10A? We pass to pages 28 and 29, the Coal Charges Account. On page 28, on the Receipts side of the Account there is the item: "War Emergency Assistance Scheme—Repayment of loans, £6,276 13s. 1d." and on the second page, page 29, there is a payment of the best part of £2,000,000 also in connection with that. Could you tell us about it?—The War Emergency Assistance Scheme was the scheme which had been operated by the Coal Mining Industry under orders approved by Parliament before the creation of the Ministry of Fuel and Power. It had itself been deducting, with Government approval, a levy which had, towards the end, been at the rate of 7d. a ton, which was designed to enable it to make grants to collieries which were necessitous, and also to meet payments under the Essential Work Order. When the Ministry came along with the Government Coal Charges Account scheme the coalowners agreed that certain assets existing under their previous scheme should be merged in the Government scheme, and as a result we got these sums

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handed over from the previous privately run scheme of the Coal Mining Industry.

3718. On page 28 Note (a) is: "A net amount (gross coal charge less price allowances) of approximately £971,000 was due for payment by colliery undertakings, but not paid at 31st March, 1943". What is the position with regard to the payment of that?—That figure was reduced to £371,000 a year later, and, as I explained earlier, we do take steps, by legal processes where necessary, to ensure that collieries do pay us their levy, and I think, having reduced it from £971,000 to £371,000 in a year, we have not done badly, because there are always bound to be a certain number of collieries which find it very difficult to find the money.

3719. Does the same remark apply to the £5,500,000 below that? You are getting on with that also?—No.

3720. It is presumably in process of recovery now?—There is always bound to be a large sum outstanding.

3721. On page 29 there are some allowances on particular classes of coal. Could you tell us about the allowances?—Yes. Within the structure of the District Price Allowance which I attempted to describe earlier there have been certain additional allowances for certain particular types of coal, which, largely owing to war conditions, it has not been possible to dispose of at rates which would be entirely econo-

mic. The costs of anthracite production have gone up, like the costs of other types of coal, but they have not been entirely economic, and it has, therefore, been decided, with the agreement of the owners, that there should be these particular additional allowances within the Price Allowance Scheme to certain classes, including anthracite coal and these other classes of coal in South Wales. Largely I might say it is because the South Wales mines are so very dusty, and liability to silicosis is very much greater than it is in so many other districts, and the Workmen's Compensation Act which Parliament passed last year has involved very heavy liabilities upon the owners of these pits.

3722. On page 31 in the Miners' Welfare Fund Account there is an item of Canteens, £590,000. Are the canteens being used more than we heard they were last year?—Yes. On the whole I think the mining population are getting gradually to like the canteens more, though I should say they are not used so extensively as we would like to see them used. We have recently made arrangements with the Ministry of Food whereby there shall be closer co-operation between their experts and those responsible for the canteens with a view to improving their attractiveness and efficiency.

Chairman.] May I take it that those various accounts from page 24 to page 32 are approved. (*Agreed.*)

CIVIL APPROPRIATION ACCOUNTS, 1942.

CLASS VI.

VOTE 5.

MINES DEPARTMENT OF THE BOARD OF TRADE.

(*On this Account no questions were asked.*)

VOTE OF CREDIT APPROPRIATION ACCOUNT, 1942.

MINISTRY OF FUEL AND POWER.

Chairman.

3723. Will Members turn now to the Vote of Credit Appropriation Account, to the Report of the Comptroller and Auditor General, paragraphs 26 and 27 on pages x and xi: "Coal Reserves". Sir Frank, would you care to make a general statement with regard to this question of coal reserves, and these sites and the troubles about them?—(*Sir Frank Tribe.*) I think the Committee are aware of the general policy of the Government in regard to coal reserves. The abnormal weather conditions in the first winter of the war and the second winter of the war and the series of interruptions caused both by weather conditions and by enemy action in 1940 and 1941 led the Government to adopt the policy of establishing coal reserves in Government possession in addition to such stocks as could be accumulated by merchants. These stocks were partly stocks in consumers'

areas—that is to say, near to the place where the coal was likely to be consumed, and of those we have a very considerable number scattered up and down all the consumer areas. There are 909 of those sites. It was also considered necessary, in order to prevent any stoppage in the production of coal that there should be a smaller number of larger sites in the colliery areas themselves, and for that purpose we have established 151 sites for stocking coal in the coal producing areas. It has to be remembered that coal represents between 50 and 60 per cent. of the total amount of goods carried by the railways, and any interruption of the railway system of the country has the effect immediately of stopping the production. Coal has to be cleared from the top of the pit immediately, otherwise production is interfered with, and we were most anxious to avoid that. When it came to these very large sites near the colliery head we were

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[Continued.]

anxious to get an appliance which would handle rapidly a very large intake and output of coal and which would use a minimum amount of man-power, because man-power was already becoming scarce. In June, 1942, therefore, we placed an order with a firm known as the British Ropeway Engineering Company, which had designed a new type of plant especially for this purpose. It is a waggon tippler and drag scraper device. I do not know whether that conveys very much. I thought the Committee might like to see a picture of it, because I should hesitate to try to describe it. *(The same was handed to the Committee.)* That was followed at once by orders for 20 more of these machines. The justification, as I said, is that the operating costs, when they were established, were only about one-fifth of alternative methods and the saving in man-power would be very, very material. We thought then that we should need those sites to be in operation at the end of 1942. Unfortunately, there were many slips. There was the difficulty in getting material. The design, which was a novel design, went through many teething troubles and we were not satisfied, either, with the main agent we appointed—Breco, as it is known—or certain other contractors, and we reviewed the whole scheme in 1943, when we decided that some of the sites should be handed over to the Ministry of Works to develop, but these drag machines would still be used; indeed, they might be essential. They are, of course, in the nature of an insurance, and it is too early yet to say whether the expenditure on this whole scheme, which has now been approved by the Treasury at about £800,000, will prove in the end to have been justified or not. It depends really upon what may happen in the next few months. We have been warned by the Ministry of War Transport in particular that operations on a large scale may cause great interference with the transport system of the country. Our need for coal is such that we cannot afford to stop pits producing coal, and, therefore, we may have to stock a large quantity of coal on these coalfield sites. We now have all these sites—with the exception of three, which we have decided not to go on with—ready and available, and it remains to be seen whether they will be needed or not. But in view of the advice given us by the Ministry of War Transport as to interference with transport, I do not feel it is a risk we could have taken properly without making this provision.

3724. In the fourth sub-paragraph the Comptroller and Auditor General states: "After examination by the Ministry of Fuel and Power substantial abatements have been made from the figures for prime cost claimed by the civil engineering contract" and so on. I do not think you have covered that point in your statement?—No. I said in 1943 we reviewed the whole

scheme. We were not satisfied the costs were satisfactory, but Breco would, under the original terms of our contract, have been entitled to get something like £25,000, but we told them that we were not satisfied with the way in which they had supervised the work, and we brought them down by hard bargaining from £25,000 to £10,000, and we got reductions in the estimates of some of the other companies involved in it.

3725. Is this a pre-war company? I have never heard of it?—I understand the British Ropeway Engineering Company is an old company, but this is a new device which they have produced. They did not make it. They only, as our agents, arranged for it.

3726. Are any of these sites actually in use at the present time?—I do not think we are actually using them, because it is not our policy to stock coal in the producing areas unless it is necessary—that is to say, unless there is a breakdown of transport. Our policy at the moment is to get all the coal away from Durham, Cumberland and South Wales the moment it is produced, and I am happy to say the Ministry of War Transport has, during the last fortnight, risen to the occasion and removed all our coal, so that we have not any in these areas.

3727. In paragraph 27, in the third line, Sir Gilbert speaks of modifications which had been effected in the proposals. You have already dealt with that?—Yes, I think so.

3728. In the last sentence of paragraph 27 the Comptroller and Auditor General says: "In reply I have been informed that approval has recently been sought for capital expenditure of £800,000". Have the Treasury granted approval for that?—Yes, we have already obtained it.

Chairman.] Are there any questions on paragraphs 26 and 27?

Sir George Davies.

3729. Are these machines of which you have shown us photographs applied entirely to storage in coalfields near pit-heads?—Yes, not in consuming areas.

3730. They are not for semi-distributing areas?—No, these were for the very large scale schemes as near to the pit-heads as we can get them.

Mr. Benson.

3731. What was the original estimate for the cost of this operation?—We were not able to estimate very accurately the cost of the sites, because they had to be obtained as best we could. The estimate of the cost of the machines was £10,000 each, and actually they have not worked out at very much more than that. I think we have the 21 machines for £250,000.

3732. Why should they work out at more than your estimate? Why was not the estimate a firm estimate?—They were

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[Continued.]

a new type of machine, and I know that they did have great difficulty in getting materials, and I presume general costs advanced considerably during the two years while the scheme was being developed.

Sir *Frank Sanderson*.

3733. As regards the building up of these reserves, are they reserves of steam coal, of household coal or of both?—Both—any type of coal which is produced surplus to the amount which we can transport. So far as we can we transport any type of coal to the area where it is to be consumed.

3734. Has consideration been given to making use of the best amount of space available at the point of consumption,

namely, at the large factories?—Yes, we have 909 sites in the consumer areas, but these other sites which I am speaking of now in the producing areas are simply for the conditions under which transport has broken down, and the coal cannot physically be moved. We prefer to have coal in the consuming areas, naturally.

Chairman.] Are there any further questions on the Report of the Comptroller and Auditor General? The figures are on page 7, Services 44 to 47. I have no questions. Has any Member any questions? I think that concludes your evidence, Sir Frank. Thank you very much for having helped us with such a mass of facts and figures.

(*Sir Frank Tribe withdrew.*)

CIVIL APPROPRIATION ACCOUNTS, 1942.
CLASS VI.

VOTE I.

BOARD OF TRADE.

(BANKRUPTCY AND COMPANIES (WINDING-UP) PROCEEDINGS
ACCOUNT, 1942.)

Sir ARNOLD OVERTON, K.C.B., K.C.M.G., M.C., called in and examined.

(*On this Account no questions were asked.*)

TREASURY MINUTE ON PARAGRAPH 41 OF THE REPORT OF THE
COMMITTEE OF PUBLIC ACCOUNTS, 1943.

Chairman.] I have no questions on the Treasury Minute. Has any Member any questions to ask?

CIVIL APPROPRIATION ACCOUNTS (WAR SERVICES), 1942.
CLASS X.

VOTE 12.

WAR DAMAGE (BUSINESS AND PRIVATE CHATTELS):

(Secret Paper: War Damage (Business and Private Chattels) Business Scheme).

(War Damage (Private Chattels Scheme), Statement of Receipts and Payments in the year ended 31st March, 1943).

(Secret Paper: War Risks (Commodities) Insurance Fund Account, 1942).

Chairman.

3735. Will Members turn to the Civil Appropriation Accounts (War Services) 1942, to the Report of the Comptroller and Auditor General on pages xxxi and xxxii, paragraphs 81 to 84. On the first three paragraphs I have no questions. On paragraph 84: "Audit of Agents' Accounts", "Evasion of Insurance", could you tell us about the audit organisation, Sir Arnold?—(*Sir Arnold Overton.*) The travelling organisation consists of accountants who go round and inspect the

agents' books and records in relation to the schemes. There are about 1,600 offices altogether, including head and branch offices of companies and offices of Lloyds' Brokers, and at present we have 33 officers employed on this work.

3736. It is working satisfactorily?—Yes, it is working satisfactorily. It is a check to see that these things are kept up to date.

3737. In the same paragraph the Comptroller and Auditor General states that the examinations which were carried out by

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[Continued.]

the Board's audit organisation: "disclosed a considerable number of lapsed or belated insurances by persons liable to compulsory insurance under the business scheme". Could you give us any idea of the proportion of lapsed insurances by persons liable to compulsory insurance, and what action you take?—The amounts collected in respect of lapsed policies for the year now under review were as follows: under the Commodities Scheme, £324,000; under the Business Scheme, £88,000; and under the Farming Section of the Business Scheme another £54,000.

3738. Are those the figures of lapsed insurances?—Those are the amounts collected.

3739. The figure of lapsed insurance I was asking about, and what action is taken about the lapsed ones?—(Sir Gilbert Upcott.) There are various forms of evasion. Sometimes the people do not keep up their insurance and sometimes they are late in paying them. The Board have not separated in the accounts the various forms of evasion.

3740. They are chased after?—(Sir Arnold Overton.) Yes. Whenever they fail to renew their premiums we make inquiries.

Chairman.] Are there any questions on those four paragraphs, 81 to 84?

Mr. Glenvil Hall.] Do we deal under these paragraphs with payments out as well as payments in?

Chairman.

3741. That arises on the figures. The figures are on pages 37 and 38. I have no questions on them. There are two secret papers, and it is the single sheet rather than the double sheet we take first, I think. That goes with the other figures on pages 37 and 38. Could you tell us what deferred liabilities the State has with regard to this Private Chattels Scheme?—Yes. Would you like the figures for the year which we are reviewing? (*The witness gave figures relating to the Commodities, Business, and Private Chattels, Schemes.*) (Sir Herbert Brittain.) Perhaps we ought not to forget Part I of the War Damage Act under which the State contributes half the cost of damage to buildings. There is another big expense to the State, apart from any of these schemes.

3742. There is another big expense?—Yes, under Part I.

3743. I was trying to get a broad balance-sheet from the nation's point of view. Turning to the actual sheets themselves, there is a report by the Comptroller and Auditor General on the War Risks (Commodities) Insurance Fund, 1942, Account. At the end of paragraph 4 he states: "The rate was further reduced to rs. 8d. from 3rd December, 1943 . . ." Is that the present figure?—(Sir Arnold Overton.) Yes, that is the present rate. That is the monthly rate.

Chairman.] In paragraph 5 Sir Gilbert states: "Substantial sums have been collected in respect of cases of lapsed or inadequate insurance and in some cases offenders were prosecuted for penalties under the Act." That is the point I was on just now. You have not the figures with regard to it. Are there any questions on Vote 12 or on the two secret papers?

Sir George Davies.

3744. On page 37 of the Civil Appropriation Accounts, in the details of Expenditure, Subhead D is: "payments to Assessors and Agents," a figure of £1,463,000 odd. Have you a fixed percentage basis on which those payments are made, or do they vary as between one case and another?

There are two separate groups of people there; there are the assessors on the one side and the agents on the other. The assessors have two alternative scales of fees.

3745. It is a commission percentage?—No, it varies according to the amounts of the claims. On one scale for claims not exceeding £50 they get one guinea and for claims of, say,——

3746. I did not want to know the details but just what the principle was. They have a general scale?—Yes, it is a worked out scale, tapering off as the amount gets bigger. It is a duty of the District Insurance Committees to scrutinise the fees which are claimed and to see that they are in order and reasonable in amount. The agents, on the other hand, are in fact the insurance companies, and their charges for the policies are settled from time to time on a basis of covering their expenses but not for them to get any profit out of the business.

3747. From whom do you get the figures of the expenses upon which this is based?—We get the figures from a selected number of the insurance companies and from Lloyds, and have them vetted by accountants, and on that basis the fees are fixed in arrear.

Mr. Benson.

3748. I cannot square the figures that have been given to us by the Witness with the figures given in the single sheet of paper: "War Damage (Business and Private Chattels)—Business Scheme."—(Sir Arnold Overton.) The receipts from the premiums are paid into a separate fund, into the War Damage Fund. These receipts are only what you might call oddments. (Sir Gilbert Upcott.) The premiums are paid into the Exchequer. Perhaps I might explain that this piece of paper is, normally speaking, part of the Appropriation Account, but for security reasons the payments relating to the Business Scheme and the payments relating to the Private Chattels Scheme are separated, and the published Appropriation Account contains only the figures relating to Private Chattels. This is payments relating to the Business

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[Continued.]

Scheme. It is not a fund. Normally speaking, these two figures of payments would be added together and would appear in the Appropriation Account which would contain also a footnote showing the total amount of premiums paid into the Exchequer.

3749. If you take Subhead E on page 37 of the Appropriation Account the figure is £7,147,000. That is for Private Chattels, and the difference between that and the other figure is the amount that has gone to the Business Scheme. Is that the correct deduction?—(Sir *Herbert Brittain*.) No, in addition to that.

3750. So that the secret paper is not the Business Scheme and the Private Chattels. It is only the Business Scheme. It is wrongly headed.—(Sir *Gilbert Upcott*.) It is described as "War Damage (Business and Private Chattels)—Business Scheme". It is the Business Scheme portion of it.

Sir *Frank Sanderson*.

3751. Turning to the White Paper: "War Damage (Private Chattels Scheme), Statement of Receipts and Payments in the year ended 31st March, 1943", under Receipts you see: "Premiums, less refunds—£4,942,881 17s. 1d. What form do the refunds take? What are the refunds?—(Sir *Arnold Overton*.) The refunds are very small and in fact, it is often because people have insured the same things more than once.

3752. Does it refer to refunds of premiums which have been paid in excess of the amount required?—Yes.

3753. There is one other point. Turning to the secret paper: "War Risks (Commodities) Insurance Fund, 1942 Account", to whom does the salvage accrue? Does it belong to the Government?—In the ordinary way the person who suffers damage is not allowed to surrender the damaged goods. He is under an obligation to keep them and dispose of them in the course of his business. There are certain cases, however, where it is better that the salvage should be surrendered to and sold by the Government, under this Scheme. These figures here relate to the second part, which is only a small part of the whole.

3754. In the case of a large amount of grain being destroyed, that grain has a recoverable value. Does the owner of the silo or of the flour mill recover that grain and dry it?—Yes; that grain would, in the ordinary way, remain their property and it would be an abatement from the claim that they could make.

3755. The value of the salvage would be deducted from the amount which they paid?—Yes.

Mr. *Glenvil Hall*.

3756. Could we be told how much is now outstanding to small people under the Private Chattels Scheme for damage sus-

tained for which they have not yet received payment?—Very little indeed. I think I did give the figures of claims outstanding as a whole. We have not separated the figures for the small people, but I think you may take it that they have almost entirely been cleared off.

3757. How long a time lag would you say there was between the substantiation of the claim—that is, the acceptance by the War Damage Department that the claim is a genuine one, and that the amount claimed is reasonable—and the time the person gets it? Would it be six months or a year?—Not now, I think. If a poor person gets his property knocked out by a bomb he can go straight round to the Assistance Board and get some money on account straight-away.

3758. I mean ordinary, middle-class people who would not have to go to the Assistance Board and yet might be out of £15 or £20?—They also can go to the Assistance Board or to the Customs and Excise.

3759. I am perhaps explaining myself badly. I am talking about people who have a right to this money, whose claim has been recognised, but who may wait several months before the money comes, or possibly indefinitely, I was wondering whether there was any way of speeding up this Government Department, which—until this last week or so—obviously has not been overburdened with claims recently.—(Sir *Gilbert Upcott*.) These deferments are deliberate. They are deferred until after the war.

3760. Surely not? Let me give a concrete case. I do not wish to keep the Committee. Somebody sends a suit of clothes, say, to the cleaner, and it is blitzed because that cleaner's premises are knocked down by a bomb falling on them; that person puts in a claim which is accepted. He has another suit but nevertheless the suit that was lost was worth, say, ten guineas. How long has he to wait before he gets the money out of the War Damage Commission?—(Sir *Arnold Overton*.) It would be only a matter of a few weeks to get a claim like that through. Perhaps the Honourable Member is confused, because while a part of the payments which are made is in cash, that is only done up to the sort of hardship limit, and the larger claims are deferred credits that are given, which will not be actually payable until the end of the war, when there are more supplies about.

3761. The form that they send out is rather misleading, because people have written me and have sent me a little form to show that they have been entitled to £12 or £15 for something that has been destroyed, and they ask me why they cannot get it? I do not know where to send them, because there is no address put

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[Continued.]

on it, except the Claims Branch at IbeX House—is it?—or some such name down in the Minorities (it is somewhere down in the East End of London, but that does not matter). I wondered whether you had great congestion there and the reason for it?—No; I am surprised to hear of these

delays, because in general they are very well up to date now.

Chairman.] Are there any further questions, either on Vote 12 in the Appropriation Account or on the two secret papers? May I take it that the Account is approved? (*Agreed.*)

TREASURY MINUTE ON PARAGRAPH 42 OF THE REPORT OF THE
COMMITTEE OF PUBLIC ACCOUNTS, 1943.

Chairman.] I think no point arises on the Treasury Minute. I have no questions to ask. Has any Member any questions?

VOTE OF CREDIT APPROPRIATION ACCOUNT, 1942.
BOARD OF TRADE.

Chairman.

3762. Will Members turn to the Vote of Credit Appropriation Account, to page 10, Services 38 to 42. I have one question only. Item 38 is: "Loan to company under scheme for reserve stock of cigarettes—£500,000". It seems slightly unusual. Could you tell us about that?—(*Sir Arnold Overton.*) Yes, I understand your querying it. What happened was this, that towards the end of 1941 it was decided that we ought to build up a stock of manufactured tobacco throughout the country of two or three weeks' supply, in order that small shops and consumers should not run out of tobacco in the event of factories being blitzed. That was taken up with the tobacco companies, who were prepared to do it, but they did not want to be financially very much worse off for doing it, and the main point in that is that once the tobacco has been cleared from bond more than three-quarters of the value of it consists of Customs Duty that has been paid. Under this scheme they were in fact asked to put about £10,000,000 of their working capital into this reserve stock, the amount being so high because of the Customs Duty, and they asked that arrangements should be made by which they could borrow at least up to the amount of the duty which they had paid in advance. That was acceded to. Also one or two other small points were acceded to to help them through this special situation. In fact, as it turned out, instead of getting claims for about £10,000,000 on loan, only one company came forward and asked for some money to be advanced, and it was lent this £500,000 under adequate security.

3763. Has it been repaid?—Some of it has been repaid. I think there is about £350,000 still outstanding.

Chairman.] It is all quite safe, anyhow. Are there any questions on the Vote of Credit Appropriation Account?

Mr. Benson.

3764. Sir Herbert mentioned that Part I of the War Damage Act had been very expensive to the Government. Could we have the total income and the total outgoings so far?—(*Sir Herbert Brittain.*) I am afraid I have not the actual figures here, but I can send them to the Committee.

3765. Have you them approximately?—The total outgoings have been somewhere about £150,000,000.

3766. That does not include any deferred value payments?—No, that is actual cash paid out. It is practically all cost of works payments, and the receipts have been about £40,000,000 a year, and we have received approximately three years' receipts now; there is another to come at the moment.

3767. £150,000,000 your expenses, and your receipts so far have just about paid for the actual cash outgoings?—Yes, rather less. They will have covered them this year, but we are piling up very considerable liabilities for value payments which are deferred, and large cost of works payments which have not yet been settled.

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

(*The Witnesses withdrew.*)

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

THURSDAY, 22ND JUNE, 1944.

Members present:

SIR ASSHETON POWNALL in the Chair.

Sir Irving Albery.
Mr. Benson.
Sir George Davies.

Mr. Douglas.
Mr. Touche.

Sir GILBERT UPCOTT, K.C.B., Mr. D. F. C. BLUNT and Mr. C. E. I. JONES called in and examined.

TREASURY MINUTE ON PARAGRAPHS 26 TO 28 OF THE REPORT OF THE COMMITTEE OF PUBLIC ACCOUNTS, 1943.

Sir HAROLD SCOTT, K.C.B., K.B.E., Sir W. LINDSAY SCOTT, K.B.E., D.S.C., and Mr. J. T. COTTON, C.B., O.B.E., called in and examined.

Chairman.

3768. We have to-day the Ministry of Aircraft Production. The principal Witness is Sir Harold Scott. I think, Sir Harold, you were not at the Ministry of Aircraft Production when this expenditure was incurred?—(Sir *Harold Scott*.) No; I have been there just over six months.

3769. If you find it necessary—we may be a little detailed to-day—to ask either of your colleagues to answer, we shall quite understand?—Thank you very much.

3770. The first item on our agenda is the Treasury Minute on paragraph 25 of the Committee's Report of last year, but it would be more convenient, I think, to take that when we are actually dealing with the figures in the Comptroller and Auditor General's Memorandum. The Treasury Minute on paragraphs 26 to 28 comes next, dealing with an unsuitable factory site, of which we heard a good deal last year. Could you please tell us, Sir Harold, if the danger of underground fires is finally removed?—Yes. We were advised in November last year that the fire had been extinguished and that the danger was now past.

3771. Is the factory giving what you might call a normal output now?—(Sir *Lindsay Scott*.) It is giving a normal output from the point of view of its ability to give it, but the production has actually been reduced, because of a general reduction in the requirements of magnesium, following larger imports from the United States.

3772. But this factory is now able to give what is required of it?—Yes.

TREASURY MINUTE ON PARAGRAPHS 63 TO 66 OF THE COMMITTEE OF PUBLIC ACCOUNTS, 1943.

(Paper handed in by Sir GILBERT UPCOTT, K.C.B., on Profit Rates in Ministry of Aircraft Production Fixed Price Contracts.)

Chairman.

3780. We pass to the Treasury Minute on paragraphs 63 to 66, dealing with Profit Rates in Contract and Control Prices. In connection with this the Comptroller and

Chairman.] Are there any questions on the Treasury Minute on paragraphs 26 to 28 of the Report of the Committee of Public Accounts, 1943?

Mr. Douglas.

3773. Could you say what the total additional expenditure caused by the unsuitable siting of this factory has now amounted to?—(Sir *Harold Scott*.) The final cost of the remedial measures is £625,000.

3774. I was asking for the total to date because it has been remedied finally since we last had this before us.—That is the total to date.

Mr. Benson.

3775. Does that mean that £625,000 has been spent on putting out the fire?—Yes.

3776. What was the original cost of the factory?—(Sir *Lindsay Scott*.) I think it was about £1,000,000. If I remember rightly—but I am speaking from memory.

Sir George Davies.

3777. You say there has been a reduction of output for reasons unconnected with the constructional position of the factory?—Yes.

3778. The products have been replaced by importations from America?—Yes.

3779. Does that mean there has been an actual reduction in the amount of that material needed for war purposes or that increasing amounts have been imported?—There is an actual reduction. The raw materials were calculated on a slightly more hopeful programme of aircraft production than we shall in the event achieve.

Chairman.] Are there any further questions on the Treasury Minute on paragraphs 26 to 28?

Auditor General has handed in a paper which Members have no doubt seen, with two appendices, and I will ask Sir Gilbert to initiate the discussion. (Sir *Gilbert Upcott*.) As I mentioned to the Committee

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last week, when I handed in this paper, they dealt in paragraphs 63 to 66 of their Report last year generally with profit rates in contact and control prices in the Ministry of Supply and the Ministry of Aircraft Production. The Committee had considerable information on the subject of the profit rates obtained from costed contracts in the Ministry of Supply, which they reviewed, and they expressed certain conclusions. As regards the Ministry of Aircraft Production, the policy has generally been to settle fixed price contracts, and the Committee desired last year in particular that information should be obtained regarding the outturn of the Ministry of Aircraft Production fixed-price contracts in order that this year this Committee might judge whether the prices had been related to current costs and had been fair and reasonable. This information is now available, and the general results are given in the documents appended to my paper which has been circulated. I think I ought to remark that it is now three years ago that the Public Accounts Committee, in their Report of 1941, recommended that the results of price-fixing negotiated on estimates of costs should be obtained by post-costing and the examination of books, and this recommendation was repeated by the Committee in 1942 in general terms. The Treasury Minute on the Committee's Report last year deals mainly with the principles underlying the policy of fixed-price contracts, and the Treasury will no doubt wish to develop the views which they have outlined in their Minute. As regards the actual results I venture to suggest that for the purpose of keeping the discussion clear the Committee might wish to consider primarily at this moment the profits on aircraft contracts shown in Annexe B to my paper, that is the outturn in direct contracts with the big aircraft firms engaged almost exclusively on direct contracts for the Ministry. The other paper, Annexe A, deals also with a number of miscellaneous cases of high profits which were selected for cost investigation. These cases are described in Annexe A as the second category, and they are referred to, as I have mentioned in my paper, in paragraphs 9 and 12 of my Report on the War Services Account. I venture to suggest that the Committee might wish to reserve the discussion on them until they get to the paragraphs of my Report, and, as I ventured to suggest just now, to consider at the moment, after they have heard the Treasury's views on general principles, primarily the profits on the main contracts which are shown in Annexe B to my paper. I have made some little further analysis of the distribution of the profits between the individual companies in paragraph 5 of the covering note which I have put in in this collection of documents.

378r. I do not know whether the Treasury representative would like to

make something in the nature of a general statement as to the Treasury viewpoint on these matters?—(Mr. Blunt.) As Sir Gilbert has said, this Treasury Minute deals exclusively with the fixed-price contract, and the Ministry of Aircraft Production is the Department chiefly concerned. The Committee had the Ministry before them last year, and they were given an average figure of 12.82 per cent. as the profit which was regarded as included in the field of aircraft and aero engine contracts. The Committee did not comment on this figure of 12.82 per cent. itself (this is what we call the "envisaged" profit and what Sir Gilbert in his paper calls the "prevailing" profit), but they said what they would like to have were the figures of actual profits emerging from the contracts—what we call emergent profits—and they now have those figures before them. It seemed to us, reading the Committee's Report and all the evidence, that the Committee were rather apprehensive that undue profits were being made on the fixed-price contracts—where, subject to the limitation of the price, the profit depended on what success the contractor met with in his production—as compared with the profit obtained on costed contracts, where the profit could be directly assessed and allowed by the Department. It was in those circumstances that we thought it would be expedient to bring out in our Minute one or two considerations which we thought might be helpful to the Committee, and there are two main points which are dealt with in this Minute and they are as follows: May I say that in attempting to summarise what the Minute says, and perhaps to develop it a bit, I do not want in any way to detract from what the Minute says, because that was a very considered statement of Treasury policy—not only Treasury policy, but an agreed policy between the Treasury and the Contracts Department, and it is an important document which will stand for itself. What I say is in addition to it and in no way in substitution for it. The two points that the Minute develops are really these: it states what, in the view of the Treasury and of the Contracts Department, is what I may call the virtue of the fixed-price contract as compared with the contract based on cost. That is the first point—the central point. It then goes on to say that any comparison between the profit envisaged in a fixed-price contract at the time the contract was placed and that which the contractor actually obtains ought to be made with great caution and made in the light of the policy underlying the fixed-price contract as developed in the Minute. Those are the two points, and perhaps I can take those in order. On the fixed-price contract itself the Treasury thesis, I ought to say at first, rests on the assumption that a fixed-price contract will be made only if the Contracts Department considers that it has sufficient information

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to make it probable that the price fixed is a reasonable one. The Treasury rests on that assumption. It cannot be answerable for what the Contracts Department itself does; that is not the Treasury function. If the Department makes a bad shot or does not follow up the principle, the Department must answer for it. The Treasury comes in on this general principle which they have agreed, and that is on the assumption that there is a sufficient volume of evidence at the time to make it probable that a reasonable price can be fixed. I want to emphasise that to start with, because it is important. The value of the fixed-price contract, as this Minute says, is that it is the best financial instrument to ensure that supplies are obtained with the minimum use of the nation's resources and with the maximum of speed. I have just quoted that more or less from the Minute, and the Minute develops that, and possibly Members will take that from the Minute itself. But I just want to say this, that it might be considered that the Treasury, in saying that, thought that the maximum-price contractor—a man who was working on the costed basis—would ordinarily indulge in extravagance, since the State is going to bear his costs, or that he would not be influenced by, shall we say, patriotic feelings or a natural pride in management and getting the best out of his workers. We are not suggesting that for a moment. What we are saying, really, is that the fixed-price contractor has an additional incentive—the profit incentive—which, in our view, is likely to enable him to encourage himself and his workers in getting out of the job more than was thought possible at the time on the best estimate which could then be made. We think if that is so—and that is our thesis (we think it is based on human nature)—at a time when materials and labour are in short supply that is an extraordinarily valuable thing to do. I remember a predecessor of mine, Mr. Woods—I think it was he—about two years ago saying that the maximum-price contract looked after the profit and that the fixed-price contract looked after the price, and by price he meant the cost in terms of labour and material. What he said was: "Nobody has ever been able to find a contract system which would look after both the profit and the price." The Treasury thesis is that the maximum contract looks after the profit when you have not the means to have a fixed-price contract, and that the fixed-price contract, if it is possible to arrange one reasonably, will do more than that—it will look after the price; that is to say, the cost of the article in labour and materials. As I said, the fixed-price contractor, once the price has been fixed, has now a definite incentive over and beyond that which the maximum-price contractor has. The maximum-price contractor has only a sort of negative incentive; he has to be only so careful about his costs, that they do not rise so

high that the maximum operates against him to the detriment of his profit. It is a negative one. But in the case of the fixed-price contract it is obvious that the more he can get his costs down, the greater the margin between the price and his cost, the greater the emergent profit will be, and he has every incentive to get that cost down, and that is what we recognise. In fact, the way we look at it is that the contractor, once he has a fixed price, knows exactly where he is, and he and his workers know where they stand and can do their utmost, and we think that should and will lead to economy of labour and materials. There is one other advantage, of course—an obvious advantage of the fixed-price contract—and that is that in a time of scarcity of man-power it does save costing, and it also means that the contractor knows where he stands financially. He has not to wait until everything is costed out before he can put his account in order. That was the first point as to the virtue of the fixed-price contract, and I have only attempted to summarise what is said more fully in this Minute, and, as I say, on that point this Minute is a considered document. On the second point of the comparison between the envisaged profit rate (that is the rate which is supposed to be allowed in the price at the time it is fixed) and that actually earned, we think there is considerable difficulty in such a comparison, and we really felt bound to point this out to the Committee. I do not want to bore the Committee, but I thought possibly it might help the Committee to know the sort of thing that happens when a fixed-price contract is arranged. I do not say that this happens every time, and Mr. Cotton will correct me if I am wrong in the general picture I draw. But what does happen is that the Contracts Department has accumulated a mass of technical data; its technical costs officers may have gone down and got out costs, and may even have discussed them with the Management and got to within a point or two of agreement—not complete agreement, but the Management think they should be a little higher and the technical costs officer thinks they should be a little lower—and the principal accountant does his bit—he gets out the overhead charges rate—and then, armed with this information, the Contracts Department and the contractor get together and the dog fight begins, and in the end probably a global price is arranged. It will not be a price to which both sides definitely agree, at least, I do not think that often happens—though again I speak subject to correction—that the labour quantum in the contract is so much, the materials so much and the profits so much. I imagine each side takes rather a different view of what it has managed to get out of the negotiations. I only mention this to show that the envisaged profit

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[Continued.]

is not really always or even necessarily an accurate figure. It is in the opinion of the Contracts Department what they think is in the price for profit after the negotiations. When the Contracting Department or the Contracts Officer has fixed that price, assuming he has had his reasonable data on estimates of costs, and assuming he has applied this general code of profit rules which the Committee has had before them, and has fixed the price accordingly, he has done his duty. He has fixed a price. He has not to fix such a price as will actually and in fact yield the contractor a certain profit within a definite range. That is not his job. He cannot do that. What he has to do is to fix a fair and reasonable price on the rules, and then he gives it to the contractor and the contractor goes away and tries to best that price. If he can beat that price by his efficiency, then not only do we say "Good luck to him" but we think he has done a public service because he has saved us labour and materials; he has given us our production which we want at a greater speed, and we think that is enormously valuable. The Minute, of course, recognises that if a contractor does in fact get a larger profit than that envisaged it is not necessarily always on account of his own exertions. The luck may have broken his way. It may equally have gone the other way; he might have been down on his contract. But it may have broken his way, and to that extent he has been lucky; but there it is: It is a risk he took. It has gone his way this time, and it may go against him the next time. But in so far as it is due to his efficiency we would say this is evidence not that the contract price when fixed was faulty in any sort of way; we would simply say that the contract policy as laid down in this Minute and as agreed with the Departments was successfully working itself out. There is one other point I wanted to make on that and it is this (it does seem to us an important point). This paper which we have here of the figures which have been supplied by the Ministry of Aircraft Production compares the envisaged profit with the final actual profit. It shows, on the last page in the second table there for the year 1941 a prevailing profit, or what I call an envisaged profit, of 12.82 per cent. on the companies' capital.

Sir George Davies.

3782. Are you referring to the paper which has been handed in by the Comptroller and Auditor General?—Yes, to the back page. The next figure to that is the emergent profit on the companies' capital, which is shown as 18.51 per cent.—the difference being something under 5.7 per cent. That 5.7 per cent. is getting on for 50 per cent. increase on the 12.82 per cent., and it might be thought that this showed that there must have been something seriously

wrong with the contracts which produced such results. (This is, of course, only an average result over a whole series of contracts. This is not a particular contract.) I would suggest that is misleading, because I would like to draw the Committee's attention to the figures of cost. What has happened is that the contractor has reduced his cost, and, therefore, consequently there has been a bigger margin in the price for his profit. I think we can draw a general conclusion from this paper as to how much he has reduced his costs, and I work it out (I think it is right, and I take this from the cost of sales, £150,000,000) that he has reduced his costs 2 per cent. That 2 per cent. reduction in costs, which is not an alarming figure, has produced a 50 per cent. increase in profit. Therefore, as I say, I think a fairer way to look at this and the right way to look at it is to see what the cost has been as compared with the cost which the Contracts Officer took when he was negotiating his price, and there, as I say, the comparison is a 2 per cent. reduction only.

Chairman.

3783. Would you explain how you get that 2 per cent.? I did not follow it, I am afraid.—There is, as I have said, a difference of 5.7 between the 12.82 and the 18.51. (Mr. Cotton.) Might I interrupt. The figure is the difference between 4.41 per cent. and 6.38 per cent., under 1941. It is 1.97. (Mr. Blunt.) Yes, I was getting at it in a rather roundabout way.

Mr. Douglas.

3784. That is a different figure, with all respect. The Treasury Witness has been dealing with profit on companies' capital?—Yes, it works out at much the same sort of figure, but perhaps I had better develop it in my own way. I was saying that there is a difference of 5.7 between the figures of 12.82 per cent. and 18.51 per cent. That is related to companies' capital, and you will see that up above the companies' capital is £50,000,000. That means to say these contractors in the bulk have secured an additional profit of getting on for something like £3,000,000. You will see on the top of the table the cost of sales is taken as £150,000,000, and it needs only a 2 per cent. margin on that to provide £3,000,000.

Chairman.

3785. Yes, I follow?—I thought that was a useful figure to give to the Committee. I rather wanted, too, to pursue that one more stage, and that is to say that it only needs 1 per cent. disturbance of costs—reduction in costs—to increase the 12.82 per cent. (I am using a broad figure of 1 per cent.) to the 15 per cent. which is our normal maximum scale, and the figure to which the Committee referred last year. If I might remind the Committee, last year they gave it as their opinion: "that a general level of actual profit of 15 per cent.

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on capital employed would be out of proportion to the rate obtained under Treasury policy in costed contracts." I will be perfectly frank with the Committee. As I say, if the 12.82 per cent. is the right figure, and the Committee did not comment on it (and we think it is right, and I think I could demonstrate that it is not an unreasonable figure on the agreed principles) then it needs no more than a 1 per cent. reduction in cost to bring the figure up to 15 per cent., and if the whole idea of a fixed-price policy is that a contractor shall beat his price and cut down the cost of labour and materials, and he does it to the extent of only 1 per cent., we find it difficult to agree that because there is an average of 15 per cent. the Treasury principles have not really been applied in practice or that there is something wrong about it. I think that is all that I desire to say, thank you.

3786. Sir Harold, would you care to comment on the figures shown in Annexe B (Annexe A comes later on), and perhaps you will also, please, explain to the Committee the nomenclature. "Prevailing profit rate" and "emergent profit rate" are a little bit confusing. They are mentioned in Annexe B. Perhaps you will explain that nomenclature to us first?—(Sir Harold Scott.) "Prevailing" rate, or "envisaged" profit, is the figure which the Contracts Department has in mind as a suitable profit to allow in a contract. It is the result of their bargain with the contractor. They fix a price and they regard a certain percentage of that price as profit. (Sir Gilbert Upcott.) May I suggest that it has a time element in it also, as you say in your covering note. You say in your covering note: "The prevailing profit rates are the percentages of the profit element regarded as included in the prices fixed during the twelve months period ending six months before the close of each firm's financial year." (Sir Harold Scott.) That is if you are talking of averages. (Sir Gilbert Upcott.) That is your own explanation of the prevailing profit rates, in your note to the table. (Sir Harold Scott.) These are, of course, averages.

3787. Now would you explain emergent profit?—That is the actual profit achieved by the supplier, again over the same sort of period.

3788. Would you like to comment on what has fallen from the Treasury in regard to the figures in Annexe B?—I do not think I want to add very much, except to say that when the Ministry of Aircraft Production decided to discontinue the McLintock Agreement and to negotiate fixed prices individually they did that deliberately, in spite of a good deal of pressure more or less to abandon contract procedure altogether in the difficult period at the time of the Battle of Britain. I

think it is right to point out that the result of the negotiations carried on by the Contracts Department has been to force down the prevailing profit rates progressively year by year. They were 4.41 per cent. in 1941, 3.76 per cent. in 1942 and 3.4 per cent. in 1943. Equally the emergent profit—the actual profit—has come down, too. I have only the figures for 1941 and 1942, but they are 6.38 per cent. and 5.60 per cent. I think it is right to point out that these actual profit rates have fallen more than the prevailing profit rates. There was a margin in 1941 of 1.97 per cent.; in 1942 that had fallen to 1.84 per cent. I think that is quite an important point to make. It suggests, I think, that the fixing of prices has become steadily more accurate. Of course, as the Treasury representative pointed out, the whole merit of the fixed-price policy is that you should fix a good price. If you fix a careless price, then you are making a gift to the contractor. But if you fix a good price you give him that incentive to which Mr. Blunt has referred.

3789. At what stage of the contract are prices usually fixed?—That varies a good deal. Mr. Cotton could tell you more about that than I can. In some cases prices have not, of course, been fixed yet.

3790. There is no hard and fast rule, I gather; on the average, as a rule, when are the prices fixed?—(Mr. Cotton.) I should say on an average about 25 per cent. through the contract periods.

3791. About a quarter of the way through?—About a quarter of the way through. In some cases, of course, we get the prices fixed months before the deliveries start. In other cases we do not get them fixed until the deliveries are completed. On an average I should say it is about 25 per cent. of the way through the contract.

3792. I had intended to ask you whether you had any comment to make about the gap between the emergent and prevailing profits; but that has been dealt with by Mr. Blunt.—(Sir Harold Scott.) There is obviously a gap from time to time and there may be one or two explanations for the gap. The first explanation may be that our shot at a fixed price was a bad shot; and on investigation we may find that to be so. In that case we shall certainly revise the price next time. We are not protesting that we are infallible. Admittedly we have made bad shots from time to time. The other explanation may be the one referred to by Mr. Blunt, namely, that the firm, by its efficiency, has beaten the target which we gave it. If that is so we think there is a public advantage and we think there is an advantage to ourselves, too, because when the next contract is made with that firm we shall certainly take advantage of their efficiency and try to force the price down still further.

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3793. At the bottom of page 2 of the paper handed in by Sir Gilbert there is a table giving the emergent profit on companies' capital. It shows a very wide range of emergent profit running up to between 20 and 30 per cent. in the case of five firms in 1941 and three in 1942, and in fact in 1942 there is actually one firm whose emergent profit was over 60 per cent.—(Sir Gilbert *Upcott*.) That is a distribution under different ranges of the cases which produced the main average which you have just had.

3794. Is there anything you would like to say on the rather wide range, Sir Harold?—(Sir *Harold Scott*.) I think our general comment on that is that although, in the majority of cases, the present method of calculating a company's capital, the E.P.T. standard, gives you a generally satisfactory result, yet you do get the most astonishing variations in a company's turnover capital ratio. To some extent we think that is the explanation, although admittedly these percentages are very high. To take one of these companies—I think it was the one with an emergent profit between 50 and 60 per cent.—the emergent profit on capital employed in this case was 53.9 per cent. and the actual profit on cost was 6.63 per cent. The high profit on capital employed was due to the very high turnover capital rates—8.21 which is a very high figure.

3795. That is one of the factors. To some extent, of course, it must have been incorrect estimation of costs. There must be some incorrect estimation where you have a turnover as quick as all that?—(Sir *Lindsay Scott*.) Perhaps I could deal with that case a little more fully. There are three cases in both years where the emergent profit is over 30 per cent., and I am sure the Committee would like to hear about those. In the first case, the one Sir Harold has spoken of, we allowed the company 5.5 per cent. profit in 1941. You will appreciate that was still under the shadow of the McLintock Agreement and was a rate which was influenced by the McLintock Agreement. They actually made 6.6 per cent., so they beat the target by only a small amount, but owing to the high turnover capital ratio that produced a big figure if expressed in terms of capital employed as calculated for E.P.T. purposes. In the next year we reduced them to a 5 per cent. profit and they again beat it by roughly the same amount—slightly more—they made 6.63 per cent. The firm was a very efficient one; it was doing a straight job which it did exceedingly well, and it produced that aircraft at a lower price than any other contractor has produced it, and it is produced by several people. But we have in the course of time reduced the profit. We have negotiated them down from 5.5 per cent. in 1941 to 5 per cent. in 1942, and we have now reached a settlement with them on the basis of 3 per cent., which is, I think, a very low figure.

The second case is that of the firm which was over 50 per cent. in one year and over 60 per cent. in the other. I ask the Committee not to take too seriously the figures of capital employed in that case, because in the second year, if you would believe the figures, you would believe that the company turned over its capital 19.36 times, and anybody who knows anything about aircraft production knows that there is no truth in that. The Committee will appreciate that we make no estimate of the capital employed. It is not our job to do that. We simply take the figures—as laid down in the Finance (No. 2) Act, 1939—which are worked out for E.P.T. purposes, and which, therefore, we can get from the firm's books. We only want to get a rough idea of the turnover capital ratio, and to find out whether there is a relatively high ratio of turnover to capital. We got this particular firm down from a profit rate of 5 per cent. in 1940 to 4.5 per cent. in 1942, and the settlement we reached with them the other day was for a figure as low as 2.5 per cent., so that we have persuaded them to accept fixed-price contracts at a very low figure. But I do not think you could gather from the figures for employed capital more than that the turnover capital ratio is a high one. You could by no means assume that it is anything like the figures produced.

3796. Of 19 times?—Yes.

3797. If it were 19 times it would be 38 per cent. at 2 per cent. even?—Yes, and there is no reality in that. You appreciate that the working capital which is calculated for E.P.T. purposes is affected to a considerable degree by the dates at which taxation is respectively due and paid and by many things which are entirely extraneous to a scientific calculation of what the true capital employed is. So I do not think we need bother too much about the precise figures.

3798. Would you say the trend of prices is generally downwards?—(Sir *Harold Scott*.) Definitely. That is a point I was going to mention. We think that has been one result of our fixed-price policy, that a good many things are costing far less now than they did at the beginning of the war, and there has been a steady downward trend of prices.

3799. Mr. Blunt, I notice on page 27 of our Report we state: "The Treasury are generally satisfied that the results of subsequent price-fixing indicate a successful effort to secure a reducing level of profit together with the reducing level of cost which flows from the maintenance of the fixed-price system." You adhere to that with the qualifications which you have mentioned?—(Mr. *Blunt*.) I think we adhere certainly to the second of those things—the reducing level of cost. When we said that about a reducing level of

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profit I think I am right in saying that we had not the full 1942 figures in front of us. We had rather more partial figures which I think did at that time show that even the emergent profit was down. (Mr. Cotton.) The emergent profit in relation to capital employed. The emergent profit on costs had come down? (Mr. Blunt.) Yes. This speaks of the "level of profit" and I think at that time we were thinking of profit on capital. At that time we had only partial figures in front of us which did lead to this assumption, but these later figures show that the profit in terms of capital employed, though not the profit on cost, has in fact slightly increased, while the profit on cost has gone down.

3800. Would you say the prices secured under these contracts are more favourable than those secured under the Ministry of Supply contracts, which show an average of 9½ per cent.—More favourable?

3801. Than the Ministry of Supply, with an average of 9½ per cent.—That is on a costed contract.

3802. The Ministry of Supply figures show that as an average?—That is on a different type of contract. That is on a costed contract and our thesis in the Treasury Minute is that you cannot really compare a costed contract with a fixed-price contract.

3803. But from the taxpayers' point of view?—From the taxpayer's point of view—it depends, as I have said, on the relative importance of the monetary profit and the saving in labour and material. (Sir Harold Scott.) I think it is fair to point out, if you are going to make comparisons, that that 9.68 per cent. on capital corresponds, I understand, to about 5 per cent. on turnover—rather more than 5 per cent.—which is higher than any of our figures.

Chairman.] Are there any questions?

Sir Irving Albery.

3804. I want to ask the Treasury if they can explain this to me. I am a little puzzled. It has just been explained to us that the estimate or the percentage of profit is based on the E.P.T. standard?—(Mr. Blunt.) Yes.

3805. On former occasions when we have been going into a similar kind of contract, the question has arisen in this Committee: How have you estimated the working capital percentage? The answer we have always got has been: "Oh, the excess profits standard." That, before this Committee in the past, has been regarded as the final answer, I think, that that is the standard, and we have ceased asking any other questions. Now it rather appears, from what we have just heard, that this E.P.T. standard is in fact no particularly reliable guide.—I am rather glad in a way that that point has come up, because we at the Treasury have been rather disturbed about this. We get the Associations of Chambers of Commerce, the Federation of British In-

dustries and others coming along and girding at our principle of capital employed. They do not understand it and they do not like it. What they like is a figure of profit based on cost. We tell them that this is the established principle, that we have run it during the war and we are going to run it for the remainder of the war, and that is that. But, nevertheless, when we look at it ourselves and see some of the curious results that arise in individual cases because of the peculiar capital structure of a particular firm—it may be a very old-fashioned firm and it may have bought in the slump or it may have bought dear we do feel that it is by no means an infallible rule at all. It is a rule of thumb thing which we think has given us good service during the war. As I have said, industry does not like it. It wants something simpler. As Sir Harold Scott has said, regarding the case which showed a turnover capital ratio of 19.36, there is something funny about it and one would have to look into their capital structure to see what it was; it would need an analysis.

3806. The other question I wanted to ask was this. Have there not been cases in which, in spite of the fact of there having been a fixed-price contract, you have subsequently reduced the profits?—There are the cases the Committee has been looking at just recently in the case of the Admiralty, for instance, and they will be seeing, in the case of the Ministry of Aircraft Production and later on the Ministry of Supply a large number of cases which Sir Gilbert has reported in which there have been rebates of profits. They largely, but not wholly, arise on sub-contracts, where the Department itself has not made the contract but the main contractor has. They do arise and I think are shown on this paper. They do also arise on main contracts themselves. This is a delicate subject, because the contract is, of course, a fixed-price according to law and where the Department has made it the Department is bound by it, and we do not want to interfere with the sanctity of contracts, but different Departments have different methods of approach to it. If they do find that something has gone extraordinarily well in favour of the contractor, some lucky break, or that the figures were wrong, and that there is an exceptional case for a reduction here, they would go along to the contractor and say: "Look here, do you not think you ought to give us something on this? Would you not like to give us something on this?"

Sir Irving Albery.] I must say it leaves one a little bit wondering, and some of it seems to be very uneven and inequitable. I am not criticising it in any way. Personally, I am all in favour of a fixed-price contract—have a fixed price and that is that; if you make a bargain with a man, stick to it, but as the result of inquiries into these accounts the profit

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seems to have varied considerably and has been very unequal in its incidence, and it is rather difficult to understand.

Mr. Benson.

3807. Can Mr. Blunt give us any indication as to how they calculate capital employed?—(Mr. Blunt.) I would much rather Mr. Cotton gave it. I can only give the broadest of pictures. (Mr. Cotton.) If you read the Finance (No. 2) Act of 1939 that gives you complete detail. I have not them at my fingers' ends. (Sir Lindsay Scott.) It is calculated on book values, broadly.

Chairman.

3808. It is the Inland Revenue value, is it not?—(Mr. Cotton.) Yes.

Chairman.] It is very complicated.

Mr. Benson.

3809. Turning to the figures on pages 2 and 3 of Sir Gilbert's paper, I think Sir Lindsay Scott said that the firm whose emergent profit on capital was over 60 per cent. was very efficient. Could it be said, as a broad rule, that as the percentage of profit increases the efficiency does increase?—(Sir Lindsay Scott.) No, not necessarily. You have to judge each case on its merits. We know the firms.

3810. In these particular cases we have here could that be said to be so?—There is no direct relationship between the size of the profit and the efficiency of the firm.

3811. There is not?—No.

3812. Not the size of the profit, but the percentage on capital?—No, it is a mistake to regard a high rate of turnover of capital as necessarily a measure of efficiency. There are some cases where a firm turns over its capital only once, which you may regard as suggesting inefficiency, but you have to judge the firms on their merits and from your knowledge of the stuff they actually produce.

3813. It was you who defended the 60 per cent. on the ground that the firm was the most efficient in the industry?—I think you are mistaken; it was not that firm I was referring to. Anyway, it was quite incidental that I said it was an efficient firm.

3814. You said, I think, that you have now reduced their percentage to 3 per cent.?—To 2.5 per cent.

3815. On cost. Even that would give them an emergent profit on the company's capital of nearly 25 per cent.?—I do not know the turnover capital ratio of this firm. I should say a rational figure is five or six times at the outside. (Sir Harold Scott.) It is not safe to assume that their turnover capital ratio next year will be the same as this. We have instances where there is a difference of five times from year to year in the ratio; so it is a very unsafe guide to take, anyway.

3816. When you estimated that 60 per cent. profit which showed a 6.6 per cent.

profit on cost, you yourselves had estimated to allow 5 per cent. profit I think you said?—(Sir Lindsay Scott.) 5.5 per cent. in 1941 in the case of the firm you are referring to and 5 per cent. in 1942.

3817. Which would have given them a profit of 40 per cent.?—If I may intervene on that, we did not estimate that. That was under the McIntock Agreement which bound the Department and which, as you will remember, we told the Committee we abrogated in the summer of 1941 for the express purpose of getting these profit rates down.

3818. Do these firms making higher profits tend to be bigger than the firms making lower profits? On page 8 of the Treasury Minute the Treasury say: "The essence of a fixed-price contract is that, in agreeing upon the price, the Contract Department has sufficient data to put the contractor at a much more definite risk". That is the whole crux of the matter, whether your technical cost officers really do know what goes on to cost. What machine have you for seeing that your technical cost officers do know that?—The first thing is to get good technical cost officers and the second is to train them. It is a matter of experience. A technical cost officer is not really valuable unless he knows the product. If he knows aircraft he is an extremely good judge, if a good man, of aircraft costs. If you put him on to guns he would not be so good; you would want another man on guns. But the best of our people who have been on it for a good many years now are extremely good at it because they have seen so many firms and know all their methods of production, and they actually often have suggested to one firm means of economy which they have learned in another firm.

3819. Do you keep a technical cost officer generally connected with one firm?—Emphatically no.

3820. You said costs had dropped. Can you give us any indication how much? For instance, in 1942 you had a production of £209,000,000 and in 1943 a production of £250,000,000. What does that represent in actual units of product? The first line on the table gives the "cost of sales"—a rather curious phrase. How much more did you get for £1 in terms of goods in 1943 than you did in 1942? Can you give us some indication? What does a Spitfire cost now as compared with what it cost in 1942, or what does a Lancaster cost now as compared with what it cost in 1942? The question of the rate of profit that you fix and the rate of profit on turnover are really no indication of efficiency. The only real indication of efficiency is the profit on price for the article, and that we cannot see at all in this figure?—(Mr. Cotton.) You ask a specific question: you ask us to take a

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particular type of airframe and say what it cost in 1942 and what it cost in 1943. We have an example here. The cost of a particular type of airframe in 1942 was £21,250. In 1943 we were buying the same airframe for £19,660.

3821. Is that a Lancaster?—No.

3822. It is that type of airframe?—It is a large aeroplane. I can tell you that Lancasters have come down very steadily in price.

3823. Labour costs—wages—have been mounting steadily, have they not?—Wages have been rising. As to labour costs—that is rather a difficult one. Labour costs I should say on the average tend slightly to drop as production proceeds. (Sir Harold Scott.) The man-hours on an aeroplane have come down and so the total cost of labour—

3824. I was not meaning that. Man-hours coming down is an indication of efficiency?—(Mr. Cotton.) Yes. (Sir Lindsay Scott.) There has been, as you know, a rise in labour rates per hour throughout the war. On the whole, on aircraft production I should think the increasing efficiency has probably more than balanced that.

3825. What I want to get at is this. You have given us an airframe, the cost of which has dropped from £21,250 to £19,660 in 1943. During that period what has been the increase in the wage rates?—I am afraid I cannot remember as far back as 1942.

3826. Alternatively, what are the respective man-hours?—(Mr. Cotton.) The really important figure is: What has been the increase in earnings?

3827. No—man-hours?—There will be a decrease in man-hours.

3828. Yes, I know. That is the test of your efficiency.—Quite.

3829. On that particular frame can you give it to us?—Not without notice. In fact I doubt whether we can get the information for you, because these were prices fixed well before the aeroplane was delivered, and it would require an immense amount of investigation at a firm's works to get this information out.

3830. The decrease in costs is about 6 per cent.—We have contracts ahead for that particular type of aeroplane, and in 1945 we shall not be paying more than £15,350 for it.

3831. Was your £21,000 based upon a large bulk of production, or were you just beginning?—That firm was getting into production at the time.

3832. Then that is not really a fair figure to take, is it?—No, it is not.

3833. You say the bulk of these prices are fixed, on an average, 25 per cent. through your contracts?—Yes.

3834. That means that the firms know pretty well what their planes are costing

them?—They know to within a moderately close margin. They do not know very accurately.

3835. How much information have your technical cost officers accumulated during that time? Have they access to the books of the firm?—No. They have access to the works. They actually see the workmen at work, and on occasion they do take actual time taken on certain operations. But I do not like that: I want them to work out what should be the cost, not what is the actual cost which is being incurred. (Sir Lindsay Scott.) You appreciate that the technical cost people only give the labour and materials cost, so that access to the books would not really help them. It is access to the floor that matters.

3836. A man looks at a particular component. Does he say: "That ought to take so many hours to make"? How does he know, unless he has also a man doing it, or has tried to do it himself?—That is what he does. These people have come from the industry. They are trained to look at drawings and say: "That could be made for £2 13s." That is their training.

3837. They look at it and say it ought to cost £2 13s., but 25 per cent. through the the contract the firm not only says that it ought to but it knows that it has been done for a given price, and that is why I asked whether your cost officers have access to the books to see actually what was the time that was taken?—They could always get that information. It would not be in the firm's books in the ordinary way.

3838. Surely the cost accountant of the firm would be able to extract the cost of any given component?—If he had taken it out, he would, and we should be entitled to have it.

3839. That is the point, that you are entitled to have these costings?—Yes.

3840. You say 25 per cent.: what range does that cover? Does that allow for quite a number of cases where the price is fixed when the contract is actually finished?—(Mr. Cotton.) Very few.

3841. But there are some?—There are some particularly bad cases where we simply cannot see eye to eye with the contractor; we cannot get him to accept what we consider is a fair and reasonable price, and then the thing drags on, and in the end we may have to give him his costs and a minimum of profit on them; but those cases are very few in number.

3842. Twenty-five per cent. is not only the average but the normal?—No; that is above the average. There is no normal, I should say. There are cases in which we get prices fixed well before deliveries start; there are other cases where deliveries may be three-quarters through before a price is fixed. It varies from case to case. If you have a very long run of one particular type

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you get to the stage when you can fix your price in advance of deliveries. If you are building a new machine where neither the contractors nor we can form a very close estimate of what it should cost, both sides are a bit afraid of committing themselves too closely to a price. By that stage our technical cost officer may have been able to work out a complete detailed technical cost estimate, which is a most prodigious affair; it consists of an enormous number of calculations. There may be as many as 40,000 or 60,000 different operations to price.

3843. I am rather sceptical about all this, because for years the Navy have been assuring us that they knew exactly what ships cost?—Forgive me on that (I know it is not for me to speak for the Navy) but their system of deciding a warship price was not to use technical cost estimation but to get an estimate from the technical department, their production department. There was no investigation by technical cost officers of the cost of the ship in the shipyard.

Mr. Benson.] They knew.

Chairman.] I do not think we want to go into Navy matters now.

Mr. Benson.

3844. No. I am only saying that I am rather sceptical. There is just one other point. With regard to your runs, it is important for close estimating that you should have long runs on an airframe or any component. Are you tending to run it longer or shorter on given components?—We have had a fairly good patch from the point of view of contract fixing in the last year or so, but I think there may be a good many variations in the future. It depends on the rate of technical progress—as to whether you get new types coming in. From a contract point of view that is a nuisance, but from an operational point of view, of course, it is very desirable.

3845. Could you let us have the figures of some typical components for the last two or three years. Could you take some airframe that has been made over a period of years and is still being made, and engines also?—Figures?

3846. Figures of costs?—(Sir Gilbert Upcott.) Prices.

3847. Yes, prices. The Merlin engine, for example, has been running for a long time, has it not? What has been your average price of the Merlin engine year by year?—(Sir Lindsay Scott.) You will appreciate that the Merlin of to-day is a very different engine from the Merlin of two years ago.

3848. One wants to know what has been the result of an increase in efficiency?—Yes, certainly.

Chairman.] Would that be of much value if the Merlin, or whatever the engine is, has been so much modified in the light of

experience that you are getting 20 per cent. more efficiency and all sort of extra things have been put in? I was wondering whether the figure would be of much use to the Committee.

Mr. Benson.] If the only thing that is similar is the name it is not helpful.

Chairman.] Perhaps the Witness could tell us that.*

Mr. Benson.

3849. I asked for the prices of something that had had a long run?—We should have to take a particular type like the Merlin 20. You will not get very long runs because we have got up to the Merlin 100.

Chairman.

3850. Five times the efficiency?—I would not say that, but quite a high percentage of efficiency.

Chairman.] Unless you have something that has been standardised over a period of years a comparison is not valuable at all.

Mr. Benson.] No, but I asked him if he had any of those.

Chairman.] Perhaps the Witness will try to find one.

Mr. Douglas.

3851. In paragraph 66 of our Report last year we said: "Your Committee note that the contract policy is to regard a profit of 7½ per cent. on capital employed as a standard starting point from which to negotiate contract prices." I would like to know from the Treasury whether this Department regards that as a correct statement or whether there has been any modification of it? (Mr. Blunt.) That is a correct statement, and there is no modification.

3852. Do the Department agree that that is correct? (Mr. Cotton.) That is the starting point.

3853. Yes, I know. The additions which are made to it, as I understand it, are intended to cover two things, namely, efficiency and risk. Is that right? (Mr. Blunt.) Are you wishing me to answer or Mr. Cotton?

3854. I would rather like both of you to answer and say whether you are agreed about it.—That is perfectly correct.

3855. Is that Sir Harold's view, too? (Sir Harold Scott.) Yes.

3856. According to the table which has been supplied to us the profit on capital which was envisaged in 1942 was 13.77 per cent., which is nearly double, and the profit actually realised by the contractors was 20.4 per cent., which is nearly three times the starting point. Would you explain what the considerations are, either of efficiency or of risk, which bring about that result when your starting point is 7½ per cent.? (Mr. Blunt.) As you say, 7½ per

* Paper circulated to Members: not printed.

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cent. is the normal starting point, and there are these additions based on turnover up to 2 per cent. in each case, the one for risk and the other for efficiency. If the firm (I say "if") deserves to get the full 4 per cent. for risk and efficiency, and its capital turnover ratio, as seems to be the case here, is somewhere about 3 to 1—(Mr. Cotton.) 3.8 to 1. (Mr. Blunt.) 3.8 times 4 gives you another 15 per cent., which will bring you up to somewhere about 22½ per cent. But I say "if" they could get the maximum. But this is an average. The average, of course, will not get the maximum, or I should assume they would not get the maximum risk allowance or the maximum efficiency allowance, and, therefore, you would not expect them to get up to 20 per cent. on the average as an envisaged profit, and you will find that they do not. As you see, it is 13.77 per cent.—not the 22½ per cent. I was working out just now as the envisaged profit—the profit which the contracts department purports to have allowed to that contractor. He is not responsible for the 20.40 per cent., the figure down below. I was making that point. He cannot control that.

3857. Let us take it one at a time. Let us start from the envisaged or anticipated profit which the person who negotiates the contract thinks he is allowing to the contractor. Can you explain how it is that he comes to the conclusion that he ought to allow a particular contractor let us say twice as much as his starting point.—He does not do it that way. He does not say: "I will allow him twice as much as the starting point." He starts with the 7½ per cent. He says: "This man" (I am taking a purely illustrative case) "is 1 per cent. at risk; he is 1 per cent. efficiency; that is to say, he has an average between the 0 and the 2 per cent. That gives him 2 per cent. on turnover. That expressed in capital employed would be another 7 per cent. and that brings him up to 14 per cent. or 15 per cent.

3858. Am I to understand that you are departing from the basis that the standard by which the profit is to be tested is the capital employed, and that you are going on to the basis of using the cost of production as the basis upon which to calculate the profit?—No.

3859. The price of the article?—No. All I was saying under that head of capital employed is that we do use that as a guide during the war and that we propose to continue to use it for good or ill. We have said that it was not an infallible guide and in some ranges and in some extreme ends of industries you find it produces extraordinary results, but in the main we have used it and are continuing to use it.

3860. Two per cent. upon the price of the article, or the "cost of sales", as apparently it is called here, would give

an additional 7½ per cent., would it not, upon the capital employed, taking these average figures? I am talking of 1942 when the ratio between the emergent profit and the turnover is 3.64 per cent., I calculate?—I am afraid I have got a bit lost, quite frankly.

3861. Let me put it to you in this way: If you base your calculation of the addition for risk and efficiency on the price of the article, it means a very much larger percentage upon the capital employed, does it not?—(Mr. Cotton.) It must. (Mr. Blunt.) Most certainly, and the Treasury Minute makes a particular point of that. It recognises that.

3862. Therefore, is any regard paid in that to the amount of the capital employed?—Yes, it is. The Department, having assessed the degree of risk and efficiency allowance to be given, and having worked out a turnover rate, then looks to see what this will give on the capital employed. He ought to be looking over his shoulder all the time at the capital employed; and the rule (I do not know how it is worked in different Departments) generally is that if it gives a figure over the normal ceiling of 15 per cent. it will receive special consideration. They will look to see if there is something funny about the capital employed in this case, or if there is any other reason. The 15 per cent. is not a complete bar, but it is a red light. But they are looking at the capital employed all the time, and they are bound by the rules so to do.

3863. Part of the capital employed is in fact outlay upon labour and materials, and so on, by which the article is produced, is it not?—The working capital?

3864. I do not know whether you call it "working capital" or what you call it, but it is part of the capital employed, is it not?—Yes.

3865. Therefore it is taken account of already in the percentage of capital employed, is it not?—I do not quite see that. The capital employed will take into account, of course, the fixed assets, the stock of raw materials, I think—(Mr. Cotton.) Yes. (Mr. Blunt.)—and the work in progress, and that sort of thing. That is how the capital employed is worked out. There are other things, of course.

3866. It takes account of the work in progress, and therefore, when you are giving a percentage upon capital employed, you are taking account of the work in progress in that percentage. Is that not right?—Undoubtedly. If you have the work in progress in your capital employed and you are fixing your profit on capital employed, to that extent, in so far as the work in progress does represent the operation of labour and material, yes. I do not know quite where it leads to.

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3867. To what extent do you modify your procedure in allowing for risk and efficiency in the case of a firm whose rate of turnover is four as compared with one whose rate of turnover is let us say, eight?—There you are getting into the realm of practical application, and I must transfer you to Mr. Cotton.

3868. All right. I do not mind?—(Mr. Cotton.) Might I put it in this way. We are buying and we are trying to buy at the best prices that we can get, and in the course of our buying we are trying to encourage contractors to produce as cheaply and as rapidly as they can. To do that we have to give them fixed prices, or we think we have to, and we have to include in those fixed prices a profit. A contractor is not going to take a price, which, if calculated on some theoretical basis of capital employed and turnover, would give him a profit of, say, half per cent. He will not take the contract.

3869. I beg your pardon?—I say a contractor would not take a contract on a fixed price with a profit of, say, half per cent. He could not afford to do so.

3870. I think we all understand that. What I am trying to get at is the difference between, let us say, $7\frac{1}{2}$ per cent. and 15 to 20 per cent.?—But the average percentage on cost is 3.76.

3871. Mr. Cotton, surely you know that when I talk of $7\frac{1}{2}$ per cent. to 15 per cent. and 20 per cent., I am talking about the profit on the capital employed. Surely we do not need to go back to explain that point once more?—But we have to place contracts. We cannot say that because the year after next the contractor may by some marvellous change in the amount of his capital employed and turnover, make a profit of 20 per cent. on his capital employed, therefore, we must think of this ahead and say: "We cannot give him 3 per cent. because, if we do, he will make 20 per cent. on his capital employed. Therefore we must give him $7\frac{1}{2}$ 20ths of 3 per cent." We cannot do it.

3872. I am unable to understand that, because if you base your calculation upon the cost of the article and not upon capital employed, surely there is a very large range of fractions which you can use. You can deal with it in twelfths or in hundredths or anything you like—2.1 per cent. or 2.2 per cent. Surely you do not need to jump up whole percentages in making this estimation?—When you sit across the table arguing a price with a contractor you both have in mind something as regards what the costs are going to be. You eventually arrive at a price. That price is not an exact estimation of costs plus, say, 2.125 per cent. for profit: it is a price; it may be £1,500, £1,510, £1,520 or something of that sort.

3873. We all know that, but am I to understand that all we are to deduce from these figures is that they are an indication of the relative skill in bargaining between the contractor and the Ministry?—That is in part what the figures showing the emergent profits compared with the prevailing profits on cost represent. The figures in relation to the capital employed are extremely misleading in some cases.

3874. This Committee has not been told that before. This Committee has been told that those figures are the standard. The Committee has been told to-day that they are still regarded as the standard by which this thing ought to be judged.—(Mr. Blunt.) I do not know whether there is some misapprehension here. They are still the standard. There is nothing changed. The only thing to which Mr. Cotton has been referring, as far as I understand it, is that you may get a case, which shows some ridiculous capital turnover ratio, and there is something peculiar about that firm, and if in that particular case you use that capital turnover ratio you might have to offer the contractor a contract at a figure of $\frac{1}{2}$ per cent. on cost and the Treasury and the Contracts Department generally have always said (it is not a point that has been brought out before, I believe, because it is an extreme case; it is not a general principle) that where you get that sort of result there is a certain limit beneath which you cannot reasonably go. You cannot offer a man $\frac{1}{2}$ per cent. You might have to say 2 per cent. and say there is something wrong with the capital employed. It is not a proper guide in that case. If, when you give him that 2 per cent. the figure appears to come out at 38, there must be something wrong. It cannot be 38.

3875. Does not the person engaged on these negotiations say to himself: "From my expert knowledge of this industry I know the figure of capital employed ought to be a different one from what it is named as"?—He does know from the general mass of things, of this particular lot, that in the mass it is generally something like 2 per cent., 3 per cent. or 4 per cent., but—

3876. That is not the point I am getting at all?—I am sorry. I have missed it.

3877. Here is a man who is entering into negotiations about the price of an article, and his starting point, in order to judge the price to be properly paid, is in relation to the capital employed, but he finds in this particular case that the capital employed is totally different from what he expected it to be. Does he then form an estimate of what he thinks the capital employed should be?—He would do more than that. Of course, he should have and would have in front of him the figures taken from the books of what the capital employed is. It is not purely an estimate of what the capital employed is. He knows what it is for what it is worth. In some

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cases, having got it from the books and having looked at it; his accountants advise him that there is something very wrong about it. But they have got the figures from the books. It is not just an estimate.

3878. I know that they have the figures from the books and the figures from the books reveal this discrepancy between the turnover and the capital employed. That is what puts the man on the track of the discrepancy. Does he then look at the thing as a fact and say: "The capital employed in this business consists of such and such articles, a building site, and so on, and I think its fair value is so and so"?—Frankly, you must take into account the enormous mass of cost accounting which is going on and the small number of people we have to do it. That is a very hard fact, and if in the middle of this he has to try to analyse out one of these peculiar capital structures, which might mean weeks and weeks of work—he just cannot do it.

3879. Are we to understand that in cases of that kind there is no standard?—In an extreme case I may say the standard really goes. I say that quite frankly. But it is only in an extreme case.

3880. We are given a table by the Comptroller and Auditor General dealing with, I think, 20 or 22 firms in which the emergent profit has run up in one case to 60 per cent. Are you telling me that in half of those cases, let us say, the circumstances are of the abnormal kind with which we have been dealing?—No, I would not say that. I personally am not going to answer about detailed cases because I do not know anything about them, and it would be dangerous for me to answer. In fact, it is not my business to answer.

3881. Do not these figures put the Treasury upon inquiry?—If it were a Treasury function, certainly I would agree. If the figures which we have here suggested there was something wrong with the Treasury rule it would put the Treasury, in common with the Contracts Department—because it is a consortium of opinion—on inquiry as to whether there is something wrong with the practice. One would need to know—and the accountants would have to advise—how these things happened. The first 10 cases are definitely under 15 per cent.; the next 3 are between 15 per cent. and 20 per cent. I see nothing very abnormal about that. Even the next 3 between 20 and 30 per cent. may, as the Treasury Minute says (I do not know) be due to the fact that the contractor has pulled out a very large efficiency stop. It would need a lot of analysis to say.

3882. I do not know either. All I do know is that the volume of transactions which is involved in this set of figures which covers some 20 firms amounted last year to £250,000,000, which is a very large amount of public money?—I do not know

whether Mr. Cotton can say whether the firms beyond, shall we say, the 30 per cent. limit make up a very large proportion of that £250,000,000.

Chairman.

3883. It would be interesting to know that?—(Mr. Cotton.) I could not say without a good deal of investigation. Might I point out to Mr. Douglas that no firm did better than beat our prices by just about 4 per cent.

Mr. Douglas.

3884. I am sorry, but I cannot catch what you are saying?—No firm did better than beat our prices by about 4 per cent. In the case of quite half-a-dozen firms they actually did not make the profit which we envisaged. Now, regarded as a test of our price-fixing, we must have regard, first of all, to the emergent rates as compared with the prevailing rates on cost. If we look at the results in relation to capital employed, a whole fresh set of considerations has to be taken account of, and the figures show that in some cases the turnover capital ratio in one year is twice or more than twice what it was in one of the other years.

Sir Irving Albery.

3885. You used the expression "turnover capital ratio." Are you using that differently from the expression: "working capital"?—No, the whole capital.

3886. I only wanted to know if you meant the same thing.—The total of capital employed as calculated for Excess Profits Tax purposes. That is the figure. Call it X; put Y over it, Y being the turnover. Divide Y by X and you get the ratio. In a number of cases the ratio in one year has proved to be more than twice as great as it was in the other year—and in an extreme case $5\frac{1}{2}$ times as great. Take the case where it is $5\frac{1}{2}$ times as great. Assume that we fix our profit to give him, say, 10 per cent. on the capital turnover ratio as we knew it; the ratio increases by $5\frac{1}{2}$ times, and he appears to make on his capital employed a profit of 55 per cent. But he has made no more profit than we intended him to make, and it may have been a very low rate of profit. In some of these figures here, where very high figures are shown—

Mr. Douglas.

3887. I do not know what you mean by a rate of 10 per cent. on the capital turnover ratio?—10 per cent. on capital.

3888. You said on capital turnover ratio?—I beg your pardon. 10 per cent. on capital.

3889. That is a different thing?—A rate derived from the turnover capital ratio, shall we say? Among these high profit firms there is one making less than 3 per

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cent. on its turnover; there is another making 3.2 per cent. In the case of the firm making 3.2 per cent. we allowed it a profit rate of 4.2 per cent.; that is to say it failed to achieve as much profit as we might say we hoped it would make. We should have liked it to make still more profit, in which case it would have shown a saving in the cost of labour and materials, but in that particular year its turnover capital ratio jumped from $5\frac{1}{2}$ to $7\frac{1}{2}$. Consequently it shows a very high return on its employed capital. That is no indication whatever that the price-fixing was bad.

3890. I assume that whoever negotiates the price does know what the output is that he contracts for, and what the output was that he contracted for in the previous year, and, therefore, he ought to know that the ratio of turnover to capital is going to rise.—(Sir Lindsay Scott.) Is there not some misapprehension there? Are we not omitting to take account of the complications I mentioned right at the beginning, that the employed capital, as calculated for Excess Profits Tax purposes, depends on a number of arbitrary dates. It depends—

3891. I know that. All I am dealing with is Mr. Cotton's point about the turnover increasing considerably. It does not matter what measure you use, you still have an increase, do you not? Supposing the capital is under-estimated 50 per cent., that does not alter the fact that the ratio has increased, does it?—I do not see any reason why the ratio should increase.

3892. Let me try to put it into elementary terms for you. Suppose you have a firm whose capital is £100 and its turnover in a particular year is £200, the ratio then is 2. If its turnover next year is £400, neglecting the element of working capital, which also increases, the ratio is 4 per cent.—Yes, but you cannot neglect the working capital, can you?

3893. I was trying to put it in its most elementary terms. There would still be an increase in the ratio if the capital, instead of being £100, were £200, would there not. The figures would be different, but there would still be a startling increase, would there not?—Not on those figures; it would be the same. It would be 2 to 1. It would be £200 to £100, and then £400 to £200.

3894. I am not talking of that. I am merely saying that if your rate of turnover increases there must be an increase in the ratio to capital employed, must there not, even if the capital employed has been under-estimated by some percentage?—No. Surely, an increase in turnover commonly contemplates an increase in capital. You cannot do a bigger business without an increase in your working capital, and possibly also in your capital assets.

3895. Then we come back to this, that you have to take account of the capital employed, and is not that the whole basis upon which business is conducted? Do not people put their capital into business in order to get a return on it which they measure as a percentage upon the capital they employ? (Sir Harold Scott.) The point is that all these figures are calculated on an arbitrary conception of capital, which is the Excess Profits Tax standard, which does not necessarily correspond with the working capital in a particular year.

Chairman.

3896. That is one of the great difficulties.—Yes; we are acting on arbitrary figures here.

3897. We see constantly in the Press troubles about the Excess Profits Tax standard. It is the echoes that come in here.—(Mr. Blunt.) I do not think there is anything wrong with the Excess Profits Tax standard. The trouble is to apply it in all cases.

Mr. Douglas.

3898. Your profit envisaged in 1942—that is, what your negotiator has thought the contractor would get—was 13.77 per cent. The profit which the contractor actually got was 20.40 per cent.—an increase getting on for 50 per cent. What is that increase represented by? Is it represented by the efficiency of the contractor?—(Sir Lindsay Scott.) It is represented mainly by the savings which the contractor has made.

