

SPECIAL REPORT . 61
AND
FIRST, SECOND AND
THIRD REPORTS
FROM
THE COMMITTEE OF
PUBLIC ACCOUNTS

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

Session 1957-58

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Wednesday, 13th November, 1957

The Committee of Public Accounts was nominated of Mr. Arbuthnot, Mr. Benson, Mr. Collins, Colonel Crosthwaite-Eyre, Mr. Hoy, Mr. Peyton, Mr. Oliver, Mr. Powell, Mr. Ramsden, Mr. Steele, Mr. Stevens, Mr. Thornton, Mr. Thornton-Kemsley, Mr. Turton, and Mr. West.

Wednesday, 22nd January, 1958

Ordered, That Mr. Powell be discharged from the Committee of Public Accounts; and that Mr. Simon be added to the Committee.

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SPECIAL REPORT

THE COMMITTEE OF PUBLIC ACCOUNTS;—HAVE agreed to the following
SPECIAL REPORT:—

TREASURY MINUTE AND ABSTRACT OF APPROPRIATION ACCOUNTS

1. Your Committee have been furnished with a copy of the Treasury Minute dated 21st January, 1958, on the First, Second and Third Reports from the Committee of Public Accounts of last Session. This is presented to the House as Appendix I to this Report.

2. Tables setting forth the Comparison of Audited Expenditure with Exchequer Issues and the General Abstract of the Appropriation Accounts for the year 1955-56, which were handed in to Your Committee by the Treasury on 12th December, 1957, are attached as Appendix II.

30th January, 1958.

APPENDIX I**TREASURY MINUTE DATED 21ST JANUARY, 1958, ON THE FIRST, SECOND AND THIRD REPORTS FROM THE COMMITTEE OF PUBLIC ACCOUNTS, SESSION 1956-57**

My Lords read the First, Second and Third Reports from the Committee of Public Accounts, Session 1956-57, dealing with the Appropriation and other Accounts for 1955-56, on which they make the following comments:—

FIRST AND SECOND REPORTS

My Lords note the comments of the Committee. They have no observations to make upon them.

THIRD REPORT**Civil Appropriation Accounts****Home Office****Paragraphs 1 to 6.—Purchase of a Country House for use as an Approved School**

My Lords share the views of the Committee that the substantial nugatory expenditure involved in the present incident cannot be regarded with approval and agree that the distribution of the cost of providing approved schools is such that the local authority responsible for the provision of a school may have very little direct incentive to economy. But in practice, local authorities seldom incur expenditure on the provision of new approved schools. Their Lordships are, nevertheless, glad to inform the Committee that following a change in procedure introduced in 1950 and modified in 1953, local authorities are now required to submit to the Home Office for prior approval projects for the acquisition, adaptation, or building of approved schools where the estimated cost is over £5,000. At the same time arrangements were made for closer consultation between the administrative and technical officers of the Home Office and local authorities. In Their Lordships' view these measures and the unlikelihood that the local authority concerned would depart from its normal procedure and adopt methods less conducive to wise and economic provision afford adequate safeguards and they would not favour the introduction of a still more detailed form of control.

Universities and Colleges, &c., Great Britain**Paragraphs 7 to 13.—Grants to Universities: Non-recurrent Grants**

My Lords are glad to note that the Committee welcome the proposals which they have made in this matter and recommend that the new arrangements for the provision of additional information about the expenditure of non-recurrent grants to Universities should be given a trial over a period of three years.

National Health Service**Paragraphs 14 to 17.—Cost of Pharmaceutical Services**

My Lords share the regret of the Committee that it was not possible for the enquiries into the cost of prescribing under the Health Service to begin until the middle of 1957.

2. They understand that the two Committees set up in June, 1957, are making good progress in collecting evidence, and that both have been invited to make interim recommendations if they feel that they can usefully do so.

Paragraphs 18 to 19.—Pharmaceutical Supplies: Prices of Proprietary Preparations

My Lords note the views of the Committee. They understand that the results of interim tests indicate that the final estimate of the saving to be realised is likely to fall well short of the maximum sum of £ $\frac{3}{4}$ million per annum reported to the Committee. If further tests confirm this preliminary finding, the reasons for the difference between actual and estimated results will be closely studied, together with other material which is being collected in the course of administration of the scheme, with a view to determining whether the present agreement should be revised in due course.

Board of Trade**Paragraphs 20 to 25.—Grants in Aid of Council of Industrial Design**

My Lords agree that consideration should be given to increasing the fees charged to exhibitors at the Design Centre, and to making charges for services provided by the Council which appear likely to benefit the trade of individual firms or industries. They are informed that increases in some charges at the Design Centre made in June, 1957, are expected to raise the revenue from fees charged to exhibitors by about 10 per cent. on the current level of £60,000 per annum. My Lords understand that, while it is the policy of the Council to keep the whole range of its charges to industry, including those made to exhibitors, constantly under review, the Council has, as a result of the Committee's report, undertaken a special review of all its charges with a view to their being increased. In determining the level of charges account must be taken of the purposes for which the Council exists, and of the need to ensure that charges are not set so high as to vitiate those purposes.

2. As regards the recommendation that further efforts should be made to secure contributions from industry for the Council's general activities apart from the Design Centre, the Government and the Council recognise the desirability of obtaining such support and will watch for any further opportunity of doing so. It must be borne in mind, however, that, apart from the intrinsic difficulty of securing subscriptions, due regard must be paid to the impartial standing of the Council as a national organisation for encouraging high standards in design.

3. Their Lordships note the views of the Committee that the Design Centre should be made as nearly as possible self-supporting. They are informed that the costs of the Centre cannot readily be distinguished from those of the Council as a whole, of which it is an integral part financially and administratively, and the arrangements under which it is proposed to stabilise the Government's contribution to the Council at a fixed sum over the three years to 31st March, 1960, are a recognition by the Government of the view that the activities of the Council and the revenues accruing from them should be considered as a whole. It has been made clear to the Council that in considering what grant assistance might be recommended to Parliament for the period after 1960 the Government will have regard to the progress of the Council towards a greater degree of self-sufficiency.

Ministry of Supply**Paragraphs 26 to 31.—Recovery of the Cost of Development of Civil Aircraft and Aero-Engines**

My Lords concur in the view of the Committee that, before sanctioning any reduction in the agreed rate of levy on sales of civil aircraft and aero-

engines to assist manufacturers to secure new orders, the Ministry of Supply should first obtain a satisfactory firm assurance that the continuance of the agreed rate would result in an unreasonably low profit to the manufacturers. My Lords require the Ministry to secure their sanction before agreeing to any reduction in agreed rates of payment, and it is their practice to pay careful attention to this point.

2. My Lords note the comments of the Committee on the Ministry's hope of raising the rate of recovery of engine development costs. They share this hope and, with the Ministry of Supply, will continue to seek the highest practicable rates of recovery.

Paragraphs 32 to 38.—“Swift” Aircraft

My Lords concur in the view of the Committee that it is desirable to place upon contractors a reasonable degree of responsibility for meeting the major requirements of aircraft specifications. The difficulties of doing so in the case of new types of aircraft must however be recognised. An advanced specification assumes the acquisition of scientific knowledge not available at the time of placing the contract or the successful application of knowledge hitherto unapplied. These factors militate against such a specification being described in fully enforceable terms and against a contractor being prepared to guarantee success within a specified time.

2. My Lords note the Committee's view that it is a most dangerous and speculative policy to place production orders for a new type of aircraft on which the full preliminary work has not been carried out. My Lords are advised that an inescapable consequence of the extreme complexity of modern aircraft is that development from the design to the proved aircraft stage is a lengthy process, and that if production orders were always withheld until development were complete aircraft might be obsolescent on entry into squadron service and their effective life curtailed. A balance must be drawn between the two conflicting considerations. On the one hand there are the financial advantages of delaying production orders until the aircraft is fully developed, and on the other hand there is the operational necessity of bringing an aircraft into service while it is still up-to-date and a match for potential opposition. In the case of the Swift it was at the time considered essential to bring the aircraft into service at the earliest possible date, and to achieve this it was necessary to place the first production order at an exceptionally early stage in the development of the aircraft. My Lords recognised the risks of this course, but saw none other which offered the prospect of an aircraft of this advanced design in service with the Royal Air Force at so early a date. As it turned out the project was not a success, but My Lords remain of the view that the operational requirement and the prospect of success at the material time justified the financial risks.

3. My Lords are satisfied that since the cancellation of the Swift improved arrangements have been introduced and they understand that these should give the Air Ministry access to the technical information they require about aircraft under development.

Ministry of Works

Paragraphs 39 to 41.—Disposal of Crown Built Slaughterhouses

Their Lordships can assure the Committee that all practicable measures consistent with Government policy are being taken in disposing of the seven Crown built slaughterhouses to secure fair and reasonable prices.

2. My Lords are informed that arrangements are in train for the sale of three slaughterhouses at the District Valuer's valuation which has been agreed

with the local authorities. The charge for the use of the slaughterhouses since occupation in July, 1954, will be at 4½ per cent. per annum on the purchase figure in accordance with the agreement made with the local authorities. In two other cases, the District Valuer has put forward a figure to the local authority and it is hoped that agreement will be reached. In another case, the District Valuer has been asked to give a valuation. The remaining slaughterhouse at Grimsby is operated by the Ministry of Agriculture, Fisheries and Food, and efforts are being made to sell this either to the local authority or, failing that, to some other buyer; the District Valuer has been asked to give a valuation.

3. My Lords agree that it was unfortunate that firm and binding financial agreements could not be concluded before the local authorities were let into possession. But this step was taken in the interests of ensuring the co-operation of local authorities willing to accept responsibility for continuity in the provision of essential slaughtering facilities after decontrol. My Lords are, however, taking all steps within their power to secure that the remaining slaughterhouses will be disposed of at the District Valuer's valuation.

Ministry of Transport and Civil Aviation

Paragraphs 42 to 45.—Test Weighing of Vehicles Taxed on the Basis of Weight

My Lords note the comments of the Committee. In pursuance of the recommendations of the Committee, the Ministry of Transport and Civil Aviation have had discussions with the Chairmen of Conferences of Local Taxation Officers, as a result of which the Ministry has issued a memorandum to all licensing authorities. The purpose of this is to secure, first, greater discrimination in the selection of vehicles for test weighing; and second, an increase in the amount of test weighing done in the cases of those local authorities where periodical returns indicate that the scale has been inadequate. In the view of the Ministry these measures should help to secure greater and more effective testing without a disproportionate expenditure in effort and cost. The position will however be carefully watched to ensure that the cost of collection is reasonable in relation to the revenue recovered.

Paragraphs 46 to 49.—Aerodrome Cost Statements

In consultation with the Ministry of Transport and Civil Aviation My Lords are arranging for changes to be made in the Estimates and Vote Accounts for 1958–59 which will enable trading accounts to be produced for that year in a form which it is hoped may meet the wishes of the Committee. The Select Committee on Estimates have been informed that changes in the Estimates will be made.

Paragraphs 50 to 54.—Rents at Airports

My Lords agree with the Committee that there is a serious problem in the fixing of rents for long periods ahead at airports where values are likely to rise in the future as the airport is developed.

2. In accordance with the Committee's recommendation, My Lords have considered the possibility of providing in the terms of leases for a review of the amount of ground rent at short intervals and for settlement by arbitration in the event of disagreement. In exceptional cases at London Airport where the term of the lease exceeds 50 years, provision is made for revaluation in the year 2000, with arbitration in the event of dispute. There is, however, a difficulty in the way of using this method of revaluation after a short period

and frequently thereafter, in that the prospective tenants must know in advance what their ground rent will be throughout at least a major period of the lease in order to calculate the financial side of their investment. It is doubtful whether tenants would be able to accept leases which left their future commitments uncertain after so short a period as ten years.

3. An alternative arrangement has been adopted in certain leases, whereby it is agreed at the beginning of the lease that the rent shall increase by stated amounts at the expiry of stated periods of years. It is intended that in appropriate cases such provision for increases by stated amounts at stated intervals shall be considered when future leases are being drawn up.

4. The matter raised by the Committee will be kept under review.

Paragraphs 55 to 58.—Sale of Solent Flying Boats

My Lords fully endorse the views of the Committee on the agreement for the disposal of Solent Flying Boats, and they have drawn the attention of all Departments to the case.

2. It is the normal practice of Government Departments to place contracts on a formal basis and for these contracts to embody such standard clauses drafted with legal guidance as are appropriate. Their Lordships are informed, however, that it is not always considered necessary to seek legal advice when the standard clauses are adapted or special clauses are devised. The extent to which legal advice should be sought depends on the circumstances in each case, including the knowledge and experience of the Department in placing contracts. Their Lordships do not consider that they would be justified in incurring the additional expenditure and causing the additional delays which would flow from a direction that all contracts involving substantial sums of money are to be negotiated with legal guidance. Nevertheless, they are instructing Departments to ensure that all contracts are tightly drawn and in unambiguous terms.

Department of Scientific and Industrial Research

Paragraphs 59 to 65.—Grants towards Construction of a Radio Telescope

My Lords share the concern of the Committee that substantial alterations were made to the design of the Radio Telescope without the approval of the University of Manchester who were thus not in a position to obtain the approval of the Department of Scientific and Industrial Research.

2. As the contract between the Consultant and the University provided in specific terms for prior approval to be obtained for any such alterations, Their Lordships are led to the conclusion that unauthorised additions to expenditure which arose cannot be attributed to defects in the terms of the contract.

3. Their Lordships have been asked by the Department to inform the Committee that, when the Accounting Officer was replying to the Committee about the lack of consultation between the Consultants and the Professor of Radio Astronomy, [Qs. 1839-50] he had in mind major technical modifications and their full financial implications. He did not intend to imply that no discussions on the scientific aspects of the design took place, although he did intend to make clear his understanding that the University authorities were not made aware of the major changes in the design or of their financial effect, and that the Consultants had not had the University's authority to embark on these major changes. Further consideration is being given to correspondence between the Consultant and the Professor of Radio Astronomy to which the attention of the Government has recently been drawn.

4. As regards supervision of the contract, My Lords agree that a special Sub-Committee should have been appointed or other similar arrangements should have been made to supervise the carrying out of the work from the start. On the question of supervision of such contracts generally, My Lords propose to take the following action in the light of the recommendation of the Committee about seeking the advice of the University Grants Committee. They will draw the attention of Departments to the Report* prepared for the University Grants Committee by a Committee under the Chairmanship of Sir George Gater: this Report—with which the Committee are already conversant—recommends a comprehensive procedure for ensuring close control of building operations, and for securing full and up to date information of the progress of the work and of estimated financial commitments. This Report has been accepted (with minor modifications of which the Committee are aware) by all Universities in respect of non-recurrent grants made by the University Grants Committee. My Lords propose, as a condition of corresponding non-recurrent grants made by Government Departments to Universities in future, that the Gater recommendations shall be observed in so far as they are applicable. Departments will be advised to consult the University Grants Committee in any particular case in which these recommendations cannot usefully be applied. Further, Departments will be instructed to take steps to ensure that in future cases of this kind regular information is conveyed to them on the progress of the work and the extent of the payments and of outstanding commitments.

Navy, Army and Air Services Accounts

Paragraphs 66 to 68.—Encouragement of Cost-consciousness in the Armed Forces

My Lords agree with the views of the Committee. In pursuing this general question, the Service Departments will pay attention to the Committee's views.

Paragraphs 69 to 72.—Parliamentary Control of Works Services

My Lords accept the recommendation of the Committee that the Service Departments should furnish annually to the Comptroller and Auditor General on behalf of the Committee, a list of all major works items covered by the Estimates and subsequently furnish a list of the additional items put in hand during the year with a statement of the grounds on which they were considered to be urgently necessary in the public interest. In Their Lordships' view the definition of a major works service for these purposes should be works costing £30,000 and upwards; this is the present basis of Treasury delegation of authority to the Service Departments in respect of works services. Accordingly, beginning with the financial year 1958-59, the Service Departments will separately comply with the recommendation of the Committee.

Army and Air Services Accounts

Paragraphs 73 to 76.—Local Expenditure of the British Forces in Germany

My Lords note the views of the Committee that the present arrangements for the local maintenance of the British Forces in Berlin are inconsistent with the constitutional principle of control over Supply, and their recommendation that appropriate provision should be made in the Estimates of the Service Departments in the same way as those for the Forces in the rest of Germany.

* Published as Cmnd. 9 of November, 1956.

2. While My Lords agree that these arrangements are not altogether consistent with the constitutional principle of Parliamentary control over Supply they have reached the conclusion after a careful examination of all the relevant factors, that the adoption of the Committee's recommendation would, for a number of reasons, be impracticable.

3. The status of the British Forces in Berlin is markedly different from that of the forces serving in Western Germany. The status of West Berlin is that of occupied territory jointly controlled by the French, the United Kingdom and the United States Governments through the Allied Kommandatura which requisitions all supplies and services essential for the maintenance of military government, for the support of which British, French and United States troops are stationed in their respective sectors of Berlin. For this purpose a single budget is prepared by the Allied Kommandatura covering expenditure on tripartite military government and the tripartite occupation as a whole, and this budget is not designed to identify and fix anticipated expenditure by any one of the three elements in Allied Military Government. It is the responsibility of the Berlin Senate to make the necessary funds available within this budget. The Allied Kommandatura have the unrestricted right to make transfers between the various budget heads as the circumstances demand. The actual disbursements are effected by the authorities of the Berlin Senate, who provide the necessary funds and naturally retain all the supporting accounting documents. In Western Germany, on the other hand, the British and other Allied Powers are responsible for meeting local expenditure on their forces, towards which the Federal Government at present make cash contributions which are paid over to the respective forces for disbursement.

4. It follows from the above that it would not be possible to make provision in Service Estimates for expenditure on the local maintenance of the British Forces in Berlin, with a corresponding provision under Appropriations in Aid from the Berlin Senate, without a complete revision of the existing budgetary arrangements. Such provision would impair the tripartite character of Military Government in Berlin which H.M.G. are extremely anxious to maintain. It would moreover require a complete change in the financial procedures of the tripartite Military Government. Their Lordships are advised that this could only be effected in agreement with the French and United States Authorities.

5. My Lords wish to point out that a considerable degree of Parliamentary control is already exercised over expenditure on the British Forces in Berlin, in so far as provision is made in Service Estimates for all expenditure on them—e.g. pay and allowances—other than their local maintenance. Furthermore, the total number of the forces stationed in Berlin comes within the orbit of Vote A.

6. While My Lords have reached the conclusion that it would not be practicable to implement the specific recommendation of the Committee, the Service Departments will, in future, include in the special note relating to Berlin, which appears in Service Estimates, a broad estimate of the expenditure on the maintenance of the British Forces in Berlin which is at present provided in kind.

Paragraphs 77 to 80.—Repayment Rates for the use of Mechanical Transport

My Lords are informed that the Air Ministry have recalculated their repayment rates for the use of mechanical transport, and these have been introduced. The Air Ministry rates have been made available to the War Office who have introduced similar rates for their own purposes. My Lords understand that all three Service Departments will keep their rates under

regular review to ensure that they are adjusted periodically to meet changes in operating costs. They are assured that there will be no undue delay in future in revising repayment rates.

Army Appropriation Account

Paragraphs 81 to 84.—Acceptance of Civil Employment by Serving Officer

My Lords concur in the Committee's recommendation that regulations should be promulgated to ensure that officers on full pay are not allowed to accept civil employment without the sanction of the Army Council. They are informed by the War Office that it is proposed to amend Queen's Regulations in such a way as to prohibit an officer or an other rank, on full pay, from engaging in civil employment for profit without special authority.

2. Their Lordships however accept the view of the Army Council that numerous occasions are bound to arise where it would be undesirable to ban casual civil employment, and where indeed in some cases (as for example assistance, whilst on leave, to farmers during peak periods of seasonal land work) such employment ought to be encouraged. Further, in the Council's view it would be undesirable to bar the acceptance of civil employment whilst on terminal leave. The Council therefore propose, and Their Lordships agree, that the amended Regulation shall be so drawn as to permit proper exception to the rule. Their Lordships have also received an assurance that officers are not allowed to select for retirement a date which results in a period of unemployment in excess of any terminal leave to which they may be entitled.

3. The Committee do not accept the view that once an officer has retired the retirement benefits awarded to him cannot be adjusted in the light of information which, if known before, would have affected the awards. Their Lordships understand that the Council agree that an award of retired pay may have to be reviewed if fresh facts subsequently come to light affecting the officer's entitlement.

4. Their Lordships are advised that action could have been taken against the officer referred to by the Committee only if he had contravened regulations, and that, according to legal opinion, no charge could have been sustained in this instance.

Paragraphs 85 to 92.—Production of Combat-Type Vehicles

(i) $\frac{1}{4}$ -ton Vehicle

My Lords note the Committee's comment that several motor manufacturers had declined the development of the $\frac{1}{4}$ -ton vehicle because of the complicated design and its radical departure from normal commercial practice. These companies declined the contract primarily because they were able to use their design teams much more profitably on commercial than on military vehicles.

2. My Lords note the Committee's comments on the cost and complexity of the $\frac{1}{4}$ -ton vehicle, but accept the contention of the Departments concerned that these represented the inescapable price of the performance earlier considered necessary.

3. My Lords note the Committee's views on the effects of the decision to accelerate production by dispensing with full troop trials before this bulk order was placed. They accept that the normal procedure would probably have produced less costly vehicles but point out that in the particular circumstances of the rearmament programme the urgency of pressing ahead with production was held to necessitate some telescoping of the normal procedures.

The Departments concerned are aware of the need in all but exceptional circumstances to carry out full troop trials of new equipments before bulk orders are placed. Particular attention is paid to this point by Their Lordships in considering proposals to place orders for equipment.

(ii) 10-ton Vehicle

4. My Lords agree that production orders should not be placed until a careful estimate has been made of the quantities needed. This is in fact the normal practice and was followed in the present instance by the War Office who, at the time the original orders were placed, had a firm requirement considerably in excess of the numbers actually ordered. Subsequent changes in defence policy did, however, reduce the requirement below the level of the original order. My Lords concur in the Committee's views on the delay in revising the requirement. The Service Departments are being reminded of the necessity of reviewing and, where practicable, making interim reductions in production orders as soon as it is evident that their requirements have been reduced for any reason, even though exact determination of their revised needs may not be made for some time.

(iii) General

5. My Lords can understand that on the evidence of cases which have come before them, the Committee have arrived at the impression that there has been a tendency since the war for the Service Departments and the Ministry of Supply to try to produce new designs that are too costly, too delicate and too complicated for Service use. That some such cases may occur, and may therefore be brought to the Committee's attention, is, in their view, to be expected, having regard to the nature and scale of the work to be undertaken. They are informed by the Ministry of Supply, after a search of that Department's post-war records of major developments, that those cases which have actually occurred represent only a very small proportion of the total.

6. My Lords are assured that arrangements have existed for some years between the Service Departments and the Ministry of Supply under which consultation takes place at all stages of a development project between users, designers and industry. These arrangements were followed in the development of the combat vehicles. My Lords accept the Committee's recommendation however that special attention be given to measures for strengthening these arrangements and they are considering with the Service Departments and the Ministry of Supply whether further measures are required.

Paragraphs 93 to 97.—Rents for Married Quarters

My Lords share the view of the Committee that a settlement of the question of rents for married quarters, which have remained unchanged since 1946, is long overdue. A study has now been made by an inter-departmental committee and proposals for alterations in the present scales of rents have been received recently from the Ministry of Defence. These proposals are under consideration.

Air Services Appropriation Account

Paragraphs 98 to 101.—Control of Expenditure on Works Services

My Lords note the views of the Committee with which they are in full agreement. The attention of all Departments will be drawn to them.

Trading Accounts and Balance Sheets**Board of Trade****Paragraphs 102 to 105.—Services in Development Areas**

My Lords accept the recommendation of the Committee. The summary statement hitherto furnished each year to the Committee will be published as an Appendix to the Accounts of the Board of Trade Services in Development Areas beginning with the accounts for 1956–57.

National Land Fund Account**Paragraphs 106 to 109.—Disposal of Properties**

My Lords note the comments of the Committee. The Crown Estate Commissioners have decided they wish to retain the part of the Dorset Estate of the 7th Viscount Portman acquired by the National Land Fund. Their Lordships are glad to report therefore that the Commissioners have, in conformity with the terms of the agreement reached with the Treasury in 1955, paid the sum of £120,400 to the National Land Fund.

New Towns Act, 1946 and 1955, Accounts**Paragraphs 110 to 112.—Presentation of Accounts of Development Corporations to Parliament**

My Lords agree that the annual accounts of the New Towns Development Corporations should not be presented to Parliament twice. The New Towns Bill which has been introduced in this Session of Parliament includes provision to make the changes recommended by the Committee. Until these statutory changes have been brought about, they understand that the printing order (which is made on the presentation to the House of the Accounts of the Minister of Housing and Local Government and the Secretary of State for Scotland with the Report of the Comptroller and Auditor General thereon), will not include an order for reprinting of the audited accounts of the New Towns Corporations which are presented at the same time. The accounts of the Corporations will not, therefore, be printed a second time, but will be available in the volume of reports of the Development Corporations presented by the two Ministers.

Overseas Resources Development Acts, 1948 to 1956, Account**Paragraphs 113 to 120.—Advances for other than immediate use**

My Lords consider that the circumstances leading to the advance made to the Colonial Development Corporation for the purpose of its subscription for £3·5 million of a public offer by the Kenya Power Company Limited of a 5½ per cent. Debenture Stock were exceptional. They can assure the Committee that, if a similar scheme were presented in the future, they would make every effort to ensure that circumstances could not arise which would result in public money being advanced before it was needed.

2. My Lords reaffirm their acceptance of the principle that public money should not be advanced before it is needed to meet the reasonable requirements of the body to whom it is paid and they understand that the Colonial Office are guided by this principle in making advances out of issues from the Consolidated Fund under the authority of Section 17 (1) of the Overseas Resources Development Act, 1948.

APPENDIX II

PAPER handed in by Mr. J. Macpherson, on 12th December, 1957
1955-56

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,
12th December, 1957

COMPARISON OF AUDITED EXPENDITURE IN 1955-56 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	746,063,471	11 8	746,063,471	11 8	—		—	
NAVY	337,700,000	— —	331,100,894	8 6	6,599,105	11 6	—	
ARMY	462,900,000	— —	465,518,820	10 11	—		2,618,820	10 11
AIR SERVICES	431,100,000	— —	437,239,703	13 8	—		6,139,703	13 8
MINISTRY OF DEFENCE...	15,300,000	— —	15,318,120	5 5	—		18,120	5 5
	1,247,000,000	— —	1,249,177,538	18 6	6,599,105	11 6	8,776,644	10 —
CIVIL SERVICES	2,443,858,000	— —	2,438,754,148	14 4	5,103,851	5 8	—	
REVENUE DEPARTMENTS	326,384,000	— —	326,824,984	14 7	—		440,984	14 7
TOTAL	4,763,395,471	11 8	4,760,820,143	19 1	11,702,956	17 2	9,217,629	4 7
					2,485,327	12 7		

1955-56

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, 1955-56			Expenditure, 1955-56			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	394,950,010	54,449,920	340,500,090	391,318,138 7 7	60,217,243 19 1	331,100,894 8 6	9,399,195 11 6	—
Army	597,970,100	123,969,930	474,000,170	582,787,878 14 1	117,269,058 3 2	465,518,820 10 11	8,481,349 9 1	—
Air Services	628,833,100	114,933,040	513,900,060	535,846,814 3 6	98,607,110 9 10	437,239,703 13 8	76,660,356 6 4	—
Ministry of Defence	18,837,500	537,500	18,300,000	15,845,515 18 3	527,395 12 10	15,318,120 5 5	2,981,879 14 7	—
TOTAL, NAVAL, MILITARY AND AIR SERVICES AND MINISTRY OF DEFENCE	1,640,590,710	293,890,390	1,346,700,320	1,525,798,347 3 5	276,620,808 4 11	1,249,177,538 18 6	97,522,781 1 6	—
Civil Services:								
Class I	32,761,964	11,137,696	21,624,268	30,725,981 5 9	11,036,831 10 5	19,689,149 15 4	1,935,118 4 8	—
Class II	126,861,786	1,817,110	125,044,676	116,894,624 19 3	1,775,675 19 3	115,118,949 — —	9,925,727 — —	—
Class III	95,271,512	11,236,612	84,034,900	92,288,430 18 2	10,960,290 10 5	81,328,140 7 9	2,706,759 12 3	—
Class IV	401,020,985	22,481,498	378,539,487	400,100,188 10 9	22,481,444 11 11	377,618,743 18 10	920,874 16 —	131 14 10
Class V	763,852,966	104,382,710	659,470,256	753,948,123 7 2	104,209,786 15 7	649,738,336 11 7	9,731,919 8 5	—
Class VI	339,839,319	107,215,620	232,623,699	331,789,090 19 1	102,137,208 14 1	229,651,882 5 —	4,107,865 19 9	1,136,049 4 9
Class VII	83,069,210	16,289,125	66,780,085	81,480,553 7 8	16,090,817 15 10	65,389,735 11 10	1,393,149 15 4	2,800 7 2
Class VIII	714,404,759	316,136,915	398,267,844	600,375,677 8 2	270,965,440 10 6	329,410,236 17 8	68,857,607 2 4	—
Class IX	158,330,030	16,597,710	141,732,320	153,613,604 6 4	16,243,098 15 7	137,370,505 10 9	4,361,814 9 3	—
Class X	459,766,930	21,605,010	438,161,920	455,042,272 7 4	21,603,803 11 9	433,438,468 15 7	4,723,451 4 5	—
TOTAL CIVIL SERVICES ...	3,175,179,461	628,900,006	2,546,279,455	3,016,258,547 9 8	577,504,398 15 4	2,438,754,148 14 4	108,664,287 12 5	1,138,981 6 9*
Revenue Departments:								
Customs and Excise	14,782,200	971,500	13,810,700	14,540,140 18 7	971,500 — —	13,568,640 18 7	242,059 1 5	—
Inland Revenue	36,048,625	199,625	35,849,000	35,777,061 13 7	199,625 — —	35,577,436 13 7	271,563 6 5	—
Post Office	298,381,980	20,487,980	277,894,000	298,166,887 2 5	20,487,980 — —	277,678,907 2 5	215,092 17 7	—
TOTAL REVENUE DEPARTMENTS	349,212,805	21,659,105	327,553,700	348,484,089 14 7	21,659,105 — —	326,824,984 14 7	728,715 5 5	—
TOTAL FOR VOTED SERVICES ...	5,164,982,976	944,449,501	4,220,533,475	4,890,540,984 7 8	875,784,312 — 3	4,014,756,672 7 5	206,915,783 19 4	1,138,981 6 9

THE COMMITTEE OF PUBLIC ACCOUNTS

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XV

	Estimated Expenditure	Actual Expenditure		Less than Estimate		More than Estimate	
	£	£	s. d.	£	s. d.	£	s. d.
CONSOLIDATED FUND							
National Debt Services—Interest, etc.	600,000,000	637,884,352	12 10	—	—	37,884,352	12 10
Sinking Funds	36,000,000	36,489,125	2 9	—	—	489,125	2 9
Excess Profits Tax post-war refunds (part deducted for tax)	2,500,000	2,365,000	— —	135,000	— —	—	—
Payments to Northern Ireland Exchequer	53,000,000	59,152,385	19 1	—	—	6,152,385	19 1
Other Consolidated Fund Services	10,000,000	10,172,607	17 —	—	—	172,607	17 —
TOTAL OF CONSOLIDATED FUND SERVICES	701,500,000	746,063,471	11 8	135,000	— —	44,698,471	11 8
GRAND TOTAL OF EXPENDITURE	—	4,760,820,143	19 1	—	—	—	—

The savings on Votes for the year 1956-56 amounted to £206,915,783 19s. 4d. as shown in column 7 and were dealt with as follows:—

	In the Financial Year			
	1956-57		1957-58	
	£	s. d.	£	s. d.
Written off from the Exchequer Grant Accounts out of Ways and Means of 1955-56	191,847,433	4 9	—	—
do. 1956-57	14,965,874	14 4	—	—
Paid to H.M. Exchequer by the Paymaster-General	102,476	— 3	—	—
	206,915,783	19 4	—	—

*Excess Votes were agreed to by the House of Commons on 14th March, 1957, in respect of (a) Imperial War Museum, Class IV, Vote 4, granting a sum of £10 and sanctioning the application of Surplus Receipts to the extent of £121 14s. 10d. to meet the balance of the deficit; (b) Ministry of Supply, Class VI, Vote 9, granting a sum of £10 and sanctioning the application of Surplus Receipts amounting to £1,136,039 4s. 9d. to meet the balance of the deficit; (c) Stationery and Printing, Class VII, Vote 10, granting a sum of £10 and sanctioning the application of Surplus Receipts amounting to £2,790 7s. 2d. to meet the balance of the deficit. (See H.C. 99 of 1956-57.)

FIRST REPORT

THE COMMITTEE OF PUBLIC ACCOUNTS:—HAVE made progress in the matters to them referred and have agreed to the following REPORT:—

EXCESS VOTES

Your Committee have to report that during the year ended 31st March, 1957, expenditure in excess of grants voted by Parliament was incurred as follows:—

Civil Department	Excess of Expenditure over Supply Grant	Less Surplus Receipts for whose application as Appropriations in Aid authority is to be sought	Net amount to be Voted
	£ s. d.	£ s. d.	£ s. d.
Class X, Vote 5, National Assistance Board ...	33,581 3 1	33,571 3 1	10 - -

Service Department	Deficits	Less Surpluses for whose application to meet the deficits authority is to be sought	Net amount to be Voted
	£ s. d.	£ s. d.	£ s. d.
Navy	4,805,388 16 9	4,335,413 1 9	469,975 15 -

2. Your Committee see no objection to the sums as set out above being provided by Excess Votes, or to the proposed transfer of surpluses to meet the balance of the deficit on the Navy grants.

Outcome of Navy Votes

3. Your Committee have, however, examined the circumstances in which the need for an Excess Vote arose on the Navy Account.

4. In February, 1957, a Supplementary Estimate was presented making provision for additional expenditure of £16m. and for the application of additional receipts of £5m. as Appropriations in Aid. The customary statement showing the prospective outturn of the Navy Votes, forwarded by the Admiralty to the Treasury on 22nd March, 1957, forecast that, after applying surpluses on certain votes against deficits on others, there would be an overall surplus of £2m. The Treasury under Section 4 of the Appropriation Act, 1956, authorised the temporary application of so much of the expected surpluses as might be necessary to meet the deficits, and laid a Minute before Parliament accordingly on 28th March, 1957 (H.C. 127 of 1956-57).

C. & A.G.'s
Navy Report,
Paras. 2-7.

5. Net expenditure as shown by the Account for 1956-57 exceeded the Estimate by £1,721,426 7s. 5d., a deficiency of £2,131,279 12s. 6d. in receipts authorised to be appropriated in aid being offset by a surplus of £409,853 5s. 1d. on gross expenditure. Receipts on certain votes in excess of amounts authorised to be appropriated in aid amounted to

£1,251,450 12s. 5d. and, if authorised, the application of these receipts towards the deficit would leave a sum of £469,975 15s. 0d. to be provided by an additional grant.

6. The outturn of certain Votes showed very considerable variations from the Estimates as revised in February, 1957, and from the forecast furnished to the Treasury on 22nd March, 1957. Your Committee accordingly directed their attention to the question whether the arrangements within the Admiralty were adequate to ensure that the information, on which the Supplementary Estimate and the forecast given close to the end of the year were based, was sufficiently reliable to enable Parliament and the Treasury to exercise their proper functions of control. They inquired particularly into the variations between provision, forecast and outturn for expenditure on the three Votes where the major discrepancies arose, namely Vote 1, Pay, &c., of the Royal Navy and Royal Marines, Vote 6, Scientific Services, and Vote 8 III, Contract Work on Ship-building, Repairs, Maintenance, &c.

Q. 467-77. 7. On Vote 1 provision for gross expenditure was reduced by £500,000 by the Supplementary Estimate, and the March forecast predicted a surplus of £400,000: the actual surplus was £1,027,816. Your Committee were informed that the main factor in the large surplus was an inaccurate assessment of the effect of the new pay code introduced from 1st April, 1956. This code provided higher pay for men serving on longer engagements, but expectations as to the number of men who would be encouraged to extend their engagements were not fulfilled. Your Committee conclude that the statistics of the men on various types of engagement, which they were informed are maintained centrally by the Admiralty, were not sufficiently up-to-date to allow the Admiralty to make an accurate assessment of the effect of the new pay code when they prepared the Supplementary Estimate and the March forecast. Your Committee would have thought that arrangements to ensure the availability of reliable and up-to-date information were essential for the purposes not only of financial but of administrative control. They therefore recommend that the Admiralty should re-examine their arrangements for obtaining this information.

Q. 478-90. 8. On Vote 6 provision for gross expenditure was increased by £1,400,000 by the Supplementary Estimate, but in March a surplus of £1,000,000 was expected and the actual surplus was £942,574. Of the actual surplus, £869,365 was on Subhead O, which had accounted for £1,375,000 of the Supplementary Estimate. This Subhead provides for expenditure on research contracts and on equipment for research in Admiralty establishments, and the Admiralty stated that this was a particularly difficult field for the estimation of expenditure. They explained that in January, 1957, a very close scrutiny of research projects produced considerable uncertainty about the starting of certain projects and the progress of others in the remaining months of the year; the February Supplementary Estimate, making provision for additional gross expenditure of £1,400,000, was based on information up to 31st December and much might happen in the last three months to falsify expectations. Your Committee, however, find it difficult to understand why expectations should have been falsified to such an extent that by March it was clear that about £1,000,000 of the grant obtained by the Supplementary Estimate would not be required. They trust that care is taken to ensure that Parliament is not asked to grant money late in the financial year for projects that may not mature, with the result that any surplus on the particular grant would be available, by virement, for other purposes.

9. On Vote 8 III provision for gross expenditure was increased by £3,650,000 by the Supplementary Estimate. In the result the gross expenditure proved to be £1,143,861 in excess of the grant, an excess that was not foreseen when the March forecast was made. The Admiralty attributed the excess expenditure partly to unexpected progress on certain contracts in the last three months of the year, involving payment of accounts in 1956-57 that had not been expected until the following year, and partly to increased costs arising from delay on other contracts. Your Committee recognise that it is not possible to base the March forecast on precise information as to the progress of the various contracts up to the date of the forecast, and that it may be difficult to estimate the value of bills that it may be possible to process for payment in the last few weeks of the year. They hope, however, that the Department equally recognise the importance attached by Your Committee to the accuracy of the forecasts, and that steps will be taken to examine the adequacy of their arrangements for ensuring the necessary accuracy. Q. 502.

10. Your Committee were informed that the survey, which is carried out by the Admiralty in the third week of March and on the basis of which they seek Treasury Authority for virement, is always "rather a hit or miss business"; over the last six years there had been quite substantial variations both in expenditure and in receipts between the forecast given in the latter part of March and the ultimate outturn of the Votes. On only one of those previous occasions had the necessity for an Excess Vote occurred, but the Admiralty thought it quite likely that the same trouble would arise in future years. While Your Committee appreciate the frankness of this admission, which confirms their own anxieties on this point, they were disturbed to learn that the need for Excess Votes by the Navy is so much a matter of chance. An Excess Vote has always been regarded by the House of Commons as a serious matter and Departments should make every endeavour to ensure that they do not incur one. Your Committee recognise the difficulties which confront a Department like the Admiralty with its world-wide commitments, but they must point out that the Admiralty are not unique in that respect. They therefore recommend that the Treasury and Admiralty should examine the system of financial control with a view to assuring Parliament that all reasonable safeguards are applied to avoid exceeding in future years the Parliamentary vote for the Service. Q. 445. Q. 464.

Treasury Power of Virement

11. Authority is given to the Treasury by the annual Appropriation Act to sanction temporarily, subject to subsequent confirmation by Parliament, the application of surpluses on any Votes of a Service Department to meet deficits on other Votes of the same Department. In the aforementioned case of the Navy the figures of estimated outturn given to the Treasury, on the basis of which they temporarily authorised the virement and notified Parliament accordingly by a Minute (H.C. 127 of 1956-57) laid on 28th March, 1957, proved in the event to differ widely from the actual results. Your Committee were informed by the Treasury that they do not give their sanction for this virement automatically and, indeed, have recently instructed one Service Department to seek Parliamentary authority in the normal way by a token Supplementary Estimate because the proposed transfers between Votes were so high in relation to the provision made by grants that they considered virement unsuitable. Q. 454.

Your Committee are gratified to have it confirmed that the Treasury exercise particular care in carrying out the important function entrusted to them by Parliament in the Appropriation Act, of varying the provision made by Parliament in the various Votes for a Service Department. They feel bound, however, to emphasise the need for estimates of outturn of the greatest possible accuracy to be furnished by the Service Departments to the Treasury well before the end of the financial year in order that the Treasury may have before them a reasonably full and accurate knowledge of the facts while it is still possible, if the Treasury consider virement unjustified, for the Departments to apply for Parliamentary authority by presenting Supplementary Estimates. If this be not done it appears to Your Committee that the Treasury are faced later with a *fait accompli* which places them in the position of being unable to refuse approval for virement without enforcing an Excess Vote.

27th February, 1958

SECOND REPORT

THE COMMITTEE OF PUBLIC ACCOUNTS:—Have made further progress in the matters to them referred and have agreed to the following REPORT:—

VIREMENT BETWEEN VOTES OF SERVICE DEPARTMENTS

1. Your Committee have reviewed the exercise by the Treasury of their powers under the annual Appropriation Act to sanction provisionally, subject to subsequent confirmation by Parliament, the application of surpluses on any Votes of a Service Department to meet deficits on other Votes of the same Department.

NAVY

2. Expenditure on certain Votes, and on the Votes of the Navy as a whole, was in excess of grants, and with Your Committee's approval, as expressed in their First Report, sanction was sought and, on 17th March, 1958, obtained, to an Excess Vote of amount sufficient to make good the deficits, after the application thereto of available surpluses on Votes and excess receipts. The Treasury therefore did not in the outcome need to exercise their powers of virement although they had done so provisionally and had notified Parliament by Minute accordingly, on the basis of figures of estimated outturn given to them by the Admiralty which proved in the event to differ widely from the actual results. In commenting in their First Report on the circumstances in which the need for an Excess Vote arose, Your Committee felt bound to emphasise the need for the greatest possible accuracy in forecasts of outturn furnished with applications for virement authority by the Service Departments to the Treasury.

ARMY AND AIR SERVICES

3. Your Committee see no reason why Parliament should not sanction the virement temporarily authorised by the Treasury in relation to the Army and Air Services in their Minutes laid before the House in February, 1958. There are, however, certain observations on the use of virement between Votes of the Service Departments which they think might be considered.

(i) Works Votes

4. Air Services Votes on which deficits were incurred included Vote 8, Works and Lands, on which the excess expenditure of £3·8 million was mainly for major new works. A substantial part of this over-spending was attributable to expenditure on new works services which had not been provided for in the Estimates but were commenced in the year on grounds of urgency in the public interest. The amount so attributable was given in a note on the Appropriation Account as £2,684,000, but it was stated in evidence before Your Committee that this figure was inaccurate and that the true figure was of the order of something under £1,000,000. Q. 3507, 3536.

5. Your Committee were informed that the Air Ministry were aware in October, 1956, that a deficit was likely to arise on Vote 8. By that time a substantial part of the expenditure on new works not provided for in the Estimates but commenced on grounds of urgency had already Q. 3497, 3512.

- Q. 3529. been incurred and thereafter approvals for starting further such works were restricted to a few needed for urgent operational purposes. A Supplementary Estimate for a token sum of £10 was presented in February, 1957, to obtain Parliamentary sanction for the payment of certain grants in aid, but the opportunity was not taken to obtain Parliamentary authority for the new works services started in the year on grounds of urgency, although both the Air Ministry and the Treasury were fully aware at the time that Vote 8 would be overspent. It was explained that surpluses were expected to arise on other Votes of amounts sufficient to meet the deficit on Vote 8, and the Treasury, seeing nothing abnormal in the circumstances, had not considered it necessary to obtain Parliamentary authority for transfers between Votes which could be authorised by virement under the powers given to them by the annual Appropriation Act.
- Q. 3500-2.
- Q. 3503.

6. In paragraph 11 of their First Report Your Committee expressed their gratification at the particular care exercised by the Treasury in carrying out the important function entrusted to them by Parliament of varying by virement the provisions made by Parliament in the various Votes for a Service Department. They feel bound to add, however, that they doubt whether it is appropriate that the power of virement should in principle be used to meet substantial deficits on Works Votes out of savings on other Votes covering services of a widely different character. As an example, Your Committee cannot accept that a cookery school should have been considered by the Treasury as a project which, on grounds of urgency in the public interest, could be paid for by means of virement. Particularly do they doubt the appropriateness of virement in the circumstances mentioned above of a deficit which was long foreseen and caused in part at least by reason of expenditure on major new works which had not been provided for in Estimates. They consider that in such circumstances the transfers between Votes ought, in the interests of Parliamentary control, to be authorised not by virement but by Supplementary Estimates approved by Parliament.

(ii) *Votes for Additional Married Quarters*

C. & A.G.'s
Army Report,
Paras. 71-73.

7. Service building is normally financed by provision in the annual Estimates. In 1949, however, the Departments were faced with the need to overtake heavy arrears in the provision of married quarters and it was considered that such of those quarters as could be regarded as a contribution to the ordinary housing needs of the population should be financed on the same basis as civilian houses. Accordingly, Parliamentary sanction was obtained by the Armed Forces (Housing Loans) Acts, 1949 and 1953, for arrangements under which such quarters might be financed by issues from the Consolidated Fund to an amount not exceeding £75 million during the 10 years to 31st March, 1960. The loans were to be repayable, with interest, over 60 years. In order, however, to secure Parliamentary control over the borrowings special Additional Married Quarters Votes in the Estimates for each of the Service Departments have recorded the gross expenditure proposed on quarters qualifying for loan and the loan moneys to be appropriated in aid of it.

8. In the first year there were appreciable savings on the ordinary Works Votes and the Service Departments proposed to the Committee of Public Accounts of 1950-51 that such savings in future years should

be applied to meet expenditure provided for under the Additional Married Quarters Votes and so reduce the borrowings that would otherwise be necessary. The Committee recognised the serious objections to the use of virement to vary the allocation between voted and borrowed moneys which had been approved by Parliament in the Estimates but they approved the proposal to use virement provided that the Estimates for the year had stated that the estimated allocation from loans might be varied by the application of savings on the ordinary Works Votes. Before doing so, however, the Committee had been given to understand that the amounts involved would be small since the Service Departments had no intention and little opportunity of overestimating their ordinary Works Votes in order to avoid borrowing from the Consolidated Fund.

9. Expenditure by the three Service Departments charged to special Married Quarters Votes up to 31st March, 1957, amounted to £53 million. Of that sum about £23 million or almost a half was met by the application of savings on ordinary Works Votes under the virement procedure mentioned above. Indeed, over the years 1953 to 1957, the whole of the War Office expenditure on additional married quarters, which amounted to some £9 million, was met by virement out of moneys voted for ordinary works services.

10. Your Committee doubt whether the Committee of 1950-51, when they approved the use of virement, expected that surpluses available for transfer to the special Married Quarters Votes would be so large and they are concerned at the extent to which the Treasury have in fact since then authorised virement between the Votes, particularly in the case of the War Office. In the opinion of Your Committee the use of virement to vary on this scale the allocation between voted and borrowed moneys as approved by Parliament defeats the original purpose of the Acts. Accordingly they recommend that if the method of financing married quarters by loan is to be continued beyond the term of the present Acts the issues involved should be further considered.

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THIRD REPORT

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THIRD REPORT

THE COMMITTEE OF PUBLIC ACCOUNTS:—Have made further progress in the matters to them referred and have agreed to the following REPORT:—

DEATH OF SIR FRANK TRIBE, K.C.B., K.B.E.

1. Your Committee wish to express their deep sorrow and sense of personal loss at the recent sudden death of Sir Frank Tribe, K.C.B., K.B.E., who had been Comptroller and Auditor General since 1946. Committees of Public Accounts and the House of Commons always owe much to the services of this Officer, and they have never been better served than by Sir Frank Tribe. His devotion to duty, in spite of a severe illness within the last three years, his wise judgment and his helpful advice have been invaluable to Your Committee and their predecessors during his term of office. The House of Commons have lost a public servant of outstanding ability.

CIVIL APPROPRIATION ACCOUNTS

CLASS V. VOTE 5—NATIONAL HEALTH SERVICE, ENGLAND AND WALES

DEVELOPMENT SCHEME AT THE RADCLIFFE INFIRMARY, OXFORD

(i) *Control of expenditure*

C. & A.G.'s
Civil Report
(Classes I–V),
Paras. 51–55.

2. In March and May, 1955, the Ministry of Health obtained Treasury approval for building projects, estimated to cost £434,390, in connection with a scheme for adaptations and new construction at the Radcliffe Infirmary, a teaching hospital associated with the University of Oxford. In August, 1956, the Treasury were informed that the latest estimate for the scheme was £815,000 and that the Board of Governors of the hospital had proceeded with a considerable amount of work without the Ministry's prior authority. The Treasury agreed that the scheme should continue, and the Ministry authorised the Board of Governors to proceed with works already started. They expressed, however, their grave concern that work had been undertaken without specific authority and told the Board that any modifications to the proposals or any expenditure in excess of the approved limits were not to be undertaken without the Minister's authority. Despite this definite direction the Board subsequently placed a contract for work not covered by Ministry authority and notified the Ministry of anticipated excess expenditure on certain parts of the scheme. The Ministry considered that the work could properly have been sanctioned had authority been sought and therefore gave the authority. But the Board's normal capital allocation was reduced to compensate for the increased costs of this scheme, which fall on the centrally financed programme, and they were asked to consider disciplinary action against those responsible for the failure to seek Ministry authority. A committee set up by the Board to investigate reported that any disregard of the Ministry's instructions arose from genuine misunderstanding and no disciplinary action was necessary. The inquiry revealed, however, disquieting features in the administrative arrangements for handling the scheme; these are now being improved. Measures have also been taken to strengthen the staff engaged on the project.

App. 1,
Paras. 17, 22.

3. Your Committee were informed that the latest estimates available indicate that for those parts of the scheme already put in hand the ultimate cost will be about £570,000 against the original estimate of £286,390. The complete scheme originally estimated to cost £434,390 will now cost slightly more than £1 million. These figures exclude professional fees and the cost of equipment for which the Ministry's consent is not specifically required. Inclusion of these items brings the total cost of the scheme to some £1,400,000. The increase over the original estimate is said to be due to the Board of Governors not having adequate information of what was required when the first estimates were submitted; to elements of the scheme having been overlooked before the work began; and to various additions being made as the work progressed, frequently at the instance of the professors who would be in charge of the departments being provided. The Ministry, while not defending the Board's methods, stated in evidence that they were satisfied that the scheme had not cost substantially more than if it had been properly planned, and had not resulted in any obvious loss to the Exchequer. Your Committee have no doubt, however, that substantial economies would have resulted had the work been properly planned in advance and had the various additions requested during the course of the work been critically examined by the Ministry and the Treasury before being put in hand. Instead of such advance planning and critical examination the work proceeded in what was described to Your Committee as "an unenlightened rush" which must surely have accounted for part of the increased cost.

App. 1,
Paras. 5, 7,
25.

Para. 18.

Q. 295, 299,
308.

Q. 299, 338.

4. The failure to seek the Ministry's prior approval before various sections of the work were put in hand occurred despite the standing instructions to Boards of Governors and even after specific representations had been made to the Board in December, 1955, and again in August, 1956. Your Committee are seriously concerned that the Board, under "extreme pressure by the University", should have been able to commit the Ministry to considerable extra expenditure without prior approval. In this particular case the extra expenditure is said to be such as would have received approval had prior approval been sought. The disregard of the Ministry's instructions, however, might well have resulted in the Exchequer being committed to expenditure which would not have been approved by the Ministry or the Treasury. That it did not do so appears to be fortuitous. Although the primary responsibility for these irregularities must rest with the Board of Governors, Your Committee consider that the Ministry's supervision of their agents, the Board, has also been ineffective. The conduct of this scheme both by the Board of Governors and by the Ministry has considerably weakened Treasury control over the expenditure.

App. 1,
Paras. 13-15.

Q. 295.

5. Your Committee trust that future commitments on this particular project will be effectively supervised and they recommend that the Ministry's arrangements for financial control of large building projects should be reviewed so as to ensure that the Ministry are fully informed of any developments in sufficient time. It seems to them that this is particularly necessary in relation to the building projects of teaching hospitals where there is a division of responsibility between the Board of Governors and the University and where the Board may be subjected to pressure by the associated University.

(ii) *Contributions from non-Exchequer sources*App. 1,
Para. 27.

6. The Board of Governors of a teaching hospital are required by section 12 (3) of the National Health Service Act, 1946, to provide for the university with which the hospital is associated such facilities as appear to the Minister to be required for clinical teaching and research. The Ministry have recently agreed with the Treasury and the University Grants Committee a formula defining the respective responsibilities of the Minister and the university in connection with expenditure on a hospital building scheme. Any contribution due from a university under this formula is to be in the form of a payment towards the capital cost. Although the formula had not been drawn up when the Radcliffe Infirmary scheme referred to in paragraphs 2 to 5 above was proposed, the University of Oxford had offered to make a contribution towards the capital cost. The Treasury had accordingly been informed by the Ministry in 1955 that contributions totalling £176,500 were assured from non-Exchequer sources towards the cost of the whole scheme then estimated at £434,390, and that these contributions had been worked out approximately to cover the cost of that part of the scheme which the Ministry would not consider it incumbent on the Board of Governors to provide under the National Health Service Act. The Treasury were assured that the Ministry would look to the University for further funds if the cost of the teaching segment of the scheme exceeded expectations. The cost of the works services originally estimated at £434,390 is now expected to be over £1 million to which the University's promised contribution is £170,500 with a further contribution of £31,500 towards equipment expected to cost £280,000.

Para. 28.

C. & A.G.'s
Civil Report
(Classes I-V),
Para. 56.App. 1,
Paras. 24, 25,
29.App. 1,
Paras. 29-31.

7. The Ministry state that the part of this contribution appropriated for completed works services (£138,500) appears to be not less than the contribution required by the agreed formula, but that the promised contribution towards the remaining works services, and towards the provision of equipment, appears to be much less than would be required under the formula. They understand, however, that the University are unable to find further money for this scheme from private sources. In view of this, and of the fact that the University were told at the beginning of the scheme that the whole of the Exchequer contribution would come from the Ministry, the Ministry have decided, after consultation with the Treasury and the University Grants Committee, not to seek a further contribution. As a result of this decision it appears that expenditure, which is properly a University liability, will be met out of the Vote for the National Health Service and will reduce the amount available for legitimate capital expenditure on that Service. Your Committee regard this as an improper use of moneys voted for the Health Service. They understand that this work is of great importance and they do not think that it should be stopped until an adequate contribution from the University is forthcoming. They recommend however that the Ministry, in schemes of this kind, should ensure that commitments for the provision of facilities and equipment which are not properly a Health Service liability should not be entered into until funds are made available from sources other than the Health Service Vote.

CLASS V. VOTES 5 AND 11—NATIONAL HEALTH SERVICES
REMUNERATION OF CHEMISTSC. & A.G.'s
Civil Report
(Classes I-V),
Paras. 64-66.

8. Chemists receive for each prescription a payment to cover the actual cost of the ingredients used in making up the prescription; an

addition for oncosts of 25 per cent. ; certain allowances and a dispensing fee. The payment intended to cover the actual cost of ingredients is determined in accordance with a Drug Tariff based on wholesalers' price lists. In consequence chemists who can obtain discounts from list prices may make a profit from reimbursement at Drug Tariff rates, although the Departments had assumed when agreeing the terms of their remuneration that no such profit would accrue. The Treasury brought this possibility to the notice of the Ministry of Health in June, 1954, and early in 1955 expressed the view that vigorous efforts should be made to secure for the Exchequer the benefit of any discounts the chemists might receive, a view fully endorsed by the Committee of Public Accounts of Session 1955-56, in their Sixth Report (paragraphs 38-40).

Q. 2817-8,
2820, 2866.

9. It was not until May, 1957, that a pilot inquiry into actual prices paid by chemists was undertaken in England and Wales. A questionnaire covering 30 drugs, but no proprietary preparations, was addressed to 2,370 chemists, and in August, 1957, the Ministry's statistics section reported that the results of the inquiry afforded impressive evidence that the prices paid by chemists for most of those drugs were, on average, well below the Drug Tariff rates. Your Committee were informed that for 24 of the 30 drugs the results indicated that the Drug Tariff rates afforded chemists a concealed profit averaging 14 per cent.

Q. 2812,
2836.

10. In Scotland, as a first step, information has been assembled concerning 15 standard drugs and 15 proprietary preparations in which substantial Exchequer expenditure is involved. A questionnaire was addressed to 50 representative chemists about their purchases of these drugs. Answers suggest that the actual prices paid by chemists in Scotland enable them to make a concealed profit of 19 per cent. from the Drug Tariff rates for the 15 standard drugs and 10 per cent. from the rates for the 15 proprietary preparations. Although the chemists' representatives have questioned the reliability of some of the information obtained, they have agreed to certain adjustments of the Drug Tariff rates for 23 of the 30 drugs.

App. 2.

11. Your Committee are disturbed both by the rates of profit disclosed by these inquiries, and by the fact that chemists have continued to enjoy these unintended profits for such a long period after the Treasury had drawn attention to the matter in June, 1954. So long as information is lacking concerning the prices actually paid by chemists for drugs used in Health Service dispensing there can be no assurance that the remuneration of chemists is no more than fair and reasonable. Your Committee therefore recommend that further inquiries should be speeded up and they consider that the results already obtained from the sample inquiries justify some immediate general reduction of the Drug Tariff.

CLASS VI. VOTE 1—BOARD OF TRADE

EXPENSES OF BANKRUPTCY AND COMPANIES WINDING-UP PROCEEDINGS: LOSSES ON INVESTMENT

12. The costs of administration of bankruptcy and companies winding-up proceedings are borne on the Votes of the Board of Trade and other Government Departments. The Economy (Miscellaneous Provisions) Act, 1926, provides that in fixing scales of bankruptcy and winding-up fees regard shall be had to the average aggregate of these

C. & A.G.'s
Civil Report
(Classes
VI-X),
Paras. 9-13.



costs. Moneys arising from estates in bankruptcy and companies in liquidation are deposited with the Board of Trade until required by the trustees or liquidators for distribution, and sums held by the Board surplus to current requirements are paid over to the Treasury for investment. The income from the fees collected and from the investments made by the Treasury is paid into an account established by the Economy (Miscellaneous Provisions) Act, 1926. After provision for the payment of interest on sums deposited for companies in liquidation, issues may be made from the account towards meeting the costs of administration of bankruptcy and winding-up proceedings and, subject to the retention of a specified working balance, any remaining balance on the account at the close of each financial year is payable into the Exchequer.

13. Under these arrangements part of the costs of administration of bankruptcy and winding-up proceedings is thus met from fees, and part from the income from the investment of funds deposited with the Board of Trade. In 1951, in order to remedy the growing inadequacy of these receipts to meet the costs, the Board, in consultation with the Treasury, considered the question of increasing receipts from both fees and investments. They thought that it was impracticable to increase the scale of fees but, in order to increase income from investments, the Treasury transferred about £5 million of the sums deposited for companies in liquidation from Treasury Bills to longer-term Government securities. Furthermore in 1953, in consultation with the Board, they transferred an additional £12 million. This change in investment policy, combined with increases in total investments and a general rise in interest rates, raised the income from investments from £116,000 in 1950-51 to £780,000 in 1955-56. In the years 1955, 1956 and 1957, however, large amounts were required by liquidators of companies for distribution. It therefore became necessary for the Treasury to sell not only the remaining Treasury Bills but also some of the longer-dated securities. Owing to a fall in the market value of Government securities losses amounting by March, 1958, to over £1 million were incurred on the sales. Apart from these capital losses, the enforced sales resulted in a substantial reduction in the net revenue available for application towards meeting administrative costs, i.e. from £506,000 in 1955-56 to £293,000 in 1957-58.

App. 3.

Q. 1572.

App. 3.

Q. 1503-6.

Q. 1507-18.

14. Your Committee were informed that investment policy is the responsibility of the Treasury acting on estimates furnished by the Board of Trade of the extent to which it is desirable to keep funds liquid to meet liquidators' requirements. The investment of sums, which subsequently proved to be excessive, in longer-dated securities arose from an inaccurate assessment of the time at which funds would be required for some large liquidations and from the anxiety of the Board to obtain the best possible return on investments in order to meet the statutory injunction that income should be related to costs of administration.

15. While the Economy (Miscellaneous Provisions) Act, 1926, requires the Treasury to prepare and lay before Parliament an annual account showing receipts and expenditure in respect of bankruptcy and companies winding-up proceedings, no provision is made for its audit by the Comptroller and Auditor General; nor is it required to include any record of sums deposited with the Board of Trade or those invested

by the Treasury. The considerable losses on investment are not therefore included in any account available to Parliament. In an attempt to remedy this omission the Treasury have, however, caused statements of losses incurred to be included in the Forewords of the accounts for 1955-56 and 1956-57 laid before Parliament under the provisions of the Act of 1926.

16. Your Committee were concerned to learn that over a period of years receipts from fees and income from investments have been insufficient to meet the costs of administration of bankruptcy and companies winding-up proceedings. They appreciate the difficulties of the Board of Trade in trying to reconcile the duty of safeguarding the funds entrusted to them with that of obtaining the greatest possible return on the investment of those funds. They are forced to the conclusion, however, that in assessing the sums available for investment in longer-term securities in 1951 and 1953 insufficient regard was paid to the possibility of substantial sums being required by liquidators. Your Committee were informed that the Board of Trade regard the arrangements prescribed by the Act of 1926 as unsatisfactory, particularly that requiring them to obtain maximum income, and that, in consultation with the Treasury, they are reviewing them with a view to promoting amending legislation. Your Committee welcome the intention of the Board to seek Parliamentary authority for release from obligations which they feel unable to undertake, and they recommend that opportunity should be taken in the proposed legislation to provide for the presentation to Parliament of accounts, to be certified by the Comptroller and Auditor General, recording the receipt and disposition of bankruptcy and companies winding-up funds deposited with the Board together with details of the investment of those funds.

CLASS VI. VOTE 9—MINISTRY OF SUPPLY

CLASS VI. VOTE 10—MINISTRY OF SUPPLY (PURCHASING (REPAYMENT) SERVICES)

RECOVERY OF COST OF DEVELOPMENT, ETC., OF MILITARY AIRCRAFT AND AERO-ENGINES

17. The Committee of Public Accounts of Session 1956-57, in paragraphs 26 to 31 of their Third Report, described the arrangements made by the Ministry of Supply for recovering their expenditure on the design and development of civil aircraft and aero-engines by means of agreed rates of levy, payable by the manufacturer to the Ministry, on commercial sales of aircraft and engines.

C. & A.G.'s
Civil Report
(Classes
VI-X),
Paras. 46-49.

18. The Committee noted that, before agreeing to a reduction in the rate of levy on the basis that the market would not bear the rate previously agreed, the Ministry would require to be satisfied that the manufacturer was reducing his price in order to secure sales. They expressed the opinion that the Ministry should not normally sanction a reduction merely because sale prices were reduced but should first obtain some firm assurance that the continuance of the agreed rate would result in an unreasonably low profit to the manufacturer. This view was concurred in by the Treasury, who stated that they required the Ministry to secure their sanction before agreeing to any reduction in agreed rates of payment in such cases, and that it was their practice to pay careful attention to this point.

T.M. 21.1.58,
Paras. 26-31.

19. For military aircraft and engines, however, it has been the practice of the Ministry of Supply in comparable cases to exercise discretion in regard to reductions in the levy due on sales; and certain cases where such reductions had been agreed by the Ministry without reference to the Treasury were brought to notice by the Comptroller and Auditor General. Your Committee were informed that, in contrast with civil aircraft, where the rate of recovery by way of levy was usually determined and fixed at the outset, the rates for military aircraft were usually agreed when sales were in the offing, and were negotiated *ad hoc* in each case. The Ministry explained that their contractual right was to agree in each case what sum, if any, should reasonably be paid to them, although in practice they might agree a standard figure for a standard sale in order to reduce the number of individual and separate negotiations. The Ministry added that, while they had a legal right to recover at an agreed rate, they must, as in the case of civil aircraft, have regard to what the market would bear, and if convinced that the market would not bear the full rate of levy they would agree a reduced rate; but they would not do so unless the manufacturer had reduced his profit.
- Q. 4268.
- Q. 4330, 4332-3.
- Q. 4274.

20. While recognising that expenditure on development of military aircraft and aero-engines and on jigs and tools for their production is necessarily incurred primarily for the purpose of the defence of this country, Your Committee can see no good reason in principle why sales to other Governments should not bear their due share of this expenditure, which is in their view as valid a part of the cost of the articles sold as any other element in their production cost. They are unable to agree with the view expressed to them by the Ministry that any levy recovered is merely an unexpected benefit that comes after the primary object, the provision of aircraft for the Forces, has been served. They therefore recommend that for military, as for civil, aircraft a normal rate of levy should be fixed at the outset. While they recognise that cases may arise in which a reduction of the levy would be justified rather than that the sale should be frustrated, they consider that in making such reduction the Ministry should follow the practice recommended by the Committee of 1956-57 in the case of civil aircraft, etc. This recommendation was that the Ministry should be fully satisfied, if necessary by requiring the production of accounts, not merely that the contractor had reduced his price, but that continuance of the agreed rate of levy would result in an unreasonably low profit to the manufacturer. Moreover, any reduction of the levy on any particular sale, whether civil or military, from the normal rate applicable to that aircraft or engine represents in the view of Your Committee the abandonment of a claim by the Ministry. They therefore recommend that the authority of the Treasury should be obtained in each case and that notation of the Appropriation Account under the normal rules should be considered.
- Q. 4286.

CLASS VI. VOTE 10—MINISTRY OF SUPPLY
(PURCHASING (REPAYMENT) SERVICES)

PURCHASE OF BRITANNIA AIRCRAFT FOR TROOPING OPERATIONS

C. & A.G.'s
Civil Report
(Classes
VI-X),
Paras. 56-59.

21. In order to implement a policy agreed upon by Ministers in 1954, the Ministry of Supply in December, 1955, entered into a contract for the construction, at a cost of over £3 million, of three Britannia

aircraft for use in air trooping. The cost is being borne on the Vote for Purchasing (Repayment) Services, but at the time when the contract was entered into no formal requisition had been made on the Ministry of Supply for these aircraft. It was not therefore known by whom repayment of their cost would eventually be made. It was, however, the intention that they should be sold or provided on hire or contract loan to independent operators holding trooping contracts, and they were being built to a standard that would make them suitable for commercial operations while at the same time being suitable for the carriage of troops.

Q. 5068,
5084.

22. The Ministry stated that the aircraft had originally been ordered on Ministers' instructions, as there was at that time no other way of getting Britannia aircraft in readiness for trooping operations. The aircraft were necessary for economical trooping, their acquisition would help towards the creation of a merchant air fleet, and the order would enable a second line of Britannia production to be started in another factory. No requisition from a customer Department had yet been received. The Ministry explained that in the event of the aircraft being hired by operators they would be purchased by the Air Ministry, but it had been hoped from the start that the operators would buy them. They did not think, however, that in 1955 any operator would have committed himself to the expenditure involved without a firm trooping contract for a suitable period from 1959 onwards, and it would have been unwise for the Air Ministry in 1955 to place trooping contracts so far ahead when the level of trooping requirements could not have been precisely known. Tenders from various potential operators for the use of the aircraft for trooping had recently been invited by the Air Ministry; the results were not known when evidence was given to Your Committee.

Q. 5043.

Q. 5084.

Q. 5089,
5091, 5098.Q. 5042,
5053.

23. Your Committee recognise the special nature of the circumstances in which this order was placed, and accept the assurance given to them by the Ministry of Supply that there was, and still is, a firm requirement for these aircraft for part time trooping. In view, however, of the uncertainty as to the ultimate ownership of the aircraft, they feel bound to express their doubts of the propriety of charging the cost of their purchase to the net Vote for Purchasing (Repayment) Services. Your Committee regard it as important in principle that the use of that Vote should be limited to the acquisition of supplies definitely ordered on repayment by other Departments or Governments. Unless this principle is strictly followed there is a danger that the Vote may be used to finance production by private industry of objects which the industry hoped to be able to sell to some Government department, or even to private operators to hire out on occasions for use by a Government department. Your Committee recommend that particular care should be taken to avoid using the Vote in future for purchases which are not plainly within the objects for which it was introduced.

Q. 5081.

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

LIME SUBSIDY (UNITED KINGDOM)

24. Under the Agricultural Lime Schemes, 1947 to 1955, contributions are made at the rate of 60 or 70 per cent. of the costs incurred by occupiers of agricultural land in acquiring, transporting and spreading

39254

C. & A.G.'s
Civil Report
(Classes
VI-X),
Paras. 62-66.

B

lime to improve soil fertility. Such contributions may be made only in respect of lime purchased from suppliers who undertake not to charge prices in excess of those approved by the Ministry, and to furnish such information and accounts, etc., as the Ministry may require. The subsidy is administered for the whole of the United Kingdom by the Ministry of Agriculture, Fisheries and Food. It cost £2.6 million in 1946-47 and £9.3 million in 1956-57.

25. The 1947 scheme superseded the Land Fertility Scheme of 1937, under which the prices approved by the Ministry were those which the suppliers had been charging in the ordinary way of business on 1st May, 1937. Following an application for an increase in approved prices, an independent investigation was made into producers' costs in 1937, and in 1938 the Ministry approved for each area fixed increases to be allowed to all suppliers in that area subject to certain overriding maximum prices; existing prices above those maximum prices were not, however, reduced. Subsequent price adjustments have been negotiated individually with each supplier on production of satisfactory evidence of increases in prime costs. In converting these increases into rates per ton conversion factors based on the results of the 1937 cost investigation have continued to be used.

26. The Comptroller and Auditor General reported that in view of the improved efficiency and new techniques introduced over the intervening 20 years, he had asked the Ministry whether they had ascertained how approved prices compared with current costs in individual cases. The Ministry had informed him that they had had the question of costs and profits of lime suppliers constantly in mind. They considered that any savings due to improved techniques must be judged in relation to changes in the composition of lime supplies and changes in capital investment and overhead and other costs. Applications for price increases were dealt with individually by Lime Technical Officers who knew the quarries and works concerned and took into account changes in methods and production. This resulted in the assessment of approved maximum prices within which price revisions were considered. Moreover, where supplies increased sufficiently, competition operated to moderate selling prices. The Ministry were therefore of the opinion that the industry was not obtaining any significant benefit from uncosted productivity gains which might otherwise accrue to the Exchequer and they doubted whether a study of individual producer costs and prices would be worth while.

Q. 3651,
3658, 3688,
3714.

Q. 3699-703.

27. Your Committee were informed that over the years 1938 to 1956 the consumption of lime for agricultural purposes had increased from just over 1 million to 6.2 million tons and that the pattern of grades supplied had changed considerably. The Ministry did not think that a new cost investigation was desirable; all the general evidence they had indicated that the price increases which had been allowed to rank for subsidy had been moderate and they were satisfied that producers were making no higher rate of profit than they were in 1937, when an investigation was made into their costs. The Ministry admitted, however, that the profits of individual producers had not then been investigated and that subsequent investigations had been undertaken only to check applications for increased prices against increases in costs.

28. Your Committee do not find the Ministry's arguments convincing. They note the very large increase in consumption for agricultural

purposes and the change in the pattern of supplies over the years, and they consider that these changes must give rise to doubt as to the present adequacy of the system of adjusting prices against increased costs by use of formulæ derived from the cost investigation of 1937, when the pattern of production was so different. Moreover, it appears that the Lime Technical Officers who examine and advise on applications for increased prices are primarily concerned to verify increases in cost and to assess their effect on the cost of the finished product: they do not ascertain profit margins and establish that prices are fair and reasonable. It also appears that, while competition may operate to moderate prices in some areas, in others its effect is limited by the cost of transport which is a large element in total cost.

Q. 3726-32.

Q. 3686.

29. Your Committee therefore recommend that the Ministry should from time to time exercise their right to test the approved prices of selected individual suppliers against their actual costs of production in order to ensure that those prices are no more than fair and reasonable.

INVESTIGATION OF EGG PACKERS' COSTS

30. The Committee of Public Accounts of Session 1955-56 referred in their First Report to the use of commercial packing stations, as an interim arrangement, for discharging the Ministry's obligation to egg producers under the guarantee provisions of the Agriculture Act, 1947. They did not regard this arrangement as satisfactory for the reason that virtually all the financial risks were run by the Exchequer and they expressed the hope, which was shared by the Treasury in their Minute of the 15th December, 1955, that permanent arrangements more adequately safeguarding the interests of the Exchequer would be introduced. Permanent arrangements were eventually introduced as from the 30th June, 1957, when the British Egg Marketing Board assumed responsibility for the administration of the guarantee, which now takes the form of a guaranteed price for eggs inclusive of packers' margins for expenses and profit and all other administration costs.

Q. 3806.

31. In April, 1956, before negotiations following cost investigations in 1954 and 1955 had been completed, the Ministry informed the Treasury that a further assessment of packers' costs was desirable before an Egg Marketing Board assumed responsibility for administering the guarantee. In May, 1956, the Ministry informed the Committee of Public Accounts that they had decided to institute a new investigation of current costs. This investigation, however, had not been completed by the 30th June, 1957, when the British Egg Marketing Board began to operate, and it was not until February, 1958, that the provisional results of the costings became available.

C. & A.G.'s
Civil Report
(Classes
VI-X),
Paras. 69-70.

32. Your Committee were informed that the provisional results revealed a gross profit of 8½d. per long hundred (120 eggs) in excess of the profit which the Ministry had previously regarded as reasonable, viz., 1½d. per long hundred. The costings results, however, had not been discussed with the packers, and the Ministry considered that various adjustments which ought to be made would reduce the excess profit to 5½d. per long hundred—about £1¼ million on a year's throughput. No provision for recovery of any such excess profit had been made, either with the packers or the Egg Marketing Board. The Ministry did not think that the failure to get the cost investigation completed before the Egg Marketing Board took over had resulted in any significant extra cost to the Exchequer. The results were available in time for

Q. 3802-3.

Q. 3829.

Q. 3806.

the 1958 Annual Price Review and were considered with other factors when the guaranteed price for eggs for 1958-59 was reduced by 1½d. per dozen.

Q. 3804,
3807.

33. Your Committee regret, however, that up-to-date information on packers' costs was not obtained in time for the determination of the guaranteed price to the Egg Marketing Board for 1957-58. The need for such information was foreseen in April, 1956, and the big increase in the throughput of eggs plainly indicated the desirability of review. In the circumstances Your Committee are surprised that the element for administration in the guaranteed price was not made provisional and subject to adjustment in the light of the costings results. It appears from the provisional results that packers' profits have been some four times as great as intended and Your Committee find it difficult to believe that the guaranteed price to the Board and therefore the cost to the Exchequer would not have been reduced had the results been available in time.

MILK SUBSIDY: DISTRIBUTORS' REMUNERATION

C. & A.G.'s
Civil Report
(Classes
VI-X),
Paras. 71-74.

34. The Exchequer subsidy on milk is broadly the amount by which the net revenue derived by the Milk Marketing Boards from their sales of milk falls short of the value, at the appropriate guaranteed prices, of the quantity of milk acquired from producers. In England and Wales the price at which the Board makes milk for liquid consumption available to distributors is the maximum retail price, prescribed by Statutory Instrument, less a basic retailers' margin. The Board's net revenue is calculated on this selling price to distributors, less certain allowances to those distributors who carry out marketing functions (e.g. heat treating milk) not covered by the retailers' margin. Thus any change in the margin or allowances produces a corresponding variation in the Board's net revenue and is reflected in the deficiency to be borne by the Exchequer.

35. The margin and allowances are negotiated with the trade in the light of the results of sample costings; they are designed to cover distributors' costs and secure for each of the main groups of distributors, viz., retailers, wholesalers and depot proprietors, a target rate of profit. In the sample costings of retailers for 1955-56 only 85 out of a total of 40,000 retailers were costed; the average profit was stated to be 1.741d. per gallon as compared with the target profit of about 1½d. per gallon: but the results for individual firms ranged from a loss of 6d. to a profit of over 6½d. per gallon.

Q. 3849,
3872.

36. The Ministry stated that, in selecting samples for costing, they had endeavoured to obtain results from as wide a range of distributors as possible, taking into account such factors as the function performed, size of business and geographical situation. They admitted, however, that, because the target margins had been developed historically in relation to a specific sample which started, on a much smaller scale, at the beginning of the war, they had endeavoured to preserve that sample, with the object of ascertaining trends in costs, rather than have a sample which accurately reflected the present position as a whole. In these circumstances it appears to Your Committee that the results of the cost investigations must, to say the least, be of very doubtful validity. Moreover they note that a misleading impression of extreme accuracy was given to these results by working out the ascertained profit of retailers to one-thousandth of a penny although,

Q. 3832-6,
3847-8.

owing to the size and nature of the sample, it could not be determined more accurately than within two-fifths of a penny (equivalent to £2 million on total gallonage).

37. Your Committee regard it as highly unsatisfactory that the substantial sums involved in retailers' margins and allowances should be determined by costings of so small a sample selected upon so inadequate a statistical basis. The greatest care should be taken to see that the costings samples on which large payments of grant or subsidy are based are selected on proper statistical advice. They therefore recommend that the basis on which the necessary information is obtained be improved.

FINANCIAL ARRANGEMENTS WITH THE POTATO MARKETING BOARD

38. Since July, 1955, the guarantee given under the Agriculture Act, 1947, to producers of home-grown potatoes has been implemented by means of a support price system operated, except in Northern Ireland, by the Potato Marketing Board. The support prices at which the Board may be required to purchase potatoes offered by registered producers are fixed each year by the Minister of Agriculture, Fisheries and Food and the Secretary of State for Scotland under the Potatoes (Guaranteed Prices) Order, 1955. The Order also authorises the Ministers to pay to the Board such proportion as they may prescribe of any trading loss incurred by them in implementing the guarantee arrangements, including such of the Board's administrative costs as are attributable to buying and selling potatoes under the Scheme. The Ministers agreed to pay 95 per cent. of any such loss.

C. & A.G.'s
Civil Report
(Classes
VI-X),
Paras. 80-89.

39. The Ministry informed the Comptroller and Auditor General that this proportion had been determined in the light of the Government view that the Board should have a financial incentive to operate as economically as possible and should therefore accept a proportion of any trading loss. This proportion, while high enough to constitute a real incentive to economy, should not be so high as to cripple the Board in its "non-guarantee" functions or expose the Government to the charge that the growers themselves were bearing an undue part of the cost of the guarantee; it was to be significant not only in relation to the total trading loss but also in relation to the Board's income, which is limited by the Scheme to the proceeds of a maximum levy of £1 per acre of registered production, i.e. about £750,000 a year. The Ministers assumed that a trading loss of about £2 million (on a surplus of the order of 200,000 tons) would not be an uncommon experience and after considering rates of 15 and 10 per cent. they had decided on 5 per cent. This means that for each £1 million of trading loss the Board will have to find £50,000, i.e. approximately seven per cent. of its own maximum income.

40. The losses on the first three crops dealt with under the Scheme, excluding administrative expenses, have been £439,000 (1955), £12,868,000 (1956) and £250,000 (1957, estimated), of which 95 per cent. will fall on the Exchequer.

Q. 3927.

41. The Board's administrative expenses for the year ended 30th June, 1956, totalled £538,319, of which £338,319 was accepted by the Ministry as attributable to the guarantee arrangements and therefore eligible for the Exchequer contribution of 95 per cent. (£321,403). As the actual tonnage purchased by the Board in the year under the

guarantee was some 45,000 tons, the accepted administration costs represented nearly £8 per ton purchased. The Ministry also agreed to pay one-half of the remaining £2,000 for other services rendered by the Board.

Q. 3955.

42. The Ministry, whilst agreeing that the cost to the Exchequer per ton of surplus potatoes was high for the 1955 season, pointed out that the organisation necessary to implement the guarantee had to be maintained whether or not there were surplus potatoes and the administrative costs of dealing with (say) a surplus of a million tons would be relatively little higher than for 45,000 tons. Moreover the Board's administrative costs incurred in implementing the guarantee were so completely involved with those of the Board's other functions that nothing approaching a precise allocation was possible, and the Ministry were unable to say that the sum of £338,319, which had been accepted, related solely to expenditure incurred in implementing the guarantee. The total payment finally made to the Board (£421,403) was a compromise which broadly had the effect of sharing equally between the Ministry and the Board the saving due to merging the operation of the guarantee with the Board's inherent functions. The cost of the latter was estimated at £200,000 towards which the Ministry contributed £100,000: the justification for this contribution was that certain of the Board's functions, such as the maintenance of a register of producers, and the carrying out of censuses, were of importance in relation to the Minister's general responsibility for ensuring adequate supplies of potatoes at reasonable prices.

43. Your Committee note the considerations which led to the decision that the Exchequer should pay 95 per cent. of the expenses incurred by the Board in implementing this guarantee, but they have grave doubts whether the contribution by the Board of so small a proportion as 5 per cent. provides a real incentive to operate the Scheme as economically as possible. Furthermore, they regard it as unsatisfactory that no precise allocation of the Board's administrative expenses can be made, with the risk that the payments to the Board may be more than is justified by its services to the Ministry. In the year ended 30th June, 1956, the Exchequer contribution left only about £120,000 as the cost of the Board's services to producers to be met from the Board's own income of nearly £700,000.

Q. 3915,
3924, 3928,
3933, 3951,
3983.

44. Your Committee were therefore glad to learn that proposals for a new guarantee system were under consideration. They recommend that any new financial arrangements should provide a more adequate incentive to the Board to reduce the cost of the guarantee, both as regards the buying and selling of potatoes and the expenses of administration.

CLASS IX. VOTE 4—CIVIL AVIATION

BLACKPOOL (SQUIRES GATE) AERODROME

C. & A.G.'s
Civil Report
(Classes
VI-X),
Paras.
120-122.

45. Blackpool (Squires Gate) Aerodrome, for which the Ministry of Civil Aviation became responsible immediately after the war, was originally a municipal grass airfield which had been requisitioned and developed by the Air Ministry, a State-owned aircraft factory being built on adjoining land. In 1951 the Ministry of Supply arranged for the factory to be occupied by a firm producing military aircraft under

the rearmament programme ; and at about the same time it was decided that the State should acquire the land forming the aerodrome.

46. The aerodrome was used extensively for charter and private and club flying but not at all by the Airways Corporations. The Ministry of Civil Aviation therefore considered that purchase by them would be a departure from their policy which envisaged the retention or purchase only of aerodromes from which the Corporations operated scheduled services. It was, however, decided that the State's ownership should be in the name of the Ministry and by 1956 purchase of the 421 acres of land held on requisition (mainly from Blackpool Corporation) had been completed at a cost of £201,142 plus £72,619 for road diversions. In addition the Ministry of Supply expended some £539,000 on additional land and construction work for a new runway to meet the needs of the aircraft factory.

App. 5.

47. The aerodrome has operated regularly at a loss, which in 1956-57 amounted to about £100,000 (inclusive of interest on capital, depreciation, etc.) after taking account *inter alia* of landing fees of £13,575.

48. Your Committee were informed that the 1951 decision to acquire the aerodrome land was taken not only to ensure flying facilities for the aircraft factory and to safeguard the assets on the aerodrome (which had cost about £½ million) but also to ensure continued availability of the airport for existing and potential civil traffic. The Ministry of Civil Aviation were advised that if the aerodrome had been derequisitioned compensation of the order of £150,000-£200,000 might have been payable and they thought that reinstatement conditions at least as onerous would have fallen on the Department if a leasehold interest had been taken. Moreover a leasehold interest would have fettered the freedom of the Ministry to develop and improve the aerodrome. Legally and practically the land could have continued on requisition at a rental of £2,694 per annum but this would have been contrary to Government policy of terminating requisitions as soon as possible ; moreover, the annual uncertainty as to the duration of requisitioning powers increased the importance of terminating the requisition. The decision that the aerodrome should be acquired and operated by the Ministry of Civil Aviation was agreed between the Treasury, the Ministry of Supply and the Ministry of Civil Aviation and the deciding factor was that use of the aerodrome was likely to remain predominantly civil. The Ministry of Transport and Civil Aviation admitted, however, that it would not have been purchased purely for civil aviation purposes. The high price paid for the land (averaging £478 per acre) resulted from a decision that its value should be assessed on the basis that the "prevailing use" was "residential", probably the highest value that could be put on it.

App. 5.
Q. 2212-3,
2290-3.Q. 2222-8,
2290-1,
2293-5.

49. Your Committee were further informed that the aircraft factory was in process of being vacated and that it was not known whether the Ministry of Supply would require it for another tenant, and if so whether the new tenant would want the use of the aerodrome. The Ministry of Transport and Civil Aviation could see no prospect of making the aerodrome pay, and considered that if no Ministry of Supply requirement arose and if the Blackpool Corporation were not willing to acquire it, urgent consideration would have to be given to its disposal despite the capital loss involved.

Q. 2252,
2255.Q. 2217-8,
2255, 2257,
2350.

Q. 2222.

50. It is evident to Your Committee that the main and governing reason for the retention of Blackpool aerodrome was a defence requirement, i.e. the need to ensure its use to the aircraft factory. The needs of the factory, being related to the rearmament programme, appear to Your Committee to have been essentially short-term in nature such as might well have been met preferably by a lease or even, if necessary, by continuance of the requisition at least until it became certain that the power of requisition was to be terminated. Even, however, on the supposition that purchase of the aerodrome was necessary in the public interest, Your Committee are not satisfied that the decision that the Ministry of Civil Aviation should be the owner was the right one since it resulted in the charge to the Votes for Civil Aviation of substantial capital and revenue expenditure for a basic purpose which can only be regarded as a defence purpose. Future transactions, and consequently the losses in the operation of Blackpool aerodrome, will under present arrangements figure in the Aerodrome Trading Accounts which the Ministry of Transport and Civil Aviation are to prepare in accordance with a recommendation of the Committee of Public Accounts of Session 1956-57. Your Committee regard it as important that these Accounts should reflect the financial results of the Ministry's control of aerodromes necessarily operated in the interests of civil aviation, and that these results should not be distorted by factors not strictly relevant to this function.

App. 5.

51. In the light of these considerations, Your Committee recommend that, if the Ministry of Supply secure a new tenant for the factory and require continued operation of the aerodrome in the interests of defence, ownership of the land and financial responsibility for operation should be transferred to that Ministry, which already owns part of the land forming the new runway as well as the factory itself. If, on the other hand, use of the airfield by the factory is not to continue, Your Committee recommend that in view of the certainty of a continuing substantial loss on its operation consideration should be given to its early disposal.

INSTRUMENT LANDING SYSTEM EQUIPMENT FOR CIVIL AERODROMES

C. & A.G.'s
Civil Report
(Classes
VI-X),
Paras.
129-133.

Q. 2472-3.

52. In 1945 the Ministry of Supply placed a contract for the development of instrument landing system equipment of a new design for use at civil airports, and in June, 1946, with Treasury sanction, a production contract was placed for 35 sets of the equipment at an estimated cost of £350,000. The Treasury were assured by the Ministry of Civil Aviation that although development and tests of the prototype would not be completed for several months complete success would be achieved, and that there was not the slightest risk in placing an order for quantity production of the equipment which was urgently needed to replace wartime equipment. The Ministry stated that this assurance was given on the best technical advice then available; that advice had, however, turned out to be wrong.

Q. 2560.

53. Your Committee were informed that the development contract placed in 1945 by the Ministry of Supply was one of a number of contracts expressed in the most general terms for the development of prototype radio installations to give the radio or electronic industry the benefit of knowledge gained during the war and to enable it to

establish itself in this new field of work. Serious technical difficulties had delayed delivery of the prototype equipment for testing until 1949, two or three years later than the time indicated by the contractors in 1946. When in 1950 the first sets from the production contract reached the Ministry of Civil Aviation only individual components of the prototype had received type approval by the Ministry of Supply. The first two sets were brought into operational use at London Airport early in 1951 and when tested with the latest testing devices were found to be unacceptable for civil aerodromes, for which a new and more exacting performance had been introduced by the International Civil Aviation Organisation in 1949. Of the three major components, localiser transmitter, marker beacons and glidepath transmitter, only the first two could be retained in use: the glidepaths were useless and a loss of about £85,000 was expected on their disposal.

Q. 2570.

Q. 2503.

Q. 2566,
2570.Q. 2480,
2562-3.Q. 2482,
2508, 2525-6.

54. In July, 1954, the Ministry of Transport and Civil Aviation informed the Treasury that the equipment did not fulfil the standards of dependability required by the International Civil Aviation Organisation or by the Ministry's own modern standards and that it was unlikely that it could economically be "re-engineered" to bring the performance up to an acceptable degree of reliability for use at major airports. At the same time they obtained Treasury approval for the purchase of a pilot set of equipment of American design and in August, 1956, for the purchase of an improved version of the American equipment within an estimated cost of £281,750.

55. Your Committee were informed that before placing the order for equipments of American design the Ministry of Transport and Civil Aviation had carried out trials of a less costly "military" equipment which had been developed under a contract placed by the Ministry of Supply in 1951 by the firm which had supplied the equipment ordered in 1946. This "military" version had been approved in 1954 for production for use by the R.A.F. and had been giving satisfactory service in operational use since 1957. It did not, however, satisfy the Ministry's requirements for use at major civil airports, such as London Airport, which have a high density of traffic and a large number of buildings close to the runways, although it was hoped that modifications now being made would make it satisfactory for some civil airports where the density of traffic was not so great. The Ministry were satisfied, after tests by their technical officers in the United States, that the American designed equipment, which had been giving satisfactory operational service in that country for a number of years, would meet all their civil requirements. The equipment ordered by the Ministry is being produced in this country and delivery is expected to begin in 1959.

Q. 2513-6,
2542-54.Q. 2586-7.
Q. 2599.Q. 2516,
2527.Q. 2516,
2557, 2580.

Q. 2606-12.

Q. 2529.

Q. 2535-9.

56. Your Committee note that the decision to place a production order in 1946, before field trials of the prototype had been carried out, was taken on the ground that the replacement of wartime equipment was urgently necessary. As, however, the wartime equipment is still, some twelve years later, giving reasonably good results at major airports, they are not convinced that its replacement could have been by any means so urgent as to justify the procedure adopted, which led to a substantial loss of public funds. They therefore recommend that in the field of new and complicated equipment it should be a firm principle that production orders should not, except possibly in

Q. 2522-3.

cases of most vital urgency, be placed until prototypes have been fully tested in the conditions under which the equipment will be required to operate.

CLASS IX. VOTE 8—DEPARTMENT OF SCIENTIFIC AND INDUSTRIAL RESEARCH

GRANTS TOWARDS CONSTRUCTION OF A RADIO TELESCOPE

57. The Committee of Public Accounts of last Session, in paragraphs 59 to 65 of their Third Report, referred to the grants by the Department of Scientific and Industrial Research to Manchester University towards the cost of construction of the Jodrell Bank radio telescope. The estimated cost of the project had risen from £335,450 to £700,000, towards which the Department had agreed to contribute £230,000 and the Nuffield Foundation £200,000. The Department had recommended a further grant of one-half the cost above £430,000, subject to a limit of £130,000. In their Report the Committee recorded that they were told that the consulting engineers, who were employed by the University, had substantially changed the design of the telescope without discussing their plans with the University authorities. The Committee expressed their concern at the highly unsatisfactory state of affairs in which it was possible for the project to be altered substantially at greatly increased cost without the approval of the Department or of the University or even discussion with the University professor in charge.

Q. 1610-8. 58. Your Committee have now been informed that the Treasury have authorised the further grant recommended by the Department and that an additional sum of £130,000 has been paid to the University, making with previous contributions a total of £560,000. The Treasury have assured Your Committee that the balance of the expenditure for the construction of the telescope, some £130,000, will not be met out of voted moneys, directly or indirectly, but will have to be found from other sources by the University. Your Committee welcome this assurance.

App. 7. 59. Your Committee have also been informed by the Accounting Officer that, while it was his understanding at the time he gave evidence to the Committee of last Session that the University professor in charge had not been consulted on the major changes in design, he had not intended to imply that no discussions on the scientific aspects of the design took place. He was now satisfied, after discussing the matter with the University, that there was extensive consultation between the consultant engineers and the professor on questions of design and the University had authorised him to say that they associated themselves with this conclusion.

Q. 1620
(footnote).

60. In view of this further evidence, it is clear that the evidence given to the Committee of last Session was gravely inaccurate and misleading, and that there was in fact the fullest collaboration on scientific and technical matters between the consultants and the University professor. Nevertheless Your Committee cannot regard as satisfactory the financial control exercised over this scheme, either by the Department or by the University. They are, therefore, glad to learn from the Treasury Minute on the Report of the Committee of

last Session that steps are being taken to ensure close control by both the University and the Government department concerned in any future case of this kind.

MINISTRY OF DEFENCE APPROPRIATION ACCOUNT

HERTFORD BRITISH HOSPITAL, PARIS

61. The Hertford Hospital in Paris, which was founded in 1871 under a trust scheme for the benefit of indigent British subjects but closed to patients in 1952 owing to lack of funds, was taken over by the Ministry of Defence in 1954 for reconstruction and use as a military hospital for the British elements of the North Atlantic Treaty Command Headquarters in the Paris area. Some beds were to be reserved for civilians in order to secure its continuance for purposes of the Trust.

C. & A.G.'s
Ministry of
Defence
Report,
Paras. 1-6.

(i) Capital Expenditure

62. The project was approved by the Treasury on the basis of a provisional estimate made in 1953 showing that the cost of conversion would be about £106,000, towards which a contribution of £20,000 was expected from the Trust. The work of conversion was entrusted to the War Office and when full plans were drawn up in 1954, the cost was estimated at £239,000 for a hospital of 60 beds, as compared with 70 provided for in the earlier estimate. The Ministry of Defence thereupon called for a revision of the project to bring the cost closer to the original estimate. A revised scheme, omitting a sum of £45,000 for the erection of quarters for the hospital staff and estimated to cost £170,000, was accordingly prepared by the War Office and this was approved by the Treasury. When tenders for the work were obtained in 1955, however, it appeared that the cost would be £228,000. In view of this increase, the Ministry had again to seek Treasury approval for going on with the scheme and this was given after it had been pointed out that the Trustees had agreed to increase their contribution to £30,000 and the War Office had explained that their earlier estimate had been based on an incomplete appreciation of the difficulties involved in a scheme of this nature in a foreign country.

Q. 1214-6,
1230.

Q. 1217.

63. The reconstructed hospital was opened in May, 1957, and the final cost is expected to be about £261,000. To this figure should be added some £41,000 for the acquisition and adaptation of a separate building for use as staff quarters, provision for which was omitted from the revised estimate. Thus the estimated final cost of the project now totals over £300,000.

App. 8.
Q. 1221-3.

64. Your Committee were informed that the original estimate of £106,000 was made by representatives of the Ministry of Works and the War Office in the course of a local examination of the project; it was described at the time as a "very approximate total cost" and its purpose was primarily to enable comparison to be made with the costs of various alternative schemes which were then under consideration. The first firm estimate was that which was approved by the Treasury at £170,000. Even so, it appears to Your Committee that the Treasury were led to approve the scheme on the basis of an initial estimate which was entirely inadequate and subsequently found themselves committed to much greater expenditure.

Q. 1214-6,
1230.

Q. 1226.

65. Your Committee appreciate that the Treasury were under pressure to approve this project for which, it was represented, there was

Q. 1227.

an urgent need, but they are not convinced that the urgency was so great that consideration could not have been deferred until a more realistic estimate had been prepared. Previous Committees of Public Accounts have drawn attention to a number of works services which had been approved on the basis of initial estimates which were unrealistic and have expressed the hope that every effort would be made to ensure that original estimates are as realistic as possible. Your Committee recommend that Departments should defer applications for authority for new works until adequate estimates of the cost can be made, unless the urgency of the requirement is such that it would not be in the public interest to delay the project; and that, in the latter event, the Treasury should be clearly apprised of the provisional nature of the estimate and should be given a firmer estimate as soon as possible, preferably before any commitments are incurred.

(ii) *Running Costs*

- App. 9. 66. The War Office, who carried out the reconstruction, also operate the hospital for the Ministry of Defence. Your Committee inquired about the running costs and were given a memorandum showing that the gross operating costs during the first six months' working (1st May to 31st October, 1957) were at the rate of £121,412 a year. If the charge for interest on capital (£15,278) and the estimated receipts in respect of "non-entitled" civilian patients (£4,517) are deducted the annual net running cost is £101,617. The staff numbers 100, including five Army medical and eight nursing officers, and costs £74,000 a year. Of the 60 beds provided, the average number occupied to 31st March, 1958, was 15, of which six were occupied by military personnel and their dependants and nine by British civilians. For the latter the Civilian Committee of Management pay a daily standard recovery charge which was at the rate of 27s. 6d. up to 2nd May, 1958, and 55s. thereafter.
- Q. 1244. 67. Your Committee appreciate that this is a small hospital providing all kinds of treatment, but they consider the costs of running it, particularly the staff costs, extravagant when related to the average number of beds occupied. They were, therefore, glad to be assured that the Ministry intend to review the whole position in the light of the first year's experience and that, if use of the hospital does not increase, the War Office would be asked to reduce the size of the staff.
- Q. 1255.
- Q. 1245, 1247.

NAVY APPROPRIATION ACCOUNT

LEASE OF A FACTORY

- C. & A.G.'s Navy Report, Paras. 23-26. Q. 5246. 68. In November, 1953, the Treasury authorised the Admiralty to enter into the lease of a factory, then partly built but to be completed by the owners to Admiralty requirements, in order to supplement production of a special anti-fouling composition for H.M. ships. Treasury authority was given in the light of information supplied by the Admiralty as to existing production capacity and estimated future requirements. These estimated requirements included substantial additions to current consumption for insurance against war-time demands, for the application of a double coat of composition to ships instead of one in order to extend the periods between dockings, and for an expected commitment to supply Commonwealth Governments.
- Q. 5199.
- Q. 5202.

69. The proposed lease was for a period of 25 years, with an option to extend for a further 25 years, at a rent of approximately £4,000 a year. In June, 1954, however, the Admiralty sought Treasury authority to pay an increased rental and to extend the term of the proposed lease to 50 years, because certain modifications, designed to reduce fire risk, which would increase the capital cost to the owners, had proved necessary in the construction of the factory. The Treasury approved the Admiralty's proposals in a letter which summarised their understanding of information furnished orally by the Admiralty in support of their application for authority. Their understanding was that a decision had been taken to double-coat H.M. ships with this composition, that it had been decided to supply Commonwealth, and possibly N.A.T.O., countries, and that there would be sales to the United States of America. They had also been given to understand that no difficulty was foreseen about sub-letting the factory should it no longer be required for Admiralty purposes. The factory was accordingly leased for a period of 50 years from January, 1955, at a rental of £4,800 a year.

Q. 5187.

Q. 5205-6.

Q. 5222.

70. In January, 1956, at which date no commitments had been incurred for equipment of the factory, the Admiralty decided that it was no longer required. They have since entered into an understanding with a firm which will take the premises for the balance of the lease at a rental of £2,000 a year (about half the amount the Admiralty are paying for it) subject to review at seven-yearly intervals.

Q. 5220.

71. Your Committee inquired into the circumstances in which the apparently firm requirement for increased production capacity lapsed shortly after the factory had been leased for a period of 50 years. They were informed that the main consideration leading to the decision not to proceed with the scheme was a complete change in the strategic situation coupled with a reduction in the size of the fleet. In addition, during 1955 the real benefits of double-coating, on which the Admiralty had been carrying out experiments since 1951, had become more and more suspect, and the Admiralty did not feel justified in setting up the new factory to obtain an uncertain benefit.

Q. 5193.

Q. 5189,
5195, 5198.

72. While Your Committee accept that the primary reason for abandoning the scheme was a change in the strategic situation which the Admiralty could not be expected to foresee, they are not convinced by the reasons given for entering into the lease in the first place. They doubt the wisdom of leasing for 50 years a factory for the manufacture of a specialised product that might become obsolete within a comparatively short period, and they are especially concerned to find that shortly after the lease had been signed the requirements for this product were much reduced by a change in technical opinion on the value of double-coating ships. Your Committee consider it most unsatisfactory that the Admiralty should have incurred this commitment before the value of double-coating had been established beyond doubt.

73. Your Committee also note that the Treasury had approved the leasing of the factory in the expressed belief that a decision to apply two coats of the composition to H.M. ships had been taken and that it had been decided to supply Commonwealth and other countries. No firm decision had in fact been taken on double-coating and no firm orders were received from other countries. The Admiralty

Q. 5204-7,
5211-3,
5216-7.

Q. 5215.

- Q. 5217-9. admitted that, viewed in retrospect, it was reasonably clear from the correspondence that there had been some misunderstanding of the information furnished orally to the Treasury which ought to have been resolved at the time. Your Committee accept the Admiralty's assurance that there was no intention to mislead the Treasury or to take advantage of a misunderstanding; but they consider it regrettable that, before entering into the lease, the Admiralty did not correct any inaccuracies in the information on which the Treasury had specifically based their approval.

ARMY APPROPRIATION ACCOUNT

WELBECK COLLEGE

- C. & A.G.'s
Army
Report,
Paras. 19-22. 74. Welbeck College was opened at Welbeck Abbey, near Worksop, in 1953 as a boarding school, run on Public School lines, to provide a two-year course of general and scientific education for boys of about 16 preparatory to entry into the Royal Military Academy, Sandhurst. The College can take 150 pupils and was full by January, 1955.
75. The Treasury approved the scheme on the understanding that the annual running costs would be about £60,000, or £400 a pupil, after parental contributions of some £5,000 a year had been taken into account. Actual costs, however, were over £86,000 or £575 a pupil in 1955-56 (£515 after deduction of parents' contributions etc.) and nearly £99,000, or £659 a pupil (£590 net) in 1956-57. Capital expenditure has amounted to some £165,000.
- Q. 2984-6. 76. The War Office explained that, apart from maintenance of the building, the increase in running costs in 1956-57 was in line with the general rise in prices and teachers' salaries. They admitted, however, that their original assessment of the cost of maintaining a building such as Welbeck Abbey had been far too optimistic; the expenditure on this in 1956-57 was £23,000 as compared with the original estimate of £10,000. The 1956-57 figure included arrears of maintenance from the wartime occupation, but the annual cost was likely to be not less than £18,000 in future. The maximum contribution parents were required to make was £30 a term or £90 for the three terms held each year.
- Q. 3019-21.
- Q. 2984. 77. The War Office stated that they had always expected that, in order to attract the kind of pupil they wanted, they would have to provide an expensive building and that the teaching staff would also be expensive since the school was a small one and provided only for boys aged 16 to 18. The scheme's justification was that it had produced extremely good results.
- Q. 2988-9. 78. Your Committee were informed that the Admiralty and Air Ministry had schemes for attracting boys as candidates for commissions under which they paid up to £200 a year for tuition and maintenance at the boys' own school, and that it appeared that the Air Ministry were quite satisfied with the results. The War Office were, however, of the opinion that a scheme of this kind would not have produced the rather different type of recruit which they needed.
- Q. 2990-3. 79. Your Committee were also informed that the War Office had not yet completed the lease of Welbeck Abbey, but expected to do so shortly; the proposed lease would run for 42 years from September, 1953, with breaks at seven-yearly intervals, the first of which would be in 1960. The War Office had no doubt that the College would be

required after 1960, as they thought that in this way they were getting an invaluable product which they could not get in any other way.

80. Your Committee are concerned at the high cost of running this College. Moreover, they are not entirely convinced that the Army's requirements could not be met by adapting to its own special requirements the much less expensive scholarship schemes adopted by the Admiralty and Air Ministry. They therefore recommend that the need for retaining this costly establishment should be kept under constant review in the light of the changing requirements of the Army and that meanwhile the War Office should review the contributions payable by parents, which in the light of present costs of the College appear to Your Committee to be substantially less than might be reasonably demanded.

Q. 3019-26.

TERRITORIAL ARMY: GENERAL RESERVE FUNDS OF ASSOCIATIONS

81. The Associations set up under the Territorial and Reserve Forces Act of 1907 to undertake the civil and financial administration of the Territorial Army receive from Army Votes annual grants which are based partly on actual expenditure and partly on other factors such as unit strengths and the capital value of buildings.

C. & A.G.'s
Army
Report,
Paras. 29-34.

Q. 3193.

82. The War Office policy has always been to interfere as little as possible with the work of the Associations who have been allowed to spend the grants on approved services as and when they think fit and to carry forward any unspent balances from year to year. It was expected that the underspending of grants in one year would be broadly offset by overspending in later years, but in fact surpluses have accumulated, and the large balances held by Associations at 31st March, 1950, led the Committee of Public Accounts of Session 1950-51 to recommend that, before the grants provided for the current year were issued in full, the War Office should consider each Association's needs in relation to its existing balances and probable strength at the end of the year. The War Office subsequently set up a departmental committee which recommended that no fundamental change should be made in the financial arrangements with the Associations but that those Associations with general reserves in excess of 30s. a head at 31st March, 1955, should surrender the excess. Over £200,000 of the general reserves held by Associations was accordingly recovered by the War Office, and the reserves which were valued at 31st March, 1955, at over £700,000 were reduced to about £430,000 at 31st March, 1957. This represented about 34s. a head of "posted strength", but over £5 a head of volunteers and permanent staff, and some Associations held reserve funds much higher than this.

Q. 3115,
3133-4.

Q. 3154.

83. Your Committee welcome this reduction so far as it goes. The Treasury stated that the original intention was probably that surpluses should be kept in a form readily available to meet any emergency and the War Office admitted that the only contemporary justification for these reserves was their use as working capital. As, however, the reserves are largely invested in long-term and undated securities as a source of additional income, it would not appear that their retention for working capital is essential. Moreover, the policy of allowing Associations to retain these funds for investment involves the risk of loss through depreciation of securities; indeed, Your Committee were informed that a loss of over £32,000 had been sustained by Associations

Q. 3138-9.

Q. 3154.

Q. 3159.

Q. 3117-8,
3162.

Q. 3127-8.
App. 11.

who were obliged to sell securities in order to make the refunds required by the War Office.

App. 11.

Q. 3139,
3143-4.

84. Your Committee note that the grants to Associations, which amount to nearly £5 million annually (excluding those for land and buildings, surpluses on which do not accrue to general reserve funds), are akin to grants in aid in that any unexpended balances are not required to be surrendered, but it would appear that Parliament and the Treasury have even less control over them than over grants in aid. In the latter case the terms of the Estimates provide for the non-surrender of balances and, for that reason, it has long been the accepted practice to restrict issues from grants in aid to the actual requirements for the year. The grants to Associations, on the other hand, are generally issued in full without regard to needs, and there is no note in the Army Estimates to indicate that they are not surrenderable and that expenditure is not subject to audit by the Comptroller and Auditor General.

Q. 3138-42.

85. Your Committee were assured that these matters, together with the question of the general level of the reserves, would be looked into when the Territorial Army had settled down again as a volunteer force, and that meanwhile the War Office would consider restricting the issues of grants to Associations with large reserves. They trust that effect will now be given to the recommendation made by the Committee of Public Accounts of Session 1950-51 regarding the restriction of issues.

.3162,
3165, 3169.

86. Your Committee appreciate that, after fifty years during which the grants to Associations have been treated as non-surrenderable, it might now be difficult to treat them as ordinary grants. They consider, however, that in advance of the proposed review of the financial arrangements, the War Office and Treasury should regularise the present practice by inserting an appropriate note in the Army Estimates. Furthermore, if it appears that, despite the restriction of issues of the grants, Associations still have unexpended balances to invest, they should be advised to invest only in short term securities where there is little risk of capital depreciation.

SUPPLY OF STORES TO CENTRAL ORDNANCE DEPOTS

C. & A.G.'s
Army
Report,
Paras. 49-51.

87. At the Central Ordnance Depot, Didcot, there was a provisioning section responsible for the initial supply of furniture and household equipment for newly built quarters, etc., and another responsible for maintenance supplies of the same stores. As each section ordered stores without ascertaining what stocks were held by the other, a number of unnecessary orders were placed. For example, 2,050 blankets, value £5,125, were ordered by one section at a time when a surplus of 14,742 of the same type was held by the other (this order was subsequently cancelled), and orders were placed unnecessarily for 370 dressing chests costing over £4,000 which resulted in surpluses for disposal.

Q. 3314-8.

88. Your Committee were glad to be informed that in future there will be only one section responsible at this Depot for both initial and maintenance supplies of furniture, etc., and that the War Office thought there was no danger of similar overlapping elsewhere. They trust that this belief is justified. They were also informed that a committee appointed by the Minister of Defence were now considering the possi-

Q. 3341.

bility of arranging for one Department to act as stockholder of furniture for all three Service Departments, furniture having been chosen simply as a trial run. Your Committee hope that similar arrangements will be considered for any other stores in use by more than one Department, such as, for example, boots, which are the subject of the following paragraphs.

SUPPLY OF BOOTS

89. The War Office, in 1955, ordered from the Ministry of Supply 500,000 pairs of boots and 500,000 pairs of half-soles to the estimated total value of £980,000. The order was placed at that time to use up stocks of special leather reserved by the Ministry of Supply and to maintain continuity of production until orders could be placed for a new type of boot which was being developed. The quantity ordered was meant to be the smallest order which would keep production open but the War Office thought it was within their needs, notwithstanding the fact that the provisioning depot had calculated the requirements at only 200,000 pairs of boots.

C. & A.G.'s
Army
Report,
Paras. 52-58.

Q. 3357.

Q. 3351-2.

90. In April, 1956, there was a reduction in the requirements for reserves and in the following June the depot suggested cancellation of that part of the order, 317,000 pairs of boots and 235,000 pairs of half-soles, which had not then been placed to contract. By this time it was known that the original order had been based on a seriously over-estimated figure of requirements, and that there was such an enormous stock of boots and half-soles in hand that there was no longer any prospect of maintaining continuity of production until orders for the new boot could be placed. The War Office, nevertheless, declined to cancel any part of the order on the ground that continuity of production must be maintained and that cancellation would have involved a loss on disposal of the Ministry's stocks of leather.

Q. 3366-7,
3394.

Q. 3385.

91. In December, 1956, however, there was a reduction in the level of the stocks to be retained for peace-time maintenance and a further reduction in the level of war reserves. The War Office therefore cancelled the balance of their order on the Ministry of Supply, amounting to 160,000 pairs of boots, which had not then been placed to contract. They calculated that this would leave them with a surplus of some 1.25 million pairs of boots and 1.08 million pairs of half-soles, of which 157,000 pairs of boots and 235,000 pairs of half-soles derived from orders which might have been cancelled in June, 1956. The War Office informed Your Committee that, as the stocks were there, they had decided to keep the equivalent of 9½ years' peace-time requirements as ordinary and war reserves, and on this basis the surplus for disposal would be about 950,000 pairs of boots and no half-soles.

Q. 3360-1,
3386.

Q. 3371-2.

92. Your Committee fail to understand why the War Office should have ordered in 1955, when there were no unusually pressing circumstances, a far greater quantity of boots and half-soles than was warranted by the provisioning depot's calculations, particularly as this was done without any attempt to find an explanation of the difference between the depot's and their own figure of requirements. They were glad to be assured by the War Office that there was now a much closer contact between the depots and themselves and that in future the War Office would not attempt to calculate requirements on their own without reference to the calculations on which the depots base their orders.

Q. 3355.

Q. 3367-8,
3402.

93. Furthermore, Your Committee regret that the War Office did not consult the Treasury in June, 1956, before they rejected the depot's request for cancellation of the orders not then placed to contract. By that time it was known that the assumptions on which the Treasury had approved the orders were no longer valid, and Your Committee agree with the Treasury that they should have been informed of the changed position before further commitments were incurred.

Q. 3373.

94. Your Committee note that the Air Ministry in 1956 placed orders on the Ministry of Supply for the same type of boot as was ordered by the War Office. They were informed that, as these orders were placed before the War Office had actually declared a surplus, the War Office were not asked by the Air Ministry or the Ministry of Supply if they could supply the boots from their stock. The War Office stated that the possibility of improving their complicated system by an extension of systems of common stock-holding was under investigation, and that they now held foodstuffs and reserve petrol for motor vehicles for the R.A.F. Your Committee recommend that these investigations should be vigorously pursued.

Q. 3256,
3374.

PARLIAMENTARY CONTROL OF WORKS SERVICES

C. & A.G.'s
Army
Report,
Paras. 59-62.

95. Following a recommendation by the Committee of Public Accounts of Session 1952-53, Supplementary Estimates for additional expenditure on major works services are presented as far as possible in the same detail as the original Estimates, which, under present arrangements, show the proposed expenditure under a number of bulk headings. This procedure, however, was not regarded by the War Office as applicable to Supplementary Estimates which show a net reduction in the total expenditure. Thus the Army Supplementary Estimate (H.C. 47 of 1956-57) of 22nd January, 1957, which showed a net reduction in the total expenditure on major works services, did not give details of the variations under the individual bulk headings set out in the original Estimates. This information was, however, given in Appendix II to the Army Appropriation Account, which shows that although provision overall was reduced, provision under certain bulk headings was substantially increased. Furthermore, the Supplementary Estimate of January, 1957, did not indicate that the estimated total cost of new works to be started in the year had been reduced from £34.8 million to £8.9 million or that the revised total covered a number of new works not provided for in the original Estimates.

Q. 3409-10.

Q. 3419.

96. The War Office had regarded the passing of the Supplementary Estimate as providing Parliamentary approval of all new works services taken into account when the Supplementary Estimate was prepared (including new services not provided for in the original Estimates). Accordingly, the note to the Account for 1956-57 recording expenditure of £65,720 on new works not provided for in Estimates, but started in the year on grounds of urgency in the public interest, refers only to those newly-started services which had not been allowed for in the preparation of the Supplementary Estimate. The War Office also confirmed that the note covered only expenditure on major works, although the note itself refers to Vote 8, Subhead A, which provides also for minor works and for repairs, etc. In the Navy and Air Estimates such minor services are provided for under separate subheads of the Works Vote.

Q. 3412-8,
3423.

97. Your Committee were given to understand that the Treasury would consult the Select Committee on Estimates about these matters affecting the form of the Estimates and, subject to the views of that Committee, they recommend that the rule requiring Supplementary Estimates for expenditure on major works services to be presented in the same detail as original Estimates should be applied even if a reduced estimate is shown. They also recommend that the provision made in Army Estimates for works services should be sub-divided, as is done in the Navy and Air Estimates, into separate subheads for major works, minor works and repairs and maintenance, with a view to providing Parliament with more detailed control. Q. 3424.

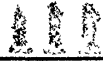
DISPOSAL OF PROPERTY ON ABOLITION OF A.A. COMMAND AND RE-ORGANISATION OF THE TERRITORIAL ARMY

98. When A.A. Command was abolished in 1954, a large number of installations such as Operations Rooms, Storage Depots and Territorial Army Centres became available for other uses or for disposal, but very few have yet been finally disposed of. C. & A.G.'s Army Report, Paras. 35-41, 63-66.

99. The War Office explained that most of the Operations Rooms were on offer to other Departments and, since their disposal value in the open market was but a fraction of their cost or potential value for defence, they thought it worth while spending money on maintaining them for a reasonable period while those Departments were considering whether they had a use for them. As regards Storage Depots the War Office were themselves keeping 100 for possible use in place of less suitable depots: firm plans could not be made pending the settlement of policy on the level of stocks to be retained and their dispersal in the light of the changes foreshadowed in the Defence White Paper of 1957. The total number of depots declared redundant had increased to 50 of which seven had been disposed of, 17 were up for sale and 26 were at various stages in the normal machinery for disposal. Q. 3435.

100. The decision to surrender redundant Territorial Army Centres was primarily a matter for the County Associations, and the War Office attributed the slow progress made in disposing of them to the Associations' justifiable reluctance to give up any Centre until it was reasonably clear what their requirements would be when the current reorganisation of the Territorial Army as a wholly volunteer force was completed. Premature disposal would be uneconomic since the cost of replacing a Centre would be very much greater than its disposal value. Of the 1,709 Centres held at 30th June, 1954, 139 had been disposed of or transferred to other use, 37 were in process of disposal and 33 were reported as not in use. Though not dissatisfied with the progress made, the War Office had been pressing Associations to surrender surplus property and they intended to make frequent reviews with a view to closing Centres with few volunteers. Q. 3432 (footnote)

101. Your Committee appreciate the need to avoid hasty decisions to dispose of property which may later be required, but in view of the cost of maintenance they trust that decisions as to future requirements will be speeded up and that properties declared redundant will be disposed of without delay. Q. 3211, 3214-5. Q. 3219-20, 3226, 3229-30.



POST OFFICE COMMERCIAL ACCOUNTS

PARLIAMENTARY CONTROL OF CAPITAL EXPENDITURE

102. In an appendix to their Estimate the Post Office furnish a statement analysing under a number of separate classes their estimated capital expenditure; unlike the civil departments, however, they do not give details of major works schemes. The Post Office told Your Committee that, unlike other Departments, they had never published details of their construction schemes. They considered that a long detailed list covering such items as trunk cables, exchanges and exchange extensions would not be very informative, especially as the need for particular items of work was decided upon technical assessments of traffic requirements which only the Post Office could make.

Q. 1119-20.

Q. 1123.

103. Your Committee are not convinced that there are sufficiently strong reasons why Parliament should not be furnished with information, preferably in an appendix to the Post Office Estimate, of Post Office major works. They understand that further consideration will be given to the question by the Post Office and the Treasury and they trust that as a result arrangements will be made to have this information presented in its most appropriate and convenient form.

Q. 1127,
1129-30.

INCOME FROM AGENCY SERVICES

(i) General

104. Agency services rendered by the Post Office to other Government Departments and Authorities are assessed at the full cost to the Post Office of the services rendered. In some cases this cost is recovered in cash and in others there is no cash receipt, but a credit is taken in the Post Office Commercial Accounts. In 1956-57 some of the charges were increased by 1.42 per cent. in order to recover an approximately proportionate part of the contribution of £5 million per annum which the Post Office is required from 1st April, 1956, to make to the Exchequer under the new arrangements governing the relationship between the Post Office and the Exchequer.

C. & A.G.'s Report, Post Office Commercial Accounts, Paras. 14, 15.

105. The annual contribution of £5 million was estimated to be very broadly in line with what, but for its exemption, the Post Office would have been paying in recent years by way of taxation, including income tax. It was the expressed intention that this contribution should be treated by the Post Office as an expense before striking the balance in the Income and Expenditure Account, and the Post Office informed Your Committee that they regarded it also as an expense which should be passed on to other Government Departments for whom they provide agency services in the same way as it is passed on in the tariff charges made to Post Office customers.

Q. 1169-70.

106. Your Committee would observe, however, that by adding a percentage to their charges against Government Departments the Post Office are in effect recovering from Exchequer funds some part of the £5 million fixed as their contribution to the Exchequer. Your Committee see no justification for thus reducing the agreed contribution, and they consider it particularly unjustifiable to treat as an expense to be taken into account in making charges to other Government Departments that part of the £5 million which represents income tax and profits tax. They accordingly recommend that the practice be reconsidered by the Treasury and the Post Office.

(ii) Management Expenses of Premium Savings Bonds

107. The amount brought to account by the Post Office for management expenses of Premium Savings Bonds represents the assessed costs increased by 1.42 per cent. for the Exchequer contribution (described in paragraph 104 above) but with the addition of a further 5 per cent. The Post Office explained that they accepted the management of this savings scheme reluctantly as it would not only place a considerable burden on their counter staff but also, through the technical effort required for the development and construction of the Electronic Random Number Indicator Equipment ("Ernie"), put back their own work on the development of electronic-type telephone exchanges. They therefore made it a condition of taking on the work that they should be given a small profit on it.

C. & A.G.'s
Report,
Post Office
Commercial
Accounts,
Para. 16.
Q. 1187-8.

108. It is the normal rule, with which Your Committee are in full agreement, that settlement for services between Government Departments shall be on the basis of cost or extra cost without the addition of any profit element. The Treasury did not think that this 5 per cent. addition was in keeping with the new arrangements between the Post Office and the Exchequer, but they had regarded it as a special case and had made it clear to the Post Office that it was not to be treated as a precedent. Although the amount involved is small, Your Committee regard the principle as important and they consider that the reasons given by the Post Office provide no justification for departing from it by adding a profit element to the Department's costs of managing this savings scheme.

Q. 1191.

CROWN LANDS—CROWN ESTATE ABSTRACT ACCOUNTS**LEASE OF HOUSES IN CUMBERLAND TERRACE, REGENT'S PARK**

109. In 1951 negotiations were begun between the University of London and the Commissioners of Crown Lands with the object of making available a part of the Regent's Park Terraces for conversion for use as a hostel for students. In June, 1953, the University, through its agents, made a definite offer to the Commissioners to take a full repairing lease of the 33 houses in Cumberland Terrace for a period of 60 years from October, 1954. The houses were to be taken over in their existing condition and adapted by the University at a cost expected to average not less than £2,000 per house. The Commissioners were to give possession of 24 of the houses at the commencement of the lease and, as soon as a binding agreement had been reached, to negotiate for the acquisition of the leasehold interests of the remaining nine houses.

C. & A.G.'s
Report,
C.L.-C.E.
Abstract
Accounts,
Paras. 1-6.

110. This offer was not formally accepted in writing by the Commissioners, but in August, 1953, they informed the University that the Treasury had authorised completion of negotiations and in December, 1953, they sent to the University a draft agreement for lease. Meanwhile they began to acquire the outstanding leases and to obtain possession of houses let to the Ministry of Works.

Q. 1929.

111. In February, 1954, the University informed the Commissioners that their architect had advised them not to accept a full repairing liability unless the terrace was first put into a proper state of repair: he considered that some £200,000 would have to be spent on structural repairs in addition to £200,000 for the work of conversion to hostel

use, an outlay of some £12,000 a house compared with the £2,000 contemplated in June, 1953. In the light of this advice the University had reluctantly come to the conclusion that they could not proceed with the scheme. There followed protracted negotiations between the Commissioners and the University on the basis of possible modifications in the conditions of the original offer but eventually the University indicated that they would prefer to abandon the project.

- Q. 1928-9. 112. Your Committee were informed that the Commissioners had acted on the understanding that the University would adhere to the offer they had made, although no formal acceptance of it had been sent. Nearly £18,000 had been spent on buying in outstanding leases. That expenditure would not be nugatory because the leases would have had to be acquired eventually under present plans for converting the terrace. They had however been purchased about three years before they need have been and losses of rents and expenses of maintenance of empty properties had been incurred at the rate of some £9,000 per annum, which ultimately would fall on the Exchequer.
- Q. 1908. The Commissioners had been advised by Counsel that they had no legal claim against the University.
- Q. 1916.
- Q. 1909-10.
- Q. 1900.
- Q. 1933. 113. Your Committee appreciate that the Commissioners were under considerable pressure from the University to obtain possession of the houses and had little reason to expect a break-down of negotiations after the University's definite offer was received in June, 1953. They consider, however, that the Commissioners were not free from blame in that they did not formally accept the University's offer and allowed 6 months to elapse before sending them the draft agreement for lease. They are particularly concerned that expenditure should have been incurred on the purchase of leases without a binding agreement with the University and that losses resulted in consequence. Your Committee wish therefore to stress the view expressed by previous Committees of Public Accounts, and endorsed by the Treasury, that in arrangements of this kind firm and binding agreements should be made before commitments are incurred.

24th July, 1958.

PROCEEDINGS OF THE COMMITTEE

TUESDAY, 26TH NOVEMBER, 1957

Members present:

Mr. Benson	Mr. Steele
Colonel Crosthwaite-Eyre	Mr. Stevens
Mr. Hoy	Mr. Thornton
Mr. Oliver	Mr. Thornton-Kemsley
Mr. Peyton	

Mr. Benson was called to the Chair.

The Committee deliberated.

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

[Adjourned till Thursday, 12th December, at Four o'clock.

THURSDAY, 12TH DECEMBER, 1957

Members present:

Mr. Benson, in the Chair

Mr. Collins	Mr. Stevens
Mr. Hoy	Mr. Thornton-Kemsley
Mr. Oliver	Mr. West

Revenue Departments Appropriation Accounts, 1956-57; Vote 2, Inland Revenue, considered.

Sir Henry Hancock examined.

Mr. P. J. Curtis also examined.

[Adjourned till Thursday, 30th January, 1958, at Four o'clock.

THURSDAY, 30TH JANUARY, 1958

Members present:

Sir George Benson, in the Chair

Mr. Arbuthnot	Mr. Peyton
Colonel Crosthwaite-Eyre	Mr. Ramsden
Mr. Hoy	Mr. Steele

The Committee deliberated.

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

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

Paragraphs 1 and 2 read and agreed to.

Appendices agreed to.

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

Exchange Equalisation Account, 1956-57, considered.

Sir Leslie Rowan and Mr. R. F. Lloyd examined.

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

THURSDAY, 6TH FEBRUARY, 1958

Members present:

Sir George Benson, in the Chair

Mr. Arbuthnot	Mr. Ramsden
Mr. Collins	Mr. Stevens
Colonel Crosthwaite-Eyre	Sir Colin Thornton-Kemsley
Mr. Hoy	

Civil Appropriation Accounts, 1956-57; Class V, Vote 5, National Health Service, England and Wales and Vote 11, National Health Service, Scotland, considered.

Sir John Hawton and Mr. J. Anderson examined.
Sir Frank Tribe and Mr. J. Macpherson also examined.

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

THURSDAY, 13TH FEBRUARY, 1958

Members present:

Sir George Benson, in the Chair

Mr. Arbuthnot	Mr. Steele
Mr. Collins	Mr. Stevens
Colonel Crosthwaite-Eyre	Sir Colin Thornton-Kemsley
Mr. Hoy	Mr. West
Mr. Peyton	

Statement of Excess, 1956-57, Navy, considered.

Sir John Lang examined.

Statement of Excess, 1956-57, (Civil Appropriation Accounts, Class X, Vote 5, National Assistance Board), considered.

Civil Appropriation Accounts, 1956-57; Class III, Vote 9, County Courts, considered.

Sir George Coldstream examined.

Sir Frank Tribe and Mr. J. Macpherson also examined on all the Accounts considered this day.

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

THURSDAY, 20TH FEBRUARY, 1958

Members present:

Sir George Benson, in the Chair

Mr. Arbuthnot	Sir Colin Thornton-Kemsley
Mr. Ramsden	Mr. West
Mr. Stevens	

Civil Appropriation Accounts, 1956-57; Class II, Vote 9, Colonial Services, considered.

Sir John Macpherson and Mr. A. N. Galsworthy examined.

Overseas Resources Development Acts, 1948 to 1956, Account, 1956-57, and the Colonial Development Corporation Accounts, 1956, examined.

Sir John Macpherson, Mr. A. N. Galsworthy and Mr. W. Rendell examined.

Sir Frank Tribe and Mr. J. Macpherson also examined on all the Accounts considered this day.

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

THURSDAY, 27TH FEBRUARY, 1958

Members present:

Sir George Benson, in the Chair

Mr. Arbuthnot	Mr. Ramsden
Colonel Crosthwaite-Eyre	Mr. Stevens
Mr. Oliver	Sir Colin Thornton-Kemsley
Mr. Peyton	Mr. West

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

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

Paragraphs 1 to 11 read and agreed to.

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

Civil Appropriation Accounts, 1956-57; Class V, Vote 1, Ministry of Housing and Local Government, and Vote 2, Housing, England and Wales, considered.

Dame Evelyn Sharp examined.

Civil Appropriation Accounts, 1956-57; Class V, Vote 3, Exchequer Grants to Local Revenues, England and Wales, and Vote 13, Exchequer Grants to Local Revenues, Scotland, considered.

Dame Evelyn Sharp and Sir William Murrice examined.

New Towns Acts, 1946 and 1955, Accounts, 1956-57, considered.

Dame Evelyn Sharp examined.

Sir Frank Tribe and Mr. J. Macpherson also examined on all the Accounts considered this day.

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

THURSDAY, 6TH MARCH, 1958

Members present:

Sir George Benson, in the Chair

Mr. Arbuthnot	Mr. Ramsden
Colonel Crosthwaite-Eyre	Mr. Stevens
Mr. Oliver	Sir Colin Thornton-Kemsley
Mr. Peyton	Mr. West

Revenue Departments Appropriation Accounts, 1956-57; Vote 3, Post Office, and the Post Office Commercial Accounts, 1956-57, considered.

Sir Gordon Radley and Mr. K. Anderson examined.

Sir Frank Tribe and Mr. J. Macpherson also examined.

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

TUESDAY, 11TH MARCH, 1958

Members present:

Sir George Benson, in the Chair

Mr. Arbuthnot	Mr. Stevens
Mr. Collins	Sir Colin Thornton-Kemsley
Mr. Oliver	Mr. West
Mr. Peyton	

Ministry of Defence Appropriation Account, 1956-57, considered.

Sir Richard Powell examined.

Civil Appropriation Accounts, 1956-57; Class I, Vote 16, National Savings Committee, considered.

Mr. E. C. H. Jones examined.

Sir Frank Tribe and Mr. J. Macpherson also examined on all the Accounts considered this day.

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

THURSDAY, 13TH MARCH, 1958

Members present:

Mr. Arbuthnot	Sir Colin Thornton-Kemsley
Colonel Crosthwaite-Eyre	Mr. West
Mr. Ramsden	

In the absence of Sir George Benson, Sir Colin Thornton-Kemsley was called to the Chair.

Civil Appropriation Accounts, 1956-57; Class VI, Vote 1, Board of Trade, and Vote 2, Board of Trade, Assistance to Industry and Trading Services, considered.

Sir Frank Lee examined.

Sir Frank Tribe and Mr. J. Macpherson also examined.

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

TUESDAY, 18TH MARCH, 1958

Members present:

Sir George Benson, in the Chair	
Mr. Arbuthnot	Mr. Peyton
Colonel Crosthwaite-Eyre	Mr. Stevens
Mr. Hoy	Mr. West

The Committee deliberated.

Civil Appropriation Accounts, 1956-57; Class IX, Vote 8, Department of Scientific and Industrial Research, considered.

Sir Harry Melville, Professor W. Mansfield Cooper, Mr. S. H. Smith, and Mr. P. D. Greenall, examined.

The witnesses were ordered to withdraw.

The Committee deliberated.

Sir Harry Melville, Professor W. Mansfield Cooper, Mr. S. H. Smith, and Mr. P. D. Greenall, again called in and examined.

Mr. R. G. Elkington examined.

Sir Frank Tribe and Mr. J. Macpherson also examined.

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

THURSDAY, 20TH MARCH, 1958

Members present:

Sir George Benson, in the Chair	
Mr. Arbuthnot	Mr. Stevens
Mr. Collins	Sir Colin Thornton-Kemsley
Mr. Hoy	Mr. West
Mr. Ramsden	

Crown Lands—Crown Estate Abstract Accounts, 1956-57, considered.

Mr. R. M. J. Harris examined.

Civil Appropriation Accounts, 1956-57 ; Class III, Vote I, Home Office, considered.

Sir Charles Cunningham examined.

Sir Frank Tribe and Mr. J. Macpherson also examined on all the Accounts considered this day.

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

TUESDAY, 25TH MARCH, 1958

Members present:

Sir George Benson, in the Chair

Mr. Arbuthnot

Mr. Collins

Colonel Crosthwaite-Eyre

Mr. Hoy

Mr. Ramsden

Mr. Stevens

Mr. Thornton

Sir Colin Thornton-Kemsley

Mr. West

Civil Appropriation Accounts, 1956-57 ; Class IX, Vote 2, Roads, &c., England and Wales, and Vote 4, Civil Aviation, considered.

Sir Gilmour Jenkins examined.

Sir Frank Tribe, Mr. J. Macpherson and Mr. A. T. K. Grant also examined.

[Adjourned till Thursday, at Four o'clock.

THURSDAY, 27TH MARCH, 1958

Members present:

Sir George Benson, in the Chair

Mr. Arbuthnot

Mr. Collins

Colonel Crosthwaite-Eyre

Mr. Hoy

Mr. Oliver

Mr. Stevens

Mr. Thornton

Civil Appropriation Accounts, 1956-57 ; Class IX, Vote 4, Civil Aviation, further considered.

Sir Gilmour Jenkins further examined.

Sir Cyril Musgrave examined.

Finance Act, 1956, and Transport (Railway Finances) Act, 1957, Accounts, 1956-57, considered.

Sir Gilmour Jenkins examined.

Sir Frank Tribe and Mr. J. Macpherson also examined on all the Accounts considered this day.

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

TUESDAY, 1ST APRIL, 1958

Members present:

Sir George Benson, in the Chair

Mr. Arbuthnot

Mr. Collins

Mr. Hoy

Mr. Oliver

Mr. Ramsden

Mr. Stevens

Mr. Thornton

Sir Colin Thornton-Kemsley

Mr. West

Civil Appropriation Accounts, 1956-57 ; Class V, Vote 5, National Health Service, England and Wales, and Vote 11, National Health Service, Scotland, further considered.



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

Sir Frank Tribe and Mr. J. Macpherson also examined.

[Adjourned till Tuesday, 22nd April, at 4 o'clock.

TUESDAY, 22ND APRIL, 1958

Members present:

Sir George Benson, in the Chair

Mr. Arbuthnot
Mr. Collins
Mr. Hoy
Mr. Peyton
Mr. Ramsden

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

Army Appropriation Account, 1956-57, considered.

Sir Edward Playfair examined.

Sir Frank Tribe and Mr. J. Macpherson also examined.

[Adjourned till Thursday, at Four o'clock.

THURSDAY, 24TH APRIL, 1958

Members present:

Mr. Arbuthnot
Mr. Collins
Mr. Oliver

Mr. Peyton
Sir Colin Thornton-Kemsley
Mr. West

In the absence of Sir George Benson, Mr. Collins was called to the Chair.

Army Appropriation Account, 1956-57, further considered.

Sir Edward Playfair further examined.

Sir Frank Tribe and Mr. J. Macpherson also examined.

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

TUESDAY, 29TH APRIL, 1958

Members present:

Sir George Benson, in the Chair

Mr. Arbuthnot
Mr. Collins
Colonel Crosthwaite-Eyre
Mr. Hoy

Mr. Ramsden
Mr. Thornton
Mr. West

Air Services Appropriation Account, 1956-57, considered.

Sir Maurice Dean examined.

Sir Frank Tribe and Mr. J. Macpherson also examined.

[Adjourned till Thursday, at Four o'clock.

THURSDAY, 1ST MAY, 1958

Members present:

Sir George Benson, in the Chair

Mr. Collins	Mr. Stevens
Colonel Crosthwaite-Eyre	Sir Colin Thornton-Kemsley
Mr. Hoy	Mr. West
Mr. Peyton	

Civil Appropriation Accounts, 1956-57; Class VIII, Vote 2, Agricultural and Food Grants and Subsidies, considered.

Sir Alan Hitchman and Mr. C. H. M. Wilcox examined.

The witnesses were ordered to withdraw.

The Committee deliberated.

Sir Alan Hitchman and Mr. C. H. M. Wilcox again called in and examined.

Sir Frank Tribe and Mr. J. Macpherson also examined.

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

TUESDAY, 6TH MAY, 1958

Members present:

Sir George Benson, in the Chair

Mr. Arbuthnot	Mr. Stevens
Mr. Collins	Mr. Thornton
Colonel Crosthwaite-Eyre	Sir Colin Thornton-Kemsley
Mr. Hoy	Mr. Turton
Mr. Peyton	Mr. West
Mr. Ramsden	

Civil Appropriation Accounts, 1956-57; Class VIII, Vote 2, Agricultural and Food Grants and Subsidies, further considered.

Civil Appropriation Accounts, 1956-57; Class VIII, Vote 3, Agricultural and Food Services, and Vote 4, Food (Strategic Reserves), considered.

Sir Alan Hitchman and Mr. C. H. M. Wilcox further examined.

Mr. W. F. C. Clark, Mr. R. P. Askew and Mr. H. Palca examined.

Sir Frank Tribe and Mr. J. Macpherson also examined on all the Accounts considered this day.

[Adjourned till Thursday, at Four o'clock.

THURSDAY, 8TH MAY, 1958

Members present:

Sir George Benson, in the Chair

Mr. Arbuthnot	Mr. Steele
Mr. Collins	Mr. Stevens
Mr. Hoy	Mr. West

Civil Appropriation Accounts, 1956-57; Class VI, Vote 9, Ministry of Supply, considered.

Sir Cyril Musgrave examined.

Sir Frank Tribe and Mr. J. Macpherson also examined.

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

TUESDAY, 13TH MAY, 1958

Members present:

Mr. Collins	Mr. Peyton
Colonel Crosthwaite-Eyre	Mr. Stevens
Mr. Hoy	Mr. West
Mr. Oliver	

In the absence of Sir George Benson, Mr. Stevens was called to the Chair.

Civil Appropriation Accounts, 1956-57 ; Class VI, Vote 9, Ministry of Supply, further considered.

Civil Appropriation Accounts, 1956-57 ; Class VI, Vote 10, Ministry of Supply (Purchasing (Repayment) Services), considered.

Sir Cyril Musgrave further examined.

Sir Frank Tribe and Mr. J. Macpherson also examined on all the Accounts considered this day.

[Adjourned till Thursday, at Four o'clock.

THURSDAY, 15TH MAY, 1958

Members present:

Mr. Arbuthnot	Mr. Stevens
Colonel Crosthwaite-Eyre	Mr. Thornton
Mr. Hoy	Sir Colin Thornton-Kemsley
Mr. Oliver	Mr. West

In the absence of Sir George Benson, Mr. Thornton was called to the Chair.

Navy Appropriation Account, 1956-57, considered.

Sir John Lang examined.

Sir Frank Tribe and Mr. J. Macpherson also examined.

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

TUESDAY, 20TH MAY, 1958

Members present:

Sir George Benson, in the Chair

Mr. Arbuthnot	Mr. Stevens
Colonel Crosthwaite-Eyre	Mr. Thornton
Mr. Hoy	Sir Colin Thornton-Kemsley
Mr. Ramsden	Mr. West

Civil Appropriation Accounts, 1956-57 ; Class IX, Vote 7, Atomic Energy, and the Atomic Energy Authority Balance Sheet as at 31st March, 1957, considered.

Mr. F. C. How, Sir Edwin Plowden and Sir Donald Perrott examined.

Cinematograph Film Production (Special Loans) Acts, 1949 to 1954, Account, 1956-57, and the Report and Accounts of the National Film Finance Corporation, 1956-57, considered.

Sir Frank Lee, Sir Nutcombe Hume and Mr. J. Terry examined.

Sir Frank Tribe and Mr. J. Macpherson also examined on all the Accounts considered this day.

[Adjourned till Thursday, at Four o'clock.

THURSDAY, 22ND MAY, 1958

Members present:

Sir George Benson, in the Chair

Mr. Collins	Mr. Ramsden
Colonel Crosthwaite-Eyre	Mr. Thornton
Mr. Oliver	Sir Colin Thornton-Kemsley
Mr. Peyton	Mr. West

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

Ordered, That the said Report be read a second time, Paragraph by Paragraph. Paragraphs 1 to 5 read and agreed to.

Paragraph 6, read, amended, and agreed to.

Paragraphs 7 to 10 read and agreed to.

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

Civil Appropriation Accounts, 1956-57; Class VI, Vote 2, Board of Trade (Assistance to Industry and Trading Services), Vote 3, Board of Trade (Strategic Reserves), and Vote 4, Services in Development Areas, considered.

Sir Frank Lee examined.

Development of Inventions Acts, 1948 to 1954, Account, 1956-57, and Report and Accounts of the National Research Development Corporation, 1956-57, considered.

Sir Frank Lee and the Earl of Halsbury, a member of the House of Lords, attending by leave of that House, examined.

Sir Frank Tribe and Mr. J. Macpherson also examined on all the Accounts considered this day.

[Adjourned till Thursday, 12th June, at Four o'clock.

THURSDAY, 12TH JUNE, 1958

Members present:

Sir George Benson, in the Chair

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

Civil Appropriation Accounts, 1956-57; Class IX, Vote 5, Ministry of Power, and the Finance Act, 1956, Advances to Nationalised Industries and Undertakings (Minister of Power) Account, 1956-57, considered.

Sir John Maud and Mr. E. J. Meadon examined.

Sir Frank Tribe and Mr. J. Macpherson also examined on all the Accounts considered this day.

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

TUESDAY, 17TH JUNE, 1958

Members present:

Sir George Benson, in the Chair

Colonel Crosthwaite-Eyre	Sir Colin Thornton-Kemsley
Mr. Hoy	Mr. West
Mr. Ramsden	

Civil Appropriation Accounts, 1956-57; Class VI, Vote 9, Ministry of Supply, and Vote 10, Ministry of Supply (Purchasing (Repayment) Services), further considered.

Sir Cyril Musgrave further examined.

Navy Appropriation Account, 1956-57, further considered.

Sir John Lang further examined.

Mr. J. J. S. Shaw examined.

Sir Frank Tribe and Mr. J. Macpherson also examined on all the Accounts considered this day.

[Adjourned till Thursday, at Four o'clock.

THURSDAY, 19TH JUNE, 1958

Members present:

Sir George Benson, in the Chair

Mr. Arbuthnot
Mr. Collins
Mr. Hoy

Mr. Stevens
Sir Colin Thornton-Kemsley
Mr. West

National Land Fund Account, 1956-57, considered.

Sir Thomas Padmore and Mr. K. E. Couzens examined.

Civil Appropriation Accounts, 1956-57; Class I, Vote 16, National Savings Committee, further considered.

Sir Thomas Padmore examined.

Development Fund Accounts, 1956-57, considered.

Sir Thomas Padmore and Mr. F. S. O. Broughton examined.

Revenue Departments Appropriation Accounts, 1956-57; Vote 1, Customs and Excise; Civil Appropriation Accounts, 1956-57; Class I, Vote 1, House of Lords, Vote 2, House of Commons, Vote 3, Registration of Electors, Vote 4, Treasury and Subordinate Departments, Vote 5, Privy Council Office, Vote 6, Privy Seal Office, Vote 7, Charity Commission, Vote 8, Civil Service Commission, Vote 9, Exchequer and Audit Department, Vote 10, Friendly Societies Registry, Vote 11, Government Actuary, Vote 12, Government Chemist, Vote 13, Government Hospitality, Vote 14, The Royal Mint, Vote 15, National Debt Office, Vote 17, Public Record Office, Vote 18, Public Works Loan Commission, Vote 19, Royal Commissions, &c., Vote 20, Secret Service, Vote 21, Silver, Vote 22, Tithe Redemption Commission, Vote 23, Miscellaneous Expenses, Vote 23A, Repayments to the Civil Contingencies Fund, Vote 23B, Foreign Compensation (Czechoslovakia), Vote 24, Scottish Home Department, Vote 25, Scottish Record Office; Class II, Vote 1, Foreign Service, Vote 2, Foreign Office Grants and Services, Vote 3, British Council, Vote 4, United Nations, Vote 5, Commonwealth Relations Office, Vote 6, Commonwealth Services, Vote 7, Oversea Settlement, Vote 8, Colonial Office, Vote 10, Development and Welfare (Colonies, &c.), Vote 11, Development and Welfare (Federation of Rhodesia and Nyasaland, and South African High Commission Territories), Vote 12, Imperial War Graves Commission; Class III, Vote 2, Home Office (Civil Defence Services), Vote 3, Police, England and Wales, Vote 4, Prisons, England and Wales, Vote 5, Child Care, England and Wales, Vote 6, Fire Services, England and Wales, Vote 7, Carlisle State Management District, Vote 8, Supreme Court of Judicature, &c., Vote 10, Legal Aid Fund, Vote 11, Land Registry, Vote 12, Public Trustee, Vote 13, Law Charges, Vote 14, Miscellaneous Legal Expenses, Vote 15, Scottish Home Department (Civil Defence Services), Vote 16, Police, Scotland, Vote 17, Prisons, Scotland, Vote 18, Approved Schools, Scotland, Vote 19, Fire Services, Scotland, Vote 20, State Management Districts, Scotland, Vote 21, Law Charges and Courts of Law, Scotland, Vote 22, Department of the Registers of Scotland, Vote 23, Supreme Court of Judicature,

&c., Northern Ireland, Vote 24, Irish Land Purchase Services; Class IV, Vote 1, Ministry of Education, Vote 2, British Museum, Vote 3, British Museum (Natural History), Vote 4, Imperial War Museum, Vote 5, London Museum, Vote 6, National Gallery, Vote 7, Tate Gallery, Vote 8, National Maritime Museum, Vote 9, National Portrait Gallery, Vote 10, Wallace Collection, Vote 11, Grants for Science and the Arts, Vote 12, Universities and Colleges, &c., Great Britain, Vote 13, Broadcasting, Vote 14, Public Education, Scotland, Vote 15, National Galleries, Scotland, Vote 16, National Museum of Antiquities of Scotland, Vote 17, National Library, Scotland; Class V, Vote 4, Ministry of Health, Vote 6, Medical Research Council, Vote 7, Registrar General's Office, Vote 8, Central Land Board, Vote 9, War Damage Commission, Vote 10, Department of Health for Scotland, Vote 12, Housing, Scotland, Vote 14, Registrar General's Office, Scotland; Class VI, Vote 5, Financial Assistance in Development Areas, Vote 6, Export Credits, Vote 7, Export Credits (Special Guarantees), Vote 8, Ministry of Labour and National Service, Vote 11, Royal Ordnance Factories, Vote 12, Registration of Restrictive Trading Agreements; Class VII, Vote 1, Ministry of Works, Vote 2, Houses of Parliament Buildings, Vote 3, Public Buildings, &c., United Kingdom, Vote 4, Public Buildings Overseas, Vote 5, Royal Palaces, Vote 6, Royal Parks and Pleasure Gardens, Vote 7, Historic Buildings and Ancient Monuments, Vote 8, Rates on Government Property, Vote 9, Stationery and Printing, Vote 10, Central Office of Information, Vote 11, Peterhead Harbour; Class VIII, Vote 1, Ministry of Agriculture, Fisheries and Food, Vote 5, Fishery Grants and Services, Vote 6, Surveys of Great Britain, &c., Vote 7, Office of Crown Estate Commissioners, Vote 8, Agricultural Research Council, Vote 9, Nature Conservancy, Vote 10, Development Fund, Vote 11, Forestry Commission, Vote 12, Department of Agriculture for Scotland, Vote 13, Fisheries (Scotland) and Herring Industry; Class IX, Vote 1, Ministry of Transport and Civil Aviation, Vote 3, Transport (Shipping and Special Services), Vote 6, Ministry of Power (Special Services), Vote 9, Roads, &c., Scotland; Class X, Vote 1, Superannuation and Retired Allowances, Vote 2, Ministry of Pensions and National Insurance, Vote 3, War Pensions, &c., Vote 4, National Insurance and Family Allowances, Vote 5, National Assistance Board, Vote 6, Pensions, &c. (India, Pakistan and Burma), Vote 7, Royal Irish Constabulary Pensions, &c., considered.

Sir Frank Tribe also examined on all the Accounts considered this day.

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

THURSDAY, 24TH JULY, 1958

Members present:

Sir George Benson, in the Chair

Mr. Arbuthnot
Mr. Hoy
Mr. Peyton
Mr. Steele

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

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

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

Paragraphs 1 to 6 read, amended, and agreed to.

Paragraphs 7 and 8 read and agreed to.

Paragraphs 9 to 12 read, amended, and agreed to.

Paragraphs 13 to 16 read and agreed to.

Paragraph 17 read, amended, and agreed to.

Paragraph 18 read and agreed to.

Paragraphs 19 and 20 read, amended, and agreed to.

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Paragraphs 21 to 23 read and agreed to.
Paragraphs 24 and 25 read, amended, and agreed to.
Paragraphs 26 to 29 read and agreed to.
Paragraph 30 read, amended, and agreed to.
Paragraphs 31 to 35 read and agreed to.
Paragraph 36 read, amended, and agreed to.
Paragraphs 37 to 40 read and agreed to.
Paragraphs 41 and 42 read, amended, and agreed to.
Paragraphs 43 to 48 read and agreed to.
Paragraphs 49 and 50 read, amended, and agreed to.
Paragraph 51 read and agreed to.
Paragraphs 52 to 54 read, amended, and agreed to.
Paragraph 55 read and agreed to.
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Paragraph 60 read and agreed to.
Paragraph 61 read, amended, and agreed to.
Paragraphs 62 to 67 read and agreed to.
Paragraphs 68 to 70 read, amended, and agreed to.
Paragraphs 71 to 81 read and agreed to.
Paragraph 82 read, amended, and agreed to.
Paragraphs 83 to 89 read and agreed to.
Paragraphs 90 and 91 read, amended, and agreed to.
Paragraphs 92 to 98 read and agreed to.
Paragraphs 99 to 101 read, amended, and agreed to.
Paragraphs 102 and 103 read and agreed to.
Paragraph 104 read, amended, and agreed to.
Paragraphs 105 and 106 read and agreed to.
Paragraphs 107 and 108 read, amended, and agreed to.
Paragraphs 109 and 110 read and agreed to.
Paragraph 111 read, amended, and agreed to.
Paragraph 112 read and agreed to.
Paragraph 113 read, amended, and agreed to, and transferred to the beginning of the Report.

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

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

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

Memorandum from the Ministry of Health on the Development at the Radcliffe Infirmary, Oxford.

Memorandum from the Department of Health for Scotland on Chemists' Profits on Proprietaries compared with other drugs.

Memorandum from the Board of Trade on the Investment of Surplus Bankruptcy and Companies (Winding-up) Funds.

Memorandum from the Ministry of Agriculture, Fisheries and Food on the Agricultural Lime Subsidy.

Memorandum from the Ministry of Transport and Civil Aviation on Black-pool (Squires Gate) Aerodrome.

Letter to the Comptroller and Auditor General from Pye Telecommunications Ltd.

Letter from Sir Harry Melville, K.C.B., and Memorandum by Messrs. Husband and Company relating to the Jodrell Bank Telescope.

Memoranda from the Ministry of Defence on

(1) Analysis of increase in cost of completion of Hertford British Hospital, Paris

(2) Annual cost of the British Military Hospital, Paris.

Memoranda from the War Office on

(1) Welbeck Abbey

(2) Territorial Army.

Memorandum from the Colonial Office on the Retention of Trade Union Offices by elected Ministers in certain West Indian Colonies.

Letter from Sir John Lang, G.C.B., relating to the Export of Coal to Malta.

The Committee decided that certain questions and the answers thereto should not be reported to the House.

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

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

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MINUTES OF EVIDENCE

 THURSDAY, 12TH DECEMBER, 1957.

Members present:

Mr. Benson, in the Chair.

 Mr. Collins.
 Mr. Hoy.
 Mr. Oliver.

 Mr. Stevens.
 Mr. Thornton-Kemsley.
 Mr. West.

 Mr. P. J. CURTIS, C.B.E., Secretary, Exchequer and Audit Department,
 called in and examined.

REVENUE DEPARTMENTS APPROPRIATION ACCOUNTS, 1956-57.

VOTE 2.

INLAND REVENUE.

 Sir HENRY HANCOCK, K.C.B., K.B.E., C.M.G., Chairman, Board of Inland Revenue,
 called in and examined.
Chairman.

1. Will Members turn to the Revenue Departments' Appropriation Accounts, to the Report of the Comptroller and Auditor General, paragraphs 14-16? Sir Henry, is there any reason for the increasing arrears of profits tax? It is not very much, but still it is there?—(Sir Henry Hancock.) Yes, it is a complex of causes. The main cause is a fortuitous one, that rather by accident a large block of assessments went out in the last week in March and they are not collectible until April, a month after the issue of the assessments. That block accounted for £6 million, which is quite a large sum. Of course, there was a growth in the charge and the remaining £2 million of the excess over last year is simply a percentage of the growth.

2. The normal growth?—Yes. But the £6 million factor is really the explanation, I think. The increase is a very small one.

Chairman.] Oh, yes.

Mr. Stevens.

3. May I ask one question on paragraph 14? I see that, with the exception of surtax, all the outstanding assessments tend to fall, with the one exception that has been mentioned, but

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surtax shows a small but steady growth. I wonder why that should be?—The charge, of course, is rising steadily and the small increase of £2 million is really the net result of a quite substantial increase in the charge offset by, in fact, accelerated payments. If you turn these figures into percentages the amount this year of the arrear, if you can call it such, on the 1956 account, is 29 per cent. as compared with a little over 30 per cent. last year, which is not too bad a result.

Mr. Hoy.

4. No, but I think the thing that concerns the Committee is that although it is only £2 million up on last year it is £7 million up on 1951; and if it just goes up every year by £1 million or £2 million where do we stop?—The charge, of course, has increased very substantially since 1951 and we have in fact collected heavier arrears this year than ever before. I have the increase for 1951, as it happens. That is the last year for which I happen to have figures and the percentage of arrears outstanding was then 31.9. It is now 29 per cent. so it has been diminishing. It is a point we are watching.

Mr. Oliver.

5. Under the present Budget there has been a concession made to the surtax

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12 December, 1957.] Sir HENRY HANCOCK, K.C.B., K.B.E., C.M.G. [Continued.]

payer, so presumably there will be a reduction next year, not an increase?— I have not got the calculation in my head, but I am not at all sure what the outcome would be.

Chairman.

6. I will take paragraphs 14-21 together as all these paragraphs refer to arrears. With regard to paragraph 15, Sir Henry, I notice that there is an increase. From the last two tables you do not seem to be making very much progress?—We are on paragraph 15, Sir?

7. Paragraph 15, yes?—Under what head?

8. The total amount?—You mean, the £567 million figure?

9. £567 million and £602 million, yes?—Well, it is going down.

10. Yes, it is certainly going down?—Going down steadily. It has gone down from £834 million in 1951 to £567 million in 1956. It is the lowest we have ever achieved. I do not know that we want to take undue credit for it, but it is a fact.

11. In paragraph 16 there is a figure of £71 million mentioned. How does that compare with the 1955 figure?—It was £69 million.

12. Are you having increasing difficulty in getting the arrears in?—No; surprisingly perhaps, I should say we are not experiencing any special difficulty.

13. So, you are really satisfied with the situation?—Well, reasonably satisfied. One must never say one is entirely satisfied.

Mr. Hoy.

14. I found the last answer but one just a little difficult to understand. The witness said "We are not having difficulties, perhaps". You either are having difficulty or not having difficulty and nobody would know it better than yourself?—My answer was really directed to the question, are you having difficulties, and I said "Perhaps surprisingly, we are not having difficulties".

15. Turning to paragraph 20, in your sample test of clearance of underpayments would you follow up cases transferred from one inspector's district to another?—Oh, yes, certainly.

16. Do you lose many people by reason of a change of residence, for instance?—That is always, of course, one of the difficult administrative problems whenever you are dealing with large samples of P.A.Y.E. claims, but, of course, on our sample, which is for control purposes, we shall try to follow through each case as far as we can within reasonable limits of administrative practicability.

17. You would not say that many were lost, then?—I should not think so.

18. On paragraph 21, what do Inspectors of Taxes do with employers' notifications of tax deductions?—Of course, the records that they get from the employers are the principal check—indeed, almost the only check in certain cases—that they have on the remuneration of employees for whom they have to make assessments. It is the supreme control.

19. Then is the inspector responsible for seeing that there is a notification from every employer of whom he has knowledge?—The collector, of course, is responsible in the first instance for seeing that every employer who has employees renders a return and makes payments. I do not know that any specific responsibility is placed on the inspector for seeing that every employer of whom he has knowledge makes a return, but in fact, in practice, of course, it does amount to that.

20. If it amounts to that, of course it would be all right, but I think there would be some responsibility somewhere for seeing that it does happen?—The collector has the absolute final responsibility. That is one of his jobs, not only to see that the returns are entered and that the money is paid over, but he follows up all cases where for some reason there is no return and the collection system of tracking down is, of course, a particularly active and diligent one.

21. One would be entitled to assume that, if an inspector had a certain knowledge of an employer who was not making returns he would perhaps take steps to see that it was done?—Well, the inspector relies on the collector in this field, but he would communicate with the inspector.

22. That is all I am asking?—Oh, yes, I am sorry.

12 December, 1957.] Sir HENRY HANCOCK, K.C.B., K.B.E., C.M.G. [Continued.]

Mr. West.

23. On paragraph 15, I see that with regard to the amounts outstanding for five years or more there has been a reduction of about £7 million during this last year?—I think that is, perhaps, not quite a full statement of the position. You have to look further down. The ones that were four to five years last year, of course, have come into the five years this year.

24. There were £95 million outstanding which were more than five years old in the 1955 Account, but in the 1956 Account it was then £88 million, so that means you had either collected or written off £7 million, does it not?—I think you have got to go right back and take the amounts thrown up from each year into the next. Taking a straight comparison your figure, I think, is right.

25. Do the comparative tables for 1956 and 1955 help us in any way at all?—They show that the five years arrears, of course, are being gradually diminished.

26. And that would be by collection and not by write-off?—Oh, partly by write-off, partly by collection.

27. In the 1956 Account could you say how much was written off?—I think the straight answer to your question is, £26 million cleared by discharge.

28. Are the profits tax and the £20 million excess profits tax outstanding for five years or more agreed amounts or are they still under investigation?—A lot of them are still provisional. Some of them, of course, depend on factors such as E.P.T. deferred repairs and insurance and double tax agreements which have a direct bearing on these things. I think that gives you a fair picture.