3899. That is his efficiency?—That is a measure of his efficiency, the savings he has made.

3900. That is the measure of his efficiency?—Yes.

3901. But if you negotiated a rate of profit of 13.77 per cent. as compared with the standard rate of $7\frac{1}{2}$ per cent. you were already giving him something for his efficiency, were you not?—The rate allowed was as low as 3.76 on turnover. It was a very low figure.

3902. Do the Treasury accept that view?—(Sir Harold Scott.) May I say that 3.76 per cent., which is the prevailing profit rate, mentioned at the top of the table in the Report of the Comptroller and Auditor General, is not all an allowance for efficiency. It is only a fraction of that which is an allowance for efficiency—point something or other.

3903. What you said was that the excess over 3.76 was an allowance for efficiency?—But there is no excess over 3.76. 3.76 per cent. is what we allow him.

3904. That is what you thought you were going to give him, but what he actually got was 5.60 per cent.?—(Sir Lindsay Scott.) But he made a saving to get that and that saving is his in our view.

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3905. I am not disputing that at all. What I am concerned about is whether you are not paying him too much for his efficiency—whether your costings and investigation are skilful enough?—(Sir Harold Scott.) Your criticism began with regard to the figure of 13.77 per cent., and you were asking how had we got to 13.77 per cent. from 7½ per cent. My point was that we got to it by a fractional allowance in the 3.76 per cent. That has nothing to do with the emergent profit.

3906. And that is why I asked the Treasury whether they agreed with that method of computing the allowance for efficiency.—(Mr. Blunt.) That is how I attempted to describe it, as described in the Report last year, that you have your 7½ per cent. basic turned into a rate on turnover; you then add something for efficiency on turnover, and those are all expressed eventually in this 3.76 per cent. It all dovetails.

3907. I understand the view of the Treasury is that the allowance for risk and efficiency is to be calculated upon the price of the article and not upon the capital employed?—It is calculated in the first place, most certainly, on the turnover, but there is the operation of this 15 per cent. of capital employed. They have to look at what it means in terms of capital employed; they are bound to do that. If it is over 15 per cent. it becomes a special case which requires special consideration before it is allowed. I think, Mr. Cotton agrees with that. (Mr. Cotton.) I do not think in the case of any of these firms have we envisaged a profit rate on capital employed of more than 15 per cent. (Mr. Blunt.) But it is turned back into capital employed, although it is calculated in the first place on turnover. It is looked at in terms of capital employed.

3908. What I want to draw your attention to is that the result produced is very different according to the ratio of the turnover to capital employed, and that difference can arise, can it not, quite apart from any chance of the working of the E.P.T. standard. No matter what basis of valuation of the capital employed you use, is it not true that in different firms and in different industries the ratio of turnover to capital employed is very different?—Most certainly. Industries have what you might call their typical capital turnover ratio.

3909. Quite. Here we are virtually dealing with different industries. The range of products of aircraft which is involved here is so great that they are almost different in kind. Is that not so?—Mr. Cotton must answer that. (Mr. Cotton.) They all fall within the light engineering industry.

3910. Yes, I know; so do wringers and mangles. But there is a lot of difference,

is there not, between a Spitfire and a Buzzard and a Lancaster?—There is very little difference in the amount of capital required to produce a certain amount of production.

3911. Do you say there is very little difference between the capital which is required in order to produce £100 of Spitfire as compared with £100 of Lancaster?—I say there is very little difference.

3912. If you are able to ascertain that it must be quite easy for your negotiators to form an estimate of the correction which is required upon the Excess Profits Tax standard of capital employed?—It is very easy to make a pretty close shot at what is the amount of capital which is being employed by each firm in the aircraft industry.

3913. Upon a uniform basis?—Upon a uniform basis. This is simply working in a circle. If we base our profit rate on that every firm will get the same profit rate, because with slight differences they are all actually employing about the same amount of capital. The trouble comes in the ownership of the capital.

3914. We have got this problem very simply. There are only some 20 firms employed in this. Surely you can tell us for each one of them what you consider, apart from the Excess Profits Duty standard, to be the capital employed and what the rate of profit earned is?—On the total capital employed? It would require a good deal of calculation.

3915. I thought from your previous answer that you knew all about it?—I said a pretty close shot.

3916. Let us have a close shot?—I should say, on an average—

3917. Do not answer it offhand. Take your time over it and let us have a memorandum showing for each one of these firms individually what you consider the value of their capital to be upon comparable terms, and what the profit was which they earned, on it, and compare that with the Excess Profits Duty standard of capital which you actually used in each case?—I cannot do that. First of all I have to know from somewhere what is the amount of capital employed by Excess Profits Duty standards, and we have not the figures here.

3918. What have we been talking about all the time to-day? If somebody does not know, where do these figures come from?—I have the details of the totals. (Sir Lindsay Scott.) We have the capital employed as calculated for Excess Profits Duty purposes, those are the only figures we have. Those are the only figures we have taken out.

3919. Mr. Cotton was casting doubts upon the possession of these figures just now?—No, we have those figures. (Mr.

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Cotton.) Those figures are perfectly accurate, but they do not represent the capital which the firms are actually employing.

3920. No, I agree, and you say you can form a very close estimate of what you consider to be the comparable figures of the capital which they are actually employing, and I ask you to put in a memorandum for each one of those 20 or 22 firms, showing what it is, and also showing what the relative Excess Profits Tax standard is, and let us see what the rates which emerge upon those two bases are?—It is a question for the Chief Accountant. He says he could if he is allowed to give his own definition of "capital employed." (Sir Harold Scott.) I think that is the trouble we are in. We have no agreed definition. (Mr. Blunt.) This is not an exact science.

3921. What I am trying to do is to get it a little more exact if we can. Let us have the information at the same time?—If we are going to carry on this basis of capital employed, instead of getting more precise we shall have to deal with it on a broader basis, the sort of basis you had in mind, of taking some sort of typical capital employed ratio per industry or a group of industries.* We have been examining tentatively whether in the interests of simplicity, something on these lines could be worked out.

3922. I would never accept it upon the basis of an industry or a group of industries. That destroys the whole value of any test which you endeavour to make. One other point, Mr. Cotton. You say that the prices are settled with the contractors when the contract is about 25 per cent. completed. These contracts, I assume, are for the delivery of a certain number of aircraft over a certain period, are they?—(Sir Harold Scott.) Aircraft, aero-engines, propellers and turrets.

3923. A certain number of a certain article over a certain period?—Yes. (Mr. Cotton.) The price settlement may not be in respect of the whole contract. On the other hand, we may have a price settlement covering a number of contracts; but broadly a price settlement is in respect of the delivery of a certain number of whatever it may be—aircraft engines, say—in a given period.

3924. That is what I thought. You settle a price for a certain number of articles to be delivered in a certain period. What do you mean when you say that you settle the price, let us say, when the contract is 25 per cent. through? Do you mean that 25 per cent. of the articles have been delivered, or what?—Yes.

* Note by Witness :—I intended to say a group within an industry.

3925. At that stage the contractor knows what his cost of producing them is?—(Sir Harold Scott.) And at that stage you allow him less for risk further on. (Sir Lindsay Scott.) Perhaps I might explain that. The records of contractors are far less up-to-date than Mr. Douglas thinks. Very few contractors, if any, can tell you at each stage of production what the costs of production at that stage are.

3926. Contractors are less intelligent than I take them to be if they have not a very shrewd idea at that stage?—They have not a precise idea—far from it. They do not know, for instance, their overheads. Overheads are a very difficult calculation. (Mr. Blunt.) As Sir Harold has said, I imagine the risk allowance would vary—(Sir Harold Scott)—according to the date at which the price is fixed.

3927. That is precisely the point I want to get at, and I am saying that at that stage the contractor's risk is very much less, because he now knows from experience how the job is going. He has already delivered to you 25 per cent. of the articles in question, and his position is entirely different from that of a man who contracts to build, let us say, a bridge and fixes a fixed price with you before he ever moves a single tool on to the job?—(Sir Lindsay Scott.) The bridge builder does not give you a fixed-price including a profit of only 3 per cent. on turnover.

3928. I do not know about that, but he gives you a bargain, in my experience of such contracts, which often does not yield him 20 per cent. on his capital employed or anything like that?—I do not think you will get anything like 3 per cent. on turnover on a price fixed as far ahead as that.

3929. I have indicated that I do not accept turnover as any standard at all. The other element that you allow him is in respect of risk. When he has produced 25 per cent. of the goods you require he must have a much better knowledge of what the risk he is likely to run is?—Our experience is that at that stage of a contract a contractor will not have any very precise notion of what his costs are. We are dealing with extraordinarily small margins here—1 per cent., 2 per cent. and 3 per cent. Having regard to the uncertainties of production that is a very narrow margin, and the contractor who has delivered only 25 per cent. of a contract running perhaps over two years would have no precise knowledge within 1 per cent. or 2 per cent. of what his costs are going to be during the remainder of that contract. (Sir Harold Scott.) I think that is shown by the figures Mr. Cotton gave about that particular airframe. The price had gone down in 12 months a good deal more than 1 or 2 per cent. (Mr. Cotton.) And in half-a-dozen or more cases—in 10 cases—the contractors have made less profit than we have

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allowed them. Therefore those contractors have most undoubtedly run a risk.

3930. You say that they have made less profit than you allowed them. By what measure are you calculating the profit—on the price or capital employed?—On the price.

3931. It might quite conceivably happen that although the profit on the price is not so good the profit on capital employed may be greater. Look at your comparison of 1941 with 1942. Your negotiating price was calculated to allow 4.41 per cent. on cost in one case and a reduction of 3.76 per cent. in the other case; but the profit envisaged on capital employed rose from 12.82 per cent. to 13.77 per cent.?—(Sir Lindsay Scott.) Is it correct to say that if he makes less profit on turnover than expected he can make more profit on capital than expected? How can that happen?

Mr. Douglas.] Of course he can.

Chairman.] Have you any more questions, Mr. Douglas?

Mr. Douglas.] I can defer them, if it is to come up on another day.

Sir George Davies.

3932. I have one question which arises out of all this discussion. If you will turn to page 27 of the Report of the Committee of Public Accounts of last year, to paragraph 66, that says: "Your Committee note that the contract policy is to regard a profit of 7½ per cent. on capital employed as a starting point from which to negotiate contract prices." In view of the discussion we have had would you regard that as a completely accurate statement, or would you think it more accurate to say that the 7½ per cent. on capital employed is a check on prices the propriety of which has been arrived at from other considerations? You understand what I am trying to put?—(Sir Harold Scott.) Yes, I follow your point. I think it is a fair way of putting it, really.

Mr. Douglas.

3933. Both Witnesses have previously told us that the statement was correct?—(Mr. Blunt.) It is correct. (Sir Harold Scott.) It is a different emphasis of the same statement. (Mr. Blunt.) It is rather difficult to get this across. As far as the basic rate is concerned it is really 7½ per cent. on capital employed although in fact you call it a profit on turnover, but you are starting definitely there with the 7½ per cent. on capital employed. Call it 4 per cent. on turnover, if you like, if that is the equivalent—but that is what you are doing. You are giving a profit on capital employed. When it comes to these other things, efficiency and risk, you are not then at that point giving a profit on capital employed at all; you are giving a

profit on turnover, but you do take the total of those two profits on turnover—one derived from capital employed and the other deliberately expressed as a profit on turnover—and you add those together and you say: "Now, what is the profit on capital employed?" and you come back to that as a guide and a check.

Sir George Davies.

3934. As a guide?—Yes.

3935. That is my point. A guide is rather different from a standard starting point from which to negotiate contract prices?—If you take the case of a man who has no particular efficiency and no particular risk, he will get 7½ per cent. on his capital employed—not exactly that figure because it has been expressed as a rate on turnover, but the nearest equivalent to 7½ per cent.

Chairman.

3936. The difficulty we are all in is the virtual impossibility of correlating profits on turnover with profits on capital when it is impossible to see what the turnover is going to be. The original idea was, as I understand from the Treasury, that 7½ per cent., as Sir George has just said, should be the test?—Yes.

3937. The Ministry have, for the reasons explained to us, had to go really by the turnover test. The two things very often cannot be co-ordinated with any exactitude at all, and you get striking disparities, made worse by the fact that the Excess Profits Duty standard of capital is a very difficult one to ascertain?—Yes.

3938. Is not that a summary?—That is the extreme case. I would agree if you make that rather the extreme case.

3939. I want the Treasury to say to what extent the capital test is still being applied. It seems to me that in spite of yourselves you have drifted away from the capital test, and it seems to me that the capital test is almost valueless in a good many cases now.—I would not say that.

3940. I do not want to prolong the discussion.—I would not say that. The rule still stands. There has been no change in principle. The rule still stands that they have to look at capital employed, and if it gives over 15 per cent. they have to give a special analysis of it to satisfy themselves that it is not higher than it is reasonable to give. As far as the Treasury is concerned the rule stands. (Sir Harold Scott.) Your point is that it has to be looked at but that there may be reasons for allowing more than the rigid rule would suggest. (Mr. Blunt.) In special cases, yes.

22 June, 1944.] Sir HAROLD SCOTT, K.C.B., K.B.E., [Continued.
Sir W. LINDSAY SCOTT, K.B.E., D.S.C., and Mr. J. T. COTTON, C.B., O.B.E.

3941. Although it is looked at, the emergent profit is 20 per cent.?—Neither the Treasury nor the Contracts Department can lay down rules to fix the emergent profit on a fixed contract.

Mr. Douglas.

3942. Mr Cotton, when you are negotiating a contract with the contractor, I suppose some note is kept of what happens? Is a note kept of some figures which are on record, showing what the negotiator

considered to be the capital employed and what was the basis upon which he arrived at his figures?—(Mr. Cotton.) There is a good deal of information on the files. The capital employed and turnover calculation will be in regard to the whole of the year's work of the contractor. It will not be taken out separately for each particular contract.

Mr. Douglas.] I do not know what that means.

(The Witnesses withdrew.)

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

TUESDAY, 27TH JUNE, 1944.

Members present:

SIR ASSHETON POWNALL in the Chair.

Sir Irving Albery.
Mr. Benson.
Sir Edmund Brocklebank.

Mr. Glenvil Hall.
Mr. Pickthorn.
Sir Frank Sanderson.

Sir GILBERT UPCOTT, K.C.B., Mr. D. F. C. BLUNT and Mr. C. E. I. JONES called in and examined.

CIVIL APPROPRIATION ACCOUNTS (WAR SERVICES), 1942.

CLASS X.

VOTE 2.

MINISTRY OF AIRCRAFT PRODUCTION.

(Paper handed in by Sir Gilbert Upcott, K.C.B., on Profit Rates in Ministry of Aircraft Production Fixed Price Contracts.)

Sir HAROLD SCOTT, K.C.B., K.B.E., Sir W. LINDSAY SCOTT, K.B.E., D.S.C., Mr. J. T. COTTON, C.B., O.B.E., and Mr. H. P. BRUCKSHAW, O.B.E., called in and examined.

Chairman.

3943. We start to-day with the Civil Appropriation Accounts (War Services), 1942, page v, paragraph 8, of the Report of the Comptroller and Auditor General. Our Witness is, of course, Sir Harold Scott, as before, from the Ministry of Aircraft Production, and you have with you, Sir Harold, Sir Lindsay Scott and Mr. Cotton?—(Sir Harold Scott.) That is so.

3944. The Comptroller and Auditor General states: "Progress has been made in the settlement of final prices for all types of supplies." Could you tell us how the progress on these questions has been got on with?—We are still not up-to-date, and

I suppose we never shall be, but we are making progress. On the 31st March this year the number of aircraft on order which had not then been priced was 32,278, and the number of engines unpriced on order was 37,349, but these orders, of course, relate to aircraft that are due for delivery quite a long time ahead—in the case of the aircraft as far ahead as September, 1945, and the engines March, 1946.

3945. Are you more behind than you were a year before?—No. On the whole I think we are catching up.

3946. You are making up some of the arrears?—Yes. My information is that the output of finally priced supplies exceeded the fresh orders placed in 1943.

27 June, 1944.]

Sir HAROLD SCOTT, K.C.B., K.B.E., [Continued.
 Sir W. LINDSAY SCOTT, K.B.E., D.S.C., Mr. J. T. COTTON, C.B., O.B.E.,
 and Mr. H. P. BRUCKSHAW, O.B.E.

3947. In the fourth line of the paragraph Sir Gilbert states: "In a number of cases, however, the settlements were not concluded until the production of the supplies in question had been completed or had reached a late stage. . . ." Is that the figure you gave us just now, or have you a figure on that?—That relates to the "X" aircraft, I understand, where there were special difficulties. These were contracts placed in the early part of the war and final settlement has not yet been reached, mainly for the following reasons: The original order was for 1,000 aircraft. Then the order was reduced because of a change in Air Ministry policy to 500. Then it was increased again to 600. (Sir Gilbert Upcott.) The latter part of my paragraph does not refer solely to the "X" aircraft. The statement "and in the case of certain important airframe contracts placed in the early months of the war final settlement has not yet been reached" does refer to the "X" aircraft, but the earlier observation: "In a number of cases, however, the settlements were not concluded until the production of the supplies in question had been completed or had reached a late stage" does not relate to the "X" aircraft; it relates to cases in which the prices have been fixed, but fixed at a very late stage of the contract, or even after the completion of the contract.

3948. Could you tell us about those cases other than the "X" aircraft?—(Sir Harold Scott.) I have some figures here for the financial year ended March, 1944. During that year pricing was agreed in respect of 24,000 aircraft and 37,450 engines, but in respect of certain batches of certain aircraft amounting to 3,823 and 6,062 engines the final price agreements were not reached until after delivery had been made, although negotiations for fixing prices had been in progress for some time before delivery.

3949. Have you any idea of the amount of money involved?—(Sir Lindsay Scott.) The value of the 24,000 aircraft was £252,000,000 and the value of the 37,450 engines was £56,500,000.

3950. The value of those unpriced would be about £40,000,000 to £50,000,000?—Yes.

3951. Sir Harold, I think you mentioned a moment ago that in respect of certain batches of aircraft a settlement was not completed until the supplies had actually been delivered. Does that apply to many?—(Sir Harold Scott.) The delivered supplies which had not been priced were 4,745 aircraft. That was up to March.

3952. Up to March this year?—Yes, but as against that quite a number not yet delivered had been priced—an equal number, 4,620—and that needs to be put against the total figures from the outbreak of the war until March. Pricing has been agreed for 76,800, so these 4,745 unpriced

must be set against that 76,800 which have been priced.

3953. In the next sub-paragraph the Comptroller and Auditor General states: "There has been some improvement in the general position of price settlements for airframe repair contracts to which reference was made in paragraph 12 of my last Report, but no final settlements have yet been made for work completed under a number of contracts of substantial annual value placed in 1940 and 1941". Could you tell me what the position is in regard to that?—During the last six months there has been a definite improvement in the clearance of the arrears in that matter. Last year we reported that the estimated value of work performed up to the 31st March, 1942, which had not been priced was £3,405,000 for the main aircraft contractors and £5,585,000 for the fringe firms. The amount of that estimated as still not priced is £192,500 for the main firms and £1,667,500 for the fringe firms. Most of the arrears up to March, 1942, have therefore now been cleared off. The work that is still unpriced relates to only six contractors and ten contracts where there was difficulty because the contractors had not satisfactory records.

3954. The contracts mentioned in Sir Gilbert's report placed in 1940 and 1941 are those of which there are only six outstanding?—Yes, six contractors and ten contracts.

3955. Those are the three-year old ones. Has any Member any questions on paragraph 8? We pass to paragraph 9: "Cost Investigation of fixed-price Contracts". On this paragraph we can deal with the matters mentioned in Annexe A to the paper which has been handed in by the Comptroller and Auditor General, which has been circulated. We dealt with Annexe B at some little length, the Committee will remember, on Thursday last. Could you explain, Sir Harold, the procedure which has been adopted, and comment on the results with regard to this cost investigation of fixed-price contracts?—I understand that we have carried out examinations in about 105 cases, mainly in the case of direct contracts for supplies other than completed aircraft and engines. Our main purpose in carrying out these costings has been to get evidence upon which to fix our future prices, and the investigations have generally been in cases where we had reason to think that the existing prices were unduly high, so that they are not a representative cross-section; they are selected cases and do not represent the general run of the industry.

3956. In the third sub-paragraph Sir Gilbert states: "From departmental papers since seen by my officers it appears that in other instances, where the percentage on cost is moderate, a high return has

27 June, 1944.] Sir HAROLD SCOTT, K.C.B., K.B.E., [Continued.
 Sir W. LINDSAY SCOTT, K.B.E., D.S.C., Mr. J. T. COTTON, C.B., O.B.E.,
 and Mr. H. P. BRUCKSHAW, O.B.E.

been earned on the capital employed owing to the rapidity with which it has been turned over". You agree, of course, that there has been a high return in many cases?—Yes.

3957. The ones in the Annexe especially were rather suspicious with regard to there having been an exceptional rate on the capital, but they are not typical of the bulk, you think?—That is so.

3958. Sir Gilbert states: "I understand that following these investigations substantial voluntary refunds have been agreed in certain cases where the Ministry invited the firms to reopen the prices already fixed." What is the amount of the voluntary refunds which have been made?—Sir Lindsay tells me it is £7,000,000 in all.

3959. On some £20,000,000, was it not?—(Sir Lindsay Scott.) That is so.*

3960. What effect would that have on the profits? Have you any all-over average figure as regards the extent to which this £7,000,000 on £20,000,000 brought down the ratio of profit on, say, capital?—In the individual cases it would have brought it down to a rate which we considered reasonable, but an average would not give you any significant figure, I think, over these very diverse cases.*

Chairman.

3961. Are there any questions on paragraph 9? We pass to paragraph 10: "Indirect Purchases." Halfway through the first sub-paragraph Sir Gilbert states: "The scheme, which covered the period of three years to 31 December, 1943, was designed to produce net prices yielding a reasonable rate of profit. . . ." Please could we have some definition of the word "reasonable"?—The basis of reasonableness would be judged on the $7\frac{1}{2}$ per cent. formula which was discussed at the last meeting.

3962. Sir Gilbert says that provision was made for an increase at the discretion of the Minister. To what extent has that increase been given? Could you say?—I am sorry, but my last answer was wrong. I did not realise that you were talking about light alloys prices. The light alloys price-fixing scheme was based on 10 to $12\frac{1}{2}$ per cent. profit on capital.

3963. Not $7\frac{1}{2}$ per cent.?—No. (Sir Gilbert Upcott.) Plus the discretionary increase. (Sir Lindsay Scott.) No, the discretionary increase is not to bring it above $12\frac{1}{2}$ per cent. The basic figure is 10 per cent. There is a discretionary increase of $2\frac{1}{2}$ per cent., bringing it up to $12\frac{1}{2}$ per cent. in some cases.

3964. Has the increase often been given?—I am afraid I have not the number of cases in which it has been given. (Sir Gilbert Upcott.) Invariably. I think. My information is that it was given in all cases.

* Information subsequently furnished by Witness:—The profits to which the refunds of £7,000,000 related amounted to approximately £35,000,000, not £20,000,000 as stated.

3965. A flat rate increase. Did it bring the figure up above $12\frac{1}{2}$ per cent. in some cases?—(Sir Lindsay Scott.) No.

3966. I understand that it was to bring it up only to $12\frac{1}{2}$ per cent. Is that right?—Yes, only to $12\frac{1}{2}$ per cent.

3967. In the second sub-paragraph Sir Gilbert makes mention of rebates due in respect of price adjustments. Could you give us any figure with regard to those rebates?—(Sir Harold Scott.) Yes. I have the figures for the wrought light metal industry. In 1941 it was just over £7,000,000. In 1942 it was £9,740,000 (I am giving you round figures) and in 1943 it was £4,480,000. I am sorry, but those figures are the actual amounts paid. The amount due is different in 1943. The amount due is £10,666,000, of which £4,480,000 has been paid.

3968. There is £10,000,000 to come back in 1943 and £9,000,000 in respect of 1942. Is that right?—In respect of 1941 and 1942 the amount due has been paid and those are the figures I have given you, but for 1943 we have received rather less than half.

3969. Would you let us have the 1941 and 1942 figures again?—In 1941 the amount due was £7,038,000, and that is all paid, except for a matter of £30,000 held over pending an E.P.T. refund. For 1942 it was £9,740,000, which has been paid, and for 1943 £10,660,000, of which £4,480,000 has been paid.

3970. Could you give us any idea of the turnover, in respect of which these rebates have been paid? They are such immense figures—£9,000,000 and £10,000,000 refunded. Is it 5 per cent., or 10 per cent.?—(Sir Lindsay Scott.) The rebate has been about 10 per cent. on the average.

3971. Roughly speaking, £100,000,000 is at stake, and we have got about £9,000,000 or £10,000,000 back. In the last two lines of the second sub-paragraph of paragraph 10 the Comptroller and Auditor General says: "I understand that proposals for the continued regulation of prices after the termination of the present agreement on 31 December, 1943, are under consideration." What is the present position?—(Sir Harold Scott.) So far as the wrought light alloys are concerned, eight of the firms belonging to the Association have accepted renewal of the agreement for 1944 on the same terms as for the previous years, with the addition of a clause to cover any direct and material effect on output caused by special action by the Supply Departments or the Ministry of Labour. The ninth member withdrew from the Association, and prices are being negotiated with him on the ordinary basis.

Chairman.] Are there any questions on paragraph 10?

27 June, 1944.] Sir HAROLD SCOTT, K.C.B., K.B.E., [Continued.
 Sir W. LINDSAY SCOTT, K.B.E., D.S.C., Mr. J. T. COTTON, C.B., O.B.E.,
 and Mr. H. P. BRUCKSHAW, O.B.E.]

Sir Edmund Brocklebank.

3972. Why is there a difference from the usual figure allowed of $7\frac{1}{2}$ per cent. in this case of light alloys, where it is 10 per cent. to $12\frac{1}{2}$ per cent.?—(Sir Lindsay Scott.) These are in the nature of fixed-price contracts. That is to say the firm agrees a target figure and may make more or less. It is taking a definite risk in the matter. I myself think it is not a very big risk, but still quite a definite risk in the matter.

Mr. Benson.

3973. You say you work on a basis of 10 per cent. on capital and then there is a $2\frac{1}{2}$ per cent. allowance, which I understand is on turnover?—No, on capital.

3974. It was on individual contracts, in the case of the contracts we were discussing on Thursday?—The Treasury mentioned a figure of 2 per cent. on turnover.

3975. On each contract there was a possible 2 per cent. profit on the amount of the contract for efficiency and 2 per cent. for risk as a maximum?—(Mr. Blunt.) That is so. (Sir Lindsay Scott.) We do not give that in any except exceptional cases.

3976. How do you fix your prices? Apparently, you hit the target throughout the whole industry because $12\frac{1}{2}$ per cent. on capital is being paid?—You mean as regards these light alloy prices?

3977. Yes?—The basis is an estimate of the amount of work which the firm will do in a year, an estimate of the cost of that and of the resulting profit at existing list prices. Supposing they do £1,000,000 worth of work and there is £100,000 profit in it on the estimate, we say perhaps the profit ought to be brought down to £50,000, and, therefore, there ought to be a 5 per cent. rebate on the £1,000,000—£50,000 on the £1,000,000—so we fix 5 per cent. rebate off all their prices for the year. If they did more than £1,000,000 worth of work then they would make more profit; if they did less than £1,000,000 worth of work they would make less profit.

3978. You say that none has made more than $12\frac{1}{2}$ per cent.?—I did not say that none of them had made more than $12\frac{1}{2}$ per cent. None has been allowed more. As to whether they have made more or less, we have not the figures to show.

3979. That is the difference between the prevailing and the emergent?—Yes.

3980. Sir Harold said he had fixed up contracts for 1944 with eight of the firms on the basis of 1943. I am not quite sure what that does mean?—The 10 to $12\frac{1}{2}$ per cent.?

3981. No, fixed prices for the alloy itself?—They are fixed prices. They have a list of fixed prices—an enormously long price list for each particular shape, size and so on. On that you fix your rebate

of 5 per cent. or 10 per cent. as the case may be so that instead of 10d. a pound the effective becomes, say, 9d. a pound.

3982. What has been the effect on actual prices per pound over the war period?—As I mentioned before, the average of rebates has worked out round about 10 per cent.

3983. No—how much are you paying now for similar metal, as compared with what you were paying in 1940 or 1941?—Their price list has not been altered since I think 1941.

3984. Have your rebates gone up?—Yes.

3985. In other words, the net price has dropped?—(Mr. Cotton.) Before this scheme came into operation the industry cut its prices twice as a result of our representations. I forget what the actual cuts were but I think one was 5 per cent. and I think there was a $7\frac{1}{2}$ per cent. cut. Then there is a rebate given on the top of that which amounts to 10 per cent. as Sir Lindsay said. (Sir Lindsay Scott.) Round about 10 per cent. (Mr. Cotton.) You can say that broadly prices have fallen by somewhere in the neighbourhood of 20 per cent.

3986. Since the beginning of the war?—Since the beginning of the war.

3987. The turnover has increased enormously?—(Sir Harold Scott.) Yes.

3988. Have you any method of cost accounting you can apply to this?—(Sir Lindsay Scott.) Yes, we do take out the costs.

3989. You are satisfied the firms are working at a reasonable efficiency?—Yes, I think so, on the whole. Certainly all the bigger firms are reasonably efficient. Some are very efficient. There is a good deal of variation between particular firms; some are markedly more efficient than others.

Sir Frank Sanderson.

3990. You have stated that the profit is based on a 10 per cent. or $12\frac{1}{2}$ per cent. basis on the amount of capital employed. I am right in saying, am I not, that in many cases the Government have found the necessary capital to finance the particular industry?—A lot of the capital is ours and on that they do not get 10 to $12\frac{1}{2}$ per cent. They get a figure of 1 per cent. to 2 per cent.

3991. That is the point I wanted to bring out. They get 10 per cent. or $12\frac{1}{2}$ per cent. upon their own capital engaged in the industry but they get a lower rate of profit, namely, 1 per cent. or 2 per cent., do you say?—1 per cent. to 2 per cent. on Government capital.

3992. They get 1 per cent. or 2 per cent. on the amount loaned to them by the Government?—Yes.

27 June, 1944.] Sir HAROLD SCOTT, K.C.B., K.B.E., [Continued.
 Sir W. LINDSAY SCOTT, K.B.E., D.S.C., Mr. J. T. COTTON, C.B., O.B.E.,
 and Mr. H. P. BRUCKSHAW, O.B.E.

Mr. Pickthorn.

3993. When you speak of a "definite risk", do you mean that the risk has retrospectively been defined? Is it known that in one case out of ten or in one case out of a thousand, or whatever it may be, the risk has gone the wrong way from the contractor's point of view?—I am afraid we have no figures yet. We are taking out the 1943 figures now, but we have not seen them yet. We did not take out the figures for 1942 because a settlement was made at the very end of 1942 and was, therefore, substantially the same as the actual in the circumstances, but we shall know in the course of two or three months how many people have made more profit and how many people have made less profit than the target figure.

Sir Irving Albery.

3994. Are there very many firms involved in these contracts? I do not want the exact number, but could you tell me whether there are very many?—Not more than 20 in the wrought field.

3995. I understand Sir Lindsay to say that some were very efficient and some were less so. Have I rightly understood that they all get the same remuneration eventually, efficient or inefficient?—They all get the same basis of profit, except so far as the 2½ per cent. margin which is discretionary is concerned.

3996. The Comptroller and Auditor General explained just now that they have all been getting the extra 2½ per cent.—He has the advantage of me on that, because I am not informed on that point. (Sir Gilbert Upcott.) That is my information.

(Sir Lindsay Scott.) The profit will depend on what work they actually do. If they have budgeted on £1,000,000 worth of work their production may increase if they are efficient, or their costs may decrease. In that case they will get a higher profit than the target profit.

3997. Higher than 12½ per cent.?—Yes. On the other hand the inefficient will get less because their production will be less.

3998. I now understand that some get more than 12½ per cent. and some get less. Can you say what is the highest rate per cent. on capital which the most efficient firm can earn?—I am sorry, but we have not yet taken out the figures. We are taking them out now, but we have not the figures.

3999. These are sub-contractors, are they?—Yes.

4000. Do you know whether any of the major firms have a financial interest in the subsidiary firms?—One aircraft contractor has an interest in one of the light alloy firms.

4001. In this industry, as I understand it, the arrangements are all made collectively and they all work on the same basis?—Yes.

4002. They are collective negotiations?—Yes.

Sir Frank Sanderson.

4003. Following upon my original question, in the case of a sub-contractor who has invested X amount of his own capital plus Y amount of Government capital, do I understand he is subject to the rules and regulations governing excess profits tax, whether or not there is a Government loan to the company?—He is certainly subject to excess profits tax in the ordinary way, yes.

4004. Equally in regard to the capital loaned to him by the Government as that which he himself has engaged in the industry?—Yes, certainly, as regards the profits.

4005. What I want to ensure is that he does not in fact receive the 1 per cent. or 2 per cent. on the amount of money loaned by the Government not subject to excess profits tax. He pays it on the whole lot?—Yes.

Chairman.

4006. Are there any further questions on paragraph 10? We pass to paragraph 11: "Regulation of Contractors' Purchases." In the second sub-paragraph Sir Gilbert makes mention of a particular firm with whom substantial refunds were agreed. Can you tell us what particular firm that is?—This was a firm making cables.

4007. What was their name—not for publication?—[Name given.]

Chairman.] Are there any questions on paragraph 11?

Mr. Benson.

4008. I see that you have been arranging for fixed prices at which your main contractors can purchase. What is the principle that you go on between the arrangement of a fixed price and the supply of the materials and embodiment loan?—We do not supply materials.

4009. I should say components. Is this material only?—These are mainly small parts, bolts and nuts, cables, flexible piping, wheels and tyres, fuel cocks, taps and a mass of little stuff for which we have thought it advantageous to place these overriding orders in order to get a price control on the one hand and a production control on the other.

4010. With regard to [name of firm given], was there any particular reason why their prices were much higher than their costs?—I think it was just bad estimating on their part. Many of these smaller firms have extended their capacity enormously, and have been in the dark as we have been.

27 June, 1944.]

Sir HAROLD SCOTT, K.C.B., K.B.E.,

[Continued.]

Sir W. LINDSAY SCOTT, K.B.E., D.S.C., Mr. J. T. COTTON, C.B., O.B.E.,
and Mr. H. P. BRUCKSHAW, O.B.E.

4011. Have they an inefficient costing system?—I do not know that there is anything inefficient about it. They did in fact make much too much profit, but let me say that they took an entirely proper attitude and said they had found they had made a mistake and were anxious to remedy it.

Sir Frank Sanderson.

4012. Would you say it was due to very considerable expansion which at the time they were not able to take into consideration, which has had its effect upon the prices that they originally quoted?—I should say that is generally true.

Chairman.] Are there any further questions on paragraph 11? We pass to paragraph 12: "Refunds in respect of Sub-contracts."

4013. Sir Gilbert states: "Substantial cash refunds have also been received on settlement of final prices for certain supplies. . . ." What are those supplies?—This paragraph refers to the main sub-contractors—that is to say, those who make parts, wings, fuselages, and so on. The construction of aircraft and engines, as you know, particularly of aircraft, is very much sub-contracted to other firms which make parts of aircraft.

4014. What are the present arrangements? There is a mention on the following page of direct refunds from sub-contractors. What is the present position with regard to these firms?—These have been a great worry to us. The responsibility for fixing prices rested on the main contractor. We could not have got the aircraft programme going unless we made the fullest possible use of the main contractor to organise all this sub-contracting. We put on him the responsibility of fixing prices: so long as he could do it satisfactorily to himself and subject to review by us. After a time we had time to look round, and we thought it right to make a review of the profits earned by these sub-contract firms, and in many cases we have found that there has been bad price-fixing by main contractors. When we found that our main anxiety has been to get the main contractor to get his sub-contract prices right. We have dealt with some of the finance directors of the main contractors, and they have been as much concerned as we when they found that bad prices had been fixed. There have been cases where, as regards the past, the firms offered us a refund and we thought when they offered us a refund it was proper to take it.

4015. The sub-contractors have refunded as well as the main contractors in some cases?—Yes. (Sir Gilbert Upcott.) These sub-contractors are included in the firms mentioned in Annexe A which the Committee were considering just now.

Chairman.] Are there any questions on paragraph 12?

Mr. Benson.

4016. Reverting to Annexe A, one type of sub-contractor was the one reported to you by the main contractor, he not being able to get proper prices. Do you have much of that?—Of the main contractor not getting the proper prices?

4017. Of the main contractor reporting that he is in difficulty with the sub-contractors?—Not a very large number, but some of the main contractors do come to us. It has more often come up when we have gone into the prices and gone to the main contractor and said: "You are not doing your business properly."

Chairman.] Are there any further questions on paragraph 12?

Sir Irving Albery.

4018. I understand from what has just been said that in adjusting these prices the rebate was collected from the sub-contractor. The main contractor has fixed a price that is too high, and you eventually collected a rebate from the sub-contractor.—(Sir Harold Scott.) We have had a refund.

4019. From the sub-contractor?—Yes.

4020. And the price as between the sub-contractor and the main contractor has remained unaltered?—(Sir Lindsay Scott.) It is the difference between the future and the past. Our main anxiety is to get good prices fixed for the future. If a sub-contractor is prepared to make a refund for the past, then we do that on an overall basis, and direct; we do not trouble to put it back through the books of the main contractor.

4021. Does that in any way affect the arrangements of the main contractor—the profit he can earn and turnover?—We are most anxious that it should affect it, because if he is giving too much profit we want to make him do a better deal in the future.

4022. If you do not alter the figure—?—As regards the future a new price is fixed.

4023. But as regards the past?—We simply take the money back.

4024. From the sub-contractor?—Yes.

4025. But is not the arrangement by which the main contractor is allowed 10 or 12 per cent. affected by a higher price remaining in his contract?—(Sir Harold Scott.) He has paid more to the sub-contractor and he draws more from us. He is all square.

4026. His turnover is bigger?—That is so. (Sir Gilbert Upcott.) I venture to think Sir Irving is correct, but I do not think the amount is considerable.

Chairman.

4027. We pass to paragraph 13, "Rebates and Refunds—Accounting Procedure."

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Have the Treasury any views they would like to express on this?—(Mr. Jones.) We think this is reasonable in the present circumstances, in order to avoid the accounting detail which would have been necessary had the normal rule been followed. The normal rule would have required each receipt to have been split between that arising from payments made in the current year, which would have been credited in the ordinary way to the debit subhead, and that in respect of payments made in prior years, which should correctly go to appropriations in aid. To save accounting analysis it is reasonable in the present circumstances that all these credits should go against the debit subhead, and that is to be done for 1943 onwards.

4028. Have you any views on this, Sir Gilbert?—(Sir Gilbert Upcott.) The arrangement would not be correct under peacetime rules, under which the subhead for each year ought to show the cost of supplies for that year. I agree that under the Vote of Credit procedure it is much the most convenient and workable arrangement.

Sir Frank Sanderson.

4029. On that point, would not the net result be that one company might show a considerably increased profit for one year, and due to this form of adjustment it would show a lower net profit for the preceding year?—(Sir Harold Scott.) These are our accounts—not the accounts of the company. This is the account we present to Parliament.

Chairman.

4030. Are there any further questions on paragraph 13? We pass to paragraph 14: "Raw Materials". Could you tell us what these materials are mainly?—Aluminium, silicon, magnesium and various things connected with the production of those metals—alumina, bauxite, cryolite and various ores from which those metals are derived.

4031. Could you tell us about the arrangements with regard to their purchase, other than what is mentioned in the Comptroller and Auditor General's Report?—The Light Metals Controls are the sole traders in aluminium and silicon, and they buy and sell these metals and operate trading accounts for them. They also license the use of magnesium and allocate the orders placed by aircraft constructors who want the magnesium or aluminium. (Sir Gilbert Upcott.) If I may say so, I do not think the Witness has quite answered your point. The point of my paragraph is that these transactions which I mention are transactions on account of the Ministry, not normally appropriate to the Control, which he has explained conducts trading operations generally. They are, in fact, incidental to the operations of the Control,

and, therefore, it has been found convenient that the Control should conduct the accounting for the transactions which would, under ordinary circumstances, be accounted for by the Ministry itself.

Sir Harold Scott.] It is really a domestic transfer of responsibility within the Ministry for accounting for this particular side of the work.

4032. These purchases run into pretty big figures, do they not?—(Sir Gilbert Upcott.) The main transactions of the Control are very big, but these transactions are of the order of only £2,000,000 in the year of account. (Sir Harold Scott.) The total cash receipts for that period certified by the Accountant were £1,798,036 and the payments £2,187,970.

Chairman.] Are there any questions on paragraph 14?

Mr. Glenvil Hall.

4033. These purchases, as I understand it, are for re-sale to Government contractors. Are they sold at cost price or do you sell at a profit—or does not that enter into it? Do you simply make the raw material over to them and then take no account of it in the charge they make you?—(Sir Lindsay Scott.) The cost of aluminium has been stabilised at £110 a ton. Over the period of the war up to now we have come out about all square on that. We mainly buy in Canada, so that we have no control of the cost at the main source of supply, but our selling price has roughly brought us out all square on an average of the years up to now.

4034. That is to say, the contractor does not charge a profit on the material?—You appreciate that the person who buys it is the fabricator, the person whose profits we have already discussed.

4035. The raw material does not enter into it at all. All he puts into his cost is what he has paid for the material?—Yes.

4036. He does not look to have an overall rate of profit on the total cost to him?—No.

4037. Including the material you have supplied to him at whatever price has been fixed?—No. He buys the material at the controlled price.

4038. As you can readily see, that might make a considerable difference. If he is buying thousands of pounds worth of material from you and then he bases his profit on his total expenditure, including that, obviously his profit is going to be bigger?—His profit is related to his capital and not to his turnover. (Sir Gilbert Upcott.) He charges his list prices less the rebate.

Chairman.

4039. Are there any further questions on paragraph 14? We pass to paragraph 15:

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"Contracts for Repair and Breakdown of Airframes and Airframe Components." In the second sub-paragraph there is mention of an agreement having been reached with a number of firms and certain other firms who did not accept the agreement. Could you tell us at all what proportion of firms accepted the agreement and what proportion did not?—(Sir *Lindsay Scott*.) Rather more than half accepted the agreement.

4040. And the balance, presumably, did not?—That is so.

4041. In the last sub-paragraph the Comptroller and Auditor General states: "The Ministry have reviewed the results of the agreement and it appears from papers furnished to my officers that they are satisfied that the returns earned under the scheme, which is to operate until 31 December, 1944, have in the main proved not unreasonable when related to the capital employed." Could you tell us something about the profits earned on this agreement?—(Sir *Harold Scott*.) I have a figure here. The average return earned is 13½ per cent. on capital.

4042. Does that apply to both lots of firms—those who accepted the agreement and those who did not?—No. Those who did not accept the agreement will have got worse profits, because we shall have put them on a cost-plus basis. You will appreciate that these are all costed contracts, but the profit under the agreement is not proportionate to the cost.

4043. So the rather less than half who did not accept the agreement will get less than those who did?—That is so.

Sir *Edmund Brocklebank*.

4044. With regard to contracts for repair, who is responsible for seeing that the broken machine is brought to the factory where it is to be reconditioned?—(Sir *Lindsay Scott*.) The organisation we call 43 Group; our salvage organisation takes charge of it, decides whether it is repairable, and if it is, sends it to a repair firm for repair.

4045. If the repair firm is not directly under your control, have you any control on the person who actually brings the broken machine from where it has crashed to the factory?—The salvage organisation is our own, and they deliver the machine to the repair contractor in our own lorries. (Sir *Harold Scott*.) Or arrange for it to be repaired on the site.

4046. I came across a case some time ago in which you had apparently denied that responsibility?—(Sir *Lindsay Scott*.) I do not know what the case was. I cannot say that there may not be some exceptional case, but the general principle is that we undertake the salvage, and then place a contract for the repair with one of the repair firms. That is the normal procedure.

4047. In this case actually it was reported to you that a broken aeroplane was being taken to a firm's repair shop and the lorry was being improperly driven on the road. I gave notice at the time that I would raise it?—We might have used a contractor to drive it to the repair firm, and, therefore, he may not have been our servant.

4048. He was not your servant. Then you have no control over it at all?—Usually, it is carried in our lorries, I believe.

4049. It was certainly one of your lorries, but the driver was not your driver?—I am afraid I cannot explain it. Perhaps you will let us have a note of it.

4050. You had a complete note of it when I reported the case first of all to the Air Ministry, who denied responsibility, and passed it on to you, and you accepted responsibility. You had the whole of the facts. I gave notice at the time that I would ask questions about it when it came up before the Public Accounts Committee?—Would you like me to look into it?

Sir *Edmund Brocklebank*.] I told the Parliamentary Secretary two days ago that I intended to mention it here, in addition.

Mr. *Benson*.

4051. Who are these firms who repair? Are they related in any way to the parent companies who make the planes?—A certain amount of repair is done by the main firms, but the great bulk is done by small firms, many of whom, before the war, were running light aeroplane clubs and doing small aircraft work.

4052. They grew naturally, did they? They were not created for the purpose?—No, they were not created for the purpose.

Mr. *Pickthorn*.

4053. I may be muddled about this, but what about the firm in A which is sometimes called X's and sometimes something else?—That is a branch of the main firm of X's.

4054. Is it a subsidiary of X's?—Yes. On the other hand, B of A ran a flying club. They ran a little flying school before the war.

4055. X's is a subsidiary of the old big firm of X's?—Yes.

Chairman.

4056. Are there any further questions on paragraph 15? We pass to paragraph 16. Could you tell us anything with regard to the position of British Marc, which this Committee investigated some two years ago? Could you tell us what has happened about taking over the original factory? I think I asked questions about this last year.—(Sir *Harold Scott*.) Yes. There have been discussions between the

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Ministry and British Marc during this year. As a result we have recently concluded an agreement to buy its factory No. 2. We were also discussing with them the possible taking over of the entire company, and we made an offer to the company which they did not find acceptable. They eventually came back with an offer which our Minister did not find acceptable, and he decided that in view of the delay which had occurred, and the change in the circumstances since this matter originally came up, we would not proceed with the idea of acquiring the whole of the company or the whole of the company's assets.

4057. Factory No. 2 was the one which was put up by State money, was it not?—(Sir *Lindsay Scott*.) No, it was one of the original ones. (Sir *Harold Scott*.) There were four, two of which were put up by the State. There was No. 2, which we have now acquired, and No. 1, the original factory. (Sir *Gilbert Upcott*.) No. 2 was the one taken over in connection with the settlement which the Committee of 1942 recommended. The possibility of taking over No. 1 is what was mentioned to the Committee last year.

4058. That has not in practice eventuated?—(Sir *Harold Scott*.) That we have now dropped.

Mr. *Benson*.

4059. The original negotiations involved various assets that they claimed—the royalty, the claims for establishing a Government factory, and various other things. Your purchase of factory No. 2 is just the purchase of the bricks, mortar and plant? It does not involve any of the claims they have against you? Those are still in abeyance?—Yes,

Mr. *Glenvil Hall*.

4060. What was the figure for which factory No. 2 was bought?—(Sir *Harold Scott*.) £145,000.

4061. Could we be told the price at which the company offered to sell the other factory to the Government, which the Government found unacceptable?—(Sir *Lindsay Scott*.) With respect, I would rather not say. It was a transaction which was never completed.

Chairman.] No arrangement was come to. I do not know that we can ask that.

Mr. *Glenvil Hall*.

4062. If the Ministry thought the purchase of these other factories was essential, why was it that the thing stopped short at just an offer?—They were not essential. There was nothing essential to production in buying the shares of this company.

4063. Then why offer to buy them?—If we had had a reasonable offer it would have simplified the financial administration

of the factories to have acquired the company, but it was not a thing which was worth doing unless you could get an offer which was an attractive one.

4064. Is it absolutely certain that the company refused?—The company have refused our offer. They have made a counter offer not acceptable to us.

4064A. What was the offer?—(Sir *Harold Scott*.) Again, if you do not mind, I think this ought to be regarded as a private transaction.

4065. Quite frankly, on a point of order, I do not follow this. Surely, if the Public Accounts Committee is dealing with these matters it is entitled to know what price was offered by the Government?—With respect, the Public Accounts Committee is entitled to know what we have done with money; but when we have not spent money, that is another matter, is it not?

Chairman.] I do not think we can ask for that, Mr. *Glenvil Hall*.

Chairman.

4066. We pass to paragraph 17: "Agency Factories." Could you tell us how many of these agency factories there are?—(Sir *Harold Scott*.) There are 80.

Chairman.] Are there any questions on paragraph 17?

Mr. *Benson*.

4067. There are several factories referred to here as having rather inefficient and inadequate costing systems. How comes it that you gave the agency to firms that were so inadequately equipped?—(Sir *Lindsay Scott*.) I would like to answer that, if I may, rather more generally. We have had a lot of difficulty with the accounts of these shadow factories, which were generally created in difficult circumstances and in a hurry, but our general impression is that the accounts of the shadow factories are now distinctly better than those of the commercial firms, so that the fact that there are three bad cases before you to-day should not give you the impression that the shadow factory accounts are in a bad condition. (Sir *Gilbert Upcott*.) I should intervene by pointing out what I have said in the first instance: "The reports of the Ministry's resident auditors at the various agency factories indicated that in general the standard of accounting maintained by the managing firms during the year under review was satisfactory." As the Accounting Officer has just mentioned, there are 70 to 80 of those factories, and I have felt obliged to mention as unsatisfactory only three.

4068. Apparently from what Sir *Lindsay* said, the contacts with the Ministry have improved their methods of accounting in that their shadow factories are better than their main factories. What is the general

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condition of the costing systems of the main factories?—(Sir *Harold Scott*.) Do you mean the main firms, as distinct from the shadow factories?

4069. Yes?—(Sir *Lindsay Scott*.) They vary so much. The aircraft industry has been exceedingly expanded, as you know. It has struggled to get production at all costs—at every effort, I should rather put it—and there is no doubt that accounting has in some cases fallen behind. There are improvements now, but in the circumstances one remembers of 1940 and 1941 it is idle to deny that production was thought more important than the recording of production.

Chairman.

4070. Are there any further questions on paragraph 17? We pass to paragraphs 18 to 20: "Unsatisfactory Accounting at certain Agency Factories." In the second part of the first sub-paragraph the Comptroller and Auditor General states: "Subsequent audit reports indicated that while the payment system had been improved the state of the accounts generally remained unsatisfactory up to December, 1942, when a change of control took place." Could you tell us what that change of control was?—(Sir *Harold Scott*.) This was a factory which is now controlled by the [name given].

4071. It has been taken over, has it?—Yes.

4072. In the following sub-paragraph Sir Gilbert states: "I understand that changes in the system of financial and costing control were introduced in 1943." Could you tell us about those?—Yes. The new company installed a new accounting system which has been operating now for about a year. Our last reports indicate that the purely financial records are not now unsatisfactory.

4073. In the next sub-paragraph Sir Gilbert states: "It appears that certain thefts of tools from the factory were discovered as a result of police action. These losses were apparently not brought to light in the factory accounts. In the circumstances I have inquired as to the progress made towards the evaluation of any losses and whether the Ministry are satisfied that present procedure is such as should ensure the prevention or early detection of irregularities in connection with tools and appliances." Can you answer that inquiry yet?—The position, as I understand it, is that in view of the state of the records it is unlikely that much progress will be made towards valuation of the losses, but the company are taking all possible steps to remedy deficiencies in the control and issue of stores, and we are satisfied that the new procedure will give a fair check on future issues.

4074. In paragraph 19 the Comptroller and Auditor General says: "According to the interim reports of the auditors the

accounts and records maintained by the agents were largely incomplete and considerably in arrear . . ." Could you tell us how they stand and what steps have been taken to settle them?—Yes. Here, again, it was a question of the company in the early days applying themselves mainly to production and rather failing to impress on their staff the need for co-operation with the accounting department. A few months ago they made fresh arrangements; those are not completely introduced as yet, but considerable progress has been made.

4075. In the last sub-paragraph of paragraph 19 Sir Gilbert states: "The major portion of the expenditure reported as incurred during the year 1942 has been accepted as properly disbursed by the agents and charged to the Vote, but a substantial amount has been suspended, pending the completion of the factory accounts and further investigation into numerous questions raised in the audit reports." Could you tell us how much was suspended and what the present position with regard to that sum is? (Mr. *Bruckshaw*.) The amount is being reduced.

4076. Could you tell us what it was?—I could not offhand tell you the amount.

4077. Have you any figure, Sir Gilbert? (Sir *Gilbert Upcott*.) My information is that it is approximately £100,000 if you take both capital and production accounts.

4078. You cannot confirm that, Sir Harold? (Sir *Harold Scott*.) No, I have not a figure on that.

4079. It is being substantially reduced? (Sir *Gilbert Upcott*.) The total charged to the Vote for this factory was something like £2,750,000 for the year 1942.

4080. £100,000 is something under 5 per cent. On paragraph 20, with regard to the third factory, what steps are being taken to improve things? (Sir *Harold Scott*.) Here the trouble, as I understand it, was an accountant who was not up to the work for so big a concern. He has now been replaced, and his successor has introduced an improved system for controlling stores. But the job of installing a new and improved system and overtaking arrears was very considerable. I am told the position is better though not yet quite satisfactory. We hope that in a short time they will reach a reasonable standard.

Chairman.] Are there any questions on those paragraphs 18 to 20?

Sir Frank Sanderson.

4081. On paragraph 18, in the third sub-paragraph the Comptroller and Auditor General states: "It appears that certain thefts of tools from the factory were discovered as a result of police action." Could you give an approximate value of the amount of thefts?—(Mr. *Bruckshaw*.) No.

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We do not know the full amount of the thefts. Tools to the value of about £600 were recovered by the police.

4082. It says that these were stolen from agency factories?—From this agency factory. (Sir *Gilbert Upcott*.) One factory.

4083. Would the loss accrue to some, what I would term, parent company, or is it a loss which would be sustained directly by the Ministry?—(Sir *Harold Scott*.) This is our factory which is being managed by the firm, so that it is our stuff which has gone.

Chairman.

4084. Are there any further questions on those paragraphs? The next paragraph, paragraph 21, deals with "Contracts for specialised Equipment." Could you tell us what the specialised equipment was?—Yes, engine testing equipment.

4085. At the end of this paragraph Sir *Gilbert* states: "The investigations so far made by the Ministry's accountants reveal a wide margin between the quoted prices and the manufacturer's costs of production and pending final settlement substantial refunds on account of the differences have been secured by the Ministry." Could you tell us the quoted prices and the refunds?—The ascertained costs of the supplies with an appropriate profit of 5 per cent. gave a total warranted price of £636,213. The invoice price was £1,080,200, which left refunds of £371,987 due. Up to date the company have refunded £365,000.

4086. Almost all of it?—We expect the balance to be refunded fairly soon.

4087. Are there any questions on paragraph 21?—We pass to paragraph 22: "Earnings of Operatives." In the third sub-paragraph there is mention by the Comptroller and Auditor General of an inquiry. Could you tell us anything about the range of disparities and the average earnings in these cases?—(Sir *Lindsay Scott*.) These factories are all in one area, as I think you appreciate. The extreme earnings here are up to 42d.; that is the highest figure; it is not an average.

4088. What is the mean in the country as a whole?—About 30d. to 31d.

4089. What about piecework rates?—These are earnings on the piecework basis.

4090. What steps are taken if earnings seem to you to be excessive—if 42d. were being made, the normal being 32d.?—It is first the duty of the management to negotiate its piece rates with its men in accordance with the Engineering Agreement. So that the first responsibility rests on the management. We regard it as our business to see that in fixing prices with a firm we fix prices which are based on reasonable costs, and if a firm has, as we think, fixed its piece rates badly so as not to encourage the maximum production, we should regard

that as a ground for giving a lower rate of profit to that firm, on the ground that it has been to that extent inefficient. The firm, therefore, has an impetus to fix its rates in accordance with the Industrial Agreement. We have further tried to help our firms as much as we can, particularly in difficult regions—there is only one really difficult region—and we have given them information about production times, as ascertained from other factories in other regions which are making the same types. That has been quite helpful in assisting both parties to the fixing of piece rates—both the employers and the men—in settling on rates which are reasonable; that is to say, we have given the actual times of operation as settled by a parent factory in another region for each operation in building aircraft. I think those are the principal steps we have found it practicable to take.

4091. That has proved satisfactory?—That has had a certain amount of effect. There is no doubt that this particular area is still not in a satisfactory state, but I think we have prevented this spreading very largely to other areas, and there are some improvements in this area, particularly where we are settling new piece rate prices for new types in this area. (Sir *Gilbert Upcott*.) If I may interrupt, Sir *Lindsay* has been dealing with the Ministry's attitude towards wage rates in firms with which the Ministry places a contract. My paragraph relates to wage rates in agency factories of the Ministry in which the Government, through its agents, is the employer. (Sir *Lindsay Scott*.) There is no question in relation to agency factories of any rate of profit being affected by the wage rates.

4092. These are rates for which the Government Department is itself responsible. It is itself paying as employer?—These factories are managed for us by the firms. What I said would apply in the case of agency factories, except that, as the Comptroller and Auditor General points out, what I said as regards profit would not be appropriate. Where management is by an agency firm we have seen the management and impressed on them the need to fix more satisfactory rates, but it has been a matter of pressure upon them and advice to them. There has been no financial pressure from us. We are not in a position to exercise it.

4093. Could I summarise it by saying that while the results are not yet satisfactory, they are better than they were?—Yes, there is some improvement.

4094. There is a certain amount of improvement?—Yes.

4095. It is in one special district?—Yes.

4096. Have these difficulties arisen owing to war practices?—The trouble started before the war.

Chairman.] It is a very difficult one from your point of view to eradicate.

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Mr. Benson.

4097. What is the effect of the higher piece rates on the cost of the article relatively?—It is too complicated to answer that question. The comparison is too complicated to make.

4098. You are paying a higher price for your article as well as—?—I would not like to say that in every case. That is not necessarily true. You may pay a high piece rate and get a very high output, but by and large we are worried at piece rates having, in certain cases, got so high that there is no question but that they will affect production.

Chairman.

4099. The costs of production?—Yes, and the actual output.

Mr. Benson.

4100. These are in Coventry?—Coventry is the worst. (Sir Gilbert Upcott.) The Birmingham-Coventry area.

4101. They are motor firms who are mainly responsible, if I remember rightly,— (Sir Lindsay Scott.) Yes.

4102. Is there any particular reason for it?—(Sir Harold Scott.) It goes back to the motor firms' tradition of paying high rates. (Sir Lindsay Scott.) They paid high rates to get out their product quickly. I am talking of pre-war. That, I believe, is the real source of the trouble.

Sir Frank Sanderson.

4103. You said that the rates which they were earning were 42d. an hour—about 25s. a day or about £6 a week. That does not strike one as excessive?—They are averages over the factories.

4104. That would include labourers?—Yes. (Sir Gilbert Upcott.) This is the average of all the employees of the factories.

4105. Then some might be getting £14 or £15 a week?—Yes.

Chairman.

4106. Are there any further questions on paragraph 22? We pass to paragraph 23: "Expenditure in North America. Disposal of Capital Assets." Could you tell us the amount of the capital assets which are referred to?—(Sir Lindsay Scott.) I think the Comptroller and Auditor General refers to a figure of 6,000,000 dollars as jig and tool expenditure; but I was not perfectly clear what his reference was to. (Sir Harold Scott.) Physical assets vested in the United Kingdom Government,* 41,000,000 dollars; in the United States Army, 6,000,000 dollars; in United States contractors, 32,000,000 dollars.

4107. That is 79,000,000 dollars.—There is another thing labelled "Extraordinary charges" which I am not quite sure I understand: "23,000,000 dollars."

4108. Sir Gilbert states: "Approximately one-third of these assets . . . has been disposed of by sale." That is one-third, presumably, of the 79,000,000 dollars. He goes on to say: "I understand that the arrangements concerning the remaining assets are at present under consideration." (Sir Gilbert Upcott.) I am not sure that Sir Harold has given the correct figures of the assets vested in the United Kingdom Government; I think he has given the figures of the total expenditure. Part of it is vested in contractors. (Sir Harold Scott.) That is the figure I have of the assets vested in the Government, and the United States contractors, 31.78 million. (Sir Gilbert Upcott.) My information is that the assets which were the property of the British Government were worth about 63,000,000 dollars. Of that about 18½ millions' worth have been sold.

4109. You do not agree that figure, do you, Sir Harold? Perhaps you will look at it at your leisure. (Sir Harold Scott.) Yes. May we get you a note of it?*

4110. Yes; it is a big figure and we should like to have it, as to whether the Comptroller and Auditor General is right or not. (Mr. Blunt.) You asked whether the question of the remaining assets under consideration has been settled. It has not been. We are content to let that stand for the moment.

4111. Are there any questions on paragraph 23? We pass to paragraph 24: "Provision of Capital Assistance by way of Loan." These prices come up on the Vote of Credit?—(Sir Gilbert Upcott.) This paragraph relates to capital advances.

4112. Are you satisfied, Sir Harold, with regard to this capital assistance by way of loan to this Canadian company, from your point of view? (Sir Harold Scott.) Yes.

4113. You did not give us a total figure of the amount to date. Substantial amounts have been advanced. Have you any figure? (Sir Lindsay Scott.) The three loans were 55,000,000 Canadian dollars. There is another advanced as working capital, which was 5,000,000 dollars.

4114. Making 60,000,000 dollars altogether?—Yes.

Mr. Benson.

4115. Is that in addition to the £12,500,000 or is that included? (Sir Harold Scott.) That is the 55,000,000 dollars. Then there is another £1,128,000 mentioned in the Comptroller and Auditor General's Report, and that is the 5,000,000 dollars.

Chairman.

4116. Are there any questions on paragraph 24? Paragraphs 25 and 26 go

* Note by Witness:—In addition the Ministry of Supply purchased assets on behalf of the Ministry of Aircraft Production to the value of approximately 16,000,000 dollars which were not included in these figures.

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and Mr. H. P. BRUCKSHAW, O.B.E.

[Continued.]

together: "Store Accounts." Have you any comment to make on paragraph 25, Sir Gilbert? (Sir *Gilbert Upcott.*) Yes, I should like to make one comment. I have referred to the question of delays in recovery of sums due to the Ministry for stores issued on repayment terms. I should like to say that those delays are not things that ought to be neglected because they may conceal fraud. Where there is delay in payment it may be, if the accounting is in arrear, that payment has been made and has gone astray, and I might say, in the case of the Aluminium Control, the accounts of which have been audited by professional accountants, in the recent report which I have seen they have drawn attention to that same kind of delay and to that same danger.

4117. In paragraph 26 Sir Gilbert says: "In paragraph 25 of my last Report I mentioned that stocktaking of materials held in store was then in progress and that the results would be reviewed by my officers in due course. In reply to a recent inquiry I have been informed that a physical stock check of materials held at the Ministry's stores has been completed and that the results are at present under consideration." Have you any information on that point, as regards the final stock check? (Sir *Harold Scott.*) I understand that the stocktaking has been carried out and that the discrepancies thrown up are still under investigation. We hope there will be a final clearance by the 1st August this year.

4118. Are there any questions on paragraph 25 or 26? We pass now to paragraphs 27 and 28: "Embodiment Loans." Would you refresh our memories by telling us about the Embodiment Loan?—These are things which we supply to airframe firms for embodiment in the final aircraft—things which they do not pay for. We supply the engine and other things which they have to include in the aircraft.

4119. In paragraph 27 Sir Gilbert says: ". . . and I have recently inquired as to the present position and the probable date of completion of the process of transfer." Could you tell us, Sir Gilbert, what the position was in regard to the points in that paragraph?—(Sir *Gilbert Upcott.*) "and I have recently inquired as to the present position"—that is as regards the transfer of responsibility. (Sir *Harold Scott.*) I have some figures here. Up till the 31st March approximately 1,500 accounts had been brought under the new system. Our audit branch examined them soon after installation and accepted them as suitable. Approximately 1,200 of those accounts have been inspected in operation. The object is to inspect them every three months. Some have been inspected a number of times. (Sir *Gilbert Upcott.*) I think the position is that less than half the accounts have been dealt with. (Sir *Lindsay Scott.*) That

is not quite so. The total number of accounts we believe we shall have to take over is something under 3,000; 1,250 have not been taken over. It is rather less than half. (Sir *Harold Scott.*) 1,680 have been taken over; 1,250 are left to be taken and are being taken over at the rate of about 20 a week. Most of those left are small. (Sir *Gilbert Upcott.*) My arithmetic was rather hasty.

4120. In the next paragraph Sir Gilbert says: "The reports of the departmental auditors on their examination of the accounts kept by the contractors have been reviewed by my officers in selected cases and a few visits have been made to contractors' works. In the earlier stages delay sometimes occurred in the institution of reliable records." Are you getting things better now?—(Sir *Lindsay Scott.*) Yes, the position is very much improved. You appreciate that many of these firms, not always big firms, had rather rudimentary stock systems, and our equipment officers, who are either posted to them in the case of big firms, or go round to see them in the case of smaller firms, have done a good deal of good work in getting satisfactory stock systems into the firms. It is by no means perfect now, but there is a very big improvement.

4121. There is a mention in that paragraph of reporting to the Treasury on the system.—(Mr. *Jones.*) We have recently received from the Ministry of Aircraft Production their further report on the working of the scheme, which expresses their general satisfaction that the experiment is working out well, and we have no reason to dissent from that view.

4122. Are there any questions on paragraphs 27 and 28? We pass to paragraph 29: "British Air Commission." At the top of page xii Sir Gilbert says: "Difficulties have been experienced in securing acknowledgments from consignees for stores shipped overseas"—are those difficulties in process of being overcome?—(Sir *Harold Scott.*) Yes. They are not right yet, but the position is much better, I understand.

Chairman.] Are there any questions on paragraph 29?

Mr. Glenuil Hall.

4123. Sir Gilbert states: "For embodiment loan equipment it has been found necessary to rely to some extent on the records maintained by the contractors as the Commission's loan accounts were found to be incomplete in some respects." Whose fault was that?—I think the uncertainties of consignments by sea in wartime were largely the foundation of the trouble—diversions of cargoes to meet the war situation.

4124. It was due to causes outside human control very largely?—To some extent, yes,

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Sir HAROLD SCOTT, K.C.B., K.B.E., [Continued.
 Sir W. LINDSAY SCOTT, K.B.E., D.S.C., Mr. J. T. COTTON, C.B., O.B.E.,
 and Mr. H. P. BRÜCKSHAW, O.B.E.

Mr. *Glenvil Hall*.] It is a pity that is not stated, because it looks here as if the blame is attaching to someone.

Chairman.] Are there any further questions on paragraph 29? We pass to the figures which are on pages 7 to 9. I have no questions to ask on those figures. Has any Member any question?

(Secret Supplement to the Appropriation Account of the Ministry of Aircraft Production for 1942.)

Chairman.

4125. We pass to the Secret Supplement. On page 3, the explanation 1 (b) is: "A payment of £245,465 16s. 9d. in respect of claims under an indemnity given to a foreign firm. . . ." Could you tell us about that? (Sir *Lindsay Scott*.) Early in the war an American firm was making aircraft for a neutral country. The American Government stopped the export of the aircraft in the interest of their being used partly by the United States Government and partly by the British Government. Therefore there was a breach of contract as between the American firm and the neutral country, and the American Government deemed it wise to make certain payments in respect of the aircraft that

they had taken over to the neutral Government. We, through the Canadian Government, had given an indemnity to the American firm in respect of breach of contract, and we felt it obligatory upon us to make payments under that indemnity similar to those which the American Government had thought it proper to make.

Chairman.] Are there any questions on the Secret Supplement?

Sir *Frank Sanderson*.

4126. On page 2 the original and supplementary grant is £47,000,000 and the expenditure is £889,000,000. Is there any special significance in the figures being set out in that way? It was fairly obvious when that £47,000,000 grant was made that the amount was likely to be very considerably in excess of it? (Mr. *Blunt*.) That £47,000,000 has relation merely to the receipts and not to the expenditure. It is a technical device to get the receipts into the account, so as to net the expenditure.

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

VOTE OF CREDIT APPROPRIATION ACCOUNT, 1942.

MINISTRY OF AIRCRAFT PRODUCTION.

Chairman.

4127. Will Members turn to the Vote of Credit Appropriation Account, 1942, page xii, paragraphs 30 and 31 of the Report of the Comptroller and Auditor General: "Raw Materials." Sir *Gilbert* states that he has been informed that: "the procedure followed within the Control is felt to provide adequate safeguards against loss." Could you tell us the nature of the check within the Control to stop loss? (Sir *Harold Scott*.) The Control works in this way, that the stocks of virgin aluminium are stored by experienced agents employed by the Control. Each consignment is batch-marked and placed separately in store. Issues are made from specific consignments and monthly certificates furnished by the stock holders to the Control cover separately the movements in and out and certify the stock in hand in respect of each consignment. So that a close watch is kept on the receipt and eventual disposal of all the material in store. The records are kept and checked by the Light Metal Control and are subject to a professional audit.

4128. It is in working order as far as you know?—Yes.

4129. Have you any comment to make, Sir *Gilbert*, on the second sub-paragraph of paragraph 30 of your Report? (Sir *Gilbert Upcott*.) When I wrote this Report the professional auditors had certified the

cash transactions for the year which are included in this account. I do not think I have yet seen their final report, which would no doubt deal with the question of stocktaking to which the Accounting Officer has just referred, and I should like to reserve my opinion until I have seen that report.

4130. On paragraph 31, will you tell us, in order to get it on record, what this company is?—(Sir *Harold Scott*.) [Name given.]

4131. In line 4 the Comptroller and Auditor General states: "The prices agreed with the company are fixed basic prices subject to adjustment in respect of certified wartime variations in costs of production." How are they fixed?—(Sir *Lindsay Scott*.) Basic prices are fixed by negotiation not carried out by us but carried out on our behalf by the Government of Canada.

4132. " . . . subject to adjustment in respect of certified wartime variations." What about the adjustment?—The adjustment is a cost of production adjustment which is certified by Price Waterhouse of Canada.

4133. In fixing the price is account taken of very large advances from the United Kingdom?—We get rebates in respect of advances on working capital.

4134. Broadly speaking, are your Ministry satisfied with the prices?—This is a

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matter where we have left the negotiation of the price to the Government of Canada, and we have every reason to believe that, as our agents, they have done their best for us.

Chairman.] Are there any questions on paragraph 30 or 31?

Mr. Benson.

4135. With regard to paragraph 30, what is the method of remuneration of agents who are storing and handling aluminium for you? I think it is in this country that you are referring to?—(Sir Harold Scott.) Yes, these are in this country. (Sir Lindsay Scott.) To the best of my knowledge the bulk of these agents are commercial agents and we reach an agreement with them in individual cases.*

4136. Are they people who before the war were accustomed to handling aluminium?—Yes.

4137. Do they take a percentage, or are they paid for specific work, or are they paid an annual retaining fee to handle whatever comes their way?—I am afraid I am not in a position to answer that question out of my head. I should have to look that up.

4138. May we have a note on that?—Yes.

4139. Now, with regard to the Canadian Company, there is £13,000,000 of loan to them from this country. What is their paid-up capital?—I am afraid we have no information about the position of this company. As I said, we have not undertaken negotiations with it ourselves. We have delegated those negotiations to the Government of Canada, and, therefore, are not in a position to know them.

4140. So you really do not know whether they are efficient or not?—No.

4141. What price do they charge you for aluminium?—The current price of aluminium is basic x cents per lb., and I think the escalator addition is y cents per lb. (Sir Harold Scott.) The escalator addition for the last quarter ended December, 1943, was z cents per lb.

4142. What is the American price?—What is the price you pay to [name given]?—(Sir Lindsay Scott.) I am sorry, I have not their prices. I did not conceive that they were referred to in the Report.

4143. There is a rebate on prices for the repayment of the loan of £13,000,000. I understood you to say that these rebates applied to the repayment of working capital?—Yes.

4144. Is this £13,000,000 working capital?—No, that represents fixed assets.

4145. What scheme of repayment have we for the fixed assets?—The fixed assets are covered by loans repayable over 20 years.

4146. Do they bear a rate of interest?—They bear 3 per cent.

4147. What per cent. of the £13,000,000 is fixed assets and what is working capital?—£13,000,000 is fixed assets.

4148. That bears 3 per cent. repayable over 20 years?—Yes.

4149. And the working capital?—There have been three advances totalling in all 35,000,000 Canadian dollars.

4150. That is £7,500,000. So that in all we have loaned over £20,000,000 to the company?—Yes.

4151. What quantity of aluminium are we getting?—It is about x tons.

Chairman.

4152. You can take the figure out of the evidence, of course?—Yes.

Mr. Benson.

4153. What is the production of British aluminium?—It is a small fraction of that. I should think it about y tons.

4154. About [figure mentioned]?—Yes.

4155. Are we getting any aluminium on lease-lend?—No, we are paying cash for it.

4156. This is our bulk supply. Is there any other source besides this and [name given]?—No. There were Norwegian sources but we lost those very early in the war.

4157. So out of a maximum of $x+y$ they supply us with x . The price as related to the world price is rather an important figure?—The position is very artificial and the post-war prices may be very different from the wartime prices.

4158. I am thinking of the wartime price. We have put up £20,000,000 of capital. What is the value of x tons?—A little over £ z .

4159. It is over a year's cost?—It is only a fraction of the production that exists in Canada and the United States.

4160. Yes, but it is practically the whole of our production, and it seems to me that the price we are paying for the whole of our production in relation to the world price is an important factor?—I do not think one can say there is a world price at the moment.

4161. This is only a small fraction of the American production. Is this a good bargain, our having advanced some £20,000,000, taking £30,000,000 and the whole of our production from Canada?—I do not think we have considered whether it is a good bargain. Our agent in this matter has been a Dominion Government, and we considered that we were wise to leave the matter in their hands.

4162. This is Canadian production and this is a comparatively old bargain. Are you sure your agent was more concerned with getting an economic price for aluminium in this country or more concerned with developing aluminium supplies in his own

* Paper circulated to Members: not printed.

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country?—Perhaps I should say the price of aluminium has been subject to investigation by the Special Committee on National Expenditure of the Dominion of Canada, and they have made a report which fully justifies the company in the price they have charged.

4163. Might we have a note on the price charged by this company, the price charged by [name given] and the market price for aluminium in the United States?—I could certainly give the first two. I do not think there is a market price for aluminium in

the United States. I think it is all purchased by the Government, but I will investigate that.*

4164. Or what price the American Government is paying?—We should not know that.

Mr. Benson.] Perhaps you will give me what you can.

Chairman.] We pass to the figures on page 12. I have no questions. Has any Member any question?

* Paper circulated to Members: not printed.

(The Witnesses withdrew.)

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

THURSDAY, 29TH JUNE, 1944.

Members present:

SIR ASSHETON POWNALL in the Chair.

Sir Irving Albery.
 Mr. Benson.
 Sir Edmund Brocklebank.
 Mr. Douglas.

Mr. Glenvil Hall.
 Sir John Mellor.
 Mr. Pickthorn.
 Mr. Touche.

Sir GILBERT UPCOTT, K.C.B., Mr. D. F. C. BLUNT, and Mr. C. E. I. JONES, called in and examined.

CIVIL APPROPRIATION ACCOUNTS (WAR SERVICES), 1942.

CLASS X.

VOTE 19.

OFFICE OF THE MINISTER OF PRODUCTION.

VOTE 20.

MINISTRY OF PRODUCTION.

Mr. J. H. E. Woods, C.B., M.V.O., called in and examined.

Chairman.

4165. We have to-day the Ministry of Production and our Witness is Mr. Woods, whom many of us remember here as a representative of the Treasury for several years. Will Members turn first to the Civil Appropriation Accounts (War Services) 1942, page xlvii, paragraph 125 of the Report of the Comptroller and Auditor General. Could you first of all, Mr. Woods, give us a brief sketch of the organisation of the Ministry of Production?—(Mr. Woods.) Yes, Sir, We begin, as you know, with the Minister and then a Parliamentary Secretary. The office then, in a sense, divides. There is myself as the Permanent Secretary and Accounting Officer, and Sir Robert Sinclair, with the title of Chief Executive. That is, if one likes to call it so, a diarchy; but it is a form of organisation which has become not uncommon in war circumstances; for example, in the Ministry of Aircraft Production you have the Permanent Secretary, and the Chief Executive, Sir Wilfred

Freeman. That does not, of course, mean that the office is divided into two separate parts, each giving separate and independent advice to the Minister. What it means is that Sir Robert Sinclair has the primary responsibility on what is called the executive side and I on the administrative side; but it is quite understood between us and by everybody that the responsibility for giving advice to the Minister on all questions of important policy lies upon the two of us jointly, and we take great care, each of us, to consult the other upon such matters. I wanted to put that in because it is rather material to the subsequent organisation of the office. Underneath that head structure there are eight Divisions. On the administrative side, pure and simple, which is primarily under myself, there is the General Division, which deals with such things as Parliamentary matters, legal questions and Parliamentary questions, and with a whole host of general administrative questions which come up from

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[Continued.]

the operations of the executive divisions. This Division is very much concerned with a lot of general policy questions, such as those which arise on questions of supplies to and from liberated and conquered territories, and questions of reconversion of munitions capacity—and generally with the manifold problems of the transitional period. There is an Industrial Publicity Division, which is rather important, because of our special concern with things American. There is an Establishments and Finance Division. Turning to the Divisions which are primarily responsible to the Chief Executive, I begin with the Programmes and Planning Division, which is, so to speak, the centre and core of the programming side of the Ministry of Production. That is where the programmes of the various Supply Departments plus a great deal of information about other production in this country for essential civilian purposes—in short, the demands on resources are brought together and focussed in one place. From there come information, suggestions and inferences which go, within the proper responsibilities of the Ministry of Production, towards formulating new policies. There is next the Raw Materials Division. That relates to the passage in the Report of the Comptroller and Auditor General that it is the responsibility of the Minister of Production to frame the raw material import programme, and also to allocate raw materials. Then there is the Production Division. That is concerned with technical production questions, with any production difficulty, such as the breaking of a bottleneck. A great host of questions related to the technique of production are handled by that Division. The head of it, it is rather interesting to note, is Sir Percy Mills, who is of course also Controller-General of Machine Tools. There is a Non-Munitions and Commonwealth Supplies Division. That is concerned with the production and supply of all stores which are not strictly speaking munitions stores; they are not munitions of war. Notable examples, to take two at random, are textiles and pencilin. Then there is the Regional Division. That is the Division which looks after the whole of the regional organisation to which reference is made in the Report of the Comptroller and Auditor General. That is a group of five Divisions. They are concerned one way or another with production and programmes. Those are responsible primarily to the Chief Executive, Sir Robert Sinclair. That makes the total of eight Divisions. That is the Head-quarter organisation. Besides that, there is the Regional organisation. I do not know whether you would like me to deal with that in detail?