29. Is there any significance in the fact that the total outstanding for less than a year in 1956 is identical with that which was outstanding in 1955?—It is a pure coincidence.

30. The amounts at four to five years, and also three to four years, are exactly the same?—Yes.

Mr. Thornton-Kemsley.

31. I should like to ask one or two questions about Pay As You Earn. Now, Sir Henry, can you describe briefly the system of control over underpayments which your Departmental Committee suggested?—Of course, at one stage—

this is rather a long story—the Committee suggested a complete balance account, as you know, and that was found to be, after a real attempt had been made to work it out, administratively an impossible problem. There were so many uncertain factors in the account that the game was not worth the candle. Now we are at the moment doing a check in lieu of the balance account and the check we are doing at the moment—we are going to increase this check—is to take 1½ per cent. of assessed cases in each district and 75 no assessment cases and follow them through and see what has happened. We are going to institute a rather wider sample of 10 per cent. and to follow up in each case, or as far as we can, because it is not always easy to follow every individual case, what has happened. At the moment the sample check we have done, and are doing—the 1½ per cent. of assessed cases and 75 no assessment cases—is, I think, reassuring.

32. I am not quite clear about this. Paragraph 19 talks about a system of control over payments which had been suggested by a Departmental Committee?—That is right.

33. Is that the one you have been telling us about now?—No, I am sorry, that is a Committee which, I think, reported in 1950, that recommended a complete P.A.Y.E. balance account in the standard form and it was found in practice to be too big, too ambitious, a requirement.

34. It is really that one which I want to ask about. Was it ambitious because it required too large an extra staff?—There was a large number of technical factors involved. I think, as a matter of fact, previous Committees have been informed of the technical difficulties behind this. It is a matter of history now, of course, as far as I am concerned, but I think both the Comptroller and Auditor General and the Committee have been taken over that Committee's findings.

35. And the new system which you have described in response to my first question is the one which you are operating now?—That is so, yes.

36. Does that require a large staff to operate it?—No, it requires staff, of course, but not a large staff. It is a manageable job.

37. I am not quite clear at the moment how you do select the sample to be

12 December, 1957.] Sir HENRY HANCOCK, K.C.B., K.B.E., C.M.G. [Continued.]

tested for clearance of underpayments? —I have not got the actual instructions in front of me, but it is the best attempt we can make at a random sample, just going through cards and taking one-tenth, or whatever sample it is we are taking. It is not a difficult thing to make your sample pretty random when you have got the mass of information that is available here.

38. You just do it at random?—That is the intention, yes.

39. There is no system of selection? —With the 1½ per cent. we do. (Mr. Curtis.) Perhaps I might explain that the system of control referred to in the paragraph was, I think, the second suggestion of one of these Committees, which was that complete lists of underpayments in each inspector's office would be cleared by a control system by full recovery or remission. That in itself, as I think Sir Henry would agree, would take considerable extra staff; and he has now substituted that test instead of the complete system of control. (Sir Henry Hancock.) That is so, and it was in order to avoid the heavy demands on staff which the very complete running through of underpayments would have involved that we have devised this test, which I am bound to say I think will be just as effective.

40. I have two more questions which I want to ask you. The first is, how does it happen that remittances from employers amounting to nearly £2 million were outstanding at the end of this period, the 1956 period?—I am sorry, which paragraph are you on?

41. Paragraph 21, the £1.9 million. You see, these are apparently amounts which have been collected by employers from employees, stopped from wages, and so on, and I cannot quite understand how they are in default by that amount?—It is a variety of reasons. This is the sort of residue of cases where the employer has disappeared, has gone insolvent, bankrupt. It is a sort of rag bag of things. Sometimes it is just a temporary embarrassment and the money will be paid, but part of this is the insolvency of the employer.

42. What sort of proportion of that £1.9 million would eventually prove irrecoverable, do you suppose?—Off the cuff, less than half. It is a very speculative figure.

Chairman.

43. Might I just ask, whatever residue there may be of the £1.9 million, will that eventually show itself in the figures in paragraph 23 in the amounts irrecoverable?—Yes, it will.

Mr. Oliver.

44. Sir Henry, in paragraph 19 I see that reference is made to the "system of control over underpayments of tax disclosed" and of the 3 million assessed, "in respect of 1,122,460 of these there were underpayments amounting to" more than £25 million. What steps are taken to see that these underpayments do not arise, not the detection of the underpayments, but the prevention of the underpayments?—I think, if you look at this as a whole, the proportion of underpayments is remarkably small. Changes of circumstances, of course, in the great body of employees are legion and it is very hard to keep the machine so geared that you pick up everyone at the right time. A man retires, a man loses his wife, or loses his child, or his wages or his salary go down or go up or he adds a wife or a child; those are all things which are happening every day and are picked up as quickly as we can pick them up, but are in the nature of human circumstances there is no known machine in the world which, without a tremendous elaboration, could hope to keep absolutely up to date. We have had this looked at in various quarters, and I think it is fair to say we do maintain, and we are proud of it, a pretty complete up-to-dateness in this respect.

45. Of course, one appreciates in the large number of cases there must be a wide variety of circumstances, but where losses take place there would tend to be an overpayment? Losses of income would tend to an overpayment as opposed to underpayment in the case of an increase in income?—I reversed the factors in my reply. I said that where you acquire a wife or a child is born, or you get an increase in salary, all those things may not be picked up at once.

46. But where a death occurs, a wife is lost, it would have a converse effect?—It would have a converse effect, yes. I put it both ways. I am sorry, I put the second way first.

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Mr. Hoy.

47. I do not want to delay this, but I am finding it a little difficult to understand Sir Henry's reply on the amounts written off at five years or more which are given in paragraph 15. The total in 1956 was £88 million as against £95 million in 1955. Sir Henry was asked, would that include sums which were written off, to which he replied, "Yes, £26 million." What in fact did that mean? What sum was written off?—Discharged.

48. What do you mean by "discharged"?—As you know, a great many of our assessments are necessarily assessments based on very general ideas of the position. People do not always render returns at the right time and do not always render complete returns, and as a weapon the inspector will put in an assessment of what he thinks the position is. Well, when the matter comes to be examined in detail, when the taxpayer concerned employs a professional adviser, perhaps, then the position is cleared up and the exact figures come out. One of the large elements in these discharges is due to that factor.

49. That makes it a little more clear, if I might say so, because one, I think, came to the conclusion that if you added the £26 million which you had written off to the £86 million, in fact, at the end of 1956 we would have been £19 million worse than the return in 1955, but one would, of course, have to have the comparable figure for the amount written off in 1955 before one was able to make a competent judgment, is that right?—We can give you the figures written off year by year, if the Committee would like them.

50. I thought it might have been a little more helpful, because just to say that £26 million is written off does not convey the true picture, if I may say so?—The writings off, of course, have been a standard feature of the accounts year by year and they were pretty heavy in the years following the war. They are falling now, and it is due to the availability of more staff.

51. Yes, but this table which we have only shows balances, no more than that. It does not give a more complete picture of the situation than a balance?—Well, it does. If I may say so, it is not my table, it is the Comptroller and

Auditor General's table, but it does show the balances which the Committee have asked for and want outstanding at the date of the account by age of arrears. I think it is a useful table.

52. Yes, I am not saying it is not, but it does not give you the picture unless you know how much has been written off to get it down to that figure?—Yes, but it is not unhelpful, I think.

Mr. Collins.

53. But is it not the fact that in the case of Schedule D assessments the taxpayer must appeal within 21 days?—Yes.

54. He must lodge an appeal within 21 days?—Yes.

55. How is it then, in that event, that these amounts can be outstanding so long?—He can appeal, but the settlement may take years, and often on all these items, there is a fairly large element left in the air owing to legal arguments that are going on.

56. Is it the case that a substantial part of this amount which has been written off might well arise from assessments in round amounts which were thought to be higher than what probably the eventual liability would be and that the amount is larger thereby; and when the tax has actually been assessed or agreed there is a substantial difference?—That is one of the big factors in clearing the water in the calculation of outstanding liabilities.

57. But you keep it in the accounts as a liability until the actual amount of the tax due has been agreed? You keep the full figure of the assessment?—As the Comptroller and Auditor General points out here, we have a system for discharging provisional amounts that are clearly out, anyhow, and that is reflected in, I think, paragraph 16 which explains that.

58. Can I put this example? If you assess a Schedule D assessment at £5,000 and eventually after two or three years it proves only to be £1,000, would you be carrying the whole of the £5,000 in your figures the whole time?—In this picture, yes, but as soon as we can we get rid of it.

Chairman.

59. Paragraphs 23-24. I think this question of writing off arises here, Sir Henry. I see the figure given here is

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£2,975,000, which is a little more than £½ million smaller than the previous year. This is the sum which really represents what you have lost on tax which was actually assessable and payable, is that correct?—That is so—though some of it may not have been payable because of death and other factors.

60. Anyhow, it is near enough. When we look at the charges raised, £2,700 million, which is approximately the annual figure of your receipts, and when one looks at the £2,900,000 of which a good deal is either remitted on the grounds of poverty or collected, in effect it means this, that of the charges raised you lose about one farthing in the pound of the actual taxes due to you? You lose about a farthing in the pound?—Yes, over the last six years I think it is about .1 per cent.

61. .1 per cent.; that is one thousandth?—Yes.

62. Which is approximately a farthing in the pound?—Yes, it is a very small thing.

63. It is extremely small, and I think the Inland Revenue are to be congratulated on it. I see your amount abandoned is over £½ million less than in the previous year. Is there any reason for that?—As I think I explained last year, there were one or two rather exceptional claims which we had to abandon. You asked me for details and that swelled last year's figure and, of course, by comparison it looks better this year. But this is a more normal year. The 1955-56 account was swollen by some rather exceptional cases.

64. Then does that mean that insolvency is less than it was last year?—I think one of the very biggest accounts was an insolvency account in the last resort, but it was a very technical and complicated case of a man who had died abroad.

65. What priority have you in the case of insolvency, any?—Well, we are preferential creditor for one year's tax and then we have to fall into line with the queue.

66. How long has this £1,700,000 insolvency figure been piling up? I am looking at paragraph 23 under "Amounts

irrecoverable". What does that represent? How long has that sum been piling up? Does it go back some years?

—Yes, it goes back quite a lot of years. I do not know how many years, but quite a lot.

67. What steps do you take to avoid losing by insolvency? Your local people must have a fairly good idea of how their debtors are progressing?—Well, it is made up of an enormous number of items. There are 7,800 individuals concerned in this total, therefore the amounts for the most part are very small. Largely, you know, these are very small traders, or people who have fallen on evil days. These are not big people, these are small people.

68. Reverting to paragraph 15, the amount owing for four years is £116 million. That £116 million presumably will ultimately either be collected or will be written off and reported in the future in paragraph 23?—I am sorry, I cannot trace the figure.

69. That is the total of four years to five years and five years and over, £88 million and £28 million, £116 million, as your long outstanding debts?—These are not the same things as the losses and amounts abandoned.

70. I know, but the losses and the amounts abandoned, I presume, are the residue of those old standing debts?—If I have given you that impression I think I have misled you. The remissions which we make on the accounts to clear the accounts of water—

71. Those are not debts?—Those are not debts, no; I am sorry, we are at cross-purposes.

72. No. What I mean is this: of the £116 million which is owing for over four years either it will be found that the taxpayers are not liable for that or it will be paid or the eventual residue will come down to something like £3 million a year?—That is right, that is the point, yes. I was afraid I had given you the impression that the remissions came into this.

73. Oh, no, that is despite the fact that a lot of this has been outstanding for over five years?—Yes.

Chairman.] I find it incredible.

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Mr. Oliver.

74. In respect of paragraph 23, Insolvency, this £1,718,000, how far does it go back?—I think that was the question I was asked just now. It goes back some years, a good many years in some cases, but I cannot tell you how many.

75. Of course, they must be very trifling amounts?—They are trifling. Dividing this figure, as you see, by 7,800 you get a very small figure, anyhow.

76. And then the tax stands as a preferential creditor?—Only for one year.

77. I did not know that. Now, the taxpayers who have gone abroad or who are untraceable. Is this number increasing?—I do not think so. It has been a problem and I think it is pretty static. It goes on from year to year, a little up and a little down.

78. It does not vary very much?—It does not vary very much.

79. Can you take any steps to prevent people evading the tax debt by leaving the country?—If they get away we are more or less estopped because by generally recognised international practice tax codes of one country are not enforceable in another, so we cannot get judgment outside the jurisdiction.

80. Of course you cannot. You have to take more practical steps to prevent them than by ever hoping to get a judgment against them abroad?—Yes. Well, I do not know whether Parliament would approve of our withdrawing passports or putting obstacles of that kind in the way.

81. I appreciate it would be rather difficult because you do not know, do you?—No.

82. What happens when these people return, if you know they return?—Oh, then we go for them.

83. Is there any statute of limitation applying there?—No, I think we go for them if they have been away for 10 or 15 or 20 years.

84. It is still a continuing debt? You cannot defeat the Revenue?—A continuing debt. There are some quite hard cases where people come back after many years.

85. I expect where there are hard cases and genuinely hard cases the Revenue would exercise clemency?—Oh, we do our best.

Mr. West.

86. Sir Henry, there is just one question which I think is interesting from my point of view. I see that of death duties £113,000 were remitted or abandoned in the year under review. Would that be concessionary remissions? On what grounds would they have been made?—This is a rather difficult question on which I must not give you an answer without being quite sure of my facts. I believe that the sorts of cases are those where the securities since probate have dwindled to nothing in value, but the debt remains as at the date of probate. That is one of them, but there is a list of difficulties which may lead to this sort of thing which I have not got with me, but it is that type of case.

87. There is some sort of compassionate approach if there is a fall in the value of securities as from the date of death to, say, the date of realisation?—Of course, that is a very common thing and duty has to be paid, but there may be cases where the value vanishes entirely and the assets of the estate are virtually nil. Those cases have to be dealt with somehow.

88. They would be extremely rare, would they not, £114,000 in the year under review? I thought it might have been represented by concessionary allowances to charities and things of that sort?—No, I do not think so, but I can get the details of that if you would like them. (Mr. Curtis.) I think these are individual cases, not like the remissions affecting classes mentioned in paragraphs 25-27 of the Report. (Sir Henry Hancock.) Poverty, which is the type of case I was mentioning, accounts for a fifth, or more, of the cases. If you want details of this I would have to have the figures analysed. I have only got very broad categories here.

Chairman.] Do you want them?

Mr. West.

89. No, I do not think so. If Sir Henry is satisfied on that position. It was only as a matter of interest that I enquired?—Of course, insolvency comes into this too, in a way. I have

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seen a list of cases of this kind but I do not carry it in my head.

Mr. Collins.

90. Just one point, Sir Henry: although the amount of income tax not recovered is apparently very, very small could you say why you are apparently lax in collecting income tax under P.A.Y.E. from firms, as compared with your methods with the same firms in collecting purchase tax?—I do not think we are lax in collecting P.A.Y.E.

91. Is it not the case that with purchase tax you insist that payments should be made at the end of the month immediately after the quarter?—I do not know what happens in purchase tax. It is not my responsibility.

92. Whereas with income tax under P.A.Y.E. firms have a card, and it seems to me that they go for months without anything being said at all. Is that not likely to add to insolvency? Are they not the very firms who would not be likely to pay promptly?—There is no evidence whatever to suggest what the standard of compliance with P.A.Y.E. demands is not absolutely of the first order. It is a very remarkable achievement—I should not say this perhaps—to collect this tax up to the percentage which we do. It runs into hundreds of millions of pounds and the balance outstanding at the end of a year, £1.9 million, of which we shall certainly collect a half. I really think that whatever the arrangements are, they must be pretty good.

93. They are obviously very good. You would say that there is, in fact, no difference in the way you follow up collections of income tax under P.A.Y.E. from the way it is followed up under purchase tax?—The two systems, of course, are entirely different. The purchase tax arrangements really cannot be compared strictly with the P.A.Y.E. system, and I think that the merit of the P.A.Y.E. system must stand on its own feet. I repeat, the fact that we do collect such a very, very high proportion and that we only have such tiny balances outstanding is itself at the root of the system.

94. Perhaps you would have a look at that comparison at some time and you might find that this is even remarkably

less than in other years?—It is an interesting comparison. I do know a little about purchase tax and I am not sure that we have much to learn from them.

Chairman.

95. I would like to ask one possibly rather theoretical question on death duties. The death duties have to be assessed on the value of the estate at the date of death, have they not?—Yes.

96. Take the catastrophic drop in security values which has happened recently. An estate of £1 million will bear death duties at the rate of about 80 per cent., will it not?—Yes.

97. Suppose you get a drop of 25 per cent. in the value of securities. Does that mean that the whole estate is absorbed for death duties?—It might mean that, yes.

98. And there is no concession of any kind whatsoever?—There is for certain contingencies of this kind a concession. Now I have not got the facts in my mind, but if, as can happen, there is less estate than is required to pay the duties we have powers to make a concession, but I have not got the precise detail with me.

99. You have some power to make concessions?—I can let the Committee have that.

Mr. Stevens.

100. I wonder if I could ask Sir Henry a question to refresh his memory a little? Does that concession consist in allowing an extended time for the payment of the duty so that the remaining stock is given a reasonable time to appreciate and thus solve the problem?—Yes, it does, that is one of the methods of dealing with it, but I think apart from that we have used some latitude. Again, it is one of the many points on this vast code of law on which one must be absolutely precise or not answer.

Chairman.

101. Quite, yes. Paragraphs 25-27, Concessions. How do the number of concessions compare now with what they were in 1950? They are larger, are they not?—11 more, yes, net.

102. There is a very large number of these concessions, 76 of them?—Yes.

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103. Why do these remain extra-statutory and why should they not be regularised by legislation?—As you know, we do mop them up by legislation from time to time, or we withdraw them when they become out of date. We have got rid of about 11 in the period we are talking about, some by legislation, some by regulations, some by withdrawal on their becoming out of date. Of course, a great many of these concessions are very marginal. They relate to highly technical roughnesses, if I may call them such, rough edges at the fringes of big schemes; and legislation to deal with that sort of point is often complicated out of all relation to the extent of the good you do. Parliament has not shown any great anxiety to tackle that type of legislation. There was a famous case in the 1890's where one of these concessions was to be legislated out of existence and after a good deal of debate—I was looking back at it recently as a matter of interest—Parliament showed itself very reluctant to deal with this; and it was withdrawn and it is still a concession to this very day. That was rather an exceptional case, but if you look through the list of concessions you find that the technicality, the fact that it is on the fringe, accounts for a great many of them by number.

104. Do any of them involve large sums?—Not large in our sense of the word.

105. Shall we say, appreciable sums?—Most of them are quite negligible. A few of them involve appreciable sums in the ordinary everyday use of the word.

106. Which are they?—I suppose the one about the assessment of owner-occupied dwellings by relation to the tone of the List, the one that was announced by the late Financial Secretary in the House of Commons last year. We continue to assess new and improved properties by the tone of the List, that is to say, we do not attempt to assess them for Schedule A by reference to the new rating assessments. I do not know whether it is large but if you totted them all up there must be some money in it, though not very much. Parliament welcomed the concession, I think, at the time.

Mr. Thornton-Kemsley.

107. Sir Henry, on that Schedule A assessment point, is there not a great deal

of extra work caused by the fact that Schedule A assessments are not in line with rating assessments?—Well, of course, as was stated in the House, we cannot do a complete Schedule A re-assessment without legislation, so we have got to continue on the old assessments.

108. Meantime there are very great difficulties about it, are there not? For example, where the Schedule A assessment is below the rating assessment you get claims levied on individuals for profit rentals and things like that, do you not?—Yes, of course you are always in difficulty in this field. You have 1939 values for one set of premises, you have got current values for another and you have got Schedule A assessments dating back to late in the 1930's and so on. It is just a fact of life which you have got to live with.

109. It would require legislation, would it, to reassess the Schedule A assessments?—Oh, certainly.

Mr. Stevens.

110. I would like to ask about the last sentence of paragraph 27: "One concession originally granted in 1942 is continued on the grounds that the wartime circumstances that originally justified it have persisted, though the exemption is considered indefensible from an income tax point of view." What is that concession?—That is the concession about the free coal provided to coal miners which the Coal Board in the national interest decided to try to buy back from coal miners so that they could use it for such home uses as large household coal could be put to. They bought back in fact, and have been buying back since, a considerable amount of coal. They, of course, pay cash and it is additional remuneration which is not taxed.

111. Do you know what the annual value to an individual of that benefit at current prices might be?—I could not say. I have not got in my head the amount because it varies, of course, according to the decision of the individual about the amount of coal he is going to use himself and it differs, I think, from area to area.

112. So you could not give any idea of what the total amount concerned in a year would be?—Oh, the total

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amount is fairly appreciable, 79,000 tons, or £114,000.†

113. £114,000 was the payment made by the National Coal Board, was it, in one year?—Cash in lieu.

114. That is only the cash payment in lieu of the concessionary coal?—In lieu of the coal returned, not taken. The amount of the concessionary coal surrendered.

115. From that are you suggesting that the concessionary coal itself is not liable to income tax?—That is payment in kind to employees under the income limit and is free of tax.

Mr. West.

116. Is that similar to meal vouchers?—Well, meal vouchers are in a slightly different category. This is payment in kind which is a recognised feature of certain industries and this is just a long standing practice in the coal industry. Of course, these words are the Comptroller and Auditor General's; indeed the trouble here, of course, is that a cash payment is made in lieu of part of a benefit in kind.

Mr. Oliver.

117. To some?—To some, yes.

Mr. Stevens.

118. May I just come back to the point of the coal itself? You say because it is a payment in kind it is not therefore liable to income tax. You are quite satisfied that that is the general rule?—For the classes of workers within a certain income limit.

119. It is not a general rule, it is a special one?—Within the proper income range, yes.

120. Oh, it is an income range, not an industry range?—The taxation of benefits in kind only begins after a certain limit of income, as you know.

121. I do, indeed. So, if an employer in any industry or any trade makes a Christmas gift in kind to his employees you are quite satisfied that the whole of that Christmas gift is not subject to income tax?—So long as it is in kind.

122. Such, for example, as a voucher at a store?—You must not ask me to

† *Note by Witness:* These figures, supplied by the Ministry of Fuel and Power, relate to a period of six months in 1950.

give legal opinions. A voucher on a store, of course, might be convertible into cash and directly it becomes convertible into cash then the position becomes one of great doubt.

123. Again, I am sorry to press, Sir Henry, but you are quite certain on this, that a payment in kind is not subject to tax?—A payment in kind as part of the regular and ordinary wages of the employee.

124. So it does not depend on a custom of the trade?—It does depend on the custom of the trade, yes.

Mr. Hoy.

125. Like a farm worker? A farm worker gets vegetables, potatoes, and so on, or I am led to believe he does, I do not know. Is that in the same category?—It is in very much the same category although I do not think that it is easy, very often, to quantify that to the extent of how much vegetables, how many pigs, how much milk, and all that. Of course, in coal by long standing agreement after negotiation it is a recognised part of the remuneration in certain mining districts.

126. And has been for many, many years?—Yes.

Mr. Stevens.

127. Coming back to the cash payment in lieu, do you know how this concession originated?—It originated in 1942, I think, because the Coal Board felt that this was a very useful type of coal which was in short supply which they wanted for other purposes and they thought that it might be very welcome to some of the miners to give up some of their coal. The circumstances of individuals differ and some of them do and did give some of it up.

128. Because it was agreed at the time that the cash value of the coal itself not taken was also to be not taxed?—As a concession, yes. Of course, we have lived in hope that this would perhaps one of these days be resolved by being included in some general wages settlement, but it has not, and here it is still with us.

129. Has the Inland Revenue ever made any attempt to recover tax on the cash payments so made?—From whom?

130. From the National Coal Board, for example?—We have made some tentative approaches, yes.

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131. How have your tentative approaches been received?—Well, not very favourably.

132. Can you think of any other similar example in any trade or industry?—Precisely like this, no.

133. It remains, in your view, indefensible?—We did not say this.

134. No, I beg your pardon, it is the Comptroller and Auditor General's Report?—It is for the Committee to judge. This is a concession which is reported to Parliament. Parliament knows all about it and the Comptroller and Auditor General and this Committee know all about it.

Chairman.

135. What is the basis of the exemption of payments in kind from taxation? Is it law, tradition or the Second Chapter of Corinthians?—Oh, it is law.

136. Part of the actual law?—Yes.

137. Statute?—Yes.

Mr. Oliver.

138. It is true the words are not yours, they are the Comptroller and Auditor General's, but he says that this concession was granted in 1942?—Yes.

139. Concessionary coal has been a feature of the coal trade ever since some of us can remember?—Yes. The feature of this concession was the surrender back of the concessionary coal.

140. That is true. They were asked to surrender but how many have surrendered?—I have not got that.

141. If you could get a unified system of surrender you would be in a better position?—No, I have not got the number.

Mr. West.] It is obvious to those of us who know the coal mining industry—there are about 700,000 men employed in the coal mining industry—that at a time of national crisis when coal was so desperately needed for export it was a sacrifice on the part of many of these miners to give up their concessionary coal and it was in the national interest that they did so.

Mr. Oliver.] They could only do so at all where they had an excess of their own demand.

Mr. West.] No, some of them made a sacrifice to do so. After all, the concessionary coal allowance was an allowance which was fixed according to the needs of the individuals and their families, and that is all that has been provided throughout the years. Many of them said: "All right, we will satisfy ourselves with less than that which is regarded as the necessary amount", and yielded it up in the national interest.

Mr. Oliver.

142. The point I was going subsequently to put to Sir Henry was this: it would be impossible, really, where one miner had sacrificed his coal to tax him and one who had not sacrificed the coal to permit him to retain it?—It is that distinction which no doubt provides the basis for the concession.

Chairman.

143. Paragraphs 28-31. This is also, I think, a rather complicated problem, Sir Henry, the question of building society income tax. The £45 million is obviously an under-assessment, I take it, from the Comptroller and Auditor General's Report?—A slight under-assessment.

144. On the figures given in paragraph 30, the difference between 4s. 10d. and 5s. 5d. would mean about £12 million, would it not?—The difference between 4s. 10d. and 5s. 4d. is just over £1 million.

145. I beg your pardon. Then, what is the £45 million?—£5 million is the difference between 5s. 4d. and 5s. 6d.

146. It is about £1 million, is it?—The first one is £1.1 million, and the second one is £.5 million.

147. The 4s. 10d. assessment ought to produce £45 million, is that not correct?—(Mr. Curtis.) No, the £45 million is the interest paid. (Sir Henry Hancock.) That is the total, yes.

148. I see, yes. Have you difficulty in assessing this each year?—It is a difficult job because we are working on a sample which at the end of the period is four years old. We only take these samples once every four years and it is a very big job. We have to take three-quarters of a million cases and go through them and trace them, and then try to allocate them to tax classifications, so that it is a major job; in fact, it

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employs 200 staff, so that we are reluctant to do it more frequently. But when you come to the end of the period, of course, the end of the four-year period to which a particular current sample relates, you are working on material which is out of date to that extent. The pattern of incomes changes and you get differences of view, of course, between the building societies and ourselves as to how the figures should be interpreted, but we are not far wrong, I think, really, and, of course, there is a year when we were the other way round, as you know, much to the grief of the building societies.

149. Obviously, with the shift that there is in the type of investor in building societies and the fact that they are now attracting money which is not necessarily small savings, and with present interest rates that is likely to continue, it is not possible to make a provisional assessment to be adjusted later? —Well, that, I think, would be very unpopular with the building societies; in fact, it would be very unfair, I think, to a lot of people who would then have to reclaim. If you do that I think you would have to take a figure and stick to it. I do not think you can have a provisional figure. The building societies, I think, would be put in an impossible position.

150. That means there must always be a lag, then?—There is inevitably a lag because you are working on a sample which must be after the first year to that extent out of date.

151. But it surely ought to be possible to make a fairly accurate assessment. If you have a gradual trend of figures you can surely look a year ahead?—We have not, of course, had necessarily the right experience of the new conditions. That is one of the difficulties in the period 1953-54, 1954-55. It looks as though the pattern of people who invest in building societies was changing outside the data which our best experience gave us. This may be a passing phase, statistically we shall probably, with longer experience, pick it up, but the only solution, of course, to get absolute accuracy would be to have more frequent samples at considerable staff cost, possibly smaller samples, and the building societies might not like that. They might say a smaller sample was not good enough from their point of view.

It is not an easy problem. As I say, it does not always work one way, it has worked the other way.

Mr. Oliver.

152. What is the position, Sir Henry, when a person is an investor in a building society and he does not come within the income tax range? Is he entitled to make a reclaim against the society? —No, he gets his interest—

153. He gets his interest free of tax? —Yes.

154. What about his tax if he is not liable to pay tax?—There is nothing to repay because he has not paid any tax.

155. Of course he has not. He has something to receive from someone? You see what I mean?—I see what you mean, yes.

156. If a person pays £100 in and he is a man with £5 a week he does not pay tax, but when he gets his 3 per cent. or 3½ per cent. from the building society the tax has been deducted. Can he make a claim either against the building society or against the Revenue for that tax?—No, the tax is not deducted. That, I think, is the essence of the arrangement. It is paid free of tax.

157. That is a technical point. It is not from the interest which the investor receives that tax has been deducted?—The building society have under the arrangement paid over the whole range an amount equivalent—

158. What I want to know is, where you get that kind of investor, who gets the advantage? Certainly the man does not because he is only getting 3½ per cent. whereas if it were not tax deducted he would be getting 5 per cent. or 6 per cent., so he loses something. Now somebody must pick that up. It must be either the building society or it must be the Revenue because this man is getting his money with the tax deducted and yet he is not assessable for tax. That is the person I am talking about?—I think you are putting the proposition up the wrong way, are you not?

159. Well, you put it for me?—The building societies pay in tax an amount equivalent to what all the taxpayers concerned, if they paid individually on their holdings in the building society, would pay. Therefore, the building society is

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paying what the investors in building society shares would pay if they paid individually.

160. I dare say. So, therefore, the building society would be paying for some investor who really ought not to be paying tax at all?—No, they are let off that because the calculation is made on the basis that the people who do not pay any tax do not figure in the building society's liabilities.

161. I see. That cannot be quite correct, can it, surely?—The calculation of the amount paid by the building society is based on a sample which includes people paying at the top rate and people paying at nothing, and the total liability of the building society is based on people who pay nothing and people who pay at the maximum.

162. There is just this other point which intrigues me: in paragraph 31 the Comptroller and Auditor General says that the Department attributed "the discrepancy in 1955-56 . . . mainly to a change in the composition of the general body of building society investors which apparently led to a shift in the 'average' building society investor towards the standard rate payer". What is the difference if I—I use myself because it is a pure illustration—if I, a person who gets a small income and pays no tax at all, invest money in the building society—supposing "Ernie" turns up a pretty good figure and I invest in the building society—what influence has that on the figure? It says: "The average investor". Does it make any difference whether it is a rich man or a poor man who invests in the society?—It makes a difference to the compounded rate, yes, because if everyone who invested in building society shares were a taxpayer at the standard rate, the compounded rate would be 8s. 6d. in the pound. If everyone were a small wage earner who paid no tax the compounded rate would be nil, so that in between you have every variety of income. In your case if you, by your luck on "Ernie", came into the income tax bracket in respect of a sum you put into the society, if you were paying at the rate of, say, 6s. 3d., that would be taken into account in the system that we base the compounded rate on.

163. I thought the deduction from the building society was at the standard rate

and nothing other than the standard rate?—No, it is a compounded rate which takes into account the fact that there is a spread from nil to the standard rate.

Mr. West.

164. It means that the poor subsidise the rich?—I do not think it does. (Mr. Curtis.) It means it is averaged out. (Sir Henry Hancock.) That is what I meant.

Mr. Stevens.

165. But this compounded rate which has been the subject of so much consideration a few moments ago is in fact arrived at after the statistical investigation is complete, because I see that in fact the compounded rate is negotiated with the building societies. What factors enter into the negotiations other than the evidence which the statistical investigation yields?—Of course, there is always an element of unclassified cases. You cannot identify in the sample every taxpayer and put him into his proper tax bracket. There are 750,000 in a sample, normally. Well, you may get up to 80,000 or 100,000 unclassified cases. Then, of course, there is an argument where they should be put, whether they should be spread out over the whole range, and so on. These are the sorts of points which enter into the negotiation. Then, of course, it is a matter of argument, how far the pattern of income structure has changed since the last sample was taken, have more people moved into this bracket of tax, or that bracket of tax, and so on. Those are all matters of great difficulty and susceptible of great differences of opinion.

166. That is really an argument in favour of having more frequent statistical investigations, is it not?—Yes. Then you are faced with the really big staff problem of putting 200 people on for about a year to do just this little sample.

167. An investigation carried out at the end of four years takes very much less than four times as long as it would if it were done each year, so you could not employ a smaller number of staff and do it each year? You would have to have the same staff?—That would, of course, be waste because you would be having a constant figure in your staff for this particular purpose.

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168. And of much about the same size that you would require for your four year investigation, anyway?—Probably.

Mr. *Thornton-Kemsley.*

169. I would like to follow up one or two points on paragraph 31. The paragraph states that the Comptroller and Auditor General was unable to receive from you any estimate of the loss of revenue as a result of using the 4s. 10d. and 5s. 4d. rates in 1955-56 and 1956-57 respectively. Do I understand that you have made a rough estimate since?—Yes, we have.

170. That was the figure you gave earlier, £1 million?—Yes, the two figures, £1.1 million and .5 million.

171. So it is £1.6 million together. Now, following on what was asked by the two hon. Members on my right, do you not think that it is more likely that more and more standard rate taxpayers will be attracted to put money in building societies by the fact that the compounded rate is about 5s.?—I think that is happening.

172. It is an advantage to them, is it not?—Yes.

173. So again you could catch that up rather more quickly if you had something more frequently than the four-yearly investigations?—It may only be a transitory phenomenon. Fashions in this sort of thing change very quickly and building societies, of course, are very anxious that they should not be overcharged.

Mr. *Thornton-Kemsley.*] I am sure they are.

Chairman.

174. Just one question on this point of sampling. Statistical sampling techniques have been enormously developed in the last few years. Surely if you have a small staff continuously sampling you ought to get a very accurate picture of the type of investor in building societies, ought you not?—You are talking to the converted, but it is not always easy to persuade the people who are going to be affected about the adequacy of your sampling, as to whether a smaller sample could be made to give accurate results. You have got to persuade the people who are going to pay the money that that is so, of course.

175. You are the assessors, surely? You have the final say in that you assess the building societies?—Yes. but you have to live with these people.

176. Now, paragraph 32. Are you satisfied with these figures, Sir Henry?—The figures in paragraph 32?

177. Yes?—Well, reasonably.

178. I see that in 1956-57, although the total charges raised have dropped, the penalties have jumped up by about 20 per cent?—As I said last year, of course, there is a large element of artificiality in that figure of penalties included. As you know, we include in that tax which we consider due and which is paid outside the period of assessment. Also in cases where fraud comes in we assess back beyond the six years' limit and we include that in the penalties. So, the element for penalties, therefore, includes, in fact, a lot of duty not assessed within the six-year period.

179. Has your policy changed since 1954, then?—No, I think examination of the figures will show—

180. It is more efficient?—Examination suggests that the figures have varied very little over the last four or five years.

Mr. *West.*

181. Except, Sir Henry, that I see in 1957 the number of cases fell and the charges raised increased?—Yes. That is an almost adventitious result of the fact that a lot of small cases came to light as a result of the bank interest returns and that type of case was the easier type to settle. The cases that remain, and the cases which we have been dealing with—some in 1957—are the bigger cases and the more difficult to settle.

182. So that the tendency is that new cases now are larger than they formerly were?—Well, that is a generalisation which might be dangerous. But a lot of the old outstanding cases are the big cases which are being put through the mill now and are more difficult to settle than the cases were in, say, 1955 and 1954. What I am saying accounts for the difference between 1954-1955 and now.

183. How does the number of new cases compare with the number cleared in the year?—It is very hard to say what the number of new cases is. You

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really have got a lot of cases in all offices coming up to various stages of readiness and you do not know until a fairly advanced stage whether you can call it a case or not. I would not like to say how to give you a figure of cases as such; it would be a misleading figure.

Chairman.

184. Just one point. Your number of cases is smaller but the penalties are heavier, and the charges raised are about similar. You mentioned last year that you were rather short of staff for dealing with these cases, or in general you were short of staff. Are you able to dig back more effectively now?—We have got, I think, or shall have, a reasonable staff for doing this job of back duty enquiry work. We are better staffed than at any time since the war. On the other hand, of course, this is a field in which you can always put on more staff and always find more work, but the law of diminishing returns operates and at the moment I think we have struck, on the whole, a fairly good balance.

185. Paragraphs 33-38. I see that no case can be traced where proceedings have been taken under these statutory provisions. How is that?—I think it has been felt to be extremely difficult to prove that the non-disclosure was wilful and in the cases where suspicion and doubt have arisen it has usually been outside the time limit, anyhow.

186. Have you ever tested any cases in the courts?—No, we have not. As you know, we were getting one case into readiness, not necessarily for court action, but we were told by our legal advisers that the basic affidavit was wrong. We have now revised the affidavit but we are still advised that this is a field in which to make the penalties effective we might require legislation. In any case, it remains to be seen whether the effect of trying to apply penalties would produce better results than our present practice. The implication here is that we are missing something. Well, we have very little evidence that we are missing anything and we get the money in the end.

187. On paragraphs 36 and 37, dealing with this question of items which have been deliberately omitted, I understand that you were advised in June, 1955—this is from paragraph 36—that proceedings

are possible in these cases, but you have not taken any?—That is so.

188. Is there any reason for that?—It is the two reasons I mentioned, defective affidavits when we got a case or two on the stocks, and then the normal experiences of finding that even if you wanted to proceed you would be out of time, and the doubts as to the effectiveness of the penalties under the law.

189. What is the remedy, to extend the two-year period?—That would give us more scope. Two years is a very short period because most of these varied cases are cases where you are arguing about some back duty and by the time you have got that cleared up you have passed the two year date. But I think that before anyone embarked on legislation in this field it would be necessary to have some evidence that things are escaping us.

190. It is a question of deliberately escaping, is it not?—Yes. We have got very little evidence that that is happening. As we all know from our experience as executors—I daresay a lot of us have been executors—it is the hardest thing in the world sometimes to find out all the odds and ends of an estate. It is very hard to prove that a non-disclosure is of a deliberate or wilful character.

191. Yes, but presumably these 60 cases referred to were not trivial matters?—No, but it is not always easy to say it was wilful, either.

Mr. West.

192. Sir Henry, in paragraph 35 it is stated that “not infrequently the omission is only brought to light by checks carried out by the Inland Revenue officers”. How much duty would have been involved in the cases that have been brought to light by checks?—I have no figure for that.

193. You have no idea at all?—No.

194. With regard to the two-year time limit for estate duty purposes, how does that compare with the limit laid down for income tax?—There is a three-year limit after death for income tax. There is a six-year limit for income tax and surtax in the case of a person who is alive. Of course, the six-year limit is comparatively recent; it was three years

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until fairly recently. Three years would, I suppose, be a little improvement on two, but six would give you more scope, of course.

195. Do you think the penalty provisions for income tax are strong and effective?—I think so, yes.

196. I think you mentioned that the new affidavit which has been approved by your advisers, you think at present is not sufficient to sustain action?—That was what the lawyers call a difficulty *in limine*. They felt that we were almost estopped by the fact that the affidavit was not adequate from doing anything anyhow, so that was the first step that we had to take.

197. With regard to any proposals for legislation to meet these difficulties you think that you cannot set up a sufficiently strong case to justify legislation being passed by the House?—I think we should have to have some pretty concrete evidence to bring legislation on this topic into the House.

Mr. Stevens.] Just one question: I would like to know why it was that it took the Board of Inland Revenue 61 years to have their doubts about the legal position resolved?

Chairman.] Caution, I should think.

Mr. Stevens.

198. The liability was imposed by the Act of 1894, but the legal position was not apparently resolved until after 1955?—I think—

199. I know you were not personally responsible?—No. I accept my

vicarious responsibility. I think it is that by and large in the long run these things have all been tracked down. Of course, in the past before the practice of gifts in the lifetime of a testator became more common it was perhaps easier than it is now to track down some of these things. But we have pretty effective methods.

Mr. Oliver.

200. Is there any reason in principle, Sir Henry, why there should be this difference between the period of limitation in estate duty as distinct from the income tax cases?—I think Parliament has felt that if the dead man is not there to answer questions you should not leave such a period open as you do in the case of a live taxpayer, that is the six years. The three year period for income tax after death is a compromise, obviously. What Parliament would think about an extension I would not like to say.

201. But according to this Report you miss quite a number by reason of the two-year period?—We do not necessarily miss getting the assets. All we miss is the opportunity of taking proceedings for a penalty and getting double duty, or whatever it is.

202. Presumably, if you would put a penalty on the unfortunate income tax payer it would not be unreasonable to have a penalty on those who would be entitled to receive some of the estate of the deceased person—of the estate; it would be of the estate?—But you have to prove wilful non-disclosure on the part of the trustees.

Mr. Oliver.] Oh, yes, I appreciate that.

THURSDAY, 6TH FEBRUARY, 1958.

Members present:

Sir George Benson, in the Chair.

Mr. Arbuthnot.
Mr. Collins.
Colonel Crosthwaite-Eyre.
Mr. Hoy.

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

Sir FRANK TRIBE, K.C.B., K.B.E., Comptroller and Auditor General, and Mr. J. MACPHERSON, Treasury Officer of Accounts, called in and examined.

TREASURY MINUTE ON PARAGRAPHS 14-17 AND 18-19 OF THE THIRD REPORT OF THE COMMITTEE OF PUBLIC ACCOUNTS, 1956-57.

Sir JOHN HAWTON, K.C.B., Permanent Secretary, Ministry of Health; and Mr. J. ANDERSON, C.B., Secretary, Department of Health for Scotland, called in and examined.

Chairman.] Will Members turn to the Treasury Minute on paragraphs 14-17 of the Third Report of this Committee for 1956-57? I have no questions.

Mr. Collins.

203. Have you any idea, Sir John, when this interim recommendation might be made?—(Sir John Hawton.) The Hinchliffe Committee, you are talking about?

204. Yes?—No, I think in England and Wales the position is that they are finding some difficulty in producing a useful interim report. They are still trying to do so for us, but I do not expect it very imminently.

205. Are you thinking it might be in a matter of weeks?—No.

206. It might be more than a year?—I am guessing, a slightly enlightened guess, perhaps, but I should think somewhere not before nearing the end of the year. I believe the position is better in Scotland.

207. Would you say so, Mr. Anderson?—(Mr. Anderson.) Yes. We received, in fact yesterday, a series of what the Scottish Committee describe as interim suggestions relating almost entirely to the hospital side as opposed to the general practitioner side. As I said, we had them only yesterday and we will examine them as quickly as we can.

208. You, Sir John, feel that there is nothing you can usefully do to hasten this, on the assumption that some half-baked or over-hasty report would not

be very useful?—(Sir John Hawton.) I think we are doing everything we can with the help of the Committee to hasten it, and I may be as usual rather pessimistic. It may well be before then, but I do not think, at any rate, it is going to be for several months. I purposely said, towards the end of the year because I did not want it to go wrong and the Committee later to say I had misinformed them.

Mr. Arbuthnot.

209. Do you mean that the interim report will not be until the end of the year and then a final one after that?—I did not say "until the end of the year," I said, "towards the end of the year"; but it may be a matter of three, four or five months. I am not expecting it as a fairly imminent thing.

210. The final report, then, will presumably be some considerable time after that?—Not necessarily. The final report could come fairly soon after that.

Chairman.] Paragraphs 18-19. I have no questions.

Sir Colin Thornton-Kemsley.

211. I would like to ask the Treasury witness if he can tell the Committee if he knows the latest estimate of the saving which is likely to be realised under the scheme?—(Mr. Macpherson.) It is very difficult to estimate at this stage, Sir. The inquiry has only got so far. I do not know whether the Ministry are in a position to hazard a guess at the results at this point.

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Sir JOHN HAWTON, K.C.B.,
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[Continued.]

212. Can you tell us, then, why the saving is going to be much less than expected?—The Ministry could probably do that better than I can, Sir. I think one of the reasons is that more of the purchases are in the A.1 category in the agreement as reported to the Committee last year, that is, the export category. That is probably one of the primary reasons for this reduction in our expected saving.

213. Yes; of course, this is a Treasury Minute and it is you, the Treasury, who say you think the saving is going "to fall well short of the maximum sum of £½ million." That is why I put the question to you and not to the Department?—Obviously, the Treasury are not central in the investigation. This is a matter for the Department. The Treasury thought that it was right to inform the Committee on the information available to them at the time the Minute was prepared that the expected savings were not likely to amount to the maximum of £½ million, but that was based on information given to us by the Ministry.

214. Then, Sir John, could you tell the Committee about that?—(Sir John Hawton.) Yes, I think so. So far we have covered—by "covered" I mean, gone into the position under the formula explained last year—about 68 per cent.—68 per cent. by value, not amount—of the whole field to be covered, and the savings there we reckon to be £310,000. We have still got more to do. There is another 10 per cent. on top of the 68 per cent. very nearly ready and we shall take, perhaps, a long time to complete 18 per cent., representing separate individual negotiations, which you will remember from last year's report. We are guessing in a way on that evidence. We would say it may not be more than £350,000.

215. Now, how is it that it is going to be so much less than the amount which was anticipated?—One of the factors, as the Treasury say, is that we are getting much less results, in the sense of a lower figure, from the A.1 category. I am sorry to use these formulae, but that is the one where you compare the export price, and on the assumption that export competition must be as keen as any competition today, the home price does not exceed export price if there is enough export performance. That has resulted in a good deal less than we

thought. Whether it is because exports have expanded a great deal, or whether it is because for some reason that formula had the effect of making people think more in terms of export prices, I do not know, but that is the first factor. The second, of course, governs itself, A.2. That is where there is an exact equivalent, so that is all right. But A.3, the one where we apply the formula which, as I told you, was a little hit and miss but which was a formula devised to get quick results, that again has not proved to produce as much as we thought. But still we do not feel, considering the speed of this compared with individual costing investigations of all these firms, that it is too bad if we come out with that.

216. How do you think the export formula is working? Do you think the export formula is working out fairly well?—We still think it works as we anticipated, that competition is the best test you can get because there is no chance of limiting it to two or three ring products in the country, you are dealing with international competition, and if they procure that figure for exports we insist on having the same; and we feel it is working well.

217. Are you meeting with any unexpected difficulties in working out the scheme?—Nothing, I think, which is so very unusual that it should be mentioned to the Committee. One has to remember the size of this thing. I will not bother you with figures, but there are about 4,000 proprietaries and 187 firms engaged in this work; and covering 68 per cent. of the field in value since last June we feel is not bad, particularly as we were unlucky enough to have to start in June just before the holidays and then to meet an Asian 'flu epidemic, but those are minor concerns.

Mr. Collins.

218. Under that system which you are now trying out you base these prices on the current prices of reputable firms, manufacturers of proprietaries. Would increases in price have any effect on the figure at all? It may seem rather a foolish question, so I will explain myself. If prices are increased do you then judge the saving with the prices which would have been in operation had this system not been in effect? Is that how you judge it?—No, the whole point of that

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Sir JOHN HAWTON, K.C.B.,
and Mr. J. ANDERSON, C.B.

[Continued.]

formula which was, as you say, based to start with on reputable firms' prices, but was much more complicated than that as we explained in the Memorandum, the whole of that was based on the assumption and the agreement that there would be no increase in prices whatever except in some perfectly reasonable con-

text of increased costs which were not foreseeable, but normally there is no increase at all.

219. If prices had unavoidably been raised would firms either consult or inform your Department?—Yes, we should be in touch.

CIVIL APPROPRIATION ACCOUNTS, 1956-57 (CLASSES I-V).

CLASS V.

VOTE 5.

NATIONAL HEALTH SERVICE, ENGLAND AND WALES.

VOTE 11.

NATIONAL HEALTH SERVICE, SCOTLAND.

Chairman.

220. Will Members turn to the Civil Appropriation Accounts (Classes I-V), to page xiv, paragraphs 46-48 of the Comptroller and Auditor General's Report? Sir John, in your Estimates you do not analyse out your detailed works expenditure on capital account like other Civil Departments do?—(Sir John Hawton.) Well, there are no quite similar departments carrying the whole of this kind of service on the Exchequer, of course, but we do not, or have not, analysed the capital expenditure in the Appropriation Account though we have done something which ultimately appears in the Summary Account.

221. That is the Summary Account of the hospitals?—Yes. Here, perhaps, I may shorten your proceedings a little because we have been going into this with the Treasury and we have, I think, now reached an agreement.—(Mr. Macpherson.) Yes, subject to further consideration on some minor points. There is an appendix that we hope to get into the 1958-59 Estimates in a form which will show the capital works new and in progress.

222. And we shall get something similar in the Appropriation Accounts?—The normal procedure in the Appropriation Accounts that applies in the case of other Departments, like the Ministry of Works. There will be an appendix there showing those cases where there has been a major variation and you will, of course, get in the normal way the works statement furnished to the Committee.

223. Or in the way the University Grants Committee do?—I am thinking of the ordinary works statements that the Departments provide to the Committee.

224. Mr. Anderson?—(Mr. Anderson.) Yes, we have been in touch with these discussions, Sir, and the same arrangement would apply in Scotland.

225. So, in effect, you are going to provide us with all the information that we might require?—(Mr. Macpherson.) It will be information for the Committee which will be comparable with that which appears in the Estimates of the other Departments.

Chairman.] Paragraph 49. I have no questions.

Mr. Collins.

226. On capital allocation, Sir John, you require the Boards to ensure that over-spending is avoided. How far are they successful in this?—(Sir John Hawton.) Oh, very successful. Indeed, because in our capital allowance, if I may call it so, for the Service there has been a fairly recent expansion compared with other social services—the Health Service has had, if I may say so, a rather meagre capital allowance—it has to hurry to get the slightly expanded one going, and it tends to underspend rather than overspend. I hope that will be put right.

227. The trouble is that in the Report the Comptroller and Auditor General says: "These sums are allocated mainly on a population basis"?—Yes.

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and Mr. J. ANDERSON, C.B.

[Continued.]

228. Surely there is an exception to that in the case of capital expenditure on mental health?—Yes, in any allocation we do keep back a certain amount of centrally held money which we use for mental deficiency and mental hospitals especially, also for plant replacement, which we think has to be kept as a separate priority, and for some major schemes. Then we distribute the rest.

229. I was thinking of what was originally called the "mental million" and was subsequently added to. Is that not separately allocated altogether?—Boards can, of course, with approval use some of their own allocation on mental hospitals and on anything else, with approval, for their capital schemes, but to ensure the priority of mental hospitals concerned, we do keep centrally a sum of money which we can in any year devote to where we see in the country the need is greatest.

230. But is it not the case that originally Boards were specifically invited to submit schemes in respect of mental hospital and mental deficiency establishment development to provide more beds?—The Boards have a very big say in submitting proposals for the use of the bit we keep back.

231. If they should underspend, say, on revenue, would you permit them to transfer to capital account and *vice versa*?—Not on revenue to capital, no.

232. On capital to revenue?—No, we keep the two quite separate.

233. Have you found that on capital account Regional Boards have been inclined for various quite good reasons towards the end of the financial year to switch capital schemes?—Capital schemes of any value can only be altered or changed with our approval.

234. Yes, but the allocations to Regional Boards are in any case comparatively small. Have you not found, for example, that a £10,000 or £15,000 scheme which could not be implemented has been exchanged for several smaller schemes which could?—I think it may happen sometimes on that scale, but not on any major scale.

235. Mr. Anderson, is this position with regard to underspending on revenue and possible transfer to capital possible in Scotland?—(Mr. Anderson.) No, we are equally strict on that point.

236. And similarly they cannot transfer a deficiency expenditure on capital to revenue?—No.

237. Would you agree, then, that that fact would encourage Regional Boards to ensure—by proper means—that there was no underspending on their allocation?—Oh, there is a natural encouragement to them to do their planning properly in advance and to ensure that they keep up to date with the performance.

238. You will be aware that for reasons often beyond their control, however well they plan, they cannot always implement within a given period?—Yes.

239. Therefore, there is this encouragement to transfer to other quite essential capital expenditure which might be a second priority?—Yes, I see your point. I do not think we have any evidence that that goes on on any considerable scale and certainly not with any major projects.

240. It could not happen on really major projects, of course, but it could and in my experience most certainly does in others. In a case, Sir John, of a major scheme, £50,000 or £100,000 where expenditure lagged behind the expected, would the Regional Board be thereby handicapped in that regard in the allocation for the following year?—(Sir John Hawton.) In carrying out the capital programme, recently, as the Treasury will agree, we have been faced with a slight carry-forward of schemes from the first year into the second as in fact through the circumstances of the first year you could not carry out the first year's projects and the Treasury have approved that. I do not want to suggest that that is necessarily the standard practice. It was to get this thing started.

Mr. Collins.] I have in mind that for four years about November it was my job as chairman of a mental health committee of a Regional Board to make quite sure that all our allocation was spent before the following March.

Mr. Arbuthnot.

241. Sir John, the Comptroller and Auditor General says that "Departments allocate the greater part of these sums, mainly on a population basis, to Boards". How do those figures work out? What is the greater part and what is the balance and what is the proportion?—I do not think we have got any

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[Continued.]

fixed quota. You see, every one of the Boards comes to the Ministry with proposals of how much it wants for the year and each one is considered on merits. To start with, you take as your main proposition the population of the area, as being obviously your main criterion of judging the needs of the area. I would not say it is X per cent. or anything of that sort, but it is treated on its merits each year.

242. You keep back what, 40 per cent. or 5 per cent.?—I am sorry, I am afraid I have not the figure here for what we keep back. It depends on what schemes we think should be centrally financed. It must vary slightly because we must know what the need is, for example, for one new hospital and we must judge a little bit each year and go along as we find it.

243. Is 5 nearer the figure than 40?—Oh, I should not have thought so much, but I cannot give you the actual figure. I do not want to fail to help you. I can, of course, I am sure, find out what in fact the figures have been over recent years and let you have them, if they will help you.

244. I just want to get a picture of this thing?—No, it is much smaller. Otherwise there would not be anything left to distribute to Boards. They get little enough as it is.

245. Are you satisfied a population basis is the correct basis on which to make your allocations, quite regardless of how backward some particular area may be?—No, that is why it is not the only basis but we think that the population basis is a pretty good means test as to the need for beds of all kinds in a given area, but of course it is not the only one. There may be a crying need for some mental or mental deficiency institution in a particular area which has to be taken into account against it and that may need to be met from the sum which you hold back at the centre.

246. And the mental sum, so to speak, is in the part that is held back, is that so?—Yes, we hold back three things, you see. We hold back a sum which is expressly for mental work. We also hold back a sum which is expressly for the very vital need, although it sounds dull, of plant replacement, because in the run-

ning of this capital programme we are in grave danger of things breaking down; and we hold back something for a small number of major schemes which would be too big to be done out of normal regional allocations.

Mr. Ramsden.

247. Sir John, when Mr. Collins talked about switching at the time of the year, to make sure that the allocations were spent you said that might happen?—If they are small schemes and to a small degree, not anything big.

248. I thought you mentioned a figure of £15,000, or something?—No.

249. What would be the order of magnitude of a scheme? Might it carry over £5,000?—I am just trying to think if I can really give you a figure which will not be misleading. By "small" I mean minor or small schemes in which it is obviously sensible that one can be put in place of another. I am not suggesting anything up to £30,000 schemes, but over £30,000 would need the express approval of the Minister, anyway, at all times whether it is switched or not.

Mr. Collins.

250. In these factors that you mentioned, Sir John, do you have regard, say, to the presence of a number of wartime evacuees who may be still in a particular region? I have in mind the South West which has the highest proportion of mental health and mental deficiency cases?—When I say "population" I mean people who are liable to require hospital attention.

Chairman.

251. Paragraph 50. Sir John, do Regional Hospital Boards and Boards of Governors have the same power of expenditure without consent?—The position of a Regional Board, of course, is set out here; the limit has been increased. They are the same.

252. They both have the same power to spend £30,000? Would you regard the staff of the Board of Governors of a teaching hospital as being as well equipped as a Regional Hospital Board to deal with building schemes?—I think we are getting very near one of the later items on the Committee's Agenda this afternoon.



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[Continued.]

253. No, this is a general question ; the other is specific?—Normally, I think the existing Board of Governors schemes are necessarily on a much smaller scale than any Regional schemes.

254. What about the relaxation of control that took place last November? Has that taken much work off the shoulders of the Department?—Of course, from our point of view, purely selfishly, it is a small quantity. Departmentally we would like it to go further. We quite understand why it cannot, but the Guillebaud Committee recommended that it should go further. It is all governed, you see, by ceiling allocations so it does not in fact cost the Exchequer any more.

255. No, I was only just wondering how far it had justified itself in relieving the Department of unnecessary work?—I should say it relieves delays and rather those petty things which irritate both Boards and ourselves.

256. It works smoothly?—Yes, I think so.

257. Mr. Anderson, what about Scotland? Do you agree with that?—(Mr. Anderson.) Yes, I think so, Sir. It is a move in the right direction.

258. Now this question of formulation of building standards which seems to have proved extremely successful in schools. How far have you got with that?—(Sir John Hawton.) Of course we started later. The schools started a good deal earlier, and if I may say so without any odious comparison, it is much easier to produce a standard school than to produce a standard hospital. The variety and needs of a hospital are so much different from those of the various types of school and it is a much more difficult process. But we have got a unit in being and we have got under way now. I do not want to bore you, but to show you the kind of thing, we are producing *that* kind of document. That is an operating theatre with diagrams and general sort of guidance and information. We are engaged on doing others, nurses' homes and a few others, the ones which lend themselves most to standardisation. But one of our handicaps is that we have not got a very big unit. We have only got three technical people on this because they are all we have got to spare. Education has 22 engaged on it, we have three. We have taken this up with the

Treasury and they have been very sympathetic about it, considering how sympathetic you can be in these days, and I think perhaps we shall be able to extend this unit. Perhaps the Treasury would say if I am wrong there.

259. Mr. Macpherson, has your sympathy overcome you?—(Mr. Macpherson.) Although the Civil Service establishment ceilings are still a problem we will consider sympathetically this further expansion in the unit.

260. Surely, if you do expand the number of officers, there ought to be a very much larger saving than the salary costs?—We certainly hope it will pay dividends in that way.

261. You are considering it?—Yes, we are. (Mr. Anderson.) I entirely agree, of course, with what Sir John Hawton has said about the limits to which standardisation can be applied in hospitals. It is not nearly so easy as in other fields. In Scotland we are, if I may say so, even worse off than in England in that we have been able to assign no staffs specifically to this duty at all. We do, of course, get the benefit of the English studies and we have achieved some modest successes partly through our own efforts and partly through applying English doctrines. If I might just mention one point in regard to nurses' homes, which does appear to be one item which lends itself to pre-planning, we have been able over the last eight or nine years to reduce the general cost per place from about £1,400 to a little over £1,000. Those are in specific cases. Similarly, in regard to mental deficiency pavilions there has been some saving achieved through standardisation.

262. So you have not merely held your own against rising costs but you have actually improved on your earlier prices?—In these two spheres, yes.

263. That is a very considerable advantage?—Yes.

Mr. Hoy.

264. Mr. Anderson, do you mean you have no staff on schools either?—No, on standardisation of hospitals.

265. But you have a similar staff dealing with schools?—In the other Department, yes.

266. You do not know the size of that?—I could not tell you.

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[Continued.]

267. May I just ask you one further question about modernisation? You know considerable modernisation has taken place at all hospitals. Is that a standard plan? I am thinking, for instance, of the very fine job which has been done in the Edinburgh Royal Infirmary. I do not know whether you pay for it or whether the Infirmary does itself, but a very fine job has been done. Is that sort of thing passed round the other Hospital Boards?—Not, I think, as such. What happens, of course, when a job of that kind is done is that our technical staff know of it and when the next job of a similar kind comes up they will be able to apply that knowledge to the new problem.

Mr. Collins.

268. Sir John, on the point of standardisation did you not in 1953 or 1954 produce plans for a standard 50 bed unit or 100 bed unit which were circulated to the Regional Boards for their information?—(Sir John Hawton.) Not for general purposes. We did, I think, do something of that kind for mental.

269. Yes?—That is what I meant when I made a comparison with schools, you cannot produce a standard ward which will serve equally for gynaecology and mental and surgical and general sick work.

270. One would quite agree with that. You did do that in that particular case, and did it prove quite helpful to a number of other Boards?—I hope so.

271. Could you just give us an idea of what commonly is the order of capital allocation to a Regional Board? Is it from £100,000 to £200,000, or something like that?—For all purposes?

272. For capital allocation currently?—For all purposes?

273. Yes?—I cannot do the arithmetic; it is being done for me. Something over £1 million, on the average, for all purposes.

274. Not for one Board, surely?—Yes.

275. For capital purposes for one Board?—Yes, it is, roughly speaking, £18 million over 14.

276. And there are 14 Regional Boards?—There are 14 Regional Boards.

277. So it is a division of £18 million into 14 Boards, I see. What is the comparable figure, then, for a teaching hospital?—It would be very much smaller, of course. May I just say what kind of order I think it would be without being tied to actual figures?

278. Yes, that is what I have in mind?—Up to £100,000. (Sir Frank Tribe.) One can tell roughly from the expenditure in 1956-57, on page 286. £9½ million was spent by Regional Hospital Boards and just on £2 million by teaching hospitals. (Sir John Hawton.) Of course, the capital allocation has gone up.

279. Yes. The allocation to the teaching hospitals cannot be on a population basis. On what basis is that made?—On the basis of what they can show they need.

280. That is why on a basis of beds the allocations to teaching hospitals and Regional Hospital Boards are so unequal, I assume?—Yes, one of the reasons.

281. Largely, then, the teaching hospitals get what they need and the Regional Boards get what they can?—No, I am so sorry. The teaching hospitals come and say what they need. It does not mean they necessarily get it.

282. On the basis of per bed they get very much more than the hospitals within the Regional Areas?—May I make it quite clear in case either a teaching hospital or a Regional Board ever reads the record that neither of them, in their own opinion, ever gets as much as they think they should.

Chairman.

283. Now, paragraphs 51-55. Sir John, what is this teaching hospital? What is the name of it?—This teaching hospital, the Radcliffe Infirmary with its associated hospitals in Oxford.

285. What was the origin and the particular purpose of the development?—It started with the idea of providing—I am talking from memory I am afraid now—a new department of medicine and then a department of surgery for new professorships there, and then it gradually enlarged into more ambitious projects which I think I need not amplify because I think they are very well set out by the Comptroller and Auditor General, but I could answer questions.

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To give you the whole story would take a very long time.

286. I notice from the top of page xvi that, having carried out work to the extent of £76,000, it was argued that that gave you a basis for prices and rates?—Yes.

287. On a job which will ultimately cost over £1 million?—At that point, if I may go back to that point of the £76,000, it was decided to take a quite unusual course and for the remaining phases of that stage of the work to use the same contractor, basing the charges on the evidence of his first contract, instead of going out and running the risk of having two contractors working on an extremely congested site which is really all tied up with the existing hospital and could not be divided up. So far, I think that was agreed with the Treasury.

288. Am I to understand that you felt that the £76,000 was a reasonable job and, therefore, you could trust the contractor, or was there any suggestion that the prices charged were a guide to the rest of the work? There are two entirely different modes of approach there?—Yes, the contractor originally was given a contract for work estimated at £76,000. Then he was allowed, and this is quite unusual—I want to make quite clear this is not our usual practice at all—he was allowed for the special reasons to go on to do work which was later estimated at £256,000 and actually in the end cost about £463,000.

Mr. Hoy.

289. Just for the sake of the record did you say £256,000?—Yes.

290. I thought it was £286,000?—No, I am sorry, £256,000 and £463,000 in round numbers.

Chairman.

291. What I have not got at is exactly what part the £76,000 plays in the decision you took to go ahead with this one contractor. Generally you have bills of quantities?—Yes, for the initial contract, all in the normal way.

292. For the £76,000?—Yes.

293. Yes, but a contract of £76,000 and a contract which eventually ends up at over £1 million are two fundamentally different things?—Yes, quite.

294. What I want to know is, what bearing has the £76,000 on the decision

to give him work which ultimately cost £1 million?—I think it is necessary if I may, just to give you a little background.

295. If you would?—This scheme started as the first stage of a master plan to take ten years for the major alteration and expansion and making of a first class hospital in Oxford. That was the start of it. Now, it has gone by degrees and it has followed a quite unorthodox course all the way through, a course which has quite often worried the Treasury but which in the end I think they have decided has produced results which, although the methods were wrong, do not amount to any obvious loss to the Exchequer and which would have been the kind of figures approved even if the normal procedure had been followed. But that does not excuse the methods. Now, the reason for that method is extreme pressure by the University on the Board of Governors for speed on everything in order to get the professors they wanted installed; and that has probably produced not only these unorthodoxies, but induced the Board of Governors, as you will see, very often to go ahead without approval with further stages even after having been warned by us and has produced the kind of confusion here which is in no way representative of our normal method. It is now, I think, quite clear that this kind of method, even in this one case, must not be employed again, and this one case is finished because we have now established absolutely finally with the Board of Governors that from now on everyone conforms to the proper procedure, speed or no speed, and that has been established. The Board of Governors have also got one or two reinforcements in the way of administrators and surveyors who are now taking over a lot of the handling of this which has not, perhaps, been without confusion on their part in the past.

296. It certainly seems to suggest that you locked the stable door well after the horse had gone?—I am not excusing the method at all, I think everyone was rushed on this, but it would be much more serious if we felt that the results were such that in a more orthodox way we should not have approved. We do not feel that. We do not feel that in any substantial way there were any Exchequer losses. We only feel that the Board of Governors should have

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behaved with a great deal more discretion, should have heeded a great deal more our earlier warnings—and they will in future—and should not have been pushed so hard by the University.

297. What evidence have you that all this haste has not led to additional cost?—Because this scheme has changed its nature all the way along. It started with what I have told you and all the way along they have found that they have not estimated for the necessary expansion of works and other things which such a scheme involved and also they have found that as they went along they had to do a great many improvements and enlargements of the department of surgery and that of the Regius Professor there and that in turn meant altering some of the ward arrangements there. This thing has constantly produced new problems involving new capital works, much of which we feel on advice we have to have been of the kind we should have approved. But I am not for one second defending the method.

298. I am not concerned with what they have done so much as I am concerned with how they have done it. Are you proposing to tell the Committee that you start on a scheme which will cost £76,000 and end up with a scheme which will ultimately cost £1 million?—Not the same scheme, of course.

299. I know, not the same scheme, certainly not. I am not suggesting you will spend £1 million on that only but a scheme which clearly was never thought out, which was improvised from hand to mouth. Are you suggesting that that type of scheme must not cost a great deal more than it would have cost if the whole thing had been properly planned?—Our own technical people advise that it has not in the end cost more. I quite agree with what you say, the method is the thing which went wrong and the method has been one which I would call—I think I must say it—an unenlightened rush.

300. Your technical people still say that having got—?—They say the result is all right.

301. The result may be all right. What about the cost?—I meant the result in cost.

302. Your bills of quantities show that?—They feel that we should have in the end approved this. I do not

think, however much it is naturally distasteful to the Treasury, that they would disagree entirely with that.

303. Let me get this clear. When you say they approved it do you mean that your technical people have weighed up bills of quantities and the whole probable cost of building this hospital as if it had been planned and ordered from the beginning?—They have weighed up what they would normally weigh up. There are exceptions, bills of quantities for power plant, and things of that sort, but they have weighed up what they would normally weigh up in the scheme submitted to them. But I am not excusing for one second the way this has been handled by all concerned.

304. Have your technical people costed that?—In the way they would if it had come to them normally and they have said “All right”.

305. What does that mean? Have they definitely costed it on bills of quantities?—So I believe. I am not technical, but I am told so.

306. They assure you that had this been properly planned from the beginning it would have cost no less than it has cost now?—If it had been known that a scheme of this magnitude at the beginning was going to happen they feel it is one they would have approved.

307. That is not the point?—When I say “approval” we take that into account when we approve.

308. No, my question was how much more has this method of building this hospital cost than it would have done if the whole scheme had been properly approved and properly thought out before it started?—I am told that we are satisfied that it has not cost substantially any more. I do not know whether there might have been a small difference, but nothing serious. Might I just say one thing, because I do want this on record: this method is not a thing which we would propose ever to adopt and we think we have stopped this one for the rest of the work for further expansion. It is a perfectly fair criticism, if I may say so, of this scheme but not of our normal methods of capital building.

309. Exactly, your normal methods, surely, would not be to allow somebody

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who is not paying the bill but who is making you liable to go on haphazardly doing what they wished without any consultation with you?—Consultation went on. They often came to us on sections. When we found what was happening we ticked them off—if I may use that phrase—thoroughly.

Mr. Hoy.

310. And they paid no attention?—They are now, if I may say so, paying attention.

Chairman.

311. Now that the job has been done?—The job has not yet been done. This part of phase I of a major operation over ten years has been done or practically finished. There are two little bits to finish. It is getting near completion, but there are more capital works to come as part of the plan, and on this we have made it quite clear that there will be no approval whatever unless every normal procedure is followed, even if it takes longer. They have, of course, accepted that.

312. In the middle of paragraph 53 the Comptroller and Auditor General says: "The revised estimates for those parts of the scheme on which work has started totalled"—so and so—"compared with £286,000 originally estimated". So, your original estimate was £286,000 and it cost over £1 million. It cost over four times as much as your original estimate, is that correct?—No, that is not right. Those figures are not comparable. (Sir Frank Tribe.) I think the May 1955 estimate was £434,000. (Mr. Macpherson.) That is the comparable figure, Sir. (Sir Frank Tribe.) By December, 1957, that had risen to £1,007,000. (Sir John Hawton.) But not, if I may say so, for the same things, for a number of additional things added to the scheme. (Sir Frank Tribe.) Certainly. (Sir John Hawton.) The scheme has been growing all the time.

313. Sir John, have you heard of the Jodrell Bank telescope? It is a magnificent telescope, the best in the world, and I have no doubt that the change in the specification was entirely justified scientifically, but I understand from the Press that the Department of Scientific and Industrial Research have point blank refused to pay for it. Is there any

reason why the Ministry of Health should be landed into this wild additional expense without prior consultation?—The lack of prior consultation was, I agree, serious but we think that the scheme in its enlarged form is well worth having.

314. So is the Jodrell Bank telescope?—I am sorry, I meant bearing in mind the limitations which we have and which are so well known, really, on the expenditure for the Service.

315. Yes, but surely you cannot just sit back and say because the Board of Governors have made a good job of it therefore you are going to allow them to get away with this type of expenditure of Government money?—But we should have approved this particular scheme.

316. Yes, no doubt. The D.S.I.R. might have approved the alteration in the Jodrell Bank telescope?—Yes, but there is a difference.

317. Sir John, the whole basis on which Government money is expended is that there is Treasury control and Departmental control; and the business of this Committee is not to assess the value of a piece of work done. That is not a matter for this Committee. This Committee has to assess whether the normal rules of accounting were maintained and here they have not been?—At one stage they have not been in point of time, but the normal rules of accounting, I think, have been maintained in the sense that within the amount which Parliament allows us to spend we should say that this, as compared with things we could have done otherwise, is still most valuable.

318. The point is that here you have got a Board of Governors who completely flouted the whole method of Parliamentary control. Is there any reason why you should not ask them to contribute to the cost? What are the investments of the hospital, roughly, have you any idea?—We have asked and obtained a very big contribution from the University to the cost.

319. How much?—£200,000 odd, I think £202,000, but they got it, I think, from sources like the Nuffield Trust, and so on. They have in fact agreed to contribute that. We have asked the Treasury—they will correct me if I am

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wrong—whether we should seek further money from the University and I think a decision has been reached not to do so on the ground that it would involve the University Grants Committee and only be another way of getting money from the Exchequer.

320. Mr. Macpherson, why should it involve the University Grants Committee?—(Mr. Macpherson.) We do not think it should, Sir.

321. Exactly. My own opinion is that it should not. But surely you can ask the University or the hospital for a further contribution and bar any additional contribution from the University Grants Committee?—I understand that soundings have been made by the Board of the University for a further voluntary contribution and they have been told that none will be forthcoming.

322. From the University Grants Committee?—No, from the University. (Sir Frank Tribe.) Might I say, in answer to the previous question, I have no knowledge of what the investments of this Board of Governors are. I do not know whether the Ministry have.

323. Has the expenditure been approved? Did it not occur to the Department to tell the University that as they had simply cut the Treasury in this way they must face the expenditure?—(Sir John Hawton.) Some of this is still not settled. Some is still being discussed.

324. The £200,000 contribution is against what has been settled?—Yes.

325. Is there any reason why the Ministry should find another penny for the unsettled money?—We want this scheme. We want a great many things like the telescope you mentioned, but unlike other Departments perhaps we are working within a fixed allocation and we could say we wanted another scheme more, but we think this is a scheme worth keeping. We do not think this method of starting it was a good one but we think it worth going on with but now under proper machinery.

326. The question is that if you allow the University to escape what is to prevent some other University doing exactly the same thing?—I do not quite know what you mean when you say we allowed the University to escape.

327. The University come to you with a scheme costing £½ million, or whatever

it may be, and end up with one of over £1 million without consultation and without proper approval?—Forgive me, that was not the University which did that. It was the Board of Governors of the hospital.

328. I am sorry, it is the Hospital Committee?—Under pressure from the University.

329. I do not care where the pressure comes from. The Board of Governors did it. Why should they escape?—They have not escaped, because from now on we have stopped it and we have no reason whatever to think that we cannot stop it everywhere else.

330. If an Accounting Officer did a thing like that he would be in danger of being disallowed. I do not see why an entirely independent body should be allowed to spend money on this scale?—Even supposing that there was something in the final result which was reprehensible, not the method but that the final financial result was reprehensible, to take your analogy of the Accounting Officer, one must realise that the Board of Governors cannot be surcharged by the statute. We have no power to surcharge them.

331. No, but who spent the money, the Ministry of Health or the Board of Governors?—It goes to the Board of Governors as an allocation from the Ministry of Health.

332. No, who has spent the money?—The Exchequer.

Mr. Hoy.] They only provided it.

Chairman.

333. No, who gave the order to the builders?—The agents of the Minister, the Board of Governors.

334. The Board of Governors, but they exceeded their agency powers, surely?—They have been told so and roundly rebuked for it and in future will not do it again.

335. Mr. Macpherson, have you anything to add to this melancholy tale?—(Mr. Macpherson.) I certainly agree with Sir John in deploring the methods. The schedule of rates is a very unusual method and is something that the Treasury agreed to on two grounds, that the job was very urgent and, secondly, that it was a very congested site. I must admit, however, that when this method was put to us in April, I think, of 1955

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we were under the impression that it applied only to the first £155,000 worth of the contract i.e. the £76,000 worth which would be specified in terms of bills of quantity would only be expanded from that point to £155,000. But later the Ministry came along with the proposal for the full scheme or that part of the scheme costing £434,000. We with some misgiving did agree for the same reasons to the use of this schedule of rates procedure. But two points arise. One is whether the organisation of the Board was really competent enough or big enough to deal with a scheme of this size and, two, whether it is a fact that this abnormal contracting arrangement did lead them into confusion and thereby their control was in the event much less than it ought to have been. But we agree with the Department about the method and we have in fact sought assurance from the Department that the reporting system by the hospital organisation to the Ministry is such that any cases of this sort will be revealed in the reports at an early stage so that the Ministry can intervene if they see things are going wrong. (Sir John Hawton.) May I just add, on the reporting system, I should have said that we have a quarterly reporting system so that we can keep a complete check quarter by quarter on what is happening.

336. Here or at all hospitals?—Everywhere, all capital works. I mean, on any scheme of any magnitude.

Mr. Collins.

337. Sir John, in reply to earlier questions you have described this scheme as the first stage in a master plan and also as an "unenlightened rush"?—Perhaps I should not have used those words in an official capacity but it seemed to me they got very near to describing what happened at the beginning.

338. What words would you suggest should be expunged from the record, the "master plan" or "the unenlightened rush"?—I am inclined not to expunge either.

339. I take it that this Radcliffe Infirmary was and is a teaching hospital which was being expanded?—Yes, that is the whole point.

340. How many additional beds are going to be provided in this stage of the plan, up to the £1 million?—The primary reason for expansion is not

additional beds, it is expansion of teaching facilities and professorial facilities in the University. I cannot tell you whether and how many additional beds incidentally will result from that, but the point is that it is mainly to provide teaching departments including laboratories and things of that sort.

341. It is mainly for teaching and there may not be any very substantial increase in bed accommodation?—I think there will be, but I am not sure of the figure. (Sir Frank Tribe.) I understand there are going to be 92 additional beds in all, 50 in the department of medicine and 42 in the department of surgery. (Sir John Hawton.) That is in stage one. (Sir Frank Tribe.) Of course, all this is being done under the National Health Service Acts which I understand only permit the grant of money by the Ministry in respect of clinical teaching and research. What exactly "clinical" means I have been unable to discover, but I always understood it was associated with people in beds.

342. The point as far as you see it, Sir John, is that the major part of this expenditure of £1 million plus is in respect of teaching and not the treatment?—(Sir John Hawton.) The main purpose is to expand this as a centre of teaching.

343. You will agree that the original proposition submitted to your Department was that the University or the Board of Governors should bear something like 45 per cent. of the estimated cost?—I have not translated it into a percentage, but it was a lump sum. I take that from you.

344. It was some £200,000 as compared with £434,000. In the event it appears likely that they will only bear 20 per cent. of the actual cost?—Yes.

345. Is it likely that you would have approved this scheme if it had been presented to you in that form?—We think we should have approved this scheme.

346. You think that the fact that only 20 per cent. out of the £1 million was going to be provided by the University as compared with nearly 50 per cent. out of £434,000 would not have made any difference?—No, we right at the beginning undertook to bear the cost of this scheme apart from that contribution.

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[Continued.]

347. You said that it was due to extreme pressure by the University on the Board of Governors in order to get the professors installed that there was this extreme urgency?—That was one of the main factors.

348. You appear not to have any effective control over that. But surely there is an extraordinary dichotomy, at least on treatment, in a case of this kind as compared with your actions in relation, say, to Regional Boards who must have any expenditure approved in excess of £30,000—now possibly £60,000. Why should you give way to such pressure when in another case you have not given way?—But we did not give way to pressure. The point here is that the thing which you are mentioning went wrong in this isolated case in the sense that in spite of being told that they must get approval at each stage the Board of Governors did in fact go on with works which had not been submitted for approval. They were works which if they had been submitted we should have approved, but they made the mistake and they are to blame for it, as we have told them, for doing it without waiting for approval. There is no difference normally in a teaching hospital, they must get approval.

349. But then if a somewhat similar thing had happened in the Regional Board surely you would have had them on the carpet and said: "There will be no more capital allocation for you until you have worked off what you have spent. You will not get any next year or the year after that for so long as you have miscondacted yourselves"?—We do not want to penalise the hospital service for the sake of a mistake. That would be to say that the people would lose a hospital service until these people had done something. Here we are satisfied that the value for money is all right and so we have done the obvious thing and thoroughly stopped this mistake of method from now on.

350. But is it not plain that because this money has been excessively spent at Oxford, excessive that is, to the estimate, there must be some cut somewhere else? There will be some other part of the hospital service in some other region or some other part of the country that people will not be able to use thereby, or will you get this extra money in any case?—This thing goes on over years.

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This plan is going on for years. It would be part of our decision to allocate money to them.

350A. But in this year under review the extra money that was spent by these Governors without precise approval must have been lopped off somewhere else, is that not the case?—No, I do not think we are quite getting this right. You see, the idea seems to be that the Board of Governors had in fact spent more at any given time than they should have spent. The real point is not, I think, that they spent more than they should have spent but that they have not observed the duty of coming to us first before doing so.

351. I am trying to understand this. I understand, and it is clearly stated here, that schemes on which work had started totalled £462,000 compared with £286,000 originally estimated. When that £462,000 worth of work had finished surely that resulted in an increased expenditure of £176,000 above what you had anticipated?—But it is included if you look at it over the right period in our allocation of capital.

352. Very well, then, if it was spent more quickly in the particular year it must have meant either a Supplementary Estimate or an underspending somewhere else. Which was it? Did you have a Supplementary Estimate for this?—I think the answer is, as I said earlier, that as we were underspending on capital account it did not mean either.

353. You said this scheme in its enlarged form is well worth having, and I for one would be very prepared to accept that. But would you accept that in 1954 in the South-Western Region Hospital Area the Mental Health Committee had schemes which had been approved by the Board which all were as well worth having, totalling £2½ million, against which their capital allocation was £35,000. They were all worth while having. Is it not the case that you have approved this scheme which was well worth having under pressure of the University of Oxford and under no conditions whatever could you or would you have approved other schemes well worth having which had come from Regional Hospital Boards?—No, that is not true. We have not approved this under pressure from the University. The action of

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the Board in going ahead quickly without seeking prior approval and delaying it was under pressure from the University but our approval was not. We have approved it very much as free agents.

354. If it is not approval it must be post-condonation?—I would call it approval and on your main point—there is nothing novel in it—we are confronted the whole time with a choice between whether scheme A is worth it or scheme B, which is certainly necessary, is worth giving priority, or scheme C. If we could do all the things which are really worth doing we should need a much bigger allocation.

355. In his Report Sir Frank says that your Department were satisfied that this position arose out of a genuine misunderstanding on the part of the Governors. What then did they understand? Did they understand they could spend as they liked without consultation? What did they understand they could do?—They understood, I suppose, that they could get on with the scheme and tell us afterwards or tell us as they went along and not necessarily before the event whereas the thing which is now made abundantly clear to all of them is that they must all come to us in advance.

356. That was, for men of their position, quite an extraordinary misunderstanding?—I think it is most regrettable the way the Board behaved. I do not think it is the result which is reprehensible in the scheme.

357. In the Report the Comptroller and Auditor General says: "The Ministry would look to the University for further funds" and subsequently that that could only be related to teaching. You have now said that the greater part of this scheme will be in respect of teaching. Are you now going to take steps to press for a higher sum than this £202,000 which they have now promised?—We have to provide under the Act facilities for clinical teaching. We do not provide the salaries of the teachers but we have to provide the facilities for teaching. This contribution by the University was a share thrown in. We could go to them for more but we have, I think, agreed that under all the circumstances it is not worth doing.

358. Mr. Macpherson, "The Treasury were assured that the Ministry would look to the University for further funds

if the cost of the teaching segment of the scheme exceeded expectations". It has exceeded expectations. Is the Treasury satisfied or will you go to the University for a further contribution?—(Mr. Macpherson.) As Sir John has said, we have considered this and we have come to the conclusion that no advantage is to be gained from going to the University for a further contribution because we understand that the University have told the Board of Governors that they are unable or unwilling to provide any further sums voluntarily. Otherwise any contribution from them would mean an application by them to the University Grants Committee which in turn would be a drain on the Exchequer.

Mr. Hoy.

359. Sir John, I was interested to hear you say just now that you have got to provide certain facilities in teaching hospitals. What facilities in a teaching hospital does the Act require Boards of Governors to provide?—(Sir John Hawton.) Facilities for the teachers who come in with their allocations of beds to get on with the teaching of students.

360. It is difficult to find this. Where does it say this in the Act?—(Mr. Macpherson.) It is section 12 subsection (3). It says: "It shall be the duty of the Board of Governors of every teaching hospital . . . generally to manage and control the hospital on behalf of the Minister, and in particular—(a) to provide for the University with which the hospital is associated such facilities as appear to the Minister to be required for clinical teaching and research".

361. "As appear to the Minister to be required." But the Minister was not even consulted. You were not consulted about this, Sir John; you do not know whether it was reasonable or whether you had ever agreed it was reasonable or unreasonable. It was all done before you ever started?—(Sir John Hawton.) There are two statements there, one is we were not consulted before and the second is we did not know before if it was reasonable or appeared to be reasonable, but we say it does appear to be reasonable to the Minister.

362. We will return to that later. The talk here is about "clinical teaching". Does not clinical teaching mean bedside teaching, or is there some other definition? For an amateur it is very difficult

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to understand?—Of course I am an amateur in that respect, too, but clinical teaching normally would mean connected with bedside teaching; obviously it cannot all be done at the bedside, but it must include the charge of beds.

363. Are there any facilities, chiefly those of a normal hospital, which you consider you must provide in a teaching hospital under the terms of the Act?—What is normally done is to allocate beds to the particular teachers, professors, and so on and if there are not enough then reconstruction schemes of a kind that will produce alterations of the bed accommodation to make that possible are required.

364. Yes, but apparently in this considerable sum that has been expended, rightly or wrongly, beds were not a consideration?—Oh, yes, they were a consideration, but the main purpose was to make the facilities for teaching—for clinical teaching if you like—better.

365. Yes, but even at the very best figure that you put upon it, even if it is 92, are you trying to tell the Committee that it was essential to provide facilities amounting to £10,000 per bed, that that is what the Act meant, because you are only dealing with 92 beds and you are dealing with over £1 million in funds?—How the result in beds will turn out when the whole long term scheme is carried out I do not know.

366. But that is what it means, as we know it on this Committee?—You have got to include things like facilities for research, you have got to include everything in clinical teaching, because you have got to do that for your patients.

367. I am wondering if you are entitled to go to this extent: have you taken any legal advice as to what your rights are under the Act? When you are dealing with a sum of this kind it is rather frightening?—Yes. We have an ordinary formula on this. I am talking for the moment to the Treasury: we have an agreed formula with relation to these teaching cases. (Mr. Macpherson.) Yes, it came in after this scheme, just after. (Sir John Hawton.) Yes, but it is applicable to it.

368. It came in after it. That is important to know. You know, there is a feeling, Sir John, that teaching hospitals push your Ministry about and we

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would like an assurance that you do exercise control over them?—I certainly have tried all the time to say, without any lack of apology for method here, that in fact it is not a reflection on our treatment of all hospitals, including teaching hospitals, and that this is an isolated case.

369. I will not go further with that but that is a feeling that does exist?—Yes, I have heard it myself.

370. I would like to get back to this Committee that was supposed to supervise this work. The Comptroller and Auditor General in paragraph 54, if you look at the middle of that paragraph, says: "They understood"—that is, the Ministry, I presume—"that representatives of the Board serve on an informal Committee with representatives of the University to watch the progress of the development scheme"?—Yes.

371. Is that the Committee that was in fact supervising this £1 million building?—The next sentence is relevant there.

372. Whether it is relevant or not, whether or not it did modify the obligation of the Board, and I am not saying that it modified the obligation of the Board, are we to understand that it was this informal committee with a few professors from the University that were in fact looking after this £1 million of work?—It is perfectly common for a joint committee of that kind to act in a general advisory way on a big scheme of this kind, but the responsibility is clearly and firmly on the Board to do it.

373. When you talk about an informal committee with members of the University to watch it is difficult, certainly for me, to understand how people from the University who are sent to watch—that is the function specified—then exercise pressure which brings about this result. Can you explain that to me? If in fact their duty is to watch how did the pressure put the Board into this appalling position?—The pressure for speed comes from the University authorities generally who want to get on with the expansion of the departments of medicine and surgery. They are setting the pressure for time, then the actual carrying out of it involves this sort of Advisory Joint Committee but not detracting from the responsibility of the Board for the job. But the pressure I

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would not say comes from the few members of that Committee, the pressure comes from the University's whole project of expanding this scheme.

374. So it is the University and not the Board which has determined the speed at which this scheme has gone forward?—The University has urged the speed; the Board, of course, has to determine what it will do or will not do, because it does it. Therefore the Board determines the speed in the sense of driving the car but it was the University which was egging it on.

375. Making it impossible for you to do anything other than what the University told you to do? The Comptroller and Auditor General says in his Report—paragraph 55—"A Committee set up to investigate reported to the Board that any disregard of the Ministry's instructions arose from genuine misunderstanding". Who was the Committee that carried out the investigation?—That is a Committee set up by the Board to look into these charges that there was something wrong.

376. Do you mean a few members of the Board?—I do not know the membership of it. It is the Board looking at their own officers, which is a very common practice.

377. I am not asking that just at the moment. The Board is responsible for the expenditure of this money and they have been called to account by you or your Department. You are saying that this Committee was set up to investigate—this is what we have been told—now we want to know who the Committee was that investigated it?—I do not know the literal membership, but it is a Committee set up by the Board not to say whether the Board itself, that is to say, whether it itself is wrong, but to say whether any disciplinary action was needed against those who ought to have warned the Board. For example, presumably any responsible officer in charge of a scheme like this should say to the Board "You need prior approval." They were looking into that. That is just as the Minister may look into the obviously reprehensible acts of a Civil Servant.

378. Yes, that may be true, but you already had a sub-committee who were looking after the progress. We are already told that in paragraph 54?—That is a body which is merely advising

on the way it should go and the general sort of form.

379. No, it does not say that. It says "to watch the progress"; there can be no doubt about those words. If it does not mean watching the work that is going on then it does not mean anything at all?—But that Committee would not be concerned with responsibility for saying "Do we or do we not at this point need the Minister's approval." The Board is concerned with that and the Board in that like any other body is advised by its advisers who ought to have advised them.

380. Apparently nobody was asking for advice. They were just doing as they liked. You say there was no Exchequer loss and you said that your people in your Department had gone down to investigate and had looked into the bills of quantities but were these bills of quantities forwarded, and to whom, when the work was in progress or did your people merely see the bills of quantities when in fact the job was completed and these bills were submitted by the contractors?—It depends, you see, on what stage of this scheme we are talking about. We are talking at the moment and all the time as if it was one complete scheme which has been approved after the event. There was a stage of it where they went ahead without approval and it was that for which they would have seen the bills of quantities and checked whether it should be approved, but all that was in fact stopped. We are only dealing with a bit of a scheme here and not the whole.

381. I know. I am not asking about the whole scheme, I am told it is part of a master plan. What I am dealing with and I hope we are not at cross-purposes is an expenditure of something over £1 million?—No, the £1 million odd is the estimate of total cost of stage 1 of the master plan, not the cost of the piece of work we are considering.

382. Let us get the figures right. In the first place this scheme was to cost £434,000, that was the original estimate, is that not correct?—Yes.

383. And now it is going to cost rather more than £1 million. Is that right?—The expansions of it, not the same thing.

384. It is going to cost £1 million and this has been accepted without any consultation with you?—No, because

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what has not been done is subject to our approval and we have made it clear that in future in completing the rest of the scheme they have got to observe all the rules.

385. That is the next point that I was coming to because this is what you told them as a matter of fact at the second stage of the scheme. You told them that they must not do anything like this until they had got a firm agreement and they would not?—They took note of this.

386. And having gone away with the firm agreement they proceeded to do the same thing over again?—That is why this time we are going to make sure of it, as we do everywhere else.

387. You have never thought of calling up anybody who was responsible?—The Boards themselves on that have themselves taken steps as a result of all this to acquire two new officers to help them on this and we are going to have a talk with them and we are going naturally, after the experience of this, to keep a closer eye on it.

388. I do not want to take time over this, but I would like to know, on the work that was already completed, what was spent in overtime rates to get the work through?—At this moment I cannot tell you.

389. I think, if I might say so, that the Committee might like to be supplied with that figure?—If we can get it, certainly.

390. With all due respect, when you say, if you can get it, of course you can get it because it must have been carried out and it has got to be paid for and it will be in the accounts?—We are anxious to help the Committee on this because we are not very proud of this earlier event which we did not know about. In addition, without in any way altering what we are doing now, because I am aware of the rather messy way in which orally one explains these things in little bits and pieces, I wonder, would it help if we were to give the Committee after the event now a historical sort of account of what really in our view has happened?

Chairman.

391. Yes, I think it would?—I do not mean in lieu of what we are doing now, but in addition.

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392. Yes. Your examination must, of course, continue but if you would like to put in a memorandum the Committee will consider it?—It is just for you, Sir, if it would help.

393. I think it would?—And in it we must try, if we can, to deal with this overtime point.*

Sir Colin Thornton-Kemsley.

394. Sir John, the Committee is told from the Report that in August, 1956—I think it is paragraph 53—the original conception of the scheme had changed considerably and you told us, I think, that the Board of Governors had changed the scheme. When did your officers first become aware of this change?—About the end or just towards the end of 1955, I think.

395. Then, after explanations from the Board you were satisfied about this new scheme and the cost could not be reduced appreciably. What is meant in this connection by the word “appreciably”? I realise that it is not your word, but it is in paragraph 53 of the Comptroller and Auditor General’s Report. Do you agree with that as being a fair summary?—That the cost could not be reduced appreciably?

396. The Report says: “The Department . . . were satisfied that the scheme in its new form was a good one and could not be reduced appreciably in cost”. I am going to ask you first of all if that is correct, and if so, what do you mean by “appreciably”?—We think it would be correct to start with, and “appreciably” is used only in the sense that one can never be sure that you cannot take very small amounts off anything, but broadly this was the right amount.

397. You were thinking only in terms of quite small amounts?—Yes.

397A. Did you in fact effect any economies at all?—On this part of the scheme?

398. Yes?—No, we approved what in fact was here as the estimate because we thought it could not be appreciably reduced. I think the Treasury, too, were with us in approving that.

399. I am going down to paragraph 55. The Committee reads: “The Ministry were satisfied that the work

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could properly have been authorised had authority been sought". Why then did you take such a serious view of the matter that you talked of disciplinary action?—Because they had not observed the procedure of prior approval which could have had much more serious consequences than in fact it did and indeed because they had done the very thing which the Committee at the moment is censuring.

400. Then the Board set up a Committee. Can you tell this Committee what the total membership of that Committee was, the Committee set up by the Board?—I am afraid I cannot at the moment, but this is precisely the kind of thing if you feel it important that we could put in in a written memorandum.

401. Can you tell the Committee this: did the Committee that was set up consist mainly of members of the Board themselves?—It normally would in discipline cases and we have them in all kinds of fields, on the Regional Boards and others. It normally would.

402. So what you think happened was that this Board, feeling that it might be censured, set up a Committee of its own members to see whether censure was justified or not?—To see whether disciplining its officers on whom it relied was necessary or justified.

403. At any rate, there was no Ministry representative on this Committee, was there?—Not to my knowledge. We do not usually do that.

404. Did you agree with the Committee's findings?—We accepted them.

405. Presumably you would not have accepted them if you had not agreed with them?—No.

406. So you agreed with them. What were the "disquieting features" in the administrative arrangements which the inquiry revealed?—The thing which we have been talking about, that is the disquieting feature, that here is a responsible Board whose officers and others did not appear to think it necessary to observe rules of prior approval, and so on, of which they should have been very well aware; and I should still use the word "disquieting" now.

407. Then two additional officers were appointed, both by the Board, I take it. They are also "appointing a pro-

fessional officer to exercise general oversight of the building work." What was the first administrative appointment? What qualifications had the man got, do you know?—I do not know what the qualifications were.

408. Was he an accountant, or a clerk?—The starting point really I think is this, that if one wishes to try and see the Board's point of view, and sometimes I, like the Committee, feel that very difficult, but one wants to, one realises that here was a Board perhaps not fully equipped with officers starting to deal with such a huge project and liable therefore to be, shall we say, a little confused in their handling of the rules about it. Now, they have strengthened themselves with an additional assistant—I think it is an assistant administrator, but whether he has a particular qualification I do not know, but not a technical one—and with at the same time a technical officer, a surveyor, both of whom can devote their time to this as a reinforcement.

409. Are these two appointments permanent or merely just for this particular job?—I really do not know whether they will go on after this job but I should hope that by the time this job is done there will not be a need for any major work at this particular hospital. That I do not know.

410. I think you have been asked this question in other forms before, but I still want to ask it. Why are you confident that the Board will not once more proceed without proper authority?—Apart from anything else we think that they have now burnt their fingers on this and we feel confident about it. Secondly, we have the check of these quarterly returns, and so on, and we are sure now what they are doing all the time; and above all when we have a case of this kind which is so unusual we shall, I think, keep more eye on it than on anything else.

411. Did the Committee's Report point to any general conclusions that might usefully be applied to the Ministry's relations with other Boards in future?—Which Committee?

412. The Committee appointed of its number by the Board?—Not to my knowledge, but we have not, again to my knowledge, had this kind of thing in relation to any other Board.

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413. I want to ask you, I think, two more questions of a rather general nature. In cases such as this one how does your Ministry draw the line between work which is properly a Health Service liability and work which is for the benefit of the University?—We are governed there by the statute itself and by section 12 which has been quoted.

414. How much have you in fact spent on this scheme and how much of the promised contribution has been received?—Whether we have received physically the whole of the £200,000 I cannot tell you, but that is a definite promise that we shall have it. Whether we have actually received it I do not know, but there is no reason to think we shall not because it comes from sources which are perfectly reputable.

415. The paper that you are going to submit will show, will it, how much has already been spent and how much has been received?—Yes.

Mr. Ramsden.

416. Mr. Macpherson, Sir John said that while he did not defend the method by which all this had been done, in the Ministry's view the general result was all right and he said that he thought the Treasury agreed with that. I do not think you had an opportunity to comment on that statement. Are you satisfied that the results are in fact all right?—(Mr. Macpherson.) When we were told by the Ministry, which I think was in August, 1956, how this project had developed we did agree with them that we should approve the £462,000 worth and that at the same time this abnormal contracting arrangement would cease. At that time for the work that was being done we were satisfied that the requirement itself was worth doing and we were assured by the Ministry, I think I am right in saying, that the abnormal contracting arrangements would not result in any greater expense than would have been incurred had the work been scheduled out in the normal way, because the rates for the work covered, the first £76,000, were being applied to the new schedule of quantities.

417. Was any check made as to whether those rates on which the £76,000 was based were in fact maintained throughout?—The Ministry would know this better than I do.

418. Perhaps I should ask you that, Sir John?—(Sir John Hawton.) Yes, the usual checks which were applied to the approval of any contract within the office with our own technical people.

419. They were applied posthumously in this case?—That is the whole source of the trouble.

420. But I thought, Mr. Macpherson, Sir John was putting into your mouth approval of the results of the whole expenditure of the £1 million or so?—(Mr. Macpherson.) I do not think we are in a position to say that yet because the money has not been spent.

421. It has not yet been spent?—But on the authorities we have been given we are accepting it that there was a need for the scheme.

422. Do you not normally require to know the total cost of a large scheme like this before you give any approval?—Yes, obviously if we get a scheme piece by piece we are unable to make a proper assessment of the cost in relation to the facilities being provided. Obviously, it detracts from Treasury control. This was a scheme which when we saw it at the time was estimated to cost £434,000 and we were told later would cost more because there was more to be done. Apart from the work to be done for the £434,000 in fact there was a need for further facilities arising out of a reassessment of requirements. So, from that point of view it is not entirely satisfactory although we have, as I say, accepted and given approval for the project to the extent that is set out here.

423. Sir John, in an earlier answer you said that in fact nobody else would suffer in their capital expenditure by reason of the amount overspent in this case by the Board. I did not quite follow that point. You have a ceiling of capital expenditure for a period. If that is exceeded, if some particular commitment by some person is exceeded, how is it that it does not react on somebody else?—(Sir John Hawton.) In respect of the scheme we are talking about I should say there was no reduction of other people's expenditure that I can think of, but then we were underspending our total allocation for other reasons and so it did not in fact redound upon somebody else.

424. But what is the point of having a ceiling at all in that case, or what is

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the point of you, within your Department, keeping back a reserve for contingencies like this? Surely it must mean that if you have to hold that reserve somebody in fact has got a smaller allocation?—But this belongs to a period when we were, for various reasons of lack of time, not being able to get our full capital quota going. (Sir Frank Tribe.) In the year of account, as you will see from page 282, the Ministry spent about £600,000 less than their original grant for advances to Boards on capital account.

425. Which was fortunate for the Ministry in view of this excess that occurred, is that fair? What was the particular urgency that led to the adoption of the rather peculiar contracting arrangements described in paragraph 52?—(Sir John Hawton.) Is that about not going to tender but having the same contract?

426. Yes?—It is not only urgency there, it was the nature of the site which would have made it very difficult to have two separate contractors working together on the same site. This is not a cleared site, it is all tied up with the existing buildings. It will not apply to all the rest of the scheme because the rest of the scheme, or quite a lot of it, is on a sort of detachable site and can go ahead separately. By “the rest of the scheme” I mean the rest of the master plan, now.

Mr. Hoy.

427. Was the first one a competitive tender?—Yes.

Chairman.

428. The first £76,000?—Yes.

Mr. Ramsden.

429. The August 1956 estimate, that is the £815,000 and the latest estimate of just over £1 million, both exclude fees and equipment?—Yes.

430. Do you know how much these add to the latest estimate?—I think I can find it. I have got here the figure for fees and equipment in respect of the estimated total of this stage of the whole master plan, the £1 million. Will that do?

431. It will not actually, that is the one I have got. That would be very

nearly £400,000?—In addition to the £1,034,000.

432. The particular figure I want will be proportionate, presumably?—I suppose so.

433. Do you not as a rule have a total cost including equipment and fees before you as part of an estimate to which you give assent?—Yes. I am sure we must have it. I am so sorry, I cannot see for the moment that I have brought it here. Perhaps we can give you that with the other information.

434. Sir John, who appoints the chairman and members of the Board of Governors of a teaching hospital?—It is laid down in the Schedule to the first Act. Unlike Regional Boards which are appointed, after consultation, by the Minister, the Board of Governors of teaching hospitals consists of a lot of members directly nominated—I mean nominated, not susceptible of refusal by the Minister or anything—nominated as delegates. I have, for example, a list here; I will not go through the details, but there is a group nominated by the University, by the teaching staff and by the Regional Hospital Board although it does not in fact run the hospital; that is to make a link between them, and then the others are selected by the Minister and come from various sources, rather more like the ordinary Regional Board member. But those first I mention are direct nominations.

435. Is there a large proportion nominated by the University?—There are five nominated by the University, five by the teaching staff, four by the Regional Hospital Board, which does not directly run the hospital, and then the others are 13.

436. How many members are on this Board altogether?—27.

Chairman.

437. The University has 10 out of 27, then?—If you include the teaching staff.

Chairman.] Certainly.

Mr. Hoy.

438. As Sir John was discussing the powers of spending I have looked at this again, Sir John, and subsection (3) of

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section 12 of the Act, I think, makes it perfectly clear that you are not entitled to carry out these equipment services except in accordance with the regulations and such directions as are given by the Minister, that is, by you and your Department. Is my reading of it correct?—From memory I think so.

439. Let me read it then: "It shall be the duty of every Board of Governors of every teaching hospital, as from the appointed day, in accordance with regulations and such directions as may be given by the Minister, generally to manage and control the hospital on behalf of the Minister, and in particular—(a) to provide for the University" and so on, and in fact are you suggesting that this which seems to be on a fairly lavish scale was done according to the regulations or under your directions?—We feel it was done under the regulations which, of course, provide for that, with the exception that they provide for prior approval and again we are back to the one trouble.

440. So to that extent, at any rate, in that respect they failed. I am interested in section 13 which follows about legal responsibilities of Hospital Management Committees, and so on, and teaching hospitals as to who would be held responsible. It says in section 13: "(1) A Regional Hospital Board and the Board of Governors of a teaching hospital shall, notwithstanding that they are exercising functions on behalf of the Minister be entitled to enforce any rights acquired and shall be liable in respect of any liabilities incurred (including liabilities in tort) in the exercise of those functions". Did you think when you

were reading this explanation or considering this particular section of the Act that you had some claim against the Hospital Board for having incurred all this expenditure?—I should not have thought if the Minister felt that the expenditure in the end was justifiable that he would go beyond a strong rebuke to the Board and measures to see it did not happen again. That Section 13 is obviously mainly designed to make it clear that they can sue and be sued. (Sir *Frank Tribe*.) I believe no regulations have in fact been made under that section 13.

441. That is what I was asking. I thought according to Sir John that they had been?—Under section 12, yes.

442. And if no regulations have been made there is no guidance at all. In view of all this, when you were enquiring as to who would be responsible and the Board was enquiring, did you ever think of saying to the Chairman or perhaps some other member of the Board: "It would appear to us that you have not done your duty and we think we will have to sack you" or was it just officials you were looking for?—(Sir *John Hawton*.) No, we told the Board as a whole, as a corporate body, that we thought the whole of their behaviour in this was wrong and that it must not happen again.

443. And it was so wrong that you would be inclined to make changes? You are limited because apparently you just take somebody out of a university and put somebody else from a university in, but have you even thought of doing that?—No, I should prefer to wait and see whether this thing is now put right.

THURSDAY, 13TH FEBRUARY, 1958.

Members present:

Sir GEORGE BENSON, in the Chair.

Mr. Arbuthnot.
Mr. Collins.
Colonel Crosthwaite-Eyre.
Mr. Hoy.
Mr. Peyton.

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

Sir FRANK TRIBE, K.C.B., K.B.E., and Mr. J. MACPHERSON called in and examined.

STATEMENT OF EXCESS, 1956-57, NAVY.

NAVY APPROPRIATION ACCOUNT, 1956-57.

Sir JOHN LANG, G.C.B., Permanent Secretary, Admiralty, called in and examined.

Chairman.

444. Will Members turn to the Statement of Excess, 1956-57, Navy, and the Navy Appropriation Account, 1956-57, page 42? I see from your letter on page 42 written to the Treasury that as late as March 22nd, you were expecting a surplus?—(Sir John Lang.) That is true, Sir.

445. Yet you ended up with a deficit of nearly £2 million. How came it that even at that stage you did not realise that you were in the red?—That survey, which is carried out in the third week in March, is always rather a hit or miss business and the Committee will be aware that over the last six or seven years there have been quite substantial variations both in expenditure and in receipts achieved between the estimate we gave in the latter part of March and the ultimate outturn of the Vote. This is due to a variety of factors; the most important one of all is that, particularly in the field of receipts, though this does not apply so much in the field of expenditure, we are uncertain well beyond the 31st March how many of the receipts of money which we may hold on behalf of creditors like Overseas Governments for whom we are doing work will be cleared before the accounts are closed five months later. The second factor about it is that the Admiralty has a tremendous number of sub-paymasters both overseas and at places in England, all of whom are making payments throughout the month as,

indeed, throughout all the months of the year, and we can never be at all certain at any time in the year exactly what is the state of the payments which they have been making. We get reports from them, very naturally, but they come to hand weeks and weeks after the payments that they have made have been brought to account. The third factor which always makes that assessment a slightly uncertain one is that the various Departments which are handling bills which have been sent in by contractors, and so on, are working against the clock to clear whatever they can before the 31st March; and inevitably their assessment of whether they are going to clear a lot of bills or not so many varies almost from hour to hour. I think I must say that I was not at all surprised when the figures of outturn came out substantially different from those of the estimate we had given on the 22nd March. Can I give you just one example on the receipts side which shows the kind of uncertainty which exists. On the 1st April, 1957, the day after the Account technically closed, the amount appearing in the Admiralty ledgers for receipts from Overseas Governments under one of the subheads of Vote 8 was £5·8 million—£6 million, roughly. The amount ultimately brought to account when the accounts were finally closed at the end of August was over £10 million.

446. Receipts?—Yes, Sir.

447. But you had just recently gone into the whole matter and taken a

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Supplementary Estimate for £11 million?—That is perfectly true, but you realise that that Supplementary Estimate was in fact calculated about mid-February on a series of liability assessments which go back to the beginning of January.

448. But surely when you do go into the matter carefully for a Supplementary Estimate there is less excuse for an excess than when you have no Supplementary Estimate?—There is less excuse certainly, Sir, for the excess of £469,000, which is the ultimate picture, always assuming we are allowed to take the excess receipts; I would not deny that for a moment, but in relation to the 22nd March declaration, which is the one that you were questioning me about, I do not think the existence of the Supplementary Estimate has any bearing on that at all. That is an estimate which we make to the best of our ability of the state of play ten days or so before the account ends. At that time we have known whether the Government are going to authorise a Supplementary, we have taken account of the effect which the Supplementary has on one Vote and another and for practical purposes when you come to your 22nd March declaration there is no difference in the position in which we stand had there been a Supplementary or not.

449. Sir Frank, have you any comments to make on this matter, particularly on virement?—(Sir Frank Tribe.) On the particular point the witness has made, Sir?

450. On the whole question of virement, among other things?—Perhaps I could explain something to the Committee, Sir. The document which they have in front of them called the Navy Appropriation Account is, as they will see, marked "1st Revise". The abstract account on pages 2-5 which was signed by Sir John Lang on the 17th December, is accurate, the rest of it is subject to possible amendment in detail before presentation to Parliament, and as the Committee will see, it does not contain my Report at the beginning nor does it contain correspondence on the outturn of the Account on page 43. Copies of that correspondence, namely, the letter from Sir John Lang of the 17th December and the Treasury reply of the 28th January have been stencilled and are circulated together to Members, though not among

the papers mentioned on the Agenda. That completes the correspondence between the Admiralty and the Treasury on the question, and that will eventually appear in the Account. The Committee also have an extract from my forthcoming Report dealing with the outturn of the Account. That, of course, deals both with the excess expenditure and with this question which you mention of virement, and there is one technical point which, perhaps, I might mention to the Committee: normally the Committee will remember that they render a First Report to Parliament by the first week in March dealing with any excesses that have occurred. They render a Second Report to Parliament after having taken the evidence of all three Service Departments, generally in May or June, dealing with this question of virement between the Votes of Service Departments. But when a Service Department has incurred an excess the question of virement is dealt with in the Excess Vote and the virement does not then come before the Committee on Navy, Army and Air Force expenditure, that Committee of the whole House which meets, generally, in July. Therefore, this year there will be a Committee only on Army and Air Force expenditure. It follows, therefore, that if this Committee have any observations to make on the question of virement as applied to this year's Navy Account, it will be necessary for them to make them, if they are to have any effect upon the Vote, in any Report they may render on the Excess Vote and not postpone them until their normal Second Report. Therefore, I think the Committee have before them today the subject both of an Excess Vote and of virement. Sir John was saying that one of the troubles is this difficulty of knowing at the end of the year what the outturn will be. Of course, a large amount of the deficit in Appropriations in Aid was in relation to services rendered and stores supplied, but it does not follow that if a bill has not been brought to account by the end of the year it may not be adjusted subsequently, because, as I understand the position, the Admiralty have received large deposits from overseas Governments, and it is a question of agreeing the charge with the overseas Government. Bills agreed after the end of the financial year may therefore be brought to account in the year, and very often are, quite a number of

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[Continued.]

months after the close of the financial year. (Sir John Lang.) That was the explanation of why there was £6 million credited on the 1st April but by the time we had cleared lots and lots of bills—we had got the money in hand and we cleared the items with the overseas Governments—we totalled up to £10 million. I quite agree with Sir Frank Tribe, 31st March is not the point after which we leave in suspense any money which we have got from an overseas Government in spite of the fact that it is for work that has been done. In the next five months, always assuming we have given them bills and they can pass the bills, we bring those within the year of account as much as we can.

451. With regard to virement between subheads, do you regard that as an automatic right?—Virement between subheads, in other words, Subheads A, B, or C of Vote 1, yes, Sir.

452. What about as between Votes?—As between Votes, we have no right to do that other than with Treasury sanction and, of course, the ultimate approval of Parliament through the Monk Resolution.

453. Mr. Macpherson, has the Treasury looked into this account from the angle of the inaccuracies of the estimated outturn?—(Mr. Macpherson.) I think, Sir, when we were told, as we were by official letter in December, that there had been variations between the forecast of the 22nd March and the final outturn, we did take up with the Admiralty how this difference had arisen and I think today is the first time we have heard what the explanation is. I must say that the explanation strikes me as being very reasonable in the circumstances.

454. With regard to virement, are you satisfied that the Departments do not treat these applications for virement as pure formalities?—Yes, Sir; in fact, the Treasury do not always give it automatically. I am thinking at the moment of one case this year, for example, where a Service Department which does not need a Supplementary Estimate for reasons of requiring money is being asked by the Treasury to take a token Supplementary because the amount of money to be transferred to a particular Vote is very high in relation to the actual Vote provision. We felt that the transfer would be stretching the virement principle too

far and we ought therefore to bring it to the attention of Parliament.

455. But when you agreed to virement you assumed that there were deficits amounting to about £550,000. You will find that in the letter of the 22nd March from the Admiralty. I am informed by the Comptroller and Auditor General that the Admiralty informed you that the original estimate of deficit was in the neighbourhood of £550,000?—Yes, £580,000.

456. Yes. It was on that assumption that you granted virement?—Yes. We indicated that we would be prepared to consider virement when we had the final outturn.

457. But that was on a basis of £580,000?—Yes.

458. What steps did you take and what did you say when it turned out to be a very much larger figure than that?—That authority was voided by the necessity to take an Excess Vote, I think, as Sir Frank has explained. (Sir John Lang.) May I ask just one question of Mr. Macpherson here? I do not recognise the figure of £550,000. I am not by any means trying to say that we did not give it but I am suggesting that if we did we gave it in the context of being subject to Parliamentary approval to use these excess receipts. (Mr. Macpherson.) Yes. (Sir Frank Tribe.) I think the figure of £550,000 is derived from the last sentence of paragraph 6 of my Report, where I say: "Deficits of £250,000 on Vote 2 and £300,000 on Vote 8 II were expected but the large deficit on Vote 8 III was apparently not at that time foreseen". That is referring to the letter of the 22nd March. Of course, as against that £250,000 and £300,000 the final deficits amount to £676,000 and £802,000 respectively and there was an unexpected deficit on Vote 8 III of £2,422,000.

459. It is in the draft Report of the Comptroller and Auditor General which is in typescript, paragraphs 6 and 7?—(Mr. Macpherson.) It is in fact in the Schedule to the letter of the 22nd March which we had from them. The total deficit on gross expenditure amounted to £580,000.

460. In effect, you agreed to virement on a deficit of a very much smaller amount than it actually turned out to be?—Yes.

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[Continued.]

461. What steps did you take when you found that the deficit was going to be very much larger?—As I explained, Sir, we did not get any further report until we got the official letter from the Admiralty on the 17th December when it was apparent that an Excess Vote was necessary.

462. And you thought that was all that was necessary?—No, as I have explained already, we followed that up by asking why there had been such a big switch between the forecast of the 22nd March and the final outturn, and today we have had the Admiralty explanation.

463. And you are satisfied?—We think it is not unreasonable.

464. How likely is this to occur again, Sir John, if you are so dependent on accounts from all over the world?—(Sir John Lang.) I think I can only say, quite likely, Sir. I have got some figures showing what has happened from 1951-52 until the year we are talking about and every year either in expenditure or in receipts there have been quite substantial variations between the forecast we gave at the end of March and the ultimate picture. Admittedly, on only one of those occasions did we suffer an Excess Vote and on the other occasions the surpluses, or whatever they were, went back into the Exchequer. But there have been quite substantial variations every year, except one.

465. In view of the fact that there have been constant variations, what steps have you taken to see that they are minimised?—We do not think it is possible to get over the difficulty of these manifold uncertainties. We are seeing what more can be done to facilitate the passing of accounts with Overseas Governments. We have got certain understandings with a few of them which help a bit, but in relation to our guess work on the 22nd March of what clearances we shall be able to establish by the 31st August, we frankly do not think there is any real hope of our being able to get very much closer than the position as shown today. When one remembers that this error of £2 million is on a total expenditure of roughly £350 million, is it all that terrible that we should not be able to get much closer than that?

466. No, surely your error of £2 million is not to be contrasted with your total expenditure of £350 million, but

with your Supplementary Estimate of £11 million?—No, Sir, because the Supplementary Estimate is only an estimate, when all is said and done, and the pluses and minuses which ultimately go to make this variation as between the outturn and the forecast given at the end of March may occur anywhere in the Votes and therefore anywhere in the total of the original estimate plus the supplementary.

Mr. Collins.

467. Just one or two points on Vote 1, Sir John. On page 7 you explain that this surplus of £1,139,000 on Subhead B is due to the fact that the numbers of regular engagements of National Servicemen were not all you expected. Do you keep central statistics of the numbers of men engaged in various categories?—Yes, we do.

468. In view of the fact that you keep such statistics, could you not see during the year that the proportions of the two, Regular to National Service, were not as you estimated?—This is one of the footnotes, I think, in the final Account that will not be quite as appears here. It is one of the points Sir Frank Tribe had in mind when he said the detail inside these pages is provisional. In the course of the detailed examination which has been going on ever since we knew that we were substantially out here, we have established that although the proportion between Regular and National Service is one of the factors, it is not really the biggest factor. The biggest factors of all come out in the average pay and the average bearing of men on different engagements, and the trouble in the particular year we are looking at is that there was a new pay code introduced from the 1st April of the year, which was not merely the addition of a few pence or a few shillings to the rates of pay of men in the Service but was bracketed with some quite substantial changes in conditions of service in the way of the nature of the engagements. The simplest example I can give the Committee is to remind them that men in the Navy on seven year engagements were given a different rate of pay from those on nine year engagements. Now, we believed that many men on seven year engagements would transfer to nine year engagements in order to get the better rate of pay. We believed equally that men who had completed their first twelve years would sign on for a further engagement to get time for pension to 22 years

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to a very much greater extent than had happened before. If those expectations had been fulfilled, then we should have had considerably more men in almost all the ratings from able seamen and above who were serving on longer engagements and who therefore were getting higher rates of pay. These were the assumptions on which we calculated the rates of pay which were used as a factor in preparing these assessments. They were obviously out.

469. So this is not really then mainly a difference between the proportion of National Servicemen to Regulars, but still more a difference in the actual out-turn compared with your expectations of the number of Regulars whose pay would change because of the contract of service?—Exactly, Sir, and that is the new material which will come out in the notes when the Accounts are finalised.

470. I know it is difficult to make a comparison, but can you give us the approximate annual percentage between the pay of a National Serviceman and of the Regular in the same rating?—For practical purposes you only get National Servicemen, apart from artificers, in the rating of ordinary seamen or occasionally able seamen. I do not, frankly, know the figures in terms of shillings a day, but the disparity is very large.

471. The difference is large?—It is large. (Sir Frank Tribe.) The figures are given, if I may say so, in the Appendix to the Navy Estimates. (Sir John Lang.) Not in the 1956-57 one, I am told. (Sir Frank Tribe.) No, I have the 1957-58 one in front of me, which are the current rates. There the ordinary Royal Navy National Serviceman gets 4s. 6d. a day on entry. (Sir John Lang.) That would be so. (Sir Frank Tribe.) And an ordinary seaman of the Seaman Branch gets either 13s. 0d. or 14s. 6d. a day on entry. (Sir John Lang.) That is so. It is of that measure.

472. You reduced this Subhead by £550,000 in February; you abated it. On what information did you do that?—Our first assessment of the number of people who would transfer to these more highly paid engagements was out and we allowed something for it but not enough. One of the difficulties that we suffer from on this particular Vote is that a great deal of our liability statements have to be based on reports from the Fleet concerning payments which

they have made and at no stage during a financial year are we better off than, perhaps, the first six months of payments; in other words, from the ships' ledgers by the time they come in and have been abstracted, and that kind of thing, right up to the March assessment. We have nothing better than six months' payments. Actually for the greater part of the year and at the point at which we make the assessment of a Supplementary Estimate, we have no more than the first quarter's payments from the Fleet; in other words, the information is not all that adequate. Admittedly, we have much more up-to-date information concerning numbers of men who have transferred from seven year engagements to nine year engagements, but even that was not by any means up to date.

473. Then, you mentioned the March assessment. In March you expected to save £400,000 on this particular Vote and actually you saved £1,027,000. At what date were you beginning to get reliable information?—Not until the Account was closed.

474. Do the numbers of men in the different categories fluctuate rather violently or suddenly?—No, they do not. It is a trend more than anything else.

475. As between the least favourable pay rating of Regulars and the longer engagement of Regulars do you know how many fewer National Servicemen you get transferring to actual regular engagement?—I do not.

476. According to the figures which Sir Frank just gave of 4s. 6d. and 13s. 0d. a day respectively, that would be something of the order of £80 per annum and £240 per annum—I have not worked it out; I only want the order. Do you think that that would account for the greater part of this £1,139,000?—No, it does not. We certainly hoped that more National Servicemen would transfer to permanent engagements to take advantage of this very much greater rate of pay but the two factors which were predominant in this were the failure of men on seven year engagements to transfer to nine year engagements, which gives an increase of pay of the order of half-a-crown a day, and the failure of men to re-engage from 12 years to 22 in as large a proportion as we had hoped.

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477. So, really, what it amounts to is that this underspending or over-estimating is largely accounted for by that factor and, apparently, the reason for the miscalculation is that the men themselves did not find the changes sufficiently attractive to make them change over to long period engagements?—Perfectly true.

Mr. Hoy.

478. Just a question or two on Vote 6, on page 14. What does the expenditure on Subhead O mainly consist of? Is it as shown here or is there something else?—I hope it is what is shown here.

479. It says "&c.". What does that mean?—"Equipment, materials, &c.", I see. The greater part of the expenditure in Subhead O is contract work on research, things which are put out to firms to do the research for us. The word "&c." against "materials" means materials purchased for research purposes, stores which are used for ordinary research purposes and local expenditures for gas, fuel and that kind of thing.

480. Why did you find it necessary to have a Supplementary Estimate in February of £1,375,000?—Because at that time we thought we were going to spend a great deal more than we did ultimately.

481. But by 22nd March you expected a surplus of £1 million on this Vote. That is nearly two-thirds of the Supplementary you asked for a month previously?—That is perfectly true, but there are two factors in that. Research contracts are a field in which the expenditure that we should pay by the end of the year is never very easy to assess. It depends upon the firm letting you know in time how much they spend and on one's facilities to check their expenditure, and at the time when we asked for a Supplementary Estimate all the indications were that these contracts were making favourable progress, would want extra money and very few of the contracts would want less money. As it turned out a fair number of the contracts which we thought were coming out just about all square did not want so much money and, therefore, did not spend it. One of the factors which came into this particular problem was, as you know, that there was a change in Government in January, 1957. The Estimates

which had been prepared by the outgoing Government went back into the melting pot—

482. You said just now that there was a change in Government in 1957. I did not quite follow that?—In January, 1957, Sir Anthony Eden went and Mr. Macmillan became Prime Minister. It is a fact that the Departmental Estimates which had been more or less cleared by the time Sir Anthony Eden resigned went back into the melting pot and there were considerable efforts made to reduce the totals. The net result of that was to set up—and Research Establishments was one of the fields that came under very close scrutiny indeed—a great deal of uncertainty about starting certain projects in the remaining three months of 1957 and, incidentally, in the pressure that you would bring to bear on the firms to progress other projects which had been started long before. It was in that atmosphere of uncertainty that a considerable measure of this excess showed itself.

483. With all that uncertainty, when did you find that you were not going to require the bulk of this Supplementary Estimate?—I do not know offhand. My suspicion was that we did not know it until after the year had ended.

484. Would you not agree that it seems to be rather a short interval between February and March for such a marked difference?—Yes, I did explain to the Committee earlier on that really one's Supplementary Estimates, although they are calculated in the first fortnight or so in February, are based really on assessments of liability and progress of expenditure in the various fields up to the 31st December, and lots of things can happen and do happen in the last three months which falsify your expectations.

485. May I ask you one further question about your explanation of the surplus on Subhead O on page 15 of the Account, because it is not very helpful. Why was the liability less than expected?—This was the feature that I was explaining to you, that some of these contracts—

486. Yes, but even then I am finding it of some difficulty, even with your explanation, to understand this difference in a matter of a fortnight, because that is what it amounts to. Is it as bad as

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that?—I really must make it clear that when we assess a forecast on the 22nd March we have not got a series of reports from all the various contracts, to take this particular field, of their progress up to the 18th or the 19th or the 20th. This is built on the knowledge of the Department which handles research contracts on the way they think things have been going, and in the nature of things with the atmosphere of that year, where I believe right into the latter part of March we were still arguing with the authorities how much money we should have for research and development in the following year, there was bound to be tremendous uncertainty in all the contracts fields whether there would be pressure to get the work done, or whether a certain item would be cancelled; and in that set of circumstances you are bound to find it very, very difficult to be exact.

487. I can understand that, Sir John, but I am bound to say that even although you were arguing up to the last day of March, by the 22nd March you had come to the conclusion that you would not require £1 million. May I make this my final question to you: are you satisfied that you have got complete control over this type of expenditure or, at least, adequate control? You are able to exercise adequate control?—I think I should use your own word "adequate". We have got adequate control over this kind of expenditure in the sense that we authorise a firm to carry out a certain project and they have told us that they expect it will cost a certain sum, and we say: "All right, go ahead". The firm will need to come to us at any point at which it seems to them likely that they will exceed the agreed expenditure. We also would reckon to go to them if we sensed from one thing or another that the expenditure was going to be exceeded, and in particular, of course, if we were going to vary the contract in any way which would cause a change in the expenditure. But research contracts are never in a form where you have an agreed price beforehand for the regular job. They are bound to be dependent on the way in which the research takes place, the extent to which it is successful or unsuccessful; and the primary difficulty in research contracts is that although you have an adequate control ultimately you do not necessarily know at any particular point in time whether the expenditure

has been going rather more quickly than expected or slower than expected.

Mr. Steele.

488. Have you any idea, Sir John, to what extent, on that particular Vote that Mr. Hoy was referring to, this was due to outside contractors as distinct from research going on within the Admiralty itself?—The whole of Subhead O is outside contracts.

489. I see?—The inside research work falls under Subhead N where you find "Salaries, wages and allowances" of the people employed on it, and the only factor in Subhead O which affects the inside, the intra-mural staff, is the equipment and materials which are carried on that subhead.

490. Would you mind giving me that again?—May I put it this way: intra-mural research in our own establishments is paid for, so far as wages and so on are concerned, within Subhead N and paid for so far as materials, equipment and so on are concerned within Subhead O. Extra-mural research is paid for solely out of Subhead O. Subhead O is predominantly contract research and not intra-mural except for materials.

Mr. Arbuthnot.

491. Mr. Macpherson, you told the Committee that the Treasury do not give sanction to virement automatically. How many applications have there been in the last year?—(Mr. Macpherson.) On the Service Votes?

492. Yes?—They come once a year, once for each Department, in the normal way in March, if necessary.

493. What have you rejected, then?—I cannot give you any figures other than what I happen to know about this particular one this year, but I think certainly we have agreed in the majority of cases.

494. Sir John, your biggest miscalculation would seem to have been on Vote 8 Section III on page 20. You took a Supplementary for £1,950,000 in February and ended with a deficit of £2,422,241. How do you account for that?—(Sir John Lang.) That is in Appropriations in Aid?

495. Yes?—The sections of Subhead L, on behalf of which we asked for a

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[Continued.]

Supplementary of £1½ million or almost that sum, did in fact turn out pretty well satisfactory. Certainly they did not contribute to the deficit which the ultimate outturn of the Vote shows. In other words, that was an example where our supplementary estimating was pretty close. In point of fact they produced a bit more than the £1·7 million of extra money, but that, of course, was part of our excess receipts. The Subhead which contributed a greater part, certainly, a good three-quarters of that ultimate deficit, is the one which brings to account repayments by other Government Departments and other Governments for supplies of aircraft, machinery, gun mountings and all the rest of it, and you will see there that we were £1·3 million adrift in the outturn as compared with the estimate. That particular Subhead is the one which gives us, perhaps, more trouble than any other. The factors which make accurate estimating very difficult are really in three headings: the first I mentioned briefly in my opening statement to the Committee, the time it takes in order to secure the acceptance of claims by our customers. It is the practice with all these accounts that we do not set off expenditure against the imprest account of some overseas customer until the customer has notified his acceptance of the relevant claim. In other words, he has probably paid us the money, because most of these things are dealt with by imprest, and we get the money in advance. We send him a claim at various stages in the year saying that we had spent £X or £Y on his behalf. But we do not subtract the £X or the £Y from the amount of money which we are holding to his credit until he has confirmed that the accounts covered for that £X or £Y are accepted by him for the service he has had. For the time being all those are in suspense and in practice it takes a very long time to get the customer to accept this. That is not a criticism of the customer because he is perfectly entitled to carry out his enquiries to satisfy himself he has got everything. He is entitled to raise queries if he cannot understand exactly how we have calculated our figures, and until we have been able to satisfy any points that he does raise we may not set off the expenditure against the money which we are holding in suspense. The second factor in this is that quite a lot of supplies are made to these Overseas

Governments as part of a contract for similar equipments which we are making for ourselves. In other words, we may be wanting 40 sets of a certain gun mounting for ourselves, we are building frigates for India or we are building frigates for South Africa which will want corresponding gun mountings, so we place an order for the 40 we want for ourselves and the ten or whatever it may be that are wanted for the other people. Under the existing procedure it has not been found practicable to allocate to these overseas customers, in respect of that part of the order which is for their benefit, any of the advance payments which are made to the contractors as the job progresses. We cannot, in fact, even identify whether the overseas customer is going to have the first two or three mountings off the run or whether he is going to have the last two or three mountings off the run, and for that reason the items which form part of these contracts are inevitably very long drawn out indeed. The third factor is that certainly in that year and as has happened on other occasions, there have been delays of one kind and another in getting the claims to the customers. It is due very often to uncertainty as to whether the whole of the services that ought to go into a claim, the whole of the materials that have been supplied, have been reported to the Departments who prepare the claim. If you take an example, we may be refitting a ship for an Overseas Government; the refitting work will be done in a contract yard somewhere. A fair amount of the equipment which will have to go into this refitting work will come from Admiralty stocks of one kind or another or come from one of these, what I call, integrated contracts. If the total bill is coming out at, say, £½ million, it would not be uncommon for £200,000 or £250,000 to be in respect of items which are supplied from Admiralty stocks in order to build into the ship. Some customers, in fact, do not like you to send them interim accounts showing part of the story and then another showing a bit more of the story. They say: "We would much rather wait until you can give us a complete account."

Chairman.] It postpones payment, in fact.

Mr. Steele.

496. Deferred payments?—No, we have very often got the money on an

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[Continued.]

imprest. It postpones the bringing of that credit into our Votes, but the Exchequer is not at risk in a great deal of this.

Mr. *Arbuthnot*.

497. But how was it, then, Sir John, that as late as 22nd March, if I can take you to paragraph 6 of the Report, you did not know that there would be a deficit on this Vote?—My information is that on 22nd March we reported that there would be a substantial deficit on this Vote—no, I beg your pardon. We reported “No variation”. That, you see, is where the trouble comes. We could not tell on the 22nd March how many of these accounts that we had sent in were going to be cleared by the 31st August. (Sir *Frank Tribe*.) Perhaps I might point out that the Accounting Officer’s remarks apply primarily to Subhead L of Vote 8 III on which the deficit amounted to £1,278,000, but on Subheads A, B and D, which I should have thought would have been more under his control, there was a deficit of nearly the same amount, £1,143,000. (Sir *John Lang*.) I was, in fact, asked the question about Subhead L.

498. No?—(Sir *Frank Tribe*.) I thought the question was about the whole deficit.

499. It was a general question on the whole lot?—(Sir *John Lang*.) I thought the question was introduced by the fact that I took a Supplementary of £1,700,000, which is Subhead L.

500. No, £1,950,000?—On the earlier Subheads I have a lot more than £1,950,000. On the expenditure side of Vote 8 III I took a Supplementary of £3,650,000. On the Appropriations in Aid I took a Supplementary of £1,700,000. (Sir *Frank Tribe*.) The net increase was £1,950,000. (Sir *John Lang*.) Yes, it would be, that is true.

501. Now, Subhead A. Your explanation on that says: “Progress on certain contracts was more than expected”. Was it more than you had expected as late as February or even March?—It was more than we expected when we calculated our Supplementary Estimate, but that Supplementary Estimate was calculated on reports of the position at the end of December and the early part of January. There were three more months in which this increased rate of

progress was showing itself. What it means, in effect, is, that we did not allow enough for that. You will see, if you look at Subhead A, that we did say we should want £3,400,000 more, which was quite a substantial proportion of the original. We miscalculated, in effect, by roughly £1 million.

502. Was it that the work progressed more quickly or was it that you expedited payments thinking that you had more money?—There is an element of both in that. There is an element of work which progressed more quickly, there is also an element of a number of accounts which we thought would not be received until 1957-58 which, in fact, came into the office in sufficient time during the last few months of 1956-57 for us to clear those payments and inevitably, of course, we have got to clear the payments if we possibly can.

503. But according to the explanation, you also had to meet unexpected costs where there were delays. Do both speed and delay lead to your overspending of the estimate?—Yes, in rather different fields. The ones that I have been concentrating on so far were the examples of the contracts that were still in existence on which progress payments occurred at various stages of the completion of the job, and the more stages that are completed then obviously the greater amount of payments you make in a given time. The reference to ships which had been delayed in completion is to ships which were completed during the course of the year though they had been progressed possibly in the early part of the year much more slowly, and ships that are built slowly attract a higher proportion of overhead charges and, therefore, cost more.

Sir *Colin Thornton-Kemsley*.

504. Sir John, when you expected on the 22nd March that you were going to have a surplus of £2 million did you look around for payments that you could legitimately make to try to avoid a surplus?—Not after the 22nd March, no, because that would have been a nonsense. I had encouraged the Treasury on the 22nd March to think that I should come out £2 million on the right side. It is only making my own life more difficult if I therefore try to spend up to the hilt in the last eight days of March.

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[Continued.]

505. When you ask the Treasury for provisional virement to meet an expected excess of expenditure on one Vote from a surplus on another, do you take any special steps to avoid exceeding that forecast excess?—I am not sure that I quite understand your question, Sir. If you are referring to times during the year where we may go to the Treasury and say that a certain service which we want to undertake will cost a certain sum of money and either there is no provision in the Estimates for it or alternatively there is not sufficient provision in the Estimates for it, can we have authority to spend more money on that, and we reckon that there will be a saving on some other Vote and are they prepared to let us use the money in that way, then, quite definitely, if they have said Yes to that proposition we regard the service which has been showing a saving as cut to the appropriate amount. But if you are meaning, when we go to the Treasury at the end of the year and say: "We should like your provisional authority to use surpluses in order to offset excesses", by that time it is too late for us to do anything in the way of trying to spend the money. The money

has, in fact, either been spent or has been so nearly spent that we have lost any ability to alter the picture.

506. Did you on the 22nd March miscalculate the deficits forecast on Votes 2 and 8 II or did you increase them deliberately by accelerating payments towards the end of the year?—We miscalculated certainly so far as 8 II was concerned. So far as Vote 2 was concerned, it was primarily miscalculation, but I understand there were a few heavy deliveries which had to be paid for in the latter part of March. Whether "the latter part of March" means, say, the 10th to the 22nd or whether it means the 22nd to the 30th I do not know at the moment. I can only undertake to find out for you.*

507. Thank you?—If it were so, they were examples of deliveries of stores which we had received where the bills came in before the 31st March and we could quite easily certify that we had had them, and in those circumstances we have got no alternative but to make the payment even at the cost of vitiating our forecast to the Treasury.

*Information supplied: not printed.

STATEMENT OF EXCESS, 1956-57, CIVIL ESTIMATES.

CIVIL APPROPRIATION ACCOUNTS, 1956-57 (CLASSES VI-X).

CLASS X.

VOTE 5.

NATIONAL ASSISTANCE BOARD.

On this Account no questions were asked.

CIVIL APPROPRIATION ACCOUNTS, 1956-57 (CLASSES I-V).

CLASS III.

VOTE 9.

COUNTY COURTS.

Sir GEORGE COLDSTREAM, K.C.B., Clerk of the Crown in Chancery and Permanent Secretary to the Lord Chancellor, called in and examined.

Chairman.

508. Sir George, I believe this is your first appearance before the Public Accounts Committee?—(Sir George Coldstream.) That is so, Sir.

Chairman.

509. Will Members turn to the Civil Appropriation Accounts, Classes I-V, to paragraphs 29-33 of the Comptroller and

Auditor General's Report? On paragraph 29, Sir George, is there anything particular about this Account, the County Courts Account, which leads you to require Supplementary Estimates with remarkable regularity?—I think the main difficulty, Sir, in the last ten years has been the increase in work and the irregularity of the rate of increase. We are dependent, of course, for our income

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Sir GEORGE COLDSTREAM, K.C.B.

[Continued.]

on Court fees which are in turn dependent on the amount of business in the County Courts. That is something which is difficult to predict and experience has shown that the rate of increase, although there is undoubtedly a steady increase, is very uncertain; and I can produce figures in support of that if it is your wish that I should do so.

510. Yes, if you would?—For example, Sir, the rate of increase in County Court business from the year ended 31st March, 1950, to date ran something like this: the business up to the 31st March, 1951, increased by 13·7 over the previous year. The business for the year ended 31st March, 1952, increased by 8·9 per cent. In the following year the rate of increase was 14 per cent. In the year up to 31st March, 1954, the rate of increase was 5·5 per cent. In the following year it was 5·4 per cent.—much the same—but in the following up to the 31st March, 1956, it was 10·7 per cent. and in the year under review, that is to say up to the end of the 31st March, 1957, it was 29·6 per cent.

511. Why that extreme jump?—It is difficult to give, so far as one can judge, a completely rational explanation. It was due in some measure to the County Courts Act which was passed in 1955 and which came into force as to the major part on the 1st January, 1956. That was an Act which increased the size of County Court jurisdiction. It increased the pecuniary limits by 100 per cent. and it was expected that a good deal more work would accrue to the County Court during that year. In point of fact the figures show that the rate of increase was not very different from what the Lord Chancellor had expected and the very large aggregate rate of increase which I have mentioned just now in the previous year is attributable simply to the fact that the litigating public used the Courts very much more; but it is difficult to attribute a certain reason for their so doing.

512. Does the increase of work reflect itself in a proportionately increased need for larger staff?—Yes, it does; indeed it does.

513. The work involved and the staff fluctuate proportionately?—Yes, they do. There is not an exact proportion, there is more work and you require staff. I have figures here to indicate that if you so wish.

514. Your figures show that since 1950 the increase in the amount of work has been somewhere between 75 and 100 per cent.?—Yes, it has.

515. Has your staff increased in the same proportion?—Between 1956 and the present, 1958; I have figures here. The staff in post on the 1st January, 1956, was 2,177 and on the 1st January, 1958, it was 2,714.

516. It does not increase in anything like the same proportion?—Nothing like the same proportion.

517. Mr. Macpherson, have you any control at all over the amount of staff employed by the County Courts?—(Mr. Macpherson.) Yes. I do not know in how much detail, but there is obviously Treasury supervision. I am sorry, I do not know in how much detail.

518. Have you the same control over them as you have over other Departments?—Yes.

519. It sounds as if you do not feel you have much over anybody?—I think it is the fact that I am ignorant of the detail of the control.

520. Sir George, why did you take a Supplementary Estimate of £13,000 for postage this year?—(Sir George Coldstream.) Because we knew by then that the rate of business was increasing fast and that we should certainly need more official labels and forms. In point of fact, I think we under-estimated the amount of our Supplementary Estimate. I should like to emphasise, if I may, Sir, that the figure I mentioned to you of the sharp rise in percentage increase in work during the end of 1956 and the beginning of 1957 has led to our failure to get an accurate estimate or, to put it bluntly, to be a good deal more out than one would want to be in this year.

521. What interests me is that you take a Supplementary Estimate of £13,000 for postage?—Yes.

522. And apparently completely forgot that you had ordered £15,000 of envelopes?—Yes—during the year 1956-57?

523. Yes?—Yes.

524. How came it that you had overlooked this not unsubstantial proportion of your postage costs?—I do not think we had overlooked the whole £15,000. The two items to which the

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[Continued.]

Comptroller and Auditor General has referred were two orders, one of 741,000 in July, 1956, and another of 755,000 in August, 1956, and I agree, Sir, that the cost of them would be of the order of £15,500.

525. Sir Frank, have you got anything to say about this?—(Sir Frank Tribe.) As I think I have said in my Report, I tried to examine what was the cause of this, and there seems to be divided responsibility between the Lord Chancellor's Department and the Post Office and the Stationery Office. All three Departments agreed in the end with my summing-up of the position as contained in paragraph 33 of my Report.

526. In other words, it was you who drew attention to the fact that they had not paid this?—Yes. This, in fact, arose out of an inquiry I made, as to why these so-called envelopes, which are really official paid forms, which had been delivered in July, had never been billed or paid for.

Mr. Collins.

527. The Lord Chancellor's Department were keeping it dark?—It turned out, of course, very conveniently for the Lord Chancellor's Department. It enabled them to escape having an Excess Vote for this year.

Chairman.

528. It almost looks as if there were too many cooks?—(Sir George Coldstream.) I think that is fair, Sir. The last thing I want to do is to apportion blame at all.

529. That is our job?—I would be the first to admit that things have not been right and they ought to be put right and we have taken steps to try and do that.

530. Have you taken any steps to see that this curious oversight does not happen again?—Yes, I have, Sir. I have concluded an agreement with the Post Office. May I read it?

531. If it is short, yes?—It is quite short. It provides that their accounts for official paid envelopes and labels will be rendered to us in the fourth month following the end of the quarter in which the stationery is delivered, so that means that a charge for stationery delivered to us in July or August in any year, to take

the example of the particular forms which were delivered, will be rendered to us in the following January, so that we can be certain of that when we get out our Supplementary Estimate—if we ever have a Supplementary Estimate in December—we know we can certainly allow for a charge we will have to pay in January in respect of envelopes and labels delivered up to the end of September.

532. In other words, they are giving you four months' credit?—Four months' credit.

533. Quite a good arrangement?—It suits us very well and we shall know where we are.

534. It would suit a lot of us very well?—They have given us, of course, a great deal of credit in the past.

Mr. Peyton.

535. You do not pay the Stationery Office anything?—No, we do not.

536. That presumably is an account settled between the Stationery Office and the Post Office?—Yes, it is the suppliers.

537. I hope the Stationery Office give the same generous credit terms as the Post Office do to you?—I am afraid I cannot answer that question, Sir.

538. As a matter of fact, why should payment be so long delayed as four months following the end of the quarter?—Well, of course, it is very important for us, because we have got to make up our Supplementary Estimates before the end of December, to know for certain exactly what we are going to have to pay out before the next 31st March. That is the important thing from my point of view.

Chairman.

539. But surely it works the other way round? In this case did they render the account?—No.

540. When do they render accounts now, four months after they have delivered?—In theory in the fourth month after the end of the quarter in which the delivery is made.

541. I should have thought that would have helped you to forget at the end of the year rather than remind you?—I do not think so, Sir, I think we shall know what we have ordered.

Chairman.] I do not see how it works.

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[Continued.]

Mr. Stevens.

542. Where is the estimating done, is it all done at headquarters or do you get estimates from the battle field?—It is done like this: there is in the Stationery Office Headquarters at Harrow a clerk whose business it is to watch the stocks of County Court forms and labels. When his stocks get below a certain figure he notifies the Headquarters Branch of the Lord Chancellor's Office, the County Courts Branch, and they then make an estimate there in the County Courts Branch as to what the likely requirements will be over the next half year; it may be in relation to their own estimates of expanding business and requirements generally, and they then instruct the Stationery Office to order so many more forms and labels. It is done like that.

543. I was not thinking, I confess, only of stationery and postage, I was thinking of the whole of the Vote which includes salaries?—I beg your pardon, I thought you were talking of the estimate of requirements.

544. No?—The estimate is prepared in the County Courts Branch, the Lord Chancellor's Office.

545. On the basis presumably of reports which come in from the County Courts?—From all the Courts themselves. There are 396 different County Courts and returns are had from all of them and they are collated.

546. Estimates are had from all of them?—Oh, no, not estimates from all of them at all. At Headquarters we know what salaries are payable and what the likely outgoings are. Every County Court is audited once every six months. There are auditors who are employed by the Headquarters Branch who are going round the Courts continually and they report back what the circumstances are at the individual Courts.

547. So the estimate for the Vote is all prepared at Headquarters?—Yes, it is.

548. In seven succeeding years there have been Supplementary Estimates, but there have been savings in many of those years?—Yes.

549. How do those savings arise?—Very often one is estimating too much for a particular matter. Of course, it is

never for salaries, or very rarely, because salaries have been going up so steadily over the period we are reviewing, but there are other items one can never be quite sure about. Could I take an example, if it would be convenient to you?

550. Yes?—Could we take the example of travelling and subsistence in this particular Account. There was a saving there of nearly £3,000. The reason for that was the petrol rationing during Suez period and the bailiffs did not use their cars or motor-bicycles to anything like the same extent. The result is that there was a saving there, unexpectedly.

551. That may be so in that year, but that was rather exceptional?—Yes, it was exceptional. I am merely taking that as an example of the kind of thing which does occur.

552. Surely it is not a good thing to take as an example something which is quite exceptional, is it?—Could I take a more general one? I am reminded of a particular case if you would be good enough to turn over the page, Subhead I, Remuneration of Assessors. Those are assessors who are authorised to be paid out of public funds under the Landlord and Tenant Act, 1954. They sit with the County Court Judge to consider the value of premises when you are considering the terms of a new lease. It is very difficult to say the number of occasions on which assessors will be required in any year, first, because you do not know the extent to which the number of applications under the Landlord and Tenant Act is likely to increase, secondly because not all judges like assessors; some do and some do not. For that kind of reason it is an unpredictable matter as to whether £600 is too much or too little in any one year. I could not be certain whether next year there may not perhaps be an excess charge on that Subhead.

553. Just one other point. You have explained that the rate of increase has fluctuated a great deal from year to year?—Yes.

554. And certainly in March, 1957, there was a very considerable stepping up in business. The Supplementaries came through some time in March, I think, and surely by then there should be a pretty good indication how the rate of increase for the year is going to turn

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[Continued.]

out, in which case the Supplementary should get pretty close to the final out-turn, should it not?—Unfortunately we have to put in the Supplementary by the end of December and our practice is to base it, so far as we can, on the returns from the Courts at the previous 30th September. We always try to get later information, but when you are getting information from 396 different Courts I am afraid it is inevitable that there should be some time lag over it; and where you get a sudden and fluctuating rate of increase, of course, one may be in difficulties, as we are here.

Sir Colin Thornton-Kemsley.

555. On whose account are carried the payments in respect of the premises in which the County Courts sit, rents, and so on?—That is carried on the Ministry of Works Vote, Sir.

556. And travelling and subsistence allowances of County Court Judges you carry in your Subhead C, do you?—Yes, we do.

557. Although their salaries are borne on the Consolidated Fund?—They are borne on the Consolidated Fund. That is as a result of provisions in the County Courts Act of 1934 which provides, in effect, that travelling expenses are borne out of voted moneys but salaries are borne on the Consolidated Fund on the usual principle.

Mr. Steele.

558. I had a number of questions about the Post Office but you have been so explicit already in your answer that I do not propose to put them, except one: have you yet got the account from the Post Office?—Yes.

559. You have got it?—Yes, we have got it.

560. It is nothing to do with the £21,000 for postage, then, which has been put in last week's Supplementary Estimate? There was an item of £21,000?—It is included in that, yes.

561. So you are all square?—Yes.

Mr. West.

562. Sir George, I see that the expenses of holding possession of goods, Subhead D, have gone up. Does that mean there are more executions being levied?—It is difficult to say whether there would be

more proportionately or not. There again, it reflects the increase in the total amount of business.

563. I also notice that Subhead G, "Conveyance of persons committed to prison", has gone up very substantially. Does that mean that there are more persons being committed to prison or is it that the cost of conveyance has gone up?—I think it is partly the one and partly the other. In so far as it means more persons committed to prisons it is a reflection of the total increase in business.

564. Now, with regard to the increase of business, one can understand that under the County Courts Act with the increasing jurisdiction you will have a great deal more substantial cases being tried by the County Courts, but how far is the increased business reflected in the increased number of judgment summonses and summonses for debt?—I have not got the figures for 1957 here, I am sorry to say. I could get them quite easily. The number of warrants issued for the quarter ending the 31st March, 1957, was 161,174.

565. As against what for the preceding year?—I have got this figure here: that showed a 22·2 per cent. increase on the corresponding quarter of the previous year.

566. And that accounts for a very substantial part of the increased business?—Without any doubt.

567. What is the estimate with regard to the increased business that the County Courts are likely to do as a result of the Rent Act? Are you anticipating any additional increase there?—Certainly. At the moment the total plaints issued, that is to say, the number of proceedings which are initiated, is of the order of 1,090,000. We anticipate another 150,000 plaints issued this year; it may be more.

568. Will that result in an increase in the staff?—Inevitably, I am afraid.

Mr. Collins.

569. Sir George, I understand that the virtue of this new arrangement you have made with the Post Office is that if you had, say, a supply of stationery in the quarter ending December you would not have to pay for that until the following April and therefore it would not come in that financial year?—That is so, Sir,

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[Continued.]

it is really, if I may say so, to achieve certainty of the delivery of the account. That is what I am after.

570. Have you machinery which would tell you that the stationery nevertheless had been delivered in the quarter ended December?—Yes. I want to be a little hesitant about that. The Stationery Office are supposed to notify us when the stationery is delivered.

571. But if they fail to notify you have you not a system for recording goods received?—No, because, you see, the actual goods received on our account are kept in the Stationery Office. They are not delivered in bulk at Headquarters, they are delivered straight to the individual Courts.

572. I see. So that really, although you accepted some responsibility for this last mistake, you did not have at any time physical possession of these envelopes in bulk?—Well, only in so far as they were in our constructive possession while they were in the Stationery Office store.

573. You would agree, therefore, that you should have asked them about them?—Yes, I think we should.

574. Is your Department responsible for, say, the redecoration and maintenance of these 396 County Courts?—No. In so far as they are courts in the sole exclusive possession of the Lord Chancellor, the decoration and maintenance is done by the Ministry of Works. But, of course, a great number of them belong to local authorities and are used for all manner of other purposes, like Magistrates' Courts, and so on. The Court accommodation is shared for many other purposes.

575. That might account for the deplorable condition of many of them. Sir Frank, could I just ask you this: in my recollection—that means the last three

years—this is the first time you have referred to us a case where one Department has failed to charge another for goods or services. Is this a very frequent occurrence?—(Sir Frank Tribe.) No, I should say it is very infrequent.

576. If it happened very often the Department could declare a dividend, could they not? But on this point that measures are under consideration to avoid similar mistakes in future, did you suggest, for example, that the normal procedure either of the Post Office or of the Stationery Office should be followed? They render accounts promptly and efficiently. Could that not have been done in this case?—This is a little bit complicated, as the witness has said. These forms are required by each of these different Courts. Apparently the Stationery Office put them in bulk into a locker or some place which is designed to be the Lord Chancellor's locker, and the charge really arises at that stage. Then they notify the Post Office, which raises a charge and sends the bill in. It is not connected at all with the actual delivery. Once these are in the locker I gather any County Court can then demand delivery of them to the required number. So it is a bit complicated. I do not quite know how it could be changed because all three Departments are concerned. The charge is primarily, of course, a postage charge.

577. You are satisfied that the method now proposed will avoid this kind of thing in future?—I think so.

Chairman.

578. Just one point out of pure curiosity. On charges for conveyance to prison, is that a cross-payment to the Prison Commissioners or do you provide the conveyance?—(Sir George Coldstream.) No, Sir, we have to provide the conveyance and it is sometimes by van, sometimes by train.

THURSDAY, 20TH FEBRUARY, 1958.

Members present:

Sir George Benson, in the Chair.

Mr. Arbuthnot.
Mr. Ramsden.
Mr. Stevens.

Sir Colin Thornton-Kemsley.
Mr. West.

Sir FRANK TRIBE, K.C.B., K.B.E., and Mr. J. MACPHERSON called in and examined.

CIVIL APPROPRIATION ACCOUNTS, 1956-57 (CLASSES I-V).

CLASS II

VOTE 9.

COLONIAL SERVICES.

Memorandum from the Colonial Office on Retention of Trade Union Offices by elected Ministers in certain West Indian Colonies.*

Sir JOHN MACPHERSON, G.C.M.G., Permanent Under Secretary of State, and Mr. A. N. GALSWORTHY, C.M.G., an Assistant Under Secretary of State, Colonial Office, called in and examined.

Chairman.

579. Will Members turn to the Civil Appropriation Accounts, Classes I-V, to page vi, paragraph 7 of the Comptroller and Auditor General's Report, Colonial Services, and also to pages 106-114, the detailed Accounts? I see, Sir John that you had an over-estimate on Malaya and Malta of about £¼ million each. How is it that you over-estimated so late in the day as February?—(Sir John Macpherson.) May I deal with Malta first, Sir?

580. Yes, if you will?—It was estimated on the basis of the telegrams we get from Malta at the beginning of each quarter.

581. Does that mean that Malta misled you?—I do not think intentionally, but I think they probably misled themselves.

582. Are you entirely dependent on their financial machinery?—For a running check we are pretty dependent on the report we get from them at the beginning of the quarter of what they have got in hand and what they expect to meet during the succeeding quarter, but that does not run on because the check comes each quarter.

583. Yes, I know, but this is the year end and the Public Accounts Committee has always been highly critical of large surpluses just as it has been of large deficits?—We have had rather a particular difficulty with some of the figures from Malta, I am bound to say.

584. Now, what about Malaya? Here you took a Supplementary of £705,000 in February and very nearly half of it was surplus. That is a very bad over-estimate?—Yes. The Committee will recall this was discussed last year in relation to the previous year of account and I said that we were not happy about the history of this transaction which goes back, I think to 1953. We felt that Malaya had been rather ambitious in their plans and that they had over-estimated their own capacity. I think in the last financial year I am bound to say that perhaps their eyes were a little off the ball with Merdeka coming so soon. We accept that it was over-estimated.

585. Did you not have any knowledge of the rate of expansion of their armed forces? Were you not kept informed of the rate of expansion?—We kept prodding them, challenging them. They said: "We think our capacity has increased now and we can do the following programme."

586. They told you that in February?—I am talking now in general of how we went through the processes of examination. I would not like to say on what date we got the last report. (Mr. Galsworthy.) I think it was in November.

587. When you take a Supplementary is it customary to rely on information three months old?—May I answer that, Sir? That would depend entirely on the particular grant. We were taking

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the Supplementary for an entirely different purpose, of course. That was as the first instalment of the grant-in-aid of £3 million a year that we undertook to provide for each of the three financial years beginning on the 1st January, 1957. Now, that February Supplementary was for £750,000 which was the first instalment of that grant-in-aid towards the cost of the emergency which represented the period January to March of 1957, and all of that was paid over. We did reduce the provision towards the cost of the Malayan armed forces. We had previously reduced it on their original estimate and we reduced it a bit more, but again we were quite belied in the outcome and it was a very great surprise to us.

588. Sir Frank, have you anything to say on these surpluses?—(Sir *Frank Tribe*. Not particularly on Malaya, Sir. I have some comments on Malta, if you would like to hear them?

589. Yes, certainly, on either of them?—As far as Malta was concerned the Committee will note that the original estimate of £1½ million was increased by a Supplementary of just on £2 million as early as July, 1956, followed by another Supplementary of over £1½ million in February, 1957, but although the Colonial Office did not issue £254,000 of that, I am told that in fact Malta was given £455,000 more than was shown as due to them when their outturn accounts came to be received in May of that year. So, really, the Colonial Office took a Supplementary of £1½ million when they needed only about half that amount of money. The accounts in Malta are, I understand, audited by an auditor appointed by the Maltese Government. I do not know what control the Colonial Office has over their income and expenditure account or whether the Colonial Office can satisfy themselves in any way that these requests they get from Malta are in fact justified and needed. But in this case it was certainly a false estimate of about £700,000.

590. What have you to say to that, Sir John?—(Sir *John Macpherson*.) I am afraid that is true. As soon as we found after the end of the year that too much had been issued we took early steps to set it off against the next quarter; but it is true.

591. Yes, but obviously your information from Malta was extremely inaccurate?—I am trying to take as

much blame as one can, but that is true.

592. Exactly. If you are handing over large sums to Malta it is for you to see that you get adequate and correct information?—Yes. We were going on the results of an Economic Commission which had been appointed to recommend on the amount of assistance required by Malta.

593. And their financial control?—Yes, but I do not think it affected their financial control. (Mr. *Galsworthy*.) The Economic Commission appointed was the Economic Commission of Sir George Schuster and Sir William Scott and it was on the basis of their recommendations that we made the provision in the spring Supplementary.

594. It looks as if they had been misled?—Well, none of us were on the target that time, I am bound to admit.

Mr. *Ramsden*.

595. Still on Malta, Sir John. Your expenditure was a great deal bigger than your original estimate and you had to take the two Supplementaries subsequently. What new factors contributed to that?—(Sir *John Macpherson*.) There were great complications over Malta finances through the year.

596. Was it just bad estimating on the original estimated expenditure?—I wonder if Mr. Galsworthy could answer on the detail of it, and I will come back on the policy?

597. Certainly?—(Mr. *Galsworthy*.) What happened in 1956-57 over Malta is really illustrative of some of the difficulties we had and still have. In 1956-57 in the original estimate we included £900,000 for general financial aid to Malta. Now the whole of that £900,000 was required as the balance of the grant-in-aid due to Malta in respect of the previous financial year, 1955-56. We had been very cautious over issues to Malta in respect of the previous financial year in order to avoid just this sort of difficulty. I am afraid it is more complicated than that.

598. So this £900,000 which forms part of the grant-in-aid is virtually a deficiency grant on income and expenditure account, is it?—In respect of the previous financial year, 1955-56.