4166. I was going to ask you about it, so perhaps you will deal with it now—not at length, but just briefly?—I think

probably the Committee will recall that there was a Regional organisation before the establishment of the Ministry of Production. When Lord Beaverbrook was appointed Minister of Production he appointed a Committee under Sir Walter Citrine to consider the whole business of the Regional organisation as it then existed. This Committee reported in May, 1942, and upon the basis of that report the Regional organisation was remoulded and enlarged, with the Ministry of Production taking the lead in it. First of all there are 11 Regions. In each of those Regions the effective body, either itself or by an Executive Committee for the purposes of speed and dispatch of business, is a thing called a Regional Board. The Regional Board consists of the following people: the Regional Controller of the Ministry of Production, who *ex-officio* presides; the Regional representatives of the Admiralty, the Ministry of Supply and the Ministry of Aircraft Production; the Regional Controller of the Ministry of Labour and National Service; the Regional representative of the Board of Trade; the Regional Controller of the Factory and Storage Premises Control (which is also under the Board of Trade) and a representative in the Regions of the Machine Tool Control. Besides these official representatives there are three members representing employers in that Region and three members representing workpeople in that Region. That is the mainspring of the Regional organisation—this Regional Board. The Regional Board may appoint district committees, as many as they think fit in the Region, according to the size of the Region and how the industrial set-up of the Region dictates. The district committees are advisory bodies which the Boards ask to do any jobs they want them to do. Those committees consist of three representatives of employers and three of employees, and they have a Secretary who is a Ministry of Production official—in fact, a District Manager. Under the Regional Boards there are also district offices. They are the Ministry of Production offices. There are 61 of them, and their main function is to provide what is called a capacity service. They keep a pretty elaborate register of the capacity of the engineering firms, excluding the heavy engineering firms, in their district, with complete records of what their capacity is, what their machinery and plant are, what their machine tools situation is, what labour they have, what contracts or sub-contracts they have at the moment, and so on; and that is kept pretty well up-to-date, the point being that it can afford a running service to anyone who wants capacity in that district. They go to the capacity office and say: "We want such and such. Can you provide it?" There are 61 of those and 12 Regional offices. As far as the

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[Continued.]

organisation is concerned that is about the end of it—the Regional Board, with these district offices and the capacity offices, which are much the same thing. There are the district committees rather lying out of the main stream of work in this, to which the Regional Boards can turn for advice on any particular thing they wish to ask for advice on.

Sir *Irving Albery*.

4167. You said the district office and the capacity office were much the same thing and I did not quite understand?—I am sorry; it was a rather confusing sentence, I agree. There are 61 district capacity offices, only in the Ministry of Production we do not in the normal way call them "capacity offices"; we describe them as district offices of the Ministry of Production, each with a district manager in charge. I ought to mention one thing which rather marries up the capacity offices. There has been established at Headquarters in London a service which is called the Location Planning Room. That brings together not all the information from the capacity offices in the Regions but the most salient information. It is recorded in a very interesting and graphic way, with various types of maps, diagrams, and so on, and the purpose of that is to show generally over the country at large what is the load in a particular place, so that if, for example, the Admiralty said that they were looking for some particular kind of capacity—drop forging or something—they could go to the Location Planning Room and look around the various spots where they knew this sort of capacity was available, and they would readily see from the records there, which have been collected from the various capacity offices, that it is not the slightest use looking in this place, that place or the other place, because either there is not any labour, or the full capacity is used up, or there are no premises available, or something of that kind. It gives them a first guide as to where the likely place to go is in the Region. Then they can go to the appropriate Regional capacity office and hope to find the capacity they want. I believe the present situation is that the capacity offices are doing business, so to speak, at the rate of about 3,000 successful placings a month, mainly actually in the field of sub-contracts, not of main contracts. That is a description of the organisation

Chairman.

4168. There are one or two further points. Could you tell us the numbers of staff employed?—Do you mean generally or in the Regions?

4169. The number of the whole of your staff. We come to the Salaries Vote later on. If you have it we should like to know the number of your staff at Headquarters and the number employed all up and down the

country. That would be rather interesting also?—I think I can give you that. At the 1st March, 1944, the staff employed at Headquarters was 609. That, however, I ought to make clear, includes overseas staff, particularly in America (there are one or two, I think, in Canada), whom you might call U.K. based; that is to say, they are U.K. officials in America. On top of the 609 there would be a total of between 250 and 300 locally engaged in the United States. The total staff in the Regions on 1st March, 1944—

4170. In this country, of course?—Yes—was 759. That makes a total of about 1,350.

4171. Including your 250 in the United States it is very appreciably more, is it not?—Yes. That is including the locally engaged.

4172. The total of all three headings comes to more like 1,600?—Yes, I think so. I have not actually done the arithmetic. I think 1,656 is the actual total.

4173. How in practice is effect given to your decisions? How are they transmitted to the various Ministries concerned?—That is rather a long story.

4174. Could you not put it briefly?—If I may I will put it as briefly as I can. The root of the question lies in the word "decisions," if I may say so.

4175. You have a bird's eye view of the position of all these various industries, and you have to decide on questions of priorities, and so on. When you come to certain decisions, how do you notify the Department concerned what they can have as regards raw material, labour or sites, or whatever it is?—Might I take two or three minutes on that question? It is difficult to answer in two sentences.

4176. Perhaps you will couple with it also the question of powers?—Yes, I will, certainly. The process starts with the Service requirements, which are framed, of course, by the Service Departments. They put those requirements on to the various Supply Departments, and it is their responsibility and remains their responsibility to work out production programmes to fill those requirements by the time required. That is not the responsibility of the Ministry of Production. It is also the responsibility of the Supply Departments to see to it that those programmes are executed. The contracts are placed and the deliveries come forward at the time they are wanted. If the total resources of the country, whether by way of home production, or by way of what you could import, were enough to meet those total programmes plus what is required to sustain the civil economy at a sufficient though minimum level, then I think there would be no need for a Ministry of Production. They might save a bit of waste, but I am old-fashioned enough to

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[Continued.]

think that perhaps the Treasury might do that on their own. But, of course, the fact of the matter is that the total resources, even including import and Lend-Lease, are nothing like enough, at one time and another, to meet the total demands put upon them. The shortages appear in different ways and different times. I suppose the earliest shortage was machine tools; the one most acutely felt was machine tools. At the beginning of 1943 it was by way of being materials. At the present moment it is undoubtedly man-power. The result is that there must be some central assessment of total demands on resources for war production, and also the civilian economy as against the total availabilities of what we can produce and what we can import, and that is where the Ministry of Production comes in; it is their business, first of all, to make that central assessment and from the fact that they make the central assessment they are in a pretty good position to make positive suggestions as to how the reconciliation should be made where there is a conflict, and resources will not quite go round—what is the best use to make of the resources. I am not claiming that the Ministry of Production is the sole arbiter of that. Obviously, there is the War Cabinet; there is the Minister of Defence; there are the Chiefs of Staff, and various other parties who come in on the major strategic questions. But still we can help in some way. That being so, you then said: "What are the powers of the Minister of Production?" First of all, the Minister of Production himself is a Member of the War Cabinet. The Ministers of the Supply Departments are not. In the second place, the Minister of Production is the authority, subject, of course, to appeal to the War Cabinet, for allocating materials to the various Departments.

4177. Except the Admiralty?—On the allocation of materials we are the authority over the whole field, including not only the Admiralty but civilian Departments as well. That is done by a Materials Committee presided over by Lord Portal on behalf of the Minister of Production. Next, he has the authority for allocating machine tools—again over the whole field in this country. Lastly, he is the ultimate authority, again, of course, subject to ultimate appeal, as in all these things, on priorities. Though the priority machinery is not now very greatly used (we have rather passed away from priorities to allocations) there does remain the Central Priorities Committee which can be brought into play in case of need, and, again, the Minister of Production is responsible for decisions of the Priorities Committee, so that he has quite a considerable field of authority there. Lastly, because he has the general responsibility for arranging for supplies from America—except for food, oil and shipping—and as the supplies from America clearly are complementary to what is being produced here,

that gives him a good deal of influence over production programmes here generally. But I think it would be quite wrong to suggest that that is where it ends. Ultimately, the Ministry of Production is a co-ordinating job. We do not have to brandish these powers about. The real influence and any real good the Ministry of Production does—in my judgment, anyway—ultimately depends on getting the good will and the confidence of the Supply Departments, and it is really a co-operative job in the full sense of the word. In the field of war production that is done in the main through the medium of a body called the Joint War Production Staff. That is presided over by the Minister of Production. It is serviced by the Programmes and Planning Division of the Ministry of Production—the material is prepared by that Division—and it consists of the chief Supply representatives of the Service Departments, the Chief Executives of the Supply Departments and representatives of the Ministry of Labour and National Service. There the programmes are, so to speak, brought together—kneaded together—and made to fit into the general strategic conception, and if there are clashes between the demands of one and the other which need to be resolved, because the total demand, so to speak, will not fit into the total availabilities, that is where the broad pattern is decided in debate across the table with the Departments concerned, and there, nine times out of ten, agreement would be reached.

Chairman.] Are there any questions?

Sir John Mellor.

4178. You said, with regard to machine tools, that the Ministry of Production is responsible for their allocation, although I assume that the Ministry of Supply is responsible for their being made available?—That is so.

4179. With regard to your relations with the Ministry of Labour, am I right in assuming that the Ministry of Labour is responsible for making man-power available and the Ministry of Production is responsible for its allocation?—Not quite. I think that is perhaps a little less than fair to the Ministry of Labour. We have to work very closely indeed with the Ministry of Labour. I should say broadly the distinction was that the Ministry of Production is responsible for saying what are the demands which must have labour, assigning the relative importance to the various demands for labour. It is the Minister of Labour's responsibility, so to speak, to find the labour and to allocate the labour.

4180. Yes. I did not mean to suggest that the Ministry of Production would allocate particular persons or anything of that sort. What I meant was: Is it the responsibility of the Ministry of Production to determine priority for the available labour?—Yes, it is, and I must say that I do not

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[Continued.]

think there is any very hard and fast line to be drawn between the responsibilities of the Ministry of Production and the Ministry of Labour. We are most vitally concerned with man-power and its broad allocation; we cannot help it. To use the words of the Prime Minister in another context, our affairs are rather inextricably mixed up.

4181. Would not that apply equally to the operations of the Ministry of Supply, both centrally and regionally?—I think the line is easier to define there on the whole. We might, having regard to the relations of confidence that we have with the Ministry of Supply, make all sorts of suggestions to them about how they should handle their own programmes and what they do, and this, that and the other, but our main function in relation to the Ministry of Supply,

(Mr. Woods withdrew.)

TREASURY MINUTE ON PARAGRAPHS 37 AND 63 TO 66 OF THE REPORT OF THE COMMITTEE OF PUBLIC ACCOUNTS, 1943.

Sir WILLIAM DOUGLAS, K.C.B., K.B.E., Mr. F. H. BEDFORD, Mr. W. BRADLEY, O.B.E., and Mr. H. C. GORDON, C.B., called in and examined.

Chairman.

4183. We pass over the Treasury Minute on paragraph 36 of our Report of last year, dealing with the Ministry of Supply, Excess Vote. The Excess Vote will come really best on the next item on the Agenda: "Statement of Excess, 1942". On paragraph 37: "Fees and Expenses of Consultants", the Treasury Minute says that it "proposes to consider with Departments generally the recommendation in the concluding sentence" of our paragraph. Could we hear the results of that consideration, please?—(Mr. Blunt.) Yes, we have been considering it. The idea of that recommendation was that there should be some co-ordination between Departments possibly to meet the case of the same consultant being employed by two Departments, and we are arranging that sort of drill; only at the moment there is nothing of that sort doing.

Chairman.

4184. Are there any questions on the Treasury Minute on paragraph 37 of our Report? We pass to the Treasury Minute on paragraphs 63 to 66: "Profit Rates in Contract and Control Prices". We have dealt with it in part with the Ministry of Aircraft Production, whom we had the other day. Towards the end of the Treasury Minute, in the last sub-paragraph but one, there is mention of the fact that Departments are in fact constantly engaged in a review with regard to these cost trends. Could we have something about the procedure that you adopt in your case with regard to that, Sir William?—(Sir William Douglas.) Yes. There are two types of contract, as the Committee well know.

theoretically, is to judge the Ministry of Supply programme as it impinges, so to speak, upon the total demand upon resources—not to criticise what the Ministry of Supply is itself doing.

Chairman.] We pass to the figures of the two Accounts which are on pages 54 and 55. I have no questions to ask on the figures. Has any Member any questions to ask?

Mr. Douglas.

4182. This is a year in which you are not in full operation, of course? This does not represent the cost of your 1,600 staff, does it?—No, not at all.

Chairman.] Are there any further questions? May I take it that the Accounts are approved?—(Agreed.) Thank you very much, Mr. Woods.

There are the costed maximum price contracts and the fixed-price contracts. There are three possible ways of seeing that contracts are in line with current costs. There is the scrutiny of the overall trading results of the firms, there is current costing and there is post-costing. The Ministry of Supply dwells particularly on scrutiny of the overall trading results of firms and on current costing.

4185. Do you consider also whether your fixed-price contracts are reasonable, related to current costs?—Very much so. In the fixed-price contracts we employ something like the same methods, and we value considerably the help which is afforded by current costing or spot costing during the currency of the contract.

4186. Do you take any action with regard to trading results—checking up on them, and also post-costing?—Not post-costing.

4187. Is there any difficulty in your case in the fixation of what is the capital employed?—I do not think our experts have any particular difficulty in fixing what is the capital. We have laid down very explicitly for our officers how capital should be computed, and it has never been represented to me in any way that they have any difficulty in arriving at a proper assessment of what the capital actually is. There are all sorts of practical difficulties in the working out of them, but there is no theoretical difficulty; there is no problem. It is sometimes a hard matter in practice to assess those things accurately, but the principles are perfectly clear.

4188. Last year and the year before we heard something about the firm of J. A.

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Prestwich and Company. If I remember rightly, you had to issue a direction to them. Could you tell us the result of that direction?—Yes. We issued a direction, and, to go to the root of the matter right away, we found that it was, as we expected—and really as Mr. Prestwich told the Committee here—that, he had not any proper costing system; but he did produce to us all the books and accounts that he had.

4189. What was the financial result?—The financial result was that in the end we felt the best thing to do was, as we had forecast we probably would have to do, to relate the price of those articles he was making for us to similar articles made by other comparable firms; with the result that in the case of one type we got a reduction from 8s. 3d., which was the original figure which he was talking about, to 6s. 4½d., and on the other type from 11s. 3d. to 8s. 11d., those prices to run from January, 1942.

4190. Was there any refund in this case as regards the past?—Those figures went back such a long way to January, 1942, that the question of a refund really did not arise.

4191. Did those cover contracts with other Departments as well as yourselves, or were they not working for other Departments?—We were concerned with our own affairs there. The other Ministry who were concerned with J. A. Prestwich, the Ministry of Aircraft Production, were given a copy of our investigators' report, and access to everything we had found, but they had no contracts running for which the price still had to be fixed, so there was nothing of practical value which they got out of it.

Chairman.] Are there any questions on the Treasury Minute on those four paragraphs of our Report, paragraphs 63 to 66?

Sir Irving Albery.

4192. On page 8 of the Treasury Minute the Treasury state: "The essence of a fixed-price contract is that, in agreeing upon the price, the Contract Department have sufficient data to put the contractor at a much more definite risk than in the case of the maximum price contract." Then if one goes over to page 9 the Treasury in their Minute say: "My Lords have frequently stressed that it is the essence of a fixed price that it should be a good price, *i.e.*, one which is likely to produce for the contractor a reasonable profit but not more than a reasonable profit if he executes the contract with due care and diligence." I find it a little difficult to reconcile those two statements. If your idea of a fixed price is one which should provide the contractor with a reasonable profit, I do not quite see where the risk comes in which is referred to in the other paragraph?—(Mr.

Blunt.) Surely the contractor is at risk. There is a certain estimate of cost which is taken which may be fulfilled or may not be, but the contractor is at risk. The costs may go right against him.

4193. Is he at much greater risk than he would be under the maximum price contract?—There, as the Minute says, there is usually a safety margin; that is to say, the Department is not concerned to be so tight on the maximum price, which is only going to act as a ceiling, as it would be over a fixed price, where it is going to be an actual final price.

4194. On page 9 the Treasury in their Minute go on to say: "They regard the desirability of extending the scope of the fixed price contract as justifying the taking of greater risks as regards price than were formerly thought desirable." That, presumably, means that they are prepared to fix a rather better price?—We think if there were a doubt one way or the other, the man-power situation of the Departments might justify them in rather going for a fixed-price contract than going for a costed contract.

4195. Is it borne out by experience that the contractor under the fixed price has in fact been involved in a certain amount of risk?—We do have cases, of course, in which a Department asks the Treasury to approve an *ex gratia* payment because a contractor has suffered loss.

4196. Is that usually done?—It depends entirely on the circumstances—whether the circumstances were within his own control.

Mr. Benson.

4197. I think you said that you did not engage in post-costing of fixed-price contracts?—(Sir William Douglas.) That is so.

4198. What is your check? How do you decide whether a contract is reasonable or not if you do not post-cost?—I think you have to envisage our relations with the contractor on a continuing basis. We start off with a contractor making a certain store. We do our best, with such information as is available to us, to fix what we think is a reasonable price. It is trial and error, if you like. It is trial and error also for the contractor. When he has completed that and we want to place a continuation order with that contractor we have then the advantage of our cost people having been in there looking at his current costings during the currency of that contract, and that enables our contract department to determine what the proper price should be for the following orders. We have also the check of the overall trading results of that contractor, to see whether the prices are reasonably right or not.

4199. One particular advantage, I think you will admit, of post-costing or any form of costing is to check up the efficiency of the process to see how far it is efficient

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and how far there can be savings. That is not directly your job, but it does throw considerable light on to the efficiency of processes.—As I think we shall see further on in the course of the evidence which we shall be giving to-day, we have a very elaborate system of seeing to the efficiency of manufacturers in all sorts of ways.

4200. When you said that you did not post-cost contracts—you now modify that to say that you are continually costing during the life of the contract?—During the life of the contract. What we do not do is to take a particular contract which has been finished at a fixed price and cost the whole contract from first to last, to see how the trader came out on that contract.

4201. If you continually keep your fingers on his current costs you can arrive at that figure, can you?—We can get valuable information.

4202. If you are costing during the time contract A is running, by the time contract A is finished you ought to know how the contract has come out.—I think the contractors people have a very good idea of how a contractor is working out.

4203. You said that you had access to the books. To what extent does that apply? We have had trouble in the past, access being given only to a limited number of books. In a certain case the trouble was that the crucial books were withheld. When you say that you have access to his costings and the books, how far does that go?—Mr. Bedford could perhaps say whether he has any particular cases where he thinks anything material was withheld. (Mr. Bedford.) I am speaking generally for contractors in our industry. As a whole there is no difficulty in getting access to their books. They are proffered and are examined by our accountants. We do meet occasionally with people who object to disclosing certain more intimate records. Then we might have to issue, as we have done, a direction under the Defence Regulations in order to get at those books which we want.

4204. Those intimate records are naturally the records which give you the boiled down information which you want and are vital to any serious attempt to find out what the firm is doing?—Very probably they are, but very often I think the objection is because they are personal to the directors of the firm.

Chairman.

4205. Containing information as to how much each partner gets out of it—that sort of thing?—Something on those lines. I think generally the figures which we want to get at for the cost of an article are not withheld at all; it is something more intimate than that.

Mr. Benson.

4206. You feel that your costing people know pretty accurately what a contractor is doing, what his costs are—what he is making?—I would not say that on any particular contract. If our investigator goes down to take a current costing out, he is just taking a costing of an up-to-date period. That may be but a short period in the life of the contract for which the work is going on. In the earlier period of that contract the costs might be much higher than they are at the end of the contract. There may not be an even cost going through the whole life of the contract.

4207. On a long run, naturally, methods improve.—And the end costing, which should decide the next contract, may be much lower than the teething trouble end of the original contract. So you could not deduce from a costing taken out at the end of a contract of 1,000 articles that 1,000,000 would cost just 1,000 times more than that.

4208. No, but if you cost over one small period like that and you do not know the graph of efficiency of the firm for the whole, it does not give you any real check on what the firm has done on that particular contract?—No.

4209. It may give you some indication of what the firm can do henceforward and immediately?—Yes. It tells you what it is doing at that time.

4210. So that that means that you have to check up their prices towards the end of the contract and not at the beginning? That is so.

4211. Do you do that?—That is when our current costings are done. It is done at the end of the contract or preceding the contract which we are about to fix as a continuation order.

4212. You referred to our old friend, Prestwich. You did not tell us what profits he made. You told us the price per article and you reduced it somewhere between 20 per cent. and 25 per cent. What profits was he making?—As to that, from the costings we got (and it is admitted that the costings records of Prestwich were not a very reliable set of documents) the cost of the article which was fixed at 6s. 4½d. was, on examination of the investigator's report, somewhere about 5s. 10d.

4213. He was charging 8s. odd?—He asked 8s. 3d.

4214. You made the remark that you got all the books that he had, suggesting that he did not have very many?—I do not know the degree of the deficiency, but the accountant's report was that there were not any real costings.

4215. What profit did he make? Could you relate his profit to capital?—Over his whole trading?

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4216. Yes?—The accounts in 1940-41 showed a profit of Y per cent. on cost of production.

4217. That was for 1940-41?—Yes. That did not allow for certain reserves for agreed reductions in price.

4218. What was the capital employed, by the way?—I am afraid I have not that.

4219. What was his profit?—His profit on capital employed, do you mean?

4220. Yes?—The capital employed in 1940-41 was Z.

Mr. Benson.] And he made Y profit on it?—That was in 1940-41.

Chairman.

4221. That is profit on cost?—Yes, that is the profit on cost.

Mr. Benson.

4222. The profit on cost was Y per cent.?—Yes.

4223. The capital employed was Z. What was his gross profit?—His profit on capital employed?

4224. Yes?—Y × 2 per cent.

Chairman.

4225. Over Z?—Yes.

Mr. Benson.

4226. I think I remember our being told that if he were allowed to run his own business he could very likely make it profitable! That was in 1940/41?—Yes.

4227. That is when he was receiving the higher costs for his products, was it not?—Yes.

4228. When did you reduce the costs?—(Sir William Douglas.) As from January, 1942.

4229. As a result of what? It was as a result of the fact that he was asking a higher price than other firms, was it not?—We got suspicious about the price when we related it to other firms of what we considered equal efficiency.

4230. I want to connect that up with your statement that your cost accountants got a pretty good idea of what was going on in a firm. Last year or the year before (I forget when it was), when we had Prestwich in front of us and now, again, the statement is repeated that your check on Prestwich was not your knowledge of what was going in the J.A.P. works but the fact that his prices were higher than other people's prices?—We had no costings at that time. The cost is quite recent.

4231. In 1941 you had no costing system?—We had not got to costing Prestwich. We did not cost Prestwich until these last few months.

4232. What percentage of firms do you cost? You must be employing a vast number of firms. Of what percentage of

firms can you say it is true that your costing accountants have a shrewd idea of what is going on?—We have the statement of the profit and capital employed and the cost of production of 2,500.

4233. The cost of your contracts last year was £800,000,000 odd?—Yes.

4234. What does the 2,500 represent, as a percentage of £800,000,000 odd of capital?—I do not think I can venture on a guess at that at all. (Sir Gilbert Upcott.) That £800,000,000 includes costed contracts. (Mr. Bedford.) That includes all contracts, fixed-price and costed ones. (Sir Gilbert Upcott.) What he wants is the percentage of fixed-price contracts. (Mr. Bedford.) The number of fixed-price contracts placed to-day is about 80 per cent. of our number. But that is the number: it is no guide to the value.

4235. Can you tell me, as to the fixed-price contracts, the percentage in which you feel you really know what is going on? I do not want to bind you to a decimal point. It is no use having a tiny fraction, a tiny area, in which you have full knowledge, if you happen to be completely blank as to other areas?—We have 20 per cent. of the contracts which are placed on a costed basis. That is the number of contracts placed.

4236. Even that does not convey much unless one knows what that means in total cost of contracts?—The big contracts for tanks, guns, and things like that, are costed contracts, and I should have said, as a guess, that the value of the costed contracts is about 50 per cent. of the total.

4237. Leaving 50 per cent. for the fixed-price ones?—Yes.

4238. It is the fixed-price contracts to which the current costing system you mentioned is applicable?—Yes.

4239. What proportion of the 50 per cent. have you full knowledge of?—We have carried out about 9,000 current costs. (Sir William Douglas.) During the 12 months ended April, 1944.

4240. Out of how many contracts?—(Mr. Bedford.) I do not know the total.

4241. I want to get some idea of how extensive your knowledge is?—(Sir William Douglas.) I think we ought to get that information for the Committee.

Mr. Benson.] If you would.

Chairman.

4242. Yes, please?—(Mr. Bedford.) I should like to know what we have to get.

Mr. Benson.

4243. You have fixed-price contracts, and you base your ability to control those fixed prices on current costing. That is what you have told us. Of the fixed-price contracts that are running, what percentage do you cost currently? That is what I want

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[Continued.]

to know. Again, I do not want it in decimal points; I want it to the nearest 5 or 10 per cent.—I do not know that I said that every contract we placed was based on a current costing.

Mr. Benson.] No. I am asking you what percentage of the contracts placed are based on current costing. That is what I want to get at.

Mr. Douglas.

4244. What do you mean by "current costing"?—I am not an accountant, but I have always understood that it means the accountants would go in and they would take out the cost of a current batch which is in manufacture.

4245. Do you mean you would take out the cost of an individual article which is being manufactured at some particular point, the contract for the manufacture including delivery of these articles over a long period? Is that what you mean?—I mean so far as I understand it from the accountants that it would be the cost of, say, a week or a fortnight's production, or some short period.

4246. Can you be certain that those costs are accurately ascertained if you never have any post-costing?—On that I should rely on the accountant. I should suppose our accountants would not give us figures which they had not been satisfied were correct.

4247. I should suppose so, too; but I wanted to know how the thing was reconciled and checked?—(Sir William Douglas.) I am not quite clear how costing a contract some time after it is finished helps you, particularly in an expanding production, to cost more accurately a current contract. I am not quite clear what Mr. Douglas has in mind there.

4248. I have always understood there were considerable difficulties in costing a current contract, or rather a sample of it, because that is what I understood the evidence was, because of the difficulties of allocating the overhead charges, and so on, which can only be done satisfactorily, as I understand it, after you have got all the data assembled at the end of some period. I may be wrong about it. All I want is enlightenment?—(Mr. Blunt.) I should have thought that current costing related rather to the prime cost of the article than perhaps to the assessment of the overhead charges.

4249. That is what I would have thought, too, but that does not necessarily tell you what the price is that you ought to have. It may be a step towards determining that?—I rather think overhead charges are probably kept under some more general scrutiny than that.

4250. It may be so. That is the kind of thing I want to find out?—(Sir William Douglas.) If you will allow me, I will ask Mr. Bradley to explain to the Committee how he does his costings.

It is a very technical point. (Mr. Bradley.) I would explain current costing as taking such facts as exist. Those facts would naturally be facts relating to normal production. I think, as previously explained, it would be obviously unfair to take either the whole of a contract or the early period of a contract cost where you had initial teething troubles and that sort of thing. It is probably rather the latter end of the contract costs that you require as your first step towards current costing. Then it would be probable that not only was there a contract which was finished and the cost compiled, but also that there would be a continuation contract going through at that time, and you would be able, in many cases, especially where batch costing is in force, to take batch costs of the contract which was actually then proceeding. The point you raised with regard to overhead charges (I agree, if I may say so, that you raised a very pertinent point) has to be met by some degree of estimation, and naturally in so far as we are taking a certain risk in the fixed price, so also, you will agree, we should have to take a certain risk with regard to overhead charges, but there, again, a survey of the production during the period in which you are carrying out your investigation and production related to the past, say, the same period of the preceding year, will help you to give the trend of overhead charges. You would naturally have the exact overheads for a completed financial year, and it would be up to the investigator to secure a trend to enable him to make a reasonable estimate for the future.

4251. Thank you. Now I do understand it, but what Sir William said led to the belief that you had not any information about the past in order to assess what the overhead was or what the trend was. Now I feel more satisfied about it. In our Report of last year attention was drawn to the Iron and Steel Control prices, and particularly to the 15 per cent. of profit on capital employed obtained in the lighter sections of the industry. Can you tell us what the position is with regard to that now? Has any reduction been secured in that?—(Sir William Douglas.) As a matter of convenience I wonder whether we might deal with it, as it comes under the Vote of Credit, on the Vote of Credit day?

4252. I raised it now because I thought we were dealing with the Treasury Minute, but I do not mind. Some reference was made by the Treasury Witness to *ex gratia* payments. What are the circumstances which are considered to justify *ex gratia* payments?—(Mr. Blunt.) It is extraordinarily difficult to give a general answer to that. They are all shapes and sizes. They come along in entirely different circumstances, and each one has to be judged on its own merits. The sort of case that often happens is where the Department has

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perhaps interfered with the programme, or there has been some other interference with the programme, and the progress has not been so quick and the overhead charge has gone on for a longer time than anticipated—that is the sort of thing; but there is an extraordinary variety. I do not think I can possibly put them under one general umbrella.

4253. It was, if I remember rightly, raised in relation to a question about risk?—Yes, it was.

4254. The inference I got from your statement was that these *ex gratia* payments took care of cases of extraordinary or exceptional risk—was I wrong in that?—I do not think that is so. The proportion of *ex gratia* cases is very small indeed, and there must be many cases in which a contractor suffers loss, or at least does not get anything like the profit he anticipated, which never come along for *ex gratia* treatment at all.

4255. No, I should hope not. On the question of risk, what steps are taken to see that the risk is not covered twice in the price which is quoted, namely, that it is accounted for in the detailed prices of labour and material, which are included in the estimate, and in the profit as well?—(Mr. Bedford.) In the fixing of a price the Ministry, of course, would enter the fray with its cost, which it perhaps ascertained by current costing, or by relation to somebody else's price, and to that cost it would add its profit, the profit that is allowable under the formula that we use, and that would be our figure at which we would enter into that deal. There, obviously, there is no double charge for risk because it is obtained from actuals.

4256. What I wanted to get at was this: supposing the contractor comes to you and says: "We do not accept your estimate; you have not allowed enough for labour; the price of it is likely to go up; you have not allowed enough for materials—the price is likely to go up," what do you say to that?—We have to make a deal. We have no power to say: "This is our price and you will take it." We are just armed with what we think is a proper price, built up on our recognised formula, and then we have to negotiate, and in negotiation there is bound to be some give and take.

4257. I raised the point because it indicates the necessity of working to as low a percentage on the capital employed as you possibly can, does it not?—I beg your pardon, but I did not quite hear that.

4258. I say the inference from that is that you ought to take as your standard of the percentage to be allowed on the capital employed as low a figure as you possibly can?—We merely take the formula that has been devised; that is $7\frac{1}{2}$ per cent. plus some element for efficiency and risk.

4259. There is one other point. Reference was made by Sir William to the investigation of the profits earned by the firms with whom you are in contractual relationship. I suppose those firms are not entirely employed upon your work, are they?—Generally speaking, no.

4260. How do you dissect the profit disclosed by their accounts in order to see how much is obtained out of your contracts and how much out of other people's?—In the costed contract, of course, we do know our own rates. We know what has been allowed on the actual cost, so that on that point we are quite clear. On the fixed-price contract, of course, we do not know what the emergent profit on that contract is, but the trading results, of which we have had 5,500, are split up generally into percentages of what orders the firms have from the Government and what orders they have from the ordinary commercial world, and the accountants do at times even split it up into the profit which is obtained from the commercial sales and that which is obtained from Government orders.

Sir John Mellor.

4261. Mr. Bedford, you said, I think, that sometimes the Ministry had to issue directions to obtain disclosure because some contractors were reluctant to reveal the more intimate details of their business. I wanted to ask you this: in your experience has that reluctance been in any or in many cases due to the employment in your Department of officials who previously had been competitors in business of the contractors concerned?—That is one of the reasons that has been adduced for the non-disclosure of books.

4262. When that reason is given, do you then arrange for somebody quite independent, who is not in any way concerned in that particular type of business, to make the inspection, or how do you meet the objection?—We have tried to meet it by saying: "All our employees are Civil Servants, and they are bound, of course, by the Official Secrets Act".

4263. That does not give much comfort, does it?—I am afraid that answer does not help very often; but we have a nucleus of permanent Civil Servants, accountants who were with us and who are on a pensionable basis and have been with us for years. If the number of requests became numerous that small nucleus could not meet them. We have met it at times, but we could not pretend to do it if the whole of industry said: "We will not have these people". (Sir William Douglas.) In addition, we employ a very great many temporary Civil Servants who are professional accountants, whose *hona fides* is entirely above suspicion.

4264. I take it there is no objection to that, from contractors?—None at all.

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4265. But in cases where contractors do object to a temporary Civil Servant investigating their books, on the ground that he was a competitor and is likely again in the future to be a competitor, I take it that you do not insist under your direction on his being given access?—(Mr. Bedford.) No, I do not think we would. We would try to meet that case by putting a permanent official on to the job.

4266. Can you say that you have managed to do that in all cases where an objection has been taken?—I could not say whether we have done it in all cases, but

I could say there have been cases where we have done it. The number of these objections to exposing the accounts is very small.

4267. Can you say this, that in your recollection you do not know of a case where objection has been taken to a particular Civil Servant inspecting books, and, notwithstanding that objection, the Ministry has insisted upon his seeing them?—To my knowledge, no.

Chairman.] Are there any further questions on the Treasury Minute on paragraphs 63 to 66?

TREASURY MINUTE ON PARAGRAPH 36 OF THE REPORT OF THE
COMMITTEE OF PUBLIC ACCOUNTS, 1942.

STATEMENT OF EXCESS, 1942.

Chairman.

4268. We pass to the White Paper, the Statement of Excess, 1942, and also the Treasury Minute on paragraph 36 of our Report of last year, which I passed over just now. That deals with the Ministry of Supply, Excess Vote. I have only one question on that. Are you trying to avoid these Excess Votes in subsequent years, Sir William?—(Sir William Douglas.) Yes. (Mr. Jones.) May I ask whether the Treasury may go ahead and enter this Excess Vote in advance of the Report of the Committee? The normal procedure is

for the Committee to make a separate report on an Excess Vote before the Vote is placed before the House, but the Treasury would like to be able to follow the same procedure as last year—that is, to proceed with this Statement of Excess in anticipation of the covering recommendation in the Committee's final report.

4269. It was done last year, was it?—Yes.

Chairman.] Is any exception taken to that? May I take it that it is approved? (Agreed.)

CIVIL APPROPRIATION ACCOUNTS (WAR SERVICES), 1942.

CLASS X.

VOTE II.

MINISTRY OF SUPPLY.

Chairman.

4270. Will Members turn to the Civil Appropriation Accounts (War Services) 1942, to the Report of the Comptroller and Auditor General on pages xxi to xxiii, paragraphs 55 to 58. On paragraph 55: "Excess of Expenditure over Grant" I have no questions to ask. Paragraph 56 is: "Production of Agency Factories: Examination of Expenditure". The Comptroller and Auditor General states: "In paragraph 60 of my last Report I referred to the delay in examining agents' expenditure on behalf of the Ministry. The professional auditors who mainly carry out this examination for the Ministry state that shortage of staff makes it increasingly difficult to furnish reports promptly. I am informed that at 17th January, 1944, the Ministry had received no reports on expenditure at eight factories which came into operation in 1941 or 1942, and no reports on expenditure subsequent to 31st March, 1942, at 14 others." Have any reports been received in regard to those 22?—(Sir William Douglas): The position now is that as regards factories for which no reports have

yet been received, the number is one, and in that case the examiners are at present engaged on the audit, and we expect to have their report very soon. It will bring the whole position up-to-date. As regards factories in which no reports have been received subsequent to the 31st March, 1942, that number is now three.

4271. Instead of fourteen?—That is so.

Chairman.] Are there any questions on paragraph 56?

Sir Irving Albery.

4272. Do you consider the reports received to be satisfactory?—I think I can say so. I have not heard that they are not. I think we must assume that they will be satisfactory. We have had plenty of cases of reports where they have been satisfactory, and there is no reason to think that those, which are coming forward will not be; but they have not been thoroughly examined yet.

Mr. Douglas.

4273. The longer they are delayed the more suspicious you are apt to be about

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them. Is not that so?—I think all people in contract departments are naturally suspicious.

Mr. Douglas.] I am glad to hear it.

Chairman.

4274. Are there any further questions on paragraph 56? We pass to paragraph 57: "Prices for Agent Firm's own Products." Sir Gilbert states: "One agent firm supplies a wide range of products under contracts with various Government Departments and their contractors and agents." Will you please tell us what this agency firm was?—That agency firm was [name given].

4275. And what were the products concerned?—Sulphate of soda crystals and nitric acid.

4276. Sir Gilbert states in the first sub-paragraph: "In May, 1943, the Ministry replied that certain rebates had been agreed or were under negotiation"—could you tell us what happened about that?—Yes. A settlement was agreed for 1942 of £1,400,000.

4277. That has been agreed?—Yes.

4278. In the next sub-paragraph the Comptroller and Auditor General says: "The Ministry recently replied that the negotiations with the firm, which were still proceeding, had been on the basis of fixing an overall profit rate"—could you please tell us about that?—The overall profit rate is about 9 per cent. on cost, which happens in this case to be the same as on capital.

Chairman.] That makes life simpler. Are there any questions on paragraph 57?

Sir Irving Albery.

4279. On that rebate of over £1,000,000, what contracts does that cover?—That rebate relates not to direct contracts between the firm and the Government but to indirect contracts, where those things which are supplied will enter into the manufacturing processes of other traders with whom we are in contractual relations—sub-contractors and the rest.

4280. It is a rebate on the supply of certain material?—This covers the whole of their transactions. The rebate of £1,400,000 does not cover only sulphate of soda and nitric acid, which were relatively tiny things. In 1940-41 the rebate in connection with sulphate of soda was only something like £5,000.

4281. Have you any idea of the sort of turnover that rebate was on?—About £40,000,000 in 1942.

Mr. Glenvil Hall.

4282. I take it that the inquiries mentioned here as still proceeding are now completed. In paragraph 57 the Comptroller and Auditor General asks if the prices are being reviewed in the light of information which apparently has come into his possession. You replied that the

negotiations were proceeding?—Those are the negotiations to which I made reference just now.

4283. In the last sentence of the second sub-paragraph Sir Gilbert states: "The discussions do not cover certain products the prices of which indirectly affect the Exchequer; these have been the subject of separate negotiations."—That is in relation to fertilisers. That is another field altogether.

4284. It is also one of the things you referred to just now?—No, it is a separate field altogether.

4285. What is the position there? Are you satisfied?—The position there is that the Ministry pays the producers of sulphate of ammonia an average allowance in aid of the cost of production to keep down prices and keep them stable, those fertilisers being sold to the farmers. That is part of the Government policy of assistance to agriculture. That is the reference here.

Mr. Benson.

4286. I am not quite clear about the £1,400,000. That includes a rebate for indirect sales to the Government—but you say that is only a small fraction of the £1,400,000?—No; I said the sulphate of soda crystals and nitric acid are only a small proportion of the total substances referred to in this rebate of £1,400,000.

4287. Then I do not understand why those two small substances were picked out?—Perhaps the Comptroller and Auditor General would say. (Sir Gilbert Upcott.) The inquiry was based on those cases. (Sir William Douglas.) That is right.

4288. These were the cases which brought the problem to light? Is that the fact?—(Mr. Bedford.) No.

4289. Might we have some explanation? I am completely fogged?—(Sir William Douglas.) It is difficult for me to explain the workings of the Comptroller and Auditor General's mind!

4290. Might I say what I have understood and then you will correct me if I am wrong. I understood first of all that this paragraph related to indirect sales . . . ? (Sir Gilbert Upcott.) I think the misunderstanding has arisen by reason of the fact that Sir William misunderstood the Chairman's first question. The first line of my paragraph states: "One agent firm supplies a wide range of products," and the Chairman asked what they were, and Sir William gave those two as illustrations. I think that is where the misunderstanding is.

4291. It was Sir William Douglas's mind that was working and not the Comptroller and Auditor General's. You instanced those two as examples of what the firm produced?—(Sir William Douglas.) No, they were instanced by the Comptroller and Auditor General. (Sir Gilbert Upcott.) Sir William

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Douglas has misunderstood the question, because he was reading the second sentence: "In connection with certain cases where the firm's prices to Government contractors were higher than its costed prices for direct Government supplies" and I asked a certain question. Sir William was answering a question which he thought related to the second sentence and it related to the first. My paragraph deals with a whole range of products.

4292. The point is that this £1,400,000 includes a rebate on direct supplies to the Government?—(Sir William Douglas.) No, indirect supplies to agency factories and contractors—indirect as far as we are concerned.

4293. Sulphate of soda and nitric acid are typical examples?—Yes. Nitric acid is supplied to an explosives factory which is making cordite, for example, and we buy the cordite.

4294. It arose out of the examination of one or two of these articles; that led to the raising of the whole question of indirect supplies?—(Mr. Bedford.) No. The question was already under consideration. This was purely accidental. (Sir William Douglas.) This was the text, if you like, on which the Comptroller and Auditor General raised the general question.

Mr. Douglas.

4295. Would you explain what is meant by an "overall profit" and an "overall rebate"? Does that mean that the whole of the undertaking has now been reduced to a profit of 9 per cent.—or what does it mean?—(Mr. Bedford.) Yes, the profit of the firm for 1942 for Government supplies was fixed at 9 per cent.

4296. For Government supplies?—And that rate was also applied to get back this rebate from what the firm had obtained by way of profit from their sales, reducing the profit to what they should have obtained by the application of 9 per cent..

4297. Let us be clear about it. What you are saying is that you estimated that the rate of profit obtained on direct supplies to the Government was 9 per cent. Is that right?—What I was fixing was the rate of profit we should pay to the firm for supplies made by them for Government Departments, and that was 9 per cent. I then applied that to their indirect sales, and the abatement in price by applying that profit, as contrasted with the profit that they had made, meant that we had £1,400,000 to come back.

4298. That was the rebate given to the people who purchased materials from this firm for the purpose of incorporating them in your contracts. Is that right?—We took the rebate directly to ourselves.

4299. You took the rebate directly to yourselves, but it was calculated upon the supplies bought from this firm by people

that you were contracting with for the purpose of incorporating those materials in your contracts?—Yes.

4300. So that the firm are still selling materials to a great many other people who are not directly or indirectly in contractual relationship with you, and the profit they get on that may be more than 9 per cent. Is that right?—It is more than 9 per cent.

4301. What steps have you taken in order to make sure that the prices which have been allocated to the contracts in which you are interested are correct?—We took out the value of these indirect sales; we assumed that the firm's profit was spread equally over their sales. £40,000,000 was the value of our sales. That was related to the firm's total sales and we assumed, therefore, that that £40,000,000 sales absorbed that percentage of the total profit that the firm had made.

4302. So it was not based upon a costing? We could not cost the thousands of items there were. It would have been an impossibility.

4303. I see the difficulty. Does it apply to all the subsidiary companies of this firm?—It applies to all the big groups of the firm, which I think cover most of their subsidiaries.

Chairman.

4304. Are there any further questions on paragraph 57? We pass next to paragraph 58: "Salaries and Wages at an Agency Factory." Will you tell us who this agency firm mentioned were?—(Sir William Douglas.) [Name of firm given.]

4305. There is mention there that you have accepted a policy of gradual reform of wages rates and that you have got full co-operation from the agent; but I read a few lines lower down: "A recent review by my officers of wages paid at this factory showed that the average hourly wage of piece-workers had increased from 4s. 10d. in January, 1941, to 7s. in August, 1943." I find it a little difficult to reconcile those two statements in the Report of the Comptroller and Auditor General?—The explanation is that those wages rates refer to piece-work rates. The average hourly wage is what the worker picks up. If he was doing more, or if he could perform those operations more quickly, although the rate was being lowered, he was actually, by reason of increased productivity, earning more.

Mr. Benson.] For simplicity's sake, might we have the name of this firm and what it is doing?

Chairman.

4306. He has told us?—It is making a certain type of gun.

4307. What was the reason? 7s. per hour, however great the efficiency, seems a very high rate?—I cannot deny that it is a very high rate.

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4308. The other figures, 283 per cent. and 274 per cent. mentioned in the Comptroller and Auditor General's paragraph, seem very high. Have you any special reason as to why the rates are higher there than elsewhere?—(Sir Gilbert Upcott.) I think you have misread that in my sentence. The comparison is between 545 per cent. in this factory and the corresponding figures for this area, which were 283 per cent. and 274 per cent. This is 545 per cent. in this factory—approximately double the others which, as you know, are high.

4309. You have no reason to offer for the comparison, Sir William?—(Sir William Douglas.) We have no reason at all to differ from the Comptroller and Auditor General's figures here.

4310. You have no comment to make on the disparities?—Yes. I think the best comment lies really the history of this case, which has been a very difficult one for us throughout. I should first of all make it clear that this factory became an agency factory in June, 1940—that was very early on in the war, about the time of the heavy air attacks on the country. This gun was an essential store and we had to get it. The average hourly earnings of direct production workers (and we are concerned here only with direct production workers; the remuneration of indirect production workers and non-production workers is very much lower) has gone from 4s. 10d. in January, 1941, to 5s. 10½d. in September, 1941, and it rose steadily until December, 1942, when it was 6s. 9½d., and, with a few fluctuations throughout 1943, it reached 7s. 0½d. in September, 1943. The Ministry of Supply throughout the whole of that period has been in touch with the particular agents who admitted the existence of the problem and were endeavouring to help us—this problem of the piece-work prices in this particular factory, the area being one where high wages ruled before the war.

4311. It was for only nine months' work very often before the war?—Yes.

4312. But these wages are now being paid for twelve months?—Exactly, but, as you will appreciate, piece-work is a rate which is an agreed rate between the management and the workers, and it is very difficult to change that rate unless there is some general change in the circumstances—if the process is changed, or there is an interruption in the work, or something like that; otherwise you have made a contract with the worker to pay him that rate, and that is the difficulty. The firm throughout have been endeavouring to lower the piece-work rate. They have done it in many cases, but all the time the speeding up of production surpassed the lowering of the actual rate, with the result, as I say, that the hourly earnings have reached this very high figure.

4313. In the next sub-paragraph, with regard to salaried arrangements, I see several individuals received salaries of four figures, plus a cost of living bonus, plus an output bonus on a sliding scale basis to provide some bonus for output below the target. That is also a rather remarkable arrangement, is it not?—It is an unusual arrangement, but is an arrangement which applied for this firm in peacetime with its salaried workers, and they represented to us that their highly qualified staff who were working extremely hard for us should not have their monetary position worsened by reason of that fact, and we, therefore, felt that we had no alternative but to keep that arrangement going with the firm.

4314. It says a "bonus for output below the target." Is that not rather an encouragement to get below the target? It seems a remarkable arrangement altogether. They get a bonus if their production is less than what is being aimed at, as I read Sir Gilbert's report on that. Have I read your report correctly. Sir Gilbert?—(Sir Gilbert Upcott.) Yes—notwithstanding that they are below the standard.

4315. Why do they get a bonus? It is a matter of some little interest?—(Sir William Douglas.) I think what the Comptroller and Auditor General had in mind when he said that was this. They do not get a bonus because they have succeeded in getting less than the target output, but there is a very high target output and at some stage below that bonus begins to accrue. Is that right? (Sir Gilbert Upcott.) I do not suggest this factory, remarkable as it is, went so far as to pay people for lowering the output. Though they set a standard they still think it proper to pay a bonus in spite of failure to obtain the target. (Sir William Douglas.) While they are operating at something less than their high target rate.

4316. In the last sub-paragraph Sir Gilbert says: "My test examination has not brought to notice similar conditions of production and I am therefore unable to say how the cost per unit at the agency factory compares with the cost elsewhere." Could you say at all how it compares?—We cannot say. There is no other factory making the complete equipment.

4317. These are the only people in the country making this gun?—There are a lot of other firms making the components of the gun but this factory was set up to make the whole thing, and also it does the assembly, and there is no other comparable factory.

Chairman.] Are there any questions on paragraph 58?

Sir Irving Albery.

4318. Can you say how the cost of the gun made complete by this factory compares with the cost of the gun made piece-

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[Continued.]

meal in other factories?—(Mr. Bedford.) I suppose we could build up a price, but it might be rather difficult.

4319. Does that mean that you do not know? I do not suppose it is necessary for you to know in your head now, but does that mean that you do not know at the Ministry what the guns are costing you which are made piecemeal?—I should doubt whether we do know the price of the guns made piecemeal. We know the price of the gun taken overall.

4320. The gun taken overall?—Yes—all the intermediate prices, and so on, but I should not have thought it was so accurate. There are over 1,000 pieces of sorts.

4321. I take it that means you have satisfied yourselves about the prices of the pieces and you have never worried about how that builds up into a price for the whole of the gun?—Yes, because we buy the pieces from different contractors, and all we are concerned with at that stage is the price of that bit from the contractor.

Sir Irving Albery.] It is rather surprising, but I am no expert on this, so I cannot criticise.

Chairman.

4322. Surely, if you are doubtful about a fair price being paid for the gun, if you know the price of all the pieces should not that be a very interesting check on the price you are paying this one firm, with a monopoly of the whole gun, to put together the bits and see how they compare as regards prices?—(Sir William Douglas.) You would be comparing a lot of things which were not really comparable.

Chairman.] I should have thought it would give you some idea as regards the cost of the gun itself.

Sir Irving Albery.] They may not be comparable, but if by chance it turns out that the gun built by pieces was cheaper than when it was built at a factory as a whole, that would be valuable information. I do not think that is likely to happen, but having regard to the high wages disclosed here it does not seem impossible.

Chairman.

4323. Perhaps you will consider that?—I will see what information we have about the price of a complete gun pieced together.*

Mr. Glenvil Hall.

4324. Do you know whether this rate which is now 7s. includes any cost of living bonus? It is quite obvious that the rest of the staff get a 10 per cent. cost of living bonus, and the rather remarkable increase from 4s. 10d. to 7s. in 1943 might include cost of living bonus increases?—This is an all-inclusive figure so probably it does. This is the total figure.

* See Questions 4401-2.

4325. It looks as if the basic hourly rate is 1s. 5d., which obviously is very poor for craftsmanship of this kind; they are working to thousands of an inch, these fellows. What I do not understand is how you get a piece-work rate and yet this is an average hourly rate. I am very ignorant on these matters, but I always thought that when people took over piece-work they got paid for doing a definite job and not by the hour?—That is so, as I understand, but it is possible to find out what they pick up and to express that as an average hourly remuneration. (Sir Gilbert Upcott.) This is the average for all the workers. It is not a rate for a particular class of skilled people. It is the average hourly rates of them all, not paid by the hour.

4326. It does not show that they are necessarily getting a lot of money, although obviously they are, but that they are working very quickly and very efficiently on certain types of work, and actually their weekly remuneration divided by the hours comes out at about 7s., which is a very different picture from what one might suppose in reading this paragraph for the first time. Am I wrong, or is that a correct reading?—(Sir William Douglas.) I think the productivity has undoubtedly increased very considerably, and that accounts for the fact that in spite of revision of the rates the total amount has risen all the time.

4327. What really has risen is the efficiency of this factory. The men are turning out more guns and taking more money home per week, and dividing it by the hours it means that they are taking 7s. instead of about 5s. Is that the answer?—I think so. (Sir Gilbert Upcott.) It seems rather to be suggested that I am criticising high wages. I am not. What I am criticising is that they are paid at twice the rate of other people in Coventry for doing skilled work.

Mr. Glenvil Hall.] Yes. That is my point. I was not assuming that Sir Gilbert was criticising high rates. I was anxious to get at the truth. I am probably wrong, but as I read it the only relevancy here is not that one lot is making more than another, but obviously they are more efficient than the other, and it is reflected in the fact that they take more money home, because the amount of piece-work they get through in the week is twice as much at least, or thereabouts.

Sir Irving Albery.

4328. I wish you could be clearer on that point, because I should like to understand that. I understood the Comptroller and Auditor General to say that persons in this factory were paid at a much higher rate than in other factories?—In that area, yes.

Sir Irving Albery.] Mr. Glenvil Hall has put the point that they are not paid at a higher rate, but that at the same rate they succeed in earning much more money. Which of those two is it?

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Mr. *Glennvil Hall*.] I am going by the fact that it is piece-work, and if they are doing piece-work, obviously they get paid for the work they do, not by the hour but by the piece.

Sir *Irving Albery*.

4329. But the point is whether the piece-work rate in this factory is higher than it is in other factories?—(Sir *William Douglas*.) I should think the truth is that the rates are high, probably higher than in other factories, and they are also very productive. It is a combination of both elements.

Chairman.] There might be an element for overtime which is very likely paid at a higher rate.

Mr. *Glennvil Hall*.] Yes—and Sundays.

Mr. *Benson*.

4330. The other guns of the same type that the Government buy are made piece-meal in different factories?—Yes.

4331. Surely there is some assembly point? Do you assemble the guns yourselves?—There are separate contracts for the assembly of the parts.

4332. Who assembles them — private firms?—Contractors with us.

4333. How do they get the parts? Are they supplied on cost or are they embodiment loan?—I could not say that right away. (Mr. *Bedford*.) They would be issued without any cash transaction.

4334. This is the only firm by which the complete gun is made and assembled?—Yes.

4335. How do you proceed to check up the efficiency of this firm and the costs of this firm if you have never compared the price of the assembled guns with it? Reverting to Prestwich, you checked him by comparable costs. Here, where you know you have an extravagant factory, you apparently have never taken the trouble to check up what your other guns of the same type cost you?—The production department's efficiency checks are not based upon cost. What they are looking at is the rate of output against the demands which are put on the factory.

4336. Rate of output is only one element in efficiency, and your costing system is concerned primarily with costs?—That is so, but I think a very important element in the efficiency of this factory, which had to produce the guns at speed, was, from the point of view of the production department, how quickly and how well they were making them.

4337. I am concerned with the costing department, and I cannot understand how it comes about that here you have a factory which you must know is extravagant in a certain element of its costs, and you have never, apparently, taken the trouble to check up the cost of a gun made in this

factory with the cost of a similar gun as assembled in other factories?—This factory is an agency firm. It is not a contractor.

4338. I know, but you pay the cost of this gun?—We pay the whole cost.

4339. What does this gun cost you in this factory?—The first batch that this firm made, away back in 1939, cost about £4,370. That is what they call the mobile equipment. There are two types. The last batch which they made in 1941 cost £1,925.

4340. Have they made none since then?—Production has been falling. They continued manufacture after 1941. The peak production was actually in September, 1942, and that rate was maintained until June, 1943, when the demand began to fall.

4341. What was the price in 1943 for the last batch?—I have not that price.

Chairman.

4342. Is £1,925 the last price you have? Yes, that was at the end of 1941.

Mr. *Benson*

4343. Do you mean that you have not the price here or that you do not in the Department know the price?—As far as I know we have no comparable price for 1943.

4344. You do not know the price of this gun made in this factory in 1943, despite the fact that that was their peak year of production?—That is so.

Mr. *Glennvil Hall*.

4345. 1942, he said?—September, 1942, was when the peak was reached. It went on at that level, the level being x a month. until June, 1943.

Mr. *Benson*.

4346. There are nine months there of peak production and the Department is not aware of what those guns cost?—No.

4347. Who paid for them?—The Department paid for them.

Mr. *Benson*.] It seems a fairly simple sum.

Chairman.

4348. You obviously will not want to have the production figures of these guns mentioned in the Minutes. You will have an opportunity of eliminating them?—Thank you.

Mr. *Benson*.

4349. Do you seriously tell us that the Department does not know what it was paying for these guns in 1943?—It is an agency factory. It is our own factory. We are making them ourselves through an agency.

4350. Are they making anything else except guns?—Not at this factory, nothing that is not connected with this equipment.

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4351. It is a simple sum of your costs divided by the number of guns. You are able to tell us the cost in 1940 and 1941. What has happened to prevent your telling us the cost in 1943?—(Mr. Gordon.) We have not asked our agents for the costs in 1942.

4352. Why? We have not needed them.

Mr. *Glenvil Hall.*] Is not the answer, if I may intervene—

Chairman.

4353. Please let the Witness answer. Is there any reason at all? Do you not usually, when things are being produced in many thousands, check up on costs from time to time?—The production department do not always think that costs are a good test of efficiency. They are extremely interested in the efficiency of the factory—that is to say, whether it is making the guns efficiently and economising in man-power and material. Those are their great interests. They are not very often interested in the figures of cost. They are very interested in sending down their progress officers, and so on, and in watching the use of materials and labour and efficiency in that sense, but they do not often want costs unless they are comparative costs. If you have another factory manufacturing the whole gun under somewhat similar conditions, comparative costs are very useful, because they show the red light: they show one factory against another, and they show the relative cost of labour, materials and overheads. It shows the red light and you can go down to the factory and ask: "Why is this cost so high?" You can look into it and see whether the processes are right; but there is no other factory making this gun.

Mr. *Benson.*

4354. Two questions arise there that I should like to know about. How many other products are you buying of which you have not the foggiest idea of the price? Secondly, surely where you have an agency factory which is concentrating on making a gun, and you have other assembly plants and dispersed manufacture, there you have a case where a comparison of costs would be valuable?—(Sir *William Douglas.*) It might or might not be. I do not see how it should. The circumstances would be entirely different.

4355. As, apparently, you do not know at all the costs of the gun you are making in your agency factory—That is not quite correct.

4356. I asked for the figures and you could not give them?—I gave them up to a certain date.

Chairman.

4357. Up to two years ago?—Yes.

Mr. *Benson.*

4357A. That date is two years ago?—
—Quite so.

4358. I asked for the cost of the gun in 1943 and you did not know it. Neither, apparently, do you know what the assembled guns cost you?—I am not able to answer that question. I shall have to find out about it.*

4359. I asked specifically whether the figure was in the Department and I was told no?—I should doubt if the money figures are. I cannot answer categorically whether they are or not.

4360. How many other products of yours are you in the same state of blissful ignorance about?—What answer can I give to that?

Mr. *Benson.*] I do not know, but I must say I am very perturbed about the answer you have given with regard to this gun and I suggest, Mr. Chairman, it is desirable that we should know what the latest batch of guns is costing, and also what the assembled gun is costing.

Chairman.] The Witness has already promised to see if he can get the figures for the assembled gun, and I think at the same time, in view of the fact that no figure has been got for close on two years, it will not be much use getting the figure for the assembled gun unless we know what it cost in 1943; otherwise we have no figures of comparison. Have you any further questions?

Mr. *Benson.*

4361. In sub-paragraph 2 I see there are, apparently, four persons receiving £1,000, plus 10 per cent., and one person receiving £4,500 plus 10 per cent., all of them plus a production bonus. How many persons are employed in this factory?—I think in 1943 the number was about 1,800, and by January, 1944, the number of workpeople had fallen to about 1,300.

4362. Can you give us the salaries of these five people as they worked out in 1943, including the production bonus?—I shall have to get the figures.†

4363. Could we have them? Secondly, what are the normal groups of salaries payable in a comparable factory?—I find that a very difficult question to answer. This firm belongs to an industry in which it was the normal custom before the war for the big firms to remunerate their executives, as they call them, very highly.

4364. You have just taken over the executives. These people have been taken over and their salaries are carrying on?—That is so. A certain proportion of the firm's employees were taken over to run this factory.

4365. Including the managing director?—Yes.

* See Questions 4401-2.

† See Question 4416.

29 June, 1944.] Sir WILLIAM DOUGLAS, K.C.B., K.B.E., [Continued.
Mr. F. H. BEDFORD, Mr. W. BRADLEY, O.B.E., and Mr. H. C. GORDON, C.B.

Mr. Benson.] And the two joint general managers.

Mr. Douglas.] There is a very large amount of money involved in this, is there not?—The turnover, I gather, would be something of the order of £3,000,000 a year at the peak point, would it not?

Chairman.] More, I think.

Mr. Douglas.

4366. Something of that order, is it not?—Nearer four million on the peak production, I think.

4367. What proportion of the output of guns did this agency supply?—I should have to find that out.*

4368. You have no idea? Can you tell me how many firms are engaged in making the parts for the rest of the supply?—Very many. I will see if I can get that to put in the statement we are to get out. There will be a great number making the small parts.

4369. Would there be more than one firm making any particular part?—That will emerge in what particulars I can get for the Committee. (Mr. Bedford.) There are a number of firms making the barrel.

Sir John Mellor.

4370. I understood you to take the line that you were much more concerned with output than cost with regard to this factory?—(Sir William Douglas.) Up to a point, certainly.

4371. You said that output has been falling recently because of the falling off in demand?—Yes.

4372. I do not quite follow. Why is there so much urgency for output at the expense of these very high costs at a time when, in fact, these guns are not needed in such quantities? It does not seem quite consistent to me?—I do not think I suggested there was any urgency of production now. There was very great urgency to build up this production rate.

4373. Has the situation changed then with regard to the costs of production? At the time when the demand ceased to be so great and output began to fall, do you say as a result of that costs are now being reduced per unit of output?—I shall have to find out. I promised to give the Committee a statement of what the recent costs are.

4374. Your argument is that really you did not bother about costs. You left that to the agency firm because all you were really concerned with was output. I want to know how long that situation remained. How long were you in that frame of mind with regard to the production of this factory?—(Mr. Gordon.) This factory was started very early in the war. We had bought a certain number of these guns

from a foreign country at a price approaching £4,000 each. It was considered vital that the Army should have a gun of this particular type. This was considered the ideal gun. It was not going to be possible to get them from abroad. They could not provide any more. The Ministry had to make some very big arrangement to get these guns made in England. They knew that they had to engage a very big organisation with enormous resources and technical experience, and an approach was made to the firm in question. The firm said that they thought they could undertake this if given a fairly free hand, and all the help that could be given by the Ministry. The help that could be given to him was conditioned by the fact that all the available drawings were the foreign drawings. The firm set to work as our agent, and we paid everything, and built this large factory. They started, of course, with a fairly low rate of production. We know that when they started the cost of each gun was as much as we should have to pay to the foreign makers, on the first little batch. Then the requirements gradually went up and up, and the production they were asked to get to was x guns a month. They reached this figure, I think, at the end of 1941 and they maintained the final peak production that they were instructed to reach from September, 1942, until June, 1943. Since then to meet the demands of the Army on this factory for this gun those figures are not required, and the factory has been gradually decreasing its output, as ordered. That is the story.

4375. When that point was reached when production was allowed to diminish, did your attitude change? Did you cease to regard cost as a matter of very subsidiary importance?—I would say the production department still probably did regard cost figures as subsidiary. The production people concerned with this factory, who have to watch it and watch the production of the gun, are interested in economy in labour and economy in materials, the usage of labour and materials—and that is what they keep their eyes on. I believe they would tell you that they do not consider figures of cost are very much of a guide; at any rate they have not pressed for figures.

4376. I can see your point, that it was necessary to get every gun this factory could produce during the period in 1941 to 1943, and, therefore, you claim that you were entitled to regard costs as a matter of secondary importance, but you do not suggest that you can go on making that claim when you are deliberately diminishing production in that factory? Do you agree with that?—I do not think it has ever been stated that the amount of money that you spend does not matter. What the Production Department claim is that they watch the amount of money indirectly by controlling the use of labour and materials.

* See Question 4419.

29 June, 1944.] Sir WILLIAM DOUGLAS, K.C.B., K.B.E., [Continued.
Mr. F. H. BEDFORD, Mr. W. BRADLEY, O.B.E., and Mr. H. C. GORDON, C.B.

4377. I did not suggest that you went so far as to say that the amount of money did not matter, but you are excusing this gross extravagance, as it appears to me, on the ground that production was so vital, and therefore you had rather to let costs go by the board. Do you agree to this, that that claim can be sustained only so long as you were getting out of the factory every gun it could possibly produce, and that it can no longer be sustained as soon as you start to slack off production in the factory?—I should say one could go further than that and say it was justified only if the guns were being produced at a reasonable cost.

4378. Who negotiated the piece-rates? Was that done by the agency firm?—(Sir William Douglas): Yes, as the employer.

4379. In fact all the arrangements of that character with regard to wages were made by them without interference by your Ministry?—Without interference, but, as I said, over the whole period we have been in constant touch with the agents on these wage negotiations, endeavouring to get them lower.

4380. So that you have approved them in fact. You have been aware of the rates negotiated and they have had your approval?—We have been aware throughout of the difficulties of this position.

4381. There has been nothing done by the agency firm of which you have not been aware and of which you have not approved?—It is difficult to say, when you have an agent, how much you are approving each individual action of that agent. (Sir Gilbert Upcott.) I think the Accounting Officer accepts the charge and he will have to defend it here.

4382. You are not suggesting that the agent has done anything that you were not quite prepared expressly to approve?—(Sir William Douglas.) I think what we should say is that the agent had a very difficult task. Whether or not it could have been done better or so effectively is another matter.

4383. What has been the particular difficulty of the agent compared with other factories similarly situated?—This factory was built up from nothing at all in a very great hurry in an area which was a highly-paid labour area before the war. Therefore the rates start at a fairly high level.

4384. The labour now employed in this area is very largely imported from outside, is it not?—That would not affect the actual piece rates negotiated with the workers who were there originally. Any workers coming in would naturally expect to get the benefit of the piece rate that was there for that particular job.

4385. Would there not be taken into account in negotiating that piece rate not only the rate which had existed in the particular locality but the rates which

existed in localities from which a substantial part of the labour had come?—I do not think so. There is a rate for the job, and whether the worker was resident in this area before or came from other parts of the country he would still expect the rate for that particular job.

Sir John Mellor.] Is the rate for a job peculiar to a particular locality in this industry or is it general throughout the country?

Mr. Glenvil Hall.] I can, perhaps, help you there. The rates do vary from area to area according to what negotiations the trade unions have carried out. The place in question is the most expensive area; it always was, and is much more so now that it has been blitzed.

Sir John Mellor.

4386. I think you were telling the Committee, Sir William, that this was really quite a new job on this gun, that it has never been manufactured in this country before. Do you say that there were well established rates for the type of work which had to be put into the manufacture of this gun, so that really the agency firm were already committed to those rates in practice?—I think it is rather difficult to put it that way. Obviously, there were new bits of work to be done because it was a new store. There must be a rate for grinding or planing or whatever it is in that area, I agree, but it has to be done in a particular way on a particular bit of metal in relation to a particular gun. Therefore I think that individual negotiations would have to be done on the different pieces of this job with the workpeople who came into this factory when it was started up.

4387. Are there bits of the gun being manufactured in the same area at other factories where these high rates are prevailing?—I am not sure about this particular area. They are being made in several of our Royal Ordnance Factories. We have bits being made in a factory near — and in other places.

4388. Is it not possible to take at any rate some pieces of the gun and find out quite quickly what those particular pieces cost to produce in those factories you mention and in this factory, apart from the whole question of the total cost of the gun?—I think it is the most difficult thing in the world to compare costs of bits of production at one factory with another; the conditions are so very disparate.

4389. I thought you depended on these comparisons for detecting those factories in which costs were too high?—Overall costs, certainly, but when you get down to a particular piece, factories do things in different ways; they have different machines; they have got them on the line in different ways, etc., and it is extremely difficult to get comparisons. We have tried

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Sir WILLIAM DOUGLAS, K.C.B., K.B.E., [Continued.
Mr. F. H. BEDFORD, Mr. W. BRADLEY, O.B.E., and Mr. H. C. GORDON, C.B.

very hard and we find it is always very difficult, and I think in the rush conditions in which this factory was set up it would have been expecting a great deal of our agent to go round to other places in the country to get help in fixing his piece-work rates.

4390. You have told the Committee that you will discover the cost of production of this gun in this factory and produce some comparison to show the cost of the assembled gun made in a number of other factories?—The inference to be drawn from those costs is a thing we shall have to express very carefully to the Committee.

4391. You will not be able to split up at all the cost of the gun in that Agency factory and give us the cost of any particular part of it?—I think it is going to be exceedingly difficult, but I should like to see the statement which the accountants prepare before answering that question yes or no.

4391A. Is it not usual in the manufacturing industry, where there are a number of parts, for the manufacturer to have a pretty close idea as to the cost of production of each part?—That is so.

4392. Why cannot you do it?—Do it in what respect?

4393. In respect of this gun. If a manufacturer as a rule can form an estimate of the cost, not only of the completed article but of each particular part of it, cannot you do the same?—Certainly we can do the same.

4394. Well, cannot you let us have those figures in due course?—It depends how much detail the Committee want. We will endeavour to get an up-to-date statement of the cost of the gun as made in this factory. We have also promised to give the Committee some information as to the cost of the same guns produced in other ways; but the amount of detail I suggest is a question which I had better look at before answering any questions on it.

4395. My point is this, Mr. Chairman, that the other factories who are producing pieces of this gun no doubt could supply what is the cost of the production of each bit. If the Agency factory can also supply the cost of the corresponding bits it will be very much easier for the Committee to form an estimate as to the degree of extravagance of this factory?—I think it will be very difficult for the Committee to draw comparisons. That is the burden of my evidence this afternoon, founded on a great deal of experience in attempting to do this very thing in other spheres.

Sir John Mellor.] I should like to be able to make the attempt.

Chairman.

4396. The Witness has promised to give us all these figures, and when he receives the figures he will then consider what, if any, further detail he can give us with regard to the make-up of the prices at the Agency factory. As I understand it, that is the position?—That is so.

Chairman.] I do not think we can pursue it any further to-day.

Sir Edmund Brocklebank.

4397. As far as I can understand, there are five factors: there is the cost of management, the cost of labour, the cost of materials, overheads and the number of guns. One of those factors is apparently absent from the knowledge of the Ministry. If you have that it is less than the London Matriculation standard to give the answer?—It would be a simple thing to add up figures. It so happens, however, that out of the £900,000,000 worth of stores which the Committee have been told the Ministry of Supply was engaged in making in the year under review I do not happen to have here the price of each individual part of this gun, which runs into thousands.

Mr. Douglas.

4398. Might I ask something arising out of an earlier reply of Sir William's? I understood him to say that even if the price appeared to be high it might very well be justified because of economy of labour and materials and speed in production—a proposition I should be inclined to accept, but how, in this particular case, where no comparison has been made with the other guns produced, do you know that you achieve either economy of labour or speed in production?—As Mr. Gordon said to the Committee a little while ago, in the case of a store such as this, which we would have reckoned at the time that it was being produced was one of our "red hot" stores, the production department in the Ministry would be on the top of this factory day and night, seeing that the gun was being produced as quickly and as efficiently as possible, by all the methods that were known to skilled engineers.

4399. I assume you were doing that at the other places where it was being produced in detail?—That is part of the difficulty of the Ministry—it had to do all that over a wide area at once.

Chairman.] I had hoped we should get four pages further on to-day, and deal with Sir Gilbert's paragraphs on machine tools and expenditure under contracts. Obviously we shall not be able to do so; but we shall have the privilege of meeting Sir William on two more occasions, so I think we might leave matters over until then.

(The Witnesses withdrew.)

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

TUESDAY, 4TH JULY, 1944.

Members present:

SIR ASSHETON POWNALL in the Chair.

Sir Irving Alberty.
 Sir Edmund Brocklebank.
 Mr. Douglas.

Mr. Glenvil Hall.
 Mr. Pickthorn.

Sir GILBERT UPCOTT, K.C.B., Mr. D. F. C. BLUNT, and Mr. C. E. I. JONES,
 called in and examined.

CIVIL APPROPRIATION ACCOUNTS (WAR SERVICES), 1942.

CLASS X.

VOTE II.

MINISTRY OF SUPPLY.

Sir WILLIAM DOUGLAS, K.C.B., K.B.E., Mr. F. H. BEDFORD, Mr. H. C. GORDON, C.B.,
 Major-General F. G. WRISBERG, C.B.E., and Mr. H. O. TROUNCER, called in and
 examined.

Chairman.

4400. Sir William, I understand that you have now some information about the cost of the gun which is dealt with in paragraph 58 of the Report of the Comptroller and Auditor General, for which the Committee asked at its last sitting?—(Sir William Douglas.) At the end of the last meeting of the Committee there was a suggestion that I should get more information about the cost of the gun referred to in paragraph 58, and I have brought along with me General Wrisberg to explain how the production department controls production. I wonder whether it would be for the convenience of the Committee (I think it would be also for our convenience) if we could take that first, before going on to machine tools, and that would enable General Wrisberg to get away.

4401. Yes, certainly.—I will make a general statement and leave General Wrisberg to amplify it. If you remember, the Committee last week expressed a great interest in the costs of this gun and also in the manufacturing details—an interest which, I am afraid, I was not able to satisfy, because I had not anticipated that line of inquiry, having regard to the general tenor of the remarks in paragraph 58 of the Report of the Comptroller and Auditor General. I have now been furnished with further information which I hope will satisfy the Committee. As we told the Committee last week, the cost records kept by the agent showed the cost of the equipment (that is, the gun, the mounting and the mobile platform) to be, as far as the first batch in 1939 was concerned, roughly of the order of £4,000. The records for 1941 showed the cost of the last batch made in 1941 to be something of the order of £2,000. Then the Committee asked for

costs at the factory for later periods and I expressed the view that it might be rather difficult to get them in a convincing way and in a way which would lead to fruitful comparisons. The figures show the cost of equipments made in the first quarter of 1942 as £981 each.

4402. Equipments?—Yes. In the case of this store that term normally covers the gun, the mounting and the mobile platform. That is what we call the equipment. The cost of equipments made in the second quarter of 1942 is shown as £877, and the cost of equipments made in the third quarter of 1943 as £642 each. We were very reluctant to quote those figures because we regard them as, if not entirely useless, extremely deceptive, if quoted in comparison either with the earlier figures or with figures got in any other way from other groups which are manufacturing them, because they do not relate to the same article, and they do not relate to the same productive processes. The early gun, as General Wrisberg will explain later, was a copy of the original foreign gun. As production went on General Wrisberg and the Agency factory introduced modifications and simplifications constantly, so that you cannot compare the £4,000 price at the beginning with the £642 price in the third quarter 1943. There is a further complication: In the course of manufacture, as production went on and as the numbers which were asked for were increased, the production department got bits and pieces made all round the country, and when I say that there are 3,000 bits and pieces of this gun the Committee will realise that that production was widespread. Now, it suited the production department in the interests of efficiency and speed of production from time to time

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Sir WILLIAM DOUGLAS, K.C.B., K.B.E.,
Mr. F. H. BEDFORD, Mr. H. C. GORDON, C.B.,
Major-General F. G. WRISBERG, C.B.E., and Mr. H. O. TROUNCER.

[Continued.]

to give our Agents, as a free issue, some of those parts; at times they gave them certain parts and at other times other parts, so that the figures really do not lead us anywhere at all as a comparison from period to period. Actually, if the production department were asked what they think is, shall I say, the real cost of this gun they would be inclined to put it at somewhere between £1,200 and £1,300; so the figure of £642 which I gave as the figure which it cost the factory in the last quarter of 1943 is quite out of scale with that, and, obviously, therefore, not a true cost.

4403. It is not much more than half?—It is not much more than half, and, therefore, not a true cost of the gun in any sense. I think last time the Committee rather felt that because we had not given them those costs there might have been a lack of control on the part of the Ministry. The real control lay with the production department here all the time, operation by operation and I should like our Director-General of Weapons Production to explain to the Committee a little further how he actually does that. There was one further point made by the Committee last time. They asked why it was that later on, when the bulk of the orders were fulfilled, we still kept on producing at this Agency factory, whereas the gun might be manufactured under other conditions of assembly which were referred to last time, there being six such groups assembling from contractors all over the country—why had we not continued to employ them and not the factory, or *vice versa*? The reason is that the manufacturing capacity at the Agency factory was highly specialised. There are dozens of other contractors who were making the bits and pieces of the gun who could readily transfer their activities to some other direction when the need for the production of the guns in that quantity fell. It would have been very unwise of the Department to give up the specialised capacity because it might be needed again in the future. Once capacity of that sort is given up, including the labour, it is extremely difficult, in our experience at the Ministry of Supply, to reassemble it. It would not be wise to assume that, because we were getting towards the end of the order of these guns, the need for their production might not re-arise. The goings on at the present time indicate the delicate balance on which the production department have to judge what capacity it must keep and what it can give up. As I have said, the real control here is the control of materials, the control of labour, and the control of the production devices and the simplifications. If he may be allowed to do so, General Wrisberg will explain it a little further to the Committee,

4404. Yes, please.—(Maj.-Gen. Wrisberg.) I think we can give you very quickly a picture of the way in which this production has grown. In December, 1938, we had a total demand from the War Office for x guns. By December, 1942, we had an order for $x \times 16$.

4405. You had an order for $x \times 16$?—The War Office demand was for $x \times 16$ by December, 1942.

4406. That was not the total of the demands up to date?—The total demands for Army equipment—a final total of $x \times 16$ starting from zero.

4407. That includes the original x guns?—Yes.

4408. The total of your demands up to and including December 1942, was $x \times 16$?—Yes. Those demands came forward on something like 30 restatements of War Office needs, so the production problem was to march in line with those continual restated requirements. Up to 1940 the Ordnance Factories and this Agency factory were the two main suppliers, and in those days the Agency factory made the complete equipment, purchased their own material and were more or less a self-contained factory. The plant had been put in for an output of some m guns a month, and had been selected by the Ministry in conjunction with the firm for that output. When the demands began to rise we turned the production of this equipment into our standard group production, by which the Ministry bulk-purchased and free-issued the whole of the material. The whole of the stampings, castings, and all the bits and pieces that go to make up the job were purchased by the Ministry, not by the contractor, and free-issued. The main object of that was that the material and components were Ministry property placed by direct Ministry contracts and were available to us as a production directorate to reinforce the people who could best use it. The method of working of these groups and the assessment of the capacity within the groups was done by a breakdown of all the components, an assessment of machining times required on each, and, therefore, a balance of machine tools to meet those machine times; so that when we said that the Agency factory's output was m guns a month, that was not a guess, but it was a direct planning, supplying the number of machines required for the sequence of operations to give that number a month, and throughout the operating of this group attention was paid to the machining times. We compared the Agent's machining times with firm A's or firm B's, or whatever firm was in the group, and the whole tendency was to push machining times down and to get the maximum output from a given

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[Continued.]

plant, and parallel with that came the modification of the design to give the greater output from that plant. As an example for which I might quote figures, the original platform cost us something of the order of £800. The original redesign was put forward by the Agent and was improved on by one of the contractors until at the end of the programme we were making that platform for something under £100; and in that work the design department of the Agent firm played a very big part, and right through the piece the whole of the firms in this group put forward these alterations of method to gain greater output. Similarly, when the Americans set up production at a firm to make a large number of these a month, and when a firm was set up in Canada, we compared our production times in this country with production times in the United States, and from the figures we got our Agency factory compared very closely indeed with the American firm. They showed some 30 to 40 per cent. improvement over the Canadian figures, and the output per man at our Agency factory was a great deal greater than the output per man either in the United States or in Canada. So we as a production department are quite satisfied that we have had production value out of that shop. On the point Sir William Douglas made of the difficulty of comparing costs in 1940 with those of 1942, the Committee must remember that, as we said earlier on, the Agency factory made the complete equipment to begin with, but when we wanted to raise them from *m* guns a month to more than twice as many, we took away the travelling platform from them, formed a separate group for the production of that, and switched the machine tools to the mounting and to the gun and to the auto-loader itself, so as to get a lift on that side of the production, leaving the simplified work to firms better adapted to take it on. So that our view is that by the watching of these machining times on a given plant and by forcing a spirit of competition among the firms taking part we got production times down as far as was reasonably possible, having regard to the availability of material and the type of labour. Our view is that the labour at the Agency factory had turned out as much, if not more, per man than other firms in this country.