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599. Who estimates that? How do you get to know the amount of the deficiency?—That was on the basis of their actual outturn. The actual outturn became known in June and the amount due from Her Majesty's Government was calculated then at a figure of £1,974,232; that is what we owed them in respect of 1955-56. We had paid to them, in 1955-56, £800,000 and we then paid to them the £900,000 which we had provided in the 1956-57 Vote in respect of the previous financial year. So, we had paid them £800,000 plus £900,000 and we still owed them a balance of £274,232. We took a summer Supplementary of £274,232 being the balance of the grant for 1955-56. Now, at that time in the summer Supplementary we also took provision in respect of the financial year 1956-57. We had not settled then with the Maltese Government the exact amount of financial assistance that we were prepared to give them in 1956-57. We took a chance and took an Estimate for £1.725 million; so there were two elements in that summer Supplementary, the £274,232 which was the balance of the previous year and our guess of £1.725 million for the then current year, 1956-57. That £1.725 million was the minimum that we thought we would need to provide to meet current needs whilst the negotiations were still proceeding; they were protracted negotiations and they resulted in the appointment of the Economic Commission which Sir John mentioned just now under the chairmanship of Sir George Schuster. They recommended, and we accepted their recommendation, that we should provide to Malta in respect of 1956-57 such sum within a maximum of £3,361,002—it was very detailed, as you see—such sum within that maximum as would be required to maintain the balance in the Malta Consolidated Revenue Fund at the end of the financial year at £1 million. Now, on the basis of returns that we had from Malta in the spring, we took a Supplementary, being the difference between £1.725 million that we had taken in the summer and the amount that we thought we would have to provide in the remainder of the financial year, to meet the Economic Commission's recommendation; and it was there that we went wrong. I am sorry it is such a complicated story, but

the financial questions with Malta do tend to be extremely complicated.

600. I shall follow it more easily when I see it on the record, but did you in fact issue as grant-in-aid more or less than the balance for 1956 on revenue and expenditure account?—We issued more. We issued less than we had provided in the spring Supplementary.

601. Less by how much?—I think, £104,665. We issued that much less than the provision we had taken in the spring Supplementary. That was on the basis of returns that we were getting from Malta in the last quarter of that year. Now, as Sir Frank mentioned just now, as soon as we saw the outturn in May we realised that we had over-provided £455,726 on the basis of returns submitted by Malta. We are in the hands of the Maltese Government for these returns. They, after all, are in a much better position than we are to know what their cash position is or what it should be, and they went wrong. As soon as we discovered this, of course, we took steps to recover the grant and we did recover it, not physically, but by short-issuing by that amount on the next instalment. We now issue our money to Malta very carefully.

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602. Is that precaution necessary because really you have got very little financial control over Malta?—Yes, that is the reason for it; and the only way of avoiding this sort of situation is, in fact, to err on the side of caution in making these issues, if necessary catching up a bit later on when we are really sure that they need the money.

603. Does your Director General of Overseas Audit go through their Accounts?—No, not the Maltese Government Accounts, except for Colonial Development and Welfare expenditure.*

604. Who does?—The Auditor of Malta, who is appointed under the Malta constitution.

605. Does he send Sir Frank any audit reports?—They send the audited Accounts to us and we transmit them to Sir Frank. (Sir Frank Tribe.) What

* *Note by Witness:* It is regretted that the second part of this answer is erroneous. C.D. & W. Schemes in Malta are audited by the Auditor of Malta.

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happens is that we get the Accounts which are just certified correct with his signature and then several years afterwards there does come a report, but up to now I have not received a report even on the 1954-55 Accounts. The report takes a long time to come after the Accounts. Then it is not the kind of report which this Parliament expects of its Auditor General.

Mr. *Arbuthnot*.

606. Is there anything that can be done to put Sir Frank in a better position to be able to audit the Accounts?—(Sir *John Macpherson*.) There would be political difficulties about intervening in Maltese Government affairs. When it comes to Colonial Development and Welfare grants we check on them and, of course, there is the grant-in-aid aspect on which we do our best. (Sir *Frank Tribe*.) I should perhaps like to make it clear I have no reason to criticise the technical capacity of the Auditor; I know nothing about it.

607. You must have formed some judgment on it, Sir Frank, in view of the figures?—No, you get an Account certified correct. One cannot, without going behind it, know whether it is right or wrong, but I have no reason to suppose he is not a good Auditor.

Mr. *West*.

608. How is the Auditor in Malta appointed and who appoints him?—(Sir *John Macpherson*.) The Maltese Government, under the Constitution. It is not within our competence or the Governor's discretion.

609. Under the Constitution he has a responsibility, has he, of transmitting his report to the Colonial Office?—His responsibility is to the Maltese Government, and in so far as they grant-aided or get Colonial Development and Welfare funds, he has the responsibility.

610. He has no direct responsibility under the Constitution to transmit direct to the Colonial Office a copy of his report?—I would not like to say off-hand whether or not it is in the Constitution, but administratively that is the case.

611. Does it come from him or from the Government of Malta?—From the Government.

612. And he is recruited from where?—Malta.

613. Of course, any attempt to alter that would involve you in these political difficulties that you have already indicated?—Very much so.

Chairman.

614. Will Members still keep open pages 106-114 of the Civil Appropriation Accounts, and we will take with the Accounts the Memorandum from the Colonial Office.* Sir John, which of the territories shown on the Agenda under Item (a) are now included in the Federation?—Antigua, Montserrat, Dominica, St. Lucia, St. Vincent, Turks and Caicos Islands, Jamaica and Grenada; all except the Virgin Islands in that list and the two mainland territories as well, which are not mentioned here.

615. How comes it that the Virgin Islands are excluded?—They opted out. They are very closely linked economically with the American Virgin Islands.

616. When did the Federation commence to function?—It is not fully in being yet. The elections take place in March and the Federal Legislature will be inaugurated about the 22nd April, but the Governor-General has been appointed and he has at the moment an Advisory Council which is a sort of shadow Cabinet emerging from the Standing Federation Committee which has been functioning hitherto.

617. I take it you will be making, if indeed you are not doing so already, grants to the Federation rather than to the individual territories?—When the system comes into force next year, yes.

618. And it will be for the Federation to allocate to the individual territories?—To allocate to the unit territories.

619. Has the amount of next year's grant been agreed upon?—Not yet.

620. I do not know whether it is proper to ask you this: is it likely to be more or less than the present total?—It will be on the basis of the past grants. (Mr. *Galsworthy*.) We are going to have a round of complicated negotiations, I should say, about the middle of this year, Sir. All sorts of factors will be taken into account. The one firm assurance we have given is that

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the level of the block grant for the first five years of the life of the Federation will be not less than the average of the grants-in-aid over the three years preceding the establishment of the Federation.

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Mr. West.

622. In paragraph 6 of the Memorandum there is the statement with regard to trade union activities and Ministerial responsibilities: "The contention of the leaders is that if they were to divest themselves of trade union office immediately upon being elected as Ministers, their unions would often perish." What is your opinion about that, Sir John?—(Sir John Macpherson.) It is a long story, Sir. If I might just digress a little, it is all part of the build-up of our Colonial policy. We are very anxious that we should, in advanced Constitutions, follow the policy of Britain and the Colonies are very anxious themselves to do so. In general I should say the code of ethics has been very quickly received and acted upon but there are very special circumstances, particularly in these little islands, where they have, perhaps for historical reasons, some history of industrial difficulties, and so on. Politics grows out of trade unions. The trade union leader gets his support from his union. He goes into politics and there are very few people competent, I think, to run the trade union. He says: "If I give up my office the trade union will disintegrate". He is probably also thinking that support would be lost to him and perhaps his seat in the Legislature. The right answer is for him to make sure that other people are trained on to take over. They are getting help from the T.U.C. in that matter and one is not without hope.

623. It is, of course, I take it, accepted that a stable trade union organisation is of benefit to the territory?—We certainly think so and the Governments think so and we hope more and more employers will realise if they get the right kind of trade union organisation it is of benefit to them and the country.

624. It is the one way of trying to build up a sense of responsibility among those who work and those who employ?—Surely.

625. And therefore it enables the administration of the country to be better

performed. I take it that is the conception underlying this?—Yes.

626. What has been their reaction to these suggestions apart from the statement here that they would contend that the trade unions would perish if they were to divest themselves of trade union responsibilities, concerning progress with regard to the representations that have been made to them that they should divest themselves of trade union responsibilities?—The first step was a despatch to the Government of the Windward Islands—I think there is a copy of it here, and I think they published it so it is known. The most recent step was a visit here by a delegation of Ministers from St. Lucia to talk about the block grant. I think it was about November, and this particular point was pressed on them not only by officials but also by the Parliamentary Under Secretary. I would not like to quote them too far, but the impression they gave us was that they accepted the principle that as and when the unions could be hived off under other management they would divest themselves of their connection with the unions.

627. What is the present position; have they divested themselves?—No, they have not.

628. If there were a conflict between the desirability of their divesting themselves of trade union responsibilities and the continuance in Ministerial posts do you think it would be better for them to continue in the dual capacity—you know the individuals concerned—rather than they should yield up the one and accept the other?—That is a very difficult question. I think the individual's own sense of where power rests would come into it very much.

629. Yes, I was not thinking so much about an individual's power. I was thinking of the benefit to the country, the stability of the country?—I would myself put the Ministerial function first, and divest from trade unionism.

630. If at the same time that meant the disintegration of the trade union it would have its political effect too?—I should greatly regret that. We know there are only a handful of people in these Islands able to run trade unions, but they are coming on.

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631. Supposing now you were to say to them: "Look here, you must give this up"—assuming you had the power to talk to them in that way—"You must give up this trade union activity as Ministers of the Crown", and if they were to do so, do you think the country would be in a position to benefit from that? Do you think the advantages you would gain in the concept of purity of their administration would outweigh the political disadvantages of having disrupted trade union organisation?—I would not like to be led into that.

632. When do you hope to persuade them to give up the dual capacity?—It is a constant process of education and persuasion. The only sanction we have would be to deprive the Minister of his portfolio and his appointment. I feel that would probably mean something equivalent to suspending the Constitution, so we go along patiently.

633. They recognise the desirability of it themselves?—They did to us when they were home. I do not know whether they have said it publicly. I think they do, as and when they can see someone to take over from them in the union. On the whole, there are very few territories where the connection is still maintained—British Honduras, St. Lucia, Antigua, St. Kitts.

634. Now may I refer to paragraph 9 very briefly? What does the cost to the West Indian Government of 104,000 dollars really represent? Was it a tangible cost for emergency measures or was it an assessed loss of revenue?—Yes, emergency measures; loss of revenue, because the sugar crop was affected 54,000 dollars—that is in West Indian dollars—emergency expenses on police, and so on, nearly 43,000 dollars. There were two Commissions of Inquiry, one into the sugar industry and one into the banana and coconut industry, and the total was 6,500 dollars. Some smaller items, some bananas that were shipped or lost, 600 dollars, which we make 104,000 dollars. I give it in round figures.

Mr. Ramsden.

635. What is the parity, roughly?—(Mr. Galsworthy.) Four dollars 80 to the pound.

Chairman.

636. Practically five?—Nearly five.

Mr. West.

637. Will this loss affect the grant-in-aid from the United Kingdom?—(Sir John Macpherson.) No.

638. Do I take it then that that was not the reason for the increase in the grant from £10,000 in 1956-57 to £72,000 in 1957-58?—No, not principally.

639. What was the reason for that increase?—That was after the examination of the Estimates in the usual course.

640. One question on paragraph 10. Do you require employers who are Ministers to observe the same constitutional principles as you expect the trade union leader to do?—Yes, certainly.

641. And do they respond?—Admirably, on the whole. I think there have been one or two exceptions declared by Governments. For example, a member of the former Executive Council of British Guiana was allowed to retain his directorship of a public corporation. But they disclosed their interests. When you say "employers" it does not happen a great deal in the territories that we are thinking of, that they become Ministers, unless they are nominated.

642. You refer to them in paragraph 10, anyhow. That is why I am asking a question about it?—The same rules apply throughout. They have to disclose any directorships.

643. Disclosure of interest and continuance in office are two quite different things. The trade union leader is quite prepared to disclose his interest in a trade union organisation but he has to give it up. What about the employer? Has he to give up his directorships and his financial interests when he becomes a Minister?—His interests as an employer.

644. There is a code of conduct which is established in this country?—Yes. When a man becomes a Minister and is paid for full-time service we expect him to divest himself of that kind of interest. For instance, a lawyer would not be allowed to practice. He might have a share in a firm, as I have known in my own experience; he would put in another partner and he would not practice. He would not sever his whole connections from the firm, but he would not take an active part.

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645. What about directorships in companies, and that sort of thing?—They have to be given up.

646. And do they give them up?—By and large, yes, I think so in my own experience. I do know we had some exceptions. We asked all the Colonies at one stage for a report. It is a little out of date but it might be helpful. Trinidad, no difficulty was experienced in persuading Ministers to divest themselves of directorships or trade union posts. An unofficial member of the Executive Council who was not a Minister with Ministerial responsibilities continued to practise his profession. Barbados, all right. Jamaica, retention of business directorships has not in fact been an issue. Most of the Ministers have been lawyers or schoolmasters before taking office. British Honduras, they are not full Ministers. British Guiana, they are conforming there too. Malaya and Singapore were all right. Kenya, no difficulty in persuading Ministers to accept the principles. I think I can say, with one or two declared exceptions where permission was given, it is satisfactory.

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647. I am concerned with the concluding sentence of paragraph 10 where you state: "It is hoped that both sides in industry will in future co-operate better to this end". Obviously, both sides of industry must be affected?—I was thinking of industrial relations when I wrote that rather than Ministerial control. I can only say that both sides must play their part in improving industrial relationships.

Mr. Arbuthnot.

648. You told the Committee that your only sanction really was to suspend the Minister as the Minister. Surely that is a sanction that works both ways, is it not? Ministerial office is something that is very much valued by these people and they would be just as fearful, if not more fearful, of being divested of their Ministerial office as you need be if you had to find new Ministers?—In a place like St. Lucia there are very few people and we would much rather they arrived at it by persuasion. I am bound to say we have been a little handicapped by a rather special example of precedent in Jamaica many years ago. A notable figure was a member of the Executive Council and President of a

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trade union and a year later became a Minister and did not divest himself of that office. That went on for a number of years and that has added to the complication. I would myself expect that if one applied the ultimate sanction one would have a very serious breakdown in the Constitution.

649. You refer to one instance given prominence in a local newspaper. Was that in Antigua?—In which paragraph is that?

650. Paragraph 7?—I am afraid I cannot remember which territory it was.

651. Paragraph 8 seems to disclose a pretty unsatisfactory state of affairs, where three of the elected Ministers took an active part in the strike and then as Ministers concurred in measures designed to bring the strike to an end and also steps to meet its costs. That seems to be suffering from political schizophrenia, does it not?—I would not contest that diagnosis.

652. You say that the cost was 104 000 dollars and that this was raised by an additional duty on tobacco and cigars and therefore did not involve seeking additional grant from Her Majesty's Government. Presumably, then, that money that was raised could have been raised had this not occurred and therefore the money that was sought from Her Majesty's Government need not have been so great as in fact it was had all these unfortunate events not taken place?—I take the point as meaning, if tobacco tax had been applied throughout the year. One knows, of course, with a tax like the tobacco tax you have always got to think about where you get the point of diminishing return, and the taxation which is imposed by St. Lucia is at quite a high level compared with other territories. I certainly do not think, had there been no strike, that we would have pressed them to put on a higher tax, and this was only for a period. You might say it was punitive, but it was they who were punishing themselves, and it was done for a purpose and applied for a period. I would not think they would say it was the correct rate of tax, but that they put it on to recover this expenditure.

653. You say in the last sentence of paragraph 10: "It is hoped that both sides in industry will in future co-operate better to this end". That is a

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hope that we would all share, but is there any evidence to suggest that that is anything other than a sanguine hope in view of what is going on in the banana industry in St. Lucia at the moment?—We do not administer St. Lucia directly from here.

654. So any hope will do?—I have hopes.

Sir Colin Thornton-Kemsley.

655. Sir John, you quote in Appendix B to your paper the public announcement of the 29th December, 1954, about constitutional reform, saying: "Ministers will be expected to give priority to their work as Ministers but may undertake other work if it does not conflict with their responsibilities as Ministers". Can you conceive it possible that the work of a trade union leader carried on by a Minister would not at some time or other conflict with his Ministerial duties?—I expect that it would conflict. A lot would depend on his portfolio but I think so, as part of a collective policy forming body.

Mr. West.] Have you had any evidence of any conflict having arisen?

Sir Colin Thornton-Kemsley.] It is quoted here in paragraph 8.

Mr. West.

656. Paragraph 8 is not a conflict as between his Ministerial duty and his duty to the State. That merely means that the Minister has taken part in an industrial dispute in the same way that Members in this country would either advocate that a certain course of action should be taken as between employers and employees or by the City with regard to nationalisation or denationalisation. This is not interference by the Minister with regard to the administration of the country, it is really a conflict between employers and employees, as I understand it. Is that so, Sir John?—I did not quite follow that.

Mr. West.] *Sir Colin Thornton-Kemsley* says—

Chairman.] I am afraid I cannot allow Members to cross-examine each other. Questions must be addressed either to the Chair or to the witness.

Sir Colin Thornton-Kemsley.

657. Sir John, how many Ministers are involved in this conflict of interest

between being a trade union leader and being a Minister?—Three, I think, who retain their connection with Trade Unions.*

658. And they are presumably paid by their trade union and draw a Ministerial salary?—I would not know.

659. Those three Ministers are three out of a total of how many Ministers in the territories concerned?—In this territory?

660. I wanted really to get a picture of the whole problem. Now I understand you to say that so far as you know there are only three Ministers in the whole of the Colonial territories who are at the same time trade union officials?—My recollection—I will not say it is absolutely up to date—would be British Honduras, Antigua, St. Kitts, St. Lucia.

661. Four islands?—They are not all islands. They are all West Indies.

662. So that in those four territories there are instances of Ministers who are both Ministers and trade union officials?—Yes, and the report from British Honduras said that the actual member of the Executive Council concerned was doing his best to avoid any possible conflict by detaching himself, and in some other case the Minister is not taking a very active part. There has been no conflict in the sense that there was violent conflict in St. Lucia.

663. Then, so far as you know there is a maximum of five cases—would that be fair—where there is the dual holding of office?—I would say not much more than that. Of course, one has to be a little careful because Ministers change from time to time.

664. I am saying, as far as you know?—Yes.

665. Out of approximately how many Ministers would that be?—Oh, scores. Nigeria itself has got probably 40 or 50.

666. So if those five were dropped there would not be any hurt, really, to the efficiency of the Ministerial teams?

* *Note by Witness:* Actually two so far as St. Lucia is concerned. Of the three elected Ministers in St. Lucia, one gave up his trade union office on the advent of the ministerial system in March, 1956.

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[Continued.]

—I am talking of the Colonies as a whole.

667. I meant in those five cases?—It depends on the size of the territory. If there are a total number of five Ministers, two nominated and three elected, and the three elected ones have a trade union connection the dropping of them would be quite dramatic.

668. What I am trying to establish is whether it really would be a serious thing from the point of view of the Government of the Islands if those five men were dropped?—In the separate Governments?

669. The separate Governments?—You would have to treat each one separately.

670. Certainly, yes?—It is a very delicate business bringing on a Colony to constitutional advance, and personalities play a much bigger part than they do here. If you think back to the Gold

Coast and remember the part Dr. Nkrumah played, if you had dropped Dr. Nkrumah and thought the Gold Coast would have been just the same it would not be true.

671. The Colonial Office is paying the Ministerial salary to each of these five?—Not the Colonial Office.

672. Who pays the salary?—The local Government.

673. The local Government pays the salary, so you have not any sanction there?—None. We could only give directions to the Governor to say: "You must deprive this man of his Ministerial office" and there would be a constitutional crisis of considerable magnitude.

Chairman.

674. Am I right in assuming that you are not dissatisfied with the rate at which these Islands are approximating to our procedure?—In general I am not dissatisfied.

TREASURY MINUTE ON PARAGRAPHS 113-120 OF THE THIRD REPORT OF THE COMMITTEE OF PUBLIC ACCOUNTS, 1956-57.

Chairman.

675. Will Members turn to the Treasury Minute on paragraphs 113-120 of the Committee's Report? Mr. Macpherson, in paragraph 120 of their last Report the Committee consider that more money should not be issued than is actually needed by the Corporation. The Treasury Minute says "Needed to meet the reasonable requirements". Do you interpret those two as meaning the same thing?—(Mr. Macpherson.) I think so, Sir, yes.

676. So, the Treasury now does accept that money shall not be issued to the Corporation before it is actually needed?—Yes. We accept the principle that money should not be issued before it is needed to meet the reasonable requirements of the body receiving the money.

677. Has any other scheme similar to the Kenya Power Company been presented to the Treasury for an advance?—No. We hope it will not be repeated.

678. When the Colonial Office ask the Treasury for a grant what steps do you take to satisfy yourselves that there is actual need for money for that specific purpose?—This must be looked at in

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two stages, Sir. When the Colonial Office come to us with a particular project which has been put to them by the Colonial Development Corporation we look at the project as a project and determine whether we are willing to approve it and for the amount involved. Thereafter, the responsibility rests with the Colonial Office to see that the C.D.C. does not get the money in advance of need, but if the Colonial Office then come to the Treasury and say that there is this requirement by C.D.C. the Treasury would not normally question it.

679. What steps do you take, Sir John, to see that the Corporation does not make larger demands than their immediate needs require?—(Sir John Macpherson.) The Corporation are fully aware of the principle of not getting money ahead of the time that it is needed; and in any case they have to pay interest from the time they take it, so as far as possible they use any other resources they have to delay as long as possible before coming.

680. I still have in mind that there was an advanced borrowing as reported last year, in order to forestall an increase in the rate of interest. Do you

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remember that?—I remember it very well, every bit of it.

681. Does the Corporation provide you with evidence of the actual and immediate need for the funds they are asking for?—Not in detail each time they come to us. We know what the schemes are. In many cases payments are according to a time schedule. Shall we take, for instance, Kariba; we check back to see that another payment is due and we make a payment.

682. Sir Frank, are you privy to this information, this data?—(Sir *Frank Tribe*.) All I get as Comptroller, Sir, is a request from the Treasury for the issue of the money supported by a statement from the Colonial Office saying that so much money is required; and on that I am required by statute to issue the money, provided the sum is within the total amount that Parliament has approved. I do not at that stage see any details of the schemes and what

the money is wanted for or how urgently it is needed.

683. So, if there were an attempt to get money in advance you would not have any information on the subject?—I could pick it up subsequently on audit, but I should not have that information at the time I was asked to grant credit.

684. Are you satisfied with the position?—I think that is the general statutory position with regard to all these advances below the line from the Consolidated Fund.

685. No, I said are you satisfied with it. Do you feel that you have the requisite power as Comptroller?—Oh, yes. I do not really think it is a Comptroller function, I think it is a function in my other capacity as Auditor, to pick it up afterwards, rather than as Comptroller to stop it in advance.

686. You find you can pick it up?—Afterwards, yes.

OVERSEAS RESOURCES DEVELOPMENT ACTS, 1948 to 1956,
ACCOUNT, 1956-57.

COLONIAL DEVELOPMENT CORPORATION ACCOUNTS, 1956.

Mr. W. RENDELL, General Manager, Colonial Development Corporation, called in and examined.

Chairman.

687. Will Members turn to the Overseas Resources Development Acts Account, 1956-57, to the Comptroller and Auditor General's Report on page 6? Sir John, can you explain to the Committee why 93 per cent. of the money advanced in the year of account was for investment in secured loans?—(Sir *John Macpherson*.) I agree, Sir, that the two percentages given in this paragraph must give the impression that we have not given weight to the views that have been expressed by this Committee in the past about keeping a proper proportion between loans of this kind and other operations. I wonder if I could ask the indulgence of the Committee to refer to July, 1956, as a date that is very much in our minds, because it was then that the Colonial Secretary reaffirmed in Parliament that he would watch the position and see that an undue proportion of the money sanctioned was not put in these safe investments.

688. In July, 1956, he said that?—Yes. What I mean is that the figures for the year cannot by their very nature show the pattern that is evolving; and in point of fact since July, 1956, only two loans have been approved to Governments or statutory bodies and one straight loan to a commercial concern, and the total is something under £2 million. A great many of the items in that paragraph refer to loans that had been sanctioned before. They come quite correctly into this year of account. Kariba, for example, had been sanctioned in June, 1956. That is the real explanation of the rather frightening looking figure of 93 per cent. and the proportion. I think in some paragraph of the Comptroller and Auditor General's Report he said the proportion is running at about 41 per cent.

689. Are you satisfied that the pattern of lending is changing?—Yes.

690. Definitely?—Definitely.

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[Continued.]

691. And at the present moment there is nothing like the same percentage going into really secure investment?—Less is going in.

692. Now with regard to the question of the definition of "finance house" business, how far have you got with that matter?—We found great difficulty in getting a definition that takes account of all the possible interpretations. We came round to the way of looking at a working formula instead. It appears when one thinks of it first that it should not be difficult to define "finance house" business but it does mean different things to different people, and sometimes there are marginal cases where the Corporation on what looks like a straight loan have done a great deal in the way of formulating, scrutinising and helping, so we found it more profitable to try and work on a formula; and under that we and the Corporation think that straight loans to Governments, loans guaranteed by Governments, and straight loans to statutory bodies should not be appropriate types of loans for the Colonial Development Corporation in future, except in exceptional circumstances which I could develop if wanted. It is agreeable to the Corporation that, except in certain exceptional circumstances, these would not be made.

693. That means that there has been a very drastic revision of policy?—No, Kariba does distort the thing greatly. We have been hammering it out in a friendly way. There still will be, we think, occasional cases and it is within the law for the C.D.C. to make a loan. We have our responsibility to Parliament, of which we are very conscious, but the whole object of the C.D.C. is Colonial development. There might be some cases in which in no other way could a very valuable piece of development go on, because Colonial Governments are using statutory bodies a great deal to carry out these functions. There may be no other way.

694. Mr. Macpherson, what are the Treasury views on this?—(Mr. Macpherson.) We would sum up our attitude by saying we go along with the Corporation and the Colonial Office in approaching it as they do. We agree that the group of loans is, as Sir John has said, the sort which should not normally be undertaken but we find it

difficult to set a definite percentage for this group as the C.D.C. are asked about many different types of proposition.

695. I do not think the Committee would ask for a definite percentage, but merely that you would take into consideration the purposes for which C.D.C. was set up?—Indeed, and that is one of the points we look at very carefully when we are examining a project.

Mr. Arbuthnot.

696. What exactly is meant by this term "secured loans"? Does that not include things like convertible debentures or prior charge stock?—(Sir John Macpherson.) You are taking me into flights of finance. I would hesitate to guarantee the correctness of my reply.

697. My fear is that you are getting shot at for something that would appear to me, if it did include things like convertible debentures, was a perfectly reasonable policy?—I think convertible debentures would not be excluded by what we are doing because the C.D.C. would become equity holders. I think it might merit separate treatment if it were convertible debentures. A case has not come up to me.

Chairman.

698. I think, seeing that this is Sir Frank's Report, we might ask him what he means by "secured loans"?—(Sir Frank Tribe.) I did not attach any technical significance to those words. What I meant, broadly, was other than risk capital.

Mr. Arbuthnot.

699. Any prior charge, in fact?—Yes.

700. Anything other than equities?—Broadly speaking, yes.

701. So you would include in this term preference stock and convertible debentures?—Preference stock, possibly.

702. That surely puts a very different complexion on it, does it not?—Well, it is very difficult to define some of these things, whether they come in or not, as the witness has been saying. I do not think any precise definition, probably, is possible. I did not attempt it in this Report; I used the word broadly, secured loans as against risk capital as a broad classification which I think is

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what the Committee had in mind in their earlier Reports on the subject.

Sir Colin Thornton-Kemsley.

703. Sir John, I want to ask you one or two questions about the £15 million loan to the Federal Power Board for the Kariba Dam project?—(Sir John Macpherson.) I hope I can answer.

704. For how long do you anticipate that £15 million is going to be locked up?—The General Manager from the Corporation is here. I do not know whether he could answer these questions?

Sir Colin Thornton-Kemsley.] If I may ask him those questions, I would like to very much.

Chairman.] Are you sure you will not ask this better on the Colonial Development Corporation's Account, when we come to it?

Sir Colin Thornton-Kemsley.

705. It comes on the Comptroller and Auditor General's Report, paragraph 1. If I could ask Mr. Rendell, he perhaps can give me the answer. I had asked Sir John if he could tell me for how long the £15 million advance to the Federal Power Board in respect of the Kariba Dam project would be locked up?—(Mr. Rendell.) It is repayable over 40 years. The last instalment will not in fact be repaid for 40 years and the repayment provisions follow fairly closely the provisions on which we got the money from the Colonial Office.

706. So it will be about 40 years from the time of the loan being made, I suppose; that is, there are about 38 years to run, or something like that?—They do not start repaying straight away, you see. It may be in our Report.

707. So the lock-up is going to be, at any rate, for a period of 40 years. I think I had better ask Sir John this question: do you consider that the spending of so large a sum for so long a period falls, in your view, within the functions of the Corporation?—(Sir John Macpherson.) I am sure it is within their powers or we would not have sanctioned it. The annuities will start being paid after seven years, capital and interest.

708. Will not the fact that that capital is locked up for so long hamper the other activities of the Corporation in so far as there is a lock-up of something

like £15 million which might otherwise go to other people?—It stands to reason if we get one very large sum it will have an effect, but there has not been a shortage yet and we are extending the borrowing powers of the Corporation.

709. Can you, Sir John, or can Mr. Rendell, tell the Committee what is the total estimated cost of the Kariba Dam project?—(Mr. Rendell.) £80 million on the first stage. There is a second stage which, of course, is estimated to go up to £120 million.

710. Who is providing the balance of the capital?—The International Bank are providing on the first stage £27 million, I think it is, and the balance is being provided from Rhodesia except that the C.D.F.C. are providing £3 million.

711. So C.D.F.C. £3 million and another £42 million comprising the £27 million you spoke of and the £15 million advanced by the Corporation making £45 million, and the balance would be £35 million on the first project, would it not?—£35 million on the first project, yes.

712. And that is being found by whom?—It is being found locally. It is underwritten by the Federation Government. In fact, the copper companies and some of the banks have engaged to find the large part of it.

714. Do you think there will be any difficulty about that sum being found?—Well, I take it that despite the fall in the price of copper this will be regarded as a first priority by the people who have undertaken to put it up.

715. The point I am really trying to ascertain is whether you consider, Sir John, that the loan by the Corporation of £15 million was really necessary?—(Sir John Macpherson.) I was not here at the time but I should say that the whole power need for Rhodesia is so great I would not in this instance have thought that £15 million was excessive, big as it is. (Mr. Galsworthy.) If I may add to that, I was involved in the negotiations in a way and I am quite sure—in fact I can say this quite definitely—that the contribution of £15 million from the C.D.C. was necessary in order to mount the operation. You may remember that the copper companies in Northern Rhodesia need the extra power

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in 1960, I think it is. So, it was urgently necessary to build the dam so that additional power from that source can be available in 1960. If the project had not gone ahead at that time it would have been necessary for the copper companies or the authorities of Northern Rhodesia to provide additional power from thermal sources. That would have involved considerable expenditure as well.

716. Is it thought that there will be a further requirement for an advance from the Corporation in respect of the second project?—(Mr. Rendell.) There is no obligation of any kind at all.

717. Do you anticipate that there may be a call upon the Corporation?—They might ask us for it if they are satisfied with the terms they got on the first one.

Mr. Stevens.

718. I would like to go back to what Sir John was saying a moment ago about the split between secure investment and risk capital. That is referred to, of course, by the Comptroller and Auditor General, but I see from the top of page 6 of the Colonial Development Corporation Report, paragraph 7, subparagraph (4) that C.D.C. can only carry the more risky job; particularly in agriculture, if it can at least cover its overheads from such safe investments. That seems to be rather a gesture of defiance to the Public Accounts Committee I think; I do not know. Does that quite square with what you have been saying?—(Sir John Macpherson.) I remember saying before this Committee last year that the C.D.C. had to break even or make a profit, taking one year with another. They must have some losses, therefore they must have something to put towards their overheads, but the question is whether I would say they must go on taking some of these secure loans?

719. I was wondering whether what you said a moment ago really squares with that statement?—We have kept in mind this question of keeping a fair balance. It has gone up to 41 per cent. We talked it over having heard what this Committee said and what Parliament said, and we think we could not suspend them completely, but say in general: "You should not look further than those already made taking into account

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that on the ones you already have there will be interest coming in for many years."

720. If we turn to the table on page 3 of the Report showing the capital distribution of the continuing projects and we look at column 4: "Capital deployed at 31st December, 1955 and 1956", we find that the capital deployed in property and housing has gone up absolutely by about £1½ million and has gone up proportionately by 1.6 per cent. Housing is hardly risk capital, is it?—(Mr. Rendell.) In housing is included the Building Society in Malaya which is much the biggest item in that, and that is very definitely risk capital.

721. That is a purely political advance, is it?—No, it is a company, it is a purely commercial concern.

722. Would it be the case that these territories are inclined to press for advances for housing purposes?—(Sir John Macpherson.) Yes, certainly, it is one of the things they are keen on, but when one looks at a figure like this it does not follow that it was just straight finance. There might be much more done by the Corporation which would take it out of the category I was talking about where they do no more than provide money. In the Malaya case the Corporation representative was the Chairman of the Company and had a large part in it. (Mr. Rendell.) It is the ordinary commercial risk of advancing money to householders.

723. I did not realise that?—There are two very different features in that housing figure. There are, I think, three loans to Governments in Africa and there are also two building societies, one in the Far East and one in Nigeria which are more risky, possibly, than others.

724. I am sorry, I had misread that as being a housing project of the Corporation. Where risk capital is concerned what is the policy—I am sorry I forget—with regard to the right of the Corporation or the desire of the Corporation to appoint a director to the Board of the Company to which the advance is made or by which the capital is taken? It is not general practice, is it?—(Sir John Macpherson.) No, it is of interest to us when that happens, but there is no requirement. We would not make it a condition.

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725. It does occasionally happen, I see—in the case of the Central African Airways Corporation, for example—that the C.D.C. is represented on the Board through a Regional Controller?—Yes. We frankly like it when the Corporation does more in terms of formulating the project, and takes part of the responsibility for management with a member on the Board, because that ties them more closely to the project.

726. But it is not part of the general practice?—We would take each case on its merits. We would not make a condition.

727. One small point, on that occurred to me in connection with the Kariba project. The advance is to be guaranteed by the Government of the Federation but there is apparently no other charge. In most of these cases you do ask for a charge on the assets as well as the Government guarantee, a braces and belt policy, but not in the case of the Kariba Dam. Is there some reason there?—(Mr. Rendell.) We have what is generally known as a negative pledge. There are, you see, three main lenders; there is the International Bank and the C.D.F.C. and we have an undertaking that no prior charge will be made by the Power Board and then the three main lenders rank equal.

728. Having got that undertaking as you say you have, if there is such a thing, a kind of negative pledge?—A negative pledge. It is in the documents.

729. There is only one other point which puzzled me rather, and that is on page 7 of the Report, paragraph 12. The Corporation seem to be in some difficulty over these words "needed for". Is that difficulty going to be resolved or is it going to be with you? I would entirely agree with the Corporation that those words are too restrictive?—(Sir John Macpherson.) They are in the law. They have been enacted.

730. Would you say that it is really having a harmful effect?—Are you asking me or Mr. Rendell.

731. Either you or Mr. Rendell, whoever can give the better answer?—We might have different views. (Mr. Rendell.) We find it impossible; we cannot operate in Southern Rhodesia, I think. I am glad to say the new Bill in a rather similar paragraph has the word "expedient" rather than "needed"

which we think may give rather more discretion to the Secretary of State.

732. But it is only in Southern Rhodesia that you found it handicapped you?—It is in regard to the Southern Rhodesian clause that these words are used.

733. And it still has the restrictive effect on the Corporation?—It restricts us in Southern Rhodesia, yes, definitely. (Sir John Macpherson.) Because the Act does not apply, and was not meant to apply, to Southern Rhodesia as such. It enables the C.D.C. to do work in the Federation needed to help the Northern territories, though the work might be done in Southern Rhodesia. "Needed for" depends on this way of approaching it.

Mr. Ramsden.

734. May we go back to page 6 of the Accounts, to the Comptroller and Auditor General's Report? I want to ask about the loan to the Central African Airways Corporation. The common practice, at any rate in this country, is for airlines other than nationalised air enterprises to go to the market for their finance, is it not? Why should you have made a loan to Central African Airways?—There is a ban on borrowing by subordinate authorities from abroad. They would have to do it through their Government.

735. Central African Airways are a corporation?—Yes. (Mr. Rendell.) A public corporation.

736. Are they a Government controlled corporation or Government sponsored in the sense that our airways are?—Yes, financed by the Federation Government.

737. So they are exactly on the same footing as regards raising finance as B.O.A.C. or B.E.A.?—(Sir John Macpherson.) No. (Mr. Galsworthy.) No, Sir, they are not, for this reason, that there is an administrative ban on allowing statutory corporations in the Colonies or the independent Commonwealth to have direct access to the London market in their own right. If, for example, the Nigerian Railways Corporation or the Central African Airways Corporation or the West African Airways Corporation, or any of these statutory bodies in the Colonies or indeed in the independent Commonwealth, wish to raise money in the London Market, they

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cannot do it in their own right. They cannot have independent access. Their borrowing has to be done through their own central Government; that is to say, it would have to be the Federal Government of Nigeria which came to the London market and borrowed the money for relending to the Nigerian Railways Corporation.

738. In the case of Central African Airways it would have been who?—The Government of the Federation of Rhodesia and Nyasaland, its own central parent Government.

739. The question that arises is whether it is desirable. I do not know whether I am in order in putting that to any of you?—(Sir John Macpherson.) The administrative ban?

740. Yes?—It works sometimes to Colonies' disadvantage, sometimes to their advantage. They might be squeezed out by other borrowing authorities.

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741. I meant, desirable from the point of view of these charges falling on public funds to the extent that they do when there might be an alternative source in the market. I did not mean desirable from the point of view of the Corporation itself?—The decision is that of Her Majesty's Government and it is to make sure that the demands coming on to the market come forward in an orderly manner, otherwise you just get a jumble of applicants. (Mr. Galsworthy.) You could not have a multiplicity of borrowers, you see. The idea is to have a smaller number of borrowers coming to the market rather than a mass of overseas borrowers one after the other. That is part of it. There is another reason for it as well.

742. What is that?—The other reason is this, that the resources of the London market are not adequate to meet the needs of all these overseas borrowers. Somebody has got to take the responsibility for saying: "We will allow borrower A access but not borrower B. We will allow C but not D". Now, if you have a number of overseas borrowers, for example in Nigeria or Australia, and it applies throughout the Commonwealth, it would be very invidious for Her Majesty's Government to have to say: "Well, we will allow the

Government of X to come for this particular loan but we will not allow the municipality of Y to come for that". So, the onus of deciding who is in and who is out is on the Central Government concerned, where the responsibility correctly belongs. They can say: "All right, when we next go to the London market for a loan we, the Federal Government of X, will gather up in our arms you, the Government of Y and you, the Municipality of Z but not you and you and you", and it is just too bad, but the responsibility for the decision then rests with the Federal Government concerned; and it would be most invidious for the Government of the United Kingdom to have to take that decision. That is the other reason.

Mr. Stevens.

744. So, whether or not the Federal Government decides to use its access to the London market to advance to this airline or say to this airline: "You must try and find money elsewhere" is the concern of the Federal Government and no-one else's?—What happened in the case of the loan to the Central African Airways was that the total requirements of the Central African territories were in excess of what the market authorities advised could be raised in the market. If it had been possible for the borrowing needs of the Central African Airways Corporation to be met in that way then that is the solution that would have been adopted. It would have been bulked into the next loan raised on the market by the Federal Government. That was not possible, so it was to meet a need that could not otherwise have been met.

745. What sort of aircraft did they get with that money?—(Mr. Rendell.) Viscounts.

746. Have you got strings to make them buy British? In fact they did?—Yes, they came to us to get money to buy Viscounts. They had a contract when they came to us.

Chairman.

747. Will Members now turn to the Colonial Development Corporation Report and Accounts? I think our questions are directed mainly to you, Mr. Rendell. Before granting assistance for any project does the Corporation consider whether the proposals should

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have been financed through other sources than the Corporation?—Not as such. The proposals fall, I suppose, into two parts. To dispose of the Government guaranteed loans which have been talked about, we only deal with a proposal of that kind when we are sure that the borrower has permission which it must have got through the Colonial Office for them to borrow from us.

748. I see. All borrowers have to get the Colonial Office permission?—When they are Governments or Government sponsored corporations, and that has been so for a long time. But if it is a commercial loan we cannot really ask people: "Will you please assure us that you cannot get this money elsewhere before we talk to you".

749. Now with regard to the amount you lend. Do you try to persuade or urge borrowers to find part of the money elsewhere?—We try to persuade them to put some of the money up themselves, and that is always our first approach. We say: "Well, how much of this can you put up yourself".

750. Have you any minimum percentage?—No, I do not think you can have a rule of thumb figure on that.

751. Do you ever initiate a proposal?—Oh, yes.

752. Such as?—We have a number of what we call direct projects all the way round the world which we have started ourselves.

753. And they have not come in any way from local initiative?—They have not come from anyone else.

754. Can you give us an example of a large one?—A recent one?

755. Yes?—Sugar in Swaziland, where we now have a project to make 40,000 tons of sugar a year on the Swaziland irrigation scheme, and that is our own initiative. We persuaded a well-known Natal sugar producer to come in with us, but it is our ground and it is our project from the start.

756. What is your normal differential rate of interest?—That depends on the creditworthiness of the borrower. We have, as it were, a basic minimum of 1 per cent. where we are lending to Governments or Government guaranteed bodies.

757. How high do you go? You can cut this out if necessary?—If I may.

I think our maximum differential is 2½ per cent. but, of course, when dealing with commercial borrowers, there are all sorts of other elements in a transaction of that kind. We normally try and get equity rights, which may be very valuable indeed.

758. Do these charges cover all your administrative expenses as well as your interest and losses or is it your sole source of revenue? I do not mean capital, revenue?—No. You see, we have these big direct projects some of which are now making quite a lot of money for us. We have our Borneo Abaca project which this year will make £150,000 for us.

759. And that will be included in your surplus of £½ million, will it?—That will be included in surplus, yes.

760. What are your future prospects? When you get a loan from the Government you are free of interest for seven years, are you not?—We have to pay that interest eventually, it is only postponed. (Mr. Galsworthy.) And that is only on a long-term loan.

761. Yes, I mean a long-term loan. What is the exact arrangement? How do they postpone it?—(Mr. Rendell.) On our long-term arrangement we repay over the last 33 years of a 40 year period from when we first borrowed by annuities, instalments of interest and capital over the last 33 years.

762. So that the interest which you ought to have paid is regarded as a capital loan?—It is in fact added on to the instalments we repay over the last 33 years.

763. And you pay interest on it?—We pay compound interest—a very sore point.

764. Just referring to your Account, I find somewhat of a contradiction here. If you look at page 6, No. 10, Special Losses, item (2): "The Secretary of State has power to waive interest on capital lost on abandoned undertakings, and has exercised it in relation to about £5.7 million of Special Losses". Now, the last three lines on page 16 state that this amount has not yet been ascertained. Somebody mentioned schizophrenia a little while ago?—I am glad to say that what lies behind that note has been agreed very recently. The point at issue was whether the interest should be

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waived entirely, i.e., from the date when we drew the money or whether it should only be waived from the date when the project was abandoned, which meant that we paid interest on the money, as it were, while we were using it and then did not have to pay after the date of abandonment. Owing to the good offices of our friends we have got the decision the right way, which is that we do not pay any interest at all.

Sir Colin Thornton-Kemsley.

765. Mr. Rendell, paragraph 14 of, if I may call it so, your admirably concise report says: "Unless C.D.C. is to refuse new and pressing business more credit is now urgent", and yet in paragraph 16 you seem to me to want to get more business with emergent and emerged territories, although the implication from reading paragraph 14 is that you have hardly got enough money to do the job that you were set to do. Is there a contradiction there, or am I wrong?—I think not. I think we want to do both jobs.

766. But if you are going to do more business with Ghana and other emergent territories like that, will you have enough for your normal C.D.C. work?—Well, according to the provisions of the Bill which is now being debated, we are only allowed to put more money into the emergent territories on existing projects, so it is limited to that extent.

767. Yes, but paragraph 16 would suggest that you want to go further than that, would it not?—We did and do.

768. Now, turning to the Balance Sheet on page 13, these Special Losses account for about £8 million, which one reads rather in respect of pre-1951 commitments. Does that sum of about £8 million relate entirely to pre-1951 commitments which have been abandoned?—It relates entirely to projects which were approved and started before 1951. It does not relate entirely to projects which have been entirely abandoned. There are other projects—

769. Some that have been in part abandoned?—Yes—in which we have said there is something to be saved on this but part of it we have to write off.

770. Do you regard the Auditor's certificate as accepting as correct the amount posted to this Account?—The Auditor's certificate is, of course, like all Auditor's certificates, very carefully

phrased and it is a matter of opinion beyond a certain point as to what is the right amount.

Mr. West.

771. Paragraph 10, Special Losses. Who decides whether an undertaking is to be abandoned or not?—We decide on commercial grounds and then we ask the Secretary of State if he will approve.

772. Does abandonment mean that the project has completely failed or that merely the Corporation is pulling out?—It means failure, but we would take various factors into consideration, one of which is that we should be throwing good money after bad; another is the social consequences. We would take into account whether it would be disastrous if we just packed up and left. Those are the considerations which are taken into account.

773. Do forgive me, but I am not quite clear whether that means that the project in its entirety is to be completely abandoned and fails or whether the Corporation's activity in the project is abandoned. Can the project remain as such even if the Corporation itself has abandoned its interest in it?—There is one case I can think of straight away where the Corporation handed over, as it were, a rump to the Northern Nigerian Government in the case of the agricultural project there.

774. So that the project can continue even though the Corporation loses its connection with it?—Yes, almost certainly on a very reduced scale.

775. With regard to losses, £8 million, as you have explained, represents the pre-1951 undertakings commenced or approved of?—Yes.

776. Have there been any serious losses with regard to projects approved or commenced since 1951?—I do not think we have abandoned a project which has been commenced after 1951. We have in fact wound up an investigation in Nyika which cost us about £20,000 and each of two partners £20,000, and of course there are projects which are losing money at the moment. We have a copper company which is losing money at the moment.

777. When will you have to start repaying capital on those?—I should think, with that copper company, very soon now. It is an old project.

20 February, 1958.] Sir JOHN MACPHERSON, G.C.M.G., [Continued.
Mr. A. N. GALSWORTHY, C.M.G. and Mr. W. RENDELL.

778. A general question: does the accession to independence of some of these countries make the Corporation's task more difficult and put its money at greater risk?—We have not really had much experience of that yet. We have very good relations with the Government of the Federation of Malaya. I would think there would not be any increased risk there.

779. You did mention something about the difference between the £8 million in subparagraph (1) and the £5·7 million in subparagraph (2). What is the reason really for the difference in those two figures?—It is, I think, almost exactly the difference between complete abandonments which are the only ones which are eligible for the interest waiver and the part abandonments which we have put into the £8 million. (Mr. Gals-

worthy.) I think, if I might just add there, that the figure of £5·7 million is the Corporation's estimate of the amount of capital involved for the purpose of the waiver of interest but the Colonial Office and Treasury have not yet subscribed to that exact figure. We have agreed with the Corporation which projects so far shall be regarded as abandoned projects for the purposes of the waiver of interest and audited statements showing the net loss involved will be produced, on the basis of which the exact calculation of the waiver of interest will be made; and this figure, I think Mr. Rendell will agree, is the Corporation's estimate of the amount of capital involved. (Mr. Rendell.) Yes, I agree entirely. (Mr. Galsworthy.) The position is that the exact figure has yet to be agreed.

THURSDAY, 27TH FEBRUARY, 1958.

Members present:

Sir George Benson, in the Chair.

Mr. Arbuthnot.
Colonel Crosthwaite-Eyre.
Mr. Oliver.
Mr. Peyton.

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

Sir FRANK TRIBE, K.C.B., K.B.E., and Mr. J. MACPHERSON called in and examined.

CIVIL APPROPRIATION ACCOUNTS, 1956-57 (CLASSES I-V).

CLASS V.

VOTE 1.

MINISTRY OF HOUSING AND LOCAL GOVERNMENT.

VOTE 2.

HOUSING, ENGLAND AND WALES.

Dame EVELYN SHARP, D.B.E., Permanent Secretary, and Mr. F. L. EDWARDS, C.B., O.B.E., Under-Secretary for Finance and Accountant General, Ministry of Housing and Local Government, called in and examined.

Chairman.

780. Will Members turn to the Civil Appropriation Accounts, Classes I-V, to page vi, paragraph 7 of the Comptroller and Auditor General's Report? Dame Evelyn, you seem to have the largest surplus this year and you had the largest one last year; in fact, you had a surplus of 36·4 per cent. last year. How is it you are not able to get nearer?—(Dame Evelyn Sharp.) I think, Sir, the surplus this year has a different explanation from that of last year. If you remember, last year the big surplus was on the payments for compensation under the Planning Act when we had had no experience to help us in making our estimate of what claims would come in. This year, 1956-57, we have got that fairly straight and the surplus this year was made up of a number of smallish items, together with one or two big ones—particularly on the Requisitioned Housing Act. There were a number of items on which we overestimated. I think the general explanation is, first, our usual difficulty, that as our payments depend on the action of local authorities, or in some respects on the actions of private people, and also on the rate at which

those authorities and private people will put in their claims, estimating is always a matter of very great difficulty for us because we cannot tell at what rate they will go in either of these processes. In the year of account I think a main cause of the over-estimating under most of the heads was the increasing cost of money; I think I am right in saying it rose in 1955-56 from 4 to 5½ per cent.—I think those were the figures—and also the fact that in February, 1956, after the estimates were in, the Government determined on a major economy campaign and we sent out a circular to all local authorities telling them that we would not sanction loans in the next several months except in cases of extreme urgency. There is no doubt that that was one reason why we spent less than we expected, for example, on rural water and sewerage. There was one item which was quite different, and that was of the same kind that we were discussing last time, which was the annuities under the Town and Country Planning Act, 1954. Those are the annual payments we make to the Treasury in respect of the advances they make out of the Consolidated Fund for payments under the Planning Act in respect of past actions.

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Dame EVELYN SHARP, D.B.E.,
and Mr. F. L. EDWARDS, C.B., O.B.E.

[Continued.]

There we had the same trouble as last time, though not to the same degree, but we were having to estimate the rate at which owners would claim compensation for past actions. The major part of the expenditure under that heading is Central Land Board expenditure, and they were caught by two things: one was that at the end of the year and in the year of account the claims did not come in at the same rate as they had done before they made the estimate and, furthermore, they got more in the way of repayments from local authorities than they had allowed for; and that over-estimate accounted for a rather large item. But the biggest over-estimate came under requisitioned houses, particularly under Subhead C.1, a figure of £987,000. That expenditure is in respect of outstanding claims for requisitioned houses before the Act of 1955 was passed and also in respect of expenditure on camps. Under the first head we expected to clean up all outstanding claims in the year, but there were two big claims from Metropolitan Borough Councils one of which could not be settled because it was held up by an audit query and the other one, the claim from Lewisham Metropolitan Borough Council for £260,000, never came in in that year. Then there was a big item on camps, and I think it is probably true to say that estimating for expenditure on these camps held under emergency powers is almost the most difficult estimate we have to make. No camp runs true to form. Every camp is different from every other, the terminal compensation paid on every camp is different from any other and the claims do come in very much later than one would expect, I think because the authorities themselves are having very great trouble in determining the expenditure on clearing up the camps. It is also true that the camps closed at a quicker rate during the year than we expected or the authorities gave us reason to expect.

781. I have no doubt there was a good reason for every one of these, but you have over-estimated on 21 Sub-heads and under-estimated on only 7. Are you hoping to be more accurate this coming year?—I certainly hope so. A great part of the reason was (and this could happen again, I do not know) that the Government deliberately decided to slow down expenditure by local

authorities, which also slows down the rate of grant; and it so happens that the decision came within a few weeks of the Estimate having been presented.

Mr. Ramsden.

782. Your largest over-estimate was under Subhead D.2 on page 264, I think, Dame Evelyn, "Annuities under the Town and Country Planning Act"?—That was a large one. It was not, I am afraid, our largest.

783. That was a large one, and you have mentioned that already. Have you anything to add to the point you touched on in your explanation?—I do not think so. That was the first full year of working of the payment of the annuities and I would expect that the estimate this year should prove to be very much closer. We got the estimate on D.4 very much closer because we had had the full year's experience.

784. Then there were two big ones which you have also mentioned, B.1 and B.2 on the page before, where you spent little more than half what you thought you would spend. That was entirely because of a change in Government policy, was it?—No, it was only partly because of the change in Government policy. It was partly also due to a change in the basis of financing. As from the end of March, 1955, under an Act then passed we substituted the system of half-yearly payments payable over 30 years for the previous system which had been capital grants. When we came to make the Estimate we had very little experience of the rate at which local authorities would claim. When we were paying capital grants they claimed the whole cost within, I think, two years of the start of the scheme. When we went over to the half-yearly payments we thought they would claim in two years six months. In fact, their average time for claiming has been four years, the truth being that it is not so important to them to get the half-yearly payments spread over 30 years, relatively small payments, as it was to get the capital payments. One of the points I have had in mind in realising how we have over-estimated on a number of these items is whether we should do more to chase the local authorities to claim within the year instead of leaving them, if they so choose, to go without their money. It is a question whether that would be the right thing to do.

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Dame EVELYN SHARP, D.B.E.,
and Mr. F. L. EDWARDS, C.B., O.B.E.

[Continued.]

785. That would help your estimating?—That would help our spending to come nearer to our Estimate because we are not very far out, I think, on the calculation of what is due; what we are far out on is on the calculation of what will be claimed.

Mr. *Arbuthnot*.

786. Dame Evelyn, you told the Committee that there was this change in the basis of financing. What was the date at which the change took place?—I think it was the 29th March, 1955.

787. What was the date at which the Estimates were prepared?—They were prepared in November.

788. 1955?—1955.

789. I see that you over-estimated on Coast Protection—Subhead C on page 262. That is to say, you thought that you would be spending £41,000 more than in fact you did spend on coast protection. How does it come about that less coast protection has been done?—I do not think that that really means that less coast protection was being done. I think it is the same story, less money was being claimed in the year.

790. So that this £41,000 will be claimed in subsequent years, you expect?—Oh, yes.

791. On the next page, under Sub-head A.5, Local Valuation Panels and Courts, you spent £179,000 less than you had estimated for. How does that come about?—This was the year in which the re-valuation had taken effect. We had to make the best estimate we could of the additional work that would fall on the Local Valuation Courts following re-valuation, and in the event the appeals which we got were neither as numerous nor came in as early as we had anticipated, but we had nothing to guide us there.

Chairman.

792. Now, paragraphs 34 to 36 on page xi. From paragraph 36, the last line but one, Dame Evelyn, I see that the Comptroller and Auditor General has been making inquiries. Have you replied to the inquiry yet?—Yes, we have, but I am afraid very recently.

793. How did you come to make these advances in contravention of the Act?—I am advised that we are not in contravention of the Act. It is quite true

that the Act does not contain the section which was contained in the Housing Act providing specifically that money may be paid at such time as the Treasury may approve—I think that is how the section goes—but my legal advice is that there is certainly power in the Act to pay advances when the local authorities have spent the money, and they claim as they spend.

794. Are you sure that all your advances were for money which actually had been spent prior to the making of the advance?—Yes. It is quite true that in a very small percentage of cases when the local authorities make their final account up we find that there has been a slightly too large contribution to them, and then we recover that because in the final account in some of these cases we find it is not quite so much as they thought. But as a general statement I can say that we do not pay them money until they have spent it and then we only pay them 90 per cent. of what they claim and what they have spent.

795. You only pay 90 per cent. What evidence do you receive that they have spent it?—We send them a form which they must return certified as to what they have spent. Following the Comptroller and Auditor General's query we propose to make it plain on the face of the form (and at the moment it is not) that they must only claim money which they have spent, but that is the custom of local authorities. They have been claiming advances from us for years and as a habit they do not claim money which they have not spent. Perhaps the word "advances" is rather deceptive here. It is an advance on the final payment but it is not an advance on their expenditure, they having already spent the money.

796. Have you ever had to recover?—I understand that we have in a very small minority of cases, not, I think, "recovered", but set off in the next year.

797. So that you have actually prepaid?—Yes.

798. Sir Frank, are you satisfied as to the situation?—(Sir *Frank Tribe*.) Well, Sir, I sent this query to the Ministry in the middle of October last and I had a reply only yesterday, so I have not had much time to consider it.



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Dame EVELYN SHARP, D.B.E.,
and Mr. F. L. EDWARDS, C.B., O.B.E.

[Continued.]

I think, in the main, I am prepared to accept what Dame Evelyn has said but I am bound to say I still feel a little doubt as to whether an annual deficit can be determined until the end of the year. It may be that the Ministry are proposing to alter their practice, but I gather that up to now they have been making these payments in some cases half-yearly and in some cases every quarter, in the middle of the half year or quarter to which the payment refers. In that case it seems to be pretty clear that the payment has been made in advance of the date when the money would have been disbursed by the local authority and it would be in contravention of what this Committee said in their Report last year about the established principle that in no case should any advance of public money be made before the money is actually needed by the body to whom it is paid, a principle which the Treasury accepted in their Minute on the Report. If in fact in future money is not going to be disbursed until the Ministry are satisfied that the local authority have in fact incurred the expenditure, then I think I should see no difficulty in what is proposed. (Dame Evelyn Sharp.) We will ensure that.

799. Does not what Sir Frank has said imply that you were making payments on an estimated expenditure before the expenditure actually had been incurred?—We are making payments on an estimated expenditure before the final account has been made up but not, I think, before the money is incurred.

800. When I say “incurred”, before the local authority is out of pocket?—I think not, though I confess I would not feel too sure. I would like to look further into this question of the contributions to the annual deficits. As regards the contributions we make to capital payments of the local authorities on terminal compensation, and so forth, I am fairly confident we never pay that money until the local authorities are out of pocket and they have paid that money. We make them an advance before we get the final account. (Sir Frank Tribe.) I agree with that. I do not think there is any difficulty when payments are made under sections 9 or 11. It is only these payments of contributions towards deficits under section

10 (1), because now, as I understand the position, the local authority is no longer the agent as it used to be in these payments, it is the principal and therefore it is a question of the Government reimbursing expenditure which has been actually incurred and not financing the authority for the whole service as it used to do when the authority was an agent. (Dame Evelyn Sharp.) I am clear we ought not to pay money for the annual deficits until the local authority is out of pocket.

801. You said you would let us have a note on exactly what the position has been this last year?—Certainly, I will.*

Mr. Arbuthnot.

802. Do I take it that the local authorities in many cases make a payment on account to the contractors themselves?—I think that is their practice. I do not know whether that arises under this Requisitioned Houses Act, but that would be their normal practice.

Sir Colin Thornton-Kemsley.

803. Dame Evelyn, do you agree with the Comptroller and Auditor General when he says that the advances have in the past been made half-yearly and sometimes quarterly?—Yes, that is the practice.

804. I think you told the Committee that the local authorities would not get the money until they had already spent it, but would they in fact ever have got it before the end of the period to which the advances related?—I would like to examine that. I think it is possible that they may have. I would not like to be categorical without an examination. (Sir Frank Tribe.) I think there is no doubt that they have in the past. I can give you some examples if you like. For instance, taking Hackney Metropolitan Borough Council, payments to them were made half-yearly. The payment in respect of the period from the 1st April to the 30th September was actually made on the 11th June.

805. Is the Committee now to understand, Dame Evelyn, that it is your intention not to make these advances in any circumstances until the end of the period to which they refer?—(Dame Evelyn Sharp.) What I meant to say was that it seems to me that we are not entitled to pay money to a local authority, particularly, as Sir Frank has

*Information supplied: not printed.

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Dame EVELYN SHARP, D.B.E.,
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[Continued.]

said, now that they are the principals and we are a grant-paying authority, until they have spent that money; and therefore if it is in relation to a running deficit I would think that one should not pay the money until after a period, whether it is a quarter or a half year, for which they can give one an account of what they are actually out of pocket.

806. There is a distinction, is there not, between on the one hand making the advances after the expenditure has been incurred and on the other hand making the advances before the end of the period to which the advances relate?—I suppose if you make the payment before the end of the period to which the advances relate you have paid in advance; you have given them some money before they have, so to speak, earned it and that, I think, it is improper to do.

807. And you intend not to do it in future?—We intend not to do it in future.

808. Just one other question. Are these advances made automatically on the basis of the Chief Financial Officer's figures?—(Mr. Edwards.) If I may answer that, if they claim them on a certificate of the chief financial officer.

809. No investigation, you just pay the money?—No, no investigation. (Dame Evelyn Sharp.) The investigation comes on the final claim on which we have held back 10 per cent. of what they have asked.

Mr. Ramsden.

810. How many houses are still requisitioned, Dame Evelyn?—I think it is about 24,000 odd.

811. Do you know how many you have released since the Act?—Yes. We started in 1951 with 87,000 odd; we have now got it down to 24,400 odd, of which, of course, the greater number are in London.

812. Are you satisfied with the rate of release?—I think it has been as good as we hoped, as good as we could hope for when the Requisitioned Houses Act was passed, but that is not to say that there is not a very hard problem remaining, because there is. There are 20,000 houses in London.

813. It will go slower from now on?—I think it must, but I think what we shall now find is an increase in the

leasing and purchasing by local authorities.

814. Have you got powers to speed the process?—No, there are no special powers for quick purchase but they have got until April, 1960; and we sent a circular out nearly a year ago, I think, telling them the terms on which they could lease or purchase and they are beginning to come in.

Mr. Oliver.

815. Dame Evelyn, in paragraph 35 reference is made to the Ministry reimbursing expenditure by local authorities. Who determines the rents of these houses?—In the case of these houses, which are the houses transferred back to the owner or the owner is accepting the tenant as a licensee, the rent is settled by the local authority. The existing rent which the tenant was paying before the house was transferred continues unless the local authority decide to increase it. Once the house is transferred the tenant has a fixed rent up till 1965, I think, unless the local authority increase it.

816. As the Ministry has to pay, I suppose, 75 per cent. of the rent after 1957 up to 1965 should not the Minister have something to say about the rents which are fixed?—This is always a difficult problem, it is the same problem as we have on the halfway houses in which the local authorities act as agents for us. We did, I think, I am right in saying, say to local authorities: "You should charge rents to these tenants comparable with the rents you charge to your own tenants, allowing for the type of property", but we had, I think, to leave it to their discretion, and that is indeed what the Act does. It simply provides that the rent which the tenant is paying, as settled by the local authority, shall be the rent up to, I think it is, 1965.

817. So, really, the Ministry has no power to interfere?—Not during this remaining period, but you will realise that it is an enormous financial advantage, although expensive in the short term, to get the houses transferred back to the owners.

818. After 1960 will the last of this service be met wholly by the local authorities?—Except, I think, for this provision under (c) in paragraph 35, that

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Dame EVELYN SHARP, D.B.E.,
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[Continued.]

we shall be able to pay discretionary grants where the burden on the local authority is unreasonable.

819. In respect of that paragraph, Dame Evelyn, what is the criterion of reasonableness? What is the standard by which this is judged?—I think we have told the local authorities that we shall be prepared to look at claims where the burden on them exceeds a 2d. rate.

820. You have fixed some standard?—We have told them that. If it is over a 2d. rate we will look at claims.

821. Then, in regard to (d): "Shall make contributions towards the lease or cost of purchase by local authorities of houses required for occupants of requisitioned houses", that would rather suggest that the price which would be paid does not contemplate that an economic rent will be received for them?—That is very likely in many cases. We have sent out a circular to local authorities on this matter raised in (d) to tell them the financial arrangements which we are prepared to contemplate, and we have told them that the rent we will assume before we will have any regard to the cost to them is the rent which would be appropriate under the Rent Act—twice gross value in the normal case. But that will certainly in some cases not meet the full costs and not be an economic rent. These requisitioned houses, of course, vary very much in their standard and their value. Some of them indeed are very expensive houses. Some of these are houses which the local authorities certainly do not wish to buy nor would we wish to see them buy because they are so expensive.

822. They have to buy them off someone. Would not the rent which would be obtained be a guide as to what ought to be paid for them?—On the price, the local authority would be advised by the District Valuer. I would not like to answer whether or not the fact that it was a controlled tenancy would bring the price down to what the rent would support, but I think not. It has a residual value against the day when it finally escapes from control, if it should.

Sir Colin Thornton-Kemsley.

823. May I just ask one question arising from that? Dame Evelyn, would you expect that there would be a slowing up of the process of handing back requisitioned houses, by some local authorities, at any rate, in view of the need which is certainly likely to be felt for some years to retain as much housing accommodation as possible to deal with families which may be evicted from de-controlled houses?—I should not have thought so, because if the local authority hands back the requisitioned house to the owner it will only be with the tenant in it as a licensee; in other words, it is a person housed or a person waiting to be housed so that the requisitioned houses do not offer in any circumstances a pool of empty accommodation in the near future, nor indeed for a long time.

Chairman.

824. Mr. Macpherson, has the Treasury any views on this matter?—(Mr. Macpherson.) We agree with what Dame Evelyn has said, Sir. We are aware of the situation and accept it.

825. You have no other comment?—No.

VOTE 3.

EXCHEQUER GRANTS TO LOCAL REVENUES, ENGLAND AND WALES.

VOTE 13.

EXCHEQUER GRANTS TO LOCAL REVENUES, SCOTLAND

Sir WILLIAM MURRIE, K.B.E., C.B., Secretary, Scottish Home Department, called in and examined.

Chairman.

826. May we now go to paragraphs 37-45, Grants to Local Revenues? Under the present system, Dame Evelyn, the Exchequer appears to be a very heavy ratepayer?—Well, a considerable ratepayer.

827. I am looking at paragraph 38. What is it that prevents the grants of 1952-53 and subsequent years from being finally calculated?—I think it takes—it must take—two years or more before the expenditure of the local authority and the rate product can be

27 February, 1958.] Dame EVELYN SHARP, D.B.E., [Continued
Mr. F. L. EDWARDS, C.B., O.B.E., and Sir WILLIAM MURRIE, K.B.E., C.B.

finally certified and all the questions disposed of. We find that local authority estimates of their expenditure are normally too high and, in particular, since the revaluation their assessments of the rate product have tended to be very widely out; so we have to wait for the whole thing to be audited before the final settling. There has also been a small point which I confess I do not understand arising from some difficulty over the rating of gas hereditaments which has held us up on a final settlement.

828. Yes, but you see it is the sums for 1952-53 which are now five years at least behind that are still to be calculated. How is it that you are still so far behind? I can understand a two-year delay?—I think we are still waiting for the settlement of some outstanding questions on precisely what was the expenditure on which we are paying grant.

829. When do you expect to get the earlier years settled?—I am told we shall settle up to 1955-56 at the end of this year. I have a note here that there has been a special difficulty over settling 1952-53 and the later years in this small point arising from the Rating Act of 1955 on the formula for gas hereditaments, which I suppose affects the precise figure of the rate product.

830. Presumably you are getting towards a settlement?—Yes. I am told that the total amount involved as still outstanding up 1955-56 is £30,000.

831. Not a very large sum. Now, with regard to this very considerable increase in 1956-57, that surely is an abnormal increase, is it not?—That increase is strictly proportionate to the increase in local authority expenditure. We have just looked at the figures for educational expenditure which is the biggest item in the local authority expenditure for these years and the equalisation grant has risen proportionately with that. One of the big causes of the last large increase was the increase in teachers' salaries following the Burnham Award.

832. Has it anything to do with the revaluation at all, or is it entirely due to increased expenditure?—I think entirely. I do not think the revaluation increased the payment.

833. Surely, education is only one of a number of large increases? It cannot

be entirely for education?—No, we took the education increase as a big example.

834. But there was in that year a very substantial increase right through?—In local authority expenditure, yes.

835. And you are entirely at their mercy so far as your grant is concerned, are you not?—Oh, no. It is true that their expenditure is within their own control but, as you may be aware, there was a Committee which was chaired by our Accountant General which examined the working of the Equalisation Grant in 1953 and in particular examined the question which had been raised whether this grant was not an incentive to extravagant expenditure, particularly by a high receiving authority. They could find no evidence of that. At the same time in the Bill which is just going through the House there is provision enabling the Department to withhold Equalisation Grant or, as it will be known, rate deficiency grant, where the local authority's expenditure is above the average on a particular service.

836. Above the average?—Yes.

837. In the past years you had no control over them of this kind?—We have no control over the local authority's expenditure.

838. And, therefore, no control over the amount of grant you have to give?—No.

839. That is what I meant when I said you were at their mercy?—(Sir *Frank Tribe*.) I should say one thing: under the Local Government Act of 1948 the Minister was given power to reduce any grant payable to a council by such amount as he thinks fit if he is satisfied that the expenditure of the council has been excessive and unreasonable, regard being had to the financial resources and other relevant circumstances of the area. It is true that before doing so he has to lay a report before Parliament and the House of Commons has to approve it by resolution, but Parliament in 1948 obviously did contemplate that the Minister would satisfy himself that expenditure by authorities receiving this grant was not excessive or unreasonable. So far as I know, however, no such action has ever been taken under the Act.

27 February, 1958.] Dame EVELYN SHARP, D.B.E., [Continued.
Mr. F. L. EDWARDS, C.B., O.B.E., and Sir WILLIAM MURRIE, K.B.E., C.B.

840. Have you ever contemplated action of that kind, Dame Evelyn?—(Dame Evelyn Sharp.) I am not aware that we ever have; I do not think so. Of course I should take the point that over a very large part of the local authority field the expenditure is subject to control by the responsible Department. If you take educational expenditure, that is closely controlled by the Minister of Education and so is a great deal of the expenditure for which we sanction loans; so although it is not controlled by reason of the Equalisation Grant it is subject to a great many controls.

841. Sir William. I believe this is the first time you have been a witness before the Public Accounts Committee?—(Sir William Murrie.) Yes, Sir.

842. You moved from the English Home Office to the Scottish Home Department, I think?—I moved from the English Home Office to the Scottish Education Office, and I have now moved to the Scottish Home Department.

843. I see, yes. Have you any comments to make with regard to the Scottish increase?—The increase between 1955-56 and 1956-57 is largely due to the adoption of a new formula for determining the aggregate amount of the Scottish Equalisation Grant.

844. You seem to have done extremely well out of it?—We felt we were doing very badly before.

845. It is all a point of view, is it not? Passing to paragraph 44, Dame Evelyn, line 3, with reference to the relevant local expenditure of the counties and county boroughs, do you have any difficulty in ascertaining and certifying what is the relevant local expenditure?—(Dame Evelyn Sharp.) As emerged when you were asking why we took so long to reach the final account, it is a big job certifying an audit, but I do not think it is an especially difficult job.

846. How far can you use the District Auditors?—We use them everywhere for this.

847. You find them helpful?—We find them essential.

Sir Colin Thornton-Kemsley.

848. Sir William, why are there still minor adjustments to be made in the

Scottish grants for years prior to 1952-53?—(Sir William Murrie.) Because the chamberlains of one or two small burghs in some of the northern counties in Scotland have allowed their accounts to get into arrears and in spite of all the efforts we have made we have not yet managed to get the certified abstracts of these accounts in, but we are continuing to pursue them.

849. How far back do they go?—They go back to 1948-49 in one case. The amount involved is about £13,000 both ways; in other words, we hope to get back about £13,000 of over-payments and we think we owe them about £13,000.

850. What are the difficulties, Sir William? Going back to 1948, 1949 and so on, is a long time ago now, is it not?—It is just the human element, I think. In a very small burgh they cannot afford to pay very much and get a first class official. On two occasions in this particular place a man resigned, leaving his accounts in a state of disarray. We have in one or two cases persuaded them to get in an outside accountant and tidy things up.

851. Are you satisfied that the provisional payments that you have made do not exceed the payments which are likely to be due?—Yes, we are.

852. Dame Evelyn, turning to a later paragraph, paragraph 39, can you tell the Committee which authorities in England and Wales have the highest percentages of their expenditure met by Equalisation Grants?—(Dame Evelyn Sharp.) There were considerable shifts, of course, between authorities as a result of the revaluation; and the figures I have got here only show the main shifts. They do not necessarily show the highest gainers. I will have to get you those. But I see from these figures that in 1956-57 the County of Radnor got 52 per cent.

853. Can you tell the Committee which authorities got the largest grants?—Equalisation Grants?

854. Yes?—I have not got the names in mind at the moment. I can tell you some which got large sums, but I am not sure that they are the ones which necessarily got the largest grants. As a generalisation I can say that the biggest gainers are in the Welsh counties, as you would expect, because they

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are the poorer authorities. I am sorry that I have not got these figures, as I should have. We have had this recent shift over as a result of the revaluation and I confess that I should have to look up to see as we stand today which are the biggest receivers. (Sir *Frank Tribe*.) I believe the largest grant is actually in payment in the West Riding. (Dame *Evelyn Sharp*.) Not bigger than the Welsh counties, I think. (Sir *Frank Tribe*.) In sum, not in percentage. (Dame *Evelyn Sharp*.) I am talking about percentage.

855. I asked two questions, Dame Evelyn. The first one was about the percentages and the second was about the largest grants. Would it be difficult for you just to let the Committee have a paper about that?—Not at all, it is very easy; we have it, but I have not got it with me.

856. It would be interesting to the Committee to see how things run, both on percentages and on total grants?—Yes.

857. Perhaps you could give us the half-a-dozen highest, or something of that order?—Yes.*

858. Perhaps I can ask Sir William if he could help the Committee on similar lines?—(Sir *William Murrie*.) I can tell you the highest percentages now. I cannot tell you the highest grants. The highest percentages go to Zetland, Orkney, Ross and Cromarty and Sutherland.

859. The pattern is rather the same as in the Welsh counties, the highest are in the rather remote rural areas?—Yes. Would you like us to supply the comparable figures?*

860. Could you give us something like half-a-dozen showing the percentages and the highest grants? I expect the pattern is about the same north and south of the border?—(Dame *Evelyn Sharp*.) The size of grant depends on size of expenditure as well as on percentage.

(Sir *Colin Thornton-Kemsley*.) Yes, of course.

Mr. *Peyton*.

861. When was the Goschen formula first evolved?—(Sir *William Murrie*.) In 1888.

862. Is it particularly relevant to modern days, or not?—I think it is a

*Information supplied: not printed.

rough, good rule of thumb measure. It has certainly worked pretty fairly as far as education is concerned.

863. This might be contentious, but do you think the relationship between England and Scotland has changed at all in the meantime? The Goschen formula still has some application?—As a rough and ready measure. I think as a figure below which we should not fall it is useful.

864. How did you manage to achieve the position where you get the best of both worlds?—I do not think we should agree that we have.

Chairman.] Are you sure you did not allow your patriotism to run away with you, Sir William?

Mr. *Peyton*.

865. It seems to me that you got a substantial advantage by means of the 1956 Act. That is the cause of the sharp rise in the grants, is it not? I notice, for instance, that in 1956-57 whereas the total grant to England and Wales went up by just over 10 per cent. that to Scotland went up by over 50 per cent. I get that from paragraph 38. Is that not right?—Yes, there was a big jump, but we think that that was due to the adoption of this new formula which is, as paragraph 43 says, designed to ensure that the Equalisation Grant would be of such amount as would leave Scotland with the same rate burden per head of actual population as England and Wales.

866. That was the 1956 Act?—That was the object of that Act, putting the same kind of rate burden on the Scottish ratepayer as was borne by the English ratepayer.

867. I am not quite clear why you still need the proviso mentioned at the end of paragraph 43 that "the aggregate Scottish grant should not be less than the amount calculated under the Goschen formula". The 1956 Act seems to have done you very well?—We thought it gave us fair treatment, but just in case anything went wrong with the formula the local authorities felt that they ought to have this guarantee and we thought there was no harm in giving it.

868. Again I say, with the greatest respect, it seems to me the most extraordinary example of Scottish caution. Would you not actually agree that in the light of your happy experience under

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the 1956 Act you could really altogether afford to dispense with your guarantee under the Goschen formula?—We did not know at the time the guarantee was put in that our experience would have been so relatively happy.

869. I trust you will be very careful not to congratulate yourselves too warmly. Are you, in point of fact, satisfied, quite apart from the undoubted financial benefit which you have derived from the new arrangement, that this is a reasonably scientific way of assessing the relative needs of both countries?—Yes, we are satisfied.

870. I take it that you have not yet been able to evolve some even more ingenious method which will get you some more, but that will be progress left to the future. You are satisfied that this gives you a measure of justice, are you?—Yes.

Sir Colin Thornton-Kemsley.] Sir William, Mr. Goschen was an Englishman, was he not?

Chairman.] It sounds like it.

Mr. Stevens.

871. Dame Evelyn, you said you must place great reliance on the District Auditors. Who appoints the District Auditors?—(Dame Evelyn Sharp.) They are appointed in the usual way of the Civil Service; they come in through examinations of the Civil Service Commission and they come to us.

872. Who appoints them, the Minister or the local authority?—Oh, the Minister appoints them. They are servants of the Ministry.

873. Sir William, are there District Auditors in Scotland?—(Sir William Murrie.) No, auditors are appointed by the Secretary of State. They are chartered accountants in private practice.

874. They are professional accountants and not Civil Servants?—Yes, not Civil Servants.

875. The Minister has full authority over them in that respect, has he, in Scotland?—You mean to appoint them.

876. Not only to appoint them but to instruct them in what they shall do, what they shall report on, and that sort of thing?—Yes, but they must exercise their independent judgment in reporting, of course.

877. And no practical difficulties emerge from the difference in system between the two countries?—No.

878. As a matter of interest, Dame Evelyn, I wonder if you or Sir William can tell the Committee why it is that there are these two entirely different methods of achieving the same object?—(Dame Evelyn Sharp.) Not all our local authorities are subject to district audit. The boroughs are not subject to district audit unless they have chosen so to be. I do not recall the history of the district audit of the counties and the districts. The Accountant General began life as an auditor; he may know. (Mr. Edwards.) It goes back to the foundation of the Poor Law, and the first Audit Act was 1844. It is traditional in English local government. They may not audit the accounts of the boroughs but they certify all claims for grant, including Equalisation Grants.

Mr. Oliver.

879. Sir William, a question was put to you about the increase in 1956-57. I do not know whether you answered the question, why has the rate of increase of the Scottish grants been so much greater in proportion than in England and Wales? I am speaking now of the whole period?—(Sir William Murrie.) What period, Sir?

880. The period indicated in paragraph 38?—There are two points: there were changes in the formula by which the aggregate amount was determined. First of all, the aggregate amount was determined by adding 25 per cent. to the English rateable value to take account of the differences between the way in which rateable value was determined in the two countries. That was felt to be unfair to Scotland. We then moved on in 1953-54 to the Goschen formula. That was felt to be—

881. Still better?——less bad, and finally in 1956 we changed over to the present, as we think, fair formula.

882. The result has always been a greater proportion? The grant has been greater?—The grant has represented a greater proportion of expenditure. (Dame Evelyn Sharp.) Perhaps the true relationship would be established between Scotland and Wales. I have not got the figures, but we could break down our grant as between England and Wales.