4409. Could you give us any idea of the proportion made by the Agency factory and the proportion assembled elsewhere?—They have made about 40 per cent. of the equipments that have been produced.

4410. The other 60 per cent. were assembled elsewhere?—Yes.

4411. Before I throw the matter open to the Committee, have you, Sir Gilbert, any comment to make?—(Sir Gilbert Upcott.) I think those are the facts which

the Committee wished to have brought out. The Witness has mentioned that the workmen at the factory produced as much if not more than any comparable factory. Of course my comparison was designed to show that the piece-work rates were at least twice as much. (Maj.-Gen. Wrisberg.) I was not talking of wages, but of output. My job is production, not finance. (Sir Gilbert Upcott.) The point in my paragraph is that I asked if there were any comparison of output available.

Chairman.] One is on cost and the other is on production. Are there any questions?

Sir Irving Albery.

4412. I think it was Mr. Gordon who stated last time that the Ministry were concerned primarily with economy of material and economy of labour, and that they did not worry much about price. I can understand that would be the order—that economy of material and labour would be the prior considerations, but I think the Committee was a little worried as to whether we correctly understood the last sentence. I agree—I think probably we should all agree—that cost would be a less important matter than the other two, but I should not have thought it would be one which did not merit consideration.—(Mr. Gordon.) What I was intending to state was this. We were talking about the value in pounds, shillings and pence in the quest for economy, and I was trying to indicate that in a case like this you got your economy in pounds, shillings and pence through the production experts controlling the use of labour and materials. Actually whether the gun cost £1,000 or £10,000 we should still have had to make it. Our business is to make it as economically as possible.

4413. Yes. The questioning arose over a matter to which the Comptroller and Auditor General drew attention and to which he referred again just now, namely, the very high piece-work rates which were being paid. I think that has to some extent been explained. We know that the town in question is a place where high piece-rates are paid, but I do not think we were aware that they were so much higher, as they appear to have been in this particular case. Is that right?—(Sir Gilbert Upcott.) The point in this particular case is that they were very much higher than the rates ruling in the area. (Sir William Douglas.) I do not think Mr. Gordon wished to imply that cost was not important, but that it had to take its relative place, as you yourself have indicated. The whole history of our negotiations with this firm on labour rates shows that we were intensely conscious of the fact that the remuneration of labour was getting high, and we were endeavouring all the time to get new piece-rates, but the

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[Continued.]

speed of production was so great that it was overtaking the lowering of the rates, and, therefore, the total remuneration was constantly rising.

4414. You are not able to give us to-day any information about the cost of producing this gun piecemeal in the other factories—the complete gun?—It could be done with a great deal of labour. We should have to get the costs of the 3,000 different parts; but for the reasons which we gave it probably would not serve any useful purpose.

Chairman.

4415. Are there any further questions?—The Committee did ask me to give them, if you remember, the salaries paid in this case.

4416. Perhaps you will do that as briefly as you can?—The Managing Director got a salary of £4,500 and a cost of living bonus of £450, making a total of £4,950. As to the joint General Managers (there were two) one got a salary of £1,400, a cost of living bonus of £140 and an output bonus of £360, making a total of £1,900. The second one got a salary of £1,000, a cost of living bonus of £100, an output bonus of £317, making a total of £1,417. This second General Manager has since resigned. There was a Works Manager with a salary of £1,150, a cost of living bonus of £115, and an output bonus of £259, making a total of £1,560. There was a Chief Inspector with a salary of £1,000, a cost of living bonus of £100, and an output bonus of £298, making a total of £1,398. Lastly there was a Chief Accountant with a salary of £1,000, a cost of living bonus of £100, no output bonus, making a total of £1,100. That gives a grand total of about £12,500.

4417. Among those six persons or five persons?—Among six persons. At that time the expenditure at the factory was running at about £2,000,000 for that year.

(Major-General Wrisberg withdrew.)

TREASURY MINUTE ON PARAGRAPHS 38 TO 40 AND 64 OF THE REPORT OF THE COMMITTEE OF PUBLIC ACCOUNTS, 1943.

Chairman.

4420. The Treasury in their Minute state: "The Minister will note the desire expressed by the Committee in paragraph 40 for information as to the effect of the revised arrangements for importers' remuneration." I do not know whether you have any information to give us on that point, Sir William?—(Sir William Douglas.) Investigation of the profits on Lease-Lend machines earned by four of the leading nine importers disclosed that the reduced scale of remuneration which I mentioned

Chairman.] Are there any questions on that statement?

Sir Irving Albery.

4418. Did any of those persons draw expenses as a stated sum? I do not mean ordinary expenses, but a global sum of so much a year?—Those are the total remunerations drawn by those officers as far as we are concerned.

Mr. Glenvil Hall.] With all due respect to the Comptroller and Auditor General, we are nowhere told what the piece-rate actually was. This paragraph, although very informative, does not tell us what the piece-rate was. We are given percentages, but all we know is that this factory was very efficient, and, therefore, the amounts earned were very large. We are not told what the piece-rate was as compared with the piece-rate in other factories?—I gave them in evidence last week. Averaged out per hour they came out at 4s. 10d. in January, 1941; rose to 5s. 10½d. in December, 1941; then they rose to 6s. 9½d. by December, 1942, and to 7s. 0½d. by December, 1943.

4419. I remember those figures very well, but that does not tell us very much, does it? It only means that these men did more in an hour because they apparently earned more than other people did in an hour. They are being paid by the piece?—By the piece for a very great multiplicity of operations. To get the piece-work rates at this factory would be a very big task indeed.

Mr. Glenvil Hall.] Yes; I am not suggesting it should be done. As I read it the main thing one gets out of this paragraph is that these people were extremely efficient, not that they were really paid excessive rates for what they did as compared with other people.

Chairman.] I do not think we want to have the rates worked out, Mr. Glenvil Hall?

Mr. Glenvil Hall.] No.

to the Committee last year resulted in a reduction in the net profit on turnover from 7.06 per cent. to 3.84 per cent., which was a 45 per cent. reduction.

4421. The Treasury Minute on paragraph 64 of our Report will really come up on paragraph 61 of the Report of the Comptroller and Auditor General in the Civil Appropriation Accounts (War Services), 1942. In paragraph 59 of his report in the Civil Appropriation Accounts (War Services), 1942, the Comptroller and Auditor General, in connection with certain arrange-

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ments with regard to machine tools, states in the third sub-paragraph: "there was a general understanding with the Treasury that prices should be fixed on the basis of estimated cost, plus a basic rate of profit on capital employed, together with percentage additions on turnover for efficiency and for risk." Could you please tell us with regard to the basic profit and the percentage additions?—You will remember we disclosed to the Committee last year that within a certain ceiling the envisaged returns on capital were arrived at by giving a basic 10 per cent. with an addition of a percentage on turnover for efficiency and a percentage for risk. We have been looking at the accounts of 25 of the largest firms, with a total turnover of 13.2 million pounds, the total turnover being about £45,000,000. That 25 per cent. sample, whose accounts ended in 1943 and covered at least 9 months of trading under the new formula which we are working to, showed a weighted average actual profit of 17.4 per cent. on capital employed.

4422. At the end of that sub-paragraph Sir Gilbert states: "It was also agreed that the scheme would not be used to raise the lower profit margins, nor would a profit above a specified maximum be allowed without special consideration." Could you tell us what the specified maximum is?—[Figure given.] You remember last year I hoped I might be allowed to keep that confidential to the Committee?

4423. Yes; anything of this sort you will have an opportunity of eliminating. When would special consideration lead to a profit above the specified maximum?—That would happen, as one might imagine, in a comparatively small number of cases, from the point of view of importance. First of all, where the allowable rate of profit on the formula comes out at less than 4 per cent. on turnover the price-fixing accountants have allowed a little latitude. Secondly, in those cases where the manufacturer, in addition to making tools for us, does supervising work on sub-contracts for us, we have thought that, in addition to the profit on the machine tools which he makes for us, he is entitled to some consideration for acting as supervisor to the sub-contractors. Thirdly, there are one or two special cases—a mere handful—where there were peculiar individual risks.

4424. Are there any questions on paragraph 59? We pass to paragraph 60: "Trading Results of Control Prices." In the second sub-paragraph Sir Gilbert states: "As regards the industry as a whole, information is apparently not available as to the average return on the capital employed." Is that the information you have just given me?—Yes, the figure I have just given in anticipation.

4425. Are there any questions on paragraph 60? With paragraph 61 we take the Treasury Minute on paragraph 64 of our Report of last year. In the first sub-paragraph the Comptroller and Auditor General states: "My examination indicates that where prices allow less than the combined maximum additions for risk and efficiency this is generally due to one or other of the limitations mentioned in paragraph 59 above as agreed with the Treasury, rather than to specific consideration of firms' efficiency or the risks taken." Do these limitations actually function in practice?—You will remember last year we gave some figures to show how they did function in practice. I have not similar figures for this year, but I think the procedure is just the same as before.

4426. Do they not obviate the need for additions for efficiency and risk?—I do not think so.

4427. It seemed to me that if you had a figure of this sort, why should there also be the need for extra additions for efficiency and risk?—The current theory and policy which the Ministry is following is, in fixing what the prices should be, having regard to the whole trading results of the firms involved, to allow a fixed profit on capital employed and then two additional sums—one for efficiency and one for risk. That is the policy of it. We think those manufacturers are at risk and are displaying very great efficiency. It is common form with all our fixed-price contracts.

4428. What justification would there be for these higher rates as compared with contracts generally? From the figures you have just given us, they get somewhat higher rates in the case you have just mentioned. Is there anything in the machine tool industry which justifies higher rates, would you say?—I think there is. First of all you have to start with the historical conditions in the trade. They were accustomed in the past to a relatively high rate of profit. In fixing, therefore, what they should earn in war-time one has to have some regard to the reasons underlying the back history. Secondly, this industry has been put under a tremendous strain, and, as we said last year, has increased its turnover nine-fold in the war. We felt that they were indeed entitled to additional consideration for that great efficiency which they have applied. Then there is the element of risk. Apart from the normal risk of a fixed price, many of those manufacturers are making highly specialised products, and although at the moment there is a demand for all of them, some of those specialised tools soon outlive their purpose and have to be put on one side. These are market risks peculiar to a trade of this type.

4429. Have the Treasury any views on this matter?—(Mr. Blunt.) The formula was settled with the Treasury, and

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as the Report indicates, it allowed a basic rate of 10 per cent., instead of the 7½ per cent. normally allowed for munitions contracts, for efficiency and for the risks which Sir William Douglas was mentioning. (Sir William Douglas.) If I might emphasise one important point, we are here fixing prices for an industry which is not occupied solely on Government business. Thirty per cent. of its trade is for the rest of the country—private individuals—and 13 per cent. of its trade is for export, even in present-day conditions. So that is another reason why its level of profit is not directly comparable with the profit on a direct contract made between the Government and a contractor.

4430. The balance of the trade is done with Government Departments?—Yes.

4431. Rather more than half?—Yes.

Chairman.] Are there any questions on paragraph 61?

Sir Irving Albery.

4432. Is the selling price a selling price on a fixed-price contract? In the third sub-paragraph of his Report Sir Gilbert says: "I observe that percentage additions for risk and efficiency in machine tool control prices are calculated on the selling price"—The way in which it is done is that we are working in the whole of the machine tool trade on price lists, and the effect of that is that when you determine a price at which a manufacturer must sell it is really the equivalent of giving him a fixed-price contract.

Chairman.

4433. Are there any further questions on paragraph 61? We pass to paragraph 62: "Delay in revising excessive Prices." Sir Gilbert states: "In one important case initial control prices. . . ." Could you tell us what this important case is?—That was the case of Messrs. K.

4434. What were they making?—Machine tools.

4435. I read in the third sub-paragraph: "In March, 1943, the Ministry decided to reduce prices by 15 per cent., but on appeal by the company a reduction of 10 per cent. only was applied from 1st April, 1943, subject to further consideration of its adequacy." What were the reasons that justified your hearing this appeal and giving them only a 10 per cent. reduction?—I should like to make the general remark that it is not our ordinary experience that we have difficulties with firms, but here and there, of course, in the give and take of negotiation we do have difficulties, and this was one such case. The proposal for the 15 per cent. reduction which is mentioned was made in December, 1942, after various inquiries arising out of the 1941 accounts had been disposed of. There were various

meetings and our accountants were discussing this matter across the table with the firm which offered 10 per cent. at one stage. We did not accept this because our accountants felt that that would lead to too high a profit—something in the neighbourhood of 20 per cent., and we felt that was too much; but before we could finalise that discussion the trading results for 1942 became available and these supported the claim of the Ministry for a 15 per cent. reduction. Then the company appealed to the Controller-General of Machine Tool Production. There were increased costs emerging then from a Wages Award in 1943, which the company argued must be taken into account and which we agreed ought to be taken into account, and the Department therefore decided to allow 5 per cent. in this respect, so that the reduction became 10 per cent. instead of 15 per cent. That is the reason why that was done.

4436. Towards the end of that paragraph the Comptroller and Auditor General states: "I asked the Ministry whether, in the absence of retrospective adjustments and having regard to their statutory powers, they consider that present procedure for price revision adequately safeguards public funds." Have the Treasury any views on that question of the inadvisability of retrospective adjustment?—(Mr. Blunt.) I think that was considered by this Committee two years ago and Mr. Woods then rather agreed it was impracticable to have retrospective adjustment. (Sir William Douglas.) Perhaps I might amplify that. To meet your point about the appeals, we have now made the arrangement that in the case of appeals we do adjust the price back to the date, roughly speaking, at which the appeal was made, so that there is no advantage to be gained from delaying proceedings on appeal.

4437. In other words that is retrospective adjustment?—To that particular extent, yes.

4438. Are there any questions on paragraph 62? We pass to paragraph 63: "Expenditure under Contracts. Control of Sub-contractors' Prices." Would you comment on the review of these prices for past supplies and tell us what measure of success you have had?—I should first of all say that the aggregate of those cases is very large indeed. When we have costed contracts we ask the main contractor to have costed contracts with his sub-contractor. That is the first guarantee. When we have fixed-price contracts with a contractor we lay an obligation upon the contractor to satisfy himself that the sub-contractor's prices are fair and reasonable. That, quite frankly, is not always an easy task for the main contractor to carry out. He carries it out to the best of his ability. There is the disinclination of the

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makers of proprietary articles to disclose their costs to their normal peacetime customers. There is the inability of the main contractor to estimate fairly what the profits should be to the sub-contractors, and there is the rapid fall in costs which we very often get—which we usually get when there is a big increase in production. The Department, therefore, endeavours to get additional material for controlling the costs of sub-contractors by looking at the overall trading costs of as many of the sub-contractors as it can conveniently deal with, and proceeds either by getting a rebate from those sub-contractors where the price has been, in the view of the Ministry, excessive, or by seeing to it that in future contracts the prices are lowered. As a result of that process we have now been able to examine the results in 11,325 cases of sub-contracting firms, and have been able to get rebates amounting to £10,750,000. Those are figures which are more up-to-date than those which were available to the Comptroller and Auditor General.

4439. In the last sub-paragraph of his Report Sir Gilbert states that refunds of over £4,700,000 are estimated to be due in adjustment of prices for supplies during varying periods ending not later than 31 December, 1943. That is a very big increase?—Yes, that is just how it comes along. A lot of the negotiations were getting ripe at the time of this Report. In addition, the Ministry conducts negotiations with trading associations of industry and endeavours, by arrangement with them, to secure a lowering of price levels.

4440. In the last two lines of the paragraph Sir Gilbert states: "I have asked whether it is proposed to ascertain the actual trading results before fixing prices for later periods." I do not think you have dealt with that point.—That is so. In those cases we do propose to ascertain the actual trading results, as distinct from the estimates.

Chairman.] Are there any questions on paragraph 63?

Mr. Douglas.

4441. When you place the contracts with the main contractors I suppose you know to what extent sub-contracting is going to be employed?—I should think so, yes.

4442. You have some idea of the amount of money, therefore, that is involved in sub-contracting from the beginning. Is that right?—Yes, on that volume of orders.

4443. You have secured a rebate of £10,750,000. Can you say what the price of the stores was on which you secured that rebate?—(Mr. Bedford.) No, I think that is impossible to ascertain. We could tell in an individual case. You had a case at the last meeting of a firm where there were total sales of £40,000,000, and on that we recovered £1,400,000.

4444. What I wanted to get at was whether that would be typical of these cases or whether the proportion would be more or less?—It is impossible to say.

Chairman.

4445. There are hundreds of thousands of cases, are there not?—There are at least 100,000 sub-contractors.

Mr. Douglas.

4446. According to this report 35 per cent. showed profits between 15 per cent. and 30 per cent., and 38 per cent. showed profits of over 30 per cent. on the capital employed. That is to say, 73 per cent., or nearly three-quarters of the total, showed enormous profits. Is not that so?—(Sir William Douglas.) Yes; I was going to comment on that, if I might. In many of those cases, of course, those sub-contractors are engaged not only in Government contracts but in private work, and, therefore, the all-in trading results take account of that private business as well. Secondly, in a great number of those cases mentioned in this part of the paragraph those results would themselves have to be subject to costings. There would be many of those cases where the sub-contractors are going to be costed on their contracts, so that those are not final figures.

4447. They are not fixed-price contracts?—Not all of them. Some of them will be costed contracts.

4448. So that these figures relate to their profit on their total trading, do they, irrespective of whether it is indirectly for the Government or not?—That is so.

4449. Do you want us to believe that on their sales to private individuals they are making even higher profits than this average?—I do not think I want to express any view on that aspect of it, because I have quite enough to do answering for the position on Government contracts.

4450. If you have not any view on it would not we be fairly safe in assuming that these profits are being just as much earned out of Government contract as out of the others?—(Mr. Bedford.) On that, we have quite a good deal of knowledge of what the public is charged for stores. Very often a sub-contractor is making a different kind of store for us and is not selling it to the public, but we do occasionally get a straight comparison between the article we are buying and the article that the public is buying; for example, a certain component of a motor car, where we pay 1s. for that article and the public, which is buying about half the firm's output, is paying 2s. In that case much the greater share of the profit must come out of the commercial sales. That is a fair deduction from those prices; but that is an isolated case which happened to come to our notice.

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4451. Then you have no idea how the thing stands generally. When you let the contracts to the main contractors do you know who the firms are to whom they are going to let the sub-contracts, or do you merely know that they are going to sub-contract part of the work?—We merely know that they are going to sub-contract.

4452. Do they have to get your permission to choose the particular sub-contractor whom they employ?—No.

4453. Is not that a usual provision in contracts which provide for sub-contracting?—There is a difference between sub-contracting and sub-letting. In normal sub-contracting, where the contractor buys out his necessary parts, as he must do, the Department does not normally take any interest in that. He buys his screws out; the motor car manufacturer buys his components wherever he is used to buying them. Sub-letting, which is sometimes called "sub-contracting," is another matter and that, under the Fair Wages Clause—for that purpose alone—requires them to come to the Department.

4454. Where do you draw the line between sub-contracting and sub-letting?—The line is not a very clear one, but in the contracts department there is quite a difference between sub-contracting—that is buying out the normal things that a contractor requires to make up his goods—and sub-letting some work which the contractor normally would do himself. In the latter case he puts it out because of pressure of work.

4455. That does not tell me very much. Is there no kind of principle which governs the permission? If you have to have permission in one case and not in the other, how do you determine when permission has to be obtained?—The sub-letting is done by Production, very often. They know that a firm in making a gun or some other store has to go out to certain people and they help and collaborate in sub-letting and making parts of that gun. But within the Contracts Department it is quite clear what the difference between normal sub-contracting and sub-letting is.

4456. If it is clear, can you make it clearer to us?—(Sir William Douglas.) I think what Mr. Bedford is trying to explain is, that these differences are based on production reasons. It is not a question of principle. It is a question of what is the best. (Mr. Bedford.) I thought I had set out the distinction between sub-contracting and sub-letting. One is the normal buying out of parts which a maker-up of goods wants to make his goods with—a man who makes a suit wants to buy cloth to make it with. The other thing is where a man sub-lets a part of his contract.

4457. That does not make it any clearer to me. Can you say, anyhow, what volume

of transactions comes under those two headings?—No, I do not think we have any information to say what the volume is, even as a percentage.

4458. In those cases where permission has to be obtained for sub-letting, do you make any inquiry to ascertain whether there is any financial connection of any kind between the main contractor and the sub-contractor?—Not at that stage, but we should find out in our investigations later in our contracts if there were financial relations between the contractor and his sub-contractor.

4459. How would you find that out?—The investigators would find that out, on investigating the contract.

4460. Does that investigation apply in every case?—No, I should think not.

4461. What are the circumstances which lead to investigation?—A lot of our contracts, of course, are on a costed basis, especially the important ones.

4462. In the case of those which are on a fixed-price basis, you do not, as a general rule, make any investigation?—Fixed prices very often flow from previous costed contracts where we have the information.

4463. To what extent would that be the case?—I could hazard a guess, but I should have said at least 50 per cent. of our main contracts flow that way.

4464. 50 per cent. do not, and in the case of 50 per cent. you do not know.—That 50 per cent. contains a lot of costed contracts where there is probably purchasing of raw materials and things like that, in which there cannot be much sub-contracting.

4465. In the case of sub-contracting as distinct from sub-letting, do you get any information as to whether there is any financial relationship between the contractor and the sub-contractor?—No, unless we carry out some investigation afterwards, which would not be carried out for that special purpose.

4466. It is a matter that deserves a little attention, is it not?—I do not think it matters much from our contracts point of view.

4467. Are you sure about that? Suppose that the profit is concealed, and instead of going to the main contractor, goes to the sub-contractor nominally, and in the end they share it by some arrangement between them?—There may be odd cases, but I think it is quite clear that there are not many cases of that kind.

4468. What leads you to that conclusion?—Our general knowledge of the firms we are dealing with and their sub-contractors.

4469. I thought you were telling me just now that in a good many of these

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cases you did not know anything about it?—Not at the time of placing the contract, but afterwards we know a lot about it. We know the bulk of our sub-contractors. We have them listed and we know precisely who they are.

Mr. *Pickthorn*.

4470. Is your view of a contract that of the poet Housman—that the fox terrier does not know what a rat is but he knows when he smells a rat? That is your line about the distinction between sub-contracting and sub-letting—that the definition may not be one you can put to us in words but you are quite clear about it?—Yes. We in the Government Contracts Departments are quite clear about that distinction.

Chairman.

4471. Are there any further questions on paragraph 63? We pass to paragraph 64: "Prices for future Supplies". Sir Gilbert says: "For future supplies the Ministry endeavour to fix fair and reasonable prices in advance, but difficulties may arise in the case of firms who before the war were earning high returns on capital, and now produce increased quantities of their regular products mainly for Government use". Would you tell us how these difficulties are being grappled with, Sir William?—(Sir *William Douglas*.) I think they fall under the general explanation I gave on paragraph 63 as to how the Department does grapple with the sub-contracting problem generally.

4472. Have the Treasury any views about it?—(Mr. *Blunt*.) No. It is a matter, of course, for the contracts department to grapple with these things.

4473. Are there any questions on paragraph 64? We pass to paragraph 65: "Arrangements for securing Efficiency in Manufacture". I do not know, Sir William, whether you would like to add anything to Sir Gilbert's paragraph on this matter?—(Sir *William Douglas*.) I think that the Ministry is very appreciative of this paragraph 65, because, as we endeavoured to say a little earlier in the case of a particular gun, this question of securing efficiency in manufacture is one which is very carefully studied in the Ministry in the production branches, with the co-operation of the accountant branches. We have, as General *Wrisberg* told us earlier on, instituted group systems amongst contractors, by which contractors manufacturing the same store exchange information about their methods of manufacture. We have regular visits of production engineers to the factories, and we use, to an increasing degree, technical efficiency returns. Apart from that we have made an increasing study of the question of comparison of costs. We have set up a special adviser in the Ministry who is a skilled accountant, whose job is

to do nothing but investigate questions of comparative costs. He has developed a technique of getting out returns which show up the points he wishes to bring out, and that is controlled by a Comparative Costs Committee. In addition there is a Special Costs Committee, which examines the costs of explosives and chemical factories. So that we have the problem under review in all those ways.

4474. Are there any questions on paragraph 65? We pass to paragraphs 66 to 68: "Delay in fixing Contract Prices." Those paragraphs run together. Would you tell us what these guns are? Two types are mentioned.—Those are machine guns. The name comes from the firm which makes them. There are two types, a smaller and a larger.

4475. In the second sub-paragraph Sir Gilbert states: "Under the formal agreement, which was drafted in 1938 but not signed until September, 1940, the contractor was to erect buildings and plant capable of producing a specified weekly number of guns and to supply such guns as the Ministry might order." Could you tell us what the number was?—It was a very small number of guns, 424 of the larger and 759 of the smaller, which would be about 10 a week of the former and 30 a week of the latter.

4476. On the top of page 27 Sir Gilbert states: "The first batch of the initial order was to be paid for at cost, plus profit of 10 per cent. with a fixed maximum profit." Would you tell us the number of those and when they were finished?—That is the 424 of the larger and 760 of the smaller. (Sir *Gilbert Upcott*.) May I suggest that that was the first order and not the first batch?

4477. The first batch is the question.—(Sir *William Douglas*.) The figures I have given you are the first order from the War Office.

4478. What is the number of the first batch of the initial order was my question?—I am sorry. 50 and 100 are the figures.

4479. In paragraph 67 Sir Gilbert states: "Since the outbreak of war very large orders have been given and additional plant has been provided at the sole cost of the Ministry." Could you tell us the magnitude of those very large orders?—The number of guns ordered prior to November, 1941, was 22,511 of the smaller and 2,567 of the larger, and after November, 1941, x thousands of the smaller and y thousands of the larger.

4480. So that these very large orders were being placed, but the terms, apparently, were not reviewed until November, 1941, although the original order was of very much smaller scope?—That is so.

4481. Why is that?—I think this is one of those cases where the order was placed

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by the War Office in the early days of the war, and in the rush of setting up the Ministry and accelerating the production of those things the question of the price was overlooked until later on.

4482. Surely the Ministry of Supply was in existence before the war—some months before if I remember rightly.—It was set up in August, 1939.

4483. This order was placed by the War Office?—It was placed by the War Office before the war, in 1938.

4484. An order 50 or 100-fold as great as the original one, running on for two years at a pre-war price, does suggest large profits, does it not?—Yes, but the pre-war price, by subsequent negotiation with the firms, applies only to the guns ordered before November, 1941. Those ordered after 1941 are at reduced rates.

4485. I gathered from you that 22,000 had been ordered before November, 1941?—That is so.

4486. And the original order was for a few hundred only?—That is so.

4487. Although the order was 50 times as great, roughly speaking, the price was not reviewed, and the manufacturers are getting for an order multiplied 50 times over the same as the price for the small order?—It is not a price. It is the profit they were making on it.

4488. Excuse me, it was agreed that the 10 per cent. profit should not be continued after November, 1941?—Yes, that is right. It was a costed contract, so that the price really was the cost of manufacture plus profit. What was not picked up was the profit inuring to the firm at the old rate of 10 per cent.

4489. Could you tell us what was the difference in price between the original order of a few hundred and the big order?—(Mr. Bedford.) On the smaller gun, the first 100 came out at £336 each. The next 760 were at £186. That completed that first order of 760. The price of the gun at the end of these orders placed by November, 1941, the ultimate price, worked down to £77.

4490. Instead of £336?—That was for the first 100. On the other gun the first 50 cost £870, the next 137 cost £380, and the last number ordered by 1st November, 1941 had come down to £231.

4491. On paragraph 68 I see appreciably lower rates are now being paid. The last figure you gave me was £77 for the first gun. What are the appreciably lower rates?—The latest price at January, 1943, for the smaller gun, was £60.

4492. And for the other gun?—The other gun is dropping down in production. It is a gun which is going out of use, and the £231 is the lowest price we have got.

Chairman.] Are there any questions on paragraph 68?

Mr. Douglas.

4493. This 10 per cent. is 10 per cent. on the cost of the gun to you, is it?—Yes.

4494. Do you know how much it has amounted to at any time in terms of a percentage on capital employed?—We know that the 10 per cent. on the smaller gun has brought to the firm about £300,000 as profit.

4495. Do you know what the capital employed is?—That is through a number of years, starting in 1938 and finishing the production at the end of 1942, so that you have four related years to work out, and I am afraid we have not split that up into those four years, to see how precisely that works out with the capital employed on it. Another thing is to segregate the capital of that particular gun plant.

4496. This is not a novel problem. It must occur over and over again.—We do not relate the result of every profit to the capital employed.

4497. No, but that is a standard which is supposed to be fundamental to work to. Have you ascertained what is the percentage on capital employed which this firm is earning in respect of the whole of its undertakings?—We know the profit which should accrue to the firm, as a result of relating costs of production to the capital employed. That has been continually going down since the beginning of the war. It was 10 per cent. in the first year, then 7 per cent., and it is now somewhere about 5 per cent.

4498. What does this 5 per cent. represent?—The profit under our formula on cost related to the employed capital.

4499. Is it 5 per cent. on cost?—5 per cent. on cost.

4500. And how is it related to the capital employed?—By the total costs of production of the firm with its total employed capital, giving 7½ per cent. on its total employed capital and a percentage for efficiency in the costed contracts.

4501. How much does the percentage for efficiency add to the 7½ per cent.?—I have not that figure here, but my recollection is that this firm has an efficiency figure on cost of 1½ per cent.

4502. When you transfer that into a figure on capital employed, what does it represent?—That works out at about 2½ per cent. on capital.

4503. Would I be correct in assuming that the firm as a whole is not making more than 10 per cent. on the capital employed?—I do not know what it is

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making now. In the total there are buried a lot of fixed-price contracts. The contractor has also his private trade, which is fairly considerable, and all those things lead to unanalysable results in the profit that ultimately emerges at the end of the trading year.

4504. Yes, but it also leads to this, that the price which you are paying is unexplained to us.—The price we are paying, if you are talking of these guns, is the cost as determined by us plus the profit of 10 per cent. up to 1st November, 1941.

4505. I know, and we cannot find a standard to determine whether that profit is in fact a reasonable one or not.—The profit we reckon we have overpaid over what we should have paid for the 792 guns placed by the 1st November, 1941, is £34,000.

4506. That is lost?—There is another rake to get that—not that I rely on that.

4507. This Committee has issued a report dealing with that which you cannot go back on.—That is true. We admit that we did, through the circumstances in the early part of the war and the transfer from the War Office to the Ministry of Supply, more or less slip up in this case.

Mr. *Pickthorn*.

4508. I am not sure if it matters, but I find it difficult to construe the second half of paragraph 67: "Until this offer was made both the contractor and the Department had proceeded on the assumption that for all guns ordered up to November, 1941, payment would be made as if the agreement had been implemented and in October, 1943, the Ministry finally agreed to a settlement on these lines. Are "these lines" the same as "this offer"? (Sir *Gilbert Upcott*.) "as if the agreement had been implemented". Those are the "lines."

4509. The lines are the same as the agreement?—Yes—"as if the agreement had been implemented."

Chairman.

4510. Are there any further questions on paragraphs 66 to 68? We pass to paragraph 69: "Contracts for Motor Vehicles and Spare Parts." Could you tell us what this firm is?—(Sir *William Douglas*.) Yes. [Name of firm given.]

4511. And the reason for the arrangement?—The arrangement followed prolonged negotiations with the firm, and the agreement was made about October, 1941, that in settling prices in fixed-price contracts the allowance for profit would be a percentage—7½ per cent. as before, 2 per cent. on approved cost for contingency or risk and an efficiency percentage of 2 per cent. if that were earned.

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4512. Passing to paragraph 70, dealing with another contractor, I notice that it is on a cost-plus basis. Notwithstanding that there is also a maximum addition for contingencies. Surely it is unusual to give on allowance for contingencies such as efficiency or risk when the contract is on a fixed-price basis—the actual cost? This is a different firm. I think there is a little difficulty here. It is not quite correct to say that we settled on the basis of actual cost in this case. It is the custom of the Company to review their price lists annually in February on the cost of manufacture in the year ending in the preceding August. During the year 1942, our accountants made a number of tests based on the relation between costs and list prices in the year 1941, and after allowing for possible increases in cost between August and the year beginning in the following February, it appeared that the provisional discount of 40 per cent. from list prices allowed to the Department would yield the company a margin of 20 per cent. on the cost of manufacture. We thought this was too high, and we, therefore, increased the rate of discount to 46 per cent., which was estimated to leave the company with a margin of 8 per cent. on cost.

4513. So the figure should be based on estimated cost plus profit?—At that stage we had not all the accounts in our hands and there was a fair amount of estimating, as Mr. Bedford will tell you.

4514. Have you anything to say on that point, Sir *Gilbert*?—(Sir *Gilbert Upcott*.) Presumably they got as near as possible to actual cost.

4515. At the end of his paragraph Sir *Gilbert* says: "I understand that negotiations are now in progress regarding both these agreements. Could you tell us how they stand?—(Mr. *Bedford*.) I am afraid they are still more or less in a negotiation stage. We are trying to get some reduction in the profit rates accruing to these firms under the agreement reached in 1941. It is somewhat difficult.

4516. You are in a position to determine them if you want to do so?—Not wholly. We have not full powers.

Chairman.] Are there any questions on those paragraphs?

Mr. *Douglas*.

4517. These are both fixed-price contracts, are they?—Both of them.

4518. What are you negotiating about—the past or the future?—I am negotiating now a rate of profit regardless of any particular contract, to cover all the transactions with those firms.

4519. You are trying to adjust the whole thing from the beginning, are you?—No. If I am successful in my negotiations of

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course I will try to get it back as far as possible, but I may not be so lucky as that, and it may apply from the time that the agreement, if any, is reached.

4520. Am I to understand that it is recognised that a mistake was made in allowing the maximum amount for risk and efficiency in this case, in view of the fact that a large part of the risk was being borne by your Department?—(Sir William Douglas.) If we were making that contract now I think we would make it on different terms.

4521. What surprises me is that you ever made it on these terms. Can you explain that?—We can only explain it by the circumstances of the time. It was comparatively early in the history of the Ministry, and it was at a time when the firms in this area, had very much in their minds the question of additional risk owing to blitz. I think one has to project oneself back as much as possible into the circumstances of that time, and, as I say, if we were making the contract now I think we should be more enlightened.

4522. What amount of money is involved in this in total?—I do not think we have that figure.

Chairman.

4523. Is it a large sum—hundreds of thousands?—(Mr. Bedford.) The value of spares bought annually from this firm must be over £1,000,000.

Mr. Douglas.

4524. That is the second firm you are referring to?—Yes.

4525. And how much in the case of the first firm?—I should say it would be somewhere similar.

4526. Both more than £1,000,000 a year?—Yes, but if we are talking about the question of fixing the profit with the risk percentage on a costed basis we are only talking about the second firm I think.

4527. I do not know. Paragraph 69 starts off by saying: "Profit on contracts is generally based on an allowance of 7½ per cent. on capital employed with additions (calculated as percentages of the cost of production) for efficiency and for risk contingencies"?—That is quite true.

4528. Then the Comptroller and Auditor General goes on to say: "I noticed a contract for motor vehicles where the price fixed, although subject to variation in the event of variation in cost of labour or materials, included the maximum addition for contingencies." That is the first firm, is it not?—That covers all the motor industry.

4529. That covers not only that particular firm, but every other motor firm, does it?—Yes, that is so.

4530. Then it is getting far more serious. So that all your contracts have given these people the maximum reward for risk, although the Department is bearing the risk of very material variations in the price, both of labour and materials. What other risks are those firms bearing?—(Sir William Douglas.) The risk of delay in getting the material owing to circumstances of the war, the risk of having their labour called up, and the general risk of enemy action—general blitzing in that particular area.

4531. That is not peculiar to this industry, is it?—No, that is quite true.

4532. There were a large number of firms who were working in precisely the same conditions, were there not, and some of them, apparently, were not even getting the maximum allowance for risk and efficiency, although they were bearing more risks than these motor firms were?—I think the Blitz was very much in people's minds. (Sir Gilbert Upcott.) My criticism was not that there was an addition for risk, but that it was the maximum, in spite of the elimination of one of the items of risk.

Mr. Douglas.] The point I am putting to the Witness is that the risk which has been eliminated is the most important of all the risks which firms have to bear.

Sir Irving Albery. Which risk is that?

Mr. Douglas.

4533. The risk of the variation in the price both of materials and of labour?—(Sir William Douglas.) I have admitted that if we were making this contract again we would make it on a different basis.

4534. It is when you go on to say that this applies to all the firms in the motor industry that it becomes still more surprising?—That is the position.

Mr. Douglas.] It is on record.

Sir Irving Albery.

4535. I want to ask you this: Is it the view of the Ministry that this arrangement of so much profit per cent. on capital plus the contingency addition is generally in practice an equitable arrangement as between contractors, taking one with another, or is it that you have been more or less driven to find some kind of formula?—(Mr. Bedford.) Committees dealing with this subject before the war recommended that profit should be based on capital employed, and that was the line we started off with, at 10 per cent. on employed capital. That was more or less flat. It did not discriminate between the efficient firm and the medium efficient firm, or the lower efficient firm. It was 10 per cent. flat.

4536. I was only seeking information. I wanted to know whether, resulting from experience, you are now of opinion that generally speaking, as between contractors, this method of calculating the profits which

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they are entitled to make is an equitable one?—(Sir William Douglas.) I think that on the whole it works out very fairly, and that it is a reasonable and good basis.

Chairman.

4537. We pass to paragraphs 71 and 72: "Agreements for the Regulation of Production." These two paragraphs run together. Would the Treasury kindly tell us why the Ministry of Supply has different arrangements from the Ministry of Aircraft Production with regard to these matters?—(Mr. Blunt.) I find that a rather unexpected question. I did not think it was a matter for the Treasury to answer. It is hardly for the Treasury to say why the Ministry of Aircraft Production do it one way and the Ministry of Supply do it in another way. The Treasury do not seek to and cannot control it.

4538. Is it not of interest from your angle, looking after the public interest in these matters, to find out which is best from the point of view of the taxpayer?—Yes. The Treasury certainly, as Chairman of the Contracts Co-ordinating Committee which meets from time to time, naturally compares notes as to what the various Departments are doing. I am afraid I do not know whether this particular case has come before the Contracts Co-ordinating Committee at all. Mr. Bedford might be able to say that. (Mr. Bedford.) No, this one has not. There is a difference between the Ministry of Aircraft Production arrangement and ours in that they are dealing with different classes of stores. The Ministry of Aircraft Production is dealing merely with stores which they are going to buy, or are going to be delivered indirectly through their contractors. The machine tools and the plant to which the Comptroller and Auditor General is referring in the latter parts of the paragraph do not wholly come to Government Departments. They are sold to private requirers of those things. Civil Engineers, for example, would want the road-making plant and they would get it from the firms who make those things. The Ministry wanted to ensure that there were sufficient quantities made to cover both military and civilian requirements, so they got makers to undertake to make a certain number of different kinds of plant in a certain time. The contractor said: "Yes, I will make those, but I am making them at risk because you are not going to buy them all and I may be left with some of those on my hands. Therefore I want some indemnity from you for those stores." That is why the indemnity crept into these production agreements in the Ministry of Supply.

4539. I notice in the last sub-paragraph of paragraph 71 the Comptroller and Auditor General states: "In the case of machine tools the agreements provide for a specified output of machines for sale either to approved purchasers at agreed prices

within the maximum control prices or to the Ministry at the control prices for a reserve stock, and give an indemnity against loss on machines unsold on completion of the programme or earlier termination of the agreements." Is account taken of these arrangements to protect the manufacturer in fixing the risk allowance, because it would seem the risk allowance does not exist if they are guaranteed both output and also an indemnity against loss on machines unsold. Why have a risk allowance?—(Sir William Douglas.) I think the position there is that the manufacturer's profits are statutorily controlled in the sense that we are controlling the prices of machine tools, and, therefore, that controls their profits in a statutory way, and it was recently decided, when looking at all the circumstances of this with the Treasury, that the indemnity should include a measure of profit on the work done on general break-clause lines.

4540. You see my point? This risk in connection with which you give an extra 2 per cent., or whatever it is, apparently does not exist in an appreciable number of these things, or the risks are not so large as would appear?—(Mr. Blunt.) Speaking subject to correction, I do not think the risk allowance we normally give is intended to meet in any way the contingency of not being able to sell your goods. It is largely against the contingency that your goods will cost more than you expect them to cost.

4541. Or remain unsold?—No, I do not think so.

4542. In paragraph 72 at the end Sir Gilbert states: "As a result of a review of prices and production agreements the Ministry considered that a statutory control of prices under these agreements was not needed in view of the provision against increases." Could you tell us anything about that review?—(Mr. Bedford.) The result of that review is, I think, stated in the Report—"As a result of a review of prices and production agreements the Ministry considered that a statutory control of prices under these agreements was not needed in view of the provision"—the result was there.

4543. You are satisfied the prices are fair and reasonable?—Yes.

Chairman.] Are there any questions on paragraphs 71 and 72?

Mr. Douglas.

4544. Has any liability accrued to the Ministry under these undertakings, or is it merely contingent at present?—(Sir William Douglas.) Some liability has accrued.

4545. In which cases?—(Mr. Trouncer.) In the case of machine tools a liability has accrued. That liability can be broken down into two parts—a liability to purchase completed machines which were unsold on com-

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pletion of manufacture: that is not a liability in so far as the quantities laid down in the production agreement included a margin of reserve machines that we wished to hold in stock as against contingencies. I must, I think, again remind the Committee of the whole background of machine tools. There are 6,000 or more different types of standard machines and the estimated requirements for them are constantly varying with the fluctuations in the production programmes of the Service Departments. If one allows a given type of machine which may be required particularly for one type of gun production to go out of production entirely without first building up a reserve stock, then the time taken to start production again will be very long, and it was for that reason that the Machine Tool Control, after reference to the Treasury, did obtain authority to plan their production programme so as to build up a stock not exceeding a maximum of £10,000,000 sterling. In so far as we have purchased unsold new machines under these production agreements, and in so far as they represent reserve stocks which we expected to take into the stock pool, there is a liability by the Government for payment—but it is not a liability in the true sense of the word. There is a liability in the sense of a nugatory payment if, owing to a change in the Service Departments' programmes, the original programme for a given type which we laid down is no longer required in full, and we tell the firm to close down on the last batch of their programme, and we scrap the work in progress. They are in that case indemnified under the production agreement on the loss on disposing of the work in progress. I could not give the figure of the amount of claims under that. The wholesale changes in Service Department programmes in 1943 did lead us to change programmes, and I should think we may have scrapped, or be in process of scrapping, work in progress for perhaps £500,000.

4546. What about building and road-making plant? (Mr. Bedford.) There have been no breaks on either at the moment.

Chairman.

4547. Are there any further questions on paragraphs 71 and 72? We take next paragraph 73: "Disposal of Surplus Motor Vehicles." Could you amplify somewhat the report with regard to these special arrangements for releasing motor vehicles? (Sir William Douglas.) This, as paragraph 73 correctly sets out, is a scheme agreed with the Society of Motor Manufacturers and Traders for the orderly disposal of motor vehicles—in this case of surplus vehicles of civilian types. They are load carrying vehicles which were impressed by the War Office at the outbreak of the war and after Dunkirk. They were released by the War Office while still fit for some further service as a contribution

towards relieving the general shortage of civilian motor transport, the bulk of new manufacture having been for some time reserved for the Services themselves. By the early part of 1941 deliveries of new vehicles which the War Office had received, both from the United Kingdom and the United States, had assured them of their supplies, and they were able to release some of their impressed and used vehicles. The reconditioning allowances are based on average costs of reconditioning vehicles of given types and makes, and were negotiated with the Society of Motor Manufacturers and Traders. I think it is fair to say that we consider that although we have not got direct costs in those cases the volume of indirect evidence we have about general costs of repair makes the Ministry reasonably satisfied that the allowances are fair and reasonable.

4548. Have the Treasury any views on this arrangement? (Mr. Blunt.) We agreed to the arrangement, as you will see by the first sub-paragraph of paragraph 74. We were rather concerned to know that the allowances on reconditioning were fair and reasonable. We had that assurance, based on the Ministry's own costs, and we for our part have accepted that. We have no reason to think that they are not reasonably assessed. The alternative would be, of course, to go and cost out in the repair shops themselves, where they are being done, but that would be rather a difficult matter. They are spread over a large number of dealers, I believe, and it is really a question whether the Ministry have the accounting staff for it. (Sir Gilbert Upcott.) The point I raised on paragraph 73 is that it is a new departure, in the sense that it is a decision not to get for Government property the best prices you can get. I deal in paragraph 74 with the question of allowances for reconditioning. I am not criticising it, but it is a question of principle, that it is a decision not to get for Government property the best price you can get. (Mr. Blunt.) I think we shall have a good deal more of this later on, when we come to general disposals. That sort of policy is being discussed just now, as to how we are to dispose of Government goods.

4549. Have you any comment to make on what you state in paragraph 74, Sir Gilbert?—(Sir Gilbert Upcott.) There I raised the question of reconditioning allowances. It is rather a complicated story. Perhaps I could put it a little more clearly than it is in the Report because it is rather compressed there. Obviously, as Mr. Blunt has just said, it is important that the reconditioning allowances should be fair and reasonable. The Ministry gave the Treasury an assurance that on the basis of their own experience of the costs of reconditioning they were satisfied that the assessment of the allowances was closely and effectively controlled. Their own experi-

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ences are mainly of two kinds. They have an organisation called the Army Auxiliary Workshop, which does repair work on Army models, and civilian repair depots which deal with civilian type vehicles. These are mainly garages which do the work under contract. Certain information as regards the trend of cost of the work on the Army models led me to ask whether the Ministry had reviewed these reconditioning allowances, but the Ministry explained that the circumstances of the work on the Army models were special and they would not afford a reason for reviewing the reconditioning allowances, but they were satisfied, on the current cost of the work on civilian models, that they were correct. I gathered on further inquiry that though the costs for the civilian models are subject to cost investigation there was not, in fact, available information as to what the actual costs were. Therefore there was apparently not any definite evidence to show that they were a satisfactory guide to these reconditioning allowances. Furthermore, the Ministry went on to say that for various reasons their repair shops could not be directly compared with direct allowances for reconditioning. That seemed to me to be a flat contradiction of the assurance which they had given to the Treasury. At that point I am afraid I gave up my pursuit for truth and thought it would be better concluded before this Committee.

4550. Have you anything to say on that, Sir William?—(Sir William Douglas.) As I said earlier on, we have a volume of indirect evidence about those costs. I think it is quite fair to say, as the Comptroller and Auditor General has said, that we have not got direct evidence. As Mr. Blunt said, it would be a matter of exceeding difficulty and we doubt whether it would be worth the labour to try to get direct costs. On the disposal of vehicles to two of the manufacturers, out of 2,000 vehicles only 600 were worth reconditioning and that work was spread over nearly 300 garages. The difficulty of setting out to get costs would be quite extraordinary. But there is general evidence, which, as I say, is not accurate—it is only generally relevant—and we have the further point that we know that costs of labour and materials in this sphere are rising quite considerably, and yet we are holding our reconditioning allowances at the same amount.

4551. You have not increased your reconditioning allowances?—No.

4552. Have the Treasury anything further they would like to add?—(Mr. Blunt.) No.

Chairman.] Are there any questions on paragraph 73 or 74?

Sir Edmund Brochlebank.

4553. These machines, apparently, at one time, when they were made, were suitable for Government requirements. They were reconditioned and were suitable then for

private use. But why were they no longer suitable for Government use?—(Mr. Bedford.) These vehicles were commercial vehicles that were impressed.

Chairman.

4554. In times of emergency?—When the shortage of vehicles occurred for civilian use it was better for them to go back to the civilian user than to be retained in the Army, which already had its Service vehicles.

Chairman.

4555. It was to help people, really, who had had their cars requisitioned. Are there any further questions?

Mr. Douglas.

4556. Were these vehicles resold to their original makers?—(Sir William Douglas.) Yes.

4557. You gave a figure just now which showed that only a fraction of them were capable of being reconditioned. Were you paid only for that fraction or were you paid for all of them?—We were paid for all of them.

4558. At what rate?—I am told that a high proportion of them went to our own workshops for repair.

4559. If they went to your own workshops for repair what happened to them after they were repaired?—They would be used by various Government Departments. (Sir Gilbert Upcott.) The figures are in my paragraph. (Sir William Douglas.) Yes, it is stated in paragraph 73; as Sir Gilbert says: "1,000 of these were unfit for repair and the remaining 10,500 required repair before they could be used. 4,000 of the vehicles were urgently required for the use of Government Departments and the Ministry were able to repair them."

4560. I was not asking about the ones which were repaired and used by Government Departments. I was asking about the others. Were any of those reconditioned by you or not?—(Sir Gilbert Upcott.) As I understand it, the 6,500 were reconditioned under this scheme, and not by the Ministry. (Sir William Douglas.) Yes.

4561. That is where I started off. I asked you to whom they were sold and then you went into a digression about your reconditioning. You did not recondition any that you sold. You sold them to the manufacturers?—When they were sold to the manufacturers we did not recondition them, but we did get some from the Services which we ourselves reconditioned.

4562. You sold 6,500 back to their original manufacturers?—Yes, that is right.

4563. Did you get a flat price for them or was the price determined by their condition?—The price was controlled according to their make—that is the model, and the age.

4564. And it was a flat rate for each of those categories?—That is so.

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4565. How was the rate fixed?—May I give an example, which will make the thing clear? Let us take a 10 h.p. car, three years old, and let us assume that the catalogue list of it was £175, less a trader's discount of 15 per cent., which is £26, and you get a net figure of £149. We then knocked off depreciation at the rate of 35 per cent. for each year, which amounts, in this case, to £108, leaving £41. To that figure we added for appreciation in value 25 per cent., which was, roughly speaking, £10 in this case, and we, therefore, got a price of £51. That was the price paid by the manufacturer to the Ministry. That is what we got.

4566. Then you fixed a price for resale by reference to that and a standard charge for reconditioning?—Yes. There is an allowance to the manufacturer at a flat rate for handling and there is an adjustment reserve of a certain amount on reconditioning allowance, which is paid by the dealer to the manufacturer. In this particular case it was £13, and there you get Price B, which is the price paid by the dealer to the manufacturer. In this case it was £71. There is then an allowance to the dealer for his handling and a reconditioning allowance, in this case of £40, so you arrive at a price C, which was £123, which is the price paid by the ultimate purchaser.

4567. The object of fixing a charge for reconditioning in that way was because the ultimate purchaser was paying less than the current market value?—I should say it was, according to the information that we got from the Ministry of War Transport, a reasonable price to ask for a vehicle which had been dealt with in those ways.

4568. That is not what I understood from the Report of the Comptroller and Auditor General. I understood that this was an arrangement for the disposal of the vehicles at less than what would have been their market value at the time. Am I wrong in that? (Sir Gilbert Upcott.) My meaning was that under the conditions prevailing at the time the market value was not fair and reasonable. That was the point that I was making. (Sir William Douglas.) I think the policy here was stated by the President of the Board of Trade in the House of Commons on the 2nd November, 1943, when he said: "As I have already stated in the House there must be, after the war, an orderly disposal of surplus goods which on the one hand will not allow profiteering at the expense of the consumer and on the other hand will pay due regard to the interests of producers and distributors. The Government have decided that disposal should be carried out in each particular case through the agency of the Department mainly concerned with the supply of the goods during the war. Before working out the plans for disposal the Board of Trade, together with other responsible Departments, will consult with representa-

tives of the producers and distributors concerned."

4569. These are commercial vehicles, are they not?—They are load-carrying commercial vehicles.

4570. So that the cheaper the purchaser gets them the more profitable it is to him. He is able to make more profit?—In what way will he make more profit?

4571. If he had to pay £50 more he would have less profit. That raises a question which perhaps Sir William cannot answer but to which I would like to know the answer, and that is how were the purchasers selected? Do the Treasury know?—The Ministry of War Transport I think selected them.

4572. Were the Treasury consulted about the principles to be adopted in that respect?—(Mr. Blunt.) Certainly; we agreed to the scheme. We are not responsible for the actual selection of the people to whom they were sold, as Sir William said. It is stated in the paragraph that they were selected by the Ministry of War Transport.

4573. Were any principles laid down upon which the Ministry of War Transport would select the fortunate purchasers?—I am not sure that that particular point came to the Treasury. I rather think it came to us only on the financial aspect (Sir Gilbert Upcott.) This is essential work, is it not? (Mr. Blunt.) It is bound to be that. I was wondering whether I could say anything more definite than that.

Chairman.

4574. It would be hardly within your ken.—I will look through my documents and if I find it, I will let the Committee know.

Mr. Douglas.

4575. There is a benefit to the person who is able to buy these vehicles because the supply is much less than the demand, is it not?—(Sir William Douglas.) I think that would be a fair statement. The supply is less than the demand at the moment.

4576. Therefore the principles upon which this benefit is distributed between a certain class of people are very important, are they not? Perhaps the Treasury will tell us about this at some later time.—(Mr. Blunt.) Quite frankly, I do not think this is really a Treasury point. It would be much more likely to be a Ministry of War Transport point.

4577. If that answer is given, I must ask the Treasury Witness this. It is agreed that more money could be obtained for these cars than actually was obtained. They are Government property which is being disposed of at a lower price than could be got for them.—(Sir William Douglas.) I have not agreed to that. I should like to make that perfectly clear.

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I think the price we got is a fair and reasonable price, and I said in answer to a question that we were advised by the Ministry of War Transport that these prices were reasonable. (Mr. *Blunt*.) They are lower, no doubt, than the prices at which they could be sold in the black market, but they are, nevertheless, on this computation, fair and reasonable prices.

4578. Why introduce the black market? Suppose they were put up to auction?—I have no doubt, with the scramble for cars, the price might go sky high.

4579. If that is true, and if the supply is limited, is it not true that the people who were actually selected to obtain these cars got a benefit?—Certainly.

4580. That benefit is obtained ultimately at the expense of public funds?—Yes, I think that probably is true—in accordance with public policy.

4581. I agree, and that is why I want to find out what the principles of that policy are.—The principle of that policy as it came to us was that they should be sold in this way to selected people, but, as I say, the selection would not be a matter for the Treasury at all. The selection is a matter for the Ministry of War Transport. (Sir *Gilbert Upcott*.) Perhaps I might say, as Mr. *Blunt* has admitted that these people may make a profit out of getting these cars, that I am not sure Mr. *Blunt* need have made that admission, because if you will look at paragraph 112 of my Report you will see that there is a control of profits of road haulage firms. I think you might have to go a good long way into the structure of the transport industry before you could make certain that people did make something out of this. (Mr. *Blunt*.) If these lorries were used for the road haulage organisation of the Ministry of War Transport any such profit would come back to the Government.

Mr. *Douglas*.] It is mighty difficult to get butter out of a dog's mouth!

Chairman. Are there any further questions on paragraphs 73 and 74?

Sir *Irving Albery*.

4582. There is one thing I am not quite clear about. The lorries were sold to the makers on the basis of the price of the year—say, a 1938 model. Then they had to be repaired. One vehicle might need £10 spent on it. Would it be sold at that price plus £10? (Sir *William Douglas*.) It is an average price at which they are sold, whether the reconditioning in fact cost £10 or £100.

Chairman.] A fixed allowance for each model.

Sir *Irving Albery*.

4583. I thought they went to different makers and then they were put out for

repair?—To the dealers, but each stage is controlled. These reconditioning allowances are fixed allowances. (Mr. *Blunt*.) As I understand it, they would be the sort of average experience of that particular batch of vehicles. (Sir *William Douglas*.) Of that particular batch—that particular model or that particular type.

4584. The dealer actually disposes of them eventually?—The dealer disposes of them, as I understand it, to licensed holders, licensed by the Ministry of War Transport as essential users.

4585. If the dealer takes, say, 20 vehicles at whatever the price for the 1938 model is, and we will suppose that your average price for repairs is £50, does that mean that he has to chance it whether, amongst the vehicles he has to repair, some cost more than £50 and some less?—That is so.

4586. That is his risk?—Yes.

Chairman.

4587. We pass to paragraph 75: "Eastern Group Supply Council." In the last line but two of his paragraph Sir *Gilbert* states: "Some certificates have not yet been received." Could you say whether they have now been received?—I do not think they have yet been received.

4588. Is this Eastern Group Supply Council still continuing?—The Council itself is in a state of suspended animation.

4589. Are there any questions on paragraph 75? We pass to paragraph 76: "Expenditure in North America. Capital Assistance." Could you tell us what is the amount of this capital assistance?—The total was 101,000,000 dollars.

4590. At the conclusion of his paragraph Sir *Gilbert* says: "Nearly all the remaining property is being used on contracts for the two Governments, and the arrangements in regard to disposal or retention are at present under consideration." (Mr. *Blunt*.) The same point came up with the Ministry of Aircraft Production, and I mentioned that we were just letting that ride for the moment.

4591. For the same reason?—Yes.

4592. Are there any questions on paragraph 76? We pass to paragraph 77: "Store Accounts. General." Sir *Gilbert* says: "A test examination has been made by my officers of the store accounts of the Royal Ordnance Factories and certain other storeholding establishments of the Ministry. At one depot for motor spares, which was largely stocked from two other depots closed down, no formal accounts were available to my officers for the period from August, 1942, when the depot was formed, to March, 1943, when a complete stocktaking was carried out." Has the position improved at all with regard to those formal accounts being available? (Sir *William Douglas*.) Yes. On paragraph 77 a complete stocktaking was carried out. The firm in charge of this depot at Park

4 July, 1944.] Sir WILLIAM DOUGLAS, K.C.B., K.B.E., [Continued.
Mr. F. H. BEDFORD, Mr. H. C. GORDON, C.B., and Mr. H. O. TROUNCER.

Royal—which is the one referred to—do know now where they stand.

4593. Are there any questions on paragraph 77? We pass to paragraph 78: "Royal Ordnance Factories." In the last two lines Sir Gilbert states: "Stocktaking arrangements have since been systematised and a code of accounting instructions is in course of preparation." Is it finished?—Yes.

Chairman.] Are there any questions on paragraph 78?

Mr. Douglas.

4594. Was there no code of accounting instructions until quite recently?—The question related to a detailed code of instructions relating to store accountancy, and that was not in existence until recently. It was not codified. The various Royal Ordnance Factories we are referring to here had their own store instructions and manuals, but they had not been codified into one, single, comprehensive common type of account.

4595. This only means that you have been getting uniformity as between one and another?—We have been getting two things: we have been getting uniformity and we have been getting a greater measure of control.

Chairman.

4596. Are there any further questions on paragraph 78? We pass to paragraph 79: "Stores issued to Contractors." Apparently there was a breakdown here with regard to the accounting control and there is mention of certain remedial measures. Could you tell us about the remedial measures and say whether they are justifying hopes?—This, as you may imagine, has been an extremely difficult matter for the Ministry from the very beginning, in view of the magnitude of those issues to contractors. In the early days we sought to control it in two ways—in the production branches which had to keep certain records for their own purposes, as we have seen earlier to-day, and also in the accounts section, which maintains records, but it became apparent that it was going to be exceedingly difficult to get a reconciliation of those documents and that in fact the task of the accountants was impossible. We have, therefore, in recent times made up our minds that we must rely in future upon one set of records, and we have chosen the production records as being the best, and we are endeavouring to see that they are as orderly and as good as possible.

4597. As far as you can see your hopes are going to be justified?—An accounting officer is never terribly optimistic, but we have reasonable hopes.

Chairman.] Are there any questions on paragraph 79?

Mr. Douglas.

4598. So that your production records are not capable of being verified by comparison

with the financial records?—That would be so.

Mr. Douglas.] That is very unsatisfactory, is it not?

Sir Irving Albery.

4599. Sir Gilbert says: "In paragraph 75 of my last Report I drew attention to certain unsatisfactory features in the accounting control maintained over the issue of stores to contractors." I take it that was set up specially for this purpose?—The accountants of the Ministry are in very close touch with the production departments in the Ministry, and they must work together very closely, and I think they were endeavouring to set up a record of their own on a monetary basis, separately and independently of those which were kept by the production departments. (Mr. Gordon.) It was the gathering of the task of accounting for these free issues into a single accounting branch that was attempted, and the great volume and constant movement were really beyond their powers, and the attempt definitely broke down.

Chairman.

4600. We pass to paragraph 80: "British Ministry of Supply Mission in North America." In the last sub-paragraph Sir Gilbert states: "Store accounting for over-sea shipments from North America has recently been modified and the receipt of the shipping documents is accepted as clearing the Mission's records." Could you please tell us about that?—(Sir William Douglas.) This is really a question of the discontinuance of the issue vouchers for stores shipped from North America to this country. In the early days the accountants tried to get complete reconciliation of the documents for the goods sent from North America and received here. Loss of documents *en route*, diversion of ships *en route*, unavoidable delays in preparing the issue vouchers at the other side, when the Ministry of War Transport had to call forward a cargo very quickly, and in many cases, in the way things happen, an absence of the documentary link, made it impracticable to maintain 100 per cent. reconciliation of the two sets of documents, and we have, therefore, now tried to simplify the matter very considerably.

4601. Have the Treasury any comment to make on this?—(Mr. Jones.) Difficulties were experienced not only by the Ministry of Supply but also by the Ministry of Aircraft Production in this matter, and the Treasury agreed, primarily in order to save accounting staff on attempting this reconciliation, to this simplified system to which Sir William has referred.

Chairman.

4602. Are there any questions on paragraph 80? We pass to the figures which are on pages 33 to 36. On page 34, the

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last item of all is a loss of £1,000—the loss of precious metals at a Royal Ordnance Factory. Could you tell us about that?—(Mr. Gordon.) This refers to a loss of platinum rhodium gauze, which forms the catalyst in nitric acid plant, at the Royal Ordnance Factory, Bishopton. It was discovered that the office had been forcibly entered and the gauzes removed. The factory police were informed, and the assistance of the County Constabulary was sought. The County police were of opinion that the theft was committed out of spite. Instructions have been issued that gauzes must not be left in the building at night but must be deposited in the strong room.

4603. On the following page, two-thirds of the way down I see: "The amount due to the Department in respect of loans outstanding at 31st March, 1943, was £1,385,293 14s. 8d." Could you tell us in what circumstances these large loans are made and what security you have for them?—Yes. We only make loans to firms as a last resort, when the financial position of the firm is such that they cannot get the money requisite for carrying on from any normal source like the Bank. But, of course, we are not interested unless the production is absolutely vital to us. If we must see that the firm carries on we are driven to make loans.

4604. And what is the security?—We get such security as we can. It varies very much in the different cases. Very often you can get a charge on assets, but in some cases you cannot.

4605. Have you had any misfortune from that point of view, that you cannot get assets?—No, we have had no misfortunes. We have not had any cases where, having lent money and then taken some sort of

control of the firm, we have not got the firm on to its feet. But it is a misfortune in one way, that this money which we have lent is "rocky." It is not a good loan because although the firm is carrying on at a profit, it will be a question of what happens to our loan when war contracts cease.

(Secret Note by the Accounting Officer showing details of Expenditure.)

Chairman.] There are the secret figures on which I have no questions. Has any Member any questions, either on the secret figures or on the Civil Appropriation Account?

Mr. Douglas.

4606. Does this item of loans outstanding represent a loss or merely a debt at the present moment?—A debt.

4607. Have you so far actually incurred any losses under this head?—No.

4608. You are merely anticipating them?—Yes.

Sir Irving Albery.

4609. Can you say whether in some cases, when you have made loans, the money or part of the money has been used by the firm to pay taxation due to the Exchequer?—I think that is possible. In a case where you are making the loan because the firm has got into a very bad financial position and owes money, it probably has used money that should have been used to pay taxes, and when we come along and make a loan, indirectly our money is used for that purpose.

Chairman.] Are there any further questions? May I take it that the Account is approved?—(Agreed.) I think, Sir William, that concludes your evidence for to-day.

(Sir William Douglas, Mr. Bedford, Mr. Trouncer, and Mr. Gordon withdrew.)

VOTE OF CREDIT APPROPRIATION ACCOUNT, 1942.
COTTON BUYING COMMISSION.

Chairman.

4610. Will Members turn to the Vote of Credit Appropriation Account, 1942, Service 55, administered by the Cotton Buying Commission. Could the Treasury give us any idea as to the outcome of the British Government Cotton Commission in Egypt?—(Mr. Blunt.) It looks as if there will be

a small profit of the order of £50,000 or £60,000. That is on this particular Commission. There is a later Commission, as the Committee probably know, which they will be hearing about on Thursday. This is the 1940 Commission, and on that, as I say, there is a small profit.

Chairman.] Are there any questions?

CIVIL APPROPRIATION ACCOUNTS, 1942.

CLASS VI.

VOTE 9.

FORESTRY COMMISSION.

(On this Account no questions were asked.)

4 July, 1944.]

[Continued.]

TRADING ACCOUNTS AND BALANCE SHEETS, 1942.

FORESTRY COMMISSION ACCOUNTS.

*(On these Accounts no questions were asked.)**(The Witnesses withdrew.)**(Adjourned till Thursday next at 2.30 p.m.)*

THURSDAY, 6TH JULY, 1944.

Members present:

SIR ASSHETON POWNALL in the Chair.

Sir Irving Albery.

Mr. Benson.

Sir Edmund Brocklebank.

Sir John Mellor.

Mr. Pickthorn.

Sir Frank Sanderson.

Mr. Touche.

Sir GILBERT UPCOTT, K.C.B., Mr. D. F. C. BLUNT, Mr. C. E. I. JONES, and
Mr. L. N. HELSBY, called in and examined.

TREASURY MINUTE ON PARAGRAPHS 48 TO 51 AND 58 TO 59 OF THE
REPORT OF THE COMMITTEE OF PUBLIC ACCOUNTS, 1943.

Sir WILLIAM DOUGLAS, K.C.B., K.B.E., Mr. H. C. GORDON, C.B., Mr. H. J. HUTCHINSON,
C.B., C.B.E., and Mr. R. M. SHONE, called in and examined.

Chairman.

4611. We begin to-day with the Treasury Minute on paragraphs 48 to 51 of our Report of last year, dealing with the purchase and distribution of raw cotton. I see, Sir William, in paragraph 50 of our Report of last year there is mention that the Comptroller and Auditor General had information from you that there would be an appreciable saving of £150,000 in the remuneration of these cotton brokers in the past year, and there was expected to be a further reduction of £50,000 in the then current year. Could you tell us to what extent those reductions have materialised?—(Sir William Douglas.) Yes. The Committee will remember the estimates which I gave last year were: Commission, £325,000—

4612. £365,000 was the remuneration paid direct, I see, in the paragraph?—I was going to give you our estimates for the year ended March, 1944. The total sum I was going to give, if I might, brings it all together. The estimates were: Commission, £325,000; the spinners' brokerage, £102,000; and the sellers' commission, £17,000—making a total of £444,000. That is how we estimated the remuneration would work out for the year ended March, 1944. The way in which it has worked out in fact has been: Commission, £407,000; spinners' brokerage, £123,000; and sellers' commission, £7,000—making a total of £537,000. The surplus which we estimated last year would accrue to the cotton merchants as the result of this remuneration was £135,000. In fact the actual surplus has turned out to be £271,000, a difference of £136,000.

4613. I am afraid that we are a little at cross purposes. I am going on this paragraph 50, which shows a total of £495,000, as compared with £645,000, a reduction of £150,000; then in the following year—that is this year—it was expected there would be a reduction of £50,000. I cannot quite relate your figures to those?—I was comparing our estimate for the year ended March, 1944, with the actual results for the year ended March, 1944. That figure of £495,000 is the estimate given for the year 1942-43.

4614. What was the actual expenditure?—The revised figure was £510,000.

4615. It was £510,000 instead of £495,000?—Yes.

4616. Then will you give us the figures for this present year?—The figures for the present year are those which I have just given to the Committee.

4617. A further reduction would have brought the figure down to £445,000. What was the actual total?—The actual total was £537,000.

4618. In lieu of £445,000, which we understood from you last year would be the figure?—That was the estimate.

4619. Quite.—Actually I think we called it £444,000.

4620. Could you tell us why there was this increase in the year under review of £90,000 more than your estimate?—We were fortunate enough to receive in this country more cotton than we had anticipated. That was the reason.

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Sir WILLIAM DOUGLAS, K.C.B., K.B.E., [Continued.
Mr. H. C. GORDON, C.B., Mr. H. J. HUTCHINSON, C.B., C.B.E., and Mr. R. M. SHONE.

4621. The increase of cotton imports was responsible for this increase of £90,000?—Yes—shipping imports were very much higher than we had expected.

4622. How many merchant firms were employed?—There were about 240 principals.

4623. That is, individuals?—The principals of the firms. I am not sure if that may be taken to be the same as the number of the firms.

4624. About 240 firms? Also could you tell us what actual services they were rendering to the community from the cotton brokerage point of view?—Apart from the taking of *del credere* risk which we mentioned last time the services are for the most part clerical.

4625. It averages on that figure £2,000 apiece, or something of that sort. I am dividing £500,000 by 240.—That figure is a gross figure. There are expenses to come off that.

4626. On the gross receipts it would be about £1,000?—The actual surplus, for the year 1943-4 is about £271,000, which divided amongst 240 principals, gives you just over £1,000.

4627. Yes—about £1,200?—Yes. I want to make it quite clear that they get that in addition to the expenses of the office. The surplus is over and above the actual expenses which are shown as a reduction from the receipts.

4628. Have the Treasury any comments to make?—(Mr. Blunt.) No.

[Chairman.] Are there any questions on the Treasury Minute on paragraphs 48 to 51 of our Report of last year?

Sir Irving Albery.

4629. I think when we asked about this last time the question of double commission was raised, was it not? They were getting commission, as far as I remember, not only on buying cotton, but the same firms were also getting commission on selling cotton?—(Sir William Douglas.) To a very limited extent. It came to a very small amount, if I remember rightly.

4630. Does that still continue?—Mr. Hutchinson.) Yes. We have not changed the contract. But both commissions are included in the figures.

4631. The firm gets a commission for buying cotton and it gets a commission for selling the same cotton?—Yes. The commission on buying cotton is very small. It comes to about £7,000 altogether, which they get as agents of Indian sellers.

4632. Is not that rather against ordinary commercial principles?—It is said to have been the principles which were adopted in peacetime in Lancashire.

4633. You also, Sir William, said that you were fortunate in getting a lot more cotton landed. I take it that put the commissions up, because, having been landed here, you were able to sell more, because the buying is all done overseas?—Exactly. It is based upon the selling here.

Sir Frank Sanderson.

4634. The commission which is payable is really the net profit to the company who are dealing in cotton—the cotton brokers. You stated that it was payable in excess of their administrative charges; that is the running of the offices. Can you state whether there is any control at all on their administrative costs?—(Sir William Douglas.) On the first point might I point out that the commission represents the gross, not the net.

4635. I thought you said it was the net amount?—From the total gross receipts one has to take the expenses, arriving, therefore, at the net profit, if one likes to put it in that way.

4636. In other words, the greater the cost of administration the lower would be the net profit divisible?—Yes—the net profits which they would have.

Mr. Benson.

4637. You said, I think, there were 231 principals?—240.

4638. Roughly, what staff do they employ?—I am afraid I cannot tell you offhand what is the total staff they have.

4639. Have you any idea at all as to the expenses—what their outgoings are?—I can give you the expenses. The figure was £266,000 in the year 1943/44.

4640. That is the expenses of these firms?—Yes.

4641. And the difference is the profit of the firms?—Yes, that is right.

4642. That is just over £1,000 apiece, is it not?—Yes.

4643. Do they perform any skilled function?—Yes. We must be perfectly frank with the Committee. They do not render the full services which cotton merchants rendered before the war, but there is still, I am informed, a certain amount of skilled service which they do perform, but I myself do not rate them as being very great. But there is an element of it there, as well as the clerical work which I mentioned earlier that they did.

4644. Is there any function they perform that could not be performed by the Cotton Control Board?—I think it would be perfectly fair to say that, as things are, the Cotton Control could do those functions.

4645. And considerably more economically?—It is difficult to say whether a Government Department does work more economically.

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Sir WILLIAM DOUGLAS, K.C.B., K.B.E., [Continued.
Mr. H. C. GORDON, C.B., Mr. H. J. HUTCHINSON, C.B., C.B.E., and Mr. R. M. SHONE.

4646. I was thinking of this, that you would have it under one control instead of being split up between 240 different firms, each with its office, each with its staff—the whole thing not duplicated but immensely multiplied?—Yes, I see that.

4647. It really means that you are carrying on almost as though it were an act of charity to keep these firms in existence?—I think I would prefer to put it that they do render certain services, but there is the incidental advantage to the country, if one puts it that way, that there is an organisation being preserved in being. (Mr. *Blunt*.) I should like to say that I do not think the Treasury accepted it as an act of charity at all. The Treasury accepted it as being the most convenient way of doing it.

4648. Convenient in what respect? They do not perform any very skilled function. Secondly, it could be done, apparently, by the Cotton Control Board. I do not think Sir William would take the line that the Cotton Control Board could not run it economically?—The matter came to the Treasury two years ago, when the man-power situation was somewhat different. I think the Ministry did right then. They could not very well take it on at that time. It may be that circumstances are different now and that they could take it on.

4649. It is being done by 240 firms and their staffs. The man-power is there. The question whether it should be concentrated or not is a matter of staff?—Whether you could mobilise it is another matter.

4650. That was not done?—It was not done at that time. Two years ago we accepted the Ministry's representations that it could not be done in that way. (Sir *William Douglas*.) We made those representations to the Treasury. I was being very frank and fair with the Committee in saying that if we were now asked to try to organise it differently we could do so. If we were asked whether the Control could undertake it, I think, exercising planning and ingenuity, we could, perhaps, do that. (Mr. *Hutchinson*.) It was felt that it could not do it so well as the merchants would do it.

4651. That is what I was asking, whether the merchants rendered any specifically skilled service, and I thought you said it was not very great?—(Sir *William Douglas*.) I do not want to overstate the point. They do render some skilled services, but I would not put them as being of anything like the order of the services they rendered before the war.

Sir *Frank Sanderson*.

4652. On that point, was not this organisation brought into force primarily with the object of keeping a skeleton organisation of this great industry for post-war purposes?—(Mr. *Blunt*.) No. The

Treasury did not accept it for that purpose. The Treasury line has always been that we would not keep an organisation in being merely to do that, but that it had to render a useful service; and it was represented to us by the Ministry that this was a useful purpose which could best be done in that way at that time. (Mr. *Hutchinson*.) We were satisfied that although the Control could have taken on the work, it would not have been likely to do it so satisfactorily from the point of view of the spinners, and, consequently, it was worth leaving it with the industry, even though it cost rather more money.

Sir *Irving Albery*.

4653. I am not quite clear about this. I quite definitely understood at past meetings of this Committee that we had been informed that certain industries (if it was not to do with the cotton industry it was to do with one of the other industries—Mincing Lane, or something) were kept together because it was considered to be in the national interests that they should not be completely broken up, because they would be wanted again, and there they were, employed to do certain functions in a manner which would keep them in existence?—(Mr. *Blunt*.) Perhaps you are thinking of Marine Insurance.

Chairman.

4654. And the Baltic, I think?—I am afraid I have not any personal recollection of the Baltic. But you may be thinking of Marine Insurance, where, not so much in order to keep an organisation together, but to keep the asset of Marine Insurance together, so that it should not go abroad, we left a certain amount of insurance with the market.

Sir *Irving Albery*.

4655. Should I be right in assuming from what has been said to-day that this particular arrangement has not been made in any way with the idea of preserving the organisation?—That is so, as regards the particular one we are discussing now. (Mr. *Hutchinson*.) I think the position is that where it is possible to use the existing channels of trade economically one uses them, rather than doing the work bureaucratically. (Mr. *Blunt*.) I agree entirely with that.

4656. When you say using the existing channels of trade economically, usually that would be understood to mean where they can be used as cheaply as any other?—(Mr. *Hutchinson*.) Broadly as cheaply, when you take account of their skill and ability which may enable them to do the work rather better, as was considered two years ago in the case of the cotton merchants. They could do the work in a more satisfactory way than it could be done by the Control, although the Control certainly would have done it rather more

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Sir WILLIAM DOUGLAS, K.C.B., K.B.E., [Continued.
Mr. H. C. GORDON, C.B., Mr. H. J. HUTCHINSON, C.B., C.B.E., and Mr. R. M. SHONE.

cheaply. You balance the economy in money with the economy in service.

Sir Frank Sanderson.

4657. On that I would like to say I fully support what Sir Irving has just said. I do not think, like myself, he is criticising this scheme, but we wish to know quite specifically whether it is in fact on the same basis as, let us say, the organisation for dealing with grain control, which is something very similar. As I understand it that was put into force in order to keep together a very important industry for the post-war period. It does seem to me that the Cotton Control is under similar conditions, and whilst it may not be wholly or primarily done for that purpose, it is to a great extent in order to keep together a great organisation?—(Sir William Douglas.) If I may say so that is exactly the point. It is whether it is wholly or primarily with that object. As I said earlier on, it had that happy incidental result.

Sir John Mellor.

4658. Would it not have been difficult to do this work at all without the benefit of the experience of these firms?—In the early days it would have been difficult to do it. (Mr. Blunt.) May I refer to what Mr. Lee said last year. He gave a long answer on this. He told the Committee that the Ministry "said quite frankly that it would be, they thought, physically possible for the Control themselves to undertake the internal distribution of cotton and such purchasing of cotton, apart from the purchases in India, as remained to be done." "They added that they thought that in terms only of money, the cost of arranging the distribution of cotton by the Cotton Control itself would be substantially cheaper than distribution through merchants, but they added that, in their view, the money cost of this work should not be taken as in any way the decisive factor in this field."

Chairman.

4659. We pass to the Treasury Minute on paragraphs 58 and 59 of our Report of last year in regard to Timber Merchants' remuneration. The Treasury in their Minute say: "My Lords understand that a review of the whole position is in progress and that, while it may not be thought necessary or practicable to investigate the profits made by the large number of smaller firms engaged in about one-half of the turnover in view of the shortage of accountants and the small average income of the firms in question, returns are being called for from the four large firms responsible for the other half of the turnover." Could you tell us the result of those inquiries?—(Sir William Douglas.) There are two sets of inquiries that we have set on foot. The first inquiry was to ascertain, so far as we could, the effect of the ceilings on the com-

missions which I mentioned to the Committee last year. That inquiry is complete and we shall be able to give the Committee such information as they may desire to have about it. The second inquiry is to get some information as to the overall position of this industry, and there we are still in the middle of our inquiries and are not able to give results.