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883. Sir William has told us the fact. I want the reason?—Is not the reason simply that Scotland is a poorer country? (Sir William Murrie.) And costs are greater in Scotland.

884. Why is there a higher proportion of relevant local expenditure met by the Equalisation Grant in Scotland than in England and Wales? Is it the same answer?—So far as the distribution of the grant is concerned, it is because there are a number of counties with very low rateable values, but the higher proportion of grant to expenditure received by Scotland as a whole is due to the greater sparsity and the higher proportion of children in Scotland than in England and Wales.

885. In paragraph 43, Sir William, did the new formula give more than the Goschen equivalent?—Yes, it gave about £3 million more.

886. Now that the basis of the English grant is being changed, will Scotland still be guaranteed the Goschen equivalent as a minimum grant?—It is a kind of long-stop guarantee.

887. But does it give you the equivalent of the minimum grant?—It does not come into play unless the present formula produces less than would be produced by the Goschen formula and it is not likely that it will come into play.

Mr. Arbuthnot.

888. Dame Evelyn, you told the Committee about some of the results of the recent shift over as a result of revaluation, and I see that in the last sentence of paragraph 40 the Comptroller and Auditor General says that "provisional estimates indicate that the new valuation lists will result in changes, in some cases considerable, in the amount of grant payable to individual local authorities". Can you give us any illustrations of marked changes in the grants payable?—Yes, I think I can. I think perhaps I have not got the full figures that you want because I have only the figures here of some of the gainers. Radnor, to which I referred in reply to an honourable Member, went from a percentage grant of 29 per cent. to one of 52 per cent.; that was a heavy gainer. On the other hand, on losers, Wolverhampton, which had had grant of just over 12 per cent., went down to 3 per cent. But what I do not seem to have

—I should have brought it with me—is those who went from one side to the other, those who having had grant no longer have grant.

889. Perhaps you can add that to the list you are going to provide for the Committee?—I will, yes.*

890. Did authorities like Birmingham profit by the delay which the Comptroller and Auditor General refers to on the revaluation, or were recoveries made from them?—I do not think any authority profited as a result of—did you say delay in the revaluation?

891. Yes, the revaluation was postponed, according to paragraph 40?—Oh, yes, I suppose they did; that is to say, if the revaluation had been brought in sooner the authorities who were going to lose grant following the revaluation would have lost it sooner. Equally, those who would gain grant would have gained it sooner. Revaluation did make a good deal of shift in what the local authorities got in the way of grant and the sooner it had come in the sooner the shift would have taken place.

892. And no recoveries were made from that?—Oh, no, because it is only the revaluation which had the effect. One cannot recover; they were just fortunate that the revaluation took so long to bring about, or some were unfortunate.

893. What was the effect of the revaluation on the total amount of the Equalisation Grant?—I do not think the revaluation itself substantially affected it. I do not think we can put a figure to it. The local authorities did not expect this, but the spread of values is very much the same as before, although there are different authorities above the line and below. The general spread is very much the same.

894. You really have got the information, have you, that there is not any great effect?—I think it is demonstrated by the actual figure of grant, what happened in 1956-57. The increase, as I explained earlier to the Committee, is very closely proportionate to the increase in expenditure.

895. That is what I was really asking. What is the total figure of grant now, as compared with what it was before?—The 1956-57 year which you

*Information supplied: not printed.

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have before you was after the revaluation and the 1957-58 figure, I think, is £90 million—it is shown in the Estimates—and for the two years since the revaluation the increases have been very closely proportionate to the increases in local authority expenditure and are not in any way distorted as a result of the revaluation.

896. Sir William, the revaluation in Scotland is being carried out by the local chartered accountants that you were talking about?—(Sir *William Murrie*.) That is so.

897. Why did you not employ valuers of the Inland Revenue Department?—I think the assessors were thought to be competent to do this.

898. Will you get uniformity of valuation throughout Scotland by the method that you are adopting?—Yes, we believe we will. There is a Committee which has the task of seeing that reasonable uniformity is achieved.*

899. What about uniformity throughout Great Britain? Does that cover the whole of Great Britain, or does it only cover Scotland?—No, it only refers to Scotland. (Sir *Frank Tribe*.) The assessors are not the same people as the appointed auditors who were discussed previously.

900. They are not?—No. (Sir *William Murrie*.) The assessor is a local authority-appointed official.

* *Note by Witness:* I was mistaken in suggesting that the Scottish Valuation Advisory Council had this task among its functions. But the qualifications and status of the assessors and the fact that they are carrying out duties directly imposed on them by the statute, which sets out the principles they are to follow, will, we believe, ensure a reasonable degree of uniformity.

NEW TOWNS ACTS, 1946 AND 1955, ACCOUNTS, 1956-57.

Chairman.

908. Will Members please turn to the New Towns Acts Accounts, to page iii, paragraphs 6 to 8 of the Comptroller and Auditor General's Report? Dame Evelyn, from paragraph 7 you seem to have had representations made by some of the auditors that they were being asked to do too much or something which they found themselves incapable of doing. Who made this representation?—(Dame *Evelyn Sharp*.) I actually discussed it with Mr. Benson

901. But you are going to get uniformity throughout Scotland. What about uniformity between England and Scotland on this?—(Dame *Evelyn Sharp*.) On the valuation, you mean?

902. Yes?—I have never heard that questioned.

903. There is no machinery to provide it?—(Sir *William Murrie*.) Up to now the principles on which values have been determined in Scotland have been quite different from the principles in England, so that you could not look for uniformity.

904. So you do not expect uniformity between England and Scotland on valuation?—We are going to get rather nearer to uniformity because in our 1956 Act we laid down principles for valuation which are nearer to the English principles than our former principles.

905. Is this lack of uniformity another case where the Scotsmen have it both ways?—No.

Mr. Peyton.

906. There is one question I wanted to ask Mr. Macpherson. I hope I am putting it correctly: Sir William Murrie just now inferred that they had been agreeably surprised at the benefit which had accrued to Scotland under the 1956 arrangement. Now, from a neutral position can you say whether you are satisfied about the balance between the two countries?—(Mr. *Macpherson*.) Not quite from a neutral position.

907. No, I know. I wondered if you could achieve it?—My understanding is that the rate burden per head of population in Scotland is still considerably higher than that in England, by some £2.

of Cooper Brothers, who is one of the New Towns auditors, and who was speaking on behalf of them all.

909. But broadly speaking they were only expected to do what the Comptroller and Auditor General does and what the District Auditors do, surely?—I think that may be true, but these are professional auditors and the point which they found difficult, and which I accepted was difficult, was (b) referred to in paragraph 6, "Expenditure which appeared to be very questionable and

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likely to give rise to public criticism". They said that as professional auditors they did not feel able to say what expenditure by a public corporation was likely to give rise to public criticism. Perhaps I should explain that this discussion with the auditors began really on a complaint by the Department that the auditors were not bringing to notice matters which we thought they should bring to notice. They replied to that complaint: "Well, the instructions which you gave us do not seem to us to be well adapted to the task which we as professional auditors should be asked to carry out". So, it was following that that we discussed it with them and substituted these new instructions to them; following which we have had, we think, a rather more satisfactory relationship. We have had a number of points raised by the auditors with us.

910. What kind of reports have you had from them and when?—In the year 1956-57, the reports come in all through the year, a number of reports. They were all on comparatively minor points. For example, on one occasion the auditor drew attention to the fact that expenditure was being treated as capital which should have been treated as revenue, on another that capital expenditure was wrongly allocated. On several occasions they brought to notice that expenditure had been incurred in excess of approvals granted. These were none of them serious cases and there was no impropriety involved, but they did show that the auditors were picking up the sort of points which we thought auditors ought to pick up on these accounts.

911. That is after you had had a talk with them in 1956, apparently. What reports did you get between 1951 and 1956?—We had very few reports from the auditors, which was the cause of our complaint to which I referred.

912. Is there any reason why the auditors should just merely certify that the books balance? Is there any reason why they should not be on the look-out for extravagant methods or inefficiency?—They are asked now to report both on unauthorised expenditure and on expenditure of an extravagant or wasteful nature judged by normal commercial practice and prudence, and that is what they told us is what a profes-

sional auditor is normally accustomed to do. I may say that behind the first discussion which we had with them lay a dispute between the Ministry and the professional auditors about the use of district auditors, whose activities the professional auditors I think would like to limit and whose activities the Ministry, I think I can say, would like to extend; but there were various disputes on Bills which went through Parliament as to whether a joint board or a joint body being created should be subject to district audit or should be subject to professional audit. Parliament took the view that if they opted for professional audit professional audit was what they should have, but in the course of that dispute we had raised the question of the New Towns auditors saying: "Well, here is an example where it seems to us that the auditors specially trained to investigate this type of account may throw up more queries than the professional auditors." We then had this discussion and revised the instructions and I am satisfied, myself, that the auditors are now reporting more items to us than they did. Previously, I think I should say, in the years when they made very few reports to us they often took up reports with the corporation and cleared up matters with them.

913. I gather from what you have said, I do not know whether correctly, that the private auditors are still not working—I will not say, to the standard of the district auditor—but they are not covering the same range of matters that require report?—I think it is quite true that the professional auditor does a rather different job from that done by the district auditor. The district auditor watches in fact the minutiae of expenditure, expenditure which may be unlawful or which may seem to him to be extravagant; but it was decided by Parliament in the New Towns Act that the New Towns Corporations should be subject to professional audit and I do not think one can ask professional auditors to do, nor do I think it would be appropriate for them to do, the sort of job the district auditor does for the New Towns Corporations.

914. Has the district auditor a different training from a professional auditor?—Oh, yes, he is trained specially in local government finance and local government law as well as in general accountancy. He passes special

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examinations organised by the Department in district audit.

915. That is to pick up possible illegal expenditure, but here it is not a question of illegal expenditure but extravagant expenditure and inefficiency. Surely an ordinary auditor ought to be able to do that?—I think he would.

916. But apparently he did not for some years?—I do not think for one moment that there was either extravagance or inefficiency in the Development Corporations who are themselves very strongly staffed, very much more strongly staffed than the ordinary run of smaller local authorities.

917. Yes, but when one reads the Reports of the Comptroller and Auditor General, and he is dealing with Government Departments, he always finds something to report very radically wrong with quite a number of Departments every year, and I cannot believe that the New Towns are so impeccable?—No, I would not say that, but the New Towns are in a very different situation from the Government Departments. They are, although financed by the Treasury, very much more of the order of a commercial body or of one of the nationalised industries than I would have thought is a Government Department which is operating very strictly under law and under Parliamentary scrutiny. I admit at once that the expenditure of the Development Corporations is not as strictly scrutinised as the expenditure of Government Departments. I do not think that a body building a New Town would be able to do its work very satisfactorily if it were subject to quite the same control.

918. That may be, but there is still the question of inefficiency and there is still the question of extravagance which ought to be picked up by the auditor, surely?—Extravagance certainly should be picked up by the auditors, yes, and they are asked to do so.

919. And illegal expenditure ought to be?—Expenditure not authorised, of which we have had a number of cases picked up.

920. Recently only?—Yes.

921. But not for five years?—No, only one or two. (Sir Frank Tribe.) The extraordinary thing is that this new agreement was reached in May, 1957, and in the following four months the auditors made eight reports about

expenditure in excess of authority on eight different Corporations. It was extraordinary that excesses should only have been picked up after the new agreement.

922. And how many had been made in the previous five years?—None as far as I know. (Dame Evelyn Sharp.) I think there were two or three, but made informally to us. But, you see, under these new instructions we sent out a complaint to the auditors and said: "You are not in our opinion reporting to us as frequently as you should. We understand that you have felt that the previous instructions were drafted in terms which were very difficult for you to comply with. We have now in agreement with you drafted these instructions in terms that you admit you can comply with. Please comply with them".

923. The trouble was that you agreed with the private auditors in 1951 that they should not report to you or, at any rate, that the representations which were made in 1951 ought not to have been agreed to?—I was not myself concerned with that, but I understood that there was some misunderstanding, so Mr. Benson told me, between the auditors and the Department at that time, or so he said subsequently, about the wording of the instructions to be given to the auditors.

924. Are you satisfied with your control now?—Yes, fully satisfied.

925. Over capital expenditure as well?—Yes. I think there is one point: you have referred to the control which the Comptroller and Auditor General exercises over Departments and suggested, very rightly, that there is no such control exercised by professional auditors over Development Corporations. But there is a very great deal of control before the Corporations spend. There is an extremely close control by the Ministry and the Treasury on all spending by the Corporations. I would myself venture the opinion, too close a control.

926. I think Mr. Macpherson would suggest that there was pretty strong prior control over a Department before the expenditure?—Not, in my experience, anything like the control, the harrowing control, exercised over the Development Corporations.

927. I hope Mr. Macpherson will take note of that. Sir Frank, are you satis-

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fied with the present position?—(Sir *Frank Tribe*.) I agree with Dame Evelyn. On paper the position should be all right; the Ministry and the Treasury have the authority, and they do determine the amount of expenditure which should be involved in any project, but my information is that, in point of fact, the Corporations quite frequently do exceed the authority given to them. Some of them come and seek approval after the event and others do not seem even to trouble to do that unless they are challenged by the Ministry. (Dame *Evelyn Sharp*.) I do not think I could accept that last point. We have had one case of difficulty which we cleared up but they do, I should say, always cover their expenditure by approvals; and in so far as they expend in advance of approval it is because of a continuous job; it is difficult for them to estimate precisely what it is going to cost and get the approval in advance and they do not always take it up with us before they have slightly over-spent. But I am advised that the over-spending has been very minor and pretty quickly covered. We have had one bad case in the past which we took up. (Sir *Frank Tribe*.) I agree these are only minor defalcations. One other point I was going to make was that, as far as I know, there is no one who examines the question of how far the Corporations comply with the normal Government procedure with regard to placing contracts and accepting the lowest tender unless there is any good reason to the contrary. I think a professional auditor would say that is not part of his job, but as this Committee knows, that is one of the things I pay great attention to in the case of Government Departments. (Dame *Evelyn Sharp*.) A Corporation cannot accept a negotiated tender without the consent of the Ministry. I am not sure whether we always have to consult the Treasury, but I know that I personally have to see every case and we always do get these cases of negotiated tenders up from them for consent.

Mr. *Stevens*.

928. Dame Evelyn, would you agree that a consideration of expenditure as to whether or not it might be very questionable and likely to give rise to public criticism, really brings in questions of policy? Would you agree with that?—I would, yes.

929. Would you agree that any auditor, whether a professional auditor or District Auditor, would be very loth indeed to criticise questions of policy so far as the Ministry is concerned?—Certainly, yes.

930. Arising out of that, would I be right in thinking that what the Minister does in fact want to know is whether or not expenditure is of an extravagant or wasteful nature judged by normal commercial practice and prudence? That is what the Minister wants to know?—From the auditors, yes.

931. So that it is not really so very surprising, would you agree, that when it became possible for the auditors to implement their terms of reference they did in fact implement them, and since the new instructions have been given to them they have in fact been reporting on these things that the Minister would like them to report on?—I agree.

932. Just one other point. At the end of paragraph 8, and Sir Frank has rather dealt with this, the question of the wrong classification of expenditure as between capital and revenue is referred to. Am I right in thinking that the Corporations always require Ministry authority before incurring capital expenditure?—Yes.

933. But, on the other hand, as far as routine revenue expenditure is concerned that would not be so?—No.

934. So that if a Corporation wanted to be naughty it might make a wrongful allocation, it might allocate what is really capital expenditure to revenue and for the moment get away with it without Ministry sanction. Would that be right?—Yes. We should pick it up, I suppose, on the accounts; or indeed the auditors would, as they did here.

935. In due course. I was going on to that. It would no doubt be picked up either in the Ministry or by the auditors?—Yes.

936. And then the question would arise of covering authority from the Ministry. Is that automatically given?—We do not automatically give covering authority for capital expenditure incurred without consent. If we find capital expenditure has been incurred without consent we have a major post-mortem on capital expenditure of any size.

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937. Of any substantial size?—Yes.

938. Supposing you find yourselves at the Ministry unwilling or indeed unable to give covering authority, the expenditure having been incurred, what happens then?—Then we must get covering authority with Treasury consent. The Corporations are our creatures, dependent entirely on Government money or such revenue as they are beginning to earn, but still mainly dependent on Government money.

939. So, in practice, covering authority must be given?—Must be given. In the only case I remember in which expenditure on capital account was incurred in a fairly large way without prior sanction, we had a full investigation with the chairman and general manager of the Corporation and went into the reasons why it had been done—it was emergency work, things had gone wrong with some houses—and got from them an undertaking that they would never do this again and satisfied ourselves that it had been really a mistake at their end and that it was a mistake that they would not repeat.

940. And you are satisfied?—Quite satisfied.

941. There is no power to surcharge as there is in the case of local authorities sometimes?—I do not think so. (Mr. Edwards.) No.

942. You do not think that would be necessary?—(Dame Evelyn Sharp.) No. The last remedy, if one thinks that a Corporation is not working efficiently or satisfactorily would be that one must change the board.

943. That is your ultimate sanction, to change the members of the board?—Yes.

Mr. Peyton.

944. Just one point, Dame Evelyn. I think you referred just now to the "harrowing control" which your Department had over these Corporations before expenditure was incurred. That is what you said, is it not?—Yes.

945. I wonder if you would say a little bit more about that? Are you suggesting that the control is so detailed and so fussy that it perhaps defeats its own ends from time to time?—I sometimes feel that the present system by which the Corporation must get our consent and we must get Treasury consent

to any major item of capital expenditure does entail delays which themselves can be expensive. I would not wish to dwell on this at the moment because one must remember that the Corporations are dependent entirely on Government money, they are very far from being self-supporting and therefore, necessarily, a considerable system of control is required. Also in the early days of the New Towns they were experimental.

946. Mr. Macpherson, have you considered this point at all, as to whether too detailed and too "harrowing" control (to quote Dame Evelyn's words) over the Corporations might possibly defeat its own end? I do not say for the moment it does?—(Mr. Macpherson.) We must remember, Sir, that for the most part this control is provided for under the statute. It is not control by the executive, it is laid down in the statute.

Sir Colin Thornton-Kemsley.

947. Dame Evelyn, just reverting for one moment to the professional auditors, does each Development Corporation appoint its own professional auditors?—Yes.

948. And pays for them itself?—Yes—with our approval.

949. With your approval to the firm that is appointed or the qualifications of the auditors?—To the firm and to the fees.

950. So it is not altogether surprising, is it, that auditors who are appointed by a Development Corporation and paid by a Development Corporation should not find it easy to report direct to the Minister on expenditure which appeared to be very questionably undertaken by its employing authority or any activities which appeared to be unduly costly, again undertaken by the authority which had appointed them and employed them?—No, it is not.

Colonel Crosthwaite-Eyre.

951. One point, Dame Evelyn: I am not clear why it took from 1951 until 1957, a period of six years, to realise the instructions were unworkable. I think you said there was some misunderstanding in the preliminary discussions?—So I was told when I came into it, which was in 1956. I think we had been complaining from time to time that we did not seem to get reports from the

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[Continued.]

auditors, but in fact in about 1956 things came to a head, following the dispute we had with the whole of the profession about the extent to which district audit should be used and the extent to which professional audit should be used, in which Parliament found against our view and supported the professional audit claim; and in the course of the examination before the Parliamentary Committee on the Bill on which this point came up, when we were trying to explain why we thought the district audit system might be better, the comment was made: "Well, we never get reports from professional auditors on New Towns Corporations' work." That greatly annoyed the professional auditors and they came to us and said, what we had not perhaps appreciated, "We do not think your instructions are properly drawn". We in fact ventured on a public criticism of the auditors which brought them up short and they came along saying: "We can do the work more satisfactorily from your point of view if you draft the instructions more satisfactorily from our point of view".

952. But, as I understand it, there were three separate occasions on which this was raised. It was raised first by Sir Frank in his Report in 1950-51, then by the profession with you in 1951, then by Sir Frank again in 1953-54. Is it not rather odd that none of those Reports bore any fruit over this period?—I cannot, I am afraid, tell you why the representations made on behalf of the auditors in 1951 came to nothing. I was told when I took it up in 1956 that there had been misunderstanding as to how the matter was left in 1951 or as to whether the auditors were satisfied or not satisfied. When I took it up in 1956 I then did discover what the feeling of the auditors was on this matter, thought it had a good deal of reason behind it, and reached a new agreement. (Sir Frank Tribe.) I do not think my Reports can be regarded as "representations". On both occasions I simply described the instructions which had been issued by the Ministry to the auditors and stated in the first place that three reports had so far been made direct to the Minister and on the second occasion that no special reports had been made.

953. I am sorry, I misread what you said, Sir Frank?—(Dame Evelyn

Sharp.) I wonder if I might just correct an answer I gave earlier? I said that the auditors were appointed by the Corporation. I see I am wrong. The statute requires them to be appointed by the Minister. They are suggested to us by the Corporations and we appoint them. I do not know that it makes any difference to the point the honourable Member was making; but it is really our appointment.

Sir Colin Thornton-Kemsley.

954. Who appoints them?—The Minister.

Mr. Stevens.

955. Are you aware that that is exactly in accord with the system employed where professional auditors are engaged by the various nationalised boards?—Yes.

956. Appointed by Regional Boards apparently, but in fact the appointment is from the Minister and they are paid by the Board?—Exactly on all fours with that, yes.

Mr. West.

957. Is the position now completely satisfactory?—I think so.

958. You have no complaints to make with regard to the employment of private professional firms as auditors to the New Towns Corporations?—To the New Towns Corporations, no.

959. Sir Frank, I do not know whether I misheard what you said, but I gathered that you used the word "defalcations", that defalcations had been revealed. Was it "defalcations" that had been revealed in the last few years or the last few months of the reports?—(Sir Frank Tribe.) I have forgotten if I used that word.

960. I took it down; I thought it was the word "defalcations" which you used?—All I meant to say was that these reports had drawn attention to such matters as unauthorised expenditure, as I say in my paragraph 8 of my Report. "Deficiencies", perhaps, is the better word.

961. I just wanted to be perfectly clear. If I misunderstood you I am very sorry?—I did not mean anything fraudulent.

962. I should have thought that would obviously have been a matter that professional auditors, at any rate, would

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[Continued.]

have drawn attention to and reported upon?—(Dame *Evelyn Sharp*.) Certainly, yes.

963. I thought in the interests of all concerned one should clear that point up. The next point I should like to ask Sir Frank is this: with regard to these matters that have been disclosed in the last few months, how much public money has in fact been wasted?—(Sir *Frank Tribe*.) I do not think one could say that any has necessarily been wasted. It is a case of the Corporation having exceeded the sanction which it has received from the Ministry, and from what Dame Evelyn has said I gather that in most cases it is a matter of inadvertence and the Ministry have approved it afterwards. Generally, as far as I know, the amounts involved are comparatively small, but the fact remains that the auditors have found it necessary within a short period of four months after the new agreement was reached to report such unauthorised payments in the case of eight different Corporations.

964. And what would be the amount involved in that?—I am afraid I have not got that figure handy. It is quite a small amount, I think. (Dame *Evelyn Sharp*.) I think it would only be a few thousand pounds. The Corporation has not come to us quickly enough when they realised they were running past the approval and even if the auditors had not picked it up it is certain that we would have picked it up. In the past few years we always did pick it up. It is only a question of running a little bit ahead of their approval and coming along afterwards for approval.

965. What I was rather anxious to ascertain was whether the old instructions resulted over the years in a considerable loss of public money and whether the new instructions which have been given have avoided any further loss?—I do not think so. I am quite confident that although the auditors have in fact reported several cases to us in this recent year that has not made a real difference in practice at all. (Sir *Frank Tribe*.) I find I have some figures which will illustrate your point. For instance, in a case at Harlow the excess over the approval was a matter of some £30,000 on £1,600,000. In a case at Peterlee, an excess of some £8,000 on £88,000. In a case at Cwmbran, an excess of £3,800 on £21,000.

966. Would that mean unauthorised expenditure or improper expenditure?—It would mean unauthorised. It was spent in excess of the amount which the Ministry had approved.

967. But not an improper expenditure in the sense that it was wasteful? It was on the duties that they were there to discharge, the building of the New Town?—Yes.

Chairman.] Will Members turn to the Accounts themselves on pages 4 to 7? I have no questions.

Mr. West.

968. What is the current rate of interest which the New Towns have to pay for capital advances?—(Dame *Evelyn Sharp*.) Since the decrease in the last few days, 5½ per cent., that being the Exchequer rate.

969. What is the rate under the Public Works Loan Board that local authorities which are authorised to borrow from that Board have to pay?—Since it went down, 6½ per cent.

970. What is the reason for the difference between the two?—This was looked at last summer between us and the Treasury, and it was then agreed that as the Corporations are getting their money from the Exchequer they should only pay the Exchequer rate of interest.

971. And local authorities?—They draw money from the Public Works Loan Board. They—the local authorities—pay the rate of interest appropriate to a local authority of good standing in the market. The Exchequer's standing is higher and their rate of interest therefore, is rather lower. (Mr. *Macpherson*.) It reflects the rate at which, as you say, a local authority of good standing could expect to borrow in the market. (Dame *Evelyn Sharp*.) The Exchequer can borrow at a rather lower rate.

972. From paragraph 7 I see that certain Corporations constructed sewerage capacity in excess of their own needs?—Yes.

973. What was the reason for that?—That was because for Harlow and Stevenage and Welwyn we had to construct the Middle Lea Sewerage Scheme to bring the sewerage right down into the River Lea and while we were doing

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[Continued.]

it it was plainly in the public interest to provide sufficient capacity in the main sewers to take the sewerage from a number of other local areas which would need to link up.

974. And if the local authority areas had to provide excess sewerage would they have received grant in respect of that?—No. This would not be rural water and sewerage. I do not think any of them would have been eligible for grant.

975. So the £47,000 which has been spent for the benefit of the local authori-

ties is in some measure additional expense to them which in the ordinary way they would not have had?—Yes, I think that is true.

976. In those circumstances do you require the New Town Corporation to refund the £47,000, or not?—The Treasury have agreed to write off—if that is the right expression—the amount of the expenditure which was in excess of the capacity required by the New Towns.

THURSDAY, 6TH MARCH, 1958.

Members present:

Sir George Benson, in the Chair.

Mr. Arbuthnot.
Colonel Crosthwaite-Eyre.
Mr. Oliver.
Mr. Peyton.

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

Sir FRANK TRIBE, K.C.B., K.B.E., Mr. J. MACPHERSON and Mr. A. H. M. HILLIS, an Assistant Secretary, the Treasury, called in and examined.

REVENUE DEPARTMENTS APPROPRIATION ACCOUNTS, 1956-57.

VOTE 3

POST OFFICE

Sir GORDON RADLEY, K.C.B., C.B.E., Director General, and Mr. K. ANDERSON, C.B., C.B.E., Deputy Director General and Comptroller and Accountant General, Post Office, called in and examined.

Chairman.

977. Will Members turn to the Revenue Departments Appropriation Accounts, to the Report of the Comptroller and Auditor General on pages ix to xi? From paragraph 42, Sir Gordon, I see that the expense of running these Savings Bonds seems to be split up among quite a number of different Votes. I take it that you exercise overall control of the costs?—(Sir Gordon Radley.) Yes.

978. And the other Departments are merely debited?—I exercise overall control of the Post Office costs, Sir. There are the costs by the National Savings Committee on advertising and also there is commission paid to bankers by the Treasury for the Bonds that are sold through the banks.

979. With regard to the advertising, is it done to your instructions? You do not handle that side at all?—No, that is with the National Savings Committee, Sir.

980. To what extent do you control the amount they spend?—Not in the least.

981. So, they spend what they like in advertising these Premium Bonds?—That is not Post Office responsibility.

982. Who does bear the responsibility?—The Treasury, I suppose. (Mr. Macpherson.) I would not say they spend what they like. That expenditure is controlled by the Treasury.

983. The Treasury are ultimately responsible for the amount spent?—In the normal way the expenditure on that would be subject to scrutiny of Estimates and examination in the Treasury, depending on the Vote on which it is borne.

984. Have you agreed the sum to be spent prior to the event?—Yes, and the amount is controlled in Estimates. (Sir Frank Tribe.) The Committee will be considering the National Savings Committee expenditure next Tuesday.

985. Why does the Consolidated Fund bear the commission payable to the bankers?—(Sir Gordon Radley.) I would prefer Mr. Anderson to deal with that. It is a matter of detail.

986. Yes?—(Mr. Anderson.) I assume that is because charges of that nature to bankers and brokers in respect of national debt are so chargeable under the National Loans Act, but I would not be able to quote you the text.

987. Traditional, in fact?—As a matter of law, I believe.

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[Continued.]

988. Is the whole scheme of Premium Bonds expensive to run, do you think?—(Sir Gordon Radley.) The cost at the present, Sir, comes out at about 16s. 9d. per-£100 of Bonds.

989. You regard that as reasonable?—Yes, considering the nature of the investment. It is rather more than the Savings Bank, but one anticipates that the cost per £100 will come down somewhat as the number of Bonds increases.

990. Have you any idea how much they withdraw from the Savings Bank to put into these Premium Bonds?—No, Sir.

991. Have you any suspicion?—No. (Mr. Anderson.) No, we have no means of judging in any statistical way how much is diverted from other savings. All we can say at the moment is that the one small savings medium which is drawing in big new money and holding it is the Premium Savings Bond. We are losing out on the Bank, the National Savings Certificate and the Defence Bond at the moment.

992. What size is the staff employed?—Just under 1,000, that is to say at the Central Office. Of course that does not include those who serve at the counters.

993. Is that at Lytham St. Annes?—(Sir Gordon Radley.) Yes.

994. You have a very large staff there, apparently?—(Mr. Anderson.) There is a very great deal of manipulating of pieces of paper, handling of correspondence and dealing not only with the investment as it comes in and as it is withdrawn but with prize distributions, which itself is a formidable operation.

995. And they are solely employed on this?—I should qualify it, if you emphasise the word "solely", in this respect, that for certain periods last year when sales were low in the first six months of the year we did find work that could be done for other Departments instead of laying off the staff, because we knew that come June the draws would start; and we also expected (as has happened) that subscriptions from the public would go up, so we were very anxious to retain the full numbers of staff. We put them on to various

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jobs for other Government Departments and, again, we used the typists as a pool for some of our own Post Office work. It was on a relatively small scale, and I only mention that because of your word "solely".

996. What I was meaning was, do you find in the middle of the month that everybody is slack or is the work spread?—The work is fairly well spread because we actually cease certain operations while the draw is on and then pick up when it is over. We have to divert something like a quarter of the staff to nothing but the draw for about a week a month, and during that period certain things do not move as rapidly as otherwise. But, of course, when the draw itself is over there is still a great deal to be done; because as the draw proceeds one sends out the notices to the winners, then they write in and somebody has got to make out their warrants. One way and another we are finding it possible to get a pretty fair flow through the month.

Colonel Crosthwaite-Eyre.

997. When you say it is 16s. 9d. per £100 worth of Bonds, does that cover a fair proportion of all the expenses as set out in paragraph 42?—That 16s. 9d. covers approximately £1 million a year for the cost of the proper Post Office expenses, excluding advertising.

998. But it includes a certain amount for the cost that you have incurred by changing buildings, and that sort of thing?—It includes building costs because we do regard that as something for which we are ultimately responsible in the sense that we are managing the scheme.

999. If you were to include costs that are borne by other Departments what would be the cost per £100 of stock?—I would suggest that, including the advertising costs, of course, it would be wholly irrelevant to the Lytham cost.

1000. It is all part of promoting the scheme, is it not? To get a true picture one should take every part of it?—I agree. If you want to take it further, prizes or interest are involved; and if you were trying to do a complete costing of any savings security you would want to bring that in as well. But we were mainly interested in seeing how

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our administrative costs in managing a scheme compared for the various securities, and with this comparatively new security which is mounting up rapidly at a rate of between £7 million and £10 million a month we found it was about 16s. 9d., which is comparable with a figure of 12s. 2d. per £100 in the Savings Bank and 2s. 7d. in National Savings Certificates. Now, the Premium Savings Bond can never be as cheap as a National Savings Certificate. The National Savings Certificate comes in, you put it to bed in the files and in most cases it waits until maturity or somebody dies. With the Premium Bonds you have to be on your toes all the time for draws, which is quite expensive. We should never expect to get it down to anything like the Certificate, but at the present rate costs will not rise according to takings, and we think our administration will drop below about 10s. before so very long.

1001. If I might turn to paragraph 46, what happens if Ernie draws a winning number and you subsequently find that the number is not eligible to a prize? What happens to the money?—We promote the next person on the list of numbers.

1002. If you have paid the money how do you get it back, or do you not?—Our main means of finding whether or not it is eligible is when we send out a notification that such and such a number has won a prize. If the person is dead, for example, that will normally provoke a reply to that effect and then, of course, we shall stop the prize issue to that number and adjust the list and give it to the next eligible person. Is that your point?

1003. Well, it covers the question of death. The Report says: "Or ineligible for other reasons". What are the other reasons?—It could be found that a person had misrepresented his age, for example. We are not supposed to sell to people under 16. If it transpired at that stage that he had misrepresented his age the Bond would be declared ineligible. It would only be in cases of rather technical default of that kind.

1004. And you consider that by writing to each one who has drawn the winning numbers you do get sufficient information returned to ensure that no prize is

sent out to an ineligible prize winner?—We do our best to check all the circumstances, both at the time when we register the Bond in the files, and at the time of the issue of a prize, or again at the time when a person claims recovery of his capital.

1005. But have you, in fact, so far sent out prize money to an ineligible winner?—We have discovered no case in which we have actually made a payment to an ineligible person. We have, I think, found some cases where the person was dead.

1006. Could you tell me how many ineligible persons have been found?—I could not tell you by number. I do not happen to have it by number, but I can tell you in these terms, if it would help you, in respect of the dead because that is the only case which has bothered us so far.

1007. It would very much?—Up to the end of December—forgive me for not having it later than the end of December—we had distributed a total of £2,614,000 of prizes. Against that we estimate that just over £4,000 represented prizes of dead people which were stopped.

1008. Have you had any winning numbers that have not been claimed?—Yes. We have inevitably an untidy fringe, if I may call it that. I do not know if it would interest you at all to have any figures on that, but, for example, there is a sum altogether of £200 still outstanding from last June. We have done our best to trace the people, but they have failed to send us a change of address, they have gone abroad, or something.

1009. What happens to that money? Do you hold it indefinitely or is it returned or what?—We hold it for a while and then we send it to the National Debt Commissioners to hold in perpetuity against a claim. It is always held against a claim whatever happens.

1010. So, if somebody turns up 20 years later he still gets his money?—As long as he establishes his title.

Mr. Arbuthnot.

1011. I must, perhaps, declare an interest as a successful bond holder, but claiming is an infernal nuisance, if I may

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[Continued.]

say so, with all the paraphernalia that a holder has to go through. You start off by writing to the successful holder and saying that he has been successful in the draw. You then say to him "Will you please send me your bond". The probability is that the Bond may be in the holder's bank, so he then has to send to his bank to collect his Bond and then send it to you. Why do you not pay out as any ordinary shares are paid out and accept an instruction to send to the bank automatically if the Bond happens to come up lucky in the draw?—The broad answer, Sir, is really very close to what the last honourable Member was saying. We must take proper precautions when we are going to pay out—I hope it was £1,000?

1012. It was not, I regret to say; it was the lowest denomination?—We have not hitherto felt that we could possibly, when it came to the pay-out stage, avoid making the person prove his identity, in effect, and the possession of the Bond. The process of sale is so easy; you just go into the Post Office—not in your case; you went to a bank, but in the ordinary case—a person just goes into a Post Office and within 30 seconds he goes out carrying a piece of paper. In respect of that we have to pay out, say, £1,000 and we want to be sure that we are paying that £1,000 to the right person. I would admit straight away that it could be a little easier from the point of view of establishing bona fides through the banks. We have looked at that very carefully but it would mean a tremendous duplication of our whole system at Lytham. We would have to have a complete separate register of Bank cases and we are quite clear, first, that that would add a very grave complication there and take up a lot more staff and time. Secondly, we are doing our utmost to complete the draw very quickly because the public are expecting day by day to see the lists appear; and operating on a double system of registers would very considerably slow up the draw. We therefore have felt that it must be clearly in the interests of the majority as well as of the fair operation of the machine that we should go through this procedure.

1013. I see that the advertising expenses in the year under review were £200,000. Do you regard this as an initial expense or do you expect the

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expense to go on at £200,000 a year?—Following from what was said earlier we are not responsible for this money. I do not know whether the Treasury would prefer to answer that one. It is within my knowledge that more is probably being spent this year than last year.

Sir Colin Thornton-Kemsley.

1014. As a hitherto unsuccessful Bond holder, I was a little concerned to hear the witness's description of the work done by the staff at Lytham St. Annes as "manipulating pieces of paper"? Can you assure the Committee that there was no sinister intent about that?—Certainly. I think the honourable Member appreciates what I meant. A tremendous lot of work at Lytham consists in handling these little slips of paper and putting them away in the right drawer, and consulting the drawers when this and that happens. It was entirely in that broad sense that I used the phrase.

1015. I am relieved to hear that?—There are acres of filing cabinets up there, though not anything yet like what we have for National Savings Certificates, which I believe to be the biggest filing cabinet in the world. We have £2,000 million there; this is only up to about £140 million today, but it is a sturdy plant.

1016. Is there any system whereby Premium Savings Bonds can be given as gift tokens?—There is a gift token on sale at all Post Offices, a £1 token which we have made convertible either into a Bond or into a Savings Bank deposit, but it is primarily intended for the Bonds and we sold several hundred thousands at Christmas, for example.

1017. Are they attractively designed like a gift book token, for example?—I am afraid I have not one with me, but with the aid of the National Savings Committee who are really concerned with the design of that we have used our best endeavours.

Mr. Stevens.

1018. It would certainly seem that the system for ensuring that the prize money goes to the right cause, is pretty watertight; but as a matter of actual fact have there so far been any cases of fraud or suspected fraud?—We have had no case where we know that a Bond holder committed a

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fraud on us. We had one case where a Post Office servant mis-used the purchase money, but he might have done that for something quite different from a Bond. It was not peculiar, in other words, to the Bond procedure.

1019. But you have had one case of fraud?—Well, it was really a case where he had won the confidence of an old lady and misused her money, a kind of case which from time to time, naturally, we get in other directions, but fortunately very rarely.

1020. A postman taking the good news to fortunate Bond holders would derive no value from stealing the bag containing those letters, because he would not himself have the Bond, so the system is, you would think, quite watertight?—You mean the one taking the good news? Of course, if he, knowing it was good news, then managed to keep the good news to himself but stole the Bond itself—

1021. He would still have to steal the Bond, yes?—And then to forge the signature, because we check the signature on the form when it comes back. In other words, it is a pretty remote possibility.

1022. So the chances of fraud are very remote?—Yes.

1023. Ernie selects numbers at random. He must select a large number of numbers of which the equivalent Bonds have not been sold, is that so?—That is scientifically so. I do not know whether Sir Gordon who, of course, really understands Ernie, would perhaps develop the answer.

1024. I know very little about Ernie; I am anxious to know more?—(Sir Gordon Radley.) Yes, if I could take the question, Sir, Ernie is so arranged that if he produces a number which is in a block of unsold numbers, that number is cancelled immediately. If, on the other hand, he should produce an isolated number which happens to be either unsold, or perhaps the Bond has been redeemed, that, of course, has to be ascertained in the subsequent stage of checking.

1025. You say, "if he selects a number". Surely, "it" rather than "he"; if it selects a number which is in a block which has been unsold, that is cancelled. Do you mean, cancelled on the occasion

of that draw, because on a subsequent draw the block must come in again? —Yes. The machine simply internally generates a number which does not go any further. For example, there might be 10,000 Bonds starting with a certain combination of letters and numerals which had not come to the Post Office counters. If a number in that range turned up the machine would suppress it.

1026. But it would be available on another occasion?—Yes.

1027. How much did Ernie cost? I do not think there is a note of that here? —About £25,000.

1028. And where is the cost shown? —I do not think it is stated in the printed Accounts. (Mr. Anderson.) It is not identified in paragraph 42 of the Report. (Sir Gordon Radley.) It is very largely composed of engineering salaries, materials and so on.

1029. Joint holders are not allowed by the rules. Would you think that a drawback to sales?—(Mr. Anderson.) In our view, not at all for the kind of sales that we feel we want to handle; by which I mean just this, that knowing, as was rather hinted earlier, that this must be somewhat expensive to run, certainly more so than National Savings Certificates, we were anxious from the start to streamline every procedure. Now, one thing we said was "There shall be no transfers of interest"; that is where the dead people get out. Similarly, you cannot transfer your Bond to me personally. We also said that the registering of trustees and dealing with them and any corporate body, for that matter, is also, as we know perfectly well from our experience with other securities, a very considerable complication. We do not believe the kind of money we do not get in in that kind of way will fail to flow into other saving securities. We will not therefore go out of our way to have the further complication of joint holders, so we have just drawn the line there.

1030. That has been done purely with a view to making the scheme, to use your own words, as streamlined as possible, economical to run?—Exactly, yes.

Mr. Peyton.

1031. I am quite satisfied that you have got all the safeguards you want, but I am wondering whether you really are

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[Continued.]

giving sufficient study to cutting down formalities rather than observing them?—On that I should only say that we do continually look at these formalities, and as yet we have not felt able to make any really big difference. You are thinking particularly of the formalities of the prize giving?

1032. Yes?—I would like to emphasise very much that the formalities at purchase are absolutely minimal. We have made it so easy to buy across the counter that we are bound to put a little more formality on the point of time at which we pay out, in the interests of the Bond holder himself.

1033. I wonder if you are in a position to say what would be the saving, supposing the rules were changed and the Bond automatically was eligible whether it was owned by a child or owned by somebody on behalf of a child or whether it was owned by a legatee or an heir of a dead purchaser?—You mean, if we had transferred all rights on death instead of straight repayment?

1034. Yes?—I could not give you a figure for that. All I know is this, that death claims are complicated enough but if we were going to transfer interest not in the relatively small amounts that we do handle in the ordinary small savings way but in very large amounts, we should expect that to be very much more onerous.

1035. It would be more onerous rather than less?—If we had to make a transfer on death, yes, unquestionably.

Mr. Oliver.

1036. What happens if death occurs after the draw has been made? Does the prize money pass?—In that case it goes into the estate.

1037. But if the person dies on the day or before?—If a person dies up to midnight on the last day of the month preceding the draw he is ineligible. The draw normally begins on the first of a month or the next weekday.

1038. You referred to the easy way by which these Bonds can be obtained. If a person has the maximum—I think it is £500?—Yes.

1039. And he buys another £100, at what stage is that checked?—At the prize giving. We do not mind if he lends us

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his money for nothing, putting it colloquially, if I might.

Colonel Crosthwaite-Eyre.

1040. Could I just follow that question? How can you check against somebody holding some Bonds in a false name or pseudo name?—In the last resort, I suppose we cannot but if we find him out we have powers of complete confiscation.

1041. If you found him out?—Yes. It has happened on National Savings Certificates but only occasionally in history; but it has happened.

1042. You would not take any steps normally to check whether the name was correct or not?—We do not normally check holdings at the point where they come into the file, if that is what you mean, that is to say, at the time of sale. We should have to put on a lot more staff and, after all, we do not suffer by the holding being £501. What we have said is that the 501st Bond cannot win a prize.

Mr. Oliver.

1043. When the maximum has been exceeded, assuming that the excess is a prize winner, would the person who held the excess be told so or would you say nothing about it?—Yes, when this case turned up we should invite him to rectify the position in everybody's interest. Up to two months ago we had had one case of that kind. We discovered at a prize giving that the man held over 500. He was very lucky, because the actual prize winning number was one of his early purchases; it was not therefore disqualified, but we invited him to put the position straight.

Chairman.

1044. Paragraphs 47 and 48, Post Office Savings Bank Accounts. Withdrawals are again larger than deposits. Is there any reason for this?—I would mention first that they were actually better in proportion than the previous year.

1045. You mean your losses were less, withdrawals were less?—Yes, but if I may anticipate your question of next year, at the moment they are much worse. There has, of course, been a steady net movement out for many years, but what we have felt encouragement on, particularly in the year of account, was that the

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pace of that net movement out was diminishing; but unfortunately that has not continued. I would add one other thing, that deposits as such are pretty well maintained. We do feel that the bank is attracting the younger people and the smaller deposits, but quite plainly, under whatever pressure it be, withdrawals do exceed deposits. We believe that with the pressure of inflationary forces, particularly when reflected in credit squeezes, which have a particularly heavy bearing on small businesses and on the ability of older people whose savings are there to manage without drawing on their capital, and let us add straight away we only offer 2½ per cent. on the money so that for those who are very interest-conscious it is a little attractive to get out and go into a building society or something of that sort, putting all those forces together we would not say that it is surprising that withdrawals exceed deposits, though we are encouraged that a lot of people are still depositing.

1046. Do you feel that you have lost much from your normal depositors to Ernie?—Our only direct check on that would be if a person actually came to us and asked for a warrant on his Savings Bank account made out in favour of the Premium Savings Bond. There have been a few of those.

1047. I suppose there must have been?—To be quite honest, we suspect, but we cannot put it higher than a suspicion, that at the moment Ernie is taking money which would otherwise have gone probably into Certificates rather than the Bank. You see, we are doing so badly all along the line except Ernie.

1048. Is this £15 exemption from income tax an attraction?—I would like to have a graph with me here, but whether it is *post hoc ergo propter hoc* or not, we felt that after the Chancellor gave that concession there was a most marked uplift in the record of the Bank. We are sure it is, but I would not like to quantify.

Mr. Oliver.

1049. Would you not think the 2½ per cent., in view of the other attractions for people who have small sums of money to invest, would be the greatest deterrent to use of the Post Office?—

This is one of those questions that we and the economists have a good deal of discussion about. I would say that if it were a really big deterrent we should be losing far more money than we have ever lost in recent times. We believe that for most families the Bank is part of the family habit. There are people, certainly, at the margin who will be worried about interest, but after all this Bank has stood up since Mr. Gladstone fixed the rate of 2½ per cent., rough and smooth. It plainly is not frightfully attractive now, but what it is worth when Bank Rate falls to some of its lowest levels possibly is a little too much, remembering the kind of service the Bank gives in the way of spot money and easy facilities of putting in and taking out. Further, as I said earlier, deposits are quite good. It is not that we are not getting in deposits.

1050. Withdrawals are exceeding the deposits?—That is true. I would agree at once that to some undefinable extent the interest is weighing against the Bank. People will go out, people who are really interest-conscious, but remember that up to a £600 investment, that is, the first £15 interest, the Bank is still fairly attractive because of the tax freedom. You cannot, for example, go into the special investment department of the trustee banks on a tax-free basis. Putting all those things together, and remembering that there are strong reasons why there should be withdrawals such as I was mentioning (the pensioner class who are being forced to draw more of their savings and the small business or the fellow who is used to hire purchase and is finding that more difficult, which all ties up with the credit squeeze) our belief is that to alter the rate would not within fractional limits make very much difference to our experience. We would be very sorry to alter it because 2½ per cent. is inbuilt, as it were, into the administration. It is calculable without a computer as ½d. a pound a month, and although I would not stress this unduly, we would have to employ many hundreds of people if we changed that rate to anything other than 5 per cent.

Mr. Peyton.

1051. Have you ever considered either the desirability or the practicability or, indeed, the propriety of conducting a canvass on behalf of the Bank, having

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a representative who goes and calls on people to try to squeeze some money out of them?—Do you mean to join the Bank?

1052. Yes, someone going round personally?—As far as joining the Bank is concerned we have got, as I said last year, I think, 22 million accounts already, which is nearly half the population, plus another 17 million of which we have heard nothing for five years, but which represents some proportion of the rest of the population. So, we do not think there is any difficulty in getting people who want to go to the Bank to go there. As to pressing people to save, that is not our function; that is the function of the National Savings Committee.

Mr. *Arbuthnot*.

1053. I see from page 21 in the fourth line that the Post Office Savings Bank lost about £37,000 due to fraud, etc. This apparently only covered 19 cases. Does that represent your total loss through fraud?—May I just check the exact reference?

1054. Page 21, fourth and fifth lines?—(Sir *Gordon Radley*.) Yes, the £36,945 Saving Bank business—(Mr. *Anderson*.) The number of cases relates only to column (a), not to column (b). Column (a) is written off under a specific authority.

1055. That is £5,724?—(Sir *Gordon Radley*.) That is the amount covered by the 19 cases numbered.

1056. How many cases were there altogether, then?—I could not say offhand. (Sir *Frank Tribe*.) I believe there were 8,129 cases under column (b). (Sir *Gordon Radley*.) That sounds about a likely number. (Mr. *Anderson*.) Total fraud cases in 1956 were just over 3,000. My figure would be just over 3,000 for the Bank alone. There may have been some in the rest of the Savings Department. (Sir *Frank Tribe*.) I was quoting the figure for the Savings Bank business. That is the heading which you referred to.

1057. Are you satisfied, Sir Gordon, that your checks are sufficient to prevent fraud on the part of your own staff?—(Sir *Gordon Radley*.) Reasonably so, yes. I would put it this way, that to alter the system so as to improve the security by

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even a small amount would be very expensive indeed.

1058. In relation to the amount of money that you might save?—Yes. (Mr. *Anderson*.) There has been no bad case since 1952, when we had one for about £1,000 which led to certain additional precautions.

Mr. *West*.

1059. Would I be right in saying, Sir Gordon, that the Post Office Savings Bank is essentially the small man's bank?—(Sir *Gordon Radley*.) Absolutely, Sir.

1060. Where the small man puts his savings, and it is spread over a large section of the population?—Yes.

1061. How many substantial accounts do you think you would have in your Bank of particularly wealthy people, or do they know too much to leave the money at 2½ per cent. when they can get more elsewhere?—(Mr. *Anderson*.) We would not know anything about their wealth, of course.

1062. You would know the state of the account, would you not?—We have no doubt that half the money in the Bank is held by a very small minority of account holders.

1063. You would know the state of the accounts, whether they are large or small?—About half the money is in big accounts, as it were. Remember that you cannot have more than £3,000 in it and you cannot put in more than £500 in any one year. (Sir *Gordon Radley*.) We do not know anything about the total wealth of the holders.

Chairman.

1064. With regard to fraud, am I right in assuming that the amount of fraud varies inversely with the precautions which you take, that if you step up your precautions you reduce your volume of fraud?—It would not be strictly inversely with the precautions, Sir, because you reach a stage when you spend very much more on precautions—

1065. One moment, I was talking about your losses. That was the second part of my question. Have you not now arrived at the point where you would lose more by the cost of precautions

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than you would by fraud if you increased the precautions in order to reduce the fraud?—I think that is so, Sir, and that is so not only with regard to our precautions with regard to our own staff but with regard to the public.

1066. But by trial and error you have struck the mean?—And we watch how things go and if we seem to be losing we adjust our procedure accordingly, or *vice versa*; if we seem to have a margin we may try a little relaxation.

POST OFFICE COMMERCIAL ACCOUNTS, 1956-57.

Chairman.

1067. Will Members now turn to the Post Office Commercial Accounts, to the Comptroller and Auditor General's Report on page 40? On paragraph 1, Sir Gordon, how was that contribution to the Exchequer of £10½ million fixed in 1933?—(Sir Gordon Radley.) It was fixed, broadly, as being in line with the surplus that the Post Office had shown during preceding years; but this sum of £10½ million was not based on the Commercial Account as is the £5 million which we pay into the Exchequer at the moment. It was instead based on what one might call an adjusted cash balance in that the results of the cash account were adjusted to take into account the work that the Post Office had done for other Departments and the work done by other Departments for the Post Office. But roughly speaking, one can say that in order to pay that £10½ million the Post Office had to run a commercial surplus of about the same size.

1068. And that was paid until the outbreak of war?—That was paid until the outbreak of war, yes.

1069. The present contribution is £5 million?—Yes.

1070. That is in lieu of taxation on your profits, is it not?—No, Sir, that sum was fixed at the time of the 1955 White Paper and, very broadly, one might say again that it was in line with the ordinary surplus that the Post Office had been running. But it was also agreed as being broadly in line with what the Post Office would have paid by way of taxation if it had been an ordinary business; and that includes taxation in the way of motor vehicle duties, purchase tax, stamp duties, as well as income and profits tax and various other odd taxes which we would have paid if we had not been a Government Department.

1071. In other words, it is roughly in lieu of taxation?—Yes.

1072. So that, apart from the taxation the Government draws nothing financially from the Post Office?—That is quite right, yes.

1073. If this £5 million is taxation and the Government gets nothing else you can hardly describe the Post Office as a Revenue Department any more, can you?—Well, we do not want to, Sir.

1074. Apparently the ball is passed to you, Mr. Macpherson. Why is the Post Office included in the Revenue Departments?—(Mr. Macpherson.) We could say it was temporarily out of this class.

1075. I see, you are going to remove it from its own group or are you going to get more revenue out of it?—I think it is all right where it is.

1076. You are not a purist?—No, not in this context.

Colonel Crosthwaite-Eyre.

1077. You told the Committee, Sir Gordon, that the £5 million was equivalent to the previous gross £10½ million after a notional deduction had been made for what an industry would pay by way of taxation?—(Sir Gordon Radley.) No, I did not mean to convey that impression. I said that the £5 million had been fixed in 1955. I think I said that it was broadly in line with the sort of surplus that we had been running but it was fixed mainly because it was of the order of what we would have paid in total taxation if we had not been a Government Department.

1078. You mean the £5 million is reckoned to cover all the taxes that an ordinary business would pay in your position?—Very broadly.

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1079. So, the Post Office pays no taxes at all?—That is right, yes.

1080. On none of your stationery or anything else that you purchase, you get everything free?—Yes, I cannot recollect any tax. I would like to ask Mr. Anderson to confirm that.—(Mr. Anderson.) That is true, certainly, for purchase tax on stationery, for example, which we get through the Stationery Office.

1081. But you do pay rates, I presume, and local government taxation?—That is taken into account already to the extent that we pay it through the Treasury Rating Department arrangements.

1082. You pay a sort of block figure, do you?—Well, it is the Treasury Rating Department which fixes the appropriate payments in respect of Government Departments and tells us what our share should be.

1083. That is for all your Post Offices throughout the country?—Yes.

1084. And the Treasury managed to put that up, I see from the paper we have just been studying, by quite a lot in the last year?—It has gone up quite a bit because of the change in business rating.

1085. Is there any hope for the Treasury being able to do that in every successive year to get a little extra revenue?—(Mr. Macpherson.) I do not think we would descend to quite those tactics. This is a service provided by another Department and the Post Office make an appropriate allowance in the accounts for it.

1086. You say in the last few lines whether you have a surplus or a deficit it is carried to the Reserve Account bearing interest "at the rate currently appropriate to other Post Office transactions with the Exchequer". What is the rate of that interest?—(Mr. Anderson.) At the moment it is of the order of 6 per cent.

1087. Who fixes it, the Treasury?—(Sir Gordon Radley.) The Treasury.

1088. In consultation with you, or just arbitrarily?—No, it is a rate which is fixed by the Treasury for transactions generally of this kind.—(Mr. Macpherson.) Yes, part of the interest rate structure which we apply to the Post Office as we apply it to the other Gov-

ernment Departments.—(Mr. Anderson.) We have the same rate as nationalised industries, I think, if that conveys the answer.

1089. If you had a surplus what would you do to dispose of it? Do you keep it in that fund for a number of years or is it eventually transferred to the Consolidated Fund?—(Sir Gordon Radley.) It is rather early days, perhaps, to discuss what we would do with a surplus, but if we did build up a sizeable surplus, and I would expect to have in reserve something like £5 million or £10 million before I regarded it as a problem, I think that one would look at adjusting one's tariffs so as to avoid any further accumulation. In other words, it would go back to the public.

1090. But supposing you had a sum, shall we say, of £10 million, would its disposal, whether it be by transferring to, say, some permanent reserve fund or reducing tariffs and passing it to the consumer, be your own decision or would it be subject to approval of the Treasury?—If we proposed to alter our tariffs we should consult the Treasury. Usually any substantial tariff alterations are not only a matter of consultation with the Treasury but a matter for consultation between the Postmaster-General and his colleagues in the Government.

1091. I am merely thinking, though, if you had a surplus, would it be in your own right to dispose of it or would it be subject both to the Treasury and the Government?—It would be entirely within our own right to make proposals.

Mr. Arbuthnot.

1092. Would you say there has been any change in the extent of Parliamentary control over the Post Office?—Parliamentary control or Treasury control?

1093. Well, Parliamentary control was what I started off with?—I would not say so in general. It may be that the machinery and the form of control has changed.

1094. In what way?—The Post Office is still answerable to Parliament just as it always has been.

1095. In what way has the machinery changed?—I was thinking more then.

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of the method of working with the Exchequer and with our colleagues in the Treasury. It is more of an attitude of mind, perhaps, than a formulation of procedure.

1096. What do you feel about that?—(Mr. Anderson.) I think the flat answer is that the system of the Estimate and the Money Bill for our capital still remains and therefore nothing has been changed as respects the essence of the Parliamentary system. This is in effect how our policy is determined, but in the last resort we cannot spend a penny without Parliamentary authority, there is no question.

1097. Now, may I come to the second question, what about Treasury control? Would you say there has been a change in the extent of Treasury control?—(Sir Gordon Radley.) If we go back to the original Bridgeman Committee of Inquiry and the changes that resulted from that Inquiry, the Post Office was then given very much wider discretion in various matters that came within its own field. It is fair to say, I think, as a result of the White Paper in 1955, that those principles have been restated and that we are perhaps in process of working out a measure of rather greater freedom with our Treasury colleagues.

1098. Mr. Macpherson, do you feel that these changes mean that you have less control over the Post Office than you had formerly?—(Mr. Macpherson.) May I ask Mr. Hillis to deal with that?

1099. Certainly?—(Mr. Hillis.) I think the essence of the matter is, as Sir Gordon Radley said, that we are engaged over this trial five year period in working out a new relation between the Treasury and the Post Office. The general understanding is set out in the Appendix to the 1955 White Paper which describes the new arrangement. The Post Office will continue to consult us in all more important issues and we, for our part, will give due weight to the full measure of their responsibilities for their own affairs. In other words, our hand will fall on them not so much on detailed matters of administration but rather on larger and general issues.

1100. Do you still retain your establishment control of the Post Office?—

We still retain our establishment control, yes.

Sir Colin Thornton-Kemsley.

1101. Sir Gordon, I think you told the Committee that the £10½ million which was fixed as the Post Office contribution to the Exchequer before the war was not based on commercial accounts?—(Sir Gordon Radley.) No, Sir.

1102. Have you made any estimate of the corresponding figure which would have resulted from basing this on commercial accounts?—It would have been very roughly of the same order.

1103. Still about £10½ million?—Within a million or so.

1104. Really it would not have made very much difference?—It would not have made a very great amount of difference.

1105. What I am really concerned about is, if £10½ million was about right before the war, why after all the inflation we have had since the Post Office contribution should be only £5 million now?—I do not think, with respect, that we would agree that the £10½ million was right before the war. It was entirely an arbitrary figure fixed largely because the Post Office had been making a surplus of that order in the years immediately before the Bridgeman contribution was fixed. In fact, as was said, we were a "Revenue Department".

1106. Now you do very little more than pay what would be your share of taxation?—Yes, that is the intent.

1107. In fact if you take into account the purchase tax you are probably paying less than your fair share of taxation, are you not?—No, Sir, I think that that figure of £5 million was agreed between ourselves and the Treasury nearly three years ago in the light of such knowledge as we both possessed at the time. When I say "such knowledge as we both possessed at the time", we had to forecast the way in which Post Office profits would go, and so on. (Mr. Anderson.) Did I perhaps lead you to a misunderstanding there by my reference to purchase tax, when I said we did not pay it? If so, what I meant was we do not pay it in cash but it has been taken into account in fixing this £5 million.

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1108. Yes, I see that in the Accounts on page 20 in the income and expenditure for last year you have £11 million worth of materials which would presumably include such things as stationery or a great variety of things, but there must be purchase tax payable on quite a large proportion of that £11 million?—Not the greater part of it.

1109. Do you know what your payments for stationery is roughly taking one year with another?—Stationery and printing just over £3 million. That £11 million to which you refer includes £3 million odd of stationery, nearly £2½ million of clothing and that kind of stores and quite a few engineering stores all mixed in. It covers a very wide range and there could be tax on some of it, but most of it is bought under tax free conditions.

Mr. Stevens.

1110. Sir Gordon, does the Post Office not buy petrol for its motor transport?—(Sir Gordon Radley.) Yes.—(Mr. Anderson.) We pay tax on that.

1111. I understood you to say earlier that the Post Office paid no taxes, but that is an exception?—Petrol is probably the most outstanding. I was trying to bring it to mind earlier.

1112. As these Accounts show, the bulk of the motor transport is contracted out so petrol purchases are not so very large an item?—Yes.*

1113. Just one point about the provision under the 1933 Finance Act. I see your contribution to the Exchequer was then fixed at £10½ million for the first three years. After that it is fixed at £5 million. Is there any reason for that great difference between 1933 and now, in 1957?—(Sir Gordon Radley.) I think, Sir, that the reason is really that the new £5 million was fixed on an assumption of what would have been payable by us in the way of taxation, and so on, and that the £10½ million was really just the figure which corresponded to the way the surplus had been going.

1114. No relationship to taxation in those figures?—I have not been able to trace any.—(Mr. Anderson.) Could I perhaps just quote the key sentence from the Bridgeman Report: "In the present

state of the national finances"—this was 1932, of course—"it would be impracticable to suggest any other principle than that the Exchequer should retain out of the net revenue collected by the Post Office a sum approximating to the amount which it is at present receiving".

1115. That was £10½ million?—Yes.

1116. Then, the £5 million was ultimately fixed?—The £5 million that we fixed in 1955 was fixed on what one would call some reasonable basis, the 1932 figure was fixed under the shadow of arbitrary compulsion.

Chairman.

1117. Paragraphs 3-5. At the top of page 41, Sir Gordon, I see that on engineering matters you are free to spend up to £100,000. Has there been any other substantial change in delegated authority since the war?—(Sir Gordon Radley.) Might I make that clear, Sir. The sentence runs: "As part of the arrangements the Post Office were required to submit to the Treasury an annual engineering capital programme detailing works estimated to cost more than" £100,000, but what, of course, we have to do annually when we submit our Estimate (which covers all our engineering work) is that we submit a detailed statement showing how all expenditure of that money will be divided between various objectives, very much as is reproduced in Appendix B to the Estimate. Subsequently with our engineering programme we added a list of individual works costing more than £100,000 each. I have looked very carefully over the past records and I have no record of any Treasury agreement or discussion on those individual works.

1118. With regard to buildings, is there any detailed control there?—Yes, we submit, of course, our annual Estimate, and we have to go to the Treasury for specific authority for every building of what I might call the Post Office operational type, that is, Post Office or Telephone Exchange, costing more than £100,000 and to the Treasury for specific authority for office type buildings costing more than £30,000. We have won a great deal more freedom with regard to our functional buildings than our office buildings.

1119. Why it is that you do not publish these details of your construction

* *Note by Witness:* The tax paid on petrol in 1956-57 was about £2½ million.

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schemes in the same way that other Departments do?—Oh, we never have, Sir.

1120. I know, I am asking you why?—If I might suggest, Sir, I do not think they would be very informative. I have brought with me the last engineering programme which we submitted and which contains a long list of engineering works costing more than £100,000 each. Actually if you listed them today there would be about 200 of these works, some of them remaining in the programme for several years, but if one might quote from this particular list it starts with a long list of trunk cables, Birmingham-Manchester No. 4, Birmingham-Stoke sections, Birmingham-Northampton No. 3 and Birmingham-Spalding No. 2, Cambridge-Peterborough No. 4, Clapham-Maidstone, Chippenham-Stroud; and then we go on after the cables to a further list of exchanges and exchange extensions, Birmingham Trunk Auto, Edgware, Frobisher, Great Tower Street, and so on. I do suggest, Sir, that to submit a list like that would not be very informative.

1121. Mr. Macpherson, are you satisfied that these arrangements provide an adequacy of control?—(Mr. Macpherson.) From the Treasury point of view, Sir, the emphasis on the control now, as Sir Gordon has said, is at the investment programme point and at the time when the Estimate provision is considered. We do get a considerable amount of information at that time and we know the programme and we see how the money is going to be spent. (Sir Gordon Radley.) Might I come back, Sir, to the answer to your question? Perhaps I started at rather too late a point in the sequence, because as Mr. Macpherson has said all our discussion with the Treasury on the engineering programme is now centred on the discussion of our capital investment programme. That is submitted to the Treasury with our proposals for engineering works over the coming year and it forms the basis of our discussion with the Treasury and subsequently for the amount of capital investment which we are allocated.

1122. That includes engineering as well as building?—That includes engineering. I have a copy of an investment submission here, Sir, and you will

see that it is broken down into quite considerable detail as between proposed expenditure on connecting up subscribers, new trunk cables, exchanges, and so on. (*Document handed to the Committee.*) Subsequently when the investment position is agreed with the Treasury there comes the stage of the Estimate and it is only after the Estimate has been framed and approved that the engineering programme and this schedule of works are drawn up. It was really at a stage when it was too late to affect the event anyway because we had had our discussions with the Treasury and had had Treasury agreement to the overall expenditure and this particular division.

1123. Do you not think if you published it a little more in detail, like your major works, as other Departments do, there would be more Parliamentary control? You may be under Treasury control but Parliament knows precious little of what is going on?—Might I put it this way: is it not really a technical matter for decision by the Post Office to decide whether a cable goes from A to B or C to D in this year's programme, because only the Post Office can assess the traffic requirements and the need for that cable or whether we build an exchange here or one there. I think it might be much more useful to Parliament if, for example, we expanded somewhat the statement on page 8 where we give a very broad breakdown of our proposed capital expenditure and there is, of course, always Appendix B to the Estimate.

1124. Page 8 of the Accounts?—Page 8, yes.

1125. It is very, very broad, "Sites and Buildings". All the arguments you have used as to the impossibility of Parliament really grasping what you are doing or deciding whether it is immediately urgent would apply to every other Department which publishes its capital construction programme, surely?—Yes, but I would submit that in the case of the Post Office the development of the telephone system must be considered as an integrated whole in which we have got to provide cables, exchanges, and so on, and that merely to single out particular cables or particular exchanges

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because they went over £100,000 or any other limit would not give Parliament a proper picture.

1126. Would you admit that you are one of those who love darkness rather than light?—No, Sir. (Sir *Frank Tribe*.) Could I remind the Committee that they did discuss this very shortly last year? I believe a lot of the building works for the Post Office are done by the Ministry of Works; and the Committee considered whether those services performed by the Ministry of Works but paid for by other Departments should not be shown as works services in the Estimates in the same way as the works of the Ministry itself. There is now going to be, I understand, a change, as envisaged in Command Paper No. 318 published in November last, whereby the Post Office Estimate from 1958-59 onwards will show in a new subhead the total capital expenditure for the year. That I believe will be an innovation on the Post Office Vote, and it certainly has been a custom of this Committee to expect that when there is a subhead for capital expenditure, particularly on buildings, Parliament should be supplied with an Appendix to the Estimate with some particulars of the works services which are to be covered by that Vote. The Service Departments have been exempt from giving particulars for security reasons but they do give under bulk headings the different types of works expenditure they are going to incur; and I should have thought, following on what was said at this Committee last year, that it would have been reasonable for the Post Office to attach to their Estimate some schedule of major capital works. How "major" should be defined would be a matter for consideration. I do not suppose Parliament wants many, many pages of these details, but according to what it gets from other Departments it would expect the major works to be set out in an Appendix to the Estimate.

1127. Mr. Macpherson, do you think that you might consider this with the Post Office to see whether more information could be given?—(Mr. *Macpherson*.) If that is the Committee's wish, Sir, certainly.

1128. I think the Committee would welcome it, yes. I am not asking you to bind yourself to obtaining the information but to consider whether some-

thing more can be given?—Clearly, Sir, the technical situation is as Sir Frank has described it. There has been, as you know, no detail given previously other than is in the Appendix.

1129. At any rate, you could draw the Treasury mind to this point?—Certainly, Sir. (Sir *Gordon Radley*.) I would ask, Sir, to look at this problem in a rather broader way than that of finding a solution by merely listing works.

1130. Oh, certainly?—I do feel that really the Post Office does stand in a position somewhat apart, that we should be judged by the commercial results of what we do—that the money that we spend in building new exchanges and putting down new cables and providing telephones should show a proper return. I think with respect that it might be more useful if we did address our minds to perhaps seeing how we could give you a better picture of the results of Post Office expenditure rather than by merely listing works costing over a certain amount. I would not suggest at all, Sir, that I am in any way unwilling to do that. That applies, of course to engineering works and it applies to a very large extent to buildings because one cannot consider an exchange building apart from the equipment which goes in it.

1131. Perhaps you will see if you can produce something and then we shall be able to criticise it?—(Mr. *Anderson*.) Might we record just one other thought? Sir Frank has referred to the fact that our Estimate will in future bring the whole capital expenditure in less an appropriation in aid from loan funds. I would like it to be on the record that that is a pure technicality so far as we are concerned. It was the only device that the pundits could find whereby our cash accounts could be made to reflect the realities of our commercial accounts where depreciation is treated now as ploughed back into the business and our borrowing is abated accordingly. It was merely to produce the parallel effect in the cash accounts that that change was made; and we shall be very sorry if a change made merely for commercial reasons was held necessarily to have far-reaching implications over a matter like listing.

1132. I am not quite sure that I have your point. The information we are

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asking for would not in any way upset the form in which you present your accounts?—I was solely wishing just to make a gloss on Sir Frank's comment that because we had made that particular change we ought to make this other change in regard to listing, and I wanted to suggest that whilst it is perfectly true that technically a change has been made, its origin was in fact in order to make the cash accounts reflect more accurately the commercial aspects of the Post Office and no other. (Sir *Frank Tribe*.) I have always understood that the early argument was that there was no need to give this detail to Parliament because the money was not being borne on Votes. Even though the change has been made for technical reasons, the fact remains that in future the expenditure will be borne on Votes and Parliament has, I think, by tradition always attached great importance to having some details of the major works which it is asked to provide money for attached to the Estimates before it votes the money. It should not have to be satisfied with the account at the end of the year when the whole money has been spent; it wants to know what it is going to be spent on before it votes the money. (Sir *Gordon Radley*.) May I come back, Sir, to my suggestion that we should endeavour to give a rather broader picture? It would be the same sort of general picture that the Postmaster General gives the House when he moves the periodic money Bills.

Chairman.] As I say, see what you can produce next year.

Mr. Stevens.

1133. May I ask Sir Gordon one question: I understood him to say he wanted the Post Office to be judged by normal commercial standards, for example, by regarding the return on the capital employed. Would he not agree that that is quite an impossible thing to do by reason of the monopoly position of the Post Office so far as its services are concerned? No normal commercial standard surely could apply?—I think just because we are a monopoly we should be all the more watchful that we are efficient and do provide the optimum results.

1134. I agree, but that is not, if I may say so, what I said. I said, for that reason it would not be possible to judge

the Post Office by normal commercial standards because normal commercial standards are, of course, affected by competition and the Post Office is not?—Yes.

Sir Colin Thornton-Kemsley.

1135. Sir Gordon, I got a little bit confused through all these exchanges. I want to ask one or two questions more to clear my own mind more than anything else. Do I understand that you entrust most of your building work to the Ministry of Works?—Yes, the Ministry of Works do practically all our major building work for us.

1136. Have you a works department of your own?—For buildings?

1137. Yes?—No, Sir.

1138. It is clear now, is it not, that all your works in future are going to be paid for out of moneys voted by Parliament?—Yes.

Chairman.

1139. Paragraphs 9-12. This problem of Post Office depreciation is one of the most complicated things I know. With the addition of the £18 million that is mentioned at the end of paragraph 9 even then with that the depreciation for plant is on the low side, is it not?—(Mr. *Anderson*.) It depends what you mean by on the low side.

1140. To what extent does your depreciation enable you to make good the plant that becomes obsolete?—(Sir *Gordon Radley*.) The total depreciation provision during the year, Sir, is intended to reflect the current value of the plant.

1141. The current value, neither the original nor the replacement value?—(Mr. *Anderson*.) That is the whole point. It reflects the value of that bit of the plant which is worn out during the year at the current year's value. It is therefore higher than historic, it may well be lower than replacement if costs continue to rise.

1142. With the additional sum that you have put in, this £16.7 million, what is your position going to be now? Will your depreciation meet all the requisite replacements?—(Sir *Gordon Radley*.) It is intended to, Sir, over the years and one has to take into account, too, that one will not necessarily be replacing an

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item of plant by an exactly corresponding one.

1143. Exactly, yes?—For example, in the trunk field we can now provide cables, giving long distance circuits, at very much lower cost than we could, say, 10 or 20 years ago; and all that has to be taken into account. You have to take into account the effects of technical development as well as those of steadily rising prices.

1144. But your technical development may work the other way. It may land you into greater cost in order to give greater service, surely?—Not greater cost to give the same service.

1145. No?—Otherwise we should not have it.

1146. No, greater cost to give greater service. You may have to replace plant by plant which gives a very much greater service, for instance, if you are going to be able to dial all over England your replacements are going to be very much more costly?—(Mr. Anderson.) But that would not be a fair charge against current replacement. (Sir Gordon Radley.) It is putting additional money into plant as against paying operators.

1147. Do you not regard the fact that your plant must become more and more complex as you go on as one of the elements you take into consideration in your depreciation or do you simply attempt to cover what you might term the current efficiency of the plant?—We take into account, Sir, the fact that because of technical development the cost of providing a given facility, the same facility, may in fact go down in some cases.

Mr. Oliver

1148. With regard to depreciation, when you depreciate you give to a machine or an article of production a length of life, do you not, and depreciate so much per year?—Yes.

1149. Is that not the system?—Yes. For example, you may say that the life of a particular type of plant or a machine is 20 years and depreciate one-twentieth of the cost each year.

1150. Yes. Now what happens in respect of what is left? You sell the machine; it has some value ultimately. It may not be sold as a machine, because

I know that happens in many instances, but it has a selling value?—(Mr. Anderson.) Depreciation is calculated after allowing for scrap value.—(Sir Gordon Radley.) You take the initial value, subtract the residual value and depreciate the remainder.

1151. In paragraph 12 the Comptroller and Auditor General mentions a review of "the lives and residual values of the various classes of plant". Who reviews the lives? There is not a fixed life given to a machine, surely?—(Mr. Anderson.) Do you mean the Inland Revenue lives?

1152. No, the Comptroller and Auditor General says: "Since 1952 a Departmental Committee has been reviewing the lives and residual values of various classes of plant"?—We are continually checking that experience is the same as the depreciation assumption by actually finding out whether plant is lasting longer or shorter than we expected. (Sir Gordon Radley.) It was a Post Office Committee that is referred to in paragraph 12, a Committee consisting of engineers and accountants, and they took the various types of plant, the subscribers' telephone instruments and exchanges, automatic exchanges, manual exchanges, they studied them and they found that in some cases we will say that the book life had been 7½ years, but in fact the Committee found that that type of plant was lasting ten years and so we have adjusted lives accordingly.

1153. Do you adjust your depreciation accordingly?—Yes, to the new life.

Mr. Stevens.

1154. How do you arrive at the current prices of the older and less efficient items of plant which are replaced by current and more efficient pieces of plant? Clearly you cannot take the cost price of the new item of plant because it is not in an exactly similar condition?—(Mr. Anderson.) We use our internal price index as the basic method of conversion. Then as Sir Gordon was saying in certain cases such as the trunk line stuff we know that we can replace it without additional cost so we do not raise that price at all. In other words you start by looking at the price of the equivalent article to-day—

1155. Provided the equivalent article is still on sale and still made?—Well,

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there may be marginal cases but remember we are dealing with this in large blocks of plant. As the Comptroller and Auditor General says somewhere here, the Post Office has not got a detailed plant register. What it has is large blocks of plant year by year which can be treated as more or less homogeneous groups and are much easier to handle that way than if you take one particular bit of machinery.

1156. And you are satisfied that these replacement values which you use are reasonably accurate?—We think they are and our advisers agree with us that they are perfectly accurate for getting a reasonable approximation to the actual value of any given part of the system.

1157. In paragraph 12 reference is made to these assets with extended life. What sort of items are given the extended life that is referred to here?—(Sir Gordon Radley.) If I may quote one that I actually remember, the life for subscribers' apparatus, that is, ordinary telephones, hand sets and so on, it was 7½ years and it was extended to ten years.

1158. From your own experience?—From our own experience.

Mr. West.

1159. With regard to depreciation, I understand that there has been an alteration in your treatment of depreciation?—Yes.

1160. At the end of the day what is the result of it? Does it increase your deficit or reduce your deficit or increase your surplus or reduce your surplus?—The additional depreciation provision has become an additional expense so to that extent it reduces what would otherwise have been our surplus. (Mr. Anderson.) It has been quite deliberately budgeted for in the 1956 tariffs. (Sir Gordon Radley.) To take that point a little bit further, if we had not made the additional depreciation provision in this year and not paid the £5 million contribution to the Treasury we should have had an overall surplus of £18½ million.

Chairman.

1161. Paragraphs 13-16. I see that as a result of the £5 million that you paid to the Exchequer in lieu of taxation you increased some charges by 1.42 per cent.

to recoup yourselves. First of all, on some charges only and not on all?—I would say that we have done it broadly with respect to those services which we provide for other Government Departments, regarding the £5 million contribution as an expense which should be passed on to other Government Departments for whom we provide service in just the same way as we pass it on to our customers.

1162. If this is in lieu of taxation, if you are paying this £5 million as a compounded income tax to the Government, and that is what I understood it was?—(Mr. Anderson.) Not a compounded income tax. (Sir Gordon Radley.) Not altogether, no. (Mr. Anderson.) It is largely not income tax.

1163. What is it?—Motor taxation duties, stamp duties, purchase tax, and so forth.

1164. General taxation, yes?—Those are perfectly good business expenses.

1165. But you pay this £5 million in lieu of all these things; in other words, you are paying taxation to the Government?—Yes.

1166. But you compound for simplicity's sake?—Yes.

1167. In order to raise the money to pay the Government the taxes that are due from you you increase your charges to the Government?—We have increased our charges to all our customers, including other Departments. If we have to pay something in lieu, for example, of purchase tax on stationery, surely it is right that our costings on services rendered to everybody, whether the public or the Government, should reflect that expense.

1168. But in that case, then, you are not paying £5 million in lieu of taxation?—Indeed we are. We are paying £5 million in lieu of tax and it has had an effect on all our tariffs, including our special charges for agency services.

1169. Broadly, income tax and all your taxes are your contribution to the Government in order that the Government may run the country?—If we did not charge it here we should be making a further contribution at the expense of the Post Office customer. (Sir Gordon Radley.) Might I take an example? I think it was during the year of account

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that the Post Office undertook the task of issuing petrol ration books during the time of petrol rationing. Now that was something which took the time of our counter staff and I think the Committee will agree we rightly charged that to the appropriate Government Department in our Commercial Account. It is on such a charge that we have added the 1.42 per cent. Otherwise the sum represented by that 1.42 per cent. would have had to be spread over our other customers, the public at large, in the way of their tariffs.

1170. Sir Frank, what have you to say about this 1.42 per cent.?—(Sir *Frank Tribe*.) I can appreciate what the Accounting Officer says in regard to some of these taxes, but I should have thought, certainly as far as this £5 million represents income tax and profits tax, that it would be quite contrary to the principles to regard it as an expense. No commercial accountant would regard taxation of that sort as an expense; and if it is not an expense I do not see any reason why the Post Office should recover 1.42 per cent. from agency services. (Mr. *Anderson*.) Does Sir Frank suggest that Schedule A income tax is not an expense? (Sir *Frank Tribe*.) I am not certain about Schedule A. (Mr. *Anderson*.) I think it must be; it is always reflected in the price. It is conceivable that you could make a marginal argument on some part of the £5 million. We need not go into that, but the greater part of that £5 million is clearly based on costs due to the services we give. Commercially this £5 million is reflected already in the price of the telephone call, it is reflected in the price of the postage stamp, we hold that it must be equally reflected no more or no less in any other price that we have to charge for services rendered. It is as simple as that.

1171. In other words, to meet the £5 million that you have to pay the Government you put up charges against the Government by approximately £5 million?—Against everybody. (Sir *Gordon Radley*.) Against everybody. (Mr. *Anderson*.) We have done so. We have put up charges all round in the last two years to find this money.

1172. Yes, certainly, against the consumer?—Well, the Government is a consumer in this case.

1173. Mr. Macpherson, is it not robbing Peter to pay Paul?—(Mr. *Macpherson*.) The Post Office have approached this, as they say, by treating the £5 million contribution as an expense. We wish to discuss with them the inclusion of the 1.42 per cent. in the Commercial Accounts in relation to the services provided for other Government Departments. There are equally good arguments on the other side which as you suggest, Sir, mean that in fact the Exchequer is paying itself; and we certainly want to go into this with the Post Office and discuss this point with them.

Mr. *West*.

1174. What income tax would the Post Office, providing you were assessing them for income tax, be called upon to pay in the year under review, according to their statement of accounts?—(Mr. *Anderson*.) Oh, less than £1 million.—(Sir *Gordon Radley*.) We were running a very small profit in that year.

1175. So that the £5 million contribution is in excess of what you would be assessed for as purely income?—(Mr. *Anderson*.) Yes.

1176. It is the other aspect of purchase tax and things like that which are taken into account, is that right?—Yes.—(Sir *Gordon Radley*.) But might I point out, Sir, that the White Paper which was approved by Parliament does state that the intention is that the contribution shall be treated as an expense before striking the balance in the income and expenditure account.

1177. Let us take that aspect of it. Somebody buys stationery, an ordinary trading concern, and included in the cost of the stationery is an element of purchase tax?—Yes.

1178. Am I right in thinking that the commercial firm, at any rate, debits against their accounts the whole of the cost of that stationery in ascertaining the profits on which they are taxed?—Yes.

1179. And you are doing precisely the same thing as a commercial firm?—Precisely the same thing.

Sir *Colin Thornton-Kemsley*.

1180. Sir Gordon, you have given Mr. West the approximate figure in respect of income tax. What would it be in re-

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spect of profits tax?—(Mr. *Anderson*.) That includes profits tax. I have not got it separately.

1181. That includes profits tax?—Yes, at undistributed rate.

Sir *Colin Thornton-Kemsley*.] Yes, thank you.

Mr. *Oliver*.

1182. Will you tell us briefly what these agency services cover?—(Mr. *Anderson*.) The main services involved here are, of course, the Savings services. Apart from that, all the National Insurance payments; we have also National Insurance stamps, pensions, allowances and all the work that is done across the counter. Those would be the main things, the sort of Welfare State payments across the counter.

1183. Premium Bonds are in a different category, are they?—No, they are in this. I count them when I say "Savings". They are not carried as a mail service, therefore they are an agency service. The classification is a bit omnibus; for example, if I may revert to one of the early questions, it was rather stressed that it was stated here that some services only have been charged. Now we change to this head of agency services the sick benefit that we disburse to our own staff which in the outside public world is borne by the National Insurance. That is purely a convenience within Government Departments, but it is right that we should adjust it somewhere in our Account and it comes out here. I was just explaining why the list of agency services is a good deal longer than the particular services I just mentioned to you.

1184. Why were some of the agency services recovered in cash and some not?—There is a long tradition about what is recovered in cash. Generally speaking, orthodoxy has required that where there was a separate fund such as the Savings Bank where the actual investment produces interest which pays all the expenses, cash should be paid; but normally between Government Departments cash should not pass. We have so far at least rather stuck to the traditional view, though I would say at once that we would always be in favour of having cash if we could because otherwise there is a great confusion to our commercial position and to the public understanding of it.

1185. In such cases cash is taken?—Cash is rare between Government Departments.

1186. What is the justification for the additional 5 per cent. on the management expenses of the Premium Savings Bonds?—Have we moved on to the next section?

Chairman.

1187. No, we are still on the same section, paragraphs 13-16.—The position here is that this was the first occasion under the new White Paper, under which we have taken over absolute responsibility for balancing our commercial affairs, on which we were asked to undertake a completely new service for another Government Department. We were not at all anxious to take it on; we knew it would be a very onerous undertaking and quite detrimental to our commercial business because of the effort that would have to be diverted to it. We therefore tabled as a condition of taking it on the proposition that we should be given a very small profit on it, against all the normal practice, but recognising our new commercial status and our particular claim that there should be some token reward beyond straight cost for undertaking this particular service.

1188. In other words, you take a little rake-off as the result of your services?—That is right. (Sir *Gordon Radley*.) I think the Committee will appreciate that this Premium Bonds business was a considerable burden on the Post Office, not only on Post Office counter staff but also, for example, the technical effort put into the development and construction of Ernie put back our own work on the development of electronic type telephone exchanges by a good three months.

Mr. *West*.

1189. Do the banks sell Premium Bonds?—(Mr. *Anderson*.) Yes, they sell them on commission.

1190. Do they get any commission on it?—Yes, they get 2s. 6d. per £100.

Mr. *Oliver*.

1191. Did the Treasury agree to the further addition of 5 per cent. on the management expenses on Premium Savings Bonds?—(Mr. *Macpherson*.)

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We treat this as a very special case and we have made it clear that it is not to be regarded as a precedent. The normal accounting procedures between Departments require the settlement to be on the basis of cost or extra cost without the addition of any profit element. We did not think that the addition of 5 per cent. was in keeping with the provisions of the 1955 White Paper.

1192. It was not?—It was not in accordance with the situation therein described; and we did not think that this was really in any different category, for example, from Defence Bonds, but the amount was small and we have not pressed it, as I say, but we have made it clear we do not regard it as a precedent.

1193. So you are quite happy about it now, are you?—No, we are not.

1194. I see. So what happens when the Treasury do not like charges and the Department insist? Who has the final say? As a non-Civil Servant perhaps you will tell me?—This is a matter which presumably could be settled if it were taken to Ministers or to the Cabinet, but we felt that the amount involved was so small that that extreme course would be inappropriate.

Chairman.

1195. Paragraphs 17-20. On paragraph 20 your outturn was not quite as happy as you thought, Sir Gordon?—(Sir Gordon Radley.) No, Sir, a lot of things happened late in the year, in particular a very large pay claim which cost about £4.7 million.

1196. When did that pay claim come in? You see, you made an estimate in February?—Yes. The pay claim did not come in, or the award was not given, until after the close of the financial year, but the payments were back-dated.

1197. I see. How much did that pay claim amount to?—£4.7 million.

1198. That affected all three services, Postal, Telegram and Telephone?—Yes, it affected all three services. It did not perhaps affect the Telephone Service quite as much as the others because it did not affect the engineering staff to such a large extent.

1199. So it very nearly accounts for the switch from surplus to deficit. Is that what you regard as the explanation as to why your February estimate was out?—It is the major factor, yes.



TUESDAY, 11TH MARCH, 1958.

Members present:

Sir George Benson, in the Chair.

Mr. Arbuthnot.
Mr. Collins.
Mr. Oliver.
Mr. Peyton.

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

Sir FRANK TRIBE, K.C.B., K.B.E., and Mr. J. MACPHERSON called in and examined.

MINISTRY OF DEFENCE APPROPRIATION ACCOUNT, 1956-57.

Sir RICHARD POWELL, K.B.E., C.B., C.M.G., Permanent Secretary, Ministry of Defence, called in and examined.

Chairman.

1200. I think this is the first time you have appeared as a witness before the Public Accounts Committee, Sir Richard?—(Sir *Richard Powell*.) It is. It is the first time I have attended any Meeting of it, as well.

1201. I see. Will Members turn to the Ministry of Defence Appropriation Account, to page 6, paragraphs 1 and 2 of the Comptroller and Auditor General's Report, first of all? What were the arrangements for British persons at N.A.T.O. before you had the Hertford Hospital?—They were looked after partly in French hospitals and partly by the Americans. The Americans increased their numbers and said they could no longer accept British patients, although they looked after them very well. The French hospitals were not considered satisfactory by the British medical representatives in France and it was at their instance that the project for setting up a British Military Hospital in France was first set on foot.

1202. Did you consider any alternative methods before providing your own hospital?—No. I think it was regarded as a national liability to provide hospital services for national service. All other countries did the same, and I do not think in fact there was any other practical alternative that would have been accepted by the medical authorities.

1203. Why was the job of constructing this hospital given to the War Office instead of to the Ministry of Works?—

Because it was a defence work. It was done with the agreement of the Ministry of Works who were in on all the arrangements for establishing the hospital in the first place.

1204. The Ministry of Works have very much more experience of buildings of this type than the War Office have, surely?—I could not compare them. They certainly, I should think, have had more experience of building hospitals since the war than the War Office have.

1205. Then, again, why give it to the War Office?—I think because it was a defence work for Service people in France.

1206. That does not seem to be a particularly valid reason, surely?—(Sir *Frank Tribe*.) The Minister of Works is the Custodian Trustee of the hospital and has been for a long time, as I say in paragraph 1.

1207. That again was an additional reason why you should have considered the Ministry of Works. Did you consider the Ministry of Works?—(Sir *Richard Powell*.) Yes, the scheme for this was worked out inter-departmentally by a body which had the Ministry of Works on it as well as the other Departments concerned.

1208. Who bears the running costs of this hospital?—The War Office.

1209. Will you put in a paper showing the cost of the running and the average occupation?—Yes, I will, certainly.—

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[Continued.]

(Sir Frank Tribe.) Of course, the War Office bear the cost in the first place but it is recovered from the Ministry of Defence.—(Sir Richard Powell.) We pay a capitation charge, of course, for all people at the International Headquarters in France and it is recovered in that way. An element is included for hospitalisation in the capitation charge that we pay to the War Office.

1210. But who runs the hospital?—The War Office.

1211. I am not quite clear, then, how the capitation charge comes in. If the War Office runs a hospital and it is for British personnel, who then pays the War Office?—The War Office pays the actual running costs; they pay for the maintenance. The Ministry of Defence pay for the medical staff and the War Office recover the overheads and maintenance through the capitation charge.

1212. So the total cost of running this is borne on the War Office Vote, is it?—Yes. (Sir Frank Tribe.) Surely the final cost for this is on the Ministry of Defence Vote? (Sir Richard Powell.) Well, the capitation charge does not include the whole of the running costs of that particular hospital; it is a world-wide charge, as far as I know, a standard charge for hospitalisation of everybody. I do not think it is particularly related to the running costs of this particular hospital or the sick quarters at Fontainebleau, which is the other one.

1213. What I really want is the annual cost of running this hospital, which falls on somebody's Vote, and the average occupation of the hospital, the number of beds that are occupied on an average?—I can supply you with that, and I will.*

1214. Who made the original estimate of £106,000 for the cost?—The Ministry of Works superintending architect, who was accompanied by three representatives of the War Office, a member of the Directorate of Fortifications and Works, a representative of the Quartermaster-General and a representative of the Director-General of Army Medical Services.

1215. Can you explain the discrepancy between that original estimate and the final outcome?—I think the first estimate of the £106,000, which was described at the time as a "very approximate

estimated cost," and was made in the course of a visit lasting three days which was not confined by any means to looking at this particular hospital, was in itself a pretty approximate and rough and ready one. It included no element for the War Office agency fee, which was 15 per cent.; it made no allowance at all for the French construction tax, which is 12 per cent. of the total basic cost; it included a smaller element than the later estimate for engineers' contingencies, about 7½ per cent. compared with 10 per cent. in the later detailed estimate of June, 1954; and it included only £15,000 for staff quarters as compared with £45,000 in the later detailed estimate.

1216. Why were so many of these oncosts missed out?—I think this was a study really, Sir, of the comparative cost of various schemes rather than an estimate of the actual work to be done at the Hertford Hospital. At that time Ministers here were considering various alternatives, of which this was one, but the other principal one was the building of a separate military hospital at a place halfway between S.H.A.P.E. and Fontainebleau; and the result of the investigation carried out by this party showed that the cost of that would have been slightly more, or was then estimated to have been slightly higher, than the cost of converting the Hertford Hospital and carrying through this particular scheme.

1217. Then, apparently, the War Office had a second shot in which they made an estimate of £170,000 which apparently was based on an "incomplete appreciation of the difficulties involved" in the scheme. When did they start finding out the difficulties involved in the scheme?—After the first estimate the Ministers decided to go ahead with this conversion scheme in August, 1953, and the War Office then took responsibility, as the agent of the Ministry of Defence; and it was at that stage only that the detailed estimating process began. The War Office engaged a consulting architect from a firm in London who had done work for the Services before, and the man himself had spent seven years in France and was used to French practice. He was responsible for working out, as the War Office agent, the detailed estimate, which was actually £239,000 including the £45,000 for the staff quarters, and it was the Ministry of Defence who scaled that figure down to

*App. 9.

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£170,000 by eliminating the staff quarters and by making various minor reductions to the plans, particularly for the kitchen and the operating theatre, and also shortening the new wing that was to be thrown out at the back of the hospital

1218. When was this gentleman's French experience, recent or early?— I think, since the war.

1219. You did not get any local advice?—He worked through a French representative on the spot, a firm of architects in France who had done work for the French Ministry of Health, and he himself worked entirely through this French architect in Paris.

1220. I gather you say that there were a number of curtailments of the original scheme?—Yes.

1221. Despite that, the figure of £228,000, which was another estimate, is likely to be considerably exceeded?—Yes. The cost, so far as I can say at the moment, will be £261,000 for the hospital.

1222. So, you are having to pay £261,000 for a very much modified and curtailed scheme, the full scheme having been originally estimated at £106,000, is that so?—I think it would be going far to say it was very much modified. The main modification was, of course, eliminating the staff quarters from that estimate which in the end had to be replaced, as the Report says, and the Ministry had to produce an alternative scheme for that.

1223. What is your estimate at the present moment of the cost of the hospital and the factory which you use for staff quarters?—£302,032, which includes some £67,000 for the War Office agency fee, which is about £35,500, and £31,500 odd for French taxation which has been paid subject to reserve and which we hope we shall be able to persuade the French Government to waive or to refund.

1224. Did you not take French taxation into account at the beginning?—Not when the first £106,000 estimate was made. That did not include it at all.

1225. Why not?—Because it was only a basic estimate of the cost of doing the work and included no overheads of this kind. It included nothing for the War Office agency fee, either.

1226. What has the Treasury to say about this, Mr. Macpherson?—(Mr. Macpherson.) The Treasury are not very happy about it, Sir. As Sir Richard has said, the £106,000 was really a comparative figure and it was a figure used by Ministers when they were considering the alternatives open to them to provide these facilities and it was the figure on which the decision was based to go ahead with the Hertford Hospital conversion. The first true estimate, I think, is the one at £170,000 which was, I think, in the summer of 1954, when it came to the Treasury.

1227. Would you have agreed to the scheme had you known really what the ultimate cost would be?—That is a very difficult question to answer, Sir. There was a very great need represented to us for these facilities and it was represented to us that they were urgent because of the absence of any other facilities which could be called on in the event of an epidemic or an outbreak of trouble in the British Forces in the Paris area.

1228. You say you were unhappy about the outcome?—Yes, because we did say when we accepted the estimate of £170,000 that we hoped that every effort would be made to economise and try and keep the figure below this. It does not appear that there really have been any countervailing economies to offset the increases that Sir Richard has told us about.

1229. When you are unhappy do you ever attempt to transfer your unhappiness to the erring Department?—We have written what might be described as a sharpish letter to the Ministry of Defence on the outturn of this expressing our unhappiness, to put it no higher.

Mr. Oliver.

1230. Mr. Macpherson, when the Treasury approved the £106,000 what steps did they take to satisfy themselves that it was a reasonable figure? It is all right to express unhappiness, but what concrete steps did you take to confirm the Department's view?—As I have said, Sir, it is a little difficult to take £106,000 as the starting point. That was, as Sir Richard said, and as I understood, too, a figure which was arrived at in an examination by the Ministry of Works and War Office representatives and was primarily to enable Ministers

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to see the comparative costs of the various alternatives which were open to them at that time. So, it was not a true estimate in the sense that it had been gone into very thoroughly and costed other than in a preliminary way. A costed estimate did not emerge until the £170,000 figure some time later.

1231. Yes, but if I understand this, this cost went up to £228,000 minus the staff quarters?—Yes.

1232. That would not suggest that there had been a great deal of effort on the part of the Treasury to see what ultimate costs would emerge?—The £106,000 estimate contained a much smaller estimate of the cost of staff quarters compared with the £45,000 which was in the estimate which emerged at £228,000, I think, and was cut by the elimination of that item to £179,000. (Sir Richard Powell.) £239,000. (Mr. Macpherson.) £239,000, not £228,000.

1233. The original £106,000 was for 70 beds. The subsequent one was for 60 beds and minus the staff quarters, is that right?—Yes.

1234. Sir Richard, there are just one or two points I would like to ask you. This hospital is run by the War Office, is it not?—(Sir Richard Powell.) Yes.

1235. Is the hospital staffed by military or civilian doctors?—By military doctors for the military part. There is a French doctor who looks after the civilian out-patients and who is provided by the Committee of Management of the Hertford British Hospital.

1236. The military doctors confine themselves wholly to the military cases?—Not entirely, no. They do also look after the normal ailments, as you might describe them, of the civilian in-patients. They have nothing to do with the civilian out-patients but they look after the civilian in-patients for what you might call routine ailments, and if there is anything abnormal the Committee of Management have to call in specialists or have to provide a special doctor, which they provide themselves.

1237. Are they British civilian subjects or French subjects?—They are British subjects. The original purpose of the hospital was to look after indigent British subjects in Paris or the immediate neighbourhood. I think those are the terms of the trust.

1238. But they are all British subjects, are they?—So far as I know, yes.

1239. What charges are made for civilian patients, do you know?—The deed under which the hospital was given over to the Minister of Defence provides that the Committee of Management shall pay to the War Office the same rate as is applicable to civilian non-entitled patients in Army hospitals in this country, which at the moment is 27s. 6d. a day, and the agreement provides that that figure should hold for one year after the opening of the hospital. It is thereafter subject to adjustment to fit in with whatever changes the War Office may make in this country for similar cases.

1240. Do these charges meet the full cost?—I should think certainly not, but that is something which I cannot yet say because we have not received the detail of the costing. In accordance with the Committee's request I will put something in about that as soon as I can, but we have not yet received the full documents for that.

1241. That is, how far the costs fall short of the full cost?—Yes.

1242. I see. How far have the military and civilian beds been occupied since the opening in May last?—As far as I know, only to the extent of about one-fifth. I would say, on either side. I think the average of the military patients has varied between six and eight and the average of the civilians is about six, to the best of my knowledge.

1243. So it has been far from full to capacity?—It has, indeed.

1244. What staff are employed there, medical and supervisory and subordinate?—The staff, to the best of my recollection, consist of 13 Army officers, medical staff, and 87 other ranks and civilians. I think 38 of the 87 are civilians.

1245. Is the staff kept at full strength for the 60 beds having regard to what you have said, that only about one-fifth of the beds are occupied?—It is at the moment, to the best of my knowledge, at full strength, but we have taken up with the War Office this whole question of use; and if the use does not increase it will clearly be necessary to ask the War Office to reduce the size

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of the staff. They cannot be fully employed with that small number of patients.

1246. They cannot be fully employed by a long, long way if there is only about one-fifth of the space occupied?—The hospital opened only last May.

1247. I appreciate that?—What I intend to do, Sir, is to review the whole position in regard to the experience of a year's working.

1248. In May?—May, yes. We shall start now.

1249. You will have a full year's experience in May of this year?—We should have, yes. The hospital actually opened on the 3rd May, 1957.

1250. Would the running costs include the net costs of running the staff quarters, too?—They should, yes, certainly.

1251. That is, the running costs of the hospital and the staff quarters are lumped together?—Whether they actually are in the accounts I do not know, but I can obtain them either together or separately and include that in the report which the Committee have asked for.

1252. It will be shown clearly?—Yes.

Mr. Stevens.

1253. Coming back to this question of patients, I see what appears to be a slight discrepancy between paragraphs 1 and 3 of the Comptroller and Auditor General's Report. At the end of paragraph 1 he mentions the cost of adapting the hospital to provide 70 beds, but at the beginning of paragraph 3 he says: "Plans for a hospital of 60 beds". Why was there that discrepancy of ten?—The plans were modified in process of working out the detailed scheme, which took from August, 1953, to June, 1954, when the consulting architect first came up to the War Office with the fully detailed scheme for adapting the hospital.

1254. How many British Service personnel are there in the Paris area?—There are 3,000 Service personnel and dependants at the moment, and divided almost equally between S.H.A.P.E. and Fontainebleau, with a little balance on the side of Fontainebleau.

1255. Would you not think, then, that a scheme costing over £½ million, as we

now know, is rather an expensive one for a small number like 3,000?—I think I would say on that that a small hospital in itself is bound to be expensive, because for the rather small number of patients one has to provide all the services that normally one provides in a large hospital. I think it is inevitable that the overheads and capital cost of producing a hospital with only a small number of beds of this kind, either 35 or 60, whichever way you look at it, have to be high because you have to provide surgical, medical, maternity, and so on, all on a rather small scale

Mr. Collins.

1256. Maternity for the Service personnel?—For their dependants, yes.

1257. For their families?—For their families, yes.

Mr. Stevens.

1258. Was that not provided, or any part of that, in the civilian hospital which existed there before?—The civilian hospital was closed through lack of funds. It had been closed since 31st July, 1952, because the trustees no longer had sufficient money to keep it going.

1259. Though the hospital was closed it was still there?—It existed, but it was 80 years old and needed a great deal of adaptation. It would have to be completely rewired and all the drains gone over before it could be opened on any footing.

1260. It was not only conversion but modernisation?—It was indeed; it was reconstruction, I think one could say, and in fact the main part of the hospital is now in a new wing which was built on at the back of the old building which was opened in 1871, I think, originally.

1261. The £½ million includes the building of a new wing?—Oh, it does, yes.

Sir Colin Thornton-Kemsley.

1262. Sir Richard, what does the War Office agency fee of 15 per cent. cover?—All the services the Army provide in the way of drawing up the plans, engaging the architect, and supervising the work with the whole of the technical detailed work of organising the hospital, and as I said, drawing up the plans and supervising the execution of them.

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[Continued.]

1263. Does the Ministry of Works make a charge of 15 per cent. for agency fees?—So far as I know, yes, they certainly make a charge for agency fees; whether it is 15 per cent. or not I could not say without checking, but I think it is the same.

1264. Could the Comptroller and Auditor General tell the Committee that?—(Sir Frank Tribe.) My impression is that the Ministry of Works departmental charge is now 10 per cent. I do not know whether the Treasury can confirm that? (Mr. Macpherson.) The figure I have in mind is 12½ per cent. but it is in the 10-12½ per cent. range. It may vary according to the type of service.* (Sir Richard Powell.) I think the war Office agency fee has been fixed at this percentage, as far as I know, since the sitting of the Committee in 1927. It is the standard agency charge for all works which the War Office execute for everybody else.

1265. A good deal higher, is it not, than a civilian architect would charge?—Would a civilian architect provide all the same services in building a hospital of this kind? Would he not have to have all the medical requirements stated to him by the people who required the hospital? I should have thought this fee covered rather more than the ordinary architect's fee. The consultant architect's fee was paid by the War Office from this agency fee.

1266. Who decided that the hospital should be reconstructed by the War Office and not the Ministry of Works?—The Ministry of Defence, and the Ministry of Defence were responsible for asking the War Office to act as their agent in the execution of this work.

1267. Can you suggest some reasons which determined your Ministry to select the War Office rather than the Ministry of Works for this rather specialised work?—I think because the War Office build all their own hospitals and this was a military hospital. I do not think the War Office would contemplate employing the Ministry of Works to build a military hospital, so far as I am aware.

1268. Do you know other examples of hospitals which have been built by

* Note by Witness: The figure is 12½ per cent. From 1st April, 1958, the charge is being increased to 15 per cent.

the War Office since the war?—They have built two. They have certainly built none in this country, but they have built one in Cyprus and one in Libya, I know.

1269. Do you know of any major reconstruction or building work which has been undertaken by the Ministry of Works in Paris or near Paris since the war?—No.

1270. Or in France?—No, unless they have done anything at the Embassy of which I am not aware, but that I should have thought would be the only type of work they would do in Paris or in France.

1271. Who paid for the equipment of the hospital?—The Ministry of Defence have paid for it through the War Office as part of the costs which are reported in the Comptroller and Auditor General's Report.

1272. But these figures do not include the equipment, do they?—Oh, yes, all the fixtures. They include the whole of the radiographic equipment, the whole of the equipment of the operating theatre, all the sterilisers, every form of equipment. It is not only the building work that these figures cover.

1273. Were all these estimates that we have reported to us drawn up on the same basis as regards the provision of equipment?—No. I think it is true to say that the R.A.M.C. doctors developed their ideas as the scheme was worked out and each stage, I think, included rather more in the form of equipment than the early stage.

1274. Would that be a major element in the difference between the figures, regarding the original figure as £170,000 and the final figure as £261,000?—I should say it would be a substantial element but I think the biggest element in the figures is the variation in prices, which were really due to inflation in France. The actual element that was allowed for that in the first instance was only 5 per cent., but in fact the variation of prices that have been paid under the contract is over 12 per cent., entirely due to rises in costs in France during the work.

1275. Would it cause you a lot of work in your Department, Sir Richard, if you put in a paper just to show how this difference between the £170,000 and the final about £260,000 was composed?

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[Continued.]

—No, Sir, I could do it, I think, quite simply.*

1276. I think that might be helpful. Just one or two other questions. I think you told the Committee, Sir Richard, that other countries' elements at N.A.T.O. headquarters have to provide their own hospital facilities?—Yes.

1277. At any time have joint arrangements for hospital provision been considered?—I think when General Eisenhower, as he then was, became the first Supreme Commander, his idea was that the whole headquarters should be completely international and that everybody should be dressed in the same uniform and use entirely the same facilities; but that I am afraid very soon broke down because of the enormous variation in standards between the various component forces and particularly the Americans, whose standards were far higher than anybody else's. That broke down and it was decided by N.A.T.O. that each country would have to look after it own.

Mr. West.

1278. Do you mean higher standards of hospital treatment?—No, higher standards generally of every form.

1279. We are talking about the hospital at the moment, I thought?—I was speaking generally then in reply to the question about why the attempt to make the whole of the headquarters international did not succeed.

Sir Colin Thornton-Kemsley.

1280. Does the Hertford Hospital cater for all British subjects in France or merely those in the Paris area?—Paris or the immediate neighbourhood is what the terms of the Hertford Hospital Trust say, and to the best of my knowledge they do not draw civilian patients from far from Paris, anyway.

1281. What about the military patients, that is to say, military and their dependents? That is purely from the Paris area, is it?—It is Paris and Fontainebleau, yes, the two big headquarters, the Supreme Allied Command itself and the Centre Command, which is at Fontainebleau.

1282. Does your Ministry have to pay any further charge for hospital accommodation in Paris?—There is a small,

*App. 8.

as I think the Air Ministry described it, sick quarters, at Fontainebleau itself for emergency cases and maternity cases for the people stationed there.

1283. Do you know whether there was a real need to maintain a hospital in Paris for British civilians?—To the best of my knowledge, yes. I know that the Ambassador and the Committee of Management and the British community in Paris were extremely distressed when the hospital had to close through lack of funds and we were pressed very strongly to undertake this particular scheme because it would give an opportunity of reviving the hospital which would help the British civilians in Paris and also be good for British prestige in France, as the hospital had been there since 1871.

1284. Was there for that reason any contribution considered at any time from any other body, either from the British Council or perhaps through Foreign Office funds?—No, the only contribution, to the best of my knowledge, that was ever considered was the one which the Committee of Management of the Hertford British Hospital themselves made, which was originally £20,000 and was subsequently increased to £30,000.

1285. Those are private funds, of course, are they not?—They are charitable funds. They are administered by the Charity Commissioners, yes.

Mr. Arbuthnot.

1286. Why was an architect who knew something about France and French conditions not brought in before the Minister was invited to approve this scheme against others?—I think for the reason that has been given before, that what was being done at the stage when the scheme was first formulated was a comparison of costs rather than a detailed estimate. I think it is true to say that the first detailed estimate that appeared was the one which the consulting architect produced in June, 1954.

1287. You were perfectly prepared that a decision of this sort of dimensions should be taken without an architect who knew anything about France or French conditions being consulted?—Looking back now, Sir, I feel bound to say that it would have been preferable if there had been more investigation

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before this scheme was first approved, though I do not believe that that could have made a difference to the decision because this hospital was a need, something had got to be done to provide it, and the choice was between various alternatives none of which, looking back now, one could say would have worked out any cheaper than this scheme has worked out.

1288. You told us about two of the schemes. What others were there?—There was one for having a smaller hospital at the Hertford Hospital and a larger hospital at Fontainebleau. That was one, and there were two schemes for building a separate military hospital in places between Fontainebleau and Versailles, near which S.H.A.P.E. is.

1289. You told the Committee that the Ministry of Defence selected the War Office to do this work rather than the Ministry of Works. Did you get comparative figures from the War Office and the Ministry of Works to enable you to take this decision?—The original estimate, if you can call it that, the £106,000, was provided by a party which was made up of Ministry of Works and War Office representatives.

1290. When you found what the ultimate figure was going to be and what the figures were turning out like, why did you not go back to the Ministry of Works who estimated that they could do the thing for £106,000?—I do not think really they did estimate that. They gave this comparative estimate between the cost of this scheme and another scheme. I do not think there was any ground for expecting that the Ministry of Works would in fact have carried out this scheme more cheaply than the War Office, though that is, of course, a speculative statement and not based on any fact. I cannot, I am afraid, substantiate it by evidence.

1291. £45,000 for building staff quarters was eliminated from the 1954 estimate as alternative hired accommodation or billets were envisaged. What steps were taken at that time to find out whether suitable accommodation would be available?—A representative of the Ministry of Defence and the designate officer commanding the hospital went over to Paris and on the basis of an investigation they made reported that it should be possible to provide for the staff either by billeting

or by hiring. In fact, when it came to be investigated billeting was declared by the Commander-in-Chief, Eastern Command, to be unacceptable for disciplinary reasons and hiring proved impossible because no suitable accommodation could be found to be hired.

1292. How many staff quarters are provided in the converted factory?—I think for 25 other ranks.

1293. Are they all occupied?—So far as I know, yes.

1294. What does it cost to run the quarters?—I am afraid I cannot tell you yet. We have not received a report of sufficiently long working to say. It has been going only since May and I think that will be something which I hope to be able to provide information on in the near future, but I cannot at the moment.

1295. Do the staff pay the full cost?—I do not think the staff pay anything. They are all Service people accommodated at Government expense.

1296. Do you anticipate that there will be any use for these staff quarters after the hospital closes down?—I think that would depend entirely on what use was made of the hospital itself. One of the considerations that was taken into account when this scheme was adopted was the better disposal prospects for a hospital in the outskirts of Paris by comparison with one built in the country between Fontainebleau and Versailles.

1297. You cannot envisage, in fact, any use for the staff quarters apart from the hospital?—That I think it impossible to say, really. One can never tell. I do not think the hospital would be any use for anything but a hospital, but it would certainly need quarters for the nursing staff to live in and I should have thought those quarters would have come in very conveniently for that.

Mr. West.

1298. Sir Richard, what hospital facilities existed for Service personnel and their families before this particular hospital was opened in May of last year?—We were living on the French and the Americans then. The Americans told us that they could no longer look after us because they had increased their own staff and the British medical authorities said they were no longer

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[Continued.]

satisfied to depend on the French after one or two rather disagreeable incidents, including the death of a ten-day old baby allegedly because of defects in the nursing and sanitation in the French hospitals.

1299. I see. The Americans refused to treat the British personnel after May?—Well, they no longer had room to accommodate them in their hospitals. Their numbers grew just the same as ours grew. When we started this scheme for the hospital we had 2,000 staff and dependents. The figure now is 3,000.

1300. What would be the average in-patient number in the hospitals before May of last year?—That I cannot tell you without enquiry.

1301. What would be the average number since May of last year?—The average number at the Hertford Hospital since May has been six.

1302. So that, taking six as a fair estimate, it would be about six pretty well before that time, would it not, and the Americans were not prepared to look after six British personnel who might be ill? Was that the reason why you had to go in for this business?—No, that was long before the time I think you are speaking of. You are looking back over four years. The first scheme was devised in August, 1953, and I do not think one can compare the situation at all with that in May, 1957, when the American element had enormously increased and it had also been decided as a matter of policy that each country would have to look after itself.

1303. Yes, but this hospital was not opened until May of last year and presumably sick British personnel were treated somewhere?—Most of them, I think, were brought home with considerable difficulty and expense. The Fontainebleau emergency cases were dealt with there, as they are now, or they were put into French clinics where the costs were extremely high.

1304. What was the estimated cost of providing other hospital facilities, other than taking over the Hertford Hospital?—The comparative figure for building a 50-bed military hospital only at this place between Versailles and Fontainebleau is £120,000 in comparison with £106,000 at the time and the other

schemes were £150,000, I think, and one slightly higher figure than that.

1305. You say that the Hertford Hospital had been in existence for some 80 years. Had it been opened and operated for 80 years?—It was open, so far as I know, from 1871 when it was first built until the 31st July, 1952, when it was closed through lack of funds to enable the Committee to run it.

1306. Where did they get their funds from?—From a charitable trust and from voluntary contributions.

1307. The charitable trust income, I suppose, remained pretty well constant, did it?—I think, like very many trusts, it constantly diminished and that was part of the trouble.

1308. I see that if the premises are disposed of within twelve years the Minister of Defence is to share in the proceeds?—Yes.

1309. What share is he to receive?—It is to be negotiated and if there is no agreement to be decided by an arbitrator.

Mr. Collins.

1310. Sir Richard, you mentioned that a possible alternative was the construction of a 50-bed military hospital at Fontainebleau, estimated to cost £120,000?—Yes.

1311. Was that estimate made by the same people who estimated the £106,000?—Yes, it was.

1312. So in all probability it was likely to be subject to the same gross inaccuracies?—I should say it would be subject to the same margin of error as the first one, yes.

1313. You would prefer to call something which is going to cost 2½ times as much as the estimate a "margin of error" and not a "gross inaccuracy"?—I think you have got to take into account what it included and what it did not include in the first place, and as I explained before, it included nothing for the War Office agency fee, nothing for variation of prices, considerably less for engineers' contingencies than a normal contract of this kind and nothing for French taxation. It also, of course, was made at a time four years ago when the value of the French franc was considerably greater than it is today.

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[Continued.]

I think we have been subject throughout this period to a continuous rise in prices in France because of the drop in the value of the franc and inflation in France.

1314. Some of these factors, if not known in extent, were known to be bound to arise when the estimate was made?—It would certainly be known that you would have to pay an agency fee and that you would have to do various other things, but I do not think it could have been foreseen how much the French franc was going to drop in value during this period.

1315. Are you satisfied, Mr. Macpherson, when an estimate is £106,000 and you are then later told it is wrong because of factors which ought to have been included at that time, that that is a proper reason?—(Mr. Macpherson.) No, we are drawing attention to some of the factors which seem to have gone to make up these figures, some of which, as you say, we thought should have been taken account of in the original provision; but there are the other factors which make a large contribution to the increase, notably the rise of costs in France and the French taxation.

1316. Sir Richard, are the civilian patients which you have mentioned the members of the families of military personnel?—(Sir Richard Powell.) No, they are treated in the military part of the hospital. The civilian patients are the indigent British civilians in Paris who were cared for by the Trust before this conversion or reconstruction of the hospital was undertaken.

1317. I think you said in answer to an earlier question that the number of military personnel in the area was some 3,000?—Yes, and dependants. That includes their dependants.

1318. Before deciding that a 60-bed hospital was necessary did you make any research as to the likely number of hospital beds that might be required for 3,000 people?—I think it was calculated on what was then the War Office standard of percentages, 2 per cent. for Service personnel and 1½ per cent. for dependants, which worked out at a figure of 55 beds.

1319. It is quite clear now that it is likely to exceed some £270,000, including the staff quarters, which works out

at about £4,500 per bed on a bed basis? —If you include all the overheads, yes, the French taxation, the agency fee, and so on.

1320. That compares with a fairly high level in this country of £1,500 per bed? This is about three times the cost. Would you say that it does cost three times in France to build as it does here?—I should say it costs considerably more but I would not like to hazard a guess as to what the relative building costs are at the moment or what they were without checking up the figures.

1321. This total expenditure is going to include equipment, but you did have a building to start with?—We had part of a building to start with which was not adequate for what was required.

1322. You had part of a building to start with and £1,500 a bed here includes supplying the building. So it makes the disparity even more marked. You mentioned supplying all hospital facilities for a small hospital and a staff of 13 officers. Are they all consultant rank?—No, I do not think so. I can tell you, if I may.

1323. How many brigadiers and colonels?—I do not think any. The commanding officer is a lieutenant-colonel and there are two majors and below, one surgical specialist who is a civilian and the rest are chief ward-master, ward masters and the like.

1324. 13 medical officers and 87 staff. Would they be nurses, orderlies and cooks?—I am sorry, I omitted from the officers the Queen Alexandra's Nurses, the Army Nursing Corps, who, of course, rank as officers, the matron and the sisters. The matron ranks as a major, the sisters as captains and the sister in charge of the operating theatre also, and they come into the 13.

1325. Could we know the Queen Alexandra's staff, matron and how many sisters?—Six sisters and one in charge of the operating theatre.

1326. That is included, six?—That is included.

1327. And 87 other staff?—Yes.

1328. So you have a total staff there of 117?—Exactly 100.

1329. I asked you whether the 87 staff included the matron and the Queen

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[Continued.]

Alexandra's Nurses?—No, what I said was that the staff was 13 officers and 87 other ranks or civilians and 38 of the 87 are civilians.

1330. Yes. Does the staff of 13 officers include the Q.A. nurses?—Yes, it does.

1331. So it is six medical officers and seven nursing officers?—That is right.

1332. And they are nursing, on the average, 14 patients?—About that, yes.

Mr. Collins.] About 14 patients.

Mr. West.

1333. 14 or 6?—Including the civilian side as well, which are looked after for normal services by the military staff. That would include them too.

Mr. Collins.

1334. Do you have additional nursing officers or matrons and nurses to look after the civilian side, then?—No, the only additions, which are not paid for by us or the War Office, are for the civilian out-patients for which the Committee of Management employ a French civilian doctor and a certain number of civilian staff.

1335. So it would be correct to say that you have approximately one doctor or senior member of the nursing staff to every patient and six other members of the staff to every patient?—That is right, yes.

1336. Would you be aware that in England at the finest possible teaching hospitals in the country they manage very well with one member of the nursing staff, many of them junior staff, to 2½ patients?—I imagine that the kind of hospital you are talking about is one which is ten times or more the size of this one.

1337. I will come to that in a moment, but that is the proportion?—Yes.

1338. And somewhat similar for the medical staff. Now you mentioned that this was a small hospital. In number of patients it is indeed smaller than many a cottage hospital in this country. Are you aware that those cottage hospitals in this country would be run by a matron, two sisters and perhaps six junior nursing staff?—I am afraid I would not be aware of that, but what I think I should say to explain this

is that it is not the Ministry of Defence but the War Office who fixes the establishment of a hospital. They are our agents entirely, we merely repay them for the cost of the staff but they say what is required according to the Army Medical Regulations.

1339. Yes, but are you not responsible for the money? You are the Accounting Officer?—Oh, certainly, yes.

1340. And therefore I am not dealing so much with the capital cost at the moment as with the establishment costs, the current costs. Would it not be within your province to protest very strongly if you found this extravagant?—I have already said that it was our intention on the experience of a year's running to undertake a review of that, and we certainly shall do that.

1341. You are providing staff quarters, the cost of which is expected to exceed £40,000?—Yes.

1342. For what size staff?—For the other rank staff, 25.

1343. For a staff of 25?—Yes.

1344. So that it may well be that this staff at present 87 may be cut down to 25?—Well, the civilians would not live in anyway. This is the R.A.M.C. other ranks and the nursing other ranks, the nursing orderlies, who would be covered by this, I think.

1345. You mentioned the differing standards between the personnel of different countries which prevented you from having one general hospital?—Yes.

1346. That does not apply to medical standards or nursing standards, does it?—I should think it applies certainly to what you might describe as the amenities provided in a hospital of that kind, judging from what my experience of the Americans generally is. But I would not like to be misunderstood on this. What I was saying was that the idea of General Eisenhower when he first came was that everybody should wear the same uniform and the whole thing should be run absolutely in common. That broke down because of the difference of standards and very largely the difference in the rates of pay of the Services in the different countries ranging from the Americans and Canadians at the top end to the Turks at the bottom; and it was that plus the

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[Continued.]

increase in the staff which made the facilities in existence too small for what was needed to go on with this policy, which was accepted by the North Atlantic Council, that all countries, not only this country, should look after their own personnel.

1347. I am purely concerned with the point that emerged a moment ago which, with respect, I do not think you really answered, and that is, are you suggesting that there is a difference in the medical and nursing standards, either that ours are inferior or Americans are superior on that point?—I would not like to generalise on this. All I can say is that on the experience which led to the setting up of this hospital our standards are higher than the French standards. There can be no doubt of that, I think.

1348. Ours and the American standards?—Are higher than the French standards.

1349. So it is not really a case of hot dogs and Coca-cola?—No, I do not think so.

1350. You have given us an assurance that this particular point, this enormous cost of running this hospital as compared with the number of patients, is receiving your urgent consideration?—Yes, certainly.

1351. And you do regard it as the responsibility of your Department, even though the War Office is responsible for appointing the personnel?—Yes, certainly.

Chairman.

1352. Just one final question. I think you said that you take civilians in the hospital?—Do you mean dependants of military in the military side?

1353. Only those, or do you take in any English personnel other than the dependants of soldiers?—The people taken in are those nominated by the Committee of Management of the Hertford British Hospital who are responsible for accommodating the patients who come in under the civilian head, the 25 beds related to them.

1354. That is related to an area round Paris?—Yes.

1355. Surely, if you have this comparatively large hospital, a hospital

large in comparison to the few occupants, would it not be wiser to increase your catchment area?—I think that is a matter for the Committee of Management and the terms of the Trust rather than for me, but I would certainly be glad to look into that.

1356. Who bears the running costs of this hospital?—The British Government bears it but, as I said before, the Committee of Management do pay a daily rate of 27s. 6d. which, as I said, by no means covers the costs for these civilian patients under the terms of the deed under which the hospital was taken over.

1357. Will you look into this question as to whether you cannot increase your revenue by casting your net wider?—Certainly I will.

1358. Paragraphs 7-10, Infrastructure Projects. I see from paragraph 7 that up to 1956-57 your expenditure on infrastructure so far was £56½ million. What is the total expenditure so far?—About £425 million, I think.

1359. That is only half of the total programme?—Of the total programme of expenditure, yes, which runs to 1960 at the moment.

1360. How are the contributing countries' shares fixed?—By negotiation in the North Atlantic Council.

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1361. How much is spent in this country and what are the projects?—About £34 million worth of work, I think, is planned in this country. The main projects are a naval base, I think you would call it, in the Clyde area which has storage facilities and a boom and ammunition storage and provision for naval stores as well, and war headquarters for commands which will be stationed in this country. Those, I think, are the main ones.

1362. 40 per cent. of the total expenditure was on airfields, apparently. How many of these common defence airfields are in Britain?—Only, I think, two, which will form part of the Clyde base scheme which I mentioned before. The others are all on the Continent although a number of them, of course, are occupied by British Air Forces.

1363. How do you decide when a piece of defence work in Europe is national or infrastructure?—There are

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[Continued.]

rules for that. It has to be accepted as of value to, I think, three countries. Of course, the scheme itself came to pass in the first place because an enormous amount of work had to be done in France which was far beyond the capacity of France to pay and that was why the first idea of sharing the cost was introduced.

Mr. Collins.

1364. Of this maximum cost mentioned of £961 million, approximately what percentage has so far been spent?—About half, £420 million odd, I think, out of the total. It is rather less than half.

1365. Would things like rocket bases be infrastructure?—No.

1366. What happens if the Board of Auditors report expenditure as wasteful or unnecessary?—I do not think it has ever happened, but I imagine that if it did happen there would be a negotiation with the country which was thought to be at fault, the object of which would be to get it to accept responsibility for that expenditure.

1367. In other words, they would, perhaps, have to make a refund to the common fund?—Yes, I should think so, but I do not think it has ever happened; in fact, I am sure it has never happened.

1368. Is all this expenditure capital expenditure or does it cover maintenance?—It is all capital expenditure. The maintenance of war headquarters which have been specially built for international use is financed internationally from other funds, but the maintenance of most of the rest is carried by what is called the host country, or the user; the force which happens to be using the particular facility which has been provided pays for the maintenance.

1369. This expenditure is based on joint estimates. What is the position if a project costs more than was estimated for in the current infrastructure programme?—The North Atlantic Council would have to consider that and either allot the money at the expense of another project in order to keep within the total or propose negotiations for increasing the total sum to meet that. There has been since 1953, I think, provision made for a 10 per cent. con-

tingency fund in each annual slice or in each set of slices to allow for things like rises in cost or under-estimating.

1370. So that 10 per cent. contingency fund would bring the total beyond the £961 million?—No, that is included in it. The actual programme is that amount of £961 million less the amount of this contingency provision.

1371. It has not yet happened that the estimate has been exceeded or the total global figure expanded, is that right?—That is right. Of course, the figure has been added to as we have gone along. These negotiations have been done, on the last two occasions, on a three-year period or a four-year period. Before that they were done annually, so the total has been continuously increasing from the original Western Union programme of £33 million up to the present total figure.

1372. If a common defence project is no longer needed for N.A.T.O. but is used in the host country, is there any financial adjustment as from the host country to the common fund?—There is a provision for the host country to pay additionally, as far as I know, for any particular facility which might be of economic benefit to that country; and I know in the early stages of infrastructure when they were doing a good deal of communication work that that was specially taken into account in deciding how the cost should be shared. In France in particular, I know, a large amount of telephone cable work was done which was judged to be of economic benefit as well as military benefit to France and that factor was taken into account in deciding how to share the cost out.

1373. But that was before. Supposing you got a common project which is finished with but is still of value to the host country, would there still be a financial adjustment?—If it was disposed of, yes, but again that problem has not arisen so far because facilities which have been given up by one country have usually been allocated to another, particularly in Germany with the build-up of the German Forces.

Mr. West.

1374. Paragraph 10 states: "The aggregate expenditure audited by the Board up to 31st December, 1956, was over £97 million". What proportion of

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[Continued.]

the total expenditure is represented by this £97 million?—It would be just under a quarter, comparing it with the value of work done to date, which is £420 million odd.

1375. Will the Board cover all expenditure?—I think not, no. It is laid down in their terms of reference that they audit on a selective basis and not 100 per cent.

1376. I suppose the Board would raise questions from time to time upon the accounts that they audit?—Yes, indeed, they have raised some very difficult ones.

1377. Who settles the questions which are raised by the Board?—They are referred to the Infrastructure Committee of the North Atlantic Council if they are questions of policy and if they cannot settle them they go to the North Atlantic Council itself.

1378. Does that sometimes happen?—It is happening now, I think, on these particular issues which the Comptroller and Auditor General referred to in his Report. The particular one about the overlap of work from the first two slices which were not financed by the whole of N.A.T.O. in common but only by the Western Union countries in the first and by the Western Union countries with America and Canada in the second has given rise to some very difficult problems which they are struggling with at the moment and have not yet solved.

1379. Can you state roughly what is the amount involved in the question of allocations outstanding?—How much money is still unallocated; about £95 million, I think it is. The last four slices amounted to £225 million, and I think I am right in saying that £130·4 million of that has been allocated to particular projects, leaving what I think will turn out to be a pretty small sum for the next three slices.

1380. Adjustments have been made from time to time. Have the adjustments already made involved substantial sums?—Do you mean adjustments through the auditors?

1381. Yes?—Not so far as I know, no. I think the ones that are likely to involve substantial sums are still under negotiation.

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Mr. Arbuthnot.

1382. The Comptroller and Auditor General says that long outstanding ques-

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tions are still not settled. He also says: "While other important questions of cost allocation had arisen and had been referred to the Council"—the North Atlantic Council. Which of these two was it you were referring to?—Overlap of work is the most difficult one, and that is the one that has been referred to the North Atlantic Council. The other one is a question whether first of all you should disallow direct taxes from costs charged to infrastructure, taxes collected by the Government of the country in which the work is done, but that is offset by an argument on the extent to which overheads other than direct costs of work should be included in the price charged to N.A.T.O. for the work. Those two things will to some extent offset each other and that is being argued out in detail at the moment.

Mr. Peyton.

1383. Sir Richard, I am not quite sure about the relation between these two figures in paragraph 7, £540,000 spent by the United Kingdom on common defence works in this country and the £698,000 provided by other countries. Do those two figures refer to the same works?—Yes, but in fact the explanation of the difference is that the payments from other countries are made on initial demands before the work is actually completed and costed, and sometimes one gets more in earlier than one would if it were all done after the event.

1384. I take it in this part there is a great deal more to come?—Yes, certainly. For all the work done in this country 90 per cent. of the cost, roughly speaking, is contributed by other countries and only 10 per cent. by the United Kingdom.

1385. That is the point I was getting at. The only other thing I want to ask you about is this: is the question of the net benefit accruing to the host country reviewed from time to time?—It would be reviewed, I think, each time there was a new cost-sharing arrangement, certainly, but I think I ought to say that once a pattern of cost-sharing is set it is extremely difficult to alter it.

1386. I entirely accept that.—Yes.

1387. Would you agree that in point of fact there is a very large benefit, really in some cases unforeseen, accruing to the host country?—I would say that it was only large in the case of

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[Continued.]

communications, particularly telephone cables and that kind of thing, and the kind of work that is being done now on communications is of much less commercial application, I think, or much less value. It is special unjammable communications, or more or less unjammable communications, which are being installed.

1388. Following on that, would it be unfair to say that France has been a very considerable beneficiary?—No, I

do not think it would be unfair. I think she has been.

1389. Paragraph 9 refers to certain other long-outstanding questions concerning the allocation of expenditure on projects which were started under the Brussels Treaty. How much was involved there, what sort of sum of money?—I am afraid I cannot say offhand—about £5 million.

1390. Quite small?—Quite small in relation to the total, yes.

CIVIL APPROPRIATION ACCOUNTS, 1956-57 (CLASSES I-V).

CLASS I.

VOTE 16.

NATIONAL SAVINGS COMMITTEE.

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

Chairman.

1391. Will Members turn to the Civil Appropriation Accounts, Classes I-V, to Class I, Vote 16, paragraphs 12 to 14 of the Comptroller and Auditor General's Report on page vii? In paragraph 14, in the last two or three lines, the Comptroller and Auditor General says that he has sent you a question. Have you yet replied to that?—(Mr. Jones.) We have been discussing with the Treasury recently the possibility of a new approach to the Newspaper Proprietors' Association with regard to the renewal of some kind of discount.

1392. When was the Comptroller and Auditor General's inquiry addressed to you?—Quite recently, within the last week. (Sir Frank Tribe.) Not the one I am referring to in this paragraph. The question I mentioned here was addressed on the 6th September last. In reply to that the witness suggested that I should approach the Treasury, but I replied on the 3rd October last saying that as the expenditure fell on the Vote of the National Savings Committee, it was for the Accounting Officer responsible for that expenditure to reply to the question I had raised, if necessary after consulting the Treasury; but since the 3rd October I have had no reply at all.

1393. What do you say to that, Mr. Jones?—(Mr. Jones.) I was referring to the discussions with the Treasury.

1394. Yes, but this question refers to the letter addressed to you by the Comptroller and Auditor General?—Yes. The Comptroller and Auditor General drew attention "to the assurance given by the Treasury to the Committee of Public Accounts . . . and inquired whether any steps are being taken to secure better terms for Government advertising". We have, since he raised this question, been discussing the matter with the Treasury.

1395. For six months?—No, we have been discussing the steps taken to secure better terms quite recently. We have been discussing the whole situation for six months, as you say, or since Sir Frank Tribe first raised the question.

1396. You have been doing it very thoroughly?—Yes, Sir, but may I say I do think this is very largely a Treasury matter. We are one of the several Government Departments who advertise and the Treasury negotiated with the Newspaper Proprietors' Association in 1940 and again in 1946 with regard to the payment for Government advertising as a whole in the press.

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[Continued.]

1397. Have you any idea when the Comptroller and Auditor General is likely to get a reply?—I should think quite soon, Sir.

1398. Good?—I do not know whether the Treasury representative has anything to say on the point.

1399. I see, you feel the Treasury is responsible for the delay?—The Treasury is responsible for the situation, namely, they are responsible for the negotiations.

1400. Mr. Macpherson, what have you to say about that?—(Mr. Macpherson.) As Mr. Jones has said, Sir, the Treasury has this responsibility. The undertaking given to the Committee, as Sir Frank has said, was that of the Treasury and we have been considering from time to time since we gave that undertaking whether it was right to approach the Newspaper Proprietors' Association on this question, but, as you know, newsprint rationing continued until the end of 1956 and since 1956 there has been an unofficial allocation by a company and we have felt until now, at any rate, that we did not stand a very good chance of being able to negotiate a discount. But we have come to the point with this unofficial rationing scheme coming to an end, as it is intended to at the end of 1958, when we should prepare a case for an approach to the Association.

1401. When do you propose to make that approach?—We have not finally made up our minds, Sir.

1402. You will negotiate then for the Central Office of Information and all other Government Departments?—Yes, it will be the Treasury negotiating for the Government centrally.

1403. How much do the Government—all Government Departments—spend on advertising in the course of a year?—I think Sir Frank gives the figures as £882,000 shown on the Votes of the Stationery Office and the Central Office of Information.

1404. I do not mean that, I mean all Government Departments, including the Service Departments. Have you any idea what it is, in all forms of advertising?—I am sorry, Sir, I could not hazard a figure.

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1405. Among other things "Keep death off the roads", as one honourable Member suggests. There must be an enormous sum spent each year?—I doubt whether it is enormous, in fact I doubt very much whether it is much in addition to the figures Sir Frank has given because the C.O.I. bear the cost for the Service Departments.

1406. At any rate, you are a very large advertiser, are you not?—Not in relation to the amount that is spent on advertising nationally.

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1408. Yes, but it is concentrated. I do not know how much big advertisers spend on advertising, but the expenditure of £1 million a year is quite large. Is there any reason why you should go through agents?—I think the Departments would claim, and certainly have claimed to us, that the agent has something to offer. What he has to offer varies according to the media used. In some fields, certainly, I think in display advertising, they make a very real contribution in ideas, and so on, which is well worth their money.

1409. What are the fees that the agents draw? Have you any idea what the total fees are which are drawn by the agents for Government advertising?—No, I have not. (Mr. Jones.) It varies, Sir. Their remuneration comes from the newspapers, and the discount they get from the newspapers varies between 10 and 15 per cent. The average, I believe, is about 12½ per cent.

Mr. Collins.] Yes, that is so.

Chairman.

1410. Could you get that if you went direct to the newspapers?—No. (Mr. Macpherson.) No, the newspapers have indicated, I understand, that they will only deal with accredited agents.

1411. Even if you set up a separate agency yourselves?—Yes, but there is another question then which arises, the setting up of an organisation to provide the service an agent does provide for his discount.

1412. How does the Treasury control the amount spent by various Departments in advertising? Do they consult you?—In the case of the National Savings Committee it is looked at. Their

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[Continued.]

proposals are put by the Committee as for any other type of expenditure and the Treasury exercises control, as indeed it does for the C.O.I. and the Stationery Office.

1413. So far as press advertising is concerned you are one of the biggest advertisers, is that correct?—(Mr. Jones.) Yes.

Mr. Oliver.

1414. I see that the National Savings Committee, Mr. Jones, spent on advertising during the year £411,724?—Yes.

1415. Then I see further expenditure on Government press advertising amounting to £882,000. How do you demarcate the moneys spent by the Savings Committee and the moneys spent by the other Government Departments, and presumably on National Savings, because it comes under this Vote?—The amount that the National Savings Committee actually spent on advertising and other publicity was as you have said £411,724. The expenditure of the further £882,000 fell on the Stationery Office and the Central Office of Information. We were not concerned with that at all.

1416. But it related to National Savings, though?—No, Sir, not at all.

1417. I should have thought it would, because it comes under this head of Class I, Vote 16?—(Sir Frank Tribe.) No, Class VII, Votes 9 and 10, as I have put at the end of paragraph 12. I simply included that figure to give the House some idea of the total volume of the Government's expenditure on advertising, both on National Savings and all other things.

1418. I beg your pardon, I thought it related to National Savings?—No.

1419. Now, since 1946 have you received any discount at all in respect of your press advertising?—(Mr. Jones.) No, none at all.

1420. Since the discontinuance of the system which prevailed from 1940?—Yes.

1421. You have received nothing?—Nothing at all.

1422. You have just been paying over the money without any discount?—Yes, we pay through the agents the money charged by the newspapers for their space and they in turn remunerate the agents.

1423. Your Department is a very large user of advertising space. Do you get any better terms than a smaller user would get?—No, Sir, the terms of advertising are settled between two very well organised bodies, The Newspaper Proprietors' Association and the Advertising Agents' Association, and the terms that the newspaper charges for advertising are settled and agreed by the Newspaper Proprietors' Association. They vary according to the type of paper and the circulation of the paper; the remuneration, the discount to the agent, also varies, but there are these two organised bodies dealing with the rates of payment for advertising and every advertiser pays the rate. We get for the Government, and always have had, some concession in this matter. We get what are called the lowest trade rates charged by the newspapers for advertising. They do not charge us what are called financial rates, rates for formal financial advertising, which are somewhat higher, and also we have always had a ceiling in regard to the circulation of the paper. We insist upon receiving information about the circulation of the paper, the guaranteed circulation, and we have a rate per inch of copy related to the circulation.

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1424. Do you get any return at all if you have a fairly long run, say, a month as opposed to a week or any particular period?—No.

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1425. Yet it must mean a great deal to the people who get the advertisement if it has a long run?—I should think, to have a regular customer with a long run certainly should be better than spasmodic advertising for the person selling the space.

1426. Would you not expect some reduction in a case of this sort?—Yes.

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[Continued.]

1429. And the N.P.A. maintain their price?—Yes.

1430. That is rather surprising, but still you would know; I thought that now was the time when you could break in a little bit on these high charges?—There is this to be said at the present time, looking at it in purely commercial terms, that the I.T.V. advertising is increasing rapidly and perhaps newspapers might be prepared to talk about concessions.

1431. It would appear that there has been no effort made to see whether the N.P.A. and the other periodical people are prepared to make a cut in their prices?—That is so, there has not been any approach.

Mr. Stevens.

1432. You mentioned Independent Television. Have you considered buying time on Independent Television to advertise National Savings?—We have done so, Sir. In the current financial year we were allowed to spend £50,000 on advertising on I.T.V.

1433. That is, 1957-58?—Yes.

1434. Have you any idea whether or not that advertising on Independent Television has been successful? Has it brought any extra savings?—Yes, for the first time we have been able to check the efficacy of advertising. We advertised on two I.T.V. transmitters, the London transmitter and the Northern transmitter, and they cover a certain area of country, a well defined area. Now, we advertised on those two transmitters during October and November last year. We watched carefully the sales of Premium Savings Bonds—we advertised only Premium Bonds—in twelve selected areas within the two zones and we compared the sales with twelve selected areas outside those zones: and we repeated that experiment in January and February. In those two months we advertised on two other transmitters in the Midlands and South Wales and again compared results. The results showed conclusively that in the areas covered by the television advertising the sales of Bonds increased by about 12 per cent. over the period, whereas in the areas not covered the sales decreased by about 6 per cent. I think the figures are quite conclusive on the point. There was an improvement

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of about 18 per cent. in sales as a result of I.T.V. advertising.

1435. You have said, I think, that this was the first occasion when you have been able to ascertain reasonably positively the results from a particular form of advertising?—Yes.

1436. Does that mean then with your newspaper advertising you have no system, no method, whereby you can track down the source of additional sales connected with a particular advertisement in a particular paper or at a particular time?—That is so, Sir. There is no accurate method of assessing the value of our kind of advertising. You can assess the value of advertising by a certain means if you are selling a definite commodity. There are various ways of doing it, but we have found it impossible to check the effectiveness of Press advertising on National Savings.

1437. Have you actually put that point to your advertising experts, your advertising agents?—Oh, yes.

1438. And they agree that there is no way of doing it?—There is not, no.

1439. Is your advertising seasonal in any way? Certainly, the withdrawal of savings is inclined to be seasonal at Christmas and summer holidays. Is the inflow seasonal as well?—Yes, we do not advertise in the holiday months, in July and August.

1440. Does any form of your advertising urge depositors or purchasers of Premium Bonds not to withdraw those Bonds? Is there any trend in your advertising in that direction?—No, we have often discussed the possibility of doing that and we have experimented with it, but advertising "Do not withdraw your savings" has many unfortunate repercussions. One is that people may think there is some ulterior motive for telling them not to take their money out and they begin to wonder whether it is quite safe.

1441. And because you have no way of measuring the results of Press advertising you cannot, at any rate at present, form a view as to whether expenditure on Press advertising shows or will show a better return than expenditure on television advertising?—No. We have no means of comparison. All we

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[Continued

can say is that we have carried out a test of the results of I.T.V. advertising and they have revealed the figures which I have already given.

1442. Would you say a 12 per cent. increase was substantial or satisfactory?—Yes, it is quite a satisfactory increase.

Sir Colin Thornton-Kemsley.

1443. Mr. Macpherson, what is the basis of the claim for preferential treatment from the Press in respect of Government advertising?—(Mr. Macpherson.) Prestige, for one thing.

1444. That is the only thing, is it?—Well, there is quantity relative to other advertisers, although small in relation to the total.

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1448. Mr. Jones, do the Association of Newspaper Proprietors allow a discount in respect of display advertisements from charities?—(Mr. Jones.) I am afraid I am unable to answer the question; I do not know.

1449. Would you know about that, Mr. Macpherson?—(Mr. Macpherson.) I do not know, Sir.

1450. But I think you would inform yourselves about that before you go into these negotiations, would you not?—Certainly. I hope we will take full advantage of our case.

1451. Mr. Jones, how do you decide what amount to include in your Estimates in respect of advertising?—(Mr. Jones.) We have behind us the experience of 40 years of advertising. We have a chairman who is President of the Advertising Association, Lord Mackintosh, and we have able assistance at the Treasury in coming to a conclusion as to what is a reasonable amount in the circumstances to spend on advertising.

1452. What arrangement have you for poster advertising?—We advertise on posters through normal channels and expenditure on poster advertising has been going down in favour of I.T.V.

1453. Do you get any special discount for poster advertising?—No, Sir, we do it through agents in very much the same way as we do the press advertising.

1454. Do you do advertising in panels on British Railways or London Transport?—Oh, yes, on London Transport and British Railways.

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1457. What arrangements do you make with the Independent Television Authority about discounts? Do they give you any discount?—Yes, again it is arranged through the advertising agents. They book the space and they carry out the usual services to help us with the advertising and they receive a 15 per cent. discount from the programme agencies.

1458. So the position really is that from I.T.A. you do get a discount, but from national poster advertising you do not get a discount and from the press you do not so far get a discount?—I am not sure that that is quite accurate. The position precisely is this: if you are booking space on Independent Television there are certain charges for the time you take and the place in which the advertisement appears on the programme. The charge varies, but the agents book that space and they pay that charge; and in return the I.T.V. programme agencies pay the agent 15 per cent. of the money that is charged. Now, for that 15 per cent. they provide the advertiser with many services, but they get their remuneration from the programme agencies. Exactly the same thing happens with press advertising, and the same thing happens with poster advertising.

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1459. The kind of service which the agents give in respect of the press is advising about display and so on, is it not, but do you not do enough advertisements yourselves to do your own display?—I am sorry, I am not quite clear on that?

1460. I think that the Treasury witness told the Committee that one of the services rendered by the agents was that they give special help as regards display?—Yes, the suggestion is that we should do some of that work ourselves?

1461. I was asking you if you had not the facilities yourselves for doing that, in view of your experience of

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Mr. E. C. H. JONES, C.B.E.

[Continued.]

advertising?—The advertising agents provide a great deal in return for the remuneration they get. They provide ideas for advertising to begin with and they provide the drawings, they prepare the blocks and stereotypes from which the advertisements are printed, they book the space in the newspapers, they send the blocks or the stereotypes to the newspapers for printing, they check that we get the advertisements in the newspapers and they undertake the accounting between us and the newspapers. They carry out that service in regard to over 800 newspapers for us and if we undertook the work that they did it would mean a considerably increased staff and a very expert staff.

Mr. *Arbuthnot*.

1462. Mr. Jones, does the National Savings Committee carry out its advertising programme quite independently of the Central Office of Information?—Yes.

1463. Why is that?—This question has been looked into on more than one occasion and it has been generally agreed that we should continue to carry out our publicity and advertising independently because it is only one aspect of a public relations job which the National Savings Committee carries out. The whole of our work can be regarded as publicity and propaganda and to divorce publicity from the National Savings Committee would be to take away a very important integral part of its organisation.

1464. Who advises the National Savings Committee on the selection of agents for this work?—That is entirely in the hands of an independent committee set up by the Central Office of Information.

1465. Who are the members of the committee?—I do not know the names of the officers and I have forgotten the name of the chairman, I am sorry. It is an entirely independent committee and they advise the C.O.I. on the selection of agents.

1466. Perhaps you would let us have a paper on who they are and what qualifications and experience in advertising they have?—I will do that, Sir. I must say I should have to ask the C.O.I. for that information. It is their

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question, but I will put in a paper with that information.*

1467. How many agents do you employ?—Four.

1468. How often is the list reviewed?—Every year.

1469. Is it your policy to employ the same agents over a long period or do you make changes every year?—We have employed the same agents over a long period and we prefer that policy. They get to know us very well, they know the services we are selling and we find that continuity of experience is very valuable.

Mr. *West*.

1470. So that there is very little that the committee has to advise upon?—Which committee?

1471. The committee which recommends the agents to be appointed?—The committee is entirely responsible for recommending the appointment of agents. It is always within their powers to change the agents if they wish to do so.

1472. Who appoints the advisory committee?—Again, I think it is a C.O.I. question but I believe they appoint them.

1473. You were speaking of the great benefits which you derive from I.T.V. advertising. Have you spent £50,000?—We have spent £50,000.

1474. On I.T.V. advertising?—Yes.

1475. How much have you had invested in Premium Bonds, do you think, as a result of the advertising?—That would be an impossible figure. One could give an estimate but it would be largely a guess. We have these recent figures as a basis of comparison and therefore we would say that, based on that experiment, the sales of Premium Savings Bonds would have decreased by a similar amount, 18 per cent., if we had not advertised on I.T.V.

*Information supplied: not printed.

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Mr. E. C. H. JONES, C.B.E.

[Continued.]

1476. But I am more concerned, if you will forgive me putting the question, to find out how much in fact you had invested as a result of the advertis-

ing, whether you have in fact had value for the £50,000 spent?—Yes. There is no doubt we had value for that expenditure.

THURSDAY, 13TH MARCH, 1958.

Members present:

Mr. Arbuthnot.
Colonel Crosthwaite-Eyre.
Mr. Ramsden.

Sir Colin Thornton-Kemsley.
Mr. West.

In the absence of the Chairman Sir Colin Thornton-Kemsley was called to the Chair.

Sir FRANK TRIBE, K.C.B., K.B.E., and Mr. J. MACPHERSON called in and examined.

TREASURY MINUTE ON PARAGRAPHS 20-25 and 102-105 OF THE
THIRD REPORT OF THE COMMITTEE OF PUBLIC ACCOUNTS, 1956-57

Sir FRANK LEE, K.C.B., C.M.G., Permanent Secretary, Board of Trade, called in and examined.

Sir Colin Thornton-Kemsley.

1477. Will Members turn to the Treasury Minute on paragraphs 20-25, Grants in Aid of the Council of Industrial Design? Sir Frank, have the Council reported the results of the special review of their charges which they undertook with a view to their being increased?—(Sir Frank Lee.) Yes, Sir, we have been in very close touch with them on the subject since the Committee reported on this question last year. As the Treasury Minute says in the second sentence, the charges at the Design Centre were increased in June of last year on a basis which has yielded about a 10 per cent. increase over the amounts received before. The Council expect to make a further increase, probably in the early summer of this year, with the result that they hope that their income from that source will go up to something of the order of £70,000 a year. They have also reviewed the other fees which they charge industry for various services; and while the amounts that they charge vary because some of their work is still, as I have explained to the Committee on previous occasions, in the nature of missionary work on which perhaps it is not appropriate to levy a fee, they are seeking not only to recover any outgoings on the help they give industry but to make a profit. Perhaps I could add two other matters: they have increased the cost of the "Design" magazine which they publish and have increased the advertising rates in it: The broad overall picture is that their total income from non-Governmental sources, which was roughly about

£75,000 in the year of account, is estimated to be about £102,000 in the current financial year and will rise to about £136,000 next year.

1478. Has any further opportunity yet occurred of securing contributions from industry for the Council's general activities, apart from the Design Centre?—No, Sir. First of all, I would like to say, with reference to the latter part of your question, that we in the Board and indeed the Council regard these activities as essentially one. We do not make a distinction between the Design Centre and their other activities, but they have not sought to obtain further contributions from industry for the general run of their work, as distinct from the fees to which I have referred, for the broad reasons that I explained to the Committee, I think, last year.

1479. So you do not think an opportunity of this kind is likely to occur?—Frankly, I can see little prospect of such an opportunity. The broad picture is that, as you know, industry did contribute to what was described as a "once-for-all appeal" in respect of the cost of establishing the Design Centre. There are various reasons which make it very difficult, as I think, to expect that individual firms will contribute. I explained last year why industry as a whole, organised industry and bodies like the F.B.I. equally, found it difficult; and finally I would add that we have stabilised the Government grant at £180,000 a year for a period of three years ending in 1959-60 which means that if the Council wish to expand their activities

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Sir FRANK LEE, K.C.B., C.M.G.

[Continued.]

during that period or offset rising costs if there continue to be rising costs, they must somehow find revenue outside the Government grant. There is thus a direct incentive for them to maximise their receipts.

Mr. *Arbuthnot*.

1480. Sir Frank, would you, if you were placing a contract on behalf of the Board of Trade, accept a statement on behalf of the contractor with whom you were proposing to place that contract that he could not separate one section of his activities from the other and therefore could not give you an idea what the cost was of that part of the business with which you were proposing to place the contract?—If I were placing a contract on the deplorable basis of cost-plus and I wanted to have an investigation of cost I should certainly ask my accountants to do their best to break down the cost of the various components or stages of manufacture which made up cost. But I do not, with respect, think that that necessarily means that the Design Centre, though it is housed in the same building as is used for the Council's ordinary work, should for the broad purpose of considering their financial position be considered as something that is separable from their main activities. I have no doubt that if we were pressed to do it our accountants could cost out what the Design Centre costs as distinct from the other activities, making various assumptions about the apportionment of overheads, and so on, but what benefit that would be at the end of the day I am, frankly, uncertain.

1481. At the present moment you have not been able to give the Committee any idea what the costs of the Centre in fact are, and have tried to ride out by saying that all the activities of the Council must be treated as a whole. You would not be prepared to accept an excuse like that made on behalf of a contractor. Why do you expect the Committee to accept that excuse when you put it forward?—I do not regard it as an excuse. If I may say so, the right way of looking at this particular item of expenditure is to regard the Council of Industrial Design as one; their activities as one. The same staff, broadly speaking, to director or deputy level operate in respect of the Design Centre as they operate in the other branches of the Council's activities.

1482. A contractor would say the same?—I have not sought to make this an excuse, I have really tried to urge on the Committee that they should make a broad judgment on the Council's activities, viewed as a whole. Going back to your analogy of a contractor, if a contractor offered me a very good fixed price I should not seek to go beyond that or break it up; I would feel that that is what I would take and would not think it profitable to try to analyse each element in that cost.

1483. The difficulty we are up against, Sir Frank, surely, is that we are not satisfied that it is a very good fixed price?—You have a fixed price that the State pays to the Council each year, £180,000. It may well be—I hope it is not—that the Committee do not regard that as something which is well justified. What I am urging is that you should consider it in relation to the Council's activities as a whole.

Colonel *Crosthwaite-Eyre*.

1484. Sir Frank, in the last year who were the main people who used the Design Centre?—It depends in what sense one uses the word "use". There are, of course, the manufacturers who exhibit there who cover a wide range of firms ranging from people in the ordinary consumer goods field up to manufacturers of light engineering equipment, motor-cycles and things like that. There are, of course, those who come to view the Exhibition, the ordinary public, and there have been attendances of the order of 12,000 people a week at the Centre.

1485. I am not clear, is the Design Centre then a place where there are permanent exhibits of various firms or is this let out week by week to various industries, or what is the situation?—The answer is that it is both permanent and changing, and deliberately so. That is to say, it is a centre where one can always see examples of what are judged to be good design from a range of firms, but the particular exhibits there are only shown for a limited period and are then changed for other exhibits.

1486. When you say "exhibits considered of good design", they are chosen by the Design Centre as examples of pride to British industry?—Yes.

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[Continued.]

1487. Or is it merely a question of who pays the most to get into the show?—No, every exhibitor is chosen by the Council.

1488. And it is exhibited free?—No, then the manufacturer who is offering the exhibit for showing in the Centre pays an appropriate fee for doing so.

1489. How many exhibitors when offered this choice have turned it down because the prices were too high?—I have no information.

1490. Do you know whether that has happened?—I have never heard of a case. I think the last year one member of the Committee referred to—no, I beg your pardon, that was the other way round; that was when the Council had refused to accept an exhibit which a manufacturer wished to show.

1491. Would it be true to say that you always have competition for space in the Design Centre?—Yes, it has become a popular thing to do, and one of the reasons why the Council have been able to increase their fees is the shortage of space.

1492. How would you say your fees—after all, you have a very central position in the Haymarket—would compare with fees in similar centres where such exhibitions are held?—I do not think that I can answer that, in the sense that I have not got information about the fees that are charged in, shall I say, Copenhagen at the Permanente, which is probably the closest analogy. I should have to get the information from the Council on that subject.

1493. One other question: you said that the price of the magazine "Design" was put up?—Yes.

1494. How many copies of that are actually sold and how many distributed free?—It is, of course, the Council of Industrial Design's publication and not that of the Board of Trade, and I am not sure that I can—

1495. You said the price was put up. It is very easy to put up the figure on the cover, but if actually most of the copies are distributed free, it does not mean very much?—That is, of course, so. I could not say whether the copy that comes to me is paid for, but the great majority of copies are certainly paid for.

1496. Are they mostly for home consumption or do they go abroad?—It is mostly at home.

1497. Could I ask one question of the Treasury: in paragraph 3 of their Minute the Treasury say that their Lordships "are informed that the costs of the Centre cannot readily be distinguished from those of the Council as a whole"—well, we all know that—"of which it is an integral part financially and administratively, and the arrangements under which it is proposed to stabilise the Government's contribution to the Council at a fixed sum over the three years", and so on. Does that mean that the Treasury have in fact stated that after 1960, unless they are satisfied that the gap has been narrowed, they will reduce the sum payable?—(Mr. Macpherson.) We have not got as far as that. Our position is summed up in the last sentence, that we will look carefully at the amount of grant after 1960 with particular regard to the extent to which the Council have helped themselves to get other income.

1498. So you can say that their Lordships will be keeping a very careful eye on this one?—Oh, clearly.

1499. In the paragraph above, can you tell me what the last sentence means: "It must be borne in mind, however, that, apart from the intrinsic difficulty of securing subscriptions, due regard must be paid to the impartial standing of the Council". What is the value of that? Even the Treasury is impartial, at least it is alleged to be?—In a sense the Council is a propaganda organisation in trying to put across the value of good design. If then there is a tendency for other standards to be set other than the impartial judgment of the Council, you will probably get a situation in which they are not approaching this from an absolutely impartial standpoint.

1500. That is what I was afraid you would say, and that is why I asked you the first question first, that you were looking possibly at this Council with rather an eagle eye, but the sentence above seems to confirm, as you have rather indicated, that the Treasury have made up their mind that these are the only people who can do the job?—It is not a question of the only people who can do the job, but a question of having a look at this set-up having regard

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[Continued.]

to the intention that they are trying to fulfil and at the same time relieving the Exchequer of a burden. (Sir Frank Lee.) Could I just say, on the question which you are asking, that I think that the particular sentence to which you have referred is also intended to cover the fact, as I endeavoured to bring out last year, that the Council are somewhat

reluctant to press individual firms who exhibit at the Centre for subscriptions lest there should be a feeling, however unworthy, on the part of those firms, or perhaps on the part of the Council's staff, that the exhibits proffered by them ought to have special preferential treatment or favourable mention in the "Design" magazine.

CIVIL APPROPRIATION ACCOUNTS 1956-57 (CLASSES VI-X)

CLASS VI.

VOTE 1

BOARD OF TRADE.

Sir Colin Thornton-Kemsley.

1501. Now we will go to the Comptroller and Auditor General's Report, paragraphs 9-13, on pages vii and viii of the Civil Appropriation Accounts (Classes VI-X), Expenses of Bankruptcy and Companies Winding-Up Proceedings. Sir Frank, are the bankruptcy assets and companies liquidation accounts audited and presented to Parliament?—(Sir Frank Lee.) They are audited but not, I think, presented to Parliament since the moneys in the accounts are not public moneys.

1502. Is it correct to say that these accounts show only the uninvested balance and do not include an investment account?—Yes, that is so.