4660. Could you give us the information you gleaned as the result of your first inquiry?—If you remember as regards ceilings the discount on timber sold to merchants in the case of soft wood was subject to a ceiling of £8 per standard on aero spruce. In connection with hard wood there was a ceiling of 2s. a cubic foot. The imposition of these ceilings has resulted in an average remuneration in 1942-43 and 1943-44 of 5 per cent. for the distribution of aero spruce, and 7.8 per cent. on sales in 1943-44 for the four large firms who are distributing hard wood and aero spruce combined.

4661. Did you say two firms out of four or all four?—All four in this particular case.

4662. The Treasury in their Minute go on to say: "It is understood, also, that the Ministry may wish to reconsider in the light of these returns the question of some differentiation in the rates of remuneration as between the larger and the smaller firms." Has any action been taken with regard to that?—We have thought about it very carefully, in view of the Committee's opinion about this matter, and we have come to the conclusion that it is a very difficult thing to do. The differential could be worked in two ways: It might be done by graded rates, varying inversely with the size of the order, or it might be done by rates diminishing with the increase in the individual distributor's total turnover. If it were to vary with the size of an individual transaction it would be extremely complicated, and the intention might easily be avoided by the merchant keeping to small parcels all the time, and, therefore, earning the higher rate. If we had to go by the turnover of each firm we should, as I think the Committee will realise get into very great administrative difficulties. But in any case, the industry itself has a pooling scheme which has the effect of, in some respects, equalising the returns to the smaller firms as compared with those to the larger firms; it enables them to keep in being, in other words, although they have a smaller turnover.

Chairman.] Are there any questions on the Treasury Minute on paragraphs 58 and 59?

Mr. Benson.

4663. Are those figures of 5.2 per cent. and 7.8 per cent. for purely clerical services, or do they involve any handling?—It was 5 per cent., not 5.2 per cent.

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Sir WILLIAM DOUGLAS, K.C.B., K.B.E., [Continued.
Mr. H. C. GORDON, C.B., Mr. H. J. HUTCHINSON, C.B., C.B.E., and Mr. R. M. SHONE.

4664. 5 per cent. and 7.8 per cent?—Yes. Those services rendered by those merchants represent not merely clerical work, but the ordinary services which a timber merchant renders to his customer in the shape of inspection of the goods and the selection of the goods.

4665. The receipt and delivery of actual physical goods? (Mr. Hutchinson.) They do not include the transport but they do include selecting the goods, picking out the

right ones and arranging for their delivery to the customer.

4666. In many cases a timber merchant will hold stocks?—They do not include the holding of the stocks.

4667. The merchant merely examines the timber?—In so far as he does what is called wharfing—which is holding the stocks—he is dealt with separately.

Chairman. Are there any further questions on the Treasury Minute on paragraphs 58 and 59 of our Report of 1943?

VOTE OF CREDIT APPROPRIATION ACCOUNT, 1942.

MINISTRY OF SUPPLY.

Chairman.

4668. Will Members turn to the Vote of Credit Appropriation Account, 1942. We take first the Report of the Comptroller and Auditor General on page xviii, paragraph 47: "Anglo-Egyptian Cotton Commission." At the end of the first sub-paragraph the Comptroller and Auditor General states: "In the year ended 31st March, 1943, the Commission made substantial sales, largely to the Ministry of Supply." Could you tell us the amount of those sales, Sir William? (Sir William Douglas.) According to our information the sales, up to the 31st December, 1943, were about 718,000 bales.

4669. And the cash?—I have not a cash equivalent of that.

4670. The advance is given in terms of cash and, therefore, bales does not tell us very much, does it?—I appreciate that.

4671. You do not know whether it is £8, £10 or £12 a bale?—No.

4672. In the last sub-paragraph of paragraph 47 Sir Gilbert states: "In the period 1st April to 31st December, 1943, the Commission had repaid the balance of the Ministry's advances, but it is not known whether all the cotton had been sold by 31st December, 1943." Do you happen to know the position now?—It had nearly all been sold, because the stocks on that date were only about 95,000, whereas, as I said earlier, the sales had been about 718,000.

4673. So just over 10 per cent. remained?—Yes.

Chairman.] Are there any questions on paragraph 47?

Mr. Benson.

4674. I see in the second sub-paragraph the total purchases were £19,000,000 odd, and the receipts from sales were £8,000,000. Does that mean that we sold at a loss? (Mr. Hutchinson.) No, it means that a great deal of the cotton had not at that date been sold, but it now has been sold, and the figures will be quite different.

4675. Do you know the purchase and sale prices?—No, I have not got them, but they were such as to cover cost and yield probably a small profit.

4676. How do Egyptian cotton prices compare with American?—The prices in Egypt now are very much higher than those at which the Commission bought two years ago, but they are not higher than American prices proportionately to the value of the goods.

4677. Does that mean that the advance in Egyptian is no greater a percentage than the advance in American?—It is no greater.

Sir Irving Albery.

4678. They are different kinds of cotton?—They are different kinds of cotton, but you have to compare them—

Mr. Benson.] The Egyptian cotton price is always quoted as "good" and "middling."

Sir Frank Sanderson.] Egyptian cotton is always quoted in an entirely separate compartment from American.

Mr. Benson.

4679. All American cotton is quoted middle price, and there are variations in quality either side. — Proportionately, American prices have risen quite as much as Egyptian.

4680. We are the only buyer, are we not?—No, the United States buys some, and India.

4681. I have it at the back of my mind that we bought the whole Egyptian crop, or guaranteed to buy the whole crop. (Sir Gilbert Upcott.) In 1940. (Mr. Hutchinson.) The Commission bought all the crop that was offered, as a Commission, not as the British Government. It then has to sell it, and it sells it to the various users, of which we are one

4682. Is the Commission still buying?—No, that has finished.

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[Continued.]

Sir John Mellor.

4683. I see in the third sub-paragraph Sir Gilbert states: "The Commission's accounts are audited by professional accountants". Is that a British firm in Egypt?—Yes. (Sir Gilbert Upcott.) That is Price Waterhouse and Company.

Chairman.

4684. Are there any further questions on paragraph 47? We pass to paragraph 48—"Service 52. Raw Materials, etc. Textile Fibres (i) Wool from Overseas." Sir Gilbert states: "Further expenditure amounting to £81,000,000 has been incurred on the purchase of wool from Australia, New Zealand and South Africa. In view of the representations that costs of production had risen, the prices of Dominion wool have been increased by 15 per cent. for the 1942/43 clip." Could you tell us to what extent the costs of production had risen?—(Sir William Douglas.) We were informed by the Australian Government that they had risen by about 15 per cent.

4685. And the price of Dominion wool was increased by 15 per cent. in consequence?—Yes, accordingly.

4686. In the next sub-paragraph there is mention of the fact that the price of Indian wool had also been increased to 15 per cent. because the prices of Dominion wool had been increased. I could not, I am afraid, quite see the reason. I rather envisaged the position that if Dominion wool had cost less, would the Indians automatically have agreed to less being given for their wool?—(Mr. Hutchinson.) The position is that the Indian Government helped us by imposing an export control on Indian wool, so that we did not have to compete for it in the open market, in which case the price must have been substantially higher, and we fixed the price on a level with wool coming from other parts of the Empire. When we raised the price to the other parts of the Empire it was thought only fair that we should raise it to India as well.

4687. Whether or not their costs had increased?—Yes.

4688. Have the Treasury any comment to make on this?—(Mr. Blunt.) It is as Mr. Hutchinson has said. It is really a matter of policy.

Chairman.] Are there any questions?

Sir Irving Albery.

4689. On the same point, when Sir Gilbert speaks, in the second sub-paragraph, of the increase not being incorporated in control prices "in order to avoid disturbance of stabilised price levels", does that mean that the price of the wool in India has remained the same, and that

it is only the wool exported to this country on which a higher price is paid to shippers?—(Mr. Hutchinson.) No, that must refer to price levels of the articles in this country into which the wool is made. Indian wool is used for making blankets and industrial felts, and in order to avoid raising the price of blankets for the Army and utility purposes the price which the spinner pays for the wool has not been increased, but the addition made to the price has been paid in the form, really, of a subsidy to the blankets.

4690. I do not quite understand that, taken in conjunction with the first sub-paragraph. Is there a subsidy on the other wool from New Zealand and South Africa?—New Zealand and Australian wool is, of course, equally sold to the home market at the original price.

4691. Is there also a subsidy there?—Yes, there is a subsidy to the user.

4692. That is not mentioned.—We have maintained the price of wool for use in this country at the level at which it was before these increases were made.

4693. May I put it in this way? In these paragraphs it is shown that £100,000 is the cost of the Indian subsidy, and over £1,000,000 is the cost of the British subsidy. Can you say what the cost of the subsidy for the New Zealand, Australian and South African wool is?—I have not the figures. You will appreciate it is a subsidy to the production of the finished article here. (Sir Gilbert Upcott.) I think the main difference, which I am not quite sure is clear to you, is that in the case of the New Zealand, Australian and South African wool the Government is trading in it.

4694. The Government are buying it?—The Government buys it and sells it.

4695. And in the other case it is bought —?—On private account.

Sir Irving Albery.] That explains it.

Sir Frank Sanderson.

4696. Do you regard the word "subsidy" as being somewhat misleading? Should it not rather be described as a 15 per cent. increase on the price paid to the grower?—(Sir William Douglas.) I should have preferred to put it as paid to the shippers as part of the price.

Chairman.] It is Sir Gilbert's phraseology, not the Witness's. The Witness is not responsible for it.

Sir Frank Sanderson.

4697. The amount of Indian wool is comparatively insignificant, is it not?—About 4 per cent.

Mr. Benson.

4698. Why is the subsidy paid to the shipper? Does the shipper pass that on

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to the Indian producer?—(Mr. Hutchinson.) May I put it in this way? The word "subsidy" is not ours, as you will appreciate.

4699. Why was an increase in price allowed?—The increase in price is given to the shipper from India, the shipper being the Indian exporter. He is paid in two ways. First of all, the price at which he is allowed to sell his wool in this country is left where it was, and the increase of 15 per cent. which was given him is paid by the British Government through his agents here, so that he gets the increased price, but the price comes partly from the British spinner and partly from the British Government, the purpose of that being to avoid raising the price of the finished blankets in this country.

4700.—When you say the shipper—?—The shipper is an Indian exporter.

4701. What about the person at this end?—He gets nothing.

4702. We have a larger number of shippers who import in this country?—They get nothing.

4703. It is the Indian exporter, then, who gets £100,000. Was there any reason for giving him an increase in price unless you knew the price was to be passed on to the farmer?—We have to leave that to the operation of competition in India. It is from the shipper that we buy.

Sir Frank Sanderson.] The Indian exporter would not get this £100,000. It is incorrect to say he would. The £100,000 goes to the grower—not to the exporter or to the merchant.

Mr. Benson.

4704. Sir Frank may be right, but the Witness has not committed himself so far?—We buy from exporters in India who collect the wool from the farmers. We pay our price to the person from whom we buy, who is the Indian exporter, and it is left to the forces of competition or any steps the Indian Government might choose to take to see that the price gets back to the grower.

4705. It is a bit haphazard, is it not? I believe equity was the motive behind this increase. I do not quite see where equity comes in, in giving a mere handler, a mere merchant an increase in price unless you do take steps to see that it goes back to the producer?—We are not in touch with the farmers of India, and we could not pay them. (Sir William Douglas.) As these are private trade transactions, as I understand the position, the exporters or ship-

pers in India would be working on the normal competitive margins, and, therefore, all the growers and all the handlers in India will expect to share in the same way as they would if there had been no intervention of any kind by the Government in these increased prices.

Mr. Benson. That is a very nice and pious hope. It may or may not be fulfilled. Are we taking paragraph 49?

Chairman.] Yes.

Mr. Benson.

4706. Might I ask the Treasury this? Here is another subsidy of £1,000,000 to the English farmer? (Mr. Blunt.) Yes.

Mr. Benson.] Have you any idea what the total subsidies, direct and indirect, that go to the English farmer amount to per annum?

Chairman.

4707. That is a very broad question.—I am not an agricultural expert. I could not produce the figure out of my head, but I could get it for you.

Chairman.] I think I should save it for Treasury day, Mr. Benson.

Mr. Benson.

4708. I bow to your ruling: I would like on some day the global figure of subsidies.—Just to the farmer?

Mr. Benson.] Yes.

Chairman.] The Permanent Secretary to the Treasury is coming on Tuesday. Perhaps you will warn him, Mr. Blunt, that Mr. Benson will ask that question. Are there any further questions?

Sir John Mellor.

4709. With regard to the subsidy of £100,000 mentioned in paragraph 48, that is really giving the Indian exporter compensation for a restricted market. Is that right?—(Mr. Hutchinson.) It is increasing the price to India in the same way as we have increased it to other parts of the Empire, bearing in mind that the Indian Government have limited the export in such a way as to direct the wool we need to this country.

4710. As I say, it is compensation for a restricted market?—Yes.

4711. Which was secured by the action of the Indian Government?—Yes, that is right.

4712. Normally, those exporters would have the whole market at their disposal, and therefore it is quite correct that this money should be paid to them?—Yes.

TREASURY MINUTE ON PARAGRAPHS 52 TO 57 OF THE REPORT OF THE COMMITTEE OF PUBLIC ACCOUNTS, 1943.

Chairman.

4715. We pass to the Treasury Minute on paragraphs 52 to 57 of our Report of last year. These come up on paragraphs

50 to 58 of the Report of the Comptroller and Auditor General in the Vote of Credit Appropriation Account. We will start with paragraph 50 of the Report of the Comp-

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troller and Auditor General in the Vote of Credit Appropriation Account. There is mention in the fourth line that: "Summaries of further trading results are not yet available in the case of the heavy steel industry." Could you tell us anything about their availability? (Sir William Douglas.) Yes. We have them now.

4714. Could you tell us what they are in that case?—The Committee will remember last year we gave figures of the earnings on capital employed for the year 1941-42, and the percentage rate on capital in the heavy steel industry was 9.8 per cent. For the year 1942-43 it was 9.5 per cent. For what we called the fringe products last year we gave a figure of 15.7 per cent. for the year 1941-42. For the year 1942-43 the figure is 13.5 per cent. Those figures give together in the year 1941-42, for the industry as a whole, a percentage return on capital employed of 11.8 per cent. The corresponding figure for the year 1942-43 is 11.1 per cent.

4715. Would you refresh our memories as to the meaning of the term "fringe"?—The lighter products, such as wire, wire rope and cold drawn tubes.

4716. The lighter products?—That is so. They are specially referred to in this Report again. They were specially referred to last year in the Report. Paragraphs 51, 52, 53 and 54 relate to the lighter products. (Sir Gilbert Upcott.) My officers will no doubt have an opportunity of examining these figures? (Sir William Douglas.) Certainly.

Chairman.] Are there any questions on paragraph 50?

Mr. Benson.

4717. These figures, 9.8 per cent. and 9.5 per cent., are for the production of ordinary steel, are they not?—(Sir William Douglas.) The heavy steel products.

4718. Those are the average figures for the whole trade?—Yes.

4719. Can you break those down and give us some indication as to what profits the highly-efficient firms are making and what profits the other end of the industry was making?—(Mr. Shone.) The maximum figure earned is about 12 per cent., and it runs down to a minimum figure of the order of 3 per cent. or 4 per cent.

4720. There is no greater variation between the highly efficient and the less efficient?—There is not a great variation in the heavy steel trade.

4721. Is that variation in any way reduced by internal arrangements, such as allowances on purchasing?—No, that does not affect the position. The profits of the more efficient firms are rigorously limited under the arrangements we have in operation.

4722. There is a pooling arrangement for profits, is there not?—(Sir Gilbert Upcott.) That is governed by the Prices Fund which is referred to in paragraph 56.

4723. I am not sure how it works. Will it in any way modify these profits? Or, to put it in another way: Have you the relative costs of the individual firms in the industry?—(Mr. Shone.) We have the costs as well as the profits.

4724. Do they show a greater variation? They would not show a greater variation than the proportion between 4 per cent. up to 12 per cent.

4725. They would not be three times?—No.

4726. It was rather a badly phrased question. Can you give us some indication as to the variation in costs?—I think one might say that the variation in costs would be rather greater than this, and that, to some extent, the disparity is reduced by the pooling effects of the Prices Fund Scheme.

4727. That is what I wanted to get at. Your costs would be best given in figures of price per ton, would they not?—Yes.

4728. I wonder if we might have, not in the names of firms, but a group of prices of the high, middle and lower range of costs? Could you put it in a paper?—I would not like to give a figure offhand there without looking it up. On a price of about £12 per ton the variation between the high and the low (there are always extreme cases) would be between £2 and £3 a ton.

4729. Not more?—No. You might get isolated cases of a particularly bad producer of one product, where he would have a very high cost; but the general run would not be more than £2 or £3 a ton in the heavy steel products. There will be a big variation in the sheet trade, where there is a big contrast between the most modern plant and other plant.

4730. I was thinking of the heavy steel products, such as billets?—In billets it would not be more than about £2 a ton.

4731. Your prices will vary, roughly, from £11 to £13?—Yes. The range would be of the order of £2 or something of that sort.

Sir John Mellor.

4732. When the expression "employed capital" is used in this connection, is it always taken on excess profits tax principles?—Yes, it is.

Chairman.

4733. Are there any further questions on that paragraph? We pass to the next four paragraphs, 51 to 54, which run together. On paragraph 51, Sir William, in the first sub-paragraph, the Comptroller and Auditor General states: "I also mentioned that the levy arrangements were terminated by the makers on 1st October, 1942, but no levy has been collected by the Ministry in respect of the period 1st January to 30th

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September, 1942." Could you tell us why?—(Sir William Douglas.) Yes. As you have just said the wire levy was terminated by the makers on 1st October, 1942, and no levy was collected by the Ministry from 1st January to 30th September, 1942. The trading results of the wire-making industry for 1942 show a return of 13.9 per cent. on capital before providing for deferred repairs, and the Ministry felt that it was unnecessary in those circumstances to secure a rebate for that year. With the rise in costs the Ministry took no objection to the termination of the levy arrangements as at October, 1942, and prices have remained stabilised at the figures at which they then were.

4734. At the end of the second sub-paragraph Sir Gilbert states: "The Ministry have not yet fixed a levy for 1942, but the advisory accountant's summary shows the 1942 profit as 14.2 per cent. on capital after making a provisional deduction for a levy." Is that "provisional" deduction now a fixed deduction?—We have now a final decision about wire rope. The levy for 1942 has been fixed at 5 per cent. except in the case of the largest firm in the industry, where we got an additional levy of 2½ per cent. for 1941 and 3½ per cent. for 1942. This reduces the overall profit rate for 1942 to 13.9 per cent., which happens to be the same as in the case of wire—not 14.2 per cent., the provisional figure indicated in the paragraph.

4735. In the next paragraph, paragraph 52, Sir Gilbert says: "In another lighter section . . ." What was the other lighter section?—That is the cold drawn tubes section.

4736. Sir Gilbert states: "An investigation indicates that abnormal profits were being made and a voluntary rebate of £1,600,000 in respect of the year ending 31 July, 1942, has been paid to the Ministry by a group of firms representing the greater part of the section." What group would that be?—[Name given.]

4737. Sir Gilbert states that the "greater part of the section" came to this arrangement. What about the others, who might, after all, be 49 per cent?—The group mentioned would still be the larger half, if they were 51 per cent. Do you know at all the arrangements with them?—(Mr. Shone.) We have examined the position of the smaller part, which is a very minor part—less than 5 per cent. of the trade, or something of that order—and broadly the profits there appear to be reasonable, and there is no ground for a special rebate. There is a very great disparity between the large company and the few small separate companies.

4738. And there are few of them?—Yes.

4739. The Ministry are satisfied with regard to this, Sir William?—(Sir William Douglas.) Yes.

4740. In paragraph 53 Sir Gilbert says: "In a further case, after a preliminary investigation, it has been agreed that the advisory accountant should review all firms in the section." Could you tell us what the further case is?—That is the case of the firms dealing in rerolled products.

4741. " . . . it has been agreed that the advisory accountant should review all firms in the section." Has the review terminated yet?—I think he has just terminated that review.

4742. But you have not had time to consider the report?—We have not had time to consider it fully. I am told it looks as if the figure was going to come out at about 13 per cent.

4743. In paragraph 54 Sir Gilbert states: "In 1942 the Ministry received £526,000 in respect of price rebates on iron and steel products and a further £2,170,846 has been received up to early in March, 1944." What was the period covered by this £2,500,000?—(Mr. Shone.) It will be, in the main, the year 1941.

4744. As regards which amount—the £526,000 or the £2,000,000 odd?—Both of them. The greater part will be payments in respect of arrangements fixed up for 1941, which became due in the course of 1942 and the early part of 1943. Some part—a minor part—will be in respect of the 1942 arrangements.

Chairman. Are there any questions on those four paragraphs?

Sir Frank Sanderson.

4745. In paragraph 52 the Comptroller and Auditor General states: "An investigation indicated that abnormal profits were being made and a voluntary rebate of £1,600,000 in respect of the year ended 31 July, 1942, has been paid to the Ministry by a group of firms representing the greater part of the section." Later on he goes on to say: "Prices have been reduced for deliveries after 31 July, 1942, and trading results will be reviewed annually by the advisory accountant." Would it not be more expedient to fix the prices at a figure lower than the amount of allowance which is finally repaid in the form of rebate, so that the companies interested would then have to establish a case for a higher price to be paid. That would not be unknown to you, I submit, because it is common in many other industries?—I think the difficulties here have been that there are these small outside firms who require the price that we have fixed, and it is the rather exceptional economies of one large firm which throw out of gear the position. There is also a special problem of a very rapid increase in output here of aircraft tubes, and that type of thing, and it is rather difficult to keep pace with price

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reductions parallel with increased output, and we should have to be putting prices down and then putting them up again when output fell away.

Sir *Frank Sanderson*.] It does say here quite specifically that a group of firms representing the greater part of the section paid a voluntary rebate—it says “the greater part of the section,” and I submit—

Chairman.] You must ask a question, Sir Frank.

Sir *Frank Sanderson*.

4746. May I ask whether it would not be better to fix the prices at such a level that the manufacturer would have to establish a case for a higher price to be paid to him, so that the opposite position would arise?—(Sir *William Douglas*.) The answer to that, as I understand it, is that if you fixed a price, as you suggested, rather on the low side, you would have some firms either going out of business or having to seek for assistance in some form or other.

Mr. *Benson*.

4747. This levy is a rather unusual method of dealing with profits. Does it mean that there is something particular in the wire industry which makes the more usual methods unworkable? Does it mean that there is an enormous variation in the efficiency of the various firms in the industry?—(Mr. *Shone*.) I think the wire arrangement was primarily due to the temporary nature of the high profit. We knew—and it has turred out to be the case—that costs were rising fairly rapidly, and we thought it better not to reduce prices and then have to put them up again shortly after. Particularly as wire enters indirectly into the cost of so many other products we rather felt that a price reduction would be dislocating over a temporary period and also might in any case be dissipated, and the Ministry would not get the benefit of this temporary expedient.

4748. The prices were rising more in wire drawing than in other trades?—Costs were rising in the other trades, too, and there is a difficult problem there that is becoming acute at the moment.

4749. Are costs rising in, say, the manufacture of nuts and bolts less rapidly than in wire drawing?—They are, but the nut and bolt position was adjusted by an increase of about ten times in the output of aircraft bolts and nuts, and the very big expansion of output enabled the increased costs to be swallowed up.

4750. In wire drawing there was no great increase?—Not nearly so great.

Chairman.

4751. Are there any further questions on those four paragraphs? We pass to paragraph 55: “Central Fund.” At the

top of page xx, in line 7, Sir Gilbert states: “The accounts have however been charged with a notional value for materials supplied on Lend-Lease terms.” Could you tell us something about that notional value and the reason for charging it? It is a bit uncommon, I think.—(Sir *William Douglas*.) I think the circumstances are a little unusual and uncommon. This principle runs through the raw material accounts generally. The fact is that Lend-Lease imports have been charged in the case of iron and steel to the Central Fund at the United States price, and the steel is sold to the trade at British prices, and as the United States prices delivered to this country are higher there is, therefore, set up a notional deficiency—not a real deficiency, because we get those goods on Lend-Lease account.

4752. What was the object of charging it in the accounts? Was it in order to have some figure in front of you as regards values?—I think we could have dealt with this matter in various ways. We could have shown them in the accounts as we have in fact shown them; or those goods could have been taken on charge in the account at the British rate; or we could have charged them at no rates at all, because we got the goods on Lend-Lease; or we could have taken them away from this Fund altogether and put the transactions in a separate fund. But it seemed to us best to relate them in this particular way.

4753. Have you any comments to make from your angle, Sir Gilbert?—(Sir *Gilbert Upcott*.) There are other examples of this difficulty. The Ministry of Food receives very large quantities of foodstuffs for nothing, but they have met the difficulty, in their view, by charging in their Account, according to one of Sir *William Douglas*'s other alternatives, the amount which they get for them. The result is that the transaction cancels out and leaves the true result of the Ministry of Food's trading operations to be clearly understood. This method which the Ministry of Supply have adopted produces a fantastically untrue result, and it also involves, of course, a lot of complicated book-keeping which takes up manpower. I suggest it is a danger in itself, because I observe that it has led another Committee of this House to think that the Central Fund will require a large subsidy from the Exchequer, whereas in fact the Central Fund is the channel through which cash receipts are accruing to the Treasury, as is indicated in the last sub-paragraph of my paragraph. Of course, the plain fact of the matter is, if I may say so, that the science of accountancy is quite unable to accept the fact of getting something for nothing. Therefore they have to consider what they are going to put in their accounts as if they were paying something. In fact, of course, this Fund is receiving a large

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amount of cash for something which is given to it, but they, for reasons which seem best to themselves, have charged something which indicates that they are trading at a heavy loss, which is entirely contrary to the facts. (Sir *William Douglas*.) Might I add one practical point, and that is that the Committee will remember that, when we were first getting steel from America, we were purchasing it with our own money, and we showed, therefore, the price which we were paying, which was the American price, and when we went on to Lend-Lease we continued showing it in the accounts in exactly the same way. That is a historical explanation of how it is that we happen to have adopted this alternative.

4754. It is open to criticism, obviously, when there are two or three courses. What is the difference between the course adopted by this Ministry and that adopted, as we have heard from Sir Gilbert Upcott, by the Ministry of Food?—(Mr. *Blunt*.) It may be that in the case of the Ministry of Food it is rather easier, having regard to the sort of stuff they handle—food—to work back from the sale price in order to arrive at the cost in the account, so that it levels out and leaves nothing. In their case it suited them, and it was fairly easy to do it. They liked it that way, and so long as everybody knows that the accounts are constructed in that way it did not seem to us to matter; it saved them time and trouble and they preferred it that way and we said that they could do it. The Ministry of Supply, on the other hand, certainly have started off and gone on in this way. There, again, I do not know which course is the more convenient. But again, so long as everybody knows what the result means and how the accounts are constructed, it does not seem to me to matter enormously which way it is done. The fact of the matter is that the two are done in a different way. I must admit that.

4755. In the next sub-paragraph in the third line there is mention of a substantial surplus. Could you tell us what that surplus would be?—(Sir *William Douglas*.) For the calendar year 1942?

4756. Yes?—I can give you that. Taking into account, as the paragraph does in the other directions, the surpluses accumulated on the three subsidiary funds which are mentioned here, the surplus on the Central Fund at 31st December, 1942, was about 8.97 million pounds.

4757. In the next sub-paragraph there is mention of £58,000,000 paid over to the Corporation out of their surplus cash receipts from sales and levies. Could you tell us anything about that?—Those are moneys which are paid to us by the Corporation on account of their sales of Lend-Lease materials. (Sir *Gilbert Upcott*.) That is the true cash position.

Chairman.

4758. There is £58,000,000 on the right side?—Yes. (Mr. *Blunt*.) That is as far as the Ministry themselves are concerned.

Chairman.] Are there any questions on paragraph 55?

Sir Irving Albery.

4759. I should like to ask the Treasury whether, when transactions such as Lease-Lend come along, there is any attempt, through the medium of the Treasury, to adopt some co-ordinated method of accounting in Departments? It must be more convenient, where possible, that a similar method should be adopted throughout.—I am trying to throw my memory back, but in this case I think we did start with the idea of doing it in the way in which the Ministry of Supply do it, in which case we do get a deficiency in the accounts; but then the Ministry of Food did come along to us, and, as I say, persuaded us that in their particular case it was easier to do it in the other way, and we said: "If that is so and you like it that way, so long as everybody knows what you are doing, if the accounts have to be shown and it is displayed that you have done it in this way, carry on." It is not always easy to get the same mechanism for everybody because their circumstances are different. (Mr. *Jones*.) Perhaps I may add to that explanation. I believe it is true to say that all the iron and steel coming from the Americans came under specific documents at a specific price, whereas most of the food came from bulk purchases by the American Government, and at the time the Ministry took delivery on this side they had no prices which they could associate with any particular parcel of food. Therefore, they were obliged to use some notional price. The American prices were not notified until long after the food had been distributed. (Mr. *Blunt*.) That was one of the main reasons. The Ministry of Food would definitely have had to invent something, whereas the Ministry of Supply actually had the figures.

4760. Should I be right in understanding that in your view, Sir Gilbert, the Ministry of Food method of accounting is definitely the better?—(Sir *Gilbert Upcott*.) I have pointed out a grave disadvantage of this Ministry of Supply method, that it has really seriously misled another Committee of this House. (Mr. *Blunt*.) We will certainly consider it if the Committee like to make a representation.

Chairman.

4761. It is not our Committee which has been misled. It is the other Committee. It takes a lot to mislead us!—(Sir *Gilbert Upcott*.) I venture to think this Committee would have found it very difficult to ascertain the correct situation if I had not set it out at considerable length.

6 July, 1944.]

Sir WILLIAM DOUGLAS, K.C.B., K.B.E.,
Mr. H. C. GORDON, C.B., Mr. H. J. HUTCHINSON, C.B., C.B.E., and Mr. R. M. SHONE.

[Continued.]

Chairman.

4762-4763. Are there any further questions on paragraph 55? We pass to paragraph 56: "Prices Fund." I notice from the paragraph that this Fund has a surplus of over £3,500,000. Could you tell us the object of making allocations to the Prices Fund so much in excess of the actual requirements?—(Mr. Shone.) The allocations made to the Prices Fund are the standard rates per ton which are necessary to cover the costs, and in some ways represent what should be added to the price to give a fair price. In paying out from the Fund, however, we do not necessarily pay this amount out, if the firm concerned is making a reasonable profit because of quite extraneous war circumstances. It may be engaged in some more highly finished product, and we take that into account and so build up a surplus in the Fund to save paying out on a pure price calculation which would be necessary.

4764. It is a big surplus?—I think the sum is provisional. There are claims not received and other items. It will be a surplus, but it will be less than this.

4765. Are there any further questions on paragraph 56?—We pass to paragraph 57: "Special Fund." Sir Gilbert says: "I mentioned that (a) the question of the credit of the Special Fund levy to the Central Fund from 1 January, 1942, and (b) the disposal of the balance on the Special Fund at 31 December, 1941, had not been finally settled. I recently pointed out that only four-fifths of the Special Fund levy had been credited to the Central Fund as from 1 January, 1942, and the Ministry have informed me that the retention by the Corporation of one-fifth of the levy had been reported to the Treasury and that the above-mentioned matters are still under consideration by the Treasury." Has any decision been arrived at?—(Mr. Blunt.) Not a decision. It is a rather complicated matter. This takes in the subject matter of paragraph 58. They all rather hang together. We have in fact just written to the Ministry, suggesting lines on which this thing should be discussed with the Federation, and I have no doubt the Ministry now have it under active consideration. It is a very complicated matter. (Sir William Douglas.) That is the case.

4766. In paragraph 58 Sir Gilbert states: "A further transfer of £91,140 has now been made to the Corporation in respect of the profits arising in the period 1 January to 31 August, 1943, during which the Corporation acted as paid agents of the Ministry for the importation and sale of iron and steel." Is not the agency fee increased by this transaction?—This is what I might describe as a bookkeeping transaction, and this has not yet been approved by the Ministry. It is part of the subject matter

which we are considering together with the Treasury. (Mr. Blunt.) I am not quite sure that what is said here is exactly correct. This suggests that there was a definite transfer by the Ministry to the Corporation. I was making an inquiry about that this morning, and I rather understand that in fact it went rather the other way, that the Corporation refrained from transferring to the Ministry. (Mr. Shone.) I would say that is probably right. (Mr. Blunt.) I think that is the more correct position.

4767. Sir Gilbert, have you any verification of that?—(Sir Gilbert Upcott.) I think last year I said the question is whether this is public money or the Corporation's money. (Mr. Blunt.) That has still to be settled, but I do not think there was actually a transfer from the Ministry to the Corporation. I think it is rather that the Corporation have refrained from transferring to the Ministry. (Sir Gilbert Upcott.) The question is whether they ought to retain it. (Mr. Blunt.) That point still remains.

4768. That is under active consideration?—Yes. (Sir Gilbert Upcott.) The question is in which fund it is. (Mr. Blunt.) It is not in the Ministry's hands. That is quite clear.

4769. Are there any questions on paragraphs 57 and 58? We pass to paragraphs 59 and 60, which run together: "Paper Control Prices." Sir Gilbert states: "Control of paper prices during the war has been on the broad basis that maximum prices should be fixed with a view to allowing profits per ton corresponding on average to those obtained in the year preceding the war." Could you tell us why profits per ton corresponding on average to those obtained in the year preceding the war was the figure adopted?—(Sir William Douglas.) I think those prices before the war were on a competitive basis, and those were the prices which we started off with in the Ministry.

4770. What was the average per ton for the pre-war and war periods for each of the three groups of paper—esparto-straw papers, boards and all other types? Have you those figures?—The overall figure was about £2 a ton.

4771. For all three groups together?—The general return on the whole of the paper trade.

4772. That is the average of all three groups?—Yes. For the general group it was equal to about 8 per cent. on the capital employed.

4773. What year was that—pre-war?—Pre-war.

4774. And what about the subsequent years, please?—I think the position was that as we settled down into the war economy we found that profit margins, especially in 1942, were beginning to in-

6 July, 1944.] Sir WILLIAM DOUGLAS, K.C.B., K.B.E., [Continued.
Mr. H. C. GORDON, C.B., Mr. H. J. HUTCHINSON, C.B., C.B.E., and Mr. R. M. SHONE.

crease. We had anticipated that as paper was in short supply and the industry was turning over at a very much reduced rate the difficulties of the paper manufacturers would be very great, and that their costs would rise, and, therefore, their profits would be reduced, as the result of machines not being fully utilised, difficulties with inferior materials, and so on; but the fact of the matter is that the paper trade has displayed a most praiseworthy efficiency, and it was able to overcome all those difficulties in a way which has surprised us all.

4775. I do not think you gave us a comparable figure to the £2 which you mentioned, did you?—The figures which began to emerge later on were in the neighbourhood of £5 or even £6 a ton for the general group, but putting them on to a comparable basis we felt that a comparable figure, having regard to the differences in costs, was somewhere between £3 and £4 10s.

4776. That is the average of all these three?—The average for the general group. We felt, therefore, there was about £1 10s. per ton of excess on the true comparison with the pre-war position, and that was the amount which we endeavoured to lop off.

4777. There is mention in the middle of the second sub-paragraph of the difficult circumstances of war-time production. Those are roughly speaking what you have been dealing with?—Yes.

4778. Sir Gilbert states: "In regard to manufacturers in the general group the Ministry informed me in January, 1944, that investigation had shown that the current average profits per ton exceeded the pre-war level by considerably less than was previously supposed and that, in the difficult circumstances of war-time production, rates of profit per ton somewhat higher than before the war may reasonably be allowed, and do not represent an unduly high return upon capital employed." Could you tell us the rates of profit per ton and the return upon capital employed?—The profit per ton, as I was just saying, was a bit too high; it was about 30s. per ton too much. The pre-war rate was about 8 per cent. on capital employed and the figures, therefore, must have been getting up to 10 per cent. or 12 per cent., I should think, on capital employed, but I have not an exact figure for that.

4779. You have not the profits per ton other than the 30s.?—Other than the 30s. for the general group. (Sir Gilbert Upcott.) I am not quite sure whether the Witness is quite accurate in saying the capital employed in the war period, because the paper industry is in the peculiar position of employing less capital than its pre-war capital. (Sir William Douglas.) That is so. It is not safe to say a percentage of pre-war capital represents a percentage of capital

now. So much of the capital has been locked up.

4780. And is lying idle?—Yes.

4781. Sir Gilbert says: "They added that, after allowing for these higher rates of profit and the continuing increase of cost, the remaining excess profit was comparatively small and steps were being taken to adjust the maximum prices so as to remove this excess profit." That is what you have just told us about, is it not?—Yes.

Chairman.] Are there any questions on paragraph 59 or 60?

Sir Irving Albery.

4782. In paragraph 60 Sir Gilbert states: "Trading results up to March, 1943, appear to show that, although there has been a reduction in paper manufacture, control prices gave higher rates of profit on pre-war capital than had been earned immediately before the war." Did I understand, from what you said just now, that you thought that was about 12 per cent. or 12½ per cent.?—I have not an exact figure, but I think it would be round about that.

4783. I do not know whether this is really a question for the Treasury or not. Sir Gilbert states: "Price reductions are not retrospective and these higher profits are not affected." I find it rather puzzling the different way different industries are treated. In one case an industry is made to go back and hand out profits and in another case it is just accepted?—(Mr. Blunt.) I think in the case of paper Sir William must answer for that. (Sir William Douglas.) In the case of the paper trade so much of the trade is not direct from industry to Government, but private transactions done at a fixed price. To go backwards and revise all those prices would obviously be a very great upset in the trading world.

4784. I was puzzled by something else you said. You said the turnover has decreased, but the profit has increased; costs have gone up and you said they have been very efficient, and in spite of wartime conditions, have managed to make this bigger profit on a smaller turnover. Obviously, there must have been higher costs in some directions. Did they give any explanation of how they achieved this miracle?—(Mr. Hutchinson.) Perhaps I might explain what we have tried to do. What we aimed at doing was to give them a return on their capital actually used, not the capital that is lying locked up in machines unused, which was comparable to the pre-war profit, which was not a very high figure. As a method of doing it we have taken the profit per ton and adjusted that because the machines have to work more slowly and with different materials. We got certain prices with that in mind, but the industry, by making economies, managed to get its profits, nevertheless, not only higher than the rate we had in mind on the capital

6 July, 1944.] Sir WILLIAM DOUGLAS, K.C.B., K.B.E., [Continued.
Mr. H. C. GORDON, C.B., Mr. H. J. HUTCHINSON, C.B., C.B.E., and Mr. R. M. SHONE.

actually in use, but slightly above the pre-war profit, and, accordingly, on examination of their figures, we reduced the prices with the aim of getting them back to the pre-war figure on the capital actually in use. What we had done in effect was to fix the price, and then the industry, with the incentive of trying to do a little better, managed to make economies and get rather below it. After they had done that for a time and we caught up in the examination, we cut it off, but we did not feel that it was necessary to say: "If you make economies you shall get no benefit from the economies at all." The only result of that would be that you would get no economies, and the economies are of use to the nation in labour, material and so on.

4785. I was not questioning the methods by which you arrived at it. I was puzzled over what had happened. Did you have any check at all at to what their pre-war profits were?—Yes, they were examined by the accountants.

Mr. Benson.

4786. I am frankly puzzled by the two sub-paragraphs in paragraph 59. The Comptroller and Auditor General says that the profits were treble the pre-war period, which means that they must have been about 24 per cent.—(Sir Gilbert Upcott.) Profits per ton. Those are the figures Sir William gave.

4787. The profit was 8 per cent. on capital. Have they a much reduced turnover?—(Mr. Hutchinson.) Yes, very much reduced.

Chairman.] One-third of the turnover.

Mr. Benson.

4788. So that comparing profits per ton and profits on capital is an impossibility unless you know the reduced turnover?—Yes.

4789. They were making about £5 or £6 per ton and you reduced them by £2?—(Sir William Douglas.) We felt that to get a comparison of like with like the true figure was more like £4 10s. Therefore the measure of the excess was the difference between £3 and £4 10s., which was £1 10s.

Chairman.

4790. Are there any further questions on paragraphs 59 and 60? We pass to paragraphs 61 and 62: "Acceptance of Control Prices for Government Contracts." Towards the end of paragraph 61 Sir Gilbert states: "The Ministry informed me that they had taken no such steps since, in view of the development of the procedure above-mentioned, it would usually be inappropriate and disturbing to the general price structure that an effort should be made to prescribe special rates of profit for particular Government contracts." The Stationery Office gave us to understand that they often pay less than the control price. It is a little

difficult to reconcile the different viewpoints of buyer and seller—the seller who will not reduce it below his ordinary price and the buyer who says he buys at somewhat less than Control prices?—(Sir William Douglas.) The Control price is generally a maximum, but in the ordinary way we feel that these Control prices give a fair and reasonable return on capital employed. If, therefore, there are very big reductions in those prices we will get something less in the way of a proper return to the industry, but, nevertheless, in particular cases, such as the Stationery Office, of a very big buyer buying a particular type of commodity, which can be done and run through quickly and cheaply because it is an economical order, one can quite understand that he should get a lower price accordingly.

4791. You keep in touch with the Stationery Office and consult with them with regard to your general policy, and also, I suppose, prices?—I would not like to say that we do keep in touch with the Stationery Office on that particular aspect. (Mr. Hutchinson.) We are in touch with them from time to time. (Sir William Douglas.) They would be in touch with the Control.

4792. In paragraph 62, Sir Gilbert states: "Control prices are being accepted for many Government contracts. This practice would appear to be administratively convenient and it limits the extent of cost investigations. It would appear, however, that, in the absence of any general arrangement for retrospective adjustment of excessive control prices, expenditure under the present procedure may be in excess of what is normally considered fair and reasonable." Is it not possible to have any retrospective arrangement in a case of this sort?—In a case like paper where so much of the trade is not on Government account, as I said earlier, it is very difficult. Where, however, you get a case in which the whole of the raw material is sold to manufacturers on public account, then the position is different—for example, in the case of leather: there one was able to make a deal which had retrospective effect, we being one party to the transaction and the leather trade being on the other side; there were the two principals concerned.

4793. Have the Treasury any comment to make in this regard?—(Mr. Blunt.) No. As Sir Irving Albery was saying just now, I do not think it is really possible to lay down any general rules for retrospective adjustments.

4794. Each case must be decided on its merits?—The Committee has heard the reasons why retrospective adjustment is not possible in the case of machine tools. You have heard now why it is not possible in the case of paper. In the case of munitions contracts they have also had evidence as to what is being done. I think one will have to take them as they come and see what is possible.

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Sir WILLIAM DOUGLAS, K.C.B., K.B.E., [Continued.
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4795. Are there any questions on paragraph 61 or 62? We pass to paragraph 63: "Store Accounts of Raw Materials." On that paragraph I have no questions. Has any Member of the Committee any questions on paragraph 63? Paragraph 64 is: "Distribution of Lend-Lease Tractors." Are the Treasury satisfied with regard to these arrangements about the Lend-Lease tractors?—We are satisfied with the original arrangements, yes. As the paragraph points out they have reduced the rates, and they have referred it to the Treasury not so much as a matter for approval, because it is a reduction, but rather for our information, and we are glad to have it for that purpose.

4796. In sub-paragraph 2 I observe that the agents have been asked to furnish revised proposals. Have those been received and considered?—(Sir William Douglas.) Yes. We have made reductions in the rates of commission from 1st December, 1943, to agents handling Lease-Lend tractors.

4797. Could you tell us the reductions?—In the case of civil sales the new rate is 7½ per cent. of retail prices on all quantities, a reduction from 12½ per cent. for the first £100,000 worth and from 10 per cent. for the second £100,000 worth. This is the revised rate for the main agents for civil sales.

4798. In the last sub-paragraph Sir Gilbert states: "No co-ordinated review of the agents' Government business as a whole has been undertaken but the Ministry of Supply informed me in December last that the matter was receiving consideration." That is on the same point is it?—No, that is a different point. (Mr. Gordon.) That is co-ordination between the Ministry of Supply and the Ministry of Agriculture and Fisheries—a co-ordinated review of those people who are handling tractors for both Ministries.

4799. You are co-ordinating as far as possible, are you?—Yes.

Chairman.] Are there any questions on paragraph 64?

Sir Irving Albery.] Are these tractors sold to the people who use them, or are they hired to them—or both?—(Sir William Douglas.) We are talking about sales, I think. (Sir Gilbert Upcott.) They are sold.

4800. Also the agricultural tractors?—(Sir William Douglas.) I would not like to answer for that. (Mr. Blunt.) The agricultural tractors are mainly held by the Ministry of Agriculture, but that does not concern the Ministry.

4801. In that case the agents have this remuneration practically for selling Government tractors. Do they have any other duties to perform?—(Sir William Douglas.) I think, especially in the case of the sales

to civilians, those agents give the ordinary run of services which they would give in peace-time. With American machines they see whether there are any troubles and what they can do to help; if there are any breakdowns they supply spare parts and help generally in explaining any operational difficulties.

Mr. Benson.

4802. Does this refer mainly to the heavier type of tractor—the bulldozer, that is being used for opencast?—(Mr. Gordon.) I am told those are not normally bulldozers.

Sir Edmund Brocklebank.

4803. Sir Gilbert speaks at the beginning of the paragraph of "earth-moving equipment"?—Bulldozers are earth-moving equipment, but not all earth-moving equipments are bulldozers. (Sir Gilbert Upcott.) The opencast equipment is dealt with by the Ministry of Works, I think.

Mr. Benson.

4804. Bulldozers and that type of thing you do not deal with?—(Sir William Douglas.) I think the specialised equipment for opencast coal mining is dealt with by the Ministry of Fuel and Power. (Sir Gilbert Upcott.) The Ministry of Works now. (Sir William Douglas.) The Ministry of Works handle it on their behalf.

4805. What exactly is "earth-moving equipment"?—(Mr. Gordon.) It is equipment of the kind that might be used for making an aerodrome.

4806. Those are bulldozers.—Yes. The term includes everything like that, the machines and their tractors.

4807. If an aerodrome is made by a private contractor you supply him with the necessary equipment?—It is sold to him. (Mr. Blunt.) The Ministry of Supply only come into this because these things have gone on to Lease-Lend and they must be consigned to a Department.

4808. Does the Ministry of Supply handle all Lend-Lease?—Such as comes within their province. Other people are handling Lend-Lease materials. The Ministry of Aircraft Production would have some. The Ministry of Works have some. The Stationery Office would have stationery on Lend-Lease. But this particular stuff was held to fall within the Ministry of Supply and they take it. They come in not because they want to buy or sell or take tractors, but because Lease-Lend stuff must be consigned to a Government Department. (Sir Gilbert Upcott.) This would include Army equipment.

Chairman.

4809. Are there any further questions on paragraph 64? We pass to the figures which are on page 13. I have only one question to ask on the figures. I see it says: "Charges due to the Department

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under the Sulphate of Ammonia (Charges) No. 1 Order, 1940 (£49,734 4s. 8d.) were waived in respect of certain shipments accepted on a f.o.b. basis on account of the shipping situation." Could you tell us why we waived £49,734?—(Mr. Gordon.) It was rather a technical case. It was the export by the British Sulphate of Ammonia Federation of sulphate of ammonia to Malta and Iceland between July and December, 1940. Under an Order the producers of sulphate of ammonia pay a levy on all deliveries in Great Britain. When the Order was made the export of sulphate of ammonia was not immediately contem-

plated, but to cover future possibilities the Order was worded in such a way that if delivery was made "cost-insurance-freight" outside Great Britain it would be exempt from the charge. In this particular case, owing to shipping difficulties, this export was made by this company "free-on-board" instead of "cost-insurance-freight," and technically, therefore, they became subject to the charge. That being a purely technical reason the charge, which was not included in the contract price, was waived. Chairman.] Has any Member of the Committee any questions on the figures? Thank you very much, Sir William.

(The Witnesses withdrew.)

[Adjourned till Tuesday next at 2.30 p.m.]

TUESDAY, 11TH JULY, 1944.

Members present:

SIR ASSHETON POWNALL in the Chair.

Sir Irving Albery.
Mr. Benson.
Sir Edmund Brocklebank.
Mr. D. O. Evans.

Mr. Glenvil Hall.
Sir John Mellor.
Mr. Pickthorn.

Sir GILBERT UPCOTT, K.C.B., Mr. C. E. I. JONES, and Mr. W. L. FRASER, called in and examined.

TREASURY MINUTE ON PARAGRAPHS 43, 67 AND 68 TO 69 OF THE REPORT OF THE COMMITTEE OF PUBLIC ACCOUNTS, 1943.

(Confidential Memorandum by the Comptroller and Auditor General in the United Kingdom Commercial Corporation.)

Sir RICHARD V. N. HOPKINS, G.C.B., Sir FRANCIS L'E. JOSEPH, Bart., K.B.E., J.P., D.L., Sir FRANK H. NIXON, K.C.M.G., C.B., and Mr. L. C. PATON, called in and examined.

(Sir Francis L'E. Joseph, Sir Frank Nixon and Mr. Paton withdrew.)

VOTE OF CREDIT APPROPRIATION ACCOUNT, 1942.

CIVIL APPROPRIATION ACCOUNTS, 1942.

CLASS I.

VOTE 4.

TREASURY AND SUBORDINATE DEPARTMENT.

VOTE 13.

GOVERNMENT HOSPITALITY.

VOTE 23.

SECRET SERVICE.

By direction of the Committee Minutes of Evidence for this day not printed.

(The Witness withdrew.)

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

THURSDAY, 13TH JULY, 1944.

Members present:

Sir Irving Albery.
Mr. Benson.
Sir Edmund Brocklebank.
Mr. Douglas.

Sir John Mellor.
Sir Frank Sanderson.
Mr. Touche.

In the absence of the Chairman Sir Irving Albery was called to the Chair.

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

CIVIL APPROPRIATION ACCOUNTS, 1942.

CLASS II.

VOTE 2.

DIPLOMATIC AND CONSULAR SERVICES.

(ACCOUNTS OF THE BRITISH COUNCIL FOR THE YEAR ENDED
31ST MARCH, 1943.)

The Hon. Sir ALEXANDER CADGGAN, G.C.M.G., K.C.B., Mr. A. J. S. WHITE, O.B.E., and Mr. F. T. A. ASHTON-GWATKIN, C.B., C.M.G., called in and examined.

Sir Irving Albery.

4810. Will Members turn to the Civil Appropriation Accounts, 1942, to page 60, Class II, Vote 2. I think the only question which arises on the Vote is on Subhead J. "The British Council": so we will take the accounts of the British Council at the same time. As these accounts are now audited by you, Sir Gilbert, is there anything you would like to say about them?—(Sir Gilbert Upcott.) The Council receives grants in aid from the Diplomatic and Consular Services Vote. I audit the accounts of the Council, as I have mentioned to the Committee in previous years, on behalf of the Treasury, subject to the proviso that I shall report anything to the Committee that I think requires their attention. I told the Committee last year that I had completed the examination of the accounts for 1939 and 1940 and that I did not think any matters required the examination of the Committee. These accounts are somewhat delayed owing to the exceedingly dispersed nature of the operations of the British Council, but I have now certified the accounts for 1941, subject to certain reservations. They relate mainly to the fact that some of the local accounts are not vouched to me but are certified by professional auditors. Certain other accounts have been reviewed in the Middle East by the Council's Chief Accountant in Cairo, but they are not technically either vouched or professionally audited. The account for Turkey does not appear to have been examined or audited in any way. I think that is due to the peculiar local conditions. I have reported these matters to the Treasury, who no doubt will consider them, and I do not think that they need detain the Committee now. The Committee have before them the accounts of the Council for the year 1942—that is the year ended 31st March, 1943. I have not completed my examination of those accounts,

and I cannot, therefore, say anything about them in detail. There is one rather serious matter which is apparent on the face of the accounts, and that is that, in the year under review, the Council overspent their grant in aid apparently by approximately £51,000. Now, this is not a Vote of Credit Service, and when Parliament votes a grant in aid on the Votes it is a fixed sum which neither the Foreign Office nor the Treasury has any right or power to increase. The accounts before the Committee also show, on the last page, that, in addition to this point which I have mentioned, the Council had an overdraft on their current account with the bank of £42,000—I take it for working expenses. That seems to me a rather doubtful arrangement in an institution which is almost entirely financed by public funds. The overdraft of the grant in aid should of course be met by a supplementary estimate, and the fact that it was not checked or brought to notice appears to me to indicate serious defects in the control of the Foreign Office and of the Council over its own organisation. But I have not been able to pursue the matter any further at the present time.

4811. Thank you, Sir Gilbert. Sir Alexander, will you say something with reference to the important point of the excess over the grant in aid?—(Sir Alexander Cadogan.) Yes. We had noticed that the Council's account for the year in question showed a balance in favour of the Foreign Office of more than £54,000 outstanding on March 31st, 1943. The Council's expenditure, apparently, did in fact exceed its normal receipts for that period by £51,000 odd, but over £9,000 was derived from donations for special purposes, and £42,000, as has been mentioned, was provided by the overdraft on the Council's current bank account. I think we can claim, therefore, that the excess expenditure was not incurred on the strength of the balance due

13 July, 1944.] The Hon. Sir ALEXANDER CADOGAN, G.C.M.G., K.C.B., [Continued.
Mr. A. J. S. WHITE, O.B.E., and Mr. F. T. A. ASHTON-GWATKIN, C.B., C.M.G.]

to the Foreign Office. The balance arose out of the normal practice by which our missions abroad supply the Council's establishments abroad with services on repayment, and sometimes with funds in order to get the benefits of diplomatic rates of exchange. That happens, for instance, in Turkey. Ordinarily, we receive payments from the Council at a rate sufficient to cover all such outgoings in advance, but during this period the Council's requirements from missions were increased to an extent which made the customary advances insufficient. This fact did not come to our notice until the completion of the examination of our accounts from our missions abroad, some months after the end of the financial year. We then took the necessary steps, firstly, to increase the amount of the Council's advances, and, secondly, to secure notification from our missions of expenditure on behalf of the Council immediately it is incurred instead of through quarterly accounts as formerly. We believe these measures will ensure that large balances due to the Foreign Office will not arise in future.

4812. Before asking the Treasury whether they have any comment on that statement, I would like to ask the Comptroller and Auditor General whether he would like to add anything, having heard Sir Alexander Cadogan?—(Sir Gilbert Upcott.) Perhaps the Treasury would say, first of all, whether they are satisfied with that position.

4813. What comments have the Treasury to make?—(Sir Herbert Brittain.) I do not think we could say that we were satisfied with the position as it was in the year of account, 1942-43. I think the fact that the expenditure outran the resources of the Council, including the grant in aid during that year, does point to the fact that the general control of the Council left something to be desired. In fact, steps were taken during this very year to tighten that up. The Council I think appointed a Finance Officer for the first time, and very soon after his appointment he sent round instructions to the staff of the Council in their various places which I hope will help to make them see that they must be quite certain that any new services and new projects which are undertaken are fully authorised, and that in fact there are funds available to meet them. Later on in 1943, I think, the Council also appointed a Finance Sub-Committee, which, to the best of my belief, has given a good deal of attention to the estimates—which we may hope will help to avoid some of the troubles that obviously arose in 1942.

4814. Have you anything to say about the overdraft at the bank?—Normally we should hope that an institution like this, which relies for the most part on Government funds, would be able to finance itself without overdrawing at the bank. That is rather a symptom, I think, of the fact that

in this year of account the commitments were outrunning their authority and their resources.

4815. Do you know of another example where a department or a branch existing on Government funds has at the same time got an overdraft?—No. The normal rule is that a Government Department must not overdraw. Whenever a new Government Department opens accounts with banks, in the normal case we write to the banks and say: "This is a public account and must not be overdrawn."

4816. I was going to ask what financial control was exercised by the Treasury, by the Foreign Office and by the Council internally?—(Sir Gilbert Upcott.) Perhaps I might say a word on that particular point before you go on with the general question. The reason for the overdraft was what I should have expected, and I have no doubt the Treasury will take steps to obviate its occurring again. Before you get on to the general question of financial control I should like to emphasise that this question of financial control is very important with this Council. Its expenditure was nearly £1,000,000 in the year before the Committee. That is double what it was two years previously. The provision made for their expenditure in the year 1943 was a little short of £2,000,000 and the provision made for it in the year 1944 is £3,500,000. This vast growth and complexity of expenditure is something which I think is not intended to be a purely wartime expedient, but it may continue as it is provided on the regular Votes, and it does suggest to my mind that, both for the purposes of better financial control and of Parliamentary information, some consideration should be given to the question whether provision of the Council's finance by means of a vast globular sum only in the Diplomatic and Consular Vote, which it now almost swamps, is the appropriate method of financing the Council for the future.

4817. Sir Herbert, you have heard what the Comptroller and Auditor General has said. Perhaps you would like to deal with that first?—(Sir Herbert Brittain.) We entirely agree with the Comptroller and Auditor General that the growth of the expenditure of the Council has accentuated the need to see that financial control is as good as it can be in this case. Of course, the actual growth in the amount is rather a matter of policy, and I do not think the Treasury at any rate are called upon to justify that at present, but the control that the Treasury has over this expenditure has developed in the last five years, and particularly in the last two years, directly as the result of this increase in the provision for the Council.

4818. I do not understand the Comptroller and Auditor General to be criticising the amount which, as you say, is a question of policy, but he is emphasising the need

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for adequate control, having regard to the fact that it is such a largely growing amount?—Yes, we should entirely support him in that. I was going on to say that Treasury control is really based on the original estimates of the Council. The Council send us estimates each year of their requirements. Those estimates are divided up amongst a variety of subheads.

4819. You are now on the question of the control exercised, are you not?—Yes.

4820. We should like to have that under the three headings—the control exercised by the Treasury, that exercised by the Foreign Office and that exercised by the Council internally?—I think perhaps other people ought to speak for the control exercised by the Foreign Office and by the British Council. The estimate is divided up into subheads, some of which represent geographical expenditure by countries—so much for each country; others represent departments of the Council which are common to all subheads, like press, films, and so on. The Treasury, of course, approves the total estimate. The Council is at liberty to transfer savings on one subhead to meet an excess on another subhead, so long as that does not involve any permanent increase in the rate of expenditure in any given country. The Council is also provided each year with an unallocated reserve, and out of that it can start new projects without Treasury authority, provided the cost of each project does not exceed £5,000 a year, and provided the total of such new projects does not exceed a certain amount agreed on for each year. Further, Treasury authority is required for appointments carrying salaries over £1,000, and the Council are in general touch with us as regards the principles of the establishment, like overtime, and so on—general staff questions. I should say that at the moment the arrangements for Treasury control of the expenditure of the Council, once the estimates have been agreed are fairly watertight, but, of course, that will not in any way prevent the sort of difficulties that arose in 1942 if, within the Council, the understanding with us and the estimates are not themselves observed. It is perhaps in following up on that sort of point that the Foreign Office and the British Council may be able to help.

4821. Sir Alexander, would you tell us the nature of the control exercised by the Foreign Office over these accounts?—(Sir Alexander Cadogan.) We examine, in conjunction with the Treasury, the Council's annual estimates and any supplementary estimates. We have a representative who sits on the Council's Committee of Finance and Agenda, and all projects of a major character and questions of principle are referred to us and to the Treasury, and have to have the sanction of the Secretary of State; and, of course, there is a close contact abroad in various countries between

the Council's representatives and our representatives there.

4822. Thank you. Mr. White, can you tell us what steps are taken by the Council to exercise control over expenditure?—(Mr. White.) When we get the estimates from our overseas representatives and from the producing departments in London they go to the Finance Department. We had not in those days, at the beginning of 1942, a separate finance department at all. We have now built up a very strong finance department under an experienced finance officer. All the estimates go to the finance department and the finance officer to be vetted.

4823. Was he quite recently appointed?—He was appointed almost two years ago, but the finance department really did not get into swing until the end of the financial year to which we are referring. Then, the estimates have been examined by the finance officer, they are put before a Budget Committee, which is a committee of our Executive Committee. When they have examined those estimates they go to the Foreign Office, with copies to the Treasury, and when they have been examined there we have a meeting at the Treasury of all those concerned. At that meeting we go right through the estimates and then the Treasury say what grant in aid is going to be allowed us, and we adjust our estimates to the total figure fixed. Then, during the course of the year, we have an unallocated reserve which actually in the current year is pretty big; it amounts to £400,000. That, as the Treasury representative has pointed out, we are free to use, subject to certain rules, such as that any item costing more than £5,000 has to be referred to the Treasury, through the Foreign Office, for approval, and there are certain other limitations such as that we cannot embark on a new country or a new service of any sort without reference to the Treasury. Then, inside the Council since the year in question we have produced fairly elaborate rules about financial control and about the extent to which every single project that comes up from abroad (and at present no powers are delegated abroad for spending money) has to come to London and has to be referred to the Finance Officer, and, if he considers it necessary under those rules, to the Foreign Office and the Treasury.

4824. Could you tell us briefly what your organisation is?—(Sir Gilbert Upcott.) Might I interpose a word? Neither Sir Alexander Cadogan nor Mr. White has, I think, done more than to explain to the Committee what the control of estimates and projects is. What they have not indicated to the Committee is what control there is of the course of expenditure during the year. That is what happened in 1942. No doubt all the estimates had been carefully considered, but the course of expenditure during the year outran the constable owing,

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no doubt, to the fact that they have a large number of local centres which are not sufficiently co-ordinated. (Mr. White.) Might I add a word to that?

4825. Certainly?—In those days, in 1942, money for certain expenditure locally—in fact, most funds that had to be used locally, were drawn from H.M. Mission in the country concerned. The Mission sent a bill back to this country to the Foreign Office, but it did not get back here until six months or seven months later—sometimes nine months or a year from remote countries. The result was that we did not know in this year that our accounts were going to show a debit until these bills had penetrated through, a good many months after the year. As Sir Alexander has explained, that has been put right now because we get telegraphic information from our posts abroad of what has been drawn on this Foreign Office account, so I do not think it can occur again. (Sir Herbert Brittain.) The question is whether what they draw for is approved or authorised. That is to say, in addition to the headquarters of the Council knowing what has been spent abroad, the headquarters ought to be able to say whether it has been spent on authorised services which the headquarters here have full provision for in their estimates. (Mr. White.) On that, this financial control circular, which went out about a year ago or rather more, lays down that no money can be expended in any country unless it is either contained in an approved budget which has gone out—what we call an allocation, which shows in great detail all that they can spend during the year—

4826. What is the date of that circular?—May, 1944. I think the original one is older than that. This must be a revised edition. I am pretty sure it went out last year. They know they cannot spend anything unless it is contained in a budget which has been sent out from London or in a letter approving a supplementary project during the course of the year. Any supplementary project not contained in their original budget comes to London and is referred to the finance department, and it has to go before the Finance Committee which meets monthly, unless it is costing under £100.

4827. You are satisfied that under the altered arrangement what occurred in the year under review should not recur?—Yes.

4828. Do you want to say anything else at the moment, Sir Gilbert?—(Sir Gilbert Upcott.) No. I reserve my judgment until I see how this thing has worked.

Sir Irving Albery.] Are there any questions on the matter of control?

Sir Edmund Brocklebank.

4829. These accounts are marked “confidential.” That is, I take it, for security reasons. Before the war were these accounts confidential or were they published?—(Mr. White.) They were never published.

4830. When it is the expenditure of public money should they not be published?—(Sir Alexander Cadogan.) I do not think we know of any reason for objecting to publication.

Mr. Douglas.

4831. This body is in fact an agency of the Government, is it not? You do not regard it as being an independent entity, do you?—The British Council?

4832. Yes?—It is rather difficult to define it exactly. It is not entirely independent, evidently, but it is not a direct instrument of propaganda, I think.

4833. To take this year 1942, the whole of the money was provided by the British Government with the exception, I think, of £625. Is that not so?—Yes.

4834. It is true that it got some incidental receipts out of its activities, but those were earned by the money which the Government provided, were they not?—Yes.

4835. So that *de facto* it is simply an agency of the Government, is it not?—I suppose so—financially, yes.

4836. Therefore it ought to observe the same canons of financial rectitude that any Government Department does, ought it not?—Certainly, in regard to any funds supplied by the Government.

4837. At the end of the previous year there was a balance brought forward of £35,000. How is that looked at? Is it looked at as some money which the British Council can use as it pleases, or is it looked at as something which ought to be returned to the Treasury?—I am afraid I cannot answer that question. (Sir Gilbert Upcott.) The Treasury could give the theory of the grant in aid better. (Sir Herbert Brittain.) It is simply taken into account in calculating the grant in aid which is necessary for the following year. That is the common practice with a grant in aid.

4838. It comes to much the same thing, does it not? It is not disposable money. It is money which can only be spent in accordance with the budget for the new year?—Certainly.

4839. I asked that question because I thought Sir Alexander was indicating that that mitigated the position with regard to the overspending. But perhaps I misunderstood him?—(Sir Alexander Cadogan.) No; I do not think that was the position I took.

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4840. That is all right then. I understand that the excuse for the overspending is that information was not received from agencies in other countries until after the close of the year?—I did not say that was the excuse for the overspending. I explained that we were not aware of this over expenditure until later because we had not the accounts from our Missions abroad for three to six months after the period.

4841. That indicates apparently that either your agents abroad were not informed of the amount of the money which they were entitled to spend during the year, or, alternatively, that they disregarded the instructions which were given to them. Which is the explanation?—I am not quite sure. (Mr. White.) In those days it is true that people on the spot, if they were starting a new institute, and so on, were not kept so strictly to what we knew they were going to spend, and at that time our Chairman and one or two other officers—Professor Ifor Evans, our Educational Director, and so on—were all in the Middle East, guiding the expansion there and acting under great pressure from the Middle East War Council; so there were certain projects which were put in hand or expanded there which had not been submitted to London in complete detail.

4842. In other words, the expenditure had never been authorised by the Council in advance or reported to the Foreign Office or the Treasury?—Yes, a certain amount.

4843. Does not that indicate an extreme laxity of financial control?—I think a great many opportunities for doing really valuable work, which was considered as war work by the Middle East War Council, would have been missed if that had not been done; but I quite agree that it is a thing which had to be corrected, and it has since been corrected.

4844. There is always the telegraph, is there not?—(Sir Alexander Cadogan.) We have taken steps to ensure that our Missions should notify expenditure on behalf of the Council immediately. That will be by telegraph, and that should afford a better check anyway.

Mr. Benson.

4845. Sir Herbert, I should like to know if I understood you correctly. I understood you to say that the amount of money expendable in each country was fixed?—(Sir Herbert Brittain.) The estimates are divided up by subheads, some of which relate to individual countries. There is a subhead for each country. The estimate provides a certain amount under each subhead which can be supplemented by *virement*, as we call it, from other subheads provided it is an exceptional increase and does not definitely increase the rate of expenditure in that country on new services and so on. But up to a point the Council can use savings elsewhere, subject to this,

that if for any reason a particular country was no longer in the area of operations of the Council (it has happened in the past where a country is overrun or something like that) they cannot use that money for other purposes. It is more or less a dead subhead.

4846. So that there is a reasonable, shall we say, insulation of the funds due to one country from use by another country?—The same sort of insulation as there is between the subheads of an ordinary estimate.

4847. Assuming that one country wished to overspend, what process would it adopt in order to obtain permission?—I think it would be open to them to supplement it out of the agreed unallocated reserve, provided it was not a service which was going to cost more than £5,000 a year.

4848. But for anything other than that?—They would have to come to the Treasury.

4849. Sir Alexander, apparently there has been a very heavy over-expenditure in all these countries. Could you say what percentage of the money is spent abroad and what percentage is spent at home?—(Sir Alexander Cadogan.) I am afraid I cannot answer that. Perhaps Mr. White can.

4850. I only want it approximately. Is 50 per cent. spent abroad?—(Mr. White.) More than 50 per cent.

4851. Seventy-five per cent.?—I should say it is near 75 per cent. In these accounts you will see "Home Division"—Subhead T: that represents our work in this country. That is £157,000; then there is the Administration subhead totalling £134,000.

4852. Is that spent here?—That is all spent here. It is rather difficult to divide it up, but a good deal of the money on things like books and films would be actually spent in this country for use abroad.

Sir Irving Albery.] We shall be getting on to the details of the account presently, Mr. Benson.

Mr. Benson.

4853. I am not trying to analyse the accounts. On your own showing, on those figures the amount spent abroad must be approximately 50 per cent., not 75 per cent.—or not more than 60 per cent.?—I was not quite sure whether you meant spent for purposes abroad or actually spent abroad.

4854. I meant money drawn abroad?—I should think it would be nearer 50 per cent. or even less.

4855. Let us take it as 50 per cent. in round figures. Sir Alexander, I assumed from what you said that the bulk of the overspending had occurred abroad, and if we take the balance in hand, the overspending and the overdraft, that means that abroad something like 30 per cent. has been overspent. What instructions

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have your Embassies been given with regard to indents made on them by the British Council?—Under the revised system—

4856. No. I want to know about it under this system?—(Sir *Alexander Cadogan*.) I am afraid I cannot answer that off-hand. I do not know.

4857. Was the British Council or the local representative of the British Council given *carte blanche*?—No. I imagine not.

4858. There must have been some control?—There must have been some instruction, I agree.

4859. Surely we ought to know of that—be able to know that?—I am afraid I have not the information here. Of course, I will obtain it.

4860. Did you not anticipate that a question on that would be put?—No, I am afraid I did not.

Mr. *Benson*.] Anyhow, I should be very glad of a memorandum on that subject.

Sir *Irving Albery*.

4861. You will let us have one, Sir *Alexander*?—Yes.*

Mr. *Benson*.] That is, on the question of the instructions to the Embassies.

Sir *Irving Albery*.] It is to the Missions, I think.

Mr. *Benson*.

4862. I want to know what instructions they had from the Foreign Office as to indents by the British Council?—(Sir *Gilbert Upcott*.) In the year under review.

4863. In the year under review?—(Sir *Alexander Cadogan*.) Yes.

Sir *Irving Albery*.] On these accounts—not subsequently.

Mr. *Benson*.

4864. I noticed that you did not know what a grant in aid was. When Mr. Douglas asked you what a grant in aid was you were not quite sure?—I do not remember that.

4865. A moment ago Mr. Douglas asked you what a grant in aid was—whether the £35,000 was returnable to the Treasury or not, and you did not know. Who is it in the Foreign Office who is charged with the actual accounting machinery?—Actually, the Chief Clerk, Mr. Ashton-Gwatkin.

4866. Have you, like they have in other Departments, an accountancy department?—Yes. Mr. Ashton-Gwatkin is here.

4867. He is head of the accounts department?—Yes.

4868. What made me ask was that from time to time the accountancy department of the Foreign Office seems to break down?—I was not aware of that.

4869. We are. This is not the first time the Foreign Office has been in trouble over its accounts with the Public Accounts Com-

mittee. What steps have been taken in the last 12 months to strengthen the accountancy side of the Foreign Office?—If I could have accepted your statement that the accountancy department had broken down I should certainly have caused an inquiry to be made, and I should have taken every step possible; but I was not aware of it, and if I might ask, I should be glad to know in what respect the accountancy department has broken down?

4870. Here is a rather serious matter that a grant in aid has been overspent by a considerable sum. I do not remember (and I have been on the Public Accounts Committee now for some time) ever having had that quoted to us before. Then there was the expenditure in Egypt over which we had trouble a little earlier this year. Before that there was the trouble with regard to the accounting for, I think it was, Red Cross materials?—(Sir *Gilbert Upcott*.) Polish relief.

4871. Yes—Polish relief. That is a fairly good list for a Department which is not handling very large sums of money in two years. These are technical breaches. It is not a question of the amount of money. These are technical breaches of Government accounting which have occurred in the Foreign Office more frequently than they do in other Departments which are handling enormously greater sums. Therefore I do suggest that I am right in asking you whether you are satisfied with the structure of your accounting department?—Yes, I was, but if you wish, or if the Committee wish, to formulate any charge and put a case to show that the accountancy department of the Foreign Office has broken down, of course obviously it would be our duty immediately to investigate and take such steps as may be necessary.

4872. I suggest, Mr. Chairman, that it is not for the Public Accounts Committee to formulate a charge. I am merely drawing your attention, Sir *Alexander*, to these matters and asking you if you are satisfied that your accountancy department is up to standard?—I have answered you—yes.

4873. You are satisfied?—Yes.

Mr. *Touche*.

4874. One thing that puzzles me is this. When the Missions receive the accounts from the British Council do they just pass them on without any check at all?—I am afraid I have had to confess, in reply to another question, that I am not quite sure what our instructions to our Missions were. If you will allow me to do so, Mr. Chairman, I will go into that and present you with a report.* (Sir *Gilbert Upcott*.) I do not think the Missions received any accounts. What they did receive was a request for an advance.

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4875. Giving no reasons?—That I cannot say. I imagine they would give some reason.

Sir Frank Sanderson.

4876. I should like to ask one question with regard to the overdraft. Is there any limit to the credit facilities which are granted to the British Council, or am I to take it that no credit facilities are granted? It is merely a question of the bank permitting an overdraft to take place without authority?—(Mr. White.) There was some cover from the Finance Officer of the Foreign Office. It was an overdraft for a very few days—certainly not more than a week, because on the 1st April our money came in for the new year.

4877. But are any credit facilities granted to the British Council? In other words, are they empowered to overspend their grant in aid?—No. I only know of one instance in which we are, and that is in connection with a very special thing—the capitalisation of some book trading. The Treasury have arranged for us to overdraw, if necessary, as a capitalisation grant.

4878. Could you tell me whether you would regard it as remiss on the part of the British Council in overspending, or was it remiss on the part of the bank for granting an overdraft?—I should have to admit that we could not blame the bank for that. I think we should have to take the blame on the British Council.

4879. I take it the bank is covered by the Foreign Office for all practical purposes?—Yes, they know we are working under the Foreign Office.

4880. There is one other point. Are such credit facilities granted to the respective branches of the British Council in foreign countries? In other words, have they the power to overdraw their grant in aid?—No, I am pretty sure they have not.

Sir Irving Albery.

4881. They get their money from the Missions?—(Sir Alexander Cadogan.) Yes; that is really what it is. (Mr. Douglas.) Might I ask a further question, Sir Irving? (Sir Irving Albery.) Yes.

Mr. Douglas.

4882. Sir Alexander mentioned some of the agencies of the British Council abroad drawing upon the Missions, which, I take it, are agencies of the Foreign Office, for money that they required, and that the bills did not reach this country for six or nine months. What is the reason for that?—I think perhaps I did say six or nine months. I am not sure actually it was quite as long as that but the accounts are rendered quarterly, I think. Is not that so?—(Mr. Ashton-Gwatkin.) That is right. (Sir Alexander Cadogan.) And possibly, with the communications nowadays, it may have taken in some cases four or five months for us to get the accounts.

4883. As I understand it, the British Council branch abroad drew so much cash from your Mission. Is that right?—Yes, I think that is so.

4884. Is there no arrangement for reporting promptly how much cash is actually spent?—That is the arrangement we are making now.

4885. But up till that time was there no arrangement by which you had a report promptly of how much cash was being spent?—No; I think up till now it has been rendered in quarterly accounts. (Mr. Ashton-Gwatkin.) The Missions abroad—that is to say, the Embassies and the Legations—submit their accounts quarterly. Those accounts include not merely expenditure for diplomatic purposes—the ordinary expenditure of the Mission—but in war-time expenditure for all kinds of other things besides such as expenditure undertaken for other Government Departments, and for this and for that including the British Council. These accounts come in to us here at the end of each quarter, with the delays that there often are, consequent upon war conditions. We then have to examine those accounts and raise queries, if necessary, with the Mission on doubtful points, and at the same time we have to recover from our sub-accountants, the other Government departments, including the British Council, for whom the Mission has advanced funds, what is due to us from them. That is the normal machinery of these accounts.

4886. Had your Mission no instructions as to the amount of money which they were entitled to advance for this purpose?—We have undertaken to look into whether such instructions have been given and exactly what was their nature. I cannot quote it here and now. Normally the Mission would advance to the British Council what appeared to be its reasonable requirements. It would not be up to the Mission—at any rate under the old instructions or non-instructions—to inquire whether the British Council's local representative was empowered to ask for such and such money or not.*

4887. I want to ask one other question which you may deal with in your memorandum on this matter and that is this: If your Missions had no definite instructions as to the limit of the advances were they not under an obligation to draw your attention promptly to the amount they were advancing. You see, the position is very different from that in which they would stand if they had a limit which they had not exceeded. In that case they would be working to a normal understanding which did not require to be reported promptly, but if there was no limit fixed and they

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advanced money simply on demand, surely they were under an obligation to draw your attention to it quickly?—(Sir *Alexander Cadogan*.) Your suggestion would be that they should be told the limit up to which they could advance?

4888. It is commonsense, is it not?—Yes.

Mr. *Benson*.

4889. Mr. Ashton-Gwatkin said that the accounts were presented quarterly. How is it that, with a quarterly presentation of accounts, your accounting department did not become aware that on one particular item, and not a small item—that is, the money paid out to the British Council—there was a steady overspending of approximately 30 per cent.?—(Mr. *Ashton-Gwatkin*.) The Foreign Office accounting department would not be in a position to know that the British Council authority in Ankara or Uruguay or Abyssinia, or wherever it might be, was overspending his account. The account would come in from the Mission at that post, and it would then be disentangled by our people in London, and the British Council item would be referred to the British Council authorities here in order to obtain repayment of the money advanced. It would, therefore, only be when these accounts came in to the British Council themselves that they would be in a position to see that there had been overspending.

4890. Might I just relate that to the statement made by Sir Herbert Brittain that the expenditure allowable in each country was fixed—it was not a global expenditure. Does that mean that the Foreign Office is not privy to the estimates made by the British Council on which the grant in aid is based? Does it mean that you do not know what the British Council are going to spend and where?—(Sir *Herbert Brittain*.) If I may answer that, I am sure the Foreign Office do. They have the estimates. But I do not think it is really their business almost to duplicate the accounts of the British Council in such a way that they can see whether, under any particular subhead during the course of the year, there is likely to be excess expenditure. That is primarily the business of the British Council, in the Treasury's view; and it may be that the Foreign Office cannot see the whole picture. As Mr. Ashton-Gwatkin has said, these accounts come in during the year quarter by quarter, and I doubt if they are in a position to see the whole picture, for some time, at any rate.

4891. Surely the accountancy department of the Foreign Office has had before it the estimates on which the grant in aid is based? Do you suggest that an accounts department which was adequate could see that large sums amounting to 30 per cent. were being steadily overspent in one section without noticing that, in view of the fact that they themselves were parties to the

original detailed estimate?—They might very well notice it, but I do not think we can say really that it was their business to call the attention of the British Council to the fact throughout the course of the year. They might not know, for instance, whether the expenditure was arising in the first six months and that there was very little later on, or something like that. It is the British Council's responsibility, I am sure, Mr. Chairman, to pick up a thing like that. The Foreign Office activities of which Mr. Ashton-Gwatkin has been speaking are really the activities of a banker who has paid out certain funds and is looking to be reimbursed; but that is quite a different function from sitting on top of the British Council, as it were, and seeing that they do not exceed any individual subhead.

Mr. *Benson*.] The function of an ordinary banker is not quite so generously exercised, perhaps—not by my banker.

Mr. *Douglas*.

4892. On that, may I ask one other question. Do the agencies of the British Council abroad draw money from any other source than the Missions of the Foreign Office?—(Mr. *White*.) Yes. They have banking accounts and moneys sent out direct. The drawing of money through the Missions is only one means of drawing it.

4893. Is not that a most confusing and irregular state of affairs? If they are drawing money from two different sources at the same time how can anybody control it?—I do not think it happens from both sources in one country. I mean that in some parts of the world we have not a representative, or possibly not a bank, and then the representative has to come to His Majesty's Mission for the money. In other countries he has a banking account. I think that is the case.

4894. In any particular country it is drawn from one source and one source only. Is that right?—I think it is now. I will verify that.

4895. It was not so in 1942?—It may not have been. I cannot answer that off-hand, because there may be parts of a country where His Majesty's Missions may be used in headquarters, and other sources may be used elsewhere. I am not quite sure of that.

4896. It does indicate that the accounting methods of the Foreign Office are inadequate?—(Sir *Gilbert Upcott*.) May I add one word? It is true that it is the duty of the British Council to control its own expenditure, and it is very difficult for the Foreign Office to know what is going on, but it is the duty of the Foreign Office not to allow grants in aid to be overdrawn; and that brings me back to the position that, whatever reformatations have been made since 1942, it is a question whether the grant in aid system is suitable for the financing of this Council.

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Sir Irving Albery.

4897. I take it the Treasury concur in that?—(Sir Herbert Brittain.) The question whether there are any other means of providing the funds than by a grant in aid is rather a large question, and I do not know whether I am called upon to express an opinion upon that at the moment. I am not sure precisely what the alternative is. I do not know whether it could be met by keeping the grant in aid system and presenting more detailed accounts to Parliament of how the money has been spent. (Sir Gilbert Upcott.) The alternative is to have an independent Vote with an independent Accounting Officer. (Mr. White.) There is just one point. I think the 30 per cent. is wrong and gives a wrong impression.

Mr. Benson.] You have spent 15 per cent. more than your total grant, than your vote in aid—

Sir Irving Albery.

4898. Let Mr. White say what he was going to say. I do not think he had finished?—That is all. I do not see how the 30 per cent. is arrived at. It seems to me our overspending was £51,000 out of an overseas expenditure of, say, £460,000, which is only just over 10 per cent.

4899. You overspent the grant in aid by £35,000, by £50,000 and by £42,000 overdraft?—I think the overdraft is quite a distinct thing, because the actual cash overdraft at the bank was due to our not being able to get money which was due from the Government Departments—the Ministry of Information, for instance—which we expected to get in March and could not get until April. So the actual cash overdraft from the bank in that way was put right very quickly. (Sir Gilbert Upcott.) That was not overspending. That was merely working capital. (Mr. White.) Yes.

4900. Your overdraft was paid off not from a grant in aid but by reimbursement from other Government Departments?—In a sense. I think we overdrawed the last two days in March and the Government cash came from the Finance Officer of the Foreign Office on the 1st April. That actually cleared off the overdraft, but very shortly afterwards we got in this money which we should have got in March.

4901. How much?—I was told this morning it was £40,000.

4902. That does definitely reduce the 30 per cent.

Sir Irving Albery.

4903. We now come to the accounts in greater detail. I wanted first of all to ask for a brief explanation of the organisation of the British Council. Perhaps Mr. White could give us that?—(Mr. White.) You mean the sort of constitution of the Council?

4904. Yes?—Under the Charter the control of the British Council is vested in the Executive Committee. The Executive Committee consists of 30 members, nine of whom are nominees of certain Government departments, like the Secretary of State for Foreign Affairs, the Dominions, the Colonies, the Board of Trade and the Chancellor of the Exchequer—who has not exercised his right to nominate anybody. There are nine in all. There is the Secretary of State for Scotland as well. That Executive Committee meets quarterly, and it has appointed a Sub-Committee called the Finance and Agenda Committee, which meets monthly. The budget estimates, of course, are put before the Finance Committee and the Executive Committee and all supplementary projects during the year costing £100 or more are put before the Finance Committee. There are a very large number of advisory committees, mostly on technical subjects, such as films, books, science, medical, and so on. They are in the position of advising; they have no authority to sanction expenditure.

4905. Are they paid or unpaid?—The members are all unpaid, as are the members of the Executive Committee. That is the constitution of the Council. The permanent organisation of the Council is in divisions—some of them geographical, and some of them what we call functional. For instance, we have an Empire Division under Sir Angus Gillan; we have two Foreign Divisions, and we have a Home Division for work in this country. Then we have a Director of Education, with the Educational Services under him—appointments, students departments, and so on. We have a Finance Officer with Finance and Accounts under him. We have a Director of Production, who has all the technical departments under him—the film department, the Press, books, periodicals, publications, and so on. Then there is a Deputy Secretary General working under me. He has certain machinery under him like the office administration, travel arrangements, appointments and general office machinery.

4906. Subhead B.1 refers to grants to British Council institutes and societies in foreign countries. What are these institutes exactly, and about how many are there?—The ones under B.1 are actually our own what we call British Institutes in nearly every case. A large number of them are situated in the Middle East because the ones under South America fall under B.2. But we have them in the Middle East and in Portugal and Spain and one or two other countries. They are rather difficult to describe, but they are partly social clubs where the British and the people of the country can mix, and partly institutions for the teaching of English, running in some cases very large numbers of English classes.

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4907. About how many?—They vary enormously

4908. B.1 I am talking about at the moment?—The size of an institute?

4909. No: I meant how many?—There are between 40 and 50. There are 9 in Egypt for instance and there are 3 in Iraq.

4910. You do not have one in each country, but several in each country?—Yes. There are actually 9 in Egypt which we are now reducing to 6.

4911. And there are actually about 40 altogether?—There are about 40 British Institutes.

4912. B.2 refers to other institutes and societies in foreign countries. What does that mean?—These have very much the same purposes but they are differently constituted, usually because of the political condition of the country or the situation of the country. In South America, for instance, it would be illegal for this country to set up British Institutes in their countries—in nearly every South American country. Therefore the Institute in that country has to be what we call an Anglo-phil Society, and our Institute in Rio de Janeiro, for instance, which is a very big one with over 2,000 members, is a Brazilian Institution. It has a Committee running it, consisting of a Brazilian President with a majority of Brazilians on it.

4913. What do you call them in the particular country?—What is the Brazilian one called? I do not mean the Portuguese name?—They vary very much, but they usually translate into English: "The Brazilian-British Cultural Association."

4914. Where you are not allowed to have institutes, would it not be better to describe them differently in the accounts, as they are not the same as the other institutes? But that is not an important point. Sub-heads C.1 and C.2 refer to grants to schools in foreign countries. Could you tell us something about that?—C.1 refers to three smaller schools in Egypt which the British Council took over (it was during Lord Lloyd's time) because they were petering out and it was considered a good thing that they should not be allowed to fall by the way. We took them over and they are our own institutions.

4915. Are they English schools?—They are English schools but I think they have all a certain number of Egyptians or Arabs. But they are a majority of English pupils in those schools under C.1.

4916. I take it that they give what you might call an English education?—Yes. It is an English staff.

4917. Now Subhead C.2?—In countries all over the world we are supporting certain schools. All these schools under C.2 are British schools; that is to say, they have British headmasters. Some of them

have a majority of English pupils, but most have a majority of nationals of the country concerned—like the Victoria College at Alexandria.

4918. Following on the same matter, under Subhead M.1 you have "Non-recurrent grants to British Council Institutes and Societies in foreign countries." What are non-recurrent grants to British Council Institutes?—Those would be capital grants either for adding rooms on to a building, or, more often, for equipping new institutes or equipping new rooms at institutes. Practically all our institutes are in rented premises, so that refers almost entirely to furnishing new institutes.

4919. That is with regard to the non-recurrent grants under Subhead M.1?—Yes, that is M.1.

4920. And M.2?—The same thing applies to those. They are very similar institutes in South America which we have to call Anglophil Societies.

4921. I take it that the non-recurrent grants to British Council schools in foreign countries, which is Subhead N.1 and the non-recurrent grants to other schools in foreign countries, which is Subhead N.2, are capital expenditure?—Yes, the same applies there.

4922. I am going back to Subhead F "Supplementation of salaries of teaching posts at Institutions (not otherwise assisted) in foreign countries." What does the supplementation of salaries of teaching posts at Institutions mean?—A typical instance would be expenditure on subsidising British professors in Istanbul University.

4923. Subhead Q is "Films." What are your activities as regards films?—We have no film making unit, but we commission film companies to make films for us—non-political films, not connected with the war, but films about any aspect of British life.

4924. Do you get expert advice on that?—Yes, we have a film department with experts in it.

4925. But you do not produce the films?—We do not produce the films, but we have a big say in the production. We get the script submitted to us and we are watching the film throughout its production.

4926. Are they produced by contract?—Yes.

4927. You have expert advisers whom you consider qualified to give you expert advice on the matter?—Yes. We have an elaborate contract form which has been drawn up in consultation with our legal advisers, and we have men in our film department who are used to dealing with film companies.

4928. A contract drawn up by a legal adviser would be merely, I take it, safeguarding the legal side of the question, but what about the financial side?—I think our

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film department are experienced in that. We have Mr. Kearney, who is a man of about 60, who has had a lifetime of experience in the film trade. The actual cost of films does not vary very much; you know fairly well what a film will cost if you know how long you want it and the type of film you want.

4929. They are mostly cultural or educational films?—Yes, they are. There are films on Ulster, films on Scotland—there is a film on the Clyde.

4930. Who decides what kind of film is to be produced?—We have a film committee.

4931. Subhead R1 is "Press." Can you say anything about that? What is that expenditure?—That is very largely the sending out of material unconnected with war or politics—background material about Britain similar to the background we send out under other heads, which is sent out for insertion in the Press overseas. A very large proportion is photographs, because we find that photographs are extremely effective.

4932. This is not the cost of sending the things out. It is actually the cost of paying for insertion, do you mean?—We do not pay anything for the insertion. We do not buy space. For instance, we spent £24,000 on photographs during that year. That included the cost of our own developing and our own photographer.

4933. Do you produce any newspapers?—We run the "Anglo-Portuguese News" in Lisbon. We also run the "Cyprus Post" in Cyprus. We have given subsidies to the "South Pacific Mail" in South America and the "Tangier Gazette," and some newspapers in China, but we have managed to get rid of all those and we are trying our hardest to get rid of the "Cyprus Post," because we do not like running newspapers. It is against our principles.

4934. What is the circulation?—I have not the circulation of the "Anglo-Portuguese News." It is small—a few thousand. The "Cyprus Post" is very much higher now because it has been selling well amongst the troops; that has put the circulation up a lot.

4935. What do they cost you?—The "Anglo-Portuguese News" costs us £1,500 a year to run. That is the deficit on running it. It is actually the only newspaper issued in English on the Continent of Europe at the present time.

4936. What does the "Cyprus Post" cost you?—About £2,500. I am not sure but I think we have reduced that deficit since.

4937. Subhead T is "Home Division," in respect of which you have a large figure of £157,000. Can you give us some of the chief items of that expenditure?—It is

extremely varied. It is to provide cultural education and, to a certain extent, social facilities for people resident here from overseas. That applies to all the Allied nationals and their troops, and the Americans and Canadians. We have centres all over the United Kingdom with staff there, who arrange for these people, where necessary, to be taught English. There is not so much of that now, but there is a great demand for education courses at the universities, and we help with the fees for that.

4938. When you are breaking these up, can you break them into the main sub-headings and give the expenditure?—Perhaps I could take it in the order in which I have it here.

4939. Just take out the principal ones.—One of the most important things is the furnishing and the provision of national centres in London. We have the Polish House, the Belgium House, the Czechoslovakian House, and so on.

4940. Are the Dutch included?—Yes, in Grosvenor Square.

4941. You furnish all those?—That varies very much, because some of these countries, like the Netherlands, were able to put up some of the money. We share fifty/fifty in the Netherlands Institute, both in the equipment and maintenance. Some of these other countries like Poland and Czechoslovakia, which we helped to start these national centres when they came over here, could not put up any money. We had to shoulder the whole of it and have practically to shoulder the whole of it now. There is the Scottish Polish House in Edinburgh and the Scottish Czechoslovak House in Edinburgh and the Scottish-French House in Edinburgh. There is a very big Allied centre in Liverpool. That caters partly for any Allied nationals in the neighbourhood, but mainly it caters for Merchant Seamen of all countries arriving in Liverpool. It is somewhere for them to go and listen to lectures and have tea. All those would come in the year under review to about £30,000.

4942. That would be in the nature of money handed out as a subsidy; not actually expenditure by the Council. You did not spend the money; you handed the money over to them to spend—It is more a case of spending it jointly with the Government concerned. We have a joint committee with representatives of the Governments.

4943. That is £30,000. That still leaves £127,000. Would you give us some other principal items of expenditure?—There is the Institut Français which is run in London and was subsidised to the extent of about £14,000 from Lille University before the war. In 1940 that source was cut off, and so we were asked by the Treasury and the Foreign Office to include this in our Vote. That is another £14,000. Then

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there are what we call cultural and social centres which do not quite amount to being national centres; they are on a smaller scale. We have a very large number of them now. That amounted to about £10,000 or £15,000.

4944. What are they—are they kind of clubs?—Yes, they are clubs. It is more nearly a case there of giving them subsidies, although we watch it carefully.

4945. What would you say is the main difference between the ones on which you spend £30,000—Dutch House, and all those kinds of places—and these to which you are now referring?—The former are very much bigger and they have more of an educational side with lectures and classes.

4946. Which have?—The big national centres which we run jointly with the Government. These other local centres are called cultural and social centres, and are more in the nature of social clubs.

4947. I should have thought the ones in London were more in the nature of social clubs—the sort of place people go to to get meals?—They have a big social side. I only mean that in London they have classes, and so on, but I do not think they have those in the Provinces so much.

4948. Is there any other big item? You have given me £30,000, £14,000 and £7,000?—£14,000 for the Institut Français. Then there are students: we give a large number of grants to Poles, Czechs and so on who are in this country—the children of Poles and Czechs, children of Government officials, and so on, to enable them to continue their university education in this country.

4949. The children of Government employees in this country?—Some of them are, yes. The poorer ones are not. Others are just refugees. They are very carefully selected by an outside selection committee.

4950. With reference to the means of the parents or with reference to the ability of the student?—Both with reference to the means of the parents and the ability of the student and the grant is adjusted accordingly. We do not pay the whole fees. I think they vary from £30 up to £60—that sort of grant.

4951. How much does that amount to?—In that year it came to £22,191. There are also vacation courses, and we do a lot of that—arranging vacation courses for these young people.

4952. That is included in the £22,000?—Yes.

4953. I should like one or two more big items?—Salaries in that year would have come roughly to £30,000.

4954. Have you any large item for rent or accommodation?—At that time we managed to get our staff accommodated

very often in universities. Universities were kind enough to lend us offices free. It would be a very much bigger item now because the staff has grown.

4955. Would it be much trouble to let us have that item? It is not broken up in the accounts anywhere?—No.

4956. Could you let the Committee have perhaps that item of £157,000 broken up?—Yes, willingly. You would rather have it for this year than for the current year?*

4957. We want it for the year under review. Then Subhead V is: "Representation abroad," a figure of £100,000. Can you tell us something about that?—That is our administration staff abroad. Now we have representatives in nearly every available country, in foreign countries and colonies.

4958. Does that represent their salaries?—And the maintenance of the office.

4959. It does not involve anything except office accommodation, I suppose? The rest is included in the pay? You do not have houses for them or that sort of thing?—No, it is all rented accommodation.

4960. In about how many countries are you represented?—I should think we have probably about 40 representatives abroad—country representatives.

4961. What would you call their main work? Before leaving the figures could you just break that up a little bit? If you have about 40 representatives the salaries represent how much?—I am afraid I have not the details.

4962. Perhaps you could let us know how much represents salaries, how much offices, and the other chief items?—Yes.*

4963. Now would you say what is the main work of these representatives?—If we take Egypt as an instance, we had nine institutes during this year. We have just reduced the number to six. The representative would be responsible for the policy in those institutes. There would be a director of each institute, but he would be responsible for co-ordinating.

4964. He would be your chief representative in that country?—Yes. In Egypt, for instance, it is Mr. Reid, who is a very well known figure in Egypt who has been there for a long time and was Headmaster of Victoria College. He is well known to the Egyptian authorities. He would be responsible for assistance to British schools and also for selecting students who come over here with scholarships.

4965. About how many staff would they have in an average office?—I think he has two or possibly three administrative officers attached to him and there would be typists.

4966. Am I to understand that in these 40 places where you are represented, the representative is the man who manages your affairs in that place?—Yes.

* Paper circulated to Members: not printed.

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Sir Irving Albery.] Are there any questions?

Sir Edmund Brocklebank.

4967. I was very interested to hear that Lille University subscribed to the Institut Français. Was Lille the only source of their income, do you happen to know, that you have taken over, or were there other universities also subscribing?—I am pretty sure they depended entirely on Lille University.

4968. Are there any other institutes of a similar type which have by similar means been supported by foreign universities in this country, and which have been taken over by you?—No. I should think that is probably the only institution of this sort. There is also the French Lycée, which is a big school in this country, but actually that £14,000 covers the upkeep of that school, which is now up in Cumberland.

Sir John Mellor.

4969. We were told by Mr. White that about 50 per cent. of the total expenditure was actually spent overseas. Can you say what proportion of that 50 per cent. would be spent within and what proportion without the sterling area?—A very big proportion of it would be spent in the Middle East, in Egypt, Turkey and Irak. They absorb a very big proportion of our expenditure now.

4970. Would a relatively small proportion be spent outside the sterling area?—Yes.

4971. With regard to the question of exchange generally, is that a matter—if I might ask Sir Herbert Brittain this—which is watched by the Treasury rather closely in this connection—the amount of foreign exchange involved in wartime through the expenditure of the British Council outside the sterling area?—(Sir Herbert Brittain.) Certainly. All departmental demands are made known periodically to the Treasury and the Bank of England, the exchange control, and they have to be agreed from time to time. I should imagine the British Council's expenditure outside the sterling area would be a very small proportion of our total expenditure, but it

(Mr. White withdrew.)

VOTE OF CREDIT APPROPRIATION ACCOUNT, 1942. FOREIGN OFFICE.

Sir Irving Albery.

4977. Will Members turn to the Vote of Credit Appropriation Account, to paragraphs 6 and 7 on pages iv and v of the Report of the Comptroller and Auditor General. I propose to take those two paragraphs together. They deal with the purchase of French Colonial commodities. Sir Alexander, on the matter of the bananas

would, nevertheless, be watched like anybody else's. I should not say that is a very strong factor in deciding how much the Council should spend. I do not want to put it too high, but we should know about it anyway.

4972. It would receive the same scrutiny as any other Department's expenditure?—Yes, certainly.

4973. With regard to the institutes or societies in countries where they cannot remain under British control, I think you said that in Brazil there the Society had to be under Brazilian control. Does that mean under Brazilian Government control, or under the control of private Brazilian citizens?—(Mr. White.) Technically, it is a Brazilian Institution, but the Board would consist of Brazilian unofficers almost entirely; and I should have added that the Director of these Societies is invariably, with one exception in the world, in La Paz, an Englishman, and in practice the control is in his hands very much—anyhow, in South America—and the Board meets possibly only once a year and approves what he has done.

4974. It would be like a company where the majority of the voting rights was in the hands of Brazilian nationals. Is that the position?—Yes.

4975. In those cases you do not sink much capital, do you, in these societies?—Practically none at all, except so far as gifts of books for the libraries and that sort of thing are concerned. We have to hand those over, but we have never bought a building, for instance.

4976. One other question. You said it was against the principles of the British Council to run newspapers. Is there any special reason for that?—We are not quite certain that it fits conveniently into our system, and our experience in the last few years has shown that it is an extremely embarrassing thing to do.

Sir Irving Albery.] Are there any further questions either on the British Council accounts or on the account in the Civil Appropriation Accounts? May I take it that the Account is approved? (Agreed.) Thank you, Mr. White.

destroyed, can you tell us what the cost of the bananas destroyed was?—(Sir Alexander Cadogan.) We purchased bananas to the extent of £74,131, and I think that the whole of those had to be destroyed. This purchase was made, of course, rather more for political and general economic reasons than as a business deal. The crop, I gather, was there and gathered.

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There was no hope of suitable tonnage being available for its shipment, and the whole purchase, which amounted in weight to nearly 14,000 metric tons, had to be destroyed. The certificates of destruction have been received. (Sir *Gilbert Upcott*.) I have seen the certificates of destruction. They were furnished in this case by the French Commission.

4978. In paragraph 7 the Comptroller and Auditor General states: "The remaining £75,000 charged in the present account was advanced by the Treasury in the year 1940. . . ." How is it that an advance of £75,000 in the year 1940 appears in the 1942 accounts? I am not quite sure whether that ought to be put to Sir Alexander or Sir Herbert Brittain?—(Sir *Herbert Brittain*.) In 1940 representations were made to this country that the importers of French Equatorial Africa were short of finance for their trade. Products were accumulating there and we were asked to provide a credit of £250,000 as a temporary repayable credit, which would have set the wheels of trade moving again. We agreed to do that by placing that money to the account of a French bank. That was a purely financial credit and the sort of thing which the Treasury ought to handle and did handle. In fact the credit does not seem to have been used entirely for that purpose, but was used very largely for administrative purposes of the Government of French Equatorial Africa. Naturally, as the Committee will understand, it was rather difficult to keep very close touch at the time, but, whatever the money was used for, we got a certificate of indemnity from the French Government, rather on the lines of the certificates we get in respect of ordinary military credits given to them out of the Vote of Credit. We got that certificate, but they came along afterwards—this was late in 1942—and found that out of that £250,000 about £75,000 had not been used for their own purposes but had been used to buy foodstuffs for us, and, in the circumstances, that was hardly a proper thing for them to acknowledge indebtedness for, and we agreed. So the certificate of indebtedness really given to us was for £250,000, less £75,000. That indebtedness was still a Treasury matter. But as regards the £75,000, that having been spent on foodstuffs for the British Government, it was the same character of expenditure as other expenditure which was being incurred at the time by both the Foreign Office and the Colonial Office, and we thought in the special circumstances of the case we might properly ask the Foreign Office to bear that expenditure as they were in fact bearing similar expenditure for similar purposes in other parts of the French Empire. I must confess to the Committee that it was perhaps a rather unusual request for the Treasury to make, but the circumstances were unusual, and I do not think they will be likely

to arise again. The delay in approaching the Foreign Office was due to the fact that we did not ourselves know, until perhaps two years after the money had been originally advanced, that it had not been used for this purpose.

4979. Sir Gilbert, have you any comment to make about this?—(Sir *Gilbert Upcott*.) Sir Herbert has explained that the Treasury were rather the victim of circumstances, but it is a very bad precedent—in fact I hope it will not be regarded as a precedent at all. Sir Alexander has been criticised and no doubt will be able to defend himself. In this case he is rather more sinned against than sinning. I do not think it is consistent with the usual regard that the Treasury pay to the functions of an Accounting Officer and with his duties to this Committee that an Accounting Officer should be called upon to take responsibility for expenditure two years after it has been incurred. The function of an Accounting Officer is to lay down conditions on which money should be spent, and to see to the manner in which it is accounted for and to answer for it to this Committee. It is quite clear Sir Alexander is not in a position to do that as regards this expenditure, and neither I nor the Committee can find much fault with him, because no certified account has been rendered, and at the date of signing this Report no one knew what had happened to the commodities purchased or where they were. (Sir *Herbert Brittain*.) I may point out that I do not think the strictures of the Comptroller and Auditor General—with most of which I frankly agree, and I have told the Committee the circumstances were most unusual—have anything to do with the fact that there was no account of what had happened to the goods. I think we should have been just as short of an account of what happened to these goods at the time when the Comptroller and Auditor General presented his report as the Foreign Office were, but since then the Foreign Office have got full particulars of what happened to them.

4980. You said that it was most unusual. I gather the Comptroller and Auditor General says it is not unusual, but probably almost irregular. What steps should be taken to prevent such a thing happening again?—I should entirely agree with Sir Gilbert that it is not a precedent in the least and we should never regard it as a precedent for asking an Accounting Officer to take responsibility for something over which he had no control from the very beginning.

4981. Do you maintain that it could not have been avoided in the present circumstances?—No, it could have been avoided by the Treasury retaining responsibility for expenditure on behalf of a service which the Foreign Office and other Departments were looking after at the same time. We

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thought that in all the circumstances there was something to be said for bulking this with the rest of similar expenditure on purchases in the French Empire.

4982. Do you wish to add anything further, Sir Gilbert?—(Sir Gilbert Upcott.) No. The Treasury could have treated this money as an advance to the French authorities. (Sir Herbert Brittain.) They would not accept it as an advance. (Sir Gilbert Upcott.) That is why I say it is possible that the Treasury were the victim of circumstances. What I want to emphasise is that I hope this will be regarded not only as an unusual occurrence, but as something to be avoided in the future, because it makes nonsense of the functions of an Accounting Officer.

Sir Irving Albery.] Are there any questions on those two paragraphs?

Mr. Douglas.

4983. Where would the bananas go to in normal times?—(Sir Alexander Cadogan.) I cannot say that. I do not know.

4984. The reason why you paid for them and they were destroyed was because of the failure of their normal market, was it not?—Yes. It was done, admittedly, not as an ordinary trade arrangement, but in order to assist the French territory concerned. It was really more in the nature of a subsidy to balance their account. I do not know where the bananas would have been shipped to normally.

4985. The occasion of it presumably was lack of shipping, was it?—Yes, I suppose so. Probably owing to lack of shipping the crop had accumulated; it had been stored there and a great part of it, I suppose, was already damaged and there was no means of moving it, immediately or sufficiently soon.

4986. Did you make this payment after the crop had been stored and had become unsaleable?—Payments were made certainly after the crop had been stored. I cannot say whether all or part had already become unsaleable when the payment was made.

4987. Did anybody give any consideration to the possibility of drying the bananas?—Yes. Apparently, they are not susceptible to de-hydration.

4988. That is not so. Dried bananas were a well known commodity long before the war?—I must bow to your ruling on the subject.

4989. They are a very useful and valuable food, occupying far less space than the raw bananas?—I was informed to the contrary; I must have been misinformed.

4990. You have been misinformed. Had not somebody better look at this, before any more money is spent on more bananas?—In any case I do not know whether the process could have been carried through on the spot.

4991. I do not know whether it could have been on the spot; but the answer is that it was not investigated at all, apparently?—I am not sure. (Sir Gilbert Upcott.) The essence of this transaction, I understand, was that the bananas could not be removed from the Cameroons.

4992. It may be that they could have been removed if the bulk had been reduced to one-fifth or less by drying. I should like to know whether any inquiry was made about that. Will you let us have a note?—(Sir Alexander Cadogan.) I will go into it further. I have here a statement to the effect that preservative treatment such as de-hydration was not a serviceable undertaking, owing to the low food value of the product. But that is contrary to your information and I will find out what investigation was made at the time and what the result of that was.*

Mr. Benson.

4993. Referring to the £75,000 mentioned in paragraph 7, Sir Herbert said that was the residue of an advance of £250,000 to the French Cameroons. Is that correct?—(Sir Herbert Brittain.) French Equatorial Africa—yes.

4994. How comes it that an advance of that kind is spent on food for British Forces?—I do not know whether it was for the British Forces. It was certainly spent on instructions given by someone locally on the purchase of goods which were nominally for this country. (Sir Alexander Cadogan.) The bulk was coffee, I think. (Sir Herbert Brittain.) Yes, the bulk was coffee.

4995. I do not see how the two transactions fit together. First there is a loan by the British Government to French Equatorial Africa, apparently without any strings attached to it?—There were strings attached to it. In a telegram in which we agreed to £250,000 credit it was definitely said that it was to allow the bank to make advances to French importing firms who wanted to open channels of trade. As I explained in my opening comments, it does not seem to have been used for that purpose, but on the direction apparently of people on the spot it was used largely for the ordinary administrative purposes of the local French Government, and this amount of £75,000 was used for the purchase of coffee.

4996. It means that out of £250,000, £75,000 only was spent for the original purpose of the loan?—Yes, substantially that is what it amounts to. Even so, that was a different purpose—instead of being credits for importers.

4997. In effect none was spent for the original purpose?—No.

4998. Now we must look into the Accounting Department of the Treasury! How comes it that a loan is granted for

* Information supplied; not printed.

13 July, 1944.] The Hon. Sir ALEXANDER CADOGAN, G.C.M.G., K.C.B., [Continued.
and Mr. F. T. A. ASHTON-GWATKIN, C.B., C.M.G.

one purpose and is used for another purpose entirely?—We can only plead the conditions existing at the end of 1940. Conditions were very special, to say the least of it, in these French Colonies.

4999. Who had authority to allow this? I can understand the French Local Authorities, the grant having been made, utilising the money in between the time when the loan was made and the time you had advice as to its use, but who would have authority to expend the money for a purpose other than that for which it was granted? Would it be the French local authorities?—I think the French local Government did it, and, of course, it was covered by a certificate of indebtedness. Whatever it was spent on we hold a certificate against it.

5000. They utilised it for different purposes without advising you until after it had been done?—That is what it amounts to.

5001. Now with regard to the £75,000, how comes it that a grant which is apparently made to the Colonial Governor is now spent for us? Is it that they supplied material to us and then debited the grant with that amount, or did our officials in some way spend it?—I am afraid I cannot say with whom this idea originated, but it obviously suited the books of the local French Government that that money should be spent on buying products from us which were piling up in the stores of their own local producers.

5002. You have no really clear tale of what actually happened?—I do not think we have, as regards who initiated this suggestion.

5003. Where is the stuff now? Is there any track of it or of its disposal?—I think Sir Alexander said most of the coffee has come to this country and the bananas have been destroyed. (Sir Gilbert Upcott): That related to the previous paragraph. (Sir Herbert Brittain): It is the coffee here.

Mr. Benson.] The coffee has arrived in this country, has it? When the Comptroller and the Auditor General's Report was written there was apparently no information as to the destination or of the disposal of the products.

Sir Irving Albery. Would it suit you if the information were obtained for you, Mr. Benson? I am entirely in the hands of the Committee, but we have Sir David Monteath here waiting to give evidence. I was going to ask the Committee to try to expedite matters now as much as possible, otherwise we shall have to sit on another day.

Mr. Benson.] I have finished.

Sir Irving Albery.

5004. We now turn to the account which is on page 8.—With regard to Item 16: "Aid Raid Precautions in the Middle

East," £279,000 odd was spent. Can you tell us something about that, Sir Alexander?—(Sir Alexander Cadogan): That is, in the first place, air raid precautions in Egypt, the total of which is, I think, £274,700.

5005. It is nearly all in Egypt?—It is nearly all in Egypt. The expenditure in Irak was only £4,300. The main thing was Egypt. The origin of that was that in the spring of 1941, when matters looked pretty grave and Egypt appeared to be under the threat of air attack, our Commander-in-Chief became anxious about the situation if attacks should be developed against Alexandria and other centres. Admiral Cunningham pointed out the danger of confusion arising out of panic in the docks, and so on, and we endeavoured to get the Egyptian Government to take the matter in hand and to take it in hand practically, and institute a proper organisation which, of course, would have cost money. They were rather backward in doing it and rather reluctant to undertake either responsibility or expenditure. We offered them originally a loan of, I think, up to a maximum of £1,000,000, but the Egyptian Government had just had some difficulty to balance their budget; they were alarmed at the idea of a loan, and they told us that rather than incur such a liability they would sooner, as they called it, risk it. Our military authorities on the spot did not feel inclined to undertake that risk, and it was decided, therefore, to make them a grant of up to £1,000,000, subject to certain conditions. That was on the 14th May, 1941. We lent them a British expert, Colonel Burt Smith, to advise them, and the announcement of the grant had a good and steadying effect on the population, and a certain amount of useful and practical precautions were taken. The total expenditure up to the 31st March, 1944, amounts to about £736,000. Of the charge of £274,000 odd in the accounts for the period under review the bulk has been spent on shelters and protective work—that is £185,000, or nearly £186,000; fire equipment, £22,000; rescue equipment, £10,000; supplementary water supply schemes, £25,000. That very nearly makes up the total.

5006. Has this work been completed or terminated?—I am not sure. I suppose the grant up to £1,000,000 can still be called upon. (Mr. Ashton-Gwatkin): Yes. (Sir Alexander Cadogan): But I have not an estimate for any work still remaining to be done. There would remain out of the £1,000,000 another £264,000.

5007. Would any further expenditure be at the discretion of the British Naval and Military authorities?—Last April we asked our Ambassador to investigate the possibility of bringing the expenditure to an end.

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5008. Under whose authority does the expenditure take place?—The grant was originally authorised by the Government and I think the actual expenditure is authorised by the Ambassador. (Mr. Ashton-Gwatkin.) In consultation with the Egyptian authorities. (Sir Alexander Cadogan.) The Ambassador gives the authority. (Sir Gilbert Upcott.) Nominally, the expenditure is certified by the Minister for the Defence of the Region, but it is in fact supported by certificates by Colonel Burt Smith and an officer called the Controller of Accounts who is a British Chartered Accountant.

5009. Sir Alexander, can you say anything briefly about Item 17: "Relief Measures"? What does that expenditure

cover. Will you just give us the broad headings?—Out of the total there which is £55,800 the bulk is for Greek relief, which amounts to £45,500. That was caused by the chartering of a Swedish vessel to carry relief. The Swedish Red Cross undertook to administer a scheme of relief to the population of Greece. They would not, however, assume the charge of chartering the Swedish vessel, which we undertook. Greece was treated in rather a special manner in regard to relief. We have refused to allow relief through the blockade to other countries; but it appeared that the Germans were deliberately leaving the Greeks to starve, since they were not, like the Belgians and others, a useful industrial population to them, and they did not care what happened to them.

(SECRET PAPER ON VOTE OF CREDIT APPROPRIATION
ACCOUNT—UNSPECIFIED SERVICES.)

Sir Irving Albery.] Are there any further questions? Thank you very much,

Sir Alexander. That finishes your evidence.

(Sir Alexander Cadogan and Mr. Ashton-Gwatkin withdrew.)

CIVIL APPROPRIATION ACCOUNTS, 1942.

CLASS II.

VOTE II.

INDIA AND BURMA SERVICES.

Sir DAVID MONTEATH, K.C.M.G., C.B., C.V.O., O.B.E., called in and examined.

(On this Account no questions were asked.)

VOTE OF CREDIT APPROPRIATION ACCOUNT, 1942.

INDIA AND BURMA OFFICE.

Sir Irving Albery.

5010. Will Members turn to the Vote of Credit Appropriation Account, 1942, pages viii and ix, paragraphs 20 to 24 of the Report of the Comptroller and Auditor General. Paragraph 20 is narrative and I have nothing to ask on that paragraph. On paragraph 21, of those amounts quoted, £71,000,000 appears to have been payable by India. Can you tell us what this represents?—(Sir David Monteath.) £71,000,000?

5011. Yes. I think if you take the £145,000,000 from the £216,000,000 you get £71,000,000. I am right, am I not, Sir Gilbert?—(Sir Gilbert Upcott.) That is India's share of the £216,000,000. (Sir David Monteath.) That is so. That is the share of the total outgoings in India which falls on Indian revenues to bear, finally. (Sir Gilbert Upcott.) I think the Chairman wanted to know what it represents. In accordance with the agreement with India it represents the normal cost of Indian defence, which is apparently £27,000,000, plus an increase for alteration of prices

which they undertook to bear, which is another £3,000,000, and then the expenditure on defence measures undertaken by India in her own interests, about £41,000,000, which makes the £71,000,000. (Sir David Monteath.) Yes. I did not understand the point.

5012. Anyway, you agree with that statement?—Yes.

5013. Turning to paragraph 22, I want to ask you, Sir Gilbert, if you have anything to say on the report of the Indian Auditor General?—(Sir Gilbert Upcott.) Yes. The report follows, generally speaking, the lines of inquiry which we follow in this country. He has reported satisfactory development of cost accounting, and that generally the contract arrangements have been on a sound basis. He says that store accounting is unsatisfactory, which I am afraid I have had to say in this country, and that is being taken up by the Indian Public Accounts Committee.

5014. Have you seen the report, Sir David, of the Indian Public Accounts Committee, and can you give us any information

13 July, 1944.] Sir DAVID MONTEATH, K.C.M.G., C.B., C.V.O., O.B.E. [Continued.]

on that?—(Sir David Monteath.) I have seen it. I am afraid I have not studied it very closely. I could indicate that the Indian financial authorities have been able to tighten up the control on the supply side of the system of contracting, placing contracts. The contracts they place, although a great deal of the money expended is expended at the cost of British revenues, also cover items which are the Indian Government's own final liability, and, therefore, they have an equal interest with the Imperial Government in seeing that the contracts are placed as economically as possible. They have been faced in a more acute degree than even this country by the shortage of skilled technical staff in the way of cost accountants for dealing with the greatly increased range of business in the number of contracts which have been made. But they have gradually tightened up the process. Their aim—and I think the aim which they have largely achieved—is to scrutinise very closely the cost. If I may take a particular example of contracts placed with the woollen textile trade, in the year 1940-41 there was no other course but to agree costs on estimates of the cost of producing the article in the ensuing quarter. The estimates and the actual costs were certified by chartered accountants, and the price was fixed on that basis with an addition of 10 per cent. on the actual cost of production as the price of the article. That was the process in 1940-41 and was the best they could do at that time. Actually, when it became possible to investigate the final accounts it was found that the estimates on which the agreed price had been fixed had been rather high—unduly high—and considerable recovery was made (this is all in respect of the woollen textile trade) amounting to very nearly £300,000. In the next year, in the light of that experience, and also with a certain accretion of skilled accounting staff they adopted a new basis, which was scrutinising the certified expenditure and costs in the preceding quarter and fixing the price for the new contract on the basis of those costs, plus a fixed profit of $7\frac{1}{2}$ per cent. per unit supplied under the contract. That worked successfully and economically, and that is the principle to which they are trying to adhere in that trade. But in the next year, 1942-43, which is the year under examination now, the actual costs of labour and the concessions that had to be made to labour became subject to fluctuation to a considerable extent, and now the same basis is adhered to as in the previous year, but with an adjustment, by agreement with the contractor every three months, according to what is the certified cost of production. I simply give that rather in detail, I am afraid, as an example of the way in which the Government of India finance authorities have been at pains, by hardly bought experience, to keep a gradually tightening

control over the nature of the contracts put out.

5015. You said under the new arrangement $7\frac{1}{2}$ per cent. per unit was allowed. When the prices were unduly high—that was previous to that—what did you reckon that came out per unit of cost?—In the preceding year, the arrangement that it would be fair to allow was on top of the estimated cost of production 10 per cent. profit.

5016. Did you get any estimate after costing that up and finding out that it was unduly high? Did you arrive at any estimate of what the profit per unit had been?—No, I am afraid I cannot answer that. All I can say is that in the light of the investigations that were made the Government of India did recover something like £300,000.

5017. On a contract of how much?—That was on a basis of dealings with this particular trade generally. The India Office does not administer these sums at all. They are administered by the authorities in India. I am attempting to give a picture of what they have been doing. It is the Government of India who administer the expenditure, not the India Office. (Sir Gilbert Upcott.) I think what Sir David has been explaining is that the Government of India have been, generally speaking, attempting to follow the same principles as regards the control of profits, so far as applicable in an oriental country, as we have in this country.

5018. Is that all you wish to say, Sir Gilbert?—The Indian Public Accounts Committee were satisfied that there had been a closer examination of the price structure and profit margin of industry and better negotiation.

Sir Irving Albery.

5019. Are there any questions on those paragraphs? We pass next to paragraph 23. As regards the third sub-paragraph, can you tell us, Sir David, if you have any later reports on the Burma account?—(Sir David Monteath.) I am afraid not.

5020. Sir Gilbert states: "Certain irregularities in the accounts of imprest holders and field cashiers noticed during the audit of the defence service accounts for 1941 will be reflected in later accounts and will if necessary be brought to notice in his Report on those accounts." As regards the irregularities you have no further report?—No. I can only conjecture that as these accounts of the field cashier would have related to the period of unsuccessful operations in Burma, when we were being driven out of Burma in fact, they were quite unable to produce the vouchers which they would have done in the ordinary course. (Sir Gilbert Upcott.) What we do not know is whether the reference which the Auditor General makes to

13 July, 1944.] SIR DAVID MONTEATH, K.C.M.G., C.B., C.V.O., O.B.E. [Continued.]

irregularities is in what you might call an unfavourable sense, or whether it simply means that technically, as occurred in our case in Singapore and Hong Kong, for instance, owing to the destruction of documents, it has not been possible to bring the expenditure to account in the ordinary way. We do not know really exactly what he means by "irregularities"; but no doubt it will be shown by the later reports. (Sir *David Monteath*.) I had not assumed it meant moral delinquency. I had thought it meant owing to the chaotic state of affairs.

5021. Are there any questions on paragraph 23? Then we pass to paragraph 24. Are these advances referred to in the second sub-paragraph repayable?—In so far as these advances cover expenditure which in normal times would be met from Burma's own revenues they are in theory recoverable. Whether it will be possible, years hence, when we are back in Burma, actually to recover them without saddling Burma in a very poor financial position, with liability for these sums, I do not know. It is a matter one will have to leave to a decision of policy in the future. But in theory they are recoverable.

5022. Can you say anything about the nature of any general control?—The Government of Burma have with them now a financial adviser who I think is also described as the Treasury watch dog. That is to say, he brings his knowledge of Treasury principles to bear, in so far as they may be required, on any proposal. The Government is required to submit for approval any proposal involving new expenditure of 2 lakhs—that is £15,000—or upwards. He has also to seek prior approval, which is obtained by consultation between the Burma Office and the Treasury, for any proposal affecting the pay and conditions of certain Services, for creating new appointments carrying a higher pay than that of, roughly, Deputy Commissioner in the Civil Service. That is in general the measure of control on civil expenditure. It is, in fact, bringing in the

requirement of prior Treasury approval to a great many items of expenditure which, in the ordinary course, the Government of Burma would meet without question from their own revenues, but in as much as they are subsisting on advances from His Majesty's Government, it is accepted as only right and proper.

5023. Are the Treasury satisfied with the arrangements?—(Mr. *Jones*.) Yes, we are generally satisfied with the arrangements for control. The original arrangements for Treasury control did not provide for the audited accounts to be sent to the Treasury, but we have recently asked the Burma Office whether, as in the case of a Colony which receives grants from Exchequer funds, copies of the accounts and of the auditor's report could be submitted to the Treasury in the ordinary way. Those documents will be available for the Comptroller and Auditor General.

5024. By whom are these accounts audited?—The Auditor General of Burma. (Sir *Gilbert Upcott*.) My officers in Egypt will shortly be visiting India in connection with the accounts of the South-East Asia Command, and they will take the opportunity to confer with the Auditor General of Burma as regards this account.

Sir *Irving Albery*.] Are there any questions?

Sir *Edmund Brocklebank*.

5025. Who is the Auditor General of Burma? Is he independent, like our Comptroller and Auditor General?—(Sir *David Monteath*.) Yes. He is appointed by the Crown.

Sir *Irving Albery*.] Are there any further questions on the Comptroller and Auditor General's Report? The figures are on page 9. I do not think anything particular arises on them and I have no questions. Has any Member of the Committee any questions? May I take it that Service 32 of the Vote of Credit Appropriation Account, 1942, is approved? (*Agreed*.)

(The Witnesses withdrew.)

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

THURSDAY, 20TH JULY, 1944.

Members present:

SIR ASSHETON POWNALL in the Chair.

Sir Irving Albery.
 Sir Edmund Brocklebank.
 Mr. Douglas.

Mr. Pickthorn.
 Mr. Touche.

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

TRADING ACCOUNTS AND BALANCE SHEETS, 1942.

BRITISH PHOSPHATE COMMISSION ACCOUNTS.

(CONFIDENTIAL REPORT AND ACCOUNTS OF THE BRITISH PHOSPHATE
 COMMISSION AND LETTERS FROM SIR HERBERT BRITAIN DATED 5TH
 AND 6TH JULY, 1944.)

Sir ERIC MACTIG, K.C.B., K.C.M.G., called in and examined.

Chairman.

5026. We asked for further information with regard to the British Phosphate Commission. A letter has been circulated with regard to it. I understand from Sir Eric Mactig, who speaks for the Dominion Office, that Sir Arthur Gaye is ill.—(Sir Eric Mactig.) Yes; he is not well.

5027. He is not able to appear. Will Members turn first to the letter over the signature of Sir Herbert Britain of 5th July, 1944, copies of which have been circulated, and to the letter over the page of 6th July.* I want to know, first of all, from the Treasury whether this letter of 5th July is an elucidation of the Treasury's Memorandum of May together with a summary of transactions in outside phosphates furnished by the Commission. It is an elucidation, is it not?—(Sir Herbert Britain.) I think that would be a fair way to describe it, because at the time we wrote that memorandum I must confess we had not appreciated this particular point to which the Committee's attention was later directed as to where these debits and credits actually appeared in the accounts.

5028. I see in the last paragraph of your letter of 5th July you mention that you yourselves were under some misapprehension with regard to it?—Yes. My letter of 5th July was in reply to three specific questions by the Committee contained in a letter from the Clerk.

5029. Are we to understand on (a) and (b) of this letter of 5th July that the figure of £4,000,000 odd for the sale of outside phosphates in fact did include the receipts of £630,000 derived from the sale of Island phosphates?—Yes, that is right.

5030. That £630,000, I may point out to the Committee, is the addition of the £489,000 odd you see under (a) and the £140,656. As regards (c), do you confirm your description of the transactions and will you explain them more fully to us?—

* See Appendix No. 17A.

As I have said in the second letter, we actually had confirmation of our former letter from the General Manager of the Corporation through Sir Arthur Gaye. A few days subsequently, the General Manager apparently talked to the Auditors again and slightly modified that, but I do not think it really affects the principle at issue. Perhaps I could explain what we finally find actually happens in the case of the sale of a quantity of these phosphates. The actual Island phosphates which are in question are accounted for in the balance-sheet of the Commissioners in two or three different places. There is phosphate on consignment, two-thirds of the way down the balance-sheet; there is certain phosphate in transit, and there are also certain reserve phosphate stocks. Those are credited in the balance-sheet at cost, which is really c.i.f. value—the cost of the Island phosphates. When the sale of that takes place in accordance with this pooling arrangement in connection with the sale of outside phosphates, of course those stocks are reduced by that cost—shall we call it X—and, instead of that, the balance-sheet perhaps shows that amount due from sundry debtors instead of standing against the actual stocks. At the same time the Commissioners add this surcharge on to that cost, and that is also charged to sundry debtors there, so that the debtors have to pay X plus A, shall we say. On the other side of the account we should probably have under this heading "outside phosphate," a sum there corresponding to the surcharge as well. When the debtor pays, the surcharge is cancelled out on both sides; it is no longer in the sundry debtors, and it is no longer due on the liabilities side here to the outside phosphate account, and the balance, which is the original cost in the balance-sheet, appears under cash there. Really what has happened is that the surcharge notionally passes through these two items in the balance-sheet and then is eliminated

20 July, 1944.]

Sir ERIC MACHTIG, K.C.B., K.C.M.G.

[Continued.]

altogether. I do not know whether you want me to make any comments on it?

5031. I was going to ask you whether you think the accounts put before us fairly represent the facts?—I think we must confess that they may represent the facts in the sense that they are not inaccurate at all, but they did not bring them clearly to your notice, or to ours, or to anybody's. I think it would certainly have been more satisfactory if this statement which was attached to the accounts for the information of the Committee, showing the transactions in outside phosphates, had separated the sales of the outside phosphates themselves and the surcharge on the Island phosphates, and any other sundry credits there were. With that separation I think the Committee would probably have had a fair picture of what had happened.

5032. Sir Eric, would you like to make any comment on what Sir Herbert has said with regard to the figures?—Sir *Eric Machtig*.) On the treatment of the accounts?

5033. Yes.—I should entirely agree with the view that has been expressed that the accounts ought to be so arranged that they clearly indicate, and do not conceal, any transaction like this one in respect of the surcharge. It has been, as the Committee knows, our endeavour to get this done in the accounts which are presented, but we have not so far succeeded. We will do our best to get the Commission to do so in future. It is difficult to give an undertaking, because it is not an United Kingdom Commission. We should in the last resort have to consult the other two Governments concerned, if the other Commissioners, the New Zealand and Australian Commissioners, are not willing to agree. I think Sir Arthur Gaye did give an undertaking, when he was here, that the Commission were very ready to furnish the Public Accounts Committee with all the information that they might desire, and I think that, on the basis of that, we ought to be able to ensure next year that this rather unsatisfactory arrangement of the accounts does not occur again. Anyhow, we will try.

5034. Sir Gilbert, have you any comments to make?—(Sir *Gilbert Upcott*.) I think the only conclusion that can emerge from what the Committee has at last elicited is that these accounts do not represent clearly and in an intelligible form the transactions which have taken place. I have no doubt of that at all. As the accountants say, the document which they presented is correct in accordance with the books of the Phosphate Commission, but it seems to me the accounts as they have been presented to this Committee are designed to conceal rather than to display the nature of the transactions which have occurred. I confess that when I was before the Committee on a previous occasion I did not

conceive it to be possible that on any use of language the expression "sales" under the heading of "Summary of Transactions in Outside Phosphates" could indicate that out of a sum of £4,000,000 no less than £630,000 was derived not from the sales of outside phosphates but from the sale of Island phosphates, which were not dealt with in this Memorandum at all. It is equally the case that the figure of sales of Island phosphates, which appears in the confidential trading accounts presented to the Committee, does not indicate the receipts from the sales of these phosphates but a very much smaller sum. I think this Committee, as representing the Parliament of the United Kingdom, which is a shareholder as to 42 per cent. in this undertaking, is entitled to something better, and I suggest it does indicate that the form in which these accounts—certainly the confidential accounts—are presented to the Committee requires a good deal of further consideration. The matter is of some importance, not only because, on the ground of the present situation, the interest and sinking fund payments due to the partner Governments are suspended, but also because in the current and future years the bulk of the transactions of the Commission will be in outside phosphates. That leads me to refer to the Memorandum which the Treasury have circulated to the Committee, in paragraph 9 of which it is stated: ". . . and it has been ascertained that in their view the Commission in dealing with these outside phosphates are acting as agents for the Australian and New Zealand Governments and that it would be incorrect and misleading to exhibit such agency transactions in an account which is prepared under and for the purposes of the Nauru Agreement. They are supported in this view by their Auditors. They point out that there is no risk of loss, but that on the contrary this is a source of revenue for the ultimate benefit of the partner Governments." I am afraid I find both those propositions untenable. I do not follow how a transaction which involves very substantial losses can be described correctly as "a source of revenue for the ultimate benefit of the partner Governments" in anything but a very indirect sense, and I do not see how it can be contended that in dealing with these outside phosphates the Commissioners are acting as agents for the Australian and New Zealand Governments. It is quite true that these arrangements are for the benefit of the Australian and New Zealand Governments and the farmers of Australia and New Zealand, but the Commissioners have been carrying on these transactions with the funds at their disposal as trustees for the three partner Governments. They are not being financed as agents would be by the Australian and New Zealand Governments independently;

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Sir ERIC MACHTIG, K.C.B., K.C.M.G.

[Continued.]

they are using the funds of the Commission. Sir Arthur Gaye at the last meeting made the suggestion that the Commissioners were responsible to the partner Governments only up to the point at which the phosphate leaves the Islands, and that for their subsequent transactions in regard to shipment and the distribution of the phosphates they were responsible to some other parties, but I do not think in cross-examination he wished to maintain that view, and it seems to me that the Commissioners, as trustees for the three partner Governments, are responsible to those Governments for all the transactions which they undertake with the funds at their disposal. As I say, I think it is a matter of some importance in the future, because until the Islands are recovered it is clear that the bulk of their transactions will be undertaken in outside phosphates. I have never suggested at all that this Committee would necessarily take exception to this arrangement, under which outside phosphates are bought, pooled with the Island phosphates, and sold in order that the Australian and New Zealand farmers may get fertilisers at a cost less than would otherwise have been the cost. It may well be that that is in the general interest of the British Commonwealth of Nations. What I do suggest is that as representing the Parliament of the United Kingdom this Committee is entitled to accounts which do clearly represent and not conceal the nature of the transactions involved, and it seems to me that these transactions in outside phosphates are so inextricably interwoven with the other trading operations of the Commission that no accounts can be intelligible which omit all record of them from both the trading account and the balance-sheet.

5035. Sir Eric, arising from what Sir Gilbert has just said, do you accept the view that the Commission are responsible to the three partner Governments for all transactions undertaken with funds placed at their disposal by these three Governments?—(Sir Eric Machtig): I certainly take that view. I regard the Commissioners as the representatives of the interests of their respective Governments on all matters affecting the Commission's work. I do not question that at all.

5036. Therefore we may take it, I presume, that you will instruct the United Kingdom representative in this sense, in view of what has happened?—Certainly, but as I was trying to point out, it does not ultimately rest with the United Kingdom Commissioner. There are also the other two Commissioners.

5037. Quite, but the United Kingdom point of view is strongly stressed—their view as to the admittedly unsatisfactory nature of these accounts in the past?—Certainly. I tried to make that point. We will do our best.

Chairman.] I want to get that point definitely on the Minutes. Are there any questions?

Mr. Douglas.

5038. I should like to ask Sir Herbert whether he agrees with the statement which the Comptroller and Auditor General made to the Committee just now? (Sir Herbert Brittain): No. I was hoping that I might perhaps express an opinion on that. I do not know why the Comptroller and Auditor General said there had been a substantial loss on the Island phosphates. (Sir Gilbert Upcott): Not on the Island phosphates; on the outside phosphates. (Sir Herbert Brittain): I am sorry. At the earlier meeting, when the Committee considered this, I did try to suggest that you can only speak of a loss if the alternative had been that we should sell to the Australian and New Zealand Governments the outside phosphates at their cost price and the stocks of Island phosphates at their cost price plus a surcharge, and I think we should agree with the Commissioners that that was rather an impracticable alternative. We could not really have made a profit out of the sale of the two lots of phosphates combined to these Dominion Governments, so that there was really, it would seem, no practicable alternative to pooling the prices and allowing this surcharge to set off a deficiency on the outside phosphates.

Chairman.

5039. I do not think Sir Gilbert's criticism was of that so much, but his criticism was that the accounts were given to us in such a form that we could not understand them. The question of high policy may come into the one matter, but this is a question of accountancy for which the Comptroller and Auditor General is responsible to us and to the House of Commons?—With what has been said by him and Sir Eric as to the form of the accounts we should entirely agree. I did not quite appreciate why it should be suggested that the Corporation had been trading at a loss on this, whereby we had been in some way financially damaged, because I do not think we have been.

5040. Sir Gilbert, have you anything to say on that point about the loss?—(Sir Gilbert Upcott): I can only say that the outside phosphates were sold below cost. I am not suggesting that this was a transaction to which, on the merits, the Committee might not be prepared to agree. But I do not see any escape from the proposition that the outside phosphates were sold at a loss and the profits from the Island phosphates were used to make up the loss. I do not suggest that that is necessarily undesirable, but that is the fact. (Sir Herbert Brittain): Certainly, I agree with that, but I do not think it

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Sir ERIC MACHTIG, K.C.B., K.C.M.G.

[Continued.]

is a loss which has damnified any one of the partner Governments. (Sir *Gilbert Upcott*.) That is a matter of opinion.

Mr. *Douglas*.

5041. Will you just explain that view, Sir *Herbert*? As I understand the facts of this case—perhaps I am wrong about it—what the British Phosphate Commission has done is to account for the Island phosphates not at the price which was realised by the sale of them, but at a price which merely represented the cost insurance and freight of delivering them from the Island to some other destination where they were held in store for the purpose of ultimate sale. Is that right?—(Sir *Herbert Brittain*): Yes.

5042. So the accounts were wholly deceptive, were they not, in speaking of that figure of cost insurance and freight as being the proceeds of a sale?—In what connection? I agree that the figure of sales of the outside phosphates in this separate account which was provided by the Commission was misleading, yes.

5043. It was also misleading, was it not, to present to us accounts in regard to the Island phosphates which led us to believe that a figure of credit in respect of the disposal of the phosphates represented a sale, whereas in fact what it did represent was the value of a stock calculated upon the basis of cost insurance and freight to a point at which it was held in store?—Yes. Actually in the trading account these phosphate sales were entered at f.o.b., but I agree that the accounts of the Commissioners, in their transactions on Island phosphates, do reflect transactions at that price, the f.o.b. price, and that is—

5044. It is not a price, with all respect. It does not represent a sale at all, and it is entirely false, is it not, to present accounts which represent this thing as being a sale? All that had happened to the phosphates was that they were transferred from the Islands to some point in Australia and New Zealand and still remained the property of the Phosphate Commission?—They were credited in these accounts on the basis at which they had previously stood in these accounts, and at which they would normally have been sold, apart from the outside phosphate complications.

5045. I am not concerned about how that figure was arrived at. I am concerned about how it was presented to us. Is it not true that it was presented to us as if it represented a sale, whereas in fact it still remained a stock on hand?—I agree. I thought you meant that in fact the surcharge was omitted from the trading accounts of the Commission, and that is certainly the case.

5046. And this so-called surcharge really represents the difference between that valuation of the stock upon the basis of

cost insurance and freight and the amount for which it was ultimately sold?—Yes, I think that is right.

5047. Therefore the use of the word "surcharge" was extremely misleading, was it not?—It was a surcharge over the price at which they would normally have sold and at which I think the Dominions have a right to buy.

5048. Do you say the Dominions have a right to buy all the phosphate upon a basis of cost insurance and freight?—Yes, under the Nauru Agreement, Article 11 of which says: "Phosphates shall be supplied to the United Kingdom, Australia and New Zealand at the same f.o.b. price, to be fixed by the Commissioners on a basis which will cover working expenses, cost of management, contribution to administrative expenses" and various other things. "Any phosphates not required by the three Governments may be sold by the Commissioners at the best price obtainable."

5049. Even so it is essential, is it not, that the transactions with regard to the Island Phosphates should be kept separate in the accounts from the transactions relating to the outside phosphates, so that we can see what amount of money was involved with regard to both headings?—In so far as that is compatible with the idea of pooling the price, I should agree, yes.

5050. Is there anything incompatible in it? What do you mean by pooling the price? What you mean by pooling the price is that the phosphate was sold at uniform prices, irrespective of the source?—Yes.

5051. That does not prevent you from being able to calculate what the price of a ton of phosphates was, does it?—Not in the least.

5052. Very well. If you can calculate that you can put it in the accounts, cannot you?—Either in the formal accounts or in some reconciliation statement like the Commissioners have provided. I am only safeguarding the possibility that to try to separate Island phosphates and outside phosphates all through in the trading accounts as we know them might be rather complicated and might, perhaps, confuse the issue more than would be the case if we had this separate statement properly divided up as I suggested just now. (Sir *Gilbert Upcott*.) I was not suggesting that they should be separated. I was suggesting that they should not be separated. My point is that the Commission have separated them. (Sir *Herbert Brittain*.) That is what I mean. As the Comptroller and Auditor General suggested, to pass these outside transactions through the trading accounts might prove more complicated than to leave things as they are, with a properly sub-divided sheet of transactions such as the Committee has.

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[Continued.]

5053. I am not concerned about that. All I am concerned about is that the accounts should show clearly upon the face of them what the facts are.—I entirely agree.

5054. And as they were presented to us, do you not agree that they were wholly misleading?—I quite agree.

Mr. Douglas.] I presume that you will take the necessary action to make sure that that will not happen again?

Chairman.] Sir Eric has already said that. Are there any further questions.

Sir Irving Albery.

5055. I do not think I was present when this matter was discussed before. I wanted to know this: In normal times has it been the custom to buy outside phosphates and to pool them with the Island phosphates?—(Sir Eric Mactig.) It happened before, some time ago. The Commission asked for the permission of the Governments to deal in outside phosphates. I do not recollect the year. (Sir Gilbert Upcott.) I mentioned that at the last meeting. It occurred in 1926.

5056. Was special permission given?—My predecessor, Sir Malcolm Ramsay, drew the attention of the Treasury to the matter. The Treasury communicated with the Commission, who informed the Treasury that they charged prices and commissions for the outside phosphates which recovered all their expenses and left a balance which they carried to sundry profits. The Treasury wrote to Sir Malcolm, indicating that in those circumstances the best course was to leave the Commissioner to explain the outside transactions in his own way, and they gave authority to the Dominions Office for transactions in outside phosphates to be included in the accounts of the Commission.

5057. Is there actually in existence permission for the Commissioners at present to buy phosphates as principals and sell them at a loss to Australia and New Zealand?—(Sir Eric Mactig.) Sell them at a loss?

5058. That is what I understood you were doing. You may avoid a loss by pooling with the Island ones, but I gathered that they were buying outside phosphates and actually selling them at a loss to Australia and New Zealand—unless I misunderstood it?—(Sir Herbert Brittain.) So far as I am aware on this particular occasion, with regard to these wartime supplies to Australia and New Zealand, we were not specifically asked for our permission. The Commission, knowing that we had previously agreed to their buying Island phosphates, took it for granted that we should agree, and I think if the case had been formally put up to us the Dominions Office and ourselves would have agreed to this pooling system.

5059. That does not quite answer the question I was asking. Does it really amount to this, that the Commissioners are buying outside phosphates and, leaving out the question of pooling, selling them to Australia and New Zealand at a lower price than they cost?—They are not really selling Island phosphates as such. They take them into their stock and then sell the joint stock.

Chairman.

5060. It is all mixed up together?—It is all mixed up together. I do not think we can unscramble the pool, so to speak, to the extent of answering your question.

Sir Irving Albery.

5061. I thought they were adding to the price of the Island phosphates in order to get a pooled price, which presumably was made up of a profit on the Island phosphates and a loss on the outside phosphates?—That is the arithmetic of the thing, but physically they all go into one pool.

5062. I am still not quite clear whether the Commissioners really are authorised at the present time to undertake a transaction of that kind. It seems to me an extraordinary transaction. I should have thought the Island phosphates would have been sold in the ordinary way, and what additional phosphates were needed by Australia and New Zealand they might have used the Commission as agents to buy for them, but I cannot understand that there can have been any justification for pooling those outside phosphates?—I can only suppose the Commission proceeded on the argument that in fact there was no loss caused to the three Governments by doing so. If I may say so, the Commission in one or two respects were very meticulous to have regard to the interests of all partner Governments, including ourselves. For instance, in all these transactions they charge interest on the funds which they have used.

5063. I suppose you mean that by the additional price which they added to the Island phosphates they compensated their partners?—Certainly.

Sir Irving Albery.] I understand it better.

Chairman.] Is there any further point?

Mr. Douglas.

5064. Would Sir Herbert explain that, because I am not sure that it is quite clear? (Sir Herbert Brittain.) Sir Irving Albery put the question whether in fact they had authority to incur a loss on the sale of outside phosphates and whether they did not need our authority to do that. I said I thought they had proceeded on the assumption that authority was not necessary, because in fact they had imposed this surcharge to compensate for the loss, and the operation of the pool as a whole did not damnify any of the Governments.

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[Continued.]

5065. But is not the plain fact of it that they used the profit that they could have made upon the Island phosphate, if they dealt in that alone, for the purpose of meeting the loss upon the outside phosphate?—No. If I might revert to what I said just now—

5066. Is that right or not?—I do not think they could have charged the surcharge on the Island phosphates and have made a profit on that, and at the same time have charged the full price to avoid a loss on the outside phosphates.

5067. Let me put it to you in this way: suppose there had been no Island phosphate left—suppose they had sold it, and then they had started to deal with outside phosphates, what then?—If I may say so, that is a hypothetical question which the Commission will have to settle and then advise us what they have done. It would be a very different matter if they started selling that at a loss, without any recourse to a surcharge on the Island phosphates. That would be an entirely different situation.

5068. It is very nearly the situation in which we are, is it not?—(Sir Gilbert Upcott.) Perhaps I ought to say, in answer

to what Sir Irving Albery asked just now, that Sir Arthur Gaye explained the circumstances last year under which they undertook the purchase and sale of Island phosphates by saying: “. . . when we were called upon unanimously by the fertiliser manufacturers in Australia and New Zealand, and by the Australian and New Zealand Governments, to make arrangements for the supply of phosphates from other sources.” There is no suggestion in his evidence that they asked the consent of the British Government or the United Kingdom representative on the Commission.

Mr. Douglas.] No, and there was a suggestion in his evidence that it had been done upon the same basis as in 1926, namely, a purely agency basis of charging the cost, plus a commission for handling, which we afterwards found to be a quite misleading picture of the facts.

Chairman.]—Has any Member of the Committee any further questions on Sir Herbert's letters, on the British Phosphate Commission Accounts, or on the Trading Accounts and Balance Sheets, 1942? May I take it that the Account is approved? (Agreed.) I think that finishes your evidence, Sir Eric. Thank you very much.

(Sir Eric Machtig withdrew.)

TREASURY MINUTE ON PARAGRAPHS 60 TO 62 OF THE REPORT OF THE COMMITTEE OF PUBLIC ACCOUNTS, 1943.

Sir HERBERT BRITAIN, K.B.E., C.B., called in and examined.

Chairman.] We pass to the Treasury Minute on paragraphs 60 to 62 of our Report of last year. The Witness is again Sir Herbert Britain. This is with regard to the Accounts of Wartime Trading Opera-

tions. It is purely for the purposes of record, and I have no questions on the Treasury Minute on paragraphs 60 to 62. Has any Member of the Committee any questions?

TRADING ACCOUNTS AND BALANCE SHEETS, 1942.

PARAGRAPHS 1-2 OF THE REPORT OF THE COMPTROLLER AND AUDITOR GENERAL.

(On these paragraphs no questions were asked.)

PUBLIC INCOME AND EXPENDITURE ACCOUNT, 1942.

(On this Account no questions were asked.)

CONSOLIDATED FUND ABSTRACT ACCOUNT, 1942.

(FINANCE ACCOUNTS, 1942.)

(TRADE FACILITIES ACTS. STATEMENT OF GUARANTEES AND ACCOUNTS, 1942.)

Chairman.

5069. Will Members turn to the Consolidated Fund Abstract Account, 1942, to the Report of the Comptroller and Auditor on pages 9 and 10. In the last sub-paragraph of paragraph 5 on page 10 of his Report the Comptroller and Auditor General states:

“ In the result there is a contingent liability upon the Fund in future years for those bonds drawn but not presented and for interest coupons attaching thereto.” Could you tell us anything, Sir Herbert, about the magnitude of that contingent liability? It is the Greek Guaranteed 2½ per cent.

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Sir HERBERT BRITAIN, K.B.E., C.B.

[Continued.]

Loan?—(Sir Herbert Britain.) For instance, for the year 1942-43 the full Sinking Fund was £395,000, of which we had actually paid out, either in the purchase of bonds or in bonds actually drawn, £280,000. So for that year there is a difference of £115,000, which will have to be paid out of the Exchequer at some time when the drawn bonds still unpaid are presented for payment. Similarly, for 1943-44 the total Sinking Fund liability was £405,000, of which only £73,000 had been paid out for drawn bonds. So there is still some £330,000 to be paid out at some time in the future for that one year.

5070. Of course there is no date at all when these liabilities would become operative?—No. I think it will depend to a certain extent on the arrangements we

make to clean up the matter at the end of the war.

Chairman.] Are there any questions on the Consolidated Fund Abstract Account, 1942?

Sir Irving Albery.

5071. On the last sub-paragraph of paragraph 5, with regard to the contingent liability, I take it that that, of course, does not include any running interest after the date of due redemption?—No.

5072. It is only coupons which had not been collected up to the date of redemption?—Certainly

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

NATIONAL DEBT. FUNDS LEFT IN TRUST FOR THE REDUCTION OF THE NATIONAL DEBT. POSITION AT 31ST MARCH, 1944.

(On this Account no questions were asked.)

CIVIL APPROPRIATION ACCOUNTS, 1942.

CLASS I.

VOTE 3.

REGISTRATION OF ELECTORS.

VOTE 6.

PRIVY SEAL OFFICE.

VOTE 20.

REPAYMENTS TO THE LOCAL LOANS FUND.

(On these Accounts no questions were asked.)

VOTE 21.

ROYAL COMMISSIONS, ETC.

Chairman.

5073. The Royal Commissions, etc., Account is on pages 39 to 42. On page 40, with regard to Scottish Savings, could you tell us about the English position? Sub-head E.4 is: "Advertising and other Publicity." This is the matter of Scottish Savings. You told us I think last year with regard to the position in England about this advertising. What is the position there on Sub-head E.4?—(Sir Herbert Britain.) Do you mean the corresponding position in England?

5074. The corresponding position in Scotland. You told us last year about England.—This is the Scottish figure here. The original grant for the Scottish Savings Committee, as in many other cases, is simply an estimate of the ordinary peacetime normal expenditure, and the difference between that and the actual expenditure is fed to this Vote from the Vote of Credit.

5075. How do you get on with, say, the newspapers in Scotland? My recollection is that they have not waived in England their commission, or whatever the

proper word is, for the charge.—There was a favourable rate offered to the Government in England and I think you are correct in saying that that has never been quite reflected in the Scottish charges. (Sir Gilbert Upcott.) There is in fact a complete difference in the arrangement between the newspapers in England and in Scotland. Scottish newspapers give the Scottish Savings Committee a discount and the advertising agents receive 10 per cent. of the net bill. In England for the past few years the newspapers have insisted on giving the discount themselves to the agents. Scotland is still following what used to be in former days the practice in England, which English newspapers, I understand, discontinued a few years ago. It is difficult to make an exact comparison of results, but the Scottish position is I think rather more favourable.

5076. You concur, do you, Sir Herbert?—(Sir Herbert Britain.) Yes. I am sorry I did not have all the details in my mind about that.

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

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Sir HERBERT BRITAIN, K.B.E., C.B.

[Continued.]

VOTE 22.

MISCELLANEOUS EXPENSES.

Chairman.

5077. The account is on pages 43 and 44. Subhead I on page 43 is: "Nuffield College (Grant in Aid)." Could you tell us anything about that?—(Sir *Herbert Britain.*) In the year preceding this there was a smaller grant to Nuffield College which was borne on the Treasury Vote because at that time we thought that certain work which Nuffield College was doing for the Government and particularly for the Minister Without Portfolio, on the movements of population and of industry during the war, was going to be limited in time and might not last very long. In fact the inquiry went on, and as it looked as though it would be a rather larger and longer inquiry than we had contemplated we moved the grant from the Treasury Vote to this Vote in order that it should have full Parliamentary approval

as a grant in aid. The Nuffield College has sent in to various Departments quite voluminous reports on movements of population and industry in various parts of the country, but by the end of the financial year which you are now considering, 1942-43, we reviewed the position with the Departments finally concerned, and came to the conclusion that after March, 1943, it would be better not to continue to give any general grant to the College, but to allow any Departments that wanted the College to make *ad hoc* inquiries to request it to do so, and pay for it themselves. In fact none has done so since March, 1943, to the best of my knowledge.

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

VOTE 24.

TREASURY CHEST FUND.

Sir Irving Albery.

5078. As a result of the war, have any other places opened, as it were, a Treasury Chest?—(Sir *Herbert Britain.*) No, there are no new Treasury Chests.

5079. Take the case of Ceylon: is it just an old tradition and an old custom? Are Treasury Chests just continued as a matter of custom?—Ceylon is a fairly active Chest.

5080. Yes, I know. I was wondering how the Navy and Army would function, for instance, in a place like Egypt, where there was no Treasury Chest.—I think perhaps the Comptroller and Auditor General can say more about the Army in Egypt, but I imagine they draw their funds through the ordinary financial channels—to a large extent from us and to a certain extent from the Egyptian Government probably. I am not *au fait* with the actual arrangements.

5081. What would happen in a place like Cyprus? The point I was really trying

to get at was whether the continuance of this custom of having these Chests is merely an old tradition, or whether they are really necessary with present-day banking and financial facilities? Presumably there must be places to-day where we have much larger transactions to put through, there being no Treasury Chest?—In many of these cases it is convenient to have a channel by which we can not only provide ourselves with cash for the Navy, the Army and the Air Force but it can also act as a channel for remittances by the Colonial Governments themselves. It is also a channel by which, if the Colonial Government is remitting here, it can hand that money over to our representative there and he can use that on the spot. That does not apply so much in a territory other than a Colony, of course. That is probably why, I think.

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

TREASURY CHEST FUND ACCOUNT, 1942.

(On this Account no questions were asked.)

CIVIL APPROPRIATION ACCOUNTS, 1942.

CLASS I.

VOTE 27.

REPAYMENTS TO THE CIVIL CONTINGENCIES FUND.

(On this Account no questions were asked.)

CIVIL CONTINGENCIES FUND ACCOUNTS, 1942.

(On these Accounts no questions were asked.)

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Sir HERBERT BRITAIN, K.B.E., C.B.

[Continued.]

CIVIL APPROPRIATION ACCOUNTS, 1942.

CLASS III.

VOTE II.

MISCELLANEOUS LEGAL EXPENSES.

(On this Account no questions were asked.)

CLASS IV.

VOTE IO.

SCIENTIFIC INVESTIGATION, ETC.

(MEDICAL RESEARCH COUNCIL ACCOUNT, 1942.)

Chairman.

5082. Will Members turn to page ix, paragraphs 23 and 24 of the Report of the Comptroller and Auditor General. In the second sub-paragraph of paragraph 23 Sir Gilbert states: "Owing to unforeseen staffing difficulties it was not possible for the Council to complete the accounts for the year ended 31st March, 1943, in time for inclusion in the present volume." We understood last year, I think, that they then had staffing difficulties, but it was quite expected, and almost an assurance was given, that they would be made good and that there would not be these delays again. Can you tell us anything about that, Sir Herbert?—(Sir Herbert Britain.) Yes, I am afraid we were, perhaps, rather over optimistic last year. Unfortunately it has been the case that the staff left in the office of

the Medical Research Council (and their Finance Officer, I may say, is in the Army) found themselves unable to deal promptly with the accounts for 1942-43. The Treasury Officer of Accounts has visited the offices of the Council, and we have reason to believe that some of their accounts are perhaps over-elaborate and might be simplified. We hope that if we can make suggestions which are acceptable in that direction it may help to ensure that the accounts are brought up to date rather more quickly in future. We promise to do our best in that respect.

Chairman.] Has any Member any questions on those two paragraphs? The Account is on pages 174 to 176. I have no questions on the Account. Has any Member any questions? May I take it that the Account is approved? *(Agreed.)*

VOTE II.

UNIVERSITIES AND COLLEGES, GREAT BRITAIN.

CLASS V.

VOTE 7.

WIDOWS', ORPHANS' AND OLD AGE CONTRIBUTORY PENSIONS.

VOTE 12.

SPECIAL AREAS FUND.

VOTE 13.

FINANCIAL ASSISTANCE IN SPECIAL AND OTHER AREAS.

CLASS VI.

VOTE 12.

DEVELOPMENT FUND.

(On these Accounts no questions were asked.)

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Sir HERBERT BRITAIN, K.B.E., C.B., and
Mr. E. H. E. HAVELOCK, O.B.E.

[Continued.]

DEVELOPMENT FUND ACCOUNTS, 1942.

Mr. E. H. E. HAVELOCK, O.B.E., called in and examined.

Chairman.

5083. Will Members turn to the White Paper, the Development Fund Accounts, 1942. On pages 10 and 11 of the Statement of Outstanding Loans I notice that in the case of the Macduff Town Council and the Wick Harbour Trustees, for 20 and 10 years respectively no interest has been paid. Could you tell us if there is any hope of getting money there?—(Sir Herbert Britain.) Might I ask Mr. Havelock, the Secretary of the Development Commission, to reply on this?

5084. Certainly?—(Mr. Havelock.) Macduff has been a very cheerful improvement. The harbour revenues have recently increased so much that the Town Council has been able to pay off all the arrears of interest on the public works loans and part of the arrears of principal, and in March,

1944, they were also able to make a repayment of £585 for the Development Fund. With regard to Wick I am afraid the position remains unaltered. As a consequence of the war and the herring industry position there the Trustees' indebtedness is going up, and it is understood that they are preparing an application for relief. In recent years, as you know, it has been necessary to make annual grants to meet the full cost of urgent repairs there.

5085. That is due to the herring troubles, I suppose, is it?—Yes. I think the differences between the Scottish harbours is purely accounted for by the fact that in some places there are foreign boats fishing and in others the port is practically closed.

Chairman.] Are there any questions on the Development Fund Accounts, 1942? May I take it that the Accounts are approved? (Agreed.)

(Mr. Havelock withdrew.)

CIVIL APPROPRIATION ACCOUNTS, 1942.

CLASS VI.

VOTE 13.

DEVELOPMENTS GRANTS.

CLASS VII.

VOTE 12.

RATES ON GOVERNMENT PROPERTY.

(On these Accounts no questions were asked.)

CZECHO-SLOVAK FINANCIAL CLAIMS FUND AND CZECHO-SLOVAK
REFUGEE FUND ACCOUNTS, 1942.*Chairman.*

5086. I see on page 2 of the Accounts there is a balance of something over £1,180,000. Is it expected that the balance will be enough to meet the continuing claims on the Fund?—(Sir Herbert Britain.) It is expected that that will meet the continuing claims for coupons up to about 1947.

5087. In paragraph 2 of his Report on page 3 the Comptroller and Auditor General states, towards the end: "The accounts of the Trust, certified by auditors approved

by the Treasury, are furnished to the Secretary of State and to the Treasury. Are you satisfied with these accounts?—Yes, I think so. The Treasury itself is not in direct contact with the work of the Refugee Fund, but the Home Office is, and liaison is maintained.

5088. The Auditors are approved by the Treasury, I see?—Yes.

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

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Sir HERBERT BRITAIN, K.B.E., C.B., and
Mr. H. G. RICHARDSON

[Continued.]

TITHE ACT, 1936, ACCOUNTS, 1942.

Mr. H. G. RICHARDSON called in and examined.

Sir *Edmund Brocklebank*.

5089. The tithe is now, I think, collected by the Tithe Commissioners themselves instead of through an agent?—(Sir *Herbert Brittain*.) The Tithe Commission use agents for the collection of the tithe, I think I am right in saying.

5090. Messrs. Clutton used to be the agents, but I understand they are no longer so?—(Mr. *Richardson*.) For some part only.

5091. Of course, any tithe that was not collected by them you are responsible for?—Yes.

5092. Do you know at all how much is outstanding?—Very little indeed.

5093. What do you do in order to get in those outstanding?—It is all protected by Orders of the Court, and as the debtors are able to pay so we obtain the money.

5094. What happens in the case of property that has changed hands and you find that there is an arrear? How do you find out who is the person and what his address is?—The Order will be registered under the Lands Charges Act, and the purchaser, in the normal case, will see that our charges are cleared before the conveyance is completed.

5095. I was thinking of a case in which the charges had not been cleared and it was not known they had not been cleared?—That can happen very rarely. The vendor would still be liable, of course.

5096. Have you any right to ask the present owner to supply information about the responsible person to pay?—Yes, because under the Tithe Act, 1936, when there is a change of ownership notice has to be given to the Commission.

5097. When there is a change of ownership?—Yes.

5098. To pass to another subject, you are still, I think, making a survey for the re-apportionment of tithes?—Very little has been done during the war. That was practically suspended when the war broke out. Surveys are being made only where there are difficulties in collection which have to be resolved.

5099. What is your proportion of men now doing that work, compared with what it used to be?—It is a mere trifle, compared with pre-war—possibly 10 per cent.

Chairman.] Are there any further questions on the Account? May I take it that the Account is approved? (*Agreed.*) I think that finishes your evidence, thank you very much, Sir Herbert.

(*The Witnesses withdrew.*)

(*Adjourned sine die.*)

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APPENDIX No. 1.

PAPER handed in by Sir *Herbert Brittain*, K.B.E., C.B., on 29th February, 1944.

1941

COMPARISON OF AUDITED EXPENDITURE WITH
EXCHEQUER ISSUES

AND

GENERAL ABSTRACT OF APPROPRIATION ACCOUNTS

(After Audit by the Comptroller and Auditor General, and Review by
the Public Accounts Committee of the House of Commons.)

Treasury,

February, 1944

COMPARISON of AUDITED EXPENDITURE in 1941 with
EXCHEQUER ISSUES of that Year.

	Exchequer Issues		Audited Expenditure (net)		Audited Expenditure (Net).			
					Less than Exchequer Issues.		More than Exchequer Issues.	
	£	s. d.	£	s. d.	£	s. d.	£	s. d.
CONSOLIDATED FUND SERVICES	274,056,354	12 3	274,056,354	12 3	—	—	—	—
NAVY	1,810	0 0	511,531,447	18 8	}	—	80,073,774	17 6
ARMY	1,510	0 0	617,396,917	5 6				
AIR SERVICES	1,110	0 0	360,868,065	4 5				
	4,430	0 0	1,489,796,430	8 7				
CIVIL SERVICES	407,419,570	0 0	2,783,318,829	1 9	}	—	80,073,774	17 6
REVENUE DEPARTMENTS	100,796,000	0 0	120,037,747	8 1				
VOTE OF CREDIT	4,085,000,000	0 0	* 289,140,767	19 1				
TOTAL	4,876,276,354	12 3	4,956,350,129	9 9	—	—	80,073,774	17 6

* Expenditure shown in Vote of Credit Appropriation Account	£	s. d.
Less Excess Expenditure of Army, Navy, Air, and other Votes already included under the respective Votes (see following page)...	4,146,486,306	12 11
	3,857,339,538	13 10
	289,140,767	19 1

1941

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, 1941.			Expenditure, 1941.			Differences between Exchequer Grants and Net Expenditure. (Columns 3 and 6.)	
	Estimated Gross Expenditure. (1.)	Authorised Receipts in Aid of Grants. (2.)	Exchequer Grants. (3.)	Gross Expenditure (4.)	Actual Receipts in Aid. (5.)	Net Expenditure. (6.)	Surpluses. (7.)	*Deficits. (8.)
	£	£	£	£ s. d.	£ s. d.	£ s. d.	£ s. d.	£ s. d.
Navy	16,001,990	16,000,180	1,810	527,531,627 18 8	16,000,180 0 0†	511,531,447 18 8†	—	511,529,637 18 8
Army	75,001,660	75,000,150	1,510	669,735,153 9 6	52,338,236 4 0	617,396,917 5 6	—	617,395,407 5 6
Air Services	50,001,220	50,000,110	1,110	398,697,693 0 1	37,829,627 15 8	360,868,065 4 5	—	360,866,955 4 5
TOTAL, NAVAL, MILITARY AND AIR SERVICES.	141,004,870	141,000,440	4,430	1,595,964,474 8 3	106,168,043 19 8	1,489,796,430 8 7	—	1,489,792,000 8 7
Civil Services :								
Class I.	3,682,413	1,260,561	2,421,852	4,398,145 5 6	1,067,678 14 8	3,330,466 10 10	72,433 6 8	981,047 17 6
" II.	13,511,674	375,476	13,136,198	12,986,625 12 5	359,617 17 9	12,627,007 14 8	826,954 5 10	317,764 0 6
" III.	22,740,660	2,456,951	20,283,709	24,255,689 14 10	2,221,449 7 11	22,034,240 6 11	647,547 10 6	2,398,078 17 5
" IV. For details see H.C. 27 and 75 of 1943.	79,743,740	6,552,483	73,191,257	78,516,910 17 10	6,552,482 17 2	71,964,428 0 8	1,244,914 8 11	18,085 9 7
" V.	193,957,067	5,740,794	188,216,273	180,429,424 11 4.	5,301,007 7 3	175,128,417 4 1	15,440,984 8 7	2,353,128 12 8
" VI.	26,464,566	3,454,403	23,010,163	28,477,573 13 2	3,303,734 9 3	25,173,839 3 11	554,908 6 9	2,718,584 10 8
" VII.	18,494,408	3,644,905	14,849,503	59,599,200 8 0	3,624,198 12 3	55,975,001 15 9	22,043 3 1	41,147,541 18 10
" VIII.	41,015,737	59,943	40,955,794	46,602,590 12 6	59,943 0 0	46,542,647 12 6	24,598 15 9	5,611,852 8 3
" IX.	54,060,400	1,266,400	52,794,000	54,054,139 1 4	1,266,400 0 0	52,787,739 1 4	6,260 18 8	—
Unclassified Services	219,526,880	219,525,110	1,770	2,519,676,195 0	201,921,153 18 11	2,317,755,041 11 1	10 0 0	2,301,699,033 13 1 16,054,247 18 0
TOTAL, CIVIL SERVICES	673,197,545	244,337,026	428,860,519	3,008,996,495 6 11	225,677,666 5 2	2,783,318,829 1 9	18,841,055 4 9	2,373,299,365 6 6
Revenue Departments :								
Customs and Excise	6,646,900	132,200	6,514,700	6,415,966 11 4	132,200 0 0	6,283,766 11 4	230,933 8 8	—
Inland Revenue... ..	9,837,860	132,300	9,705,560	11,480,390 11 9	132,300 0 0	11,348,090 11 9	—	1,642,530 11 9
Post Office	97,520,024	3,774,024	93,746,000	106,179,914 5 0	3,774,024 0 0	102,405,890 5 0	—	8,659,890 5 0
TOTAL, REVENUE DEPARTMENTS	114,004,784	4,038,524	109,966,260	124,076,271 8 1	4,038,524 0 0	120,037,747 8 1	230,933 8 8	10,302,420 16 9
Vote of Credit	4,250,000,000	—	4,250,000,000	{ (I) 3,857,339,538 13 10 (II) 289,140,767 19 1 }	—	{ (I) 3,857,339,538 13 10 (II) 289,140,767 19 1 }	103,519,693 7 1	—
	5,178,207,199	389,375,990	4,788,831,209	8,875,517,547 16 2	335,884,234 4 10	8,539,633,313 11 4	122,591,682 0 6	873,395,786 11 10
Deduct Vote of Credit Expenditure (I) already included under Army, Navy, Air and other Votes (see Column 3).	—	—	—	3,857,339,538 13 10	—	3,857,339,538 13 10	—	3,857,339,538 13 10
TOTAL FOR VOTED SERVICES	5,178,207,199	389,375,990	4,788,831,209	5,018,178,009 2 4	335,884,234 4 10	4,682,293,774 17 6	122,591,682 0 6	16,054,247 18 0

		Estimated Expenditure.	Actual Expenditure.	Less than Estimate.	More than Estimate.
		£ s. d.	£ s. d.	£ s. d.	£ s. d.
Consolidated Fund.					
National Debt Services	{ (a) Interest, etc. } { (b) Sinking Fund }	255,000,000 0 0	{ 257,207,387 14 11 }	—	2,207,387 14 11
Payments to Northern Ireland Exchequer	... .. .	9,200,000 0 0	9,121,244 4 4	78,755 15 8	—
Other Consolidated Fund Services	... .. .	7,800,000 0 0	7,727,722 13 0	72,277 7 0	—
TOTAL OF CONSOLIDATED FUND SERVICES		272,000,000 0 0	274,056,354 12 3	151,033 2 8	2,207,387 14 11
GRAND TOTAL OF EXPENDITURE			4,956,350,129 9 9		

* These deficits were met from the Vote of Credit with the exception of the sum of 16,054,247l. 18s. 0d. in respect of the Ministry of Supply (Unclassified Services) for which an Excess Vote was agreed to by the House of Commons in July, 1943, sanctioning the application of Surplus Receipts amounting to 16,054,237l. 18s. 0d. and granting a sum of 10l. (House of Commons Paper No. 97 of 1943.)
† Exclusive of receipts realised in excess of authorised Appropriations in Aid viz.: 677,771l. 16s. 6d. which were surrendered to the Exchequer.

The savings on Votes for the year 1941 amounting to 122,591,682l. 0s. 6d. shown in column 7 were dealt with as follows:—

Written off from the Exchequer Grant Accounts out of Ways and Means of 1941...	...	...	...	...	...	...	...	...	...	...	...	...	...	...	...	...	...
do.	...	...	...	...	...	...	...	...	...	...	...	...	...	...	...	...	...
do.	...	...	...	...	...	...	...	...	...	...	...	...	...	...	...	...	...
Paid to H.M. Exchequer by the Paymaster-General	...	...	...	...	...	...	...	...	...	...	...	...	...	...	...	...	...

In the Financial Year	
1942	1943
£ s. d.	£ s. d.
72,722,747 1 11	—
49,713,538 4 3	60,781 5 7
—	—
94,615 8 9	—
122,530,900 14 11	60,781 5 7

APPENDIX No. 2.

PAPER handed in by Sir *Herbert Brittain*, K.B.E., C.B. on 29th February, 1944.

TREASURY MINUTE DATED 12TH FEBRUARY 1944, ON THE REPORT OF THE COMMITTEE OF PUBLIC ACCOUNTS, 1943.

My Lords read the Report of the Committee of Public Accounts for 1943, dealing with the Appropriation and other Accounts for 1941, on which They make the following comments:—

Paragraph 1.—Accounting and Financial Control.

My Lords note the comments of the Committee and cordially agree as to the importance of efficient administration in the effective conduct of the war. Accountancy is not an end in itself nor is it merely a means of enabling Parliament to satisfy itself that public funds have been properly applied to the purpose for which they were intended—important though the latter object may be. Accountancy is the indispensable basis of financial control the adequacy of which is, in turn, vital to the efficient administration of the public services whatever their nature. In present circumstances, therefore, the aim should be so to dispose of the available man-power as to ensure a satisfactory degree of efficiency in those aspects of accountancy which play the most vital part in the efficient conduct of the war and to reduce other accounting activities to the barest minimum.

Paragraph 2.

My Lords note that after a full review of the staff of the Exchequer and Audit Department, made at the request of the Government, the Committee are unable to recommend any reduction in numbers at present. My Lords have no doubt that, as the Committee anticipate, the Comptroller and Auditor General will keep the position under constant review.

Paragraphs 3 and 4.—Broadcasting—Control of Expenditure.

My Lords recognise that it is the duty of the Ministry of Information and of the Treasury to be in a position to assure the Committee of Public Accounts that the large payments made to the British Broadcasting Corporation from public funds rest on a satisfactory basis of financial control. The Committee will recognise that the circumstances are such that the day to day control should be exercised, and can only effectively be exercised, by the Corporation itself, and that the functions of the Ministry must be first to satisfy itself that a proper system of financial control exists in the Corporation, and secondly to assure itself, by scrutiny of annual estimates and accounts and of particular schemes put up for approval, that the system of control in the Corporation is in fact satisfactorily functioning.

The events of 1941-42, as the Committee recognise, were themselves largely a reflection of disturbances in the latter half of the preceding year and showed that in a time of great pressure and difficulty arising from a combination of expansion and dispersal, the Corporation's activities had out-run the arrangements for securing prior approval of new expenditure. It has been the anxiety of all concerned, and not least of the Corporation itself, to put matters on to a more satisfactory footing. A considerable advance towards agreement with the Corporation on general principles of financial control had just been made when the Broadcasting Vote came under examination of the Committee in 1942, and it was in this knowledge, and looking to the future, that the assurance to which the Committee refer was given. That assurance held good in 1943 when the Vote was next examined, and was not diminished by the events of 1941-42, which then came under the Committee's notice, since those events preceded and in part led to the re-organisation and other arrangements on which the assurance was based.

The arrangements concluded in principle have since been under the continuous test of practical experience, and My Lords would hope that it will be possible to give a further assurance to the Committee when the Broadcasting Vote is under examination in the forthcoming session.

Paragraph 5.—Miners' Welfare General Endowment Fund.

My Lords note that the Committee deem it sufficient during the present emergency to append to the annual account of the Miners' Welfare Fund, as presented to Parliament, a statement showing the amount held in the Endowment Fund. Arrangements have been made accordingly.

Paragraphs 6 and 7.—Ministry of Works and Buildings—Trade Union Representatives on Building Sites: Levy on Government Contracts.

My Lords understand that the Committee do not contest the view expressed by the Treasury in evidence that direct payment of the cost of trade union representation did not require specific Parliamentary authority but came within the powers granted by the Vote of Credit. They desire to make it abundantly clear that the recourse to an indirect form of payment was designed solely to provide a model which it was hoped the industry might follow by setting up a scheme of their own in peace on a purely voluntary basis.

It must be stated emphatically that there was no intention whatever to remove the transactions from the purview of the Committee and indeed they could not be removed since the reimbursement by Supply Departments of the levy paid by Contractors would come within the audit of the Comptroller and Auditor General. It was moreover in contemplation that arrangements could be made for that Officer to audit the accounts of the trust.

It must also be emphasised that there was no intention whatever deliberately to set aside from the Vote of Credit funds for post-war purposes and had this point come up specifically in evidence a full assurance to that effect would at once have been given. It is true that the levy was found to provide considerably more than was currently needed but this was in no way deliberate and a drastic reduction was at once made. It is also true that the trust scheme made provision for the use of any balance for the benefit of the industry but this was made solely to dispose of any casual surplus that might arise and the definite intention was to restrict the levy to current needs.

My Lords are glad of this opportunity of giving the Committee these assurances which they are confident will remove the anxiety felt by the Committee lest the Vote of Credit should be used as a cover for setting on foot post-war schemes which would normally require legislation. My Lords are in full agreement with the Committee that such a proceeding would have been quite improper and it would not in fact have secured Their approval.

They have only to add that for reasons outside those under examination the scheme has been abandoned by mutual agreement. The surplus has been taken to the credit of public funds and the cost of the representatives will now be a direct charge on such funds.

Paragraph 8.—Trading Accounts—British Phosphate Commission.

Following the recommendation of the Committee My Lords have arranged for this matter to be brought to the notice of the Commission and have made certain suggestions which should meet the evident wish of the Committee that the dealings in "outside" phosphates should be more closely interwoven into the official accounts of the Commission.

Paragraph 9.—Road Fund. Extra-contractual Payments.

Write to:—

The Secretary,
Ministry of War Transport.

SIR,

I am directed by the Lords Commissioners of His Majesty's Treasury to request you to invite the attention of the Minister to the comments in paragraph 9 of the Report of the Committee of Public Accounts, 1943, in relation to certain extra-contractual payments falling on the Road Fund.

My Lords recognise that these particular contracts presented problems of special difficulty such that reliance must largely have been placed in any case on the experienced officer particularly skilled in such matters. Their Lordships had, and have, no reason to think that the settlements were unreasonable but did not feel that in the circumstances They could reasonably be called upon to share in their defence *ex post facto*.

They have no doubt that the arrangements now made to govern future procedure will prove satisfactory in practice.

I am, etc.

Paragraphs 10 and 11.—Navy. Financial Control at the Admiralty.

My Lords confirm that when the present emergency is over They will, as already agreed with the Committee, provide the material for an examination by the Committee of the differing systems of financial control in the Admiralty and the War Office. No doubt the Committee would also wish to consider at the same time the procedure followed in the Air Ministry.

Paragraphs 12 to 17.—Large profits on Warship Construction.

Write to:—

The Secretary,
Admiralty.

SIR,

I am directed by the Lords Commissioners of His Majesty's Treasury to request you to invite the attention of the Lords Commissioners of the Admiralty to the comments in paragraphs 12 to 17 of the report of the Committee of Public Accounts, 1943, in reference to profits on Warship Construction. Their Lordships will note from paragraph 16 that the Committee are of opinion that the methods and functions of the technical departments of the Admiralty in relation to the determination of contract prices call for drastic review. My Lords understand that Their Lordships fully appreciate the need to give urgent effect to this important recommendation and that, in fact, an investigation into this matter has already been instituted. My Lords would be glad to be informed in due course of the conclusions reached by the Lords Commissioners in their bearing on the control of prices.

In paragraph 17 the Committee concur in the view that the special difficulties attendant on fixing reasonable prices for warship construction require continued examination and this matter is in fact under present review between the Treasury and the Admiralty.

I am, etc.

Paragraphs 18 to 20.—Fraudulent Claims for Ship-Repairs.

Write to:—

The Secretary,
Admiralty.

The Secretary,
Ministry of War Transport.

SIR,

I am directed by the Lords Commissioners of His Majesty's Treasury to request you to invite the attention of the Lords Commissioners of the Admiralty [Minister] to the comments in paragraphs 18 to 20 of the Report of the Committee of Public Accounts, 1943, in reference to fraudulent claims for ship-repairs. While My Lords cannot but share the Committee's regret that frauds of this nature and magnitude should have been possible over a period of some two years They fully recognise the special difficulties in controlling the expenditure in this field, and They do not read the Report as directly reflecting on the adequacy of the arrangements made by the Departments in face of a fraud of this nature. They fully share the hope of the Committee that the additional measures now introduced will serve to prevent the occurrence—or at least to limit the extent—of similar overcharges in future.

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The Lords Commissioners [Minister] will note that the Committee wish to be furnished in their forthcoming Session with a report of the final outcome of this case and on the working of the revised arrangements.

I am, etc.

Paragraphs 21 to 23.—Army. East African Supplies of locally produced Food-stuffs.

Write to:—

The Under-Secretary of State,
War Office.

SIR,

I am directed by the Lords Commissioners of His Majesty's Treasury to request you to invite the attention of the Army Council to the comments contained in paragraphs 21 to 23 of the Report of the Committee of Public Accounts, 1943, in reference to East African Supplies of locally produced foodstuffs. It will be noted that the Committee express satisfaction with the steps taken to secure fair and reasonable prices but propose to re-examine the matter this year in the light of the results of the investigations and local discussions. They propose also to examine the similar question that has arisen in Palestine on which, My Lords understand, the Army Council have already called for a Report.

I am, etc.

Paragraph 24.—Ministry of Agriculture and Fisheries. Records of Agricultural Machinery and Implements.

Write to:—

The Secretary,
Ministry of Agriculture and Fisheries.

SIR,

I am directed by the Lords Commissioners of His Majesty's Treasury to request you to invite the attention of the Minister to the comments in paragraph 24 of the Report of the Committee of Public Accounts, 1943, with reference to the records of agricultural machinery and implements as at 1st September, 1941.

My Lords are glad to understand that investigation has since reduced the discrepancy to quite small proportions. A report of the final outcome of the investigation should be furnished to Their Lordships together with any observations the Ministry may have to offer on the concluding sentence of the paragraph in which the Committee refer to the possible loss to public funds in respect of charges collectible from farmers.

I am, etc.

Paragraph 25.—Ministry of Aircraft Production. Agreement of Prices with the Aircraft Industry.

Paragraphs 26 to 28.—Unsuitable Factory Site—Expenditure on remedial measures.

Write to:—

The Secretary,
Ministry of Aircraft Production.

SIR,

I am directed by the Lords Commissioners of His Majesty's Treasury to request you to invite the attention of the Minister to the comments contained in paragraphs 25 to 28 of the Report of the Committee of Public Accounts, 1943.

The Minister will note from paragraph 25 that the Committee see no reason to criticise the decision of the Ministry not to negotiate another price agreement with the aircraft industry but to proceed on the basis, which has operated in practice since March, 1941, of individual settlements with contractors,

Paragraphs 26 to 28.—Unsuitable Factory Site—Expenditure on remedial measures. The Minister will note the conclusions of the Committee on this matter as expressed in paragraph 28.

I am, etc.

Paragraphs 29 to 35.—Ministry of Home Security. Air Raid Shelters.

Write to:—

The Secretary,
Ministry of Home Security.

SIR,

I am directed by the Lords Commissioners of His Majesty's Treasury to request you to invite the attention of the Minister to the comments in paragraphs 29 to 35 of the Report of the Committee of Public Accounts, 1943, on the expenditure by your Ministry on Air Raid Shelters and in particular to those contained in paragraph 32 in connection with the deep shelters in London. In that paragraph the Committee, after expressing their view that it should have been possible to obtain earlier information as to the growing liabilities, go on to say that "They consider that the Ministry's machinery of financial control calls for further examination." My Lords apprehend that this recommendation applies only to the limited field of deep shelter work undertaken by the Ministry and not to the much wider area of shelter work undertaken by local authorities etc. and still less to the whole field of the Ministry's activities, the financial control of which has not been brought into question.

The matter has been discussed with representatives of the Ministry in this sense and, since there are no such works in progress or in present contemplation, as a guide rather to the possible future than to the immediate present. In the result My Lords are not disposed for Their part to find any matter for criticism other than that expressed in paragraph 7 of Their letter of the 12th March, 1943, viz. that there was an opportunity in May, 1941, for a warning to be given to the Treasury in general terms that the work was likely to prove a much larger drain on the war effort than was originally anticipated and that the facilities to be secured would not accrue until a considerably later date than that originally estimated. This would have enabled all concerned to consider whether the project should not be abandoned, or alternatively modified, in the new circumstances, though My Lords are far from saying that this would have been the result had They received such a general warning in May, 1941, and had not first learned of the developments in August, 1941, when a detailed estimate first became available.

My Lords have no doubt that in the event of further large schemes of this nature being undertaken the Minister will take care to arrange that it shall be an obligation on all concerned to take such measures as will secure that Their Lordships shall be informed as soon as it is apparent, and without waiting for a detailed estimate, that the work is likely to cost substantially more than the approved estimate.

The Minister will note the comments of the Committee in paragraphs 29 and 35 and Their Lordships will doubtless be informed of the outcome of the inquiry into the matter dealt with in the former paragraph.

I am, etc.

Paragraph 36.—Ministry of Supply. Excess Vote.

Paragraph 37.—Fees and Expenses of Consultants.

Paragraphs 38 to 40 and 64.—Machine Tools.

Write to:—

The Secretary,
Ministry of Supply.

SIR,

I am directed by the Lords Commissioners of His Majesty's Treasury to request you to invite the attention of the Minister to the comments made by the Committee of Public Accounts in paragraphs 36 to 40 and 64 of their Report for 1943.

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Paragraph 36.—Excess Vote. The Minister will note that the Committee while appreciating the difficulties of estimating in war-time, trust that more care will be exercised to ensure that future estimates are based on the fullest possible information. My Lords understand that an Excess Vote will also be necessary in respect of the following year to 31st March, 1943, which will no doubt cause the Committee to look further into this matter and will provide the Department with a further opportunity of explaining both its difficulties and its procedure.

Paragraph 37.—Fees and Expenses of Consultants. The Minister will note the comments of the Committee so far as the Department is concerned. My Lords propose to consider with Departments generally the recommendation in the concluding sentence of this paragraph.

Paragraphs 38 to 40 and 64.—Machine Tools. The Minister will note the desire expressed by the Committee in paragraph 40 for information as to the effect of the revised arrangements for importers' remuneration.

In paragraph 64 the Committee remark that the Machine Tool Control prices "appear to aim at allowing a higher profit on capital employed than has been realised by iron and steel firms as a whole" (*viz.* 11.5 per cent.). My Lords are not altogether clear what the Committee had in mind in this connexion. As They understand the matter there is no conscious aim at a rate of profit higher than 11.5 per cent. though it might well be the case that the average profit allowed to the Machine Tool industry worked out in fact in a particular period at a figure higher than that referred to. My Lords would be glad to receive the observations of the Minister on this point and, generally, on the comparison drawn by the Committee between the rates of profit enjoyed by the two industries.

I am, etc.

Paragraph 41.—War Damage (Business and Chattels).

Paragraph 42.—War Risks (Marine) Insurance Fund—War Risks (Commodities) Insurance Fund.

My Lords note the comments of the Committee in these paragraphs.

VOTE OF CREDIT.

Paragraph 43.—Treasury. Expenditure out of French Reciprocal Advances.

My Lords note that the Committee do not desire to raise objection to the course proposed and They take this opportunity to state formally (i) that this will not be regarded in any way as a precedent for similar procedure in normal circumstances and (ii) that the money in this Account will be retained for the purposes of the post-war settlement and if not specifically required for such purposes will be surrendered to the Exchequer.

Paragraphs 44 and 45.—Ministry of Food. Payments to Flour Millers.

Paragraphs 46 and 47.—Control of Cold Stores.

Write to:—

The Secretary,
Ministry of Food.

SIR,

I am directed by the Lords Commissioners of His Majesty's Treasury to request you to invite the attention of the Minister to the comments in paragraphs 44 to 47 of the Report of the Committee of Public Accounts, 1943.

Paragraphs 44 and 45.—Payments to Flour Millers. Information as to capital employed and the rate of profit thereon has been obtained by the Ministry and furnished to Their Lordships who have the matter under consideration together with the question of incentive to economy.

Paragraphs 46 and 47.—Control of Cold Stores. My Lords understand that the Ministry is in process of obtaining the information desired by the Committee.

I am, etc.

Paragraphs 48 to 51.—Ministry of Supply. Purchase and Distribution of Raw Cotton.

Paragraphs 52 to 57.—Iron and Steel.

Paragraphs 58 and 59.—Timber Merchants' Remuneration.

Write to:—

The Secretary,
Ministry of Supply.

SIR,

I am directed by the Lords Commissioners of His Majesty's Treasury to request you to invite the attention of the Minister to the comments in paragraphs 48 to 59 of the Report of the Committee of Public Accounts, 1943, dealing with certain questions arising on the Raw Materials Controls of the Ministry.

Paragraphs 48 to 51.—Purchase and Distribution of Raw Cotton. The Minister will note the comments on the admitted defects in the arrangements made between the Ministry and the Company.

Paragraphs 52 to 57.—Iron and Steel. The Committee review in these paragraphs the arrangements for the control of iron and steel prices. In paragraph 57 the Committee record the important conclusion that they do not question the Ministry's policy of operating on a uniform price system, while the inference may be made from paragraph 56 that they regard the rate of profit actually earned in 1941 by the heavy section of the industry as reasonable. My Lords have been glad to note these conclusions. The Minister will note what the Committee have to say in these paragraphs on the rate of profits earned in the lighter sections of the industry which is a matter that is under continuous review by the Ministry of Supply in consultation with Their Lordships as necessary.

Paragraphs 58 and 59.—Timber Merchants' Remuneration. My Lords understand that a review of the whole position is in progress and that, while it may not be thought necessary or practicable to investigate the profits made by the large number of smaller firms engaged in about one-half of the turnover in view of the shortage of accountants and the small average income of the firms in question, returns are being called for from the four large firms responsible for the other half of the turnover. It is understood, also, that the Ministry may wish to reconsider in the light of these returns the question of some differentiation in the rates of remuneration as between the larger and the smaller firms.

I am, etc.

Paragraphs 60 to 62.—Accounts of Wartime Trading Operations.

My Lords note that the Committee agree that the wartime trading accounts should not be formally declared to be official accounts. The Departments have been informed accordingly and have had their attention drawn to the hope expressed by the Committee, which Their Lordships fully share, that this will result in a valuable saving of man-power.

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Paragraphs 63 to 66.—Profit Rates in Contract and Control Prices.

My Lords note the conclusions of the Committee in paragraph 66. They feel, for Their part, that a comparison of profit margins as between maximum price and fixed price contracts and a further comparison of the profit envisaged when a fixed price is negotiated with a contractor with that which the contractor in the event secures, is apt to be misleading if made in isolation and not as part of an examination of the wider problem of the relative functions of these two forms of contract in the business of securing supplies in the circumstances of war.

My Lords regard the contract in war-time as something more than a means of recouping to a contractor his reasonable expenditure and giving him in addition a fair reward for his endeavours and the use of his capital in the form of profit. They are satisfied that the contract can be made to play a substantial part in securing that the supplies which the nation requires are obtained with the minimum use of the nation's resources and with the maximum of speed. If, however, the contract is to exercise the fullest influence to this end of which it is capable, it cannot treat costs and profit margins as two distinct entities to be separately examined and settled but must secure that they are associated in order that they may interact one on the other.

This association is secured to the maximum possible extent with the fixed price contract and only to a limited extent (if at all) by the maximum price contract. For general production reasons, the Contracting Departments have increasingly sought fixed price contracts, as the war has developed, and in this policy they have had the full support of the Treasury.

In considering, therefore, the profit margins on the two forms of contract regard must be had to their advantages and disadvantages. In the case of the maximum price contract the profit margin is little, if anything, more than the return to the contractor for the use of his capital and for his efficiency of production. The essence of a fixed price contract is that, in agreeing upon the price, the Contract Department has sufficient data to put the contractor at a much more definite risk than in the case of the maximum price contract, where the maximum acts rather as a ceiling and normally allows a safety margin over likely cost. Once the price is settled for a fixed price contract, the emergent profit is left within the control of the contractor, and designedly so. In other words, he has an inducement to concentrate his efforts on securing economies in, and on speeding his production, efforts which, if successful, are to the immediate advantage of the nation in limiting the use made of manpower and materials in short supply and speeding up the deliveries of supplies and should be to its later advantage in the form of lower prices on subsequent contracts reflecting the economies achieved on the earlier contract.

For these reasons, My Lords feel that the profit margins on maximum price and on fixed price contracts are radically different in nature and cannot well be as directly judged one against the other as the Committee suggest in their reference to a proportion between the two.

A further consideration affecting both forms of contract is the rate of the contractor's turnover. While it is agreed that the capital employed is the primary criterion by reference to which to judge profit returns, it must be remembered that the contractor invariably thinks of profit as a percentage of his costs, not of his capital, and that the rate of turnover is to a large extent the measure both of the scope for the contractor's resource and efficiency and of the risk, in cases where there is risk, which he runs. It follows that the added margins which are allowed for efficiency and risk are based on turnover and therefore tend to result in high profit margins where the ratio of turnover to capital is high with more marked effect on the fixed price contract than on the maximum price contract.

On the figures actually before the Committee, My Lords note that the Committee accept the profits obtained from maximum price contracts as reasonable approximations to the basic rate. They would, for Their part, hope, as part of the policy of securing further development of the fixed price contract, that it will be possible to bring these rates progressively down though the scope for reduction is not large.

As regards fixed price contracts, My Lords note the Committee's opinion that a general level of actual profit of 15 per cent. on capital employed would be out of proportion to the rate obtained under Treasury policy in costed contracts. The policy which has been determined in consultations between Departments (including the Treasury) represented on the Contracts Co-ordinating Committee is to regard a rate of profit ranging to 15 per cent. according to circumstances, as a reasonable basis on which to negotiate a fixed price. (The figures tendered to the Committee in respect of Ministry of Aircraft Production contracts for 1941 indicated that over a substantial group of contracts the envisaged profit rate was 12.82 per cent. on employed capital. The difference, however, between this envisaged profit and the emergent profit which the contractor actually secures in the event involves important issues of contract policy. My Lords have frequently stressed that it is the essence of a fixed price that it should be a good price, *i.e.*, one which is likely to produce for the contractor a reasonable profit but not more than a reasonable profit if he executes the contract with due care and diligence. They still hold this view though they regard the desirability of extending the scope of the fixed price contract as justifying the taking of greater risks as regards price than were formerly thought desirable. But the difference between the envisaged profit and the emergent profit cannot be regarded as necessarily indicating that the price was too high.

Differences will be due no doubt to some extent to errors which operate in the contractor's favour, *e.g.*, to a failure to make full allowances for the foreseeable factors operating to reduce costs, but it will also be due to the special efforts of the contractor to improve his production, efforts which it is the object of the fixed price to encourage but which it would be unreasonable (and indeed impossible) to attempt to discount fully in advance. A difference between envisaged profit and emergent profit will be in this respect only the measure of the success which the fixed price basis has had in a particular case in securing its objective.

My Lords recognise that it is of importance that Departments should keep under review the cost trends in their fixed price contracts, particularly in order to ensure that economies in production costs are reflected in lower prices for subsequent contracts. Departments are in fact constantly engaged in such a review to the extent that staff is available as part of their normal work.

This is done by such of the following methods as are found most appropriate to the case in question—by current costing, by post costing, or by the scrutiny of trading results, either of individual firms or of a particular industry. My Lords are arranging with Departments that information in connection with such investigations should be made available to the Comptroller and Auditor General. In those cases, however, where the figures given may tend to disclose the trading results of individual firms, My Lords would, as at present advised, consider it desirable to ask that any disclosure to the Comptroller and Auditor General should be confidential.

SERVICES NOT SPECIFIED.

Paragraph 67.—Services not specified.

My Lords note the comments of the Committee.

Paragraphs 68 and 69.—United Kingdom Commercial Corporation.

My Lords note the comments of the Committee and confirm the arrangements set out in paragraph 69. They trust that the arrangements now agreed will secure the objects required by the Committee.

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P 1

APPENDIX No. 3.

PAPER handed in by the *Association of Municipal Corporations*, 25th January, 1944.

REPORT OF THE COMMITTEE OF PUBLIC ACCOUNTS.
DEFECTIVE AIR RAID SHELTERS.

MEMORANDUM BY THE GENERAL PURPOSES COMMITTEE OF THE ASSOCIATION.

1. The attention of the General Purposes Committee of the Association of Municipal Corporations has been directed to certain paragraphs which appear in the Report of the Committee of Public Accounts (H.C. 116) which was laid on the Table of the House of Commons and ordered to be printed on the 13th October, 1943; the paragraphs are those numbered 33 to 35 inclusive in the report relating to Defective Surface Shelters; in these paragraphs it is stated that the cause of the defects in the shelters was the use of lime mortar without cement, but, in some cases, bad workmanship and defective bricks were contributory factors; that the cost to the Exchequer of these unsatisfactory shelters was £1,250,000 and that recoveries from contractors amounting to £50,000 have been or may be secured.

2. The paragraphs in question are calculated to leave the reader under the delusion that the Ministry may have been blameless; that the Ministry are deserving of credit because they issued instructions forbidding the use of lime mortar, and by implication, that but for this instruction local authorities might have continued to use lime mortar in the construction of shelters, in ignorance of the fact that it was unsuitable; that culpability on the part of local authorities could be clearly established in some cases though not in most; that in other cases, although local authorities may have been culpable it was difficult to establish this clearly; and that the use of lime mortar may have been due to carelessness on the part of local authorities.

3. It is a matter of record that Home Security Circular 77/40 and Memorandum 14 entitled "Domestic Surface Shelters" was not free from ambiguity inasmuch as the paragraph dealing with mortar reads:—

"The mortar may be composed of one part lime putty and three parts of sand (see B.S.S./A.R.P. 25). Alternatively the mortar may be composed of one part of cement to three parts of sand and gauged with 10 per cent. of lime . . ."

4. This paragraph was far from clear; it states categorically that the mortar might be composed of one part of lime putty and three parts of sand, but if one refers to B.S.S./A.R.P. 25 he finds that the Circular may not mean what it says, as B.S.S./A.R.P. 25 requires that cement should be added. On the 23rd April, 1941, the Parliamentary Secretary to the Ministry of Home Security (see Hansard, col. 171) referred to a circular "which allowed 'ungauged' mortar to be used," and it is understood that it was Circular 77/40 to which she referred, so it seems that even the Ministry at that date had been misled by their own circular.

5. Nevertheless, it is so well known among competent engineers, surveyors and architects that mortar without cement would be unsuitable, that few, if any, local authorities were misled by the ambiguity of Circular 77/40.

6. Circular 77/40 was issued in April, 1940; it was not until after the retreat from Dunkirk that defective shelters were erected; after the retreat from Dunkirk nearly all the cement in the country was diverted to the construction of coast defences, and as a result there was hardly any cement available for the shelter construction programme; the public were agitating for more shelters and in some parts of the country the work was almost at a standstill; local authorities made representations to the Regional Officers of the Ministry of Home Security, but

what happened to these representations is not known; what is known is that Regional Officers of the Ministry issued Regional Circulars *instructing* local authorities to use lime mortar; it will be sufficient to quote one of these: the senior Regional Technical Advisers of the North Western Region (No. 10) on the 19th July, 1940, issued Regional Circular 10/Gen./7 to engineers and surveyors or local authorities in the region; this circular was not even ambiguous; paragraph 3 reads:—

“ For all brickwork, until supplies of cement are again available, lime mortar should be used . . . ”

7. The specification for lime mortar is set out in the Circular and reads:—

“ 2. *Lime Mortar.*

Mortar for brickwork should be composed of:—

- | | | |
|---|--------|--------|
| (a) Lime of medium hydraulicity or hydrated lime | ... .. | 1 part |
| (b) Clean sharp pit or river sand | ... .. | 1 part |
| (c) Ground clinkers or alternatively sand as in (b) | ... .. | 1 part |

and shall be thoroughly mixed as prescribed in the enclosure to Circular C.E.25.”

This circular was followed by a further circular which was issued by the Senior Regional Technical Officer on the 13th August under the same reference, in which it is stated that “ it is understood that a limited quantity of cement is likely to be available for A.R.P. work from about 19th August. It is not expected to be sufficient to enable a cement/sand mortar of approved specification to be used for brickwork, nor for reinforced concrete slab roofs to be provided for shelters, but it is hoped sufficient will be available to enable all mortar for walls to be the specification for a lime/cement mortar in Circular C.E.25.”

8. It is clear, therefore, that between the 19th July and the 13th August, the Ministry were not expecting that local authorities would be adhering to the specification for a lime/cement mortar.

9. Even after receiving the unambiguous instructions contained in the Regional Circular of the 19th July, 1940, and similar circulars issued in other Regions most local authorities protested that it was bad practice to use lime mortar and, indeed, many local authorities, on the advice of their own officers, declined to do so; only 280 out of 1,800 local authorities did so; but the position of some of these local authorities was most difficult: the public were agitating for an acceleration of their shelter building programmes and the local authorities were having to explain that it was impossible to secure adequate supplies of cement, and there was considerable feeling in many of the more densely populated and vulnerable areas. With this as a background it will be realised that it was most embarrassing for local authorities to be instructed—as they were—to adopt a practice which their own technical officers in many cases advised was unsound: it was still more embarrassing when the Regional Officers announced publicly in the Press and otherwise as they did in at least one Region, that they had instructed local authorities to press on with their shelter construction programmes with alternative materials which were in fairly good supply.

10. There was another factor which should not be overlooked: the designs of the shelters were dictated by the Ministry of Home Security. Many local authorities protested that these designs were bad, and it is a fact that the defects in design seriously aggravated the results of the defective mortar; for instance, the arched roof and beehive types of shelter designed by the Ministry were inherently weak—indeed, the Ministry later had to stop the construction of shelters of these types—further, in all types of shelter damp courses were not allowed and drips and overhangs were specifically prohibited with the result that walls not only remained wet for months, but had to withstand the action of rain water from the roofs flowing down them. These bad designs, without doubt, provided the best conditions for demonstrating as quickly as possible how ill-advised the Ministry were to give instructions for the use of lime mortar; quite a number of shelters collapsed after a few months' exposure to the rain.

11. It should not be thought that the Regional Officers of the Ministry were to blame for advising the use of lime mortar in July, 1940; the Ministry themselves advised, in a letter sent from Horseferry House, dated the 20th July, 1940, that "until cement is again available a lime (hydraulic) mortar, one part lime and two parts sand, should be used in the construction of walls of shelters."

12. A most significant fact is that at no time have the Ministry of Home Security ever suggested to local authorities that any blame attached to local authorities in respect of the use of lime mortar: towards the end of 1940 and during 1941 the Ministry sent several circulars to local authorities instructing them to examine shelters built to any mortar specification: to rebuild them where the mortar was still weak: to report on the type and numbers of all shelters built with lime and considered to be weak and to close at once all shelters in which ungauged lime mortar has been used: in none of these circulars was it even hinted that local authorities had acted otherwise than in accordance with instructions received from the Ministry in building these shelters.

13. A perusal of the evidence heard by the Committee of Public Accounts on this question shows that the only evidence heard was that given by officials of the Ministry of Home Security and that it gave a wholly false picture: it is not necessary to quote the evidence in detail in this memorandum: it is sufficient to say that the Committee only saw Circular 77/40 which was issued in April, 1940, and did not see any of the later instructions which were issued by the Ministry, and the only point which appears to have been considered by the Committee was whether Circular 77/40 was or was not ambiguous.

14. Paragraphs 33 to 35 inclusive of the Report of the Committee of Public Accounts—which for ease of reference are set out in the Annexe to this Memorandum—make clear the extent to which the Committee have been allowed to go astray in their conclusions and a comparison with the facts as recorded in this memorandum will show how very unfair to local authorities are the conclusions contained in those paragraphs.

15. The General Purposes Committee of the Association of Municipal Corporations are most concerned that the paragraphs in question should have been placed before the House of Commons, and feel that the false impression which may have been created should be corrected by the publication of the facts: in *The Times* of the 28th October last, and no doubt in other papers also fairly wide, and from the point of view of local authorities, harmful publicity outside Government circles has been given to the Report of the Committee of Public Accounts on this aspect.

16. The General Purposes Committee therefore ask that the Report should be corrected and the corrected report given as much publicity as the paragraphs in question have received, both inside and outside the House: they feel sure that the Committee of Public Accounts will regard this request as being reasonable.

Palace Chambers,
Bridge Street,
Westminster, S.W.1.

25th January, 1944.

ANNEXE

EXTRACT FROM THE REPORT FROM THE COMMITTEE OF PUBLIC ACCOUNTS.

(Ordered by the House of Commons to be printed 13th October, 1943.)

Defective Surface Shelters.

33. Your Committee have also inquired into the expenditure on certain surface shelters built in 1940 which proved unsatisfactory. Evidence of defects came to light in the winter of 1940, and following a survey carried out by all local authorities on the instructions of the Ministry it was established that the troubles were widespread. Unsatisfactory shelters were found in the areas of no fewer

than 280 local authorities out of about 1,800. It was stated that the main cause of the defects was the use of lime-mortar without cement, but in some cases bad workmanship and defective bricks were contributory factors. Your Committee were informed that at this stage the Ministry issued instructions forbidding the use of lime-mortar and requiring defective shelters to be demolished or closed: local authorities were also required to investigate the causes of the defects and to consider the propriety of action against the contractors who erected the shelters in cases where evidence was available of bad workmanship or of the use of unsatisfactory material. As a result shelters capable of accommodating some 564,000 persons were closed or demolished.

34. It was stated that the cost to the Exchequer of these unsatisfactory shelters was £1,250,000 and that recoveries from contractors amounting to £50,000 have been or may be secured. Your Committee inquired fully into the circumstances giving rise to the use of the lime-mortar to which the defects were mainly attributable. It was contended that the instructions, if carefully read, prescribed the use of a cement admixture and accordingly that the use of lime-mortar resulted from either careless reading or plain disregard of the instructions. It was pointed out that at the material time there was extreme pressure on contractors to complete the works quickly, coupled with a shortage of cement; and moreover that lime-mortar subject to proper care in mixing and use can provide a satisfactory mortar. In these circumstances and as the use of lime-mortar was not specifically forbidden culpability on the part of the local authorities or the contractors could not in most cases be clearly established and accordingly grant was not withheld.

35. Your Committee realise that under the conditions prevailing in 1940 errors were inevitable. In this case, whether they were due to inadequate instructions or to carelessness on the part of local authorities or contractors, they unfortunately resulted in serious waste of labour and materials. In the light of the experience afforded in this case and that dealt with in paragraph 29 Your Committee trust that every endeavour will be made in future to ensure that the Ministry's instructions to local authorities are expressed clearly and definitely and are free from ambiguity.

APPENDIX No. 4

LETTER from Sir *Parker Morris*, LL.B., 5th January, 1944.

Metropolitan Boroughs' Standing Joint Committee,
Westminster City Hall,
Charing Cross Road, W.C.2.
5th January, 1944.

SIR,

DEFECTIVE SURFACE SHELTERS—USE OF LIME MORTAR

The attention of the Standing Joint Committee has been directed to the Report of the Committee on Public Accounts, from which it would appear that on information supplied by the Ministry of Home Security the Committee have arrived at the conclusion that local authorities were to blame for the difficulties which arose in 1941 in connection with surface shelters which were found to be defective in their construction due to the use of lime mortar without cement, at a time when no cement was available. Reference to the appropriate circulars issued by the Ministry of Home Security at the time discloses that the Ministry's instructions to local authorities were indefinite and misleading. Further, the Standing Joint Committee understand that the technical officers representing the Ministry of Home Security at regional level instructed local authorities to use a lime mortar in

the construction of domestic surface shelters without the use of cement. This statement is supported by a written communication which was received by at least one constituent Council from the Ministry in July, 1940, wherein it was stated that "Until cement is again available a lime (hydraulic) mortar, one part lime and two parts sand, should be used in the construction of walls of shelters".

In these circumstances the Standing Joint Committee consider that steps must be taken to make it abundantly clear that local authorities were not to blame for the shelters rendered defective in their construction by the use of lime mortar. The Committee are of opinion that the Committee of Public Accounts cannot have been fully aware of the position, and I am accordingly directed to bring the whole of the facts to their notice and to invite them, on an appropriate occasion, to make further comment on this matter.

I am, Sir,

Your obedient Servant,

PARKER MORRIS,
(Hon. Clerk).

The Clerk,
Committee of Public Accounts,
House of Commons,
S.W.1.

APPENDIX No. 5

PAPER handed in by Mr. *O. C. Allen*, C.B., C.B.E., 11th May, 1944.

LIME MORTAR SHELTERS

NOTES ON MEMORANDUM OF THE ASSOCIATION OF MUNICIPAL CORPORATIONS

Paragraph 1

This paragraph is introductory and does not call for comment.

Paragraph 2

This paragraph contains a series of general propositions purporting to summarise the impression conveyed to an impartial reader of the Public Accounts Committee's Report. It suggests that paragraphs 33-35 of the Report are calculated to leave the reader under the "delusion"—

- (a) that the Ministry may have been blameless;
- (b) that the Ministry are deserving of credit because they issued instructions forbidding the use of lime mortar;
- (c) that otherwise local authorities would have continued to use lime mortar "in ignorance of the fact that it was unsuitable";
- (d) that culpability on the part of local authorities could be clearly established in some cases but not in most;
- (e) that in other cases local authorities may have been culpable although it was difficult to establish this clearly;
- (f) that the use of lime mortar may have been due to carelessness on the part of local authorities.

COMMENTS

(a) The Report cannot leave any impartial reader under the impression that the Ministry were blameless, since the conclusion of the paragraph cited is a specific recommendation that in future every endeavour should be made " to ensure that the Ministry's instructions to local authorities are expressed clearly and definitely and are free from ambiguity ". The natural implication is not that the Ministry were blameless but that their instructions lacked precision and lucidity. (As long ago as the 20th March, 1941, the Minister stated, in answer to a Parliamentary Question by Mr. Gallacher, M.P., that the specification in A.R.P. Memorandum No. 14 " was unfortunately not too clearly worded ".)

(b) There is nothing in the Report to suggest that the ban on lime mortar was regarded by the Public Accounts Committee as a subject for commendation. The Committee simply record objectively the fact that at a particular stage the ban was issued; and it is difficult to see how they could have avoided this particular reference.

(c) It is not the Committee's Report, but the actual fact of the ban having been issued, which implies that some local authorities would otherwise have continued to use lime mortar. To achieve consistency the Association should contend that the ban was unnecessary, and that is a contention which the Ministry would not be able to accept. Incidentally lime mortar is not necessarily " unsuitable ".

(d) The conclusion of the Committee was that " culpability on the part of the local authorities or the contractors could not in most cases be clearly established and accordingly grant was not withheld ". The Association say that this implies that culpability on the part of the local authorities could be established in some cases but not in most. The Ministry consider that in some cases though not in most, there was culpability on the part of the local authorities and/or the contractors. This view is reflected in the fact that payment of Exchequer Grant has been withheld, in whole or in part, in 11 instances. (It should be observed that the Ministry are not primarily concerned to allocate responsibility between the local authority and the contractor, but in those cases where grant was withheld or reduced the Ministry, on the information before them, felt bound to take the view that the local authorities did not exercise that degree of supervision over the work that could reasonably be expected of them in the circumstances of the time.)

(e) The Ministry agree that this is a fair inference from the terms of the Committee's Report and they consider also that it is warranted on the facts. (See paragraph 11 of Supplementary Note.)

(f) The conclusion of the Committee apparently was that the errors " were due to inadequate instructions or to carelessness on the part of local authorities or contractors ". The view of the Ministry is that these factors did operate but that there were other equally important factors including the acute shortage of cement, steel, bricks, timber and hydraulic limes: and the unpredictable accident of a spell of weather particularly unfavourable to the satisfactory setting of either lime or lime cement mortars. If the contention of the Association is that the only factor to be excluded from consideration is a lack of supervision on the part of local authorities, then that is a contention which the Ministry do not feel able to accept. The determining factor was an acute shortage of suitable materials, especially of cement; the main contributory factors were inferior workmanship (or the use of inferior materials) and a lack of adequate supervision. The duty of supervision lay with the local authorities and in that respect it is not thought that, in distinction to the Department or to the contractors, they are entitled to ask for comprehensive exculpation.

Paragraph 3.

This paragraph quotes the specification for mortar in A.R.P. Memorandum No. 14 and observes that it was not free from ambiguity,

COMMENT

The Minister has always admitted that the specification was "unfortunately" worded and the Public Accounts Committee evidently shared this view.

Paragraph 4.

This paragraph explains the "ambiguity" in the specification and suggests that the Ministry were "misled by their own circular" since, on the 23rd April, 1941, the Parliamentary Secretary referred to "a circular which allowed ungauged mortar to be used."

COMMENTS

The Association assert that if the reader refers to B.S.S./A.R.P.25 he finds that "the Circular may not mean what it says." What the reader finds is that the Circular *cannot* possibly mean that lime mortar is to be used without cement. As regards the remainder of the paragraph, the citation from Hansard relates to an *obiter dictum* made by the Parliamentary Secretary when answering a Supplementary Question. (Hansard for 23rd April, 1941, Cols. 170-171.) The use of the term "ungauged" was inaccurate but the reply is quoted out of its context. Mr. Culverwell, M.P., had referred to "faulty specifications" which the Government gave, and Miss Wilkinson said:—

"I think the hon. Member is greatly exaggerating the effects of a *certain circular which allowed ungauged lime mortar to be used*. We have found, as a matter of fact, that where the workmanship was good, the shelters have stood up quite well. Unfortunately, certain people have taken advantage of what they considered to be, and what was, a certain relaxation of our stringent restrictions, *and have gone far in excess of anything contemplated by the Circular.*"

It is reasonably clear from the final sentence of the passage quoted above that what the Parliamentary Secretary had in mind was lime cement, and not ungauged lime mortar; for if she had been thinking of ungauged lime mortar in the strict sense of the term, her final statement would have had little or no meaning; it would scarcely be possible to go "far in excess" of a Circular authorising the use of ungauged lime mortar. Other Ministerial statements made specifically on the subject of lime mortar establish beyond any possibility of doubt that in the Minister's opinion the specification did *not* authorise the use of lime mortar ungauged with cement. For example, in reply to a Parliamentary Question by Mr. Gallacher, M.P., on the 20th March, 1941 (Hansard, Cols. 304-305), the Minister said:—

"The specification . . . was unfortunately not too clearly worded *and was read by some local authorities* as authorising the use of mortar ungauged with cement. Any possible misapprehension was removed by a circular issued on the 17th July (i.e. 1940)."

Again, in his Reply to a Question by Mr. Norman Bower, M.P., on the 23rd July, 1942 (Column 156), the Minister said:—

"The specification in that *Memorandum did not authorise the use in mortar of lime ungauged with cement* although it was so construed by a number of people."

Paragraph 5.

The suggestion in this paragraph is that, notwithstanding the terms of the specification, the local authorities' technical officers were so familiar with the unsuitability of mortar without cement that "few, if any . . . were misled."

COMMENT

280 local authorities had defective shelters built in ungauged lime mortar or in lime cement mortar. The precise number who used ungauged lime mortar is not known, but it no doubt exceeded 280. Apart from that, this paragraph is in internecine opposition to paragraph 9 where it is affirmed that most local authorities protested against the use of lime mortar. For if they

protested against the use of ungauged lime mortar, then in the Ministry's view they misinterpreted the specification; and if they protested against the use of lime cement mortar, the protest was without merit. In point of fact very few local authorities protested against the use of ungauged lime mortar and a number expressly asked for permission to use it. Some were authorised to use it for a short period, and under certain conditions, as explained later in these Notes.

Paragraph 6.

The gist of this paragraph is that following the Fall of France and the consequent diversion of cement supplies to defence works, "Regional Officers of the Ministry issued Regional Circulars *instructing* local authorities to use lime mortar." Reference is then made to a Circular issued on the 19th July, 1940, by the North-Western Region indicating that "lime mortar" should be used.

COMMENTS.

In the opinion of the Ministry this paragraph is so inaccurate that it must be assumed to have been compiled on imperfect information. The proposition that Regional Officers of the Ministry issued Regional Circulars *instructing* local authorities to use [ungauged] lime mortar, coupled with the suggestion that "it will be sufficient to quote one of these," definitely implies that several such instructions were circulated. Of the twelve civil defence Regions only two issued circulars authorising the use of ungauged lime mortar. One of the circulars was in force for only six days and cannot therefore have had any influence on the situation. The other circular is the one—and the only one—quoted by the Association. It was issued on the 19th July by the North-Western Region and superseded on the 13th August. It was therefore in force for approximately 27 days; but in that Region nearly 3,500 defective (and over 5,000 satisfactory), lime mortar or lime cement mortar shelters were constructed, exclusive of shelters in Manchester and Liverpool, and it can hardly be contended, as a matter of practical common sense, that anything like the bulk of these shelters was erected during the four weeks in question. In addition, it should be remarked that the circular issued in the North-Western Region was supplemented by oral instructions forbidding the use of hydrated limes.

In five other Regions individual authorisations were given by the Regional authorities for the use of non-cement mortars in specific cases. These authorisations covered only a small proportion of the local authorities concerned, were in force for relatively short periods and with few exceptions specified with a considerable degree of explicitness the exact type of mortar to be used. In the great majority of cases insistence was laid on the employment of a hydraulic mortar. These *ad hoc* authorisations operated only during the period, and in those districts, where cement was unobtainable.

It may be added that over 600 defective lime mortar or lime cement mortar shelters were constructed in Regions in which no general or *ad hoc* authorisation was given for the use of ungauged lime mortar, and that in the London Region—where only one individual authorisation was given involving 21 unsatisfactory shelters—a total of over 1,400 defective lime mortar or lime cement mortar shelters was built.

As far as is known, no authorisation was given by the Ministry, either centrally or Regionally, for the use of ungauged-lime mortar, except in cases where cement was absolutely unprocurable. Such authorisations were normally given in response to urgent local representations that the alternative would be a complete cessation of shelter construction.

Paragraph 7

This paragraph quotes part of the specification circulated by Region 10.

COMMENT.

See comment on Paragraph 6.

Paragraph 8.

This paragraph (on the strength of paragraphs 6 and 7) draws the conclusion that between 19th July and 13th August, 1940, the Ministry were not expecting that local authorities would be adhering to a lime/cement mortar.

COMMENT

The Ministry expected local authorities to adhere to the use of lime/cement mortar except in cases where the use of ungauged lime mortar was specifically authorised. (See also comment on paragraph 6 above.)

Paragraph 9

The noticeable suggestions in this paragraph are:—

(a) that circulars similar to the North-Western Region's circular of the 19th July, 1940, were issued in other Regions;

(b) that most local authorities protested that it was bad practice to use lime mortar and that many local authorities declined to do so;

(c) that only 280 out of 1,800 local authorities did use [sc. ungauged?] lime mortar;

(d) that the local political position of some of these authorities was very difficult;

(e) that the position of the same authorities was still further embarrassed by Regional announcements to the effect that instructions had been issued for the use of "alternative materials which were in fairly good supply."

COMMENTS.

(a) *One* other such circular was issued—and was in force for 6 days. See comment on paragraph 6.

(b) Very few local authorities protested. See also comments on paragraph 5.

(c) The exact number of local authorities who used ungauged lime mortar is not known, but it is not to be assumed that the 280 who found it necessary to demolish or close unsatisfactory shelters comprised the total number of such authorities. The 280 which were found to have defective lime or lime-cement mortar shelters include some of the largest authorities. In the case of those authorities who built defective lime-cement shelters, the propriety of the specification is, of course, not here in question.

(d) No doubt; but the magnitude of the difficulty was in inverse ratio to the energy and foresight which any given local authority had shown in implementing its shelter programme prior to the Fall of France.

(e) It has not been found possible to identify the Regional announcements referred to. It is thought that they may refer to alternative *methods* of construction. If so, there is no force in the criticism.

Paragraph 10.

The general sense of paragraph 10 is that the Ministry of Home Security were responsible for a number of defects in shelter designs and that these defects accelerated the deterioration of the lime mortar shelters. The defects specifically mentioned are the use of arched and bee-hive roofs and the absence of damp-courses, drips and overhangs. It is stated that many local authorities protested that these designs were bad.

COMMENT.

The view of the Department's technical advisers is that the designs were not defective and that they did not accelerate the deterioration of lime mortar shelters; the Department have no record that any local authority protested that the designs were bad at the time of their publication. See also paragraph 12 of Supplementary Note.

Paragraph 11.

This paragraph alleges that the Ministry advised the use of lime mortar in a letter sent from Horseferry House on the 20th July, 1940. The following sentence is quoted:—

“ Until cement is again available a lime (Hydraulic) mortar, one part lime and two parts sand, should be used in the construction of walls of shelters.”

COMMENT.

The letter quoted was issued by a technical officer attached to the London Regional Office of the Ministry. Its terms were not applicable to the London Region generally but to a particular group of shelters in a particular borough. It was issued when no cement was available to the borough in question and when the alternative was to suspend work on the contract. Moreover the specification was not for a simple lime mortar but for a hydraulic lime mortar, and finally, out of 123 shelters affected, 102 proved satisfactory. No other authorisation for the use of lime mortar ungauged with cement was issued in London but 1,402 defective lime or lime/cement mortar shelters were constructed in London.

Paragraph 12.

The criticism here is that in 1940-41, when the lime mortar problem was discovered and dealt with, the Ministry never suggested that any blame attached to local authorities.

COMMENTS.

This point was alluded to in the course of Sir Harold Scott's examination by the Committee. It is correct to say that the Ministry have never blamed or penalised a local authority simply on the ground that they resorted to the use of ungauged lime mortar. The cases in which a penalty has been imposed, by way of a reduction of Exchequer Grant, have been those in which it appeared reasonably certain that the local authority had not exercised adequate supervision over the work. In the majority of cases it has not been possible to establish with a sufficient degree of certainty that the supervision was inadequate and consequently in the majority of cases there has been no reduction of Grant. Again, it has never been suggested by the Ministry, or by anybody else, that the local authorities were exclusively to blame for the deficiencies of the inferior lime mortar shelters. In the Ministry's view there was a considerable number of operative factors—acute shortage of cement, steel, bricks, hydraulic limes and timber, but particularly of cement; a lack of explicitness in the terms of the Department's specification; a lack of care in its interpretation by local surveyors and by contractors; bad workmanship; the use of inferior materials; inadequate supervision; an adverse spell of weather just when the mortar should have been hardening and just when really heavy bombing commenced. To say that the Ministry did not make a general indictment of the local authorities in 1940-41 is to show a misunderstanding not only of the circumstances in which the Ministry consider it legitimate to embark on a formal criticism of the authorities, but also of the practical position prevailing at the time. A general indictment—which on the Department's own principles would have required to be based on the proposition that supervision had been generally and demonstrably inadequate—could have been arrived at only on a detailed technical examination of all the shelters and detailed enquiry into the conditions which attended their construction, particularly the degree of supervision which was exercised. It was not, however, at first appreciated that the problem of the failure of shelters constructed in lime mortar might be one of some magnitude. Between September and December, 1940, the Department was very fully occupied with urgent problems arising from the use of shelters as dormitories, and it was thought that such shelters as had been constructed in purely lime mortar would have gained proper strength, as indeed they probably would have done if they had been satisfactorily constructed with satisfactory materials. It was only when frost and cold weather accentuated the faults of weak mortars that the extent of the problem became apparent and any general enquiry as to the allocation of responsibility for the situation would at that date have been wholly impracticable. In addition,

intense night bombing was in progress and the practical necessity was to get unsound shelters closed and sound shelters strengthened. In the cases referred to in paragraph (d) of the comments on paragraph 2 of the Association's memorandum it has been found possible to subject the history of the jobs to a degree of examination which would not have been practicable in 1940. In at least 70 cases deductions are known to have been made in the local authorities' settlements with the contractors and this leaves a majority of cases where no grant deduction has been made and no recovery effected from the contractors. These will cover a wide variety of circumstances, but so far as the local authorities are concerned, the general position is that the case against them was "not proven." As Sir Harold Scott said, "if we were quite sure that they were all blameworthy and we could establish it, I suppose we should stop all their grants, and we have not." In this respect it should be observed, firstly, that the local authorities have been given the substantial benefit of the intermediate verdict and secondly that they, and they alone, were charged with the responsibility of supervising the execution of the contracts. Logically every case of defective work implies defective supervision unless the defects are of a nature which could readily be concealed even from careful and fairly continuous inspection. On that view it might have been a not unreasonable proceeding for the Department to presume inadequate supervision in all cases of defective construction and to charge the local authorities with the *onus* of repelling that presumption. In point of fact the local authorities have been assumed to be blameless in the absence of substantial evidence to the contrary—this largely in recognition of the staffing difficulties with which they were often faced during the material period—and it is an unconvincing line of argument for the Association to suggest that what the Department should have done was to indict the local authorities generally and thus to apply what would in fact have been the abstract logic of the situation.

Paragraph 13.

This paragraph complains that the evidence led before the Committee was *ex parte* in respect that it did not disclose Departmental instructions issued after April, 1940.

COMMENT.

This is presumably a reference to the matters mentioned in paragraphs 6-9 and 11. It is not considered that the "instructions" referred to had any appreciable bearing on the extent of the problem.

Paragraphs 14-16.

These paragraphs ask for redress in the form of a corrected Report.

APPENDIX No. 5A.

SUPPLEMENTARY PAPER handed in by Mr. O. C. Allen, C.B., C.B.E.,

11th May, 1944.

SURFACE SHELTERS—DEFECTS IN CONSTRUCTION ETC.

1. *Composition of Mortar.*

In ordinary building work mortar may be made with cement or with lime or with a mixture of cement and lime in specified proportions. The strongest mortar is a cement-sand mortar in proportions ranging about 1 to 3. For work such as air raid shelter construction, where special strength is desired in order to resist blast and splinter penetration, the use of the strongest mortar with a strong brick is ideal. However, some bricks are porous, and when using a pure cement mortar with common brickwork great care must be taken in the preparation of the bricks, otherwise the water is extracted from the mortar and a weak joint results.

Moreover, a cement mortar is very difficult to work unless some lime is added. In fact, lime cement mortars have certain advantages over cement mortar in that they are likely to produce a more homogeneous mass in the brickwork; on the other hand, they take longer to harden than cement mortars, particularly in cold weather, and great care is required in the choice of the lime, the preparation of the mortar and the filling of the joints.

With certain types of lime it is perfectly possible to produce a lime mortar, containing no admixture of cement at all, which will develop a brickwork of great strength and give results very little inferior to cement mortar. In some parts of the country, e.g. South Wales, the use of lime mortar is still quite usual practice. In view, however, of the need of special safeguards in the working, and of the degree of resistance desired in the brickwork, the use for shelter construction of a lime mortar ungauged with cement would not be generally recommended.

2. Shortage of Cement.

The main single factor affecting the quality of the shelters which proved defective was a shortage of cement which became acute following the Fall of France. The Department began to receive complaints about cement shortage from the time of the outbreak of the war, but these early troubles were mainly distributional, local shortages having arisen as a result of transport difficulties, apart from any question of production. The collapse of France, however, introduced a fundamental change in the situation. Large quantities of cement were hurriedly consumed for home defence works, air landing grounds and new factories, etc. All these works had absolute preference over A.R.P. work which was accorded a low priority, the practical effect of which was to create during June, July and August, 1940, an almost complete stoppage of supplies for shelter construction. Generally speaking, reliance had to be placed on any small stocks still in the hands of contractors or local authorities. There was, indeed, no substantial improvement of the situation until about the end of September, 1940, when the various Departments concerned were given allocations based on percentages of their estimated requirements, the allocation for shelter work being even then only about 65 per cent. of the requirements; and it was not until after October that the position began to improve and supplies became more plentiful.

This shortage of cement, the governing factor in the whole problem, was one over which neither the Ministry, on the one hand, nor the local authorities and the contractors, on the other, had any control whatsoever. The Ministry made urgent representations for the grant of a higher priority to shelter work, but these representations were unsuccessful.

3. Shortages of Other Materials.

The difficulty created by the shortage of cement was seriously aggravated by shortages of other materials. One effect of the sudden absorption of vast quantities of cement was to produce a resultant demand for the best types of lime and the demand for good qualities of hydraulic limes speedily outran the supply. At the same time there was an acute shortage of the best qualities of bricks, owing largely to the requirements of factory construction. Steel reinforcing material had been in short supply since the beginning of the war and timber (for shuttering) was also extremely scarce. In some areas even sand was difficult to obtain.

In respect to the materials required for shelter construction, therefore, there was for a substantial period a situation which can only be described as drastic and which had been produced by the cumulative effect of factors which could not possibly be controlled by the Department, the local authorities or the contractors.

4. Progress of Local Shelter Programmes.

There was, however, one antecedent circumstance over which local authorities had full control and which made a substantial contribution to the gravity of the position created by the shortage of cement and other essential materials. The

practical execution of the shelter programme was a responsibility of the local authorities and in any particular area its progress tended to reflect the relative vigour and efficiency of the Council concerned rather than the estimated needs of the district as assessed on grounds of vulnerability. It was precisely during the period of acute material shortage that a number of local authorities who had previously been dilatory and who were now startled into belated activity by the Fall of France embarked on extensive constructional programmes. The acceleration of the shelter programme had long been a subject of continuous and urgent representation on the part of the Ministry and in so far as local authorities were faced in the summer of 1940 with the arduous task of overtaking arrears of shelter construction, the responsibility was primarily their own. The extent of the problem facing any given authority was in inverse proportion to the zeal and energy with which they had applied themselves to the implementation of their shelter programme prior to the Fall of France.

5. Departmental Recommendations of General Application.

Instructions as to the composition of the mortar to be used in shelter construction were given in May and September, 1939, and in order to ease the cement shortage these contemplated the use of lime to the maximum possible extent. In both instances the mixes indicated as allowable contained cement.

In November, 1939, instructions were given that British Standard Specification A.R.P. 25 "Lime-Cement Mortars" was to be used. The specification requires an admixture of cement.

On the 29th April, 1940, the Department's A.R.P. Memorandum No. 14 "Domestic Surface Shelters" was published. The specification which permitted the use of lime in mortar was in the following terms:—

"The mortar may be composed of one part of lime putty and three parts of sand (see B.S.S./A.R.P./25). Alternatively the mortar may be composed of one part of cement to three parts of sand and gauged with 10 per cent. lime."

This Memorandum, which was placed on sale, was—as the Minister has stated in the House and as the Public Accounts Committee are aware—unfortunately worded. The phrase "1 part of lime putty and 3 parts of sand (see B.S.S./A.R.P./25)" was intended to be a succinct way of referring the reader to the mixes set out in the British Standards Specification, which required a proportion of cement. But it became apparent that the language used was read by some people (who may not have possessed the British Standards Specification or did not trouble to obtain it) as authorising the use of a purely lime mortar containing no cement whatever. When it became apparent that this misunderstanding had occurred, it was corrected, in July, 1940, at the most acute period of the cement shortage. It was not practicable then to prohibit the use of lime altogether, as the effect would have been to bring shelter work to a complete standstill. Instructions were consequently issued (Circular C.E.43 of the 17th July, 1940), that the proportion of lime in B.S.S./A.R.P./25 was not to be exceeded.

In October, 1940, as soon as the cement situation permitted, and in view of the fact that the approach of winter increased the risks of using lime in mortar, the use of a purely cement mortar in future shelter construction was insisted upon.

It will be seen, therefore, that the only Departmental instruction of general application which could possibly have been construed as authorising the use of ungauged lime mortar was that contained in A.R.P. Memorandum No. 14: in the Ministry's view the specification in the Memorandum did not in fact authorise the use of ungauged lime mortar but it is conceded that the terms of the relevant passage were in certain circumstances capable of misconstruction and in recognition of this consideration the Public Accounts Committee have expressed

the hope " that every endeavour will be made in future to ensure that the Ministry's instructions to local authorities are expressed clearly and definitely and are free from ambiguity ".

6. *Regional Circulars and Individual Authorisations.*

It is necessary, however, to consider authorisations of more limited application, the contention of the Association of Municipal Corporations being that " Regional Officers of the Ministry issued Regional Circulars instructing local authorities to use lime mortar " and that consequently " The Ministry were not expecting that local authorities would be adhering to the specification for a lime cement mortar ". The Association suggest that " it will be sufficient " to quote one of these circulars, the facts of the matter being that there were only two such circulars, that one was in force for only six days and that the other is the document quoted in paragraphs 6 and 7 of the Association's Memorandum.

In addition to the two Regional circulars mentioned there were instances in five other Regions where *ad hoc* authorisations were given by the Regional authorities for the use of ungauged lime mortar in individual cases. These authorisations covered only a small proportion of the local authorities concerned, were in force for relatively short periods, operated only when and where cement was unobtainable, and with few exceptions specified with a considerable degree of explicitness the exact type of mortar to be used.

For the issue of these Regional circulars and individual authorisations the Ministry assume full responsibility. The only alternative would have been to approve a complete cessation of shelter construction and it was precisely against any such cessation that local authorities themselves were most urgently representing. Having regard to the terms of the authorisations, to their limited field of application and to the short periods for which they were operative, it is not considered that they can have had any decisive influence on the extent of the construction of defective shelter.

7. *Supposed " Unsuitability " of Ungauged Lime Mortar.*

It has become fashionable to assert, and it is asserted in paragraph 5 of the Association's Memorandum, that lime ungauged with cement provides an unsuitable mortar. This, however, is a misleading conception. In the first place " lime mortar " is a term capable of fairly wide construction and " lime mortars " are by no means of uniform strength. In the second place it is possible with certain types of lime to produce a lime mortar containing no admixture of cement which will develop a brickwork of great strength and give results very little, if at all, inferior to cement mortar. In some areas e.g. South Wales, the use of lime mortar is still quite usual and there is evidence that there, and elsewhere, lime mortar and lime cement mortar shelters properly constructed have in practice put up a resistance to bombing not appreciably inferior to those built in cement mortar. On the other hand, a number of shelters constructed in *lime cement* mortar have proved defective. Finally it should be observed that the methods recommended by the Ministry for strengthening surface shelters add so much to their resistance that in the case of sound shelters it is for all practical purposes immaterial whether the original structure was built in lime mortar or in cement mortar.

If, therefore, the causes which contributed to the construction of defective shelters in 1940 are to be identified it is insufficient to point to the use of lime mortar as such: it is necessary also to consider what type of lime mortar was used. It is a fact that some of the limes employed were unsuitable but in so far as this was the case, the responsibility did not lie with the Ministry whose specifications invariably instructed the use of good quality lime.

8. *Position of Local Authorities in connection with the Use of Lime Mortar*

It has already been mentioned that the magnitude of the problem facing particular local authorities in the summer of 1940 was inversely proportionate to the progress of their shelter programmes prior to the Fall of France; but

even in the case of progressive local authorities it would have been an extremely grave step to acquiesce in a complete suspension of construction and the Ministry have never taken the view that local authorities who were confronted with the alternative of using lime mortar or suspending all shelter construction, should be blamed because they elected to adopt the former course. Having decided to use lime mortar, however, the local authorities were sometimes met by the same predicament in another form—namely, their inability to obtain supplies of suitable (hydraulic) limes. In such cases the choice lay between stopping all shelter work or proceeding with the construction of shelters which did not have a favourable prospect of proving immediately satisfactory but which it was hoped to improve and strengthen when cement became available again.

The Association state in paragraph 12 of their Memorandum “ that at no time have the Ministry of Home Security ever suggested to local authorities that any blame attached to local authorities in respect of the use of lime mortar ” and this statement is correct—not for the reason implied in the Memorandum—but in the sense that the use of lime mortar has never been regarded as in itself constituting a sufficient ground for reducing a local authority’s grant. That measure has been reserved for cases where in the opinion of the Ministry the supervision exercised over the work of construction was inadequate.

9. *Effects of Adverse Weather*

The shortage of cement and other materials was not the only adverse factor which those responsible for constructing the shelters could not possibly have controlled. Other things being equal, weather conditions have greater effects on the hardening properties of mortars containing lime than on those containing only sand and cement, the temperature effect being most pronounced; and unfortunately the winter of 1940 was particularly severe. It is equally unfortunate that weather effects would be most pronounced in either badly constructed shelters with mortars of a lean mixture, or in shelters with more or less vertical joints open to the atmosphere. All joints in such shelters would tend to hold moisture for long periods with consequent damage during prolonged frosts.

10. *Bad Workmanship*

The defects in the inferior lime mortar shelters were not immediately apparent; but frost and cold weather accentuated the faults of weak mortars and other imperfections, and by December, 1940, it became evident that in a number of cases contractors must have taken advantage of the situation to do jobs which were poor in workmanship as well as in the quality of the mortar employed. For example, inferior lime or sand or lime or sand not in accordance with specification was used, the sand and lime were not properly mixed, bricks were not wetted sufficiently, there was a failure to fill joints with mortar, poor quality bricks were used and in a few extreme cases there were even more serious malpractices. There is no complete record of the cases in which action has been taken by individual local authorities to secure recoveries from contractors or to require repairs or reconstruction at their expense, but enquiries indicate that at least 70 authorities have now made deductions in their settlements with contractors on account of unsatisfactory work or materials, or have caused the defective work to be made good at the contractor’s expense. It is frequently a difficult matter to prove that defects which reveal themselves in a shelter are due to negligence or fraud on the part of the contractor, but the Ministry are satisfied that, in general, local authorities have done what was practicable to ensure that in the appropriate cases the defects have been remedied at the contractor’s expense or the appropriate deduction made from the settlements.

It should be mentioned that although local authorities were instructed to pursue by negotiation, or, if necessary, by legal proceedings, cases where evidence of breach of contract was available, it has in practice proved difficult to secure legal redress unless the defects in the shelters were of a relatively flagrant character. Unavoidable shortages of material and the occurrence of unfavourable weather conditions generally operated to a greater or lesser degree and

experience has shown that it is often quite impossible to assess what was the major contributory cause of the defects.

11. *Inadequate Supervision*

The fact remains, however, that the standard of workmanship was frequently inferior and this raises the question why the imperfections of workmanship were not detected during the actual progress of the work. The responsibility for supervising the construction of the shelters lay with the local authorities and logically the presumption is that if the shelters were defective, the degree of supervision exercised was inadequate, except where the defaults took the shape of concealed defects not readily observable on inspection. The answer to this, in so far as there is an answer, is, firstly, that the defects were sometimes concealed, secondly, that it has generally been extremely difficult to establish the extent to which the defects should have been observable under a system of reasonably continuous and efficient inspection and, thirdly, that even where the evidence points to the deficiencies having been fairly overt, the local authority could sometimes plead that with the meagre supervisory staff at their disposal it was quite impracticable for them to exercise the optimum of effective scrutiny. In the experience of the Ministry the majority of cases have fallen into the second category, that is to say, it has not been possible to establish with a high degree of certainty that the supervision was in fact inefficient, though there is a general presumption in that direction. As Sir Harold Scott explained to the Committee, the verdict has generally been "not proven" and the local authorities have been given the benefit of that verdict. To this extent it is in the Ministry's opinion unreasonable for the Association of Municipal Corporations to contend that the local authorities have any claim to be selected as the one interested party deserving a comprehensive exoneration from all responsibility for the condition of the shelters; but it is only fair to observe that they were working under tremendous difficulties during the critical period, that speed of construction was felt to be (and was in fact) essential, that local staffs had been seriously depleted by the call-up for military service, that the remaining staffs were as a rule over-worked and that the recruitment of additional staff was in most cases a virtual impossibility. In recognition of these considerations the Department thought it right to limit reduction of Exchequer grant to cases where it could be established with a substantial degree of certainty that, even when allowance was made for the staffing difficulties current at the time, the degree of supervision exercised over the work was unsatisfactory. There have been 11 such cases to date.

12. *Shelter Designs*

In paragraph 10 of their Memorandum the Association of Municipal Corporations make a series of assertions which can be summarised into the propositions that the Ministry's shelter designs were bad, that many local authorities said so, that experience endorsed their protests and that the defects in design notably accelerated the deterioration of the shelters. In the view of the Ministry, each of these propositions is groundless.

In the first place the designs were not bad and it can be stated categorically that the Ministry recommended no material or design which, in expert opinion other than their own, did not afford, by test, or otherwise, the degree of resistance expected of a shelter at the time; and moreover, these opinions have been confirmed by subsequent experience under conditions of actual bombing. In the second place, when the designs in question were published there were no recorded protests from local authorities. The only protests from local authorities were received after the event when, through faulty workmanship or the employment of inferior material, the shelters had developed indications of instability. Since these protests assigned the wrong cause to the defectiveness of the shelters, they can hardly be regarded as having any merit. In the third place the lesson of experience is not that the Ministry's designs were bad, but that, given a proper standard of construction, they were good, a fact which is open to practical verification in London, as elsewhere in the country.

It is not proposed in this Note to attempt any exhaustive analysis of the various and fundamental misapprehensions embodied in the Association's criticism of the Departmental designs, since any such analysis would inevitably involve technical discussions of considerable complexity. It will be sufficient, however, to record the following points:—

(a) Arch-roofed shelters were introduced for the sole reason that the steel normally required for a flat roof was needed for other purposes of higher priority. They are open to certain theoretical disadvantages but these disadvantages rarely, if ever, operate in practice and were found to be completely inoperative under the exacting tests to which actual models of the shelters were subjected prior to the publication of the designs. The suggestion in paragraph 10 of the Association's Memorandum that the Ministry were obliged to prohibit the construction of arch-type shelters because of their inherent weakness is incorrect. This type of shelter was abandoned in December, 1940, as a result of a definite change of policy, namely, the resolution to strengthen and design shelters so that they would be capable of withstanding earth shock resulting from a "near miss".

(b) Similar considerations apply to the "bee-hive type" of shelter.

(c) Again, the reference to the absence of drip and damp courses entirely ignores the conditions which the shelters were designed to meet. Neither the Ministry nor the local authorities—nor for that matter anyone else—originally contemplated that shelter planning should envisage the possibility of prolonged night bombing involving dormitory use of shelter. The shelters were therefore designed to cater for relatively short intensive raids and for that purpose a high degree of amenity would not have been essential and would indeed have been uneconomical. Drip courses were later introduced to make the shelters more comfortable, not in order to add to their strength, and it is in the highest degree questionable whether, having regard to the respective areas of the roof and walls in a building of this size, the omission of a drip course could have had the slightest effect on the protective qualities of the shelters where properly constructed. There may be a slight element of truth in the contention that the absence of a damp course conduced to humidity in the shelters, but there is no evidence that it affected the stability of the shelters adversely and in point of fact damp courses were introduced not primarily from any consideration of amenity but in order to counter the effect of earth shock.

13. *Conclusion.*

The general conclusion to be drawn from the considerations set out in this Note is that the unsatisfactory condition of the shelters was due to a complex combination of factors and that it is impossible to assign the defects to any single specific cause. Moreover, the governing factors did not operate uniformly throughout the country—this is true even of the cement shortage—and the causes, and combinations of causes, varied as between one group of shelters and another. In one case the use of inferior lime would be the predominant factor, in another the inefficient preparation of the lime, in another poor workmanship, in another the use of inferior bricks, and so on. Supervision, again, varied widely in its effectiveness. It is however, clear, that of the two causes assigned by the Association of Municipal Corporations, one did not exist and the other had only a very minor bearing on the problems. Defective designs were not an operative cause because there were no defective designs; and the Ministry's recommendations as to the use of lime cement mortar—as also the authorisations given in individual cases for the use of lime (almost invariably hydraulic lime) mortar—were such that, even if the most unfavourable construction be put on them, they cannot be held as authorising the employment of unsatisfactory material. In the opinion of the Ministry the main causes of the defects must be sought elsewhere and these causes include inferior workmanship implying inadequate supervision, the responsibility for which rested on the local authorities themselves.

APPENDIX No. 6.

PAPER handed in by Sir *Herbert Brittain*, K.B.E., C.B., on 24th May, 1944.

The following notes are supplied in response to the Committees' requests at its meetings on the 7th and 14th March, 1944.

I. LOCAL LOANS FUND—(7th March, 1944).

Question 335: Liquidity of the Fund's investments.

The investments of the Local Loans Fund at 31st March, 1944, were as follows:—

	£
Ways and Means Advances	22,255,000
5% Conversion Stock 1944-64	7,830,613
2½% National War Bonds 1945-47	4,900,542
2½% National War Bonds 1949-51	2,767,352
3% West Hartlepool Redemption Stock 1966-68	190,771

It is thus the case that the larger part of the Fund is held in Ways and Means. The reason for this is that heavy demands upon the Fund are expected as soon as local authorities are able to enter upon capital works, and that the National Debt Commissioners desire to avoid any risk of loss by their having rapidly to realise stocks of more than the shortest duration.

Questions 336 and 337: Net loss on Investments (page 5 of the Account).

None of the loss on investments is due to default by borrowers from the Fund. Of the total loss of £1,857,000, a net loss of £112,000 has been made on realisation of holdings purchased by the Fund. The remaining £1,745,000 is an accounting loss only. On the closure in 1936 of a separate sub-account (the surplus income account) the investments on that account (amounting to some £20 millions in all) were transferred to the capital account, being revalued for the purposes of transfer at market prices, which substantially exceeded their purchase prices. The transferred securities, when realised, were sold for £1,745,000 less than the value at which they were transferred to the capital account: nevertheless, they actually produced £820,000 more than they cost.

II. COUNTY COURTS FUND—(14th March, 1944).

Questions 538 to 540: Accumulated net loss on sale of securities (page 7 of the Account).

The National Debt Commissioners' account was opened on 1st January, 1935, and the losses have accumulated since that date. As indicated in paragraph 6 of the Foreword to the Account, prices of Government securities were high when the Account was opened and the initial funds invested. Of the total, only £17,026 represent "realised losses," in the sense that they result from the sale of securities to meet cash required by the County Courts Department. The balance of £169,904 relates to exchanges of securities effected to increase the income of the Fund. These have been recorded in the accounts as sales and purchases at the market prices of the day on which the exchanges were made. This procedure resulted in a book loss of roughly £170,000 and a continuing increase of income of £7,000 per annum.

H.M. Treasury,

24th May, 1944.

APPENDIX No. 7.

PAPER handed in by Sir *Eric Speed*, K.B.E., M.C., 21st June, 1944.

Memorandum by the Accounting Officer for Army Votes.

METHOD OF ISSUING PAY.

1. *Documents available to the Paying Officer.*

Every soldier has an Army Book 64 (Part II) showing, among other things, his net daily rate of pay.

Each company is required to keep a nominal roll on which is entered this net rate of pay for each man and any information temporarily affecting the weekly cash issues, e.g.

- (a) additional emoluments—ration, lodging, etc. allowances;
- (b) existence of debit balances requiring restriction of cash issues;
- (c) sums due from the soldier for forfeiture of pay, fines, stoppages for loss of equipment, etc.

Each company receives the periodical orders notifying promotions, reversions, etc., known as Part II Orders.

It is the duty of the Company Officer to see that alterations affecting a soldier's pay are entered in his pay book and on the nominal roll and to sign the entries.

2. *Method of issue of Cash on Pay Day.*

(a) Army Books 64 are called into the Company Office, and the pay N.C.O. under the direction of the Company Officer assesses the amount of pay (normally a round sum of shillings or local currency) to be issued and enters it on an acquittance roll.

(b) At the pay table the man's name is called and the amount he is to be paid.

(c) The man signs the acquittance roll for the amount he is about to receive. At the same time the paying officer enters this amount on page 7 of A.B. 64 and signs in the column provided. The man is then handed his A.B. 64 together with the cash.

(d) The acquittance roll is sent to the Fixed Centre Pay Office for debiting against the soldier's ledger account.

The existence of the nominal roll referred to in 1 above makes it unnecessary to call in the A.B. 64s on every pay day, but the rule is that the Company Commander will check the roll against the A.B. 64 at least once a month.

3. *Other safeguards.*

The Paying Officer, therefore, has at his disposal all information enabling him to ensure that the soldier is not overpaid. In addition, the Fixed Centre Pay Office sends to the unit at least every three months a statement of balance for each soldier. This statement shows the last payment to the soldier, so the Paying Officer can take into account subsequent entries in the A.B. 64. Overpayments to any individual should therefore not continue for a period exceeding three months and it is the duty of the Company Officer when he is aware that the soldier has a debit balance to restrict cash issues in order that the debt may be extinguished.

War Office.

June, 1944.

APPENDIX No. 8.

PAPER handed in by Sir *Eric Speed*, K.B.E., M.C., 21st June, 1944.

STATEMENT BY THE ACCOUNTING OFFICER FOR ARMY VOTES SHOWING THE TOTAL COST OF THE ADMINISTRATION OF THE TERRITORIES FOR THE YEAR 1942/3.

(Reference para. 33 of the *Comptroller and Auditor-General's Report*).

1.	2.	3.	4.
Territory.	Cash Receipts.	Cash Expenditure.	Cost of Army Personnel employed with O.T.A.
	£	£	£
Headquarters	1,930	87,620	103,160
Cyrenaica	78,530	78,770	34,500
Eritrea	1,422,150	1,152,020	109,430
Eritrea Railways	79,640	196,180	
Ethiopia	51,970	196,940	20,430
Ethiopia Railways	175,400	135,230	
Somalia	206,320	409,020	102,660
British Somaliland	269,340	114,530	20,490
Assab	7,750	2,170	—
Madagascar	116,045	42,995	9,760
Tripolitania	19,475	15,675	35,570
	2,428,550	2,431,150	436,000

Net excess of cash expenditure over receipts	£	2,600
<i>Add:</i>		
Expenses of provision of currency	£	27,250
TOTAL CHARGE TO VOTE II. L		£29,850
<i>Add:</i>		
Cost of Army Personnel directly employed in the Administration (detailed in col. 4 above)	£	436,000
Estimated cost of stores and services rendered by the Army to Occupied Territories Administration	£	1,002,475
Estimated cost of stores and services rendered by the Occupied Territories Administration to the Army	£	329,475
		673,000
TOTAL COST OF ADMINISTRATION OF TERRITORIES		£1,138,850

(All or any of the above figures can, with sufficient notice, be broken down if required).

War Office,
June, 1944.

APPENDIX No. 9

PAPER handed in by Sir Thomas Phillips, K.C.B., K.B.E., 16th June, 1944,
COMMISSIONER FOR THE SPECIAL AREAS (ENGLAND AND WALES).

*Memorandum on the position in relation to the liability for Income Tax of
Trading Estate Companies sponsored by the Commissioner for the Special
Areas (England and Wales).*

The Trading Estate Companies financed by the Commissioner for the Special Areas (England and Wales)—North Eastern Trading Estates Ltd.: South Wales and Monmouthshire Trading Estates Ltd.: The West Cumberland Industrial Development Company Ltd.—were formed for the purpose of attracting new industries, particularly of the lighter type, to the Special Areas. They are incorporated under the Companies Act, 1929, are limited by guarantee and have no share capital. The aim was to establish companies related as closely as possible to similar undertakings run on strictly commercial lines whilst not having profit making as one of their objects and the Memorandum and Articles of Association of the Companies were so framed as to preclude them from operating for the purpose of gain. The objects of the Companies are not such as to make them eligible for registration as Friendly Societies and the exemption from Income Tax granted to such Societies is not available to them. Moreover they are not Co-operative Societies engaged in manufacture and trading for the benefit of a body of members amongst whom the profits are distributed. An application for exemption was refused by the Income Tax Authorities who decided that for tax purposes the Companies must be treated as ordinary commercial undertakings.

The financial arrangements between the Commissioner and the Companies are incorporated in Agreements which include the following provisions in each case:—

(a) The capital required by the Company to be advanced out of the Special Areas Fund by way of loan;

(b) No interest to be payable until the expiration of five years from the date on which the Company entered into possession of the site. Thereafter interest to be paid at the rate of 4 per cent. per annum, subject, however, to waiver, or reduction in the rate of interest, in respect of any half yearly period in which the financial condition of the Company does not warrant the payment of interest at the full rate;

(c) No distribution of profits: the disposal of any surplus income to be agreed with the Commissioner.

The Companies are expected to charge fair rentals (including charges for services), with no element of subsidy in them, for the factories leased to industrial undertakings and the rate of interest was fixed on the basis that such rentals ought to produce an annual income adequate to meet outgoings by way of interest and running expenses. Since it is impossible to strike an exact balance some accumulation of surplus revenue is inevitable, if losses are to be avoided, when the stage of development is reached which enables the Companies to meet their interest liability in full. The intention of the arrangements covered by the Memorandum and Articles of Association and the Financial Agreements is to prevent the disposal of any such accumulation (representing "profits") by way of dividend, bonus or similar disbursements to members of the Companies but, as explained above, this does not free the Companies from liability for Income Tax.

The income of the Companies is derived from two sources—rentals from properties and charges for services (electricity, gas, water, steam, etc.). For Income Tax purposes the income from the former is assessed under Schedule A but in respect of the latter the Companies are treated as trading concerns and assessed under Schedule D. As Government loans are involved the interest payable by the Trading Estate Companies to the Commissioner is paid gross without deduction of Income Tax and the Inland Revenue authorities allow it to be set-off against the assessments under both Schedule A and Schedule D of the year in which the interest is paid.

The five year interest-free period was designed to give the Companies an opportunity to meet the difficulties which occur in the early years of a Company's operations and to enable them to establish themselves on a financially sound basis. In the absence of interest payments there was no consequential set-off on this account against the Schedule A assessments although there was some reduction in the amount of Schedule A tax payable owing to the fact that, under Income Tax law, a taxpayer's income for any year may be relieved from tax to the extent that there is a loss on trading for that year available to cover it. The Income Tax so far paid by the Companies relates wholly to—though it was not necessarily paid within—the interest-free period: as a result of the payment of interest to the Commissioner there has been no balance of taxable income in the case of any of the Companies since the interest-free period expired and the Income Tax assessments subsequent to this period have been consequently extinguished. In future years Income Tax will only be payable on "profits" after debenture interest has been paid to the Commissioner in full.

Shorn of technicalities the position is that the Corporations are not likely to have an annual surplus on trading in excess of the interest at 4 per cent. which they are due to pay, if they can, to the Treasury; accordingly, since any interest so paid is allowed as a deduction for income tax purposes they will not, according to present prospects, be liable to pay any income tax.

The position in the year 1942-43 was exceptional. The liability of the North Eastern Trading Estate Company to pay interest to the Treasury did not become operative till 1st April, 1942. There was therefore an income tax liability of £18,274 in respect of the period ending 31st March, 1942, which was due and paid in the year 1942-43.

Further reference to the accounts of North Eastern Trading Estates Ltd., shows that, but for the payment of a sum of £18,274 tax due on property under Schedule A in respect of the period up to 31st March, 1942, i.e. the interest-free period, the Company would have been able to pay £37,580 by way of interest towards a total sum of £58,190, due and payable in the year ending 31st March, 1943—the year of account—instead of the sum of £19,306 actually paid.

T. W. PHILLIPS,
Accounting Officer.

16th June, 1944.

APPENDIX No. 10

PAPER handed in by Sir *Herbert Brittain*, K.B.E., C.B., 1st July, 1944.

MEMORANDUM BY THE TREASURY.

(with reference to questions by the Committee on 7th March, 1944—
Questions 266 and 277)

NATIONAL COUNCIL OF SOCIAL SERVICE.

1. The grants to the National Council of Social Service for 1940 and 1941 were reviewed by an inter-departmental Committee, which was set up by the Treasury to prevent overlap of grants to the Council and other voluntary social services organisations from the Votes of different Departments. There has been no recent occasion for the Committee to meet, but it can be reconvened should the need arise.

2. A statement giving particulars of the assistance given to the National Council of Social Service by the Assistance Board has already been submitted to the Committee. The present statement deals with assistance given through other Departments.

3.—(a) Annual war-time grants have been made by the Ministry of Health to the Council towards the expenses of the Citizens' Advice Bureaux run by the Council. In 1942-43 the Ministry of Health made a total grant of £34,400, comprising grants for Local Bureaux, the expenses of Travelling Officers, and Headquarters and overhead expenses incurred on the Bureaux service. It is believed that the total expenses of the service were of the order of £100,000, the balance of the income being derived from voluntary sources and from local authority grants. The great majority of the staff of the Local Bureaux are understood to be unpaid.

(b) The accounts of the Council for 1942-43 include an item of £6,925 "received from evacuation authorities." This amount represented not a grant but reimbursement for services in connection with the evacuation scheme.

4.—(a) Since 1940 an annual grant has been made from the Development Fund towards the cost of the Rural Department of the Council. In 1942-43 the grant amounted to £3,000, the total cost of the Council's rural work for that year being estimated at £7,815. The Rural Department acts as the advisory headquarters of the Rural Community Councils through which the National Council works in respect of most of its rural activities.

(b) Advances have also been made from the Development Fund to the Village Halls Loans Fund which is administered by the National Council. These advances are made by way of loan, free of interest, and the amount outstanding on 31st March, 1943, was £16,175.

(c) The Council is also responsible for the administration of a Rural Industries Equipment Fund, which was established by loans, free of interest, from the Development Fund in order to assist selected rural craftsmen to obtain up-to-date equipment on easy terms. The amount outstanding on 31st March, 1943, was £4,500.

5. In 1942-43 the Council for the Encouragement of Music and the Arts (a body in receipt of a grant from the Board of Education) made a grant of £4,641 to the National Council for services in connection with music and general administration, mainly in Scotland; of this grant £1,026 was not expended and was returned to C.E.M.A. Grants to the Council from C.E.M.A. have subsequently been discontinued.

6. The accounts of the National Council for 1942-43 show an item of £1,676 received from "Military Authorities." It is understood that this contribution was not made from public funds.

APPENDIX No. 10A

PAPER handed in by Sir *George Reid*, K.B.E., C.B., 19th April, 1944.

GRANT IN AID OF THE NATIONAL COUNCIL OF SOCIAL SERVICE

1. The Grant in Aid of the National Council of Social Service is for the purpose of assisting and stimulating voluntary efforts for the provision of facilities for the occupation and social welfare of unemployed persons and their dependants.

2. During the years of heavy unemployment the National Council devoted much effort to the task of providing wholesome interests for unemployed men in the shape of educational classes, etc. and occupational clubs. The occupational clubs provided the members not only with the means of social intercourse and recreation but also with facilities for carrying on simple handicrafts such as wood-work and shoe-repairing, or, in the case of women, dressmaking and cookery. The number of clubs in existence on the outbreak of war was 1,210 (540 men's and 670 women's). At the present time the number is about 1,000.

3. The members of the clubs as a rule paid a subscription of 1d. a week and this income, together with what was raised by means of occasional concerts, bazaars and the like, was usually sufficient to cover such running expenses as rent, heating and lighting. It was not, however, adequate to pay for capital outlay or the services of instructors and teachers.

4. Moreover, though the clubs were for the most part self-governing it was found desirable to provide a certain amount of guidance and supervision so that they might not be diverted from their intended purpose.

5. The Government decided to assist the efforts of the National Council and has made a grant to the Council for the purpose since 1932. Since 1939 the grant has been paid from the Assistance Board's Vote.

6. In furthering the Occupational Club movement and similar activities the National Council moved mainly through the agency of Regional bodies. At the present time these are as follows:—

Tyneside Council of Social Service.
 Community Service Council for Durham County.
 Yorkshire Council of Social Service Centres.
 Community Council of Lancashire.
 Cumberland Social Service Committee (Cumberland Friends).
 North Staffordshire Association of Social Service Clubs.
 South Staffordshire and Cannock Chase Council of Social Service.
 Nottinghamshire County Association of Social Service Centres.
 Derbyshire Association of Social Service Centres.
 London Council of Social Service.
 South Wales and Monmouthshire Council of Social Service.
 Scottish Council for Community Service during Unemployment.

Each of these organisations, like the National Council itself, has a wide range of social activities of which work for, or in respect of, the unemployed is only one.

7. In addition to the above bodies there are twelve Educational Settlements that were assisted financially by the Commissioner for the Special Areas in England and Wales up to and including the year 1940-41, when it was decided that the assistance should be given by the Board. Of these Settlements nine are in South Wales, two in Durham and one in Cumberland. All these Settlements have activities in respect of the unemployed which are analogous to those of the Regional bodies.

8. The amount expended from Grant in Aid by the National Council in the year to March, 1943, was £55,829, including a small balance from the previous year. The distribution of this expenditure was as follows:—

For Headquarters—	£
(a) administration	2,800
(b) specialist services	1,091
For Regional bodies and clubs	36,224
For Educational Settlements and Classes	15,714
	<u>£55,829</u>

9. With the shrinkage in unemployment the extent to which persons taking advantage of the clubs and other facilities are themselves unemployed is naturally small. On a review of the position as created by the war it did not appear desirable that the whole organisation upon which the maintenance and proper direction of the clubs depended should disappear, as was likely to happen if the Grant in Aid was wholly withdrawn. It was decided therefore to reduce the grant to the point at which it was still possible for the organisation to remain in being and in readiness to meet the situation should the problem of unemployment again become serious. The position is watched from year to year and economies are effected so far as practicable. In the year 1939-40 the grant available was £137,000. The grant available for the year 1943-4 was £55,000. The latter figure, however, includes a sum of £18,000 in respect of Educational Settlements and services that were previously grant-aided by the Commissioners for the Special Areas, as noted above.

10. At the meeting of the Public Accounts Committee on 7th March the Accounting Officer of the Assistance Board was asked to furnish particulars of the age, sex and salaries of the persons whose remuneration was derived from the Grant in Aid.

11. The Grant in Aid is not paid specifically in respect of salaries but is by way of a contribution towards the general expenses of the National Council or local organisation concerned in so far as those expenses are attributable to the work as above described in connection with the welfare of the unemployed. As will be seen from the published accounts of the National Council the total administrative expenditure of that body in the year 1942-43 was £38,913. Of this sum £4,790 was in respect of work of a grant-aidable character and the amount retained out of the Grant in Aid towards such work was £2,800.

12. The total establishment of the Council in the year in question was 100, consisting of 29 men and 71 women. Of these the following were the only officers whose salaries were charged wholly or substantially against the Board's grant:—

	Age	Salary	Amount chargeable against grant
		£	£
Administrative Officer (male)	39	475	400
Chief Woman Officer	49	525	250
Assistant Woman Officer	37	304	152
Administrative Officer (female)	46	404	404
” ” ” ”	42	304	304
Music Officer (male)	35	425	425
Women's Craft Officer	44	305	305

Most of the remainder of the Headquarters grant was allocated to general and administrative expenses and not to the salaries of specified officers.

13. As regards the Regional organisations and Educational Settlements difficulty arises in giving the Committee the desired particulars of staff for the year 1942-3 since numerous staff changes took place in the course of the year: in some instances one person held a particular office for part of the year and another person of different age (and sometimes with a different salary) for the remainder. Moreover, the ages of officers who have left are not always on record. It is hoped, therefore, that it will sufficiently meet the Committee's purpose if particulars are given as ascertained at a recent date, since the general view of the position so afforded does not differ substantially from that for 1942-3 except that the total grant paid for 1943-4 was somewhat less than that for the previous year (i.e. £48,800 against £55,700).

14. Like the National Council the activities of the Regional bodies cover a wide range only some of which are regarded as coming within the purpose of the Grant in Aid. As an illustration may be given the Tyneside Council of Social Service. The total expenditure of that body in the year ended 31st March, 1942, was £11,238. Of this sum £8,594 related to services appropriate to the Grant in Aid and of such sum £7,478 was paid by the National Council out of the grant. The total grant-aidable expenditure of all Regional bodies in 1942-3 was £41,625, the grant paid being £36,224.

15. Similarly as regards the Educational Settlements the total expenditure is in excess of that which is grant-aidable and this again exceeds the amount of the grant. For example, the total expenditure of the Pontypridd and District Educational Settlement in 1942-3 was £4,500. Of this amount £3,028 was regarded as grant-aidable and towards this sum a grant of £1,450 was paid. For all Educational Settlements the grant-aidable expenditure was £22,402 and the grant paid was £11,871.

16. The salaries paid by the Regional bodies and Educational Settlements which were charged wholly or partly against the Grant in Aid in 1943-4 are shown in the tables set out below. The extent to which the salaries are grant-aidable depends on the duties of the particular officers concerned. With very few exceptions, however, the salaries, even though wholly grant-aidable, cannot be regarded as met in full from the grant, since as indicated above, the total amount of grant always falls short of the grant-aidable expenditure.

REGIONAL ORGANISATIONS

(a) Salaries of Officers

Sex	Under £100	£100 — £149	£150 — £199	£200 — £249	£250 — £299	£300 — £349	£350 — £399	£400 — £449	£450 — £499	£500 — £549	£550 — £599	£600 — £649	£650 and over	Total
Male...	2	2	3	5	3	4	6	4	2	2	—	2	4	39.
Female	10	26	18	15	14	6	2	4	—	—	—	—	—	95

Four of the above posts are vacant at the present time.

(b) Ages of Officers

Sex	Under 20	20 — 24	25 — 29	30 — 34	35 — 39	40 — 44	45 — 49	50 — 54	55 — 59	60 and over	Total
Male ...	—	—	2	2	4	5	9	5	7	5	39
Female ...	12	14	8	15	11	8	12	6	4	1	91

EDUCATIONAL SETTLEMENTS

(a) Salaries of Officers

Sex	Under £100	£100 — £149	£150 — £199	£200 — £249	£250 — £299	£300 — £349	£350 — £399	£400 — £449	£450 — £499	£500 — £549	£550 — £599	Total
Male	1	2	2	3	6	4	3	3	—	1	1	26
Female	10	9	12	13	5	—	—	—	—	—	—	49

Ten of the above posts are at present vacant or filled by casual local assistance.

(b) Ages of Officers

Sex	Under 20	20 — 24	25 — 29	30 — 34	35 — 39	40 — 44	45 — 49	50 — 54	55 — 59	60 and over	Total
Male ...	—	—	1	3	2	4	5	3	2	3	23
Female ...	1	5	6	8	7	5	5	2	3	—	42

17. The question of the extent to which the National Council are grant-aided by other Departments which was addressed to the Treasury by the Committee is being dealt with in a separate paper which is now in preparation.

Assistance Board,
19th April, 1944.

APPENDIX No. II.

PAPER handed in by Sir *Thomas Phillips*, K.C.B., K.B.E., 10th July, 1944.

NATIONAL SERVICE HOSTELS CORPORATION LIMITED

MEMORANDUM ON THE VARIATION OF COST PER RESIDENT WEEK AS
BETWEEN HOSTELS1. *Methods of control of expenditure*

The control of expenditure at hostels has engaged the attention of the Directors and the Headquarters Staff from the outset and has been developed as the number of hostels grew. In addition to the administrative staff at Headquarters there is a catering department in charge of an officer with wide experience in catering, an accounting and audit staff, and a personnel department, and it is part of the functions of these departments to keep the expenditure of hostels under close review with the object of securing every economy compatible with an efficient service and a proper standard of comfort for the residents. In addition the country has been divided into six Regions with separate Regional staffs comprising a Regional Controller with expert assistants on accounts, personnel, catering, etc., who maintain close personal contact with the hostels in the Regions for the purpose of advising and controlling the management of individual hostels.

As a means of keeping under review the costs at the hostels a monthly cost return is supplied by each hostel to Headquarters; these returns are not accounting documents in the ordinary sense but, subject to a margin of error (in the early days with inexperienced staff the errors were considerable), they show the trend of expenditure as between one hostel and another. Copies of these returns are supplied regularly to the Ministry of Labour and National Service and opportunity is taken to enquire about cases which seem to present unusual features, as part of the normal close relations between the Ministry and the Corporation. The figures for twelve hostels for two representative months are given in Annexe I.

2. *Main causes of variation*

- | | |
|--|---|
| (a) Differences in layout and design | affecting the numbers of staff requisite for running the hostel and the amount of heating and lighting necessary. |
| (b) situation of the hostels as between large towns and remote areas | affecting charges for basic services—rates, electricity, gas, water, etc. |
| (c) differences in clientele as between | affecting food costs (in particular, workers in heavy industries receive extra rations), lighting, rebates for temporary absences from the hostel (the "week-end habit" for example varies with the location of the hostel). |
| (i) men and women | |
| (ii) workers in heavy and light industries | |
| (iii) day workers only and day and night workers | |
| (d) non-availability of trained staff | affecting costs generally: the Corporation has had great difficulty in securing adequate numbers of efficient staff at a time of extreme stringency of man power. The hostels have had to train staff to a considerable but varying extent. |

The general effect of these factors on the cost per resident week at the two hostels showing the widest variation in February, 1944 (No. 3 27s. 7d. and No. 6 38s. 2d.—including rebates) is shown in Annexe II.

T. W. PHILLIPS,

Accounting Officer.

Ministry of Labour and National Service.

10th July, 1944.

NATIONAL SERVICE HOSTELS CORPORATION LIMITED

Annexe I
12 Representative Hostels

GENERAL COSTS—FEBRUARY, 1944

Cost per Resident Week in Shillings and Pence

Hostels	EXPENDITURE												REBATES		
	Av. No. of Residents	Per cent. of Res. to Capacity	Salaries and Wages	Food	Coal and Coke	Stokers' Wages	Electricity and Gas	Local Rates	Water	Equipment Deficiencies and B'ages	Laundry and Misc.	Total	Allowance	Food Saving	Net
			s. d.	s. d.	s. d.	s. d.	s. d.	s. d.	s. d.	s. d.	s. d.	s. d.	s. d.	s. d.	s. d.
1. ...	905	90	9 6	9 4	2 8	1 1	1 1	- 5	*- 5	- 4	1 1	25 11	4 3	2 2	2 1
2. ...	839	94	11 2	8 8	3 4	1 2	1 7	- 7	- 5	*- 4	1 2	28 5	2 10	1 4	1 6
3. ...	832	84	10 5	7 10	2 11	1 -	1 3	- 8	*- 5	- 1	1 3	25 10	2 9	1 -	1 9
4. ...	702	96	9 5	8 -	3 4	*1 5	- 10	- 10	- 4	- 1	- 11	25 2	5 3	1 7	3 8
5. ...	566	87	12 5	6 9	1 2	*1 5	4 1	- 6	- 2	- 7	2 1	29 2	2 7	- 10	1 9
6. ...	468	100	14 11	11 2	5 2	2 7	1 -	- 6	*- 3	*- 4	1 3	37 2	1 11	- 11	1 -
7. ...	445	91	12 8	8 7	3 2	1 7	1 3	- 9	- 8	- 4	1 6	30 6	1 10	- 10	1 -
8. ...	406	97	15 -	8 11	5 3	2 4	1 6	- 8	- 7	- 1	1 2	35 6	2 4	- 11	1 5
9. ...	309	86	17 -	7 1	3 4	*1 5	1 11	*- 7	- 5	- 4	1 4	33 5	1 3	- 5	- 10
10. ...	265	98	12 1	7 10	3 8	*1 5	- 6	*- 7	*- 4	- 1	1 3	27 9	3 7	1 9	1 10
11. ...	246	98	10 8	8 1	4 4	*1 5	1 8	- 6	- 3	- 2	1 1	28 2	4 2	1 11	2 3
12. ...	86	86	13 9	10 4	3 7	*1 5	1 2	- 11	- 1	*- 3	- 8	32 2	3 7	2 10	- 9
February Average ...	6,069	92	11 9	8 6	3 4	1 5	1 6	- 7	- 4	- 3	1 3	28 11	3 1	1 4	1 9

* Estimated figure.

NATIONAL SERVICE HOSTELS CORPORATION LIMITED

Annexe I
12 Representative Hostels

GENERAL COSTS—AUGUST, 1943

Cost per Resident Week in Shillings and Pence

Hostels	Av. No. of Residents	Per cent. of Res. to Capacity	EXPENDITURE										REBATES			
			Salaries and Wages	Food	Coal and Coke	Stokers' Wages	Electricity and Gas	Local Rates	Water	Equipment Deficiencies and B'ages	Laundry and Misc.	Total	Allowance	Food Saving	Net	
			s. d.	s. d.	s. d.	s. d.	s. d.	s. d.	s. d.	s. d.	s. d.	s. d.	s. d.	s. d.	s. d.	s. d.
1. ...	865	88	9 6	9 6	- 10	1 1	- 11	- 5	- 3	- 2	1 2	23 10	5 2	2 10	2 4	
2. ...	808	91	10 11	6 4	- 6	1 2	- 7	- 7	- 4	- 2	1 2	21 9	3 11	1 2	2 9	
3. ...	804	81	10 1	8 9	1 6	1 -	- 10	- 7	- 2	- 1	1 3	24 3	1 1	- 9	- 4	
4. ...	630	87	10 9	8 9	1 5	*1 5	- 8	- 10	- 3	- 1	- 8	24 10	8 10	3 8	5 2	
5. ...	534	82	12 -	7 8	- 6	1 5	1 9	- 6	- 3	- 7	1 5	26 1	5 6	1 4	4 2	
6. ...	460	98	14 9	9 10	2 1	2 7	- 7	- 5	- 3	- 4	1 9	32 7	5 8	2 3	3 5	
7. ...	382	81	13 3	8 8	1 8	1 7	1 1	- 10	- 6	- 1	1 7	29 3	1 6	- 6	1 -	
8. ...	409	97	13 7	10 2	1 -	2 4	- 10	- 7	*- 3	*- 2	1 8	30 4	3 7	1 10	1 9	
9. ...	296	85	16 4	8 5	1 2	*1 5	2 5	*- 7	- 4	*- 2	1 -	31 10	1 -	- 1	- 11	
10. ...	222	84	12 3	10 4	1 -	*1 5	- 4	*- 7	- 1	*- 2	- 10	27 -	2 6	1 11	- 7	
11. ...	238	95	9 7	7 5	2 2	*1 5	1 -	- 5	- 2	- 2	1 1	23 5	5 10	2 3	3 7	
12. ...	88	88	13 4	10 4	1 6	*1 5	- 7	- 10	- 1	- 1	- 11	29 1	8 9	4 6	4 3	
August Average ...	5,736	87	11 8	8 7	1 2	1 5	- 11	- 7	- 3	- 2	1 3	26 -	4 4	1 10	2 6	

* Estimated figure.

ANNEXE II

Comparison of costs between two hostels showing in February, 1944, the widest variation

(a) Staff Costs—Difference of 4s. 6d. (14s. 11d. : 10s. 5d.) due mainly to one hostel being about twice the size of the other. There is not much difference between the total cost of the "top staff" of a very large and a medium-sized hostel. Part of the difference was due to the large amount of overtime at one hostel; as a result of Regional action, this item has been substantially reduced.

(b) Food Costs—Difference of 3s. 4d. (11s. 2d. : 7s. 10d.) mainly due to one hostel holding a Food Licence for "heavy workers"; this means the purchase of larger quantities of the more expensive commodities (e.g. meat). Further, it so happens that the lower cost was, for the month in question, 9d. below the average for the previous six months. An additional factor was that one hostel had all male residents as compared with about one-third in the other case.

(c) Fuel (including Stokers' wages)—Difference of 3s. 10d.—mainly due to layout and design of premises and equipment. The Ministry of Works are responsible for the said services and it is understood that the hostels are regularly inspected with a view to the exercise of all appropriate economies.

APPENDIX No. 12

PAPER handed in by Sir *John Maude*, K.C.B., K.B.E., 11th July, 1944.

CIVIL APPROPRIATION ACCOUNTS, 1942. (CLASS X. VOTE 5.)

War-Time Nurseries

At the meeting of the Committee on the 25th April, 1944, I undertook to furnish a note on the running costs of war-time nurseries and the estimated number of women released for war-work. The following note has been prepared in consultation with the Ministry of Labour at whose request the nurseries were established.

1. At the 30th April, 1944, the latest date for which figures are available the registrations and attendances at the nurseries, and the staff employed, were:

(a) Registrations at nurseries	mothers	55,972
	children	61,316
(b) Attendances at nurseries	children	45,244
(c) the 45,244 children in attendance may be classified as follows:—		
having mothers in full-time employment		38,829
" " part-time employment		4,967
" " not in employment		1,448
(d) Total staff employed		16,688

Of the staff employed it is estimated that approximately one-half are either under the minimum registration age (probationers and helpers) or over the maximum registration age (matrons and deputy matrons).

There are in addition some voluntary workers in the nurseries but their number is small and the assistance they render varies.

2. An analysis has been made of the running costs of a number of war-time day nurseries in the London Area and in Yorkshire and the results are shown in the annexe. In order to obtain a reasonable comparison one with another all the nurseries selected were hatted nurseries although by reason of the capital expenditure involved these are more expensive than nurseries in adapted existing premises.

In addition an analysis has been made of the running costs of two 24-hour nurseries in the London Area.

The results show that there is very little variation in the running costs of nurseries of comparable size administered by different local authorities and that the cost in industrial towns in the provinces does not differ appreciably from that in London.

Capital costs, including the original cost of the equipment, have been written off in the assumption that the average life of the huts is seven and a half years and allowance has been made for the replacement of damaged or worn out equipment. It is to be expected that at the end of the war the buildings and equipment will have a considerable residual value.

Enquiries made of local authorities show that adequate steps are taken to verify that mothers using, or intending to use, the nurseries are in employment. Health visitors are in most cases aware whether a mother is in employment or not but in doubtful cases verification is obtained from the employer. Admissions to the nurseries are in general left to the matron in charge, general supervision being exercised by the Medical Officer of Health.

4. Although women with young children cannot be directed into employment the Ministry of Labour consider that they can make a valuable contribution to industry if arrangements can be made to look after their children. The fact that nurseries are available has not only released for employment the women who use them but has encouraged others to take up employment in the knowledge that if private arrangements for the care of their children break down there are suitable official arrangements on which they can fall back.

E. J. MAUDE.

Ministry of Health.

11th July, 1944.

ANNEXE

PROVINCIAL COUNTY BOROUGH

WAR-TIME NURSERIES (HUTS)

Nursery	Capital Expenditure		Weekly running costs	Comple-ment of children	Average daily attend-ance	Gross Weekly Cost			Number of Mothers	Weekly payment by Mothers
	Cost of Hut, Equipment and Erection	Weekly cost of repayment by way of annuity at 3½ per cent. over 7½ years				Total of Cols. (2) and (3)	Per Child place provided	Per Child attendance		
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)
	£	£ s. d.	£ s. d.			£ s. d.	£ s. d.	£ s. d.		£ s. d.
(1)	2,664	7 15 -	38 17 8	35	31	46 12 8	1 6 8	1 10 1	30	7 - -
(2)	2,758	8 - 6	40 17 8	35	34	48 18 2	1 7 11	1 8 9	30	9 - -
(3)	3,047	8 17 4	39 17 8	35	33	48 15 -	1 7 10	1 9 7	31	9 - -
(4)	2,611	7 11 11	37 17 8	35	27	45 9 7	1 6 -	1 13 8	25	7 - -
(5)	2,845	8 5 7	38 17 8	35	33	47 3 3	1 6 11	1 8 7	32	9 - -
(6)	2,454	7 2 10	39 17 8	35	38	47 - 6	1 6 10	1 4 9	35	9 - -

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LONDON REGION
WAR-TIME NURSERIES (HUTS)
Daytime Nurseries

Local Authority	Capital Expenditure		Weekly running costs	Comple-ment of Children	Average daily attendance	Gross Weekly Cost			Number of Mothers	Payments by Mothers
	Cost of Hut, Equipment and Erection (1)	Weekly cost of repayment by way of annuity at 3½ per cent. over 7½ years (2)				Total of Cols. (2) and (3) (6)	Per Child place provided (7)	Per Child attendance (8)		
	£	£ s. d.	£ s. d.	(4)	(5)	£ s. d.	£ s. d.	£ s. d.	(9)	£ s. d.
A. Nursery (1)	2,402	6 19 9	47 13 6	40	32	54 13 3	1 7 4	1 14 2	26	8 10 -
Nursery (2)	2,332	6 15 9	47 4 9	40	32	54 - 6	1 7 -	1 13 9	26	7 15 -
Nursery (3)	2,980	8 13 5	62 - 1	53	42	70 13 6	1 6 8	1 13 8	38	11 5 -
B. Nursery (1)	3,230	9 7 11	53 2 1	50	44	62 10 -	1 5 -	1 8 5	35	8 8 -
C. Nursery (1)	3,252	9 9 3	53 9 1	50	32	62 18 4	1 5 2	1 19 4	29	6 4 -
Nursery (2)	2,848	8 5 9	51 13 -	50	55*	59 18 9	1 4 -	1 1 10	46	9 3 7
Nursery (3)	3,006	8 14 11	54 5 5	53	61†	63 - 4	1 3 9	1 - 8	54	11 7 8
D. Nursery (1)	4,352‡	12 13 3	65 - 2	60	55	77 13 5	1 5 11	1 8 3	53	13 - -
E. Nursery (1)	3,620§	10 10 8	52 11 11	50	37	63 2 7	1 5 3	1 14 1	28	10 17 -
Nursery (2)	5,454	15 17 5	68 5 11	70	60	84 3 4	1 4 1	1 8 1	52	15 11 6
Nursery (3)	6,007	17 9 7	80 11 2	83	50	98 - 9	1 3 7	1 19 3	46	14 19 -
F. Nursery (1)	3,332	9 13 11	55 12 9	60	46	65 6 8	1 1 9	1 8 5	51	14 12 -
Nursery (2)	3,552	10 6 8	58 19 9	60	49	69 6 5	1 3 1	1 8 4	46	19 5 -
Nursery (3)	3,463	10 1 6	58 5 2	60	40	68 6 8	1 2 9	1 14 2	46	13 9 -

Twenty-four hour Nurseries

G. Nursery (1)	3,964	11 10 8	82 7 4	58 Day 15 Night	53 Day 8 Night	93 18 -	1 4 9	1 10 9	52	16 - -
H. Nursery (1)	3,146	9 3 1	112 16 11	100 Day 16 Night	96 Day 8 Night	122 - -	1 1 -	1 3 5	79	22 15 3

* Includes 12 Part-timers. † Includes 18 Part-timers. ‡ 2 Huts. Expensive site preparation. § High cost due to subsequent extension to provide milk-room and cloakroom.

APPENDIX No. 13.

PAPER handed in by Sir *Henry French*, K.C.B., K.B.E., 13th July, 1944.
Re-commissioned Mills Limited.

The following further information is submitted amplifying the evidence in regard to the reasons which prompted the Ministry to form Re-commissioned Mills Ltd.

Reference is necessary to the history of the management of the closed mills prior to the formation of Re-commissioned Mills Ltd., as the experience gained during this period had some bearing on the decision subsequently taken.

When it was decided that it was necessary for the mills to be re-commissioned, it was tentatively arranged that the management should be undertaken, on behalf of the Ministry, by Purchase Finance Co. Ltd., a subsidiary of the Millers Mutual Association. This arrangement was made in view of the fact that the management and operation of flour mills is a highly specialised undertaking, which, it was felt, could be most efficiently carried out under the immediate control of a body experienced in milling and mill management. This tentative arrangement was put into practice and the mills, having been suitably staffed, commenced production.

During the conduct of negotiations for an Agreement to give formal effect to the continuance of the existing arrangements, the question of the ownership of assets, purchased from funds advanced by the Ministry to Purchase Finance Co. Ltd., presented a point of difficulty. Without some form of mortgage or lien in respect of such assets, so purchased, it appeared impossible for the Ministry to secure adequate protection of its rights, and it was at this juncture that it was decided to form a separate company, wholly Ministry-owned and operating under the Ministry's over-riding control.

In reply to the question as to why it was considered necessary to form a Company to operate the mills, it may be sufficient to state certain of the advantages which could best be secured by the course adopted. These may be summarised as follows:—

(1) At the time the decision was taken to form the Company, the mills were already in production, running efficiently and fulfilling the requirements for which they had been re-opened.

(2) Staffing arrangements, both in the mills and in the area offices, had been made to a great extent by transfer of personnel from the milling industry with the assistance of millers.

(3) Wages and conditions of service had been kept in line with those ruling in the milling industry, and to preserve this obviously desirable state of affairs, the Company applied for, and was granted, the status of a member of the industry.

(4) The formation of a Company, over which the Ministry would exercise over-riding control and which would yet remain, so long as necessary, a member body of the milling industry, appeared to be the best solution of a problem which, approached from any other angle, might have presented serious difficulties.

It should, perhaps, be pointed out that the formation of a Company did not involve the Ministry in any additional expenditure beyond the costs of formation of a Private Limited Company of £100 Nominal Capital. Furthermore, the management of the Company by the Board of Directors and the Local Area Management Committees is undertaken without remuneration and administrative expenditure is, therefore, at a minimum.

One of the chief tasks of the Board and the Management Committees lies in providing and retaining or replacing the necessary technical and industrial staff for the efficient running of the mills, and it was considered doubtful if this object could have been so well achieved by the Ministry. The assumption by the Ministry of responsibility for all staffing arrangements would have disturbed those which had already proved themselves to be satisfactory.

It may be mentioned that when the staffing arrangements for the new home-grown wheat silos were considered, it was decided that it would be almost impossible to recruit the technical staff required at the silos as Government officials and that the Company should continue, as a member of the industry concerned, to make its arrangements on the same basis as that applicable to the flour mills.

Ministry of Food.

13th July, 1944.

APPENDIX No. 14.

PAPER handed in by Sir *Henry French*, K.C.B., K.B.E., 13th July, 1944.

Milk Subsidy in Northern Ireland.

(Vote of Credit Appropriation Account, 1942, paras. 32 to 34.)

1. The subsidy on sales of liquid milk produced in Northern Ireland (excluding sums charged to the National Milk Scheme and the Milk-in-Schools Scheme) amounted in 1942-3 to £1,020,127 and represented approximately 4½d. per gallon and 19s. per head of population, whereas the corresponding subsidy in England and Wales amounted in that year to £7,968,584 representing approximately 1½d. per gallon and 4s. per head of population.

2. As the difference between the respective costs per head of population is caused mainly by long-term differences in the internal economies of the two countries, and their consequent effect on the respective milk industries, it is necessary to consider the pre-war position before attempting to explain the difference in costs. Northern Ireland is mainly an agricultural country and has always produced quantities of milk greatly in excess of local liquid requirements, the surplus being manufactured mainly into butter. In England and Wales, however, the total production provided a surplus available for manufacture before the war which was relatively much lower and in winter the quantity was usually barely sufficient to provide a safety margin over the requirements of the liquid milk market.

3. Before the war, payments to producers in each country were covered by the proceeds of sales of milk and certain other items of revenue, including a relatively small contribution by the Northern Ireland Exchequer on milk used for manufacture in Northern Ireland. Losses were made in both countries on milk sold for manufacture, which in Northern Ireland were borne mainly by the producers whose milk was sold for manufacture, whereas in England and Wales all the losses on "manufacturing" milk were shared by producers as a whole.

4. Since 1940 all producers prices have been guaranteed by H.M. Government at levels sufficient to provide increases of approximately the same amounts per gallon over the prices paid during 1938-39, and, as a result, are no longer dependent on the respective quantities and prices of milk sold for manufacture and for distribution in liquid form. In spite of substantial increases in the prices charged to manufacturers and distributors the net proceeds of sales during 1942-43 were not sufficient in any area to meet the cost of the guaranteed producers' prices and the resulting deficits were met by way of subsidies.

5. As regards the prices charged to manufacturers, that for butter-making was stabilised at a much lower level than were prices for milk manufactured into other commodities. The main product in Northern Ireland is butter and the net effect was to increase the loss on manufacturing milk in that country by approximately 7½d. per gallon, whereas in England and Wales, where milk is also manufactured in substantial volume into condensed milk, milk powder, cheese, etc., the corresponding loss actually fell by approximately 1½d. per gallon. On milk supplied to the liquid market losses were incurred in both countries during 1942-43 and in Northern Ireland the change as compared with the position in 1938-39 was actually less unfavourable to the extent of about 1d. per gallon than in England and Wales.

6. The higher overall loss per gallon in Northern Ireland is, therefore, mainly attributable to the comparatively low price charged for the relatively high proportion of milk manufactured into butter. The effect of this can be seen in the attached Table, which shows that of total sales of milk in Northern Ireland the proportion used for manufacture in 1942-43 was 43 per cent. as compared with 10 per cent. in England and Wales where substantial quantities of milk were diverted from manufacture to the liquid market. The figures in the Table are necessarily somewhat approximate.

7. Measured in terms of population, sales per head of all milk produced in Northern Ireland in 1942-43 were approximately one and a half times the corresponding sales in England and Wales, and the sales for manufacture per head of population were six and a half times those in England and Wales. It follows that the relative sizes of the subsidies in the two countries are greatly distorted when expressed per head of population.

Ministry of Food.

13th July, 1944.

COMPARATIVE COST AND YIELD IN RESPECT OF MILK

	England and Wales				Northern Ireland			
	1938/39		1942/43		1938/39		1942/43	
	Millions of Gallons	Pence per Gallon	Millions of Gallons	Pence per Gallon	Millions of Gallons	Pence per Gallon	Millions of Gallons	Pence per Gallon
<i>A. Milk sold for Liquid Consumption</i>								
Receivable from Purchasers	765	16.25	1,000	22.50	15½	14.50	29½	21.50
Net payable to Producers including Quality Premium	765	13.50	1,000	24.00	15½	13.75	29½	24.00
Surplus or Deficit	765	2.75	1,000	1.50	15½	.75	29½	2.50
<i>B. Milk sold for Manufacturing purposes</i>								
Receivable from Purchasers	350	7.00	110	14.00	25	5.25	22¼	7.00
Receivable from Northern Ireland Exchequer	—	—	—	—	—	.50	—	.50
Receivable from levies on butter and margarine	—	—	—	—	—	.50	—	.60
Net payable to Producers including Quality Premiums	350	13.00	110	18.50	25	6.65	22¼	15.75
Surplus or Deficit	350	6.00	110	4.50	25	.40	22¼	7.65
<i>C. All Liquid Milk</i>								
Receivable from Purchasers	1,115	13.35	1,110	21.70	40¼	8.75	51½	15.25
Receivable from Northern Ireland Exchequer and from butter and margarine	—	—	—	—	—	.60	—	.50
Payable to Producers including Quality Premium	1,115	13.35	1,110	23.45	40¼	9.35	51½	20.50
Surplus or Deficit	—	—	1,110	1.75	—	—	51½	4.75

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APPENDIX No. 15

PAPER handed in by Sir *Gilbert Upcott*, K.C.B., on 15th June, 1944.

PROFIT RATES IN MINISTRY OF AIRCRAFT PRODUCTION FIXED-PRICE CONTRACTS.

1. The Public Accounts Committee of 1943, in paragraphs 63-66 of their Report, reviewed the policy of the Ministry of Supply and the Ministry of Aircraft Production regarding the rates of profit allowed in non-competitive contracts for stores and in certain control prices. They noted that the contract policy is to regard a profit of 7½ per cent. on capital employed as a standard starting point from which to negotiate contract prices, and that additions may be made for efficiency and risk, these additions being expressed as a percentage of the actual or estimated cost of production.

2. In the case of the Ministry of Supply fairly full information was available last year regarding the results of this profit formula and from the particulars furnished it appeared that the profits on costed contracts placed with some 730 firms over a period of five months amounted to 9.68 per cent. on the capital employed of £240,000,000 and a total production cost of about £350,000,000. The profit on the relatively small volume of costed contracts placed by the Ministry of Aircraft Production was very close to that allowed by the Ministry of Supply.

3. The Ministry of Aircraft Production work mainly on fixed-price contracts. For these the Ministry with Treasury approval aim at allowing profits from 10 to 15 per cent. on capital employed and the Committee had before them last year (Evidence 1943, App. 7) the figures in 1942 for a substantial group of aircraft, aero engine, propeller and turret firms showing the percentage of profit regarded as included in the contract prices when they were fixed. These estimated rates of profit (together with those for 1942 and 1943) are set out again in Annex B to the present paper. The Committee reported however that no particulars had been supplied which would enable them to judge whether the profits actually obtained from the fixed-price contracts of the Ministry of Aircraft Production had been fair and reasonable, but they were of opinion that a general level of actual profit of 15 per cent. on capital employed would be out of proportion to the rate obtained under Treasury policy in costed contracts. They recommended that the effect of the present policy of negotiating fixed prices based on estimates of costs and profits should be investigated in representative cases, by means of trading results or by selective post-costing, and that the information thus obtained should be made available to me so that the Public Accounts Committee would be in a position to consider the subject further in 1944. Following this recommendation the Treasury in their Minute of 12th February, 1944, on the Committee's Report stated that they were arranging with Departments that information in connection with the review of cost trends in fixed-price contracts (by way of current costing, post-costing, or scrutiny of trading results, either of individual firms or of a particular industry) should be made available to me, such disclosure to be confidential where the figures given might tend to disclose the trading results of individual firms.

4. In accordance with these arrangements the Ministry of Aircraft Production have furnished me with the following papers.

(i) A memorandum (Annexe A hereto) explaining the policy followed by the Ministry in the selection and grouping of firms whose trading results have been or are to be investigated, and giving the outcome of the investigations of the accounts of a group of more than 200 firms (mainly sub-contractors) selected for review because high profit indications had reached the Ministry from various sources.

(ii) The statement mentioned in the memorandum (Annexe B hereto) defining the terms "prevailing" and "emergent" profit rates and setting out the percentage profit rates under these heads on costs and employed capital in each of the years 1941 to 1943 for a group of some 20 firms comprising all the principal contractors engaged almost exclusively on direct contracts with the Ministry.

5.—(a) As regards Annexe B the Ministry explain that the figures cover all the principal firms engaged almost exclusively on direct Ministry contracts and therefore provide a reliable comparison between estimated and actual costs. The statement shows that the average margin between the prevailing and the emergent profit percentages on cost was 1.97 per cent. in 1941 and 1.84 per cent. in 1942, the corresponding percentages on companies' capital being 5.69 and 6.63.

(b) The documents supporting Annexe B show that in the more recent year 1942 the prevailing profit percentage on cost varied between different firms from 2.0 to 6.6, the weighted average being 3.76, while the emergent profit percentage on cost varied from 1.97 to 9.9, the weighted average being 5.60. Both in 1941 and 1942 an appreciable proportion of the group failed to achieve their prevailing profit rates on cost, but a number substantially exceeded the above-mentioned average margin of rather less than 2 per cent.

(c) It will be seen from Annexe B that the average emergent profit on companies' capital as a percentage of that capital was 18.51 per cent. in 1941 and 20.40 per cent. in 1942. The following table set out the results grouped according to ranges of profit earned:—

<i>Emergent profit on Companies' capital</i>	<i>Number of Firms</i>	
	1941	1942
Less than 15 per cent.	9	10
Between 15 and 20 per cent.	5	3
" 20 " 30 "	5	3
" 30 " 40 "	1	1
" 40 " 50 "	1	1
" 50 " 60 "	1	1
Over 60 per cent.	—	1

6. The Costings reports and the accounts and documents supporting the figures in Annexes A and B have been made available to my officers, who have made a general review of the build up of the totals. They have also reviewed some of the cases included in the second category mentioned in Annexe A, but I have not thought it necessary to set out in the present paper any analysis of this category under ranges of profit as the cases are clearly not representative but were specially selected for investigation because there were indications that the data on which prices had been fixed were unreliable or that the firms might be making unduly high profits. It will be evident, however, from the substantial total of refunds (£7,600,000) mentioned in Annexe A that some of the prices did not comply with reasonable war-time standards. I have referred to the repayments agreed in certain cases following costing in paragraph 9 of my Report on the Civil Appropriation Accounts (Class X, War Services) 1942, and to the direct refunds received by the Ministry from sub-contractors in paragraph 12 of that Report.

G. C. UPCOTT,
Comptroller and Auditor General.

Exchequer and Audit Department,
15th June, 1944.

ANNEXE A

M.A.P. investigations into firms' overall trading and profits have hitherto fallen into two main categories—those undertaken primarily to check the accuracy of the Department's price-fixing procedure, and those undertaken, where there are indications that firms may be making unduly high profits, to ascertain the facts in order that suitable action may be taken if the Department's contracts, direct or indirect, are proving unreasonably remunerative.

The first category has been made comprehensive by including all the principal firms engaged almost exclusively on direct M.A.P. contracts. Only by so doing can figures be obtained which are not liable to be confused by the effect of

profits on civil work, indirect contracts, or work for other Government Departments; the figures based on the accounts of these "100%" firms therefore provide a reliable comparison between estimated and actual costs. They are given on the accompanying statement.

The high profit indications which have led to the investigations falling into the second category may be roughly classified into cases where:—

(a) Principal Technical Costs Officer or Principal Accountant has reported that sub-contract prices appeared to be high and to include excessive profits;

(b) Published accounts indicate high profits which might have been earned on Government orders;

(c) Main contractors have notified high sub-contract charges and their inability to fix more reasonable prices.

The accounts of rather more than 200 firms in this category have been investigated since June, 1942, and a further 100 are at present under examination. As is to be expected the firms having been selected because of their apparent high earnings, the profit figures are substantially higher than in the case of the firms in the first category. The total cost of sales in the case of the 200 firms already investigated amounts to approximately £104M, and the profits to £20.4M, giving a profit rate of 19.6%. It has not been possible to segregate the profits on M.A.P. work from those on civil work or work for other Departments.

Where the accounts confirm the high profit indications follow-up investigations are made into the results of individual direct M.A.P. contracts, of which the proportion is very small, and of M.A.P. sub-contracts, which comprise approximately 50% of the work of the firms already investigated.

These overall investigations have proved a valuable means of tightening the control of sub-contract prices. Some of the firms have voluntarily offered refunds, stating that their profits have been higher than they expected or have wished to make, and others have made refunds in response to suggestions by the Department that their profits do not comply with reasonable war-time standards. The total refunds so far received or in process of recovery amount to £7.6M; price adjustments for subsequent supplies have, of course, been effected.

As the cases of the high profit firms are being cleared, overall trading and profit investigations are being extended to cover a wider front. In addition to the 300 cases dealt with or under investigation, some 240 firms have been listed for examination, consisting mainly of substantial sub-contractors largely engaged on M.A.P. work.

ANNEXE B.

PROFITS UNDER AIRCRAFT CONTRACTS.

(See Table Attached.)

The figures for 1941 and 1942 are derived from investigation of the accounts of the principal aircraft, aero engine, propeller and turret firms engaged almost exclusively on direct M.A.P. contracts, and are in respect of the companies' trading during their financial years which ended in 1941 and 1942 respectively.

The figures for 1943 are based on estimates of the amount of companies' capital and cost of sales.

The percentages in all cases are weighted averages.

The prevailing profit rates are the percentages of the profit element regarded as included in the prices fixed during the twelve months' period ending six months before the close of each firm's financial year.

The percentages of emergent profits are calculated from the gross difference between cost of sales, as allowed by the Department, and prices, so that they may be comparable with the prevailing profit rates. The emergent profits are, of course, before taxation, and take no account of such charges against profits as loan interest and war damage contributions, or of other sums which the Department does not allow to rank as costs of production, such as, for example, sums set aside for wear and tear and obsolescence in excess of those allowed for Income Tax purposes.

The division of profit between companies' capital and government capital is on the basis approved by the Contracts Co-ordinating Committee, namely that government capital should rank to the extent of one-eighth in considering the profit to be allowed in relation to capital.

TABLE
PROFIT PERCENTAGE ON COST OF SALES

	1941	1942	1943
Cost of sales	£150,000,000	£209,000,000	£250,000,000
Prevailing profit rates	4.41%	3.76%	3.4%
Emergent profit rate	6.38%	5.60%	—

PROFIT PERCENTAGE ON CAPITAL EMPLOYED
(Capital computed substantially on E.P.T. basis)

	1941	1942	1943
Total capital	£62,700,000	£76,000,000	£86,000,000
Companies' capital	£50,000,000	£54,000,000	£56,000,000
Government capital	£12,700,000	£22,000,000	£30,000,000
Profit at prevailing rate as percentage of total capital	10.55%	10.32%	9.88%
Emergent profit as percentage of total capital	15.26%	15.37%	—
Profit at prevailing rate on Companies' capital as percentage of that capital	12.82%	13.77%	14.23%
Emergent profit on Companies' capital as percentage of that capital	18.51%	20.40%	—
Profit at prevailing rate on Government capital as percentage of that capital	1.65%	1.90%	1.78%
Emergent profit on Government capital as percentage of that capital	2.50%	3.11%	—

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APPENDIX No. 16.

PAPER handed in by Sir *Frank Tribe*, K.B.E., C.B., 9th August, 1944

MINISTRY OF FUEL AND POWER

OPENCAST COAL MINING OPERATIONS

Questions 3639—3646

1. The estimated costs of production of Opencast Coal given to the Committee included items in respect of the cost of (a) Turf Stripping, (b) Excavating and replacing the overburden, and (c) Compensation. The Committee desired to have further particulars regarding these items in order to ascertain approximately how much could be saved on them if, after the coal had been excavated, the land was abandoned instead of being restored to its former condition.

2. The following additional information in respect of the above mentioned items has been obtained:—

(a) *Turf Stripping*.—If the removal and replacement of the top soil and turf were not carried out as operations separate from the removal and replacement of the subsoil, i.e., if steps were not taken to segregate the top soil, the saving (based on summer schedule rates) is approximately 2s. 6d. per cubic yard. The cost per acre of the restoration for agricultural purposes of top soil is thus about £200 in the summer. With a coal seam 3 feet in depth and an average depth of top soil of one foot, the cost per ton of coal excavated is approximately 10d. If the seam were four feet in depth the cost per ton would be approximately 7½d. All these figures and rates are subject to an increase of 33½ per cent. for winter working.

(b) *Replacing Overburden*.—The whole cost would not be saved since the overburden removed in laying bare a strip of coal is deposited on the adjoining previously worked strip during the course of operations. The saving which would accrue represents mainly costs involved in double handling a proportion of the overburden and in levelling the overburden previously roughly replaced. These operations are not paid for separately under the contract but are included in the schedule rate per cubic yard paid for plain excavation. It is thus not possible to state what cost would be saved if the contractors were not required to perform these operations. The cost, however, is undoubtedly larger than the cost of handling the top soil.

Altogether the total cost of the above operations represents considerably more than the monetary value of the land.

(c) *Compensation*.—Payments in respect of compensation are made:—

(i) to the Mineral Lessee, in accordance with Regulation 51A (4) of the Defence (General) Regulations, 1939, under which, when any minerals are worked by the Crown under the Regulation, any person entitled to work them apart from the Regulation shall be paid such sum in respect of every ton of minerals as is reasonable having regard to any expectation which he had of deriving profit from the working thereof.

(ii) To the Tenant, in accordance with Section 2 (1) (a) of the Compensation (Defence) Act, 1939, by way of compensation for rent payable during the period for which possession of the land is retained in the exercise of Emergency Powers.

(iii) To the Landlord, in accordance with Section 2 (1) (b) of the same Act, in respect of making good any damage to the land during the period for which possession is retained except insofar as the damage has been made good.

(iv) To the Tenant, in accordance with Section 2 (1) (c) of the same Act, where the land is agricultural land, in respect of, for example, growing crops.

Payments under (i) would not be avoided by purchasing the land. Those under (ii), (iii) and (iv) are respectively about £2 per acre per annum, £10 per acre and £10 per acre. In addition, the War Agricultural Executive Committees, as Agents for the Ministry of Works, carry out refertilisation at a cost averaging about £12 per acre.

The land taken for Opencast Coal Mining is normally agricultural land: in no case has ripe building land on the outskirts of a city been requisitioned for this purpose.

3. There are no powers to acquire, by compulsory purchase, land required for Opencast Mining and accordingly land for Opencast Coal operations is requisitioned. If the land which has been requisitioned were not restored the amount of compensation payable would be the value of the land as at 31st March, 1939, but the persons receiving the compensation would not be bound to restore the land and there would, therefore, be no guarantee that its productivity and its natural amenities would, in fact, be restored.

In these circumstances, there would seem to be grave objections to any deviation from the policy hitherto followed, particularly in wartime when the need for home production of food is acute. Moreover, it would probably be considered that the creation of permanent eyesores in rural areas would be reprehensible.

4. During the period when the Ministry of Fuel and Power was responsible for Opencast Mining, there were six sites where the productive cost per ton was exceptionally high. The total production expenditure incurred on these six sites was approximately £40,000 and the coal extracted therefrom was about 10,000 tons, giving an average production cost of approximately £4 per ton. The initial decision to work these sites was taken in the absence of knowledge of faults in the seams, old workings, etc. The number of cases, however, is small when related to the 283 sites prospected or considered.

Since the Ministry of Works has been responsible there have been only four such sites. On these the production expenditure incurred was approximately £52,000 and the coal extracted was about 350 tons.

5. The Ministry of Works has obtained some expert advice on the operational costs of ironstone mining, but no direct comparison between costs per ton of coal and per ton of ironstone has been attempted; since the conditions of working, e.g., ratio of overburden to minerals and the degree of reinstatement undertaken, are quite different; and such a comparison to be of any value would accordingly require an extensive investigation.

6. Up to a recent date the Ministry of Works has been paying from 2s. to 4s. per cubic yard extra, over the normal excavation rate, for digging in hard rock. The introduction of American drilling and blasting methods is expected to reduce considerably the cost of rock working, and this will be reflected in the new schedule rates which are now being negotiated.

APPENDIX No. 17.

PAPER handed in by Sir *Herbert Brittain*, K.B.E., C.B., 12th May, 1944.

BRITISH PHOSPHATE COMMISSIONERS.

Dealings in outside phosphates.

(Memorandum by the Treasury).

1. This memorandum is circulated for the information of the Committee in supplement to the Treasury Minute on paragraph 8 of the Report of the Committee of Public Accounts, 1943. The enclosures to this memorandum are referred to in paragraphs 5 and 6 below, but it should be explained that they cover a period embracing not only the account for 1941-42, which is before the Committee, but also that for 1942-43, which has still to be audited by the Comptroller and Auditor General.

2. In the course of the years 1940-41 to date the Commissioners have been purchasing outside phosphates, viz., high grade (Makatea and Christmas) and low grade (Egypt) to supplement Nauru and Ocean Island phosphates. The need for this arose in the first place from the reduction of output by two-thirds as a result of damage from German raiders and, later, from the evacuation of these Islands.

3. As from 3rd November, 1941, the Commissioners have perforce ceased to deal in Island phosphates of current production but, as shown above, have dealt in outside phosphates and also, in part, in Island reserve phosphates held for security reasons in Australia and New Zealand.

These reserve phosphates as required by the Nauru Agreement were credited to trading account at f.o.b. cost as at date of transfer to Reserve and were held in the Balance Sheets at that figure.

4. The outside and the Island Reserve Phosphates were held by the Commissioners at the fertiliser works in Australia and New Zealand and have been taken into consumption with differentiation only as between high grade (Makatea and Island) and low grade (Egypt). One common price for high grade ore, of whatever origin, and one for low grade ore were therefore convenient and were indeed probably essential. Each common price was fixed to cover (a) f.o.b. cost of Island phosphate as shown in prior trading accounts (including an interest and sinking fund element) with additions to bring it to landed cost, and (b) landed cost of outside phosphates. In addition, various commissions were charged for handling and distribution and the selling price of outside phosphates included an element for interest and sinking fund in respect of Island phosphate funds used to finance these transactions. The main commission of 2s. per ton on outside phosphates sold was designed to cover the administrative expenses of the Commissioners, attributable to outside phosphates. The Commission estimate that one third of their expenses are so attributable and in the detailed Trading Account for 1942-43 the Administration Expenses on the one side and the item commission on the other are net after the deduction of this third share.

5. The published Trading Accounts have thus been left free of transactions which in the view of the Commission are proper to the outside phosphate Account, but the Commission have prepared a special Account, with additional notes, for the information of the Committee and copies of these are attached. Both the Account and the notes are certified by the Auditors to the Commission. The Account shows a provisional credit balance of £83,212, arrived at after allowing (a) for stock at cost and (b) for the surplus of sale proceeds of island reserve phosphates at the common selling price over the landed cost of those phosphates.

6. The attached notes show that in the year 1942-43, in addition to covering the expenses directly attributable to outside phosphates, revenue from the latter amounted to £49,992, out of the total income of £66,937 and was thus nearly sufficient in itself to finance the other expenses of the Commission including a substantial contribution to the depreciation fund.

7. As stated in (5) above there was a provisional credit balance of £83,212 on outside phosphate transactions over the whole period to 30th June, 1943. This balance will be taken into account by the Commissioners in fixing future prices, the intention being to cover costs including interest (commission being charged as an extra on the selling price so ascertained). Meanwhile this balance together with debtor and creditor items relating to outside phosphates figures in the Commission's Balance Sheet as at 30th June, 1943.

8. It will be seen that the transactions in outside phosphates, as indeed the sales of island reserves have been, so to speak, dealt with in the Balance Sheet rather than in the Trading Account, with the exception that the revenue contributions referred to in paragraph 6 in the shape of commission and interest have been taken to the Trading Account to cover administrative expenses of the Commission proper, and to increase the Commission's Reserve Funds.

9. The accounting question has been discussed with the Commissioners and it has been ascertained that in their view the Commission in dealing with these outside phosphates are acting as agents for the Australian and New Zealand Governments and that it would be incorrect and misleading to exhibit such agency transactions in an account which is prepared under and for the purposes of the Nauru Agreement. They are supported in this view by their Auditors. They point out that there is no risk of loss, but that on the contrary this is a source of revenue for the ultimate benefit of the partner Governments. They refer also to the fact that when in 1926 it became necessary to buy outside phosphates over several years the same financial and accounting procedure was adopted and met with no criticism.

They have on this occasion specially provided for United Kingdom information a separate certified account of outside phosphate transactions, linking up with the Balance Sheet.

10. The Dominions Office and the Treasury feel that, while there may be room for difference of opinion whether the gross transactions should not be reflected in the published account, they would not wish to press the matter further particularly as the Committee will in fact now have as a supplement to the published account for 1942-43 a separate outside phosphate Account, duly certified, which links up directly with the Balance Sheet.

They trust that the Committee will feel able to share this view.

Treasury,
12th May, 1944.

THE BRITISH PHOSPHATE COMMISSIONERS,
21, Ebury Street,
London, S.W.1.
28th March, 1944.

DEAR TAIT,

I enclose, in triplicate, two notes explaining the financial results of our Outside Phosphate operations. These notes were prepared in consultation between my colleagues, the General Manager and the Auditors, during my visit to Melbourne, and as you see have both been duly certified. If they are appended to the Accounts already sent to you, I think that they will satisfy the requirements of the Public Accounts Committee.

Encs.

Yours sincerely,

A. S. GAYE.

H. N. Tait, Esq., C.M.G.,
Dominions Office,
Downing Street, S.W.1.

THE BRITISH PHOSPHATE COMMISSIONERS ACCOUNTS FOR
YEAR ENDED 30TH JUNE, 1943
NOTE re—OUTSIDE PHOSPHATE

BALANCE SHEET

Items having reference to Outside Phosphate are :—

<i>Assets</i>					£
Sundry Debtors	...	...	(£218,858)	Part	165,909
Phosphate on consignment at Cost...			(£469,219)	Part	417,838
Voyages in Progress	...	...		All	88,699
Phosphate cargoes in transit	...			All	25,241
					<u>697,687</u>
<i>Liabilities</i>					£
Outside Phosphate Account ...	...	All		83,212	
(Cr. Balance 30/6/43.)					
Sundry Creditors	(£17,499)...	...		Part	6,107
Outstandings	(£336,776)...	...		Part	64,817
					<u>154,136</u>
<i>Balance, representing net funds employed in Outside Phosphate operations at 30/6/43</i>					<u>543,551</u>

TRADING ACCOUNT

Credits having reference to Outside Phosphates are :—

Interest	...	...	(£33,373)	Part	18,202
Commission	...	...	(£31,810)	Part	30,036
Stevedoring	...	...		All	1,754
					<u>£49,992</u>

Certified correct in accordance with the Books
of The British Phosphate Commissioners.

KENT BRIERLEY & FISHER,
Chartered Accountants (Aust.).

Melbourne,

10th February, 1944.

THE BRITISH PHOSPHATE COMMISSIONERS

NOTE re—OUTSIDE PHOSPHATE

TRADING ACCOUNTS

Credits having reference to Outside Phosphate are :—

<i>Year 1940/41</i>					£
Interest	...	...	(£26,654)	Part	4,055
Commission	...	...	(£23,443)	Part	3,037
Stevedoring	...	...	(£6,094)	Part	1,031
					<u>£8,123</u>
<i>Year 1941/42</i>					£
Interest	...	...	(£24,969)	Part	17,561
Commission	...	...	(£35,913)	Part	28,876
Stevedoring	...	...	(£2,147)	Part	1,798
					<u>£48,235</u>

TRADING ACCOUNTS—(contd.)

Year 1942/43						£
Interest ... ..	...	...	...	(£33,373)	Part	18,202
Commission ... ..	...	...	...	(£31,810)	Part	30,036
Stevedoring ... ..	...	...	...	(£1,754)	All	1,754
						£49,992
Total 3 Years to 30/6/43						£
Interest ... ..	...	...	...	(£84,996)	Part	39,818
Commission ... ..	...	...	...	(£91,166)	Part	61,949
Stevedoring ... ..	...	...	...	(£9,995)	Part	4,583
						£186,157
						£106,350

Certified correct in accordance with the Books
of The British Phosphate Commissioners.

KENT BRIERLEY & FISHER,
Chartered Accountants (Aust.).

Melbourne,
10th February, 1944.

SUMMARY OF TRANSACTIONS IN OUTSIDE PHOSPHATE
FOR AUSTRALIA AND NEW ZEALAND

JANUARY, 1941 TO 30TH JUNE, 1943

DEBIT

	Year	Tons	Cost including Interest		Average Cost Per Ton
			£	s. d.	s. d.
Purchases... ..	1940/41	107,266	579,854	13 3	108 1.38
	1941/42	340,040	1,844,174	19 7	108 5.62
	1942/43	339,452	1,945,116	10 1	114 7.24
		786,758	4,369,146	2 11	111 0.80
Credit Balance carried forward at 30th June, 1943			83,212	4 10	2 1.38
		Tons			
Makatea ... ..	...	330,898	786,758	4,452,358	7 9
Christmas Islands ... ..	...	94,224			
Kosseir ... ..	...	278,428			
Safaga ... ..	...	83,208			
		786,758	4,452,358	7 9	113 2.18

CREDIT

	Tons	Amount		Average Per Ton
		£	s. d.	s. d.
Sales and Sundry Credits	708,379	4,007,324	12 3	113 1.69
Stock at 30/6/43 at Cost	78,379	445,033	15 6	113 6.71
	786,758	4,452,358	7 9	113 2.18

Certified correct in accordance with the Books
of The British Phosphate Commissioners.

KENT BRIERLEY & FISHER,
Chartered Accountants (Aust.),
Auditors.

Melbourne,
9th December, 1943.

APPENDIX No. 17A.

CORRESPONDENCE WITH THE TREASURY.

12th June, 1944.

DEAR BRITAIN,

Public Accounts Committee

The Chairman of the Public Accounts Committee requests me to draw your attention to a letter of 2nd June (copy herewith) received in reply to the request of the Committee on 25th May for particulars of the Sundry Credits mentioned in the Summary of Transactions in Outside Phosphates enclosed with the memorandum of 12th May, 1944, submitted to the Committee by the Treasury.

It will be seen that the particulars now furnished in no way meet the difficulties which the Committee experienced in understanding the method of treatment in the accounts of the dealings in outside phosphates, and it would seem that this should have been apparent to Sir Arthur Gaye.

It was admitted by Sir Arthur Gaye in evidence that the reserves of island phosphates had been surcharged for the purpose of equalising the price charged to the manufacturers for phosphates and this information accords with that in paragraph 5 of the Treasury memorandum. The Comptroller and Auditor General inferred, not unnaturally, that the corresponding Credit to outside phosphates was included in the above-mentioned item Sundry Credits, and it was on the basis of this assumption that the Committee asked for details of the item. It now appears that the assumption was incorrect and that the Credit to outside phosphates is included elsewhere in the Summary of Transactions in Outside Phosphates.

The Chairman desires, therefore, that you will be good enough to obtain, for the information of the Committee, a statement showing

(a) the amount of the surcharges on island phosphates in each of the three years 1940-41, 1941-42 and 1942-43 credited to the account of transactions in Outside Phosphates:

(b) under what head these figures are included in the Summary of Transactions in Outside Phosphates: and

(c) where the figures of the corresponding debits appear in the trading accounts of island phosphates laid before the Committee, and, if they do not appear therein, in what manner they have been treated.

Yours sincerely, -

J. S. Crawford,

Clerk to the Committee.

Sir Herbert Brittain, K.B.E., C.B.,
Treasury Chambers,
Great George Street,
London, S.W.1.

THE BRITISH PHOSPHATE COMMISSIONERS,
21, Ebury Street, London, S.W.1.
2nd June, 1944.

Clerk to the Committee of Public Accounts,
Committee Office,
House of Commons, S.W.1.

SIR,

The Committee of Public Accounts at the meeting held on Thursday, 25th May, desired me to obtain particulars of the Sundry Credits mentioned in the Summary of Transactions in Outside Phosphate appended to the British Phosphate Commissioners' Accounts for the year ended 30th June, 1943.

I communicated by cable with the Commissioners' General Manager in Melbourne who has advised me that the Sundry Credits amount to the sum of £24,085 os. 4d., made up as follows:—

	£	s.	d.
(a) Adjustments of ships hire and insurances over-estimated	7,277	5	5
(b) Credit Balance on four coastal voyages between Australian ports by vessels normally engaged in carrying phosphate...	16,807	14	11

I am, Sir,

Your obedient Servant,

A. S. Gaye.

Treasury Chambers.

5th July, 1944.

DEAR CRAWFORD,

Public Accounts Committee

I am now able to give the answers to the questions in your letter of 12th June regarding transactions in Outside Phosphates.

(a) The amounts of the surcharges on Island Phosphates were as follows:—

1940-41:	Nil.
1941-42:	£489,386 3s. 8d.
1942-43:	£140,656 6s. 11d.

(b) The amounts at (a) are included in the sum of £4,007,324 12s. 3d. Sales and Sundry Credits, in the Summary of Transactions in Outside Phosphates.

(c) (i) The debits corresponding to the amounts at (a) do not appear in the Trading Accounts of Island Phosphates.

(ii) Island Phosphates were credited as sales in the Trading Account in the year in which they were shipped, Stock on hand and in reserve being included in the Balance Sheets at the end of each year. We believe that the debits corresponding to the credits to the account of Outside Phosphates were made against the Balance Sheet items of Island Phosphates on hand and in reserve, which were credited with the difference between the Balance Sheet value of the phosphates and their sale price. Gaye has cabled to Melbourne for confirmation of our understanding on this point, which we can elaborate in further evidence before the Committee, if necessary.

I am sorry that the Committee had previously been led to believe that the surcharge applied to Outside Phosphates appeared in "Other Credits" in the Summary of Transactions in Outside Phosphates. We were ourselves under the same misapprehension, but from the further information we have now received from the Commissioners, it is clear that the surcharges were included in the figure for "Sales", on the ground that the surcharges were a method of sale designed to collect part of the cost of Outside Phosphates under the price averaging system.

Yours sincerely,

Herbert Brittain.

J. S. Crawford, Esq.,
Committee and Private Bill Office,
House of Commons.

Treasury Chambers,

Great George Street, S.W.1.

6th July, 1944.

DEAR CRAWFORD,

With reference to my letter of yesterday about the Phosphate Commissioners' accounts, Sir Arthur Gaye has now received confirmation of the explanation given in paragraph (c) (ii) of my letter.

Yours sincerely,

Herbert Brittain.

J. S. Crawford, Esq.,
Committee and Private Bill Office,
House of Commons.

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