1503. Who decides how much shall be paid over to the Treasury for investment?—The Board of Trade, but it depends, of course, on the option which a liquidator can exercise under section 362 of the Companies Act as to where the amount shall be invested. I am sorry, could I go back? I should have said that it is the Board of Trade who estimate how much it will be desirable to keep liquid in order to meet liquidators' claims, and then it is the balance which is available for investment.

1504. On what evidence is the decision taken?—The Inspector General in Bankruptcy, who is in charge of bankruptcy and companies winding-up arrangements, does his best to assess in consultation with his staff and with those responsible for the liquidation of large assets what their cash requirements are likely to be in the period ahead. It is

on that assessment that he forms an estimate of what his liquid cash needs will be.

1505. Turning to paragraph 11, is it correct to say that as you saw no prospect of increasing fees you sought to increase income by investing in longer dated securities?—Yes, we did a very close examination of the question whether it would be right to endeavour to secure more income by increasing fees. We decided that it would not be, in our judgment, so advisable and then in an endeavour to increase the return from dividends this change of investment took place.

1506. Who is responsible for investment policy?—The Treasury.

1507. Now we go to the next paragraph, paragraph 12, and we learn that in 1955, 1956 and 1957 "exceptionally large proportions of the surplus funds . . . were required by liquidators for distribution". What was the reason for this exceptional demand by liquidators?—There were some very large liquidations happening at that time, for example, the winding-up of the Petroleum Board, and the necessity arose rather unexpectedly, in terms of timing, for large sums to be paid out in respect of the winding-up.

1508. What was the largest sum required by liquidators for distribution?—I am afraid I have not that information. I can supply it to the Committee.

1509. You spoke about the Petroleum Board. You gave that as an example.

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[Continued.]

Can you tell the Committee anything about the requirements in respect of the Petroleum Board?—I cannot, I am afraid. It just stuck in my mind as one I happened to note when I was looking into this particular matter where the requirement was a very substantial one.—(Sir Frank Tribe.) I believe it was a matter of £6 million.

1510. £6 million for the Petroleum Board?—Yes.

1511. Which year was that, Sir Frank?—I am not sure in which of these years it was.

1512. It was in one of these years?—(Sir Frank Lee.) I think it was 1955-56.

1513. And that was for the Petroleum Board?—(Sir Frank Tribe.) For the liquidator of the Petroleum Board.

1514. Certainly, Sir Frank, could that not have been foreseen?—(Sir Frank Lee.) Put in that way the answer can only be Yes, but I imagine that our officials, in consultation with the liquidator of the Petroleum Board, did their best to estimate when the amounts would be required but the estimate proved to be wrong.

1515. You are telling the Committee, are you, Sir Frank, that you did not in fact know that a sum of the order of £6 million was going to be required, but looking back on it you might have foreseen that?—What I am saying to the Committee is that we did not know the exact time at which £6 million would be required. The decision to reinvest part of the securities was taken in 1953 and we did not at that time know exactly when the £6 million would be required. In the event, it was required in 1955.

1516. Did you know that it was going to be about £6 million?—I imagine that the liquidator must have known that and must have informed my officials, but I do not imagine that he knew when it would be necessary or, in the early years, when he would be able to proceed to final payment.

1517. So the Board of Trade knew that £6 million would be required?—At some period.

1518. At some period in the not far distant future?—Yes, but, of course, you then face the other difficulty which we always have in trying to operate this

account, namely that it was facing default because of the very low return on Treasury bills which operated in 1953. We were very anxious to get additional dividends paid into this account; hence the decision to move out of Treasury bills to longer dated securities.

1519. I do not quarrel with that as a general principle, but was it not foolish, in view of an impending liability to pay a sum of the order of £6 million, to transfer all the money into long dated securities?—I must make two comments on that. In 1953 the necessity to pay £6 million was not impending in the sense of being immediately discernible. The second point is that the Treasury did not move all the money out of Treasury bills into longer dated stock; and the third thing—I must come back, I think, to this consideration—is that we do find this account extremely difficult to operate and perhaps are obsessed by the desire to increase the income from dividends.

1520. Mr. Macpherson, do you not think that the presentation of an audited account including particulars of the investment would be desirable?—(Mr. Macpherson.) We would agree, Sir, that this arrangement is not satisfactory; and we are in fact considering with the Board of Trade what can be done to put it on a better basis. It is unsatisfactory as it is now being done under the 1926 Act.

1521. It does mean in fact, does it not, that Parliament has no information at all about the state of investments of what are virtually trust funds?—It was with that in view that this account which the Committee now has before it was printed for the first time last year, because otherwise there was no means of seeing that this loss on realisation had in fact occurred; and the Treasury took the initiative in making provision, as is done in the Foreword then and now, to bring to the attention of Parliament what had happened as a result of the investment policy. We agree, Sir, it is not satisfactory.

1522. Do you think that the presentation of an account like this would require Parliamentary sanction? Would it require legislation?—We have not gone into it in detail but I think legislation is inevitable. That is my preliminary view. (Sir Frank Lee.) Yes, that is our view also.



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[Continued.]

Mr. Ramsden.

1523. What rate of interest do you pay on the balances made over to you?— $2\frac{1}{2}$ per cent. on balances in excess of £2,000.

1524. The principal is repayable in full at some date, is it?—Yes.

1525. So, if you lose money in the meantime on your investment of the principal it has got to be made up later out of the Exchequer, has it?—Not until the final end of time, as it were. Certainly, if there were a deficit at the end of time that would have to be made good.

1526. So, when you said that public moneys were not involved in this that statement of yours needs qualifying to that extent?—It is still technically not public moneys. The State is trustee for these moneys, in the sense that if there is a deficit at the end of the day it would be, I think, obligatory on the State to make that good.

1527. Why should the liquidator want you to act as his agent for the investment of funds rather than do it direct?—He is required to do that under the Companies Act. He has, as I began to say earlier, an option here. He can either leave the moneys with us in the Companies Liquidation Account, or he can ask the State to invest the moneys for him in some Government securities as an individual investment. In point of fact in recent times more liquidators have exercised the second option under section 362 (1), I think it is, of the Companies Act.

1528. Letting you do it for them?—Yes, but the point is that if he asks us to invest those funds in a Government security, say Treasury bills, he then does not get $2\frac{1}{2}$ per cent., he gets what is the current rate on Treasury bills, which is about 5 per cent.

1529. Do you propose to take any steps to make good the losses mentioned in paragraph 12?—No, it is a matter for the Treasury rather than for me. But the money is there to meet any out-goings which are necessary. It is only perhaps, as I say, at the end of time that there might be a deficit, depending on what has happened to the price of Government stocks in the meantime. (Mr. Macpherson.) It depends on whether all other long-dated stocks

which were bought in 1953 or earlier are realised at above their purchase price. For instance, if their holding should appreciate there will be an off-setting gain to the Exchequer to cover the loss so far incurred in realising the stock earlier to meet the liquidators' demands. It is too early to say that we are necessarily overall going to be involved in a loss.

1530. It is a gamble really?—It could be so described. In fact, as Sir Frank has said, it was a decision taken at the time in an attempt to try to increase the revenue from dividends.

1531. Leaving aside the gamble, the losses at the moment represent a potential liability on the Exchequer which is so far undisclosed to Parliament?—It has been disclosed to Parliament, as I say, in the Foreword to the Account, but that is the only way it has been so far disclosed to Parliament.

1532. Then I will ask Sir Frank. Would you not think, Sir Frank, that it would be more appropriate for losses like this to be made known to Parliament on the face of an audited account?—(Sir Frank Lee.) I think, frankly, that the only way, given the present legislation and the status of those funds, in which these possible losses can be reported to Parliament is in this Foreword.

1533. As things stand?—(Mr. Macpherson.) May I say, Sir, we did at the time this loss on realisation was incurred consider whether the loss should be shown in the Account now before the Committee and we were advised that it was not legally possible.

1534. So, we come back to the need for amending legislation if the present position is not satisfactory?—We certainly come back to that, because it is a very unsatisfactory situation, as is realised by both the Board of Trade and the Treasury.

Sir Colin Thornton-Kemsley.

1535. Has the Comptroller and Auditor General anything he would like to add to that on that point?—(Sir Frank Tribe.) I share the views of the other witnesses that the present position is very unsatisfactory. What I should think Parliament would like to have would be an account something like the account it gets for moneys paid into the

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[Continued.]

county courts. This shows the receipts and payments of the Accountant General of the Supreme Court and another account signed by the Comptroller General of the National Debt Office which shows how that money has been invested, the nominal amount, the cost price and the current market value. Then Parliament can compare the current market value against the liabilities. The means adopted at present by the Board of Trade of drawing some facts to Parliament's attention in the Foreword I do not think is altogether satisfactory. It is a Foreword to a printed document which calls itself an account but is not signed or certified by anybody, and it does not give details of either where the money is invested or a comparison of the cost price with the market value.

1536. Is it not even signed by the Accounting Officer?—No. (Sir *Frank Lee*.) No.

1537. Did Parliament not require that?—(Sir *Frank Tribe*.) It is not usual for the Accounting Officer to sign Forewords, but it is usual for Accounts presented to Parliament to be signed and certified as correct.

Colonel *Crosthwaite-Eyre*.

1538. Who actually publishes that?—It is presented to Parliament and ordered by the House of Commons to be printed. It is a Stationery Office publication.

1539. By whom?—By the Board of Trade. (Sir *Frank Lee*.) Perhaps I should say, that the investment side of this business as distinct from the Account to which the Comptroller and Auditor General has been referring and rightly referring as a strange document, that has been going on on the present basis, rightly or wrongly, since the latter part of last century, since 1885, I think it is, in the case of bankruptcy funds and 1890 in the case of companies winding-up funds. I am not saying for a moment that because it has a certain antiquity it is therefore right, but I do just mention that this practice has obtained for a very large number of years without there being any published investment account. (Mr. *Macpherson*.) It probably is linked to the fact that this is very old legislation and it gave the Treasury a position which I do not think the Treasury would occupy if legislation were being enacted now. (Sir *Frank Lee*.) Could I just add

one point? Someone asked who was responsible for laying the Account, this strange document, before Parliament. It is formally the Treasury under section 15 of the Economy (Miscellaneous Provisions) Act, 1926, who are responsible. We act as their agents.

Mr. *Arbuthnot*.

1540. Sir Frank, may I take you to paragraph 11 of the Comptroller and Auditor General's Report? How much does the cost of administration amount to?—The cost of administration of the insolvency services in the year under account, which is set out in the Bankruptcy and Companies Winding-up Account, was £586,000. (Sir *Frank Tribe*.) That is by the Board of Trade. There is a further £197,000 by other Departments. (Sir *Frank Lee*.) Yes, certainly.

1541. How much do fees and income from investments amount to?—In the same year the total income from fees was £178,000; from dividends (net of the 2½ per cent. interest), £273,200, making a total of £451,200.

1542. How much do you normally pay to the Exchequer, then?—The amount which is paid to the Exchequer is laid down in section 13 of the 1926 Act and in the year of account we paid £159,500. Section 13 subsection (4) of the Act to which I have referred provides that the amount standing to the credit of this Account at the 31st March of any one year in excess of one-third of the aggregate amount issued from the Account during the year ending on that date shall be paid into the Exchequer. That is a mandatory payment.

1543. Now, you changed your investment policy. Did the change in the investment policy narrow the gap between income and administration expenses?—Yes, it did for some years; indeed, I think when I was last examined on this subject by the Committee I was able to say that the Account looked like showing a balance, perhaps even meeting the overall cost.

1544. How does the gap stand now since you have had to realise a large part of your investment?—In the year of account we have receipts of £451,000 and the actual cost of the Board of Trade services was £586,000; but of course £159,500 had been taken away from us by the Treasury.

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[Continued.]

1545. So the gap is widening again?—The gap is widening, and if you go beyond the year of account, in the last two years the gap has widened so much so that in the current financial year we are having to take a Supplementary Estimate of about £120,000.

1546. What was the narrowest point that the gap reached?—In pre-war years—

1547. You have told us that the change in investment policy has narrowed the gap?—Yes. I was going right back. For instance, in 1953-54 the total receipts, that is, fees plus net dividends, went up to something of the order of £650,000 whereas the expenditure in the Board of Trade in that year was £432,000, and the expenditure on other Votes £141,000. So you see, even if one takes into account both the Board of Trade expenditure and that on other Votes there was no gap in that year. In 1954-55, however, the position was not so satisfactory, although there was a balance over the Board of Trade expenditure. In 1955-56 the income was £699,000, the Board of Trade expenditure was £523,000 and the other Departments' expenditure £157,000, so the account at that time was narrowly in balance.

1548. Mr. Macpherson, are you satisfied with this worsening position that Sir Frank has referred to for the year of account and projecting it to the present year?—(Mr. Macpherson.) I think I am right in saying, Sir, that up to the end of the year of account the total expenditure from the inception of the arrangements has amounted to about £10 million. That was the Board of Trade expenditure and the expenditure on other Votes. Against that there has been paid over to the Exchequer something of the order of £9 million. But since the end of 1956-57 there has been a change in that (a) the amount of money called on by the liquidators has increased and (b) the liquidators, as Sir Frank has said, have been exercising their option to invest their own funds. As a result the Exchequer is not getting the full benefit of investing as they hoped they might have got. So, the switch has meant that we have lost in terms of interest and we have also lost so far in terms of capital.

1549. You cannot blame the liquidators for locking after their own

interests, can you?—Certainly not. This is what has happened as a result of what was at the time a very laudable attempt to improve the revenue.

1550. It misfired?—(Sir Frank Lee.) No, it did not. (Mr. Macpherson.) It has to the extent that there have been those losses on realisation.

Colonel Crosthwaite-Eyre.

1551. Still on paragraph 11, Sir Frank. In 1951 when you first took the step of transferring investments under directions of the Treasury, what was the total amount that you had invested in Treasury bills?—(Sir Frank Lee.) I do not believe I have that figure, I am sorry.

1552. Could you give me any idea? I see that you transferred £5 million. Was that a very substantial percentage of what you had or a minor one?—(Mr. Macpherson.) Could I give that? I think I have the figures. At the 31st March, 1951, on the bankruptcy holding it was £1·080 million in Treasury bills and £·934 million in other stock. In the Companies Winding-up Account there was £8·055 million in Treasury bills and £2·092 million in other stock. At the 31st October in this same year there was a small increase to £1·15 million in Treasury Bills on the bankruptcy side, but on the companies side the holding of Treasury bills had gone down to £4·105 million and the holding of other stock had gone up to £7·234 million.

1553. So it was a very big change?—It was a very big change at that time and there was also a very big change in 1953.

1554. May I come on to that in a moment? What were the stocks you went into in 1951? They were all long-dated, I believe?—(Sir Frank Lee.) I have got the stocks that we are in now.

1555. I do not want to weary you in reading out a very long list?—No, it is not a very long list. If it would interest you, I have got the investments as at this February and I do not know what change, if any, took place because I am not sure that we were told.

1556. Could I just stick to 1951 for the moment, Sir Frank? Was it all long-dated investment at that time? Sir Frank Tribe says: "More remunerative long-term Government securities".

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[Continued.]

Would you agree that they were long-term?—The longest term of those that I have here are—

1557. Yes, but you are talking about the present. I am for the moment on 1951?—I am assuming there has been no change since 1951. I am only trying to help the Committee.

1558. In 1953 there was a further change?—There was a further switch.

1559. Could I ask you or the Treasury, whichever is convenient, how that altered the ratio again between Treasury bills and Government securities?—(Mr. Macpherson.) Yes. On the 5th September, 1953, taking the bankruptcy funds, there was £1.35 million in Treasury bills and in other stock there has been £934,000 throughout. That has been a constant figure. Treasury bills in winding-up moneys was £15.6 million, approximately, and other stock was £7.234 million. On the 14th January, 1954, there was no change, or very little change, in the bankruptcy funds; they had gone up by approximately £100,000 to £1.430 million in Treasury bills. Treasury bills in winding-up funds had gone down to £4.282 million and dated stock had gone up to £20.248 million. (Sir Frank Tribe.) I think perhaps I can give you the answer in simpler terms. This £12 million which had been in Treasury bills was sold and invested in three types of stock, £2 million of it in 2½ per cent. Funding Stock, 1956-61; just over £5 million in 3 per cent. Savings Bonds, 1960-70; and about £5½ million in 3 per cent. Savings Bonds, 1965-75. So, the final maturing dates were 1961, 1970 and 1975, the majority being in the latter two.

1560. Medium and long-dated?—(Mr. Macpherson.) May I say that the Treasury at that time did take the advice of the Board of Trade on the likely foreseeable demands before we bought this stock. (Sir Frank Lee.) Oh, certainly.

1561. That is what I wanted to ask Sir Frank, because it is very obvious that this programme must have been worked out with your co-operation yet it seems that you rather under-estimated the amount of the liquidity you would want?—We did.

1562. Do you think that could happen again, or was it because of any particular circumstance?—I think it can probably happen again. I daresay, having regard to this experience, we shall over-estimate the amount of liquidity we want but, of course, we shall then be up against the other horn of the dilemma of what happens in this Account if the return on Treasury bills were to fall very much.

1563. I think you will agree with me it is much more preferable, perhaps, to get not so much interest than to lose the capital, which in a sense is not your own?—I would, with respect, entirely agree with that, except that we are conditioned by the requirements of the 1926 Act and of this Account.

1564. About the amount you hand over, but in an earlier answer I thought you had rather given the impression, possibly, that the Treasury had dictated your investment policy?—Oh, no, the Treasury consult us about the degree of liquidity we think we shall want. The extent to which the Treasury invest these moneys in the stocks is their concern and they are responsible, subject to our indication of our liquidity requirements. The point I was trying to make is that, given the necessity of trying to make this Account balance, there is a natural interest on our part and on the Treasury's to maximise the amount received in the Account from dividends.

1565. Yes, but I would have thought, particularly in regard to the funds you are dealing with, that your main duty was rather to be a prudent trustee than a speculator in income. I thought the funds you were looking after were funds of those who had chosen the latter course and had come to grief, and the Board of Trade should be the last to follow that example?—I think you are only repeating all I have said many times about the essential anomaly of these arrangements where, whereas all dictates of prudence and responsibility point to one course, the requirements on the other hand to maximise the funds which Parliament laid down in 1926 point to another course.

1566. But you are, above all, a trustee?—Yes, and of course there has been no default.

1567. I am sorry to press you on this, but your first duty, surely, is to safeguard the capital rather than to take

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[Continued.]

any chance to increase the income which may result, as it has in this case, in both a capital loss and a loss of income?

—With respect, of course, I recognise the obligations of a trustee, but I do not accept that this money has necessarily been lost. That, as Mr. Macpherson said earlier, depends on the final turnout when these stocks are sold.

1568. May I put it this way: you have lost on what you have had to realise so far?—There has been a loss; it might, of course, have been a gain.

1569. Now, you are a trustee and I do not think any trustee appearing before a Bankruptcy Court would get away with the statement that there might have been a gain?—Perhaps not.

1570. At least, I have never heard of that yet?—Perhaps not, but not all trustees appearing in Bankruptcy Courts are under any such requirements as those laid down by Parliament which compel us to seek to maximise the return.

1571. Without pressing this too far, would you agree with me that your main task must be with funds of this nature to safeguard the capital which is entrusted to you?—Certainly, yes, in which case the most prudent course might be to lock them up and not invest them at all.

1572. Now I want to come to the second question. We have heard about the accounts of many other funds which show the price at which the securities were bought and their present value together with their nominal value. Can you tell me how much you have lost on your investment policy to date, both at the 1951, 1953 and any other subsequent investments, by way of capital?—I think that is really for the Treasury. (Mr. Macpherson.) The figure I have for the 10th March this year is £1,012,964 11s. 7d.

1573. Out of a capital of £20 million?—£20 million odd.

1574. So, you have lost 5 per cent. of the capital?—I am not sure of the total. The nominal value of the total investments at the 14th February was £13½ million.

1575. Is this figure you are giving—I want to be very clear about this—at the end of the year we are discussing?

—No, the figure I gave you was at the 10th March this year.

1576. The latest date?—Yes.

1577. Do you expect it will go down further?—It is very difficult to say.

1578. Have you got any idea of re-investing to offset it? Have you consulted the Board of Trade about it?—(Sir Frank Lee.) We are reviewing the whole of these arrangements and the question of investment policy is bound to be one of the matters that we shall have to consider.

1579. We have heard a lot about this switch from Treasury bills to medium and long dated Government securities. When did you last discuss with the Treasury whether it would be as well to go back into Treasury bills, particularly as they are giving such a good rate of interest? When was the last conference between the Board of Trade and the Treasury on this point?—There would be no moneys to invest.

1580. To reinvest?—You mean, whether we should reinvest back in Treasury bills?

1581. Yes?—Frankly, we have not discussed that because to sell the stocks now would only result, of course, in further loss; and when there is a chance that that may happen why should we think it right to reinvest?

1582. I would say this: you have lost £1 million of your capital because of a certain policy. I am not quarrelling with the reasons that made you take that policy, but you were wrong both as to the amount of the capital increase and of the accrued income you would get vis-à-vis the short Treasury bills, and so on?—Not accrued income; I do not think we were wrong. Accrued income at the time went up.

1583. Yes, at the time, but over the period?—Certainly, over the last two years it would appear to have been wrong, but I still think it does not necessarily follow that it would be wise policy to dispose of those stocks, taking a substantial loss.

1584. May I go back then just to ask this final question? In view of the fact that at the moment both on capital and current account the policy you have pursued is not going as you expected, when

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[Continued.]

did you consider it last necessary to consider with the Treasury as to whether any alteration of policy was necessary?—We wrote some few months ago to the Treasury saying that, in our judgment, the whole of these arrangements, particularly if I may say so, the obligation on us under the 1926 Act to maximise the revenue return, was wrong and that we should have a complete review of these arrangements, which is now in progress, with a view to our promoting amending legislation.

1585. I am sorry to press this because I do want to get, quite apart from your statutory obligations, this question of your funds. Does this mean you will get no answer from the Treasury about this question I have directed to you on funds until they have solved the question of amending legislation?—I think, with respect, the subject is one; I think we have to look at this as a whole. What, given the fact that we can perhaps secure a change in the 1926 Act, is the most sensible way of using these moneys; and that is what we shall seek to do. (Mr. Macpherson.) As I said, Sir, I do not think it is fair to regard this as a loss on the operation as a whole. The operation is by no means completed yet.

Mr. West.

1586. At any rate, it is quite clear, Sir Frank, is it not, that the moneys that you invested were invested in stocks which were designated by law as trustee securities?—(Sir Frank Lee.) Yes.

1587. Any prudent trustee, if he went outside the range of trustee securities, would be committing a breach of the law?—Certainly.

1588. Take the liquidators who exercised their option. They can decide the trustee securities they can take up?—They can only take up Government stocks.

1589. Well, trustee securities, Government stocks?—Yes.

1590. If they sustain a loss on realisation are they under any personal liability or is it regarded as, in fact, a loss which is unfortunate but not attributable to any default on the part of the liquidator as trustee?—They are not under any personal liability and the presumption is that they have behaved as prudent trustees.

1591. They carry the loss if any loss is sustained?—Yes.

1592. And they receive the enhanced income by investing it in that way?—Yes. The creditors suffer any capital loss.

1593. In the same way, you had these funds which you were holding for liquidators and you invested in Government stocks in precisely the same way that they are entitled to do?—We did.

1594. Now with regard to the Accounts which are presented to Parliament, it has been mentioned that the accounts do not contain any certificate at all. Were the Accounts in fact audited and certified?—The main Accounts, that is the Bankruptcy and Companies Liquidation Accounts, are audited by the Comptroller and Auditor General. (Sir Frank Tribe.) Audited under section 3 of the 1921 Act, which means that I carry it out at the request of the Treasury but do not present the Accounts to Parliament.

1595. I gather it is perfectly proper to disclose the figure in the Foreword but not in the Account itself?—(Sir Frank Lee.) Not in this particular Account which is an account, as it were, prescribed by the 1926 Act which really has, if I may say so, nothing to do with the capital outcome of the main Bankruptcy or Companies Winding-up Accounts. This is really a revenue account and not a capital account, a revenue account laid down in specific terms.*

Sir Colin Thornton-Kemsley.

1596. Paragraph 14-18, the British Travel and Holidays Association. Sir Frank, judging by the figures in paragraph 16 your pressure on the Association to make greater efforts to increase subscription income was not particularly successful, was it?—I think, to put the matter in the right perspective I should, if I may, project the figures forward from 1955-56 which is the last year mentioned in paragraph 16. In 1956-57 the Government grant to the Association was £800,000 and the Association found either by subscriptions or by other receipts of miscellaneous revenue, £185,900. In the current financial year, 1957-58, the Government grant stays at £800,000, but the receipts which the Association will hope to obtain from non-Government sources have gone up to £206,000. In the financial year ahead of us the Government grant will stay

*See also App. 3.

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[Continued.]

at £800,000 but the receipts which the Association estimate to receive by subscriptions, donations and miscellaneous revenue will go up to £224,000. So, compared with, shall I say, five years ago, when the Association produced by its own efforts £1 for every £6 of Government assistance, the proportion is now £1 for every £4 paid by the Government.

1597. How does the Association know what the subscription income in 1958-59 is going to be?—I think that the subscription income is roughly now of the order of £74,000 a year, made up from a variety of sources, associate membership, hotels and caterers, local authorities, shipping firms, air services; and, I think, just as in any ordinary club, the assumption is not only that the subscriptions will be maintained, but that some additional members will be received, and it is on that basis that an estimate of £75,000 has been put forward.

1598. You are fairly satisfied with the position, are you?—I am satisfied, yes, that the Association has made, as I hope the figures I have quoted show, a real effort to increase its receipts from outside sources; and I would say this, that it is not, I suggest, unsatisfactory that in 1956-57 and 1957-58 the Government should have maintained its subscription at the flat rate of £800,000, so that the incidence of rising costs during that period has had to be met by the Association by getting more money from outside the Government instead of pressing us to increase our grant.

1599. Do you think that the basic grant is low enough to provide a real incentive to the Association?—Yes, I do think so.

1600. Do you use this incentive method of calculating grants in aid by the Board of Trade to any other bodies which are partly supported by subscriptions and by non-public revenue?—There are certain pound for pound arrangements. For instance, with the Dollar Exports Council and, I think, in one of the Design Centres we have a pound for pound system, but it is on a scale very much smaller than this; and the British Standards Institution, if I remember rightly, is on a matching grant basis.

1601. Mr. Macpherson, in 1950 the Treasury did not think it would be feasible to make the grant proportion-

ate to the voluntary subscriptions received. What led to the change of mind in the Treasury?—(Sir Frank Lee.) Perhaps I might answer that. We urged the Treasury to change the basis because it was represented to us by the Association, and we thought with force and validity, that if the Government assistance fell by each additional pound which they received from outside sources it was not really an arrangement calculated to appeal to people very much to increase their subscriptions to the Association. Perhaps it ought to appeal to them in their role as taxpayers, but the fact is it did not have an appeal; and it was in order to give the Association itself and the people prepared to help it a positive incentive that if they produced more money that would either enable the Association's activities to be increased or maintained that we pressed the Treasury and the Treasury agreed to make the change. (Sir Frank Tribe.) That, of course, was the view of the Public Accounts Committee in 1948-49 but the Treasury turned that down. (Mr. Macpherson.) All I can say, Sir, is that we must have been persuaded by the Board of Trade arguments, who must have put them more forcibly than the Public Accounts Committee. (Sir Frank Lee.) I cannot accept or repudiate that suggestion.

1602. Are the Treasury now taking steps to use this incentive method of calculating grants in aid in all other appropriate cases?—(Mr. Macpherson.) I am not aware, Sir, of cases where it has been tried. I am sorry, I just do not have that.

Colonel Crosthwaite-Eyre.

1603. Could we ask whether the Treasury is now convinced by the Board of Trade arguments?—In this field, yes. Whether it is capable of favourable extension is another matter.

Mr. West.

1604. How does the Association go about the business of collecting subscriptions and donations?—(Sir Frank Lee.) It has people on its staff whose business is to endeavour to maintain or solicit subscriptions and they write round to people like local authorities, hotels, brewers, and so on, who they think might be disposed to subscribe.

1605. Who are the biggest subscribers, in fact?—A number of local authorities subscribe something over £33,000

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[Continued.]

out of a total of £74,000 or £75,000. Inland transport, meaning the railways, nearly £9,000, other trades—I am afraid not specified—£7,500, and hotels and caterers £6,500.

1606. If a hotel or a local authority makes a subscription do they have any special mention in the brochure which is issued by the Association?—Not a hotel. With a local authority an endeavour is made by the Association in its advertising or publicity to make some reference to the attractions of the place which the local authority represents.

1607. Are there any means of measuring the results of overseas publicity?—No, not in the sense that a direct co-relation is really possible. I do not think one can say with any validity that a given expenditure overseas of £X will produce Y additional tourists to this country. All one can do is to look at the overall figures of the numbers of tourists visiting this country and the foreign exchange which we receive, which has increased in a satisfactory manner, and to check whenever we can our belief and the Association's belief that if advertising were severely truncated there would be a risk that the numbers would fall.

Mr. Arbuthnot.

1608. What is the basic grant?—Well, it is set out in paragraph 17 of the Comptroller and Auditor General's Report, and it is subject to a maximum of £800,000 which the Association will earn in each of the years both 1956-57 and 1957-58 and the coming financial year.

1609. This is what is slightly puzzling me: in the year in which the subscriptions and donations are £60,742, it has reached the maximum so therefore it must be somewhere around £700,000 plus. I am wondering just exactly what the figure is, because it seems to me, trying to work it out mathematically, it is such an odd figure that something must be wrong with my mathematics?—Is it not shown in the second sentence of paragraph 17: "The grants in aid for the three financial years, 1956-57, 1957-58 and 1958-59 were fixed at £740,000, £735,000 and £730,000 a year respectively as a basic grant together with an additional grant", pound for pound.

Mr. Arbuthnot.] That is it; I see, thank you.

TUESDAY, 18TH MARCH, 1958.

Members present:

Sir George Benson, in the Chair.

Mr. Arbuthnot.
Colonel Crosthwaite-Eyre.
Mr. Hoy.

Mr. Peyton.
Mr. Stevens.
Mr. West.

SIR FRANK TRIBE, K.C.B., K.B.E., and Mr. J. MACPHERSON called in and examined.

TREASURY MINUTE ON PARAGRAPHS 59-65 OF THE THIRD REPORT OF THE COMMITTEE OF PUBLIC ACCOUNTS, 1956-57.

SIR HARRY MELVILLE, K.C.B., F.R.S., Secretary, Mr. S. H. SMITH, O.B.E., Finance and Accounts Officer, and Mr. P. D. GREENALL, Senior Principal Scientific Officer, Grants Division, Department of Scientific and Industrial Research; and Professor W. MANSFIELD COOPER, Vice-Chancellor, and Mr. R. A. RAINFORD, Bursar, Manchester University, called in and examined.

Chairman.

1610. Will Members please turn to the Treasury Minute on paragraphs 59-65 of the Third Report? Mr. Macpherson, will you tell the Committee what the present position is with regard to D.S.I.R. grants for this telescope?—(Mr. Macpherson.) I am not absolutely up to date within the last few days, Sir, but the Treasury have authorised the D.S.I.R. to pay the balance of £80,000 on the £130,000 which they offered in 1956, under certain conditions.

1611. Have those conditions been fulfilled?—I am not aware what the position is from the D.S.I.R. end. That is what the Treasury have said.—(Sir Harry Melville.) May I reply to that, Sir?

1612. Please do?—Yes, the conditions are that we should get a certificate to state that this telescope was in fact functioning satisfactorily. We have had that certificate and the money, the £80,000 that Mr. Macpherson refers to, has been, in fact, sent to the University.

Letter and Memorandum from Sir HARRY MELVILLE relating to Jodrell Bank Radio Telescope.*

Extracts from Report of the Committee of Inquiry into the increased cost of the Manchester University Radio Telescope.†

Chairman.

1619. Now, we have before us Sir Harry Melville and Professor Cooper. You are now, I believe, Vice-Chancellor

*App. 7.

†Not printed.

1613. That will be the final payment from Treasury money?—Yes.

1614. How much remains to be found from other sources?—Perhaps the Vice-Chancellor could answer that?—(Professor Cooper.) I think about £130,000, Sir.

1615. The Treasury has quite definitely agreed, Mr. Macpherson, that £80,000 is the final payment?—(Mr. Macpherson.) Yes, Sir, we have said quite definitely to D.S.I.R. that this is our final payment for the construction of this telescope.

1616. Just one other point, Mr. Macpherson. There are other sources of Treasury money than the D.S.I.R. Does your answer include all other sources of Treasury money?—Yes, Sir.

1617. That no Treasury money, either directly or indirectly, will go to the payment of this telescope?—Yes, that is the position. You are thinking in terms of the University Grants Committee?

1618. Well, there are various sources; I will not enumerate them all. It is all inclusive, is your answer?—Yes, Sir.

of the University, Professor?—(Professor Cooper.) Yes, Sir.

1620. Members have had two papers circulated, the Memorandum from Sir Harry Melville, which is marked "M.3", and the Extracts from the Report of the

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and Mr. R. A. RAINFORD.

Committee of Inquiry, which is "M.4". Sir Harry, you have had these two documents—of course, you provided one. Was your previous statement—you remember, the statement that was made last year that Professor Lovell was not consulted as to any alterations in the design—based on the Report of the Committee of Inquiry?—(Sir Harry Melville.) Yes, entirely, Sir. That is how I was advised.*

1621. Now, you have read the first sentence of paragraph 19 of the consultant's memorandum?—Yes.

1622. Do you accept it?—That is, paragraph 19 in the document that we sent to the Committee?

1623. Yes. "The Consulting Engineers maintained the fullest consultation throughout with the Professor of Manchester University"?—Yes, we are satisfied.

1624. "Who was kept fully informed of any engineering, and possible financial, consequences"?—Certainly as far as the engineering part of it was concerned, I think we are satisfied that there was that extensive consultation, based upon the correspondence which we have seen between the consultant and the Professor of Radio Astronomy.

1625. So that the evidence you gave us last year was totally incorrect?—It was incorrect in the sense that I did not then have knowledge of the extent of the technical consultation which had, in fact, taken place.

1626. No, I am not suggesting that you deliberately misled us?—I was unaware of this.

1627. You were entirely unaware of the fact that there had been advice and full consultation with the representative of the University?—I would say, the Professor of Radio Astronomy.

1628. Well, the Professor of Radio Astronomy? He was living on the site

and he was directing the project?—(Professor Cooper.) Would it be proper to make a correction there? Professor Lovell does not live on the site. That crept into your Minutes last year. He lives three or four miles away, but not on the site.

1629. To use the word colloquially, he lives on the site?—Yes, he is not very far away.

1630. What I mean is that he spends the whole of his time there?—Indeed he does.

1631. Sir Harry, how do you square that with the statements in paragraphs 8.1 and 8.2 of "M.4", particularly 8.2?—(Sir Harry Melville.) That is to say, the Committee of Inquiry's Report?

1632. Yes: "The University told us in evidence, and the Consultants confirmed, that no prior approval for this substantial variation had been sought". That is a categorical statement?—Yes, that is true.

1633. And yet it is admitted that Professor Lovell, who was in charge of the thing, was in daily contact and knew everything that was going on?—Yes; I think I should, perhaps, ask Professor Mansfield Cooper to elaborate the point. The difficulty is to define what is meant by "the University". Professor Lovell is in his observatory and he has had these dealings with the consultant, but the Professor is not the University. The University is the Chancellor, the Vice-Chancellor and the Bursar, as far as the conversations between the consultant and the University are concerned.

1634. If you have difficulty in defining what "the University" is, is it surprising that the contractors assumed that Professor Lovell was speaking for the University?—I do not think that would be the case.

1635. What do you say, Professor Cooper?—(Professor Cooper.) I think, Sir, one would have to draw a distinction in so far as the scientific aspects of this project were concerned that, as the person who knew what he wanted, namely, the scientist in charge, it would be wholly proper for the consultant to turn to Professor Lovell. On the other hand the contractual power of the University does not lie in any academic members of the staff at all, it lies in

* Note by witness: The Committee of Inquiry Report referred to technical discussions between Professor Lovell and the Consultants and any contrary implication in my reply was due to a misunderstanding of the Question. I am now satisfied that there was frequent consultation between the two parties on matters of design.

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and Mr. R. A. RAINFORD.

the Council of the University operating through the Bursar. This was followed, Sir, I think, in every case of a contract other than these variations.

1636. Sir Harry, how far did you remain in contact with the development of this telescope?—(Sir Harry Melville.) We were made aware of what was happening month by month by the Building Committee which was set up after the Committee of Inquiry; so the Department was well aware of what was going on in that way right up until after the instrument was completed.

1637. The Committee of Inquiry was set up after the decision to alter the instrument had been taken?—Yes.

1638. Now, as to this Committee of Inquiry; who wrote the terms of reference?—I was not in the Department at the time, but perhaps Mr. Smith could indicate how it was done? (Mr. Smith.) The Department, I think, in consultation with Manchester University agreed the terms of reference.

1639. The terms of reference appear in paragraph 1.4: "We were charged to inquire into the present technical and financial position of the radio telescope and especially (a) the reasons for the large increase in the estimate of cost, (b) the necessity or desirability of the proposed changes in design, and (c) the reasons for the delay in informing the Department and the University of the financial position; to define the maximum cost of building the telescope; and to make such other comments as may assist the Department and the University to decide what action should be taken to meet the situation". Those were the terms of reference. Do you accept the implication in paragraph 6 of the consultant's memorandum—that is, M.3? You see there that the consultant exchanged 1,000 letters with the Bursar and the Vice-Chancellor. In this inquiry of yours did you read those 1,000 letters?—(Professor Cooper.) No, Sir, those are 1,000 letters in the hands of the Bursar and the Vice-Chancellor. There were as many again which had passed between Professor Lovell and the consultant and we relied in the main on the oral examination of the witnesses.

1640. Who did you have as witnesses?—Mr. Rainford the Bursar, Professor

Lovell and Mr. Husband, chiefly. We had representatives from the Department, who talked about their view of the relations of the Department, grants and so forth.

1641. Again from your Report in paragraph 2.11, it appears that it was not until October, 1955, that the University knew that the design had been changed substantially. When did Professor Lovell know?—Oh, I think he had been consulted about changes in design all along.

1642. He had?—He would say, Sir, I think, if he were here, that he had been consulted on the basis of a redistribution of steel within the bowl.

1643. The original scheme was a mesh scheme?—Yes. When I was talking about the bowl I was meaning the whole of the suspended structure, not just the lining.

1644. Did Professor Lovell not give you any hints as to what he was letting the University in for?—He would not give me any hints; I was not in office at the time.

1645. Would he not tell the Bursar?—I do not believe that he knew. If you talk in terms of a redistribution of steel within the bowl you may in fact get a new and better design without any additional financial cost.

1646. Have you read these letters of Professor Lovell on the need for manoeuvring?—Yes, I have, Sir.

1647. Do you believe that Professor Lovell thought he was going to get this entirely new structure for the same cost?—Yes, implicitly. I think Professor Lovell, Sir, may have made errors, as any human being may, but I do not think one can impeach his probity at all.

Mr. West.] That seems to be borne out by his letter of the 26th April, 1954, which apparently says that, after he had been seeking the advice of the consultant on possible changes that would have been more than minor, he wrote to the consultant saying: "I am afraid the practical situation is that I cannot authorise you to engage in modifications to the steelwork which will increase the cost over the present estimate".

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Chairman.] I know. Professor Lovell's letters, if I may say so, struck me as extremely equivocal.

Mr. West.] I should have thought that was emphatic enough, that he could not authorise anybody to engage in modifications which would increase the cost over the present estimate.

Chairman.] Yet he was aware all the time that these very drastic alterations were going on.

Colonel *Crosthwaite-Eyre.*] May I remind you of paragraph 10 which seems to bear out your point? Professor Lovell says: "Although I am naturally very grateful for Mr. Rainford's help in the present financial difficulty, I must nevertheless be extremely careful that any independent approaches he makes to the D.S.I.R. are not likely to interfere with our requirements on the radio telescope".

Chairman.

1648. Exactly. I find that these excerpts are extremely difficult to interpret and it is very difficult to arrive at the truth?—All I would ask, particularly in the case of that letter and in a number of others, is that if you are going to have the letters as evidence the whole of the letter be put in and not an extract.

Colonel *Crosthwaite-Eyre.*] Have you got the whole of these letters?

Chairman.

1649. If I may say so it was you and the consultants who were putting in extracts?—No, Sir.

1650. Your quotations are very short. In paragraph 2.11 of your document you say that it was not until October, 1955 that the University knew the design had been changed substantially. Again, you are separating the University from Professor Lovell?—Yes.

Colonel *Crosthwaite-Eyre.*

1651. Could I interrupt? It would help me a lot if I could know what were the terms under which Professor Lovell was working. What sanction had he from the University to incur expenditure on the site? What were his powers? Were they written by the University?—I would like my Bursar to correct me in this matter, but I think I am right in

saying he had no power to incur expenditure other than trivial and recurring expenditure.

1652. Were there any documents which set out Professor Lovell's powers or terms of responsibility from the University, altering his instructions or whatever it was?—No.

1653. None whatever?—No, I think not.

1654. A verbal arrangement between what, the University and himself?—Between the Council and himself.

1655. Surely, in that case, the University must take full responsibility for whatever Professor Lovell said?—Not full, but some responsibility, Sir.

1656. They certainly wrote down no terms of reference?—No, Sir.

Chairman.

1657. According to paragraph 2.11 of your Report it was not until near October that the University knew the design had been substantially changed?—Would it be proper for me just to intervene for a moment?

1658. Yes?—In October, 1955, the Bursar told officers of the Department that the consulting engineer now thought an extra sum would be required. In point of fact, the Bursar had very real doubts from March of that year, and from March 30th he was doing what he could to secure adequate financial information from the consultants.

1659. On March 28th the consultants were writing asking to be put into direct contact with the D.S.I.R.?—Yes.

1660. They wrote on March 28th, on the 31st, on the 15th July and on the 20th July with the same purpose in mind, of contact with the D.S.I.R. Why were they not put in contact?—Because the view of the University, the Bursar and his lay advisers at that time was that privity of contract ran between Mr. Husband and the University; and the Bursar did not want to go to the D.S.I.R. with another half tale; he wanted the whole financial story. If I may make one further observation, I would say this, that from March onwards those letters sent by Mr. Husband are, at any rate, contemporaneous with the

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efforts of the Bursar to unravel the situation; in other words I think they were prompted by the efforts of the Bursar to get to the root of the matter.

1661. Did anybody from the University besides Professor Lovell see the telescope during its construction?—Oh, yes.

1662. Who saw it who would have technical knowledge?—Very few, I think, would have technical knowledge.

1663. Did no professor of engineering go near it?—Well, I am just wondering how very much there would be to see at that particular period. The answer to your specific question is that a professor of engineering did not go near it, I think.

1664. Was it ever pointed out to the consultants that Professor Lovell had no authority whatever to commit the University?—I admit that the contract is not tightly enough drawn in this matter. This is one of the lessons, I think, we have learned. The contract defines the University as “the client” and requires the approval of the client. Now, the Bursar in a university is, I should have thought, recognised as the financial officer; and as I am saying, the appropriate and proper channel was being pursued, as far as I can see, with the greatest propriety by Mr. Husband in every matter excepting this question of the variations.

Colonel Crosthwaite-Eyre.

1665. What was the date of the signing of the contract?—This would be in 1950.

1666. I only want it in rough terms, so as to get it in perspective. In 1950?—I would like to check that; October, 1950.

Mr. Hoy.

1667. The excerpt has already been put to you in which the professor told the consultants: “I am afraid the practical situation is that I cannot authorise you to engage in modifications to the steelwork which will increase the cost over the present estimate”. What I was wondering was, when the Committee were enquiring into this, did they ever find out what the Professor meant by those words “the practical situation”?—No, I do not think we did. I think it is fairly obvious, is it not?

1668. Is it?—I should have thought so.

1669. What do you think it means?—I should have thought it meant, in fact, we cannot do this however desirable it may be. The practical situation is that we cannot proceed.

1670. If that is your interpretation of it, let us go to paragraphs 14 and 15 of the memorandum submitted by Mr. Husband. Is it not clear from paragraphs 14 and 15 of the consultant's memorandum that the Professor was told all about the modifications on 3rd May, 1954, and also on various dates in July and August, 1954?—Yes, I think many changes and modifications had from time to time been discussed.

1671. You think that the Professor was told all about it, anyway?—Yes.

1672. In that case, were the Committee aware of the Professor's letter of 30th July, 1954?—No. We had a number of these letters, Sir, but I do not think that that particular letter was before us.

1673. Would you not have thought that this was an instruction to go ahead and raise no question of cost at that date?—I frankly do not know what that means, and I could not accept the responsibility of giving evidence on Professor Lovell's letter here. Really, I do not know what it means.

1674. You do not think it means what I am suggesting?—I think it may conceivably have meant that.

1675. Do you not think that the letter of the 16th August, also in paragraph 15, means very much the same thing?—Yes, but this letter, as far as I remember, talks about a sum of £40,000 odd, which I think was still the sum that had arisen in connection with this request from the Ministry of Supply, and I think that that is probably the situation there.

1676. I have a different feeling on this. May I quote to you, Professor, what Professor Lovell's letter to Mr. Husband on the 16th August said: “Of the savings which I have suggested above there are items which could fairly easily be added to the telescope at a later date and I am sure that a manoeuvre of this

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kind would be preferable to a retrogression to the old design". Now, he says that to begin with and then at the end he finishes by saying, and I hope I am quoting him quite fairly: "Then I feel confident that I could present a very convincing case to the Bursar and the D.S.I.R. and thus come out into the open on this matter"?—Yes.

1677. Does this mean that the consultant and the Professor had not then come out into the open?—I am sorry, I have not got the letter, but I think one of these letters talks about the money, despite Professor Lovell's letter of April in which he said "We cannot go on." I think one of the letters says that in fact a good deal of this is a *fait accompli* and if this is so then the only thing which could happen would be an attempt—I think the notion was, though again I speak subject to correction—that some savings should be made on the driving mechanism.

1678. What you are saying is that having been faced with this *fait accompli*, rather than disclose it to you they went on to do something more because the Professor then felt that, having got that distance, he would be able to convince the Bursar and the D.S.I.R. by coming out into the open that there was no alternative?—That does seem the logic of the situation. Yet knowing both Professor Lovell and Mr. Husband, I would find it extremely difficult to believe that they were conniving in that way. I may be wrong, but I would think that whatever error and misjudgment there may have been they are both people of complete probity.

1679. I am not suggesting otherwise at the moment. I am only dealing with the evidence that is submitted to us?—I think the implication there might bear that interpretation.

1680. I might remind you that we are dealing with the correspondence between Professor Lovell and the consultant?—Yes.

1681. They were the only two people at that time?—Yes.

Mr. West.

1682. And, Professor, in the letter to which Mr. Hoy has referred there is a

part of a sentence which says, and this is a letter from Professor Lovell to the consultants: "In any case, we only have enough money to provide about half of the driving system"?—Yes.

1683. That was the statement of fact at that time?—Yes. Would it be in order just to read a part of this letter, which I think has some relevance to what the honourable Member has said?

Colonel Crosthwaite-Eyre.

1684. Which letter is this?—This is the 16th August, 1954. I am reading from the actual letter, not the quotation. Would that be proper?

Chairman.

1685. Certainly?—"Naturally I am very concerned about this matter, particularly in regard to the excess expenditure which you mentioned. During the visit which I paid to you with Dr. Davies at the end of April I told you I had failed to obtain a special grant from the Ministry. At that stage you estimated that the bowl could probably be stiffened sufficiently for a comparatively small extra sum of £10,000 or £15,000, which I anticipated it might be possible for me to find from other sources. Now, however, you mention a figure of £46,000 as an upper limit. I must emphasise that although this is the figure which I discussed with the Ministry of Supply, it now has no significance since I told you in April I had failed to obtain the grant". I think it is absolutely necessary to say—I feel very reluctant to say this in the absence of Mr. Husband, but the procedure of this Committee demands it—that in the end, I think, what really influenced the Committee of Inquiry of which I was the chairman—I must not speak for my colleagues—at any rate, what influenced me was three things which he said. He said first of all that theoretically the new design was a better design for the same weight of steel; secondly, that he had misled himself and in consequence had misled Professor Lovell on this matter; thirdly, that the model which had been used for the wind tunnel tests had proved a not very reliable guide, in fact, for the amount of steel which ultimately had to go into the trunnions. It would be impossible to over-estimate the co-operativeness and the frankness of the evidence which my

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Committee had from Mr. Husband; and so scrupulous was he in his effort to put Professor Lovell's part in the transaction above any ambiguity at all, that, later in that session, he returned to the matter saying: "I want to emphasise that I probably seriously misled Professor Lovell in this matter". Now, this, more than anything else, was the matter which influenced me in that Committee of Inquiry, because I think Lovell had talked all along of a redistribution of the steel in the bowl and I think at that stage all the parties really believed that there was no very great cost involved. In any case, you are referring to all these letters. I do not think it ought to be forgotten that in November, 1954, we received an estimate which showed a considerable increase in the driving system but in which the increase in steel was only something between £15,000 and £16,000. If there is a place to show your anxieties about expenditure it is not in letters, Sir, it is in the estimate, and that estimate came in in November, 1954. I have given that evidence, Sir, with very great reluctance but I think it is really most germane.

Colonel Crosthwaite-Eyre.

1686. Do those statements that you have just made appear in the full transcript of your report?—No, Sir, they appear in the rough—I am afraid very rough indeed—Minutes of the Evidence which were taken.

Chairman.

1687. Taken from Mr. Husband?—Taken from all the parties.

Colonel Crosthwaite-Eyre.

1688. Has Mr. Husband seen the rough draft of those?—No, Sir.

Chairman.

1689. Who gave the £16,000 estimate, Mr. Husband?—Yes.

1690. He gave it verbally?—No.

1691. It is in writing?—Yes.

1692. What did the actual cost turn out to be for additional steel?—About £160,000.

1693. Not for additional steel?—I think that is right. Yes, the revised estimate of May, 1953, was £140,870. The consultant's estimate of November, 1954,

was £156,000, and that is after all these letters have passed. The variation there, Sir, is less than £16,000. Then in October, 1955, the estimate for steel, the steel-work, lifts and painting, goes up to £301,398, a variation of £160,000.

1694. What was the date of your £150,000 of steel?—The increase, October, 1955.

Mr. West.

1695. Professor, may I refer you to the terms of the contract that were entered into with the consulting engineer? I see from paragraph B, sub-paragraph (c) of paragraph 3.3.4. it is provided that "No tender shall be accepted or order placed by the Consulting Engineers except on behalf of the Client and with his authority in writing."?—Yes.

1696. Now at the commencement of this undertaking were tenders accepted and orders placed with the authority of the University and on their authority in writing?—Yes.

1697. Who gave the authority in writing, Professor Lovell?—No, the Bursar did.

1698. The Bursar?—Yes.

1699. Then, in the following paragraph you say that the consultants were under a duty to "obtain the prior approval of the Client to any substantial modification of the design and cost of the works and to any instruction to a contractor making any substantial variation, omission or addition to the contract". Now, in the early stages if there were any modifications or variations who authorised them, Professor Lovell?—As far as I know, Sir, apart from this big issue of modifications everything was done with great propriety through the Bursar's office, and certainly at the time that the modifications were going on there were still two outstanding contracts, one being the contract relating to the driving mechanism, the second, the contract relating to the lining of the bowl; and those, as far as I am aware, went through the appropriate University channels.

1700. I did make reference in an interjection to the letter of Professor Lovell dated 26th April, 1954?—Yes.

1701. In which he said that he could not authorise the consultants to engage

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in modifications to the steelwork which would increase them over the present estimate. But the letter also goes on to say: "It may be possible for you to introduce minor modifications along the lines of our discussion without exceeding the present estimate, in which case we shall be very glad for them to be introduced"?—Yes.

1702. When he says "We shall be very glad for them to be introduced", to whom is he then referring?—I think it must be to himself. As far as I know, he did not consult with the Bursar. (Mr. Rainford.) No.

1703. But it is an extraordinary thing to put in "we" if he was not in consultation with somebody representing the University, is it not? Does it not appear that he was there speaking on behalf of the University?—I do not know. Might one ask whether, in fact, there had been any conversations with the Department on this matter?

1704. Had there been?—(Sir Harry Melville.) With the Department, no, not in our case.

Colonel Crosthwaite-Eyre.

1705. Professor, I am still not exactly clear what were the powers of Professor Lovell. He was sent to the site as a representative of the University?—(Professor Cooper.) Yes—well, as the head of the Department of Radio Astronomy.

1706. As head of the Department of the University?—Yes.

1707. But he was given no instructions either verbally or written as to what authority he had as the head of the Department of the University on the site?—Well, Sir, once the main outlines of a contract and a scheme are approved by the University Council a good deal of initiative and freedom must be allowed to the head of the Department.

1708. Yes, but when you give freedom and initiative it is rather necessary to circumscribe them, is it not, and lay down some limits?—Yes; I do not myself believe that Lovell ever believed that he had the power to enter into a contract.

1709. When were you aware of the amount of correspondence passing

between Lovell and the contractors, that has passed at the rate of four letters a week?—When were we aware?

1710. Yes?—I could not answer that. (Mr. Rainford.) The correspondence passed between the Professor and the consultants, not the contractors.

1711. I beg your pardon, the consultants, yes?—We knew there was a certain amount of correspondence all the time on matters of detail about the actual thing. Remember that this was work which was, first of all, thought up by Professor Lovell, and on the scientific side he was the only man he could consult, but Lovell was under no misapprehension, as any other professor, about his authority to spend moneys of the University unless he had a specific sum given him, and within that grant they are given a certain amount of freedom, but this was not a grant given to Professor Lovell.

1712. I am trying to find out what were the exact relations between Professor Lovell and the University during the course of the erection of this telescope. Were any reports submitted by him from time to time as to what he was doing with the consultants or how the work was going?—(Professor Cooper.) He was generally, I think, in contact with the Bursar's department pretty well all the time and doubtless with my predecessor, the Vice-Chancellor.

1713. If he was in contact with the Bursar's department, is it not rather odd that the Bursar had no knowledge of these modifications?—I would not say that there was no knowledge. I think it probable that many of the smaller modifications were agreed.

1714. But I must bring you back, if I may, to what you say in your report. In paragraph 3.5.2 it starts by your saying: "The Professor of Radio Astronomy had, however, been aware throughout that he had no authority to sanction, on behalf of the University, substantial modifications in design or cost"; and then later on you say, in paragraph 8.2: "The University told us in evidence, and the Consultants confirmed, that no prior approval for this substantial variation had been sought". If there was this contact between Professor Lovell and the consultants, which we all know, and between Professor

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Lovell and the Bursar which you say there was, there seems to be a contradiction?—I am still not quite seeing the point very clearly.

1715. I am sorry. Could I put it this way: if this correspondence passed with this frequency so that the consultants and Professor Lovell were in daily touch, and if, as you say, Professor Lovell was in touch with the Bursar on behalf of the University the whole time, it seems very odd that you should finish up by saying that the University had no knowledge of this major alteration?—Well, I think of the major alterations we had no knowledge.

1716. You had none?—I think not, Sir.

1717. Now, I understand the contract was signed in 1950, you told us?—I think that is right. (Mr. Rainford.) With the consultants. (Professor Cooper.) Yes.

1718. In October, 1950. As early as 1953, which is the year before the alteration was made, in paragraph 10 of Mr. Husband's memorandum there is a letter of the 7th March, 1953, from Professor Lovell in which he says: "Although I am naturally very grateful for Mr. Rainford's help in the present financial difficulty, I must nevertheless be extremely careful that any independent approaches he makes to the D.S.I.R. are not likely to interfere with the requirements of the Radio Telescope"?—Yes.

1719. That certainly gives me the impression that there was no confidence between Professor Lovell and the Bursar, particularly if the Bursar happened to report what was going to happen to D.S.I.R.?—I agree that that is a possible interpretation.

1720. I am sorry, it is not only possible, is it not the only interpretation?—I think perhaps not, because I think most university professors are a trifle suspicious of the Bursar. After all, he is the man who spends his time saying "No"; and I think it possible that that explains the anxiety of Lovell in this case that the consultants and himself should exchange correspondence; and the letters show that each party would know in fact that he was corresponding with the Bursar.

1721. I would like to make this clear. You told me in answer to my previous

questions that you were satisfied that up to the major alteration there had been close contact between Professor Lovell and the Bursar?—Yes.

1722. This letter certainly does not show that to be so?—Does it not, Sir? I really cannot quite see this point. After all, the point at issue may very well be not contact with the Bursar and Lovell, it may very well be no more than a request that all the charges should be kept down all the time. I offer this with no real knowledge of the situation. Professor Lovell is the only person who can satisfactorily answer that point.

Colonel Crosthwaite-Eyre.] One other question: you have quoted certain statements that were made to you by the consultants in front of your *ad hoc* Committee. I would very much like to see the draft Minutes of that Committee, not now but later on. The statements you have made in regard to Mr. Husband—I know you made them with due care and thought—do throw a very different light, I think, on several of the things that we have heard before.

Chairman.

1723. On this question, what is the bulk of the Minutes that you took? How many words, or how many pages?—I have got them here, I think.

1724. Could you give me some idea of the material involved?—I should say 30 or 40 foolscap pages.

1725. If they were passed to the Clerk of the Committee we could send them back. I would just like to look at them myself, I must say, in view of what has been said?—They are here, Sir. (Document handed to the Committee.)

Colonel Crosthwaite-Eyre.] What I want to ask you is this: you would agree that what you have said about those three headings, particularly that Mr. Husband misled himself and misled Professor Lovell, does not appear either in the *ad hoc* Committee's Report in any shape or form, or, of course, in the correspondence submitted, I believe, in the memorandum which is called "M.3."

Chairman.

1726. Professor, these are obviously duplicates?—Yes.

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Chairman.] Possibly, if Col. Crosthwaite-Eyre would like it, we might have a copy.

Colonel Crosthwaite-Eyre.

1727. It is only that I would like to see it?—Yes, I would be well content. May I come back to this: this nowhere appears in the Report but it does, I think—I can only speak for myself—lie behind the statement which is made somewhere here that the Committee saw no reasons for limiting the financial responsibility of the consultants.

1728. Following the statement that Professor Lovell gave to "The Daily Telegraph" of 14th August, 1957, Mr. Husband was naturally also rung up?—Yes.

1729. He said that he was asked very few questions by your Committee. Would that be a correct statement?—May I ask you to repeat that?

1730. I only want it in general. The impression from reading that Report is that he was not given very much opportunity to explain his own case?—I am very surprised indeed about that, and I will leave the bulk of the rough minutes, which are in many senses inadequate, they are not verbatim, to speak for themselves. Unfortunately, the reporters we had proved not very sound on the scientific side.

1731. What I am getting at is that Mr. Husband was given every opportunity of saying what he wanted to before your Committee?—Oh, I think so.

Mr. West.

1732. Following that point about the position of Professor Lovell, would it be correct to say, the University having entered into the contract and the object of the contract having been designed, that Professor Lovell was there on behalf of the University to see that the contract was fulfilled, or what other functions would he have?—Well, I think his chief function, of course, would be to look after the scientific and technical side, to answer questions from the consultant on that side.

1733. He was there to assist the consultant on whatever scientific problem might arise? Is that right?—On the scientific side. He represented the

University, I think, on the scientific side because he was the only person competent to do so.

Mr. Arbuthnot.

1734. Sir Harry, when this project began did you make any enquiries as to the arrangements made by the University for financial control?—(Sir Harry Melville.) Yes. I was not in the Department at that time, but my understanding of it was that we had to consult with the University on the nature of the contract with the consultant; and at that time the Department was satisfied that the contract was drawn up in a sufficiently satisfactory way.

1735. While the work was going on did you get any reports from your own people or from the University about its progress?—I could not answer that myself. Perhaps Mr. Smith could tell us what in fact happened at that period. (Mr. Smith.) I think it would be fair to say, as is admitted in the Treasury Minute, that we got inadequate reports from the University.

1736. Would you agree as is recorded in paragraph 3.4.2. in "M.4" with the decision reached at the middle of April, 1955, between the consultant, the Professor and the Bursar, that it would be unwise to bring you into the discussions "until all matters affecting the cost of the telescope had been settled"?—(Sir Harry Melville.) Oh, I think so, because we would like to have a properly made case for us to consider. We would not like to enter into long correspondence with the University on matters of opinion as to the design until they had made up their minds what they wanted to do.

1737. You would be perfectly prepared to be led blind?—Oh, no, not at all, no, that is not what I meant. What I do mean is that if the University and the consultants were considering changes in design, and probably the implications of the cost of those changes, we would not be interested until they came to us with a firm proposition asking for more money or advice on any matters affecting the telescope.

1738. But you would, I take it, expect to be consulted before they went ahead with such schemes?—Oh, certainly, if it meant financial implications for the Department.

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1739. Now, may I ask you about paragraph 10 of the consultant's memorandum? Do you think from the letter of the 7th March, 1953, that you were being kept out of the picture?—Of course, we were unaware of these letters altogether, and in that sense we were not in the picture.

1740. But you are aware of them now?—Yes.

1741. You do think you were being kept out of the picture?—Without question, because we did not know about these letters and therefore we were not in the picture.

1742. But you told me in answer to my last question that you thought that it would be unwise to bring you into the discussions?—Yes.

1743. How do you tie those two answers up?—As I said before, I think if these consultations were going on and a firm decision had not been made as to what was desirable there would be no point in D.S.I.R. coming into the discussion.

1744. Have you any comments on the second and last sentences of the letter of the 27th January, 1954 which is to be found in paragraph 12 of the consultant's memorandum? I will just read them to you: "I am sure that there is no need for me to tell you that there are now many people who would be only too glad of an excuse to cancel the entire radio telescope. . . . You will appreciate that if I am much more concerned with the tactical situation of having some massive structure on the site than a two months' delay in completion". That was from Professor Lovell to Mr. Husband. Have you any comments on that?—I think that is Professor Lovell's own opinion and I do not have any comments on his opinion, as far as the Department is concerned.

1745. Do you think that there were people who would have been anxious to cancel the entire project?—Well, it is conceivable that if there were rival radio astronomers I think they would like to be in first, but if that is the implication of that sentence I cannot say.

1746. Were there any people in D.S.I.R. who would be happy to see the project cancelled?—Oh, not at

all. There was no organisation in D.S.I.R. doing radio astronomy, and therefore there was no question of scientific rivalry between the University and a Government Department.

Mr. Hoy.

1747. What do you mean by "rival radio astronomers"?—This is a natural scientific development.

1748. Within this Department?—No.

1749. Then, how could they have interfered with this scheme, which is under the control of Britain? What do you mean by that? I do not understand?—I must explain what is meant by scientific rivalry. If two groups of people in two different universities are obviously about to make a major discovery they are very jealous of their position and if one gets a little advance on the other he is very pleased to do it.

1750. You think that somebody in another university could have interfered with the D.S.I.R. and Manchester?—Oh, not at all.

1751. Then why do you say there was this fear?—I am not just trying to comment on the statement here.

Chairman.] One moment. This is Professor Lovell's statement. I do not think we can hold the D.S.I.R. responsible for that.

Mr. Hoy.] No, but the witness was asked what he thought about this. This was his interpretation of it and I am bound to say I found it very difficult to understand.

Chairman.

1752. I am bound to agree?—I am trying to make an interpretation of such a statement, which may or may not be right.

Mr. West.

1753. It obviously was referring to someone who had the power to cancel the project, because he refers to that specifically?—I think he would be misinformed there.

Mr. West.] It says: "There are now many people who would be only too glad of an excuse to cancel the entire radio telescope."

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Chairman.] I do not think we can press the witness to explain Professor Lovell's letters.

Mr. Stevens.

1754. Professor Cooper, you referred to the substantially increased estimate of October, 1955, of £301,000, I think it was. From whom was that estimate received?—(Professor Cooper.) That was received from Mr. Husband.

1755. From the consultants?—Yes. the consultants. My predecessor a few weeks before had, in fact, held a conference with the consultants in the University and an estimate had been promised. It was always extremely difficult to get estimates—very difficult—and on this occasion I think I am right in saying that the ultimate estimate was the result of work in the consultant's office and I think my own Bursar sent one of his own clerks to assist in the preparation of it. I may be in error, Sir, in the chain of events there but if I were would it be possible for the Bursar to correct me? (Mr. Rainford.) That is quite correct, Sir.

1756. By whom was the estimate received, by the Bursar?—(Professor Cooper.) Yes, this was entirely by the Bursar. (Mr. Rainford.) At my request, Sir.

1757. Was there no attempt at any stage in the proceedings by the University to keep an eye on the financial aspects of the matter? This increased estimate seems to have come as a bolt from the blue?—(Professor Cooper.) Yes. Well, of course, we had the assurance in November, 1954, that, apart from the question of the driving mechanism in which there was a 100 per cent. increase in the estimate from the firm originally tendering, I think apart from that we had got this estimate of 1954 on which we felt we were entitled to rely. We found that an extremely reassuring document. We found also very reassuring the statement in the letter that the expenditure was well in hand, and at a later date than that, a considerably later date, at the conference to which I have referred, which must have been in the early autumn of 1955, my predecessor also had an assurance that the matter financially was not out of hand.

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1758. Yet in October, 1955, there was this startling increase?—Yes, three or four weeks afterwards.

1759. The University did not appoint a finance officer under the Bursar, perhaps specially charged with seeing that prices ran to his estimate?—I do not quite see how you could do it except by asking for a succession of estimates.

1760. Or returns of expenditure, or returns of contracts placed?—I feel very confident that I am right in saying that there has been no unauthorised expenditure passed through the Bursar's office. That is so? (Mr. Rainford.) Yes, that is quite right. There is nothing financial which would show if there was any overspending at all. None of the steelwork of the bowl had been erected before it was discovered. It had been fabricated but not erected and it was discovered before any accounts for extra steel were presented for payment in April, 1955.

1761. Surely the University would have known that with such an experimental type of equipment changes might well take place over the years that the apparatus would take to construct. Would that not be so?—(Professor Cooper.) Yes, one would expect changes to take place.

1762. The University would be aware, too, of the requirement that there was to be no substantial variation without the approval of D.S.I.R.?—Yes.

1763. Did the University take steps to ensure that that condition was adhered to?—Certainly, by asking for these estimates at various times and through the ordinary means of seeing that no money is expended which is not fully authorised and within the estimates. I think I can give the Committee an assurance that that is a fact.

1764. And throughout all these relevant times the consultant appears to have thought that he was dealing with the University when he held consultation with Professor Lovell. Was the University never aware of that situation at all?—No, Sir, because you see, as I have said, this development seems to have been in parallel. On all the contracts, apart from this large steel contract, which had been let with propriety, the

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constitutional hoops had been gone through on all of the questions, and the relations of the consultants with the Bursar's Department were relations of extreme propriety. There was nothing at all, I think, to excite the suspicions of anyone in the Central Administrative Offices of the University.

1765. Until in fact this very largely increased estimate was received?—Oh, before then, Sir. You see, the Bursar himself by March, 1955, had become extremely suspicious arising out of the difficulties over the placing of the contract for the driving mechanism. He ought really to give this evidence, but I think what really alarmed him then was that he found in the estimate for the driving mechanism references to increase of weight of steel of which he knew nothing. He challenged that immediately and that was the beginning.

1766. He challenged that with whom?—With the consultants.

1767. But not with Professor Lovell?—(Mr. Rainford.) Oh, both.

Mr. Hoy.

1768. Before we leave that point I would just like one thing cleared. Professor, you say that in November, 1954, you had an assurance that everything was well in hand, financially and otherwise?—March, 1955.

1769. So in 1954 you were quite sure that everything was in hand?—(Professor Cooper.) Yes.

1770. How do you then account for the letter of Professor Lovell to Mr. Husband on the 30th July, 1954, page 4, paragraph 15? Professor Lovell wrote to Mr. Husband and said: "Thank you for your letter of the 28th July enclosing the copies of correspondence with United Steel. We must at all cost avoid being forced into any formal revision of the contract at this stage. These issues on money will be far easier to face when the structure is nearer completion next year. If any major financial issue were raised at the moment, I know that it would have a disastrous effect and might well cause a serious hindrance in the progress of the work"?—I do not know, Sir, what that has reference to at all, because I do not know of anything that would demand a formal revision of

the contract unless by "formal revision" he is making reference to the variations on account of steel.

1771. It might, might it not, have been that Mr. Husband and Professor Lovell were discussing it and had come to certain conclusions?—It might very well have been, Sir, but if that were so all I can say is that Professor Lovell had insisted all along that they had talked in terms of redistribution of steel within the bowl and that seemed to me to tie up with the ultimate evidence that we had from Mr. Husband himself.

1772. Then, what did he mean by these words: "These issues on money will be far easier to face when the structure is nearer completion next year"? In other words, the money has been spent and then we can face up to it. Is that not what that means? What other meaning can there be?—I do not know what it meant, but the point was that the money was not spent and Professor Lovell has never had the power to spend a halfpenny on this and every halfpenny must go through the Bursar's department.

Chairman.

1773. On page 5 in the top line he refers to "a manoeuvre"?—Yes.

1774. At the end of that paragraph he says: "Must come out into the open on this matter". Clearly there has been some collusion somewhere or another. You do not need to manoeuvre and come out into the open unless there has been collusion?—Again, Sir, I really would ask to put the whole of this letter in.

Chairman.] If you like, certainly.

Mr. Hoy.

1775. You say he had no power to spend the money, but the money was spent without your approval and without the Treasury's and without D.S.I.R.'s. It is no use you saying to us you had no right to do it, the money had been spent?—I do not see that the money could have been spent then because the model on which the wind tests were made was not in fact taken to the National Physical Laboratory until the turn of the year and the report on that did not come until March.

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1776. This was obviously not being considered at the time?—It may well have been considered.

1777. When you say money could not have been spent, in the ultimate money was spent before the University was aware of it, without your approval, before the job was completed. Is that not the fact?—If that were true it would have very remarkable consequences because it would mean that money was being spent on a new design which had not been tested or anything else.

Mr. West.

1778. But Professor Lovell, in a letter of the 7th March, 1953, had expressed his gratitude to the Bursar for help in the present financial difficulties?—Yes. I feel very sure, Sir, that this relates to the modified original design which was cleared in every detail.

Mr. Peyton.

1779. Professor, when was this report of yours completed?—February, 1956.

1780. And you had not at that time, of course, seen this document from the consultants?—No.

1781. It was not in existence. Do you see any need to modify this report, having studied that document?—That is a very difficult question to answer. Since I have seen this document of Mr. Husband's it is one about which I have thought a great deal. I have no doubt, Sir, that had we had this document the cross-examination of Professor Lovell would have been rather different from what it was. I do not know how it would have affected my colleagues, but as I say I was in a very ambiguous position, I tried to be as objective as I could—what determined my own attitude in the end was not all the detail and the minutiae, it was the extremely frank statement that Mr. Husband had misled himself about the weight of steel in the bowl. I am not an engineer, but it does seem to me that in a project of such extreme novelty a man might make a statement of that kind without any reflection at all on his professional skill.

1782. Did you not at any time feel some doubt in your mind and that it really would be the wisest course to get

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everybody who was involved in this project round a table so that any possible misunderstanding could be cleared up?—This, of course, was what my predecessor attempted to do in the autumn of 1955.

1783. I am not quite clear why it did not come off?—There were two occasions when this had happened. One of them was frustrated, I think, by the publication of the Report of this Committee. We had already entered into talks with Mr. Husband, but Mr. Husband took the view that what had been said in this Committee was a very serious reflection on his professional skill and we have made two attempts to come to a complete understanding on this issue.

1784. Let me make quite clear what I mean. I was not referring to any period in which the University and the consultants were in dispute at all, but rather during the progress of the operation. Would it not have been right and wise and a perfectly normal precaution on the part of the University (who were not after all responsible for finding the money) to insist upon consultations between the D.S.I.R., the University, the University's representative on the spot and the consultant?—It is easy for me, Sir, having come into this at a late date and having had the benefit of reading all the documents to say this; but I think that ought to have been done and I think it is the considered view of the University that one of the errors that was made was that we treated this very large structure as a piece of departmental equipment rather than a building project. Of course, had it been a building project we should have had a committee of investigation working alongside the parties all the time.

Chairman.] I think the question was, why were not the D.S.I.R. brought into it?

Mr. Peyton.

1785. Yes?—Subject to correction, I was under the impression that we had had informal contacts both through the process—

1786. Perhaps I could ask Sir Harry Melville. Did you ever feel any need to go up there and have the sort of joint meeting which I am talking about?—

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(Sir Harry Melville.) Just to put the chronology right, I came into D.S.I.R. in August, 1956, so if you are talking about the period 1955, mainly—

Chairman.

1787. Sir Ben Lockspeiser was here then?—Yes, he was in my office then, and whether he or any of the officers of the Department went to Manchester in that period I am not quite certain, but I think the visits were perhaps made. (Professor Cooper.) I think so. (Sir Harry Melville.) Certainly, I was up to Manchester very quickly after I came into office to see this telescope, because I was very much concerned.

Mr. Peyton.

1788. Are you able to say, Sir Harry, whether your predecessor at the material stage, namely 1955, had registered alarm or any apprehension as to what was going on?—I cannot answer that question directly but again, perhaps, Mr. Greenall or Mr. Smith could give an answer to that. (Mr. Greenall.) I went down to the telescope in February, 1954, and we were told that there was an expected deficit of about £50,000, largely accounted for by the big increase in price of the driving mechanism and that there would be some other increases. We made some informal arrangements, which we did not announce but put through our Advisory Council to recommend that extra sum of money when we could be supplied with details that the University sought—firmer details of the precise sum that would be required; and Mr. Rainford, with whom we have had continuous informal contact, I think, spent a lot of the time between the middle of 1954 and when this very big increase became known pressing for these further details. The routine in D.S.I.R. was that we would be putting before the Scientific Grants Committee of our Advisory Council a formal request from the University for the precise extra sum it required, and throughout that period I think Mr. Rainford's difficulty was to tell us how much more he needed with any precision.

1789. I see that, but what worries me is these two letters of 28th March, 1955, and 31st March, 1955, from the consultant. He expresses his concern and then gives his opinion that "it is extremely desirable that I should attend

all future meetings to discuss engineering requirements and estimates with the D.S.I.R. or other Government Departments who may now or in the future have an interest in the construction or performance of the telescope". Then the next letter: "My great concern at the moment is because I have never attended any meetings with the D.S.I.R. and just do not know how far the redesign of the telescope has been reported to them"?—I think Mr. Husband may have misunderstood our role in this. His relations were formally with the University and we wanted from the University a statement of what extra money was required; but that does read rather as if Mr. Husband did not appreciate the exact relations involved.

Chairman.] Just a few moments ago in reply to a question the Professor said that it would have been a great advantage to have brought the D.S.I.R. into it considerably earlier—at least, I understood him to say that—but apparently it was only the consultant who was pressing for the D.S.I.R. to be brought into it. I must say, I find it difficult to reconcile the evidence given by the witness and these four letters when right through 1955 the consultants were pressing for contact with D.S.I.R. and apparently did not get it.

Mr. Peyton.

1790. May I pursue this point, with respect? I really want to know from the Treasury when you were consulted, Mr. Macpherson?—(Mr. Macpherson.) To go back in time, Sir, we were approached first in 1951—

1791. No, I mean when redesign was material?—In April, 1956, when we were acquainted with the size of the fresh estimate and we were told the outcome of the Committee's investigation.

1792. And you had not, prior to April, 1956, been informed that there was any question of redesign which might have the result of substantial increase in expenditure?—The only indication we had, Sir, as I think this Committee had, was when Sir Ben Lockspeiser appeared in March, 1954, when I think an addition of £50,000 on the then estimated cost was mentioned. The £50,000 that Mr. Greenall has referred to was being talked of in February, 1954, but we heard no more until we had the letter of April, 1956.

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1793. I do not understand quite why the D.S.I.R. did not consider it necessary to consult the Treasury a little earlier?—(Sir Harry Melville.) There was no question of giving additional money until that time, I think, and then by April, 1956, the question was, was it desirable to give the University additional money to make it possible to complete the telescope, and then we would come to the Treasury to consult them about the procedure. (Mr. Macpherson.) The reason I started by going back to 1951 was that the estimated cost in 1951 was about £300,000. In fact the cost went up to £430,000—

Mr. Hoy.

1794. When was that?—In April, 1953—but at that point the Nuffield Foundation had come in with their contribution of £200,000. So, therefore, D.S.I.R.'s contribution was reduced to £230,000.

Mr. Peyton.

1795. In March, 1955, apparently, we are told in paragraph 10.4.2., the University was pressing for revised estimates, so quite clearly the danger signal was up then. The University was alarmed, is that true? As I understand it, this sentence suggests to me that the University in March, 1955, were seriously concerned?—(Professor Cooper.) Yes.

1796. Were the D.S.I.R. concerned at that time?—(Mr. Greenall.) We did not know about the increase from £50,000 to about £½ million until October, 1955, in D.S.I.R. And then after we had held this Committee of Inquiry it was in March, 1956, that the Scientific Grants Committee—

1797. Then did you suffer from severe shock in October, 1955?—Very severe shock. (Professor Cooper.) As we did, Sir.

1798. As you did, but in October, 1955?—Yes, that was the only time that we got the definitive figure.

1799. And the Public Accounts Committee has been suffering from shock ever since?—Just as we have, Sir.

Mr. Peyton.] I find myself in confusion.

Chairman.

1800. I would like to know why, when the consultants for four months were pressing very strongly for contact with

D.S.I.R., it was refused them?—Because the authorities of the University at that time wanted a quite explicit statement of obligations with which they could go to D.S.I.R.

Mr. Peyton.

1801. But why did you not tell them you were worried?—We did.

1802. No, Professor, here you are clearly out of your own mouth admitting that you were worried. You were very concerned in March, 1955, and the D.S.I.R. had no idea of the shock that was coming to them until October?—Nor had we, Sir.

1803. But you were worried then?—Yes.

1804. Public money was involved. Why did you not inform the Department?—Surely we did? (Mr. Rainford.) Might I answer? The situation about this, if I may go back to these March letters, is that these letters from the consultant came as a result of trying to get definite figures to put to D.S.I.R. about the cost of the driving mechanism, and this letter of the 31st March is not complete because in it is one sentence which reads: "But I do not think that the expenditure is in any way out of hand to date". Then after that, Sir, we tried to get from the consultant full details of the driving mechanism and they finally were presented on the 5th April, but included in the figures considered on the 5th April were other items, which we found when we examined them were for braking system and extra steel. Further as a result of cross-questioning we found that there had been changes in design and for the first time officially we knew of changes in design.

Mr. Hoy.

1805. When was that?—April, 1955.

Mr. Peyton.

1806. That is the point. At the time I asked that question I was not referring to anything that the consultants had written, I was referring to the fact that by your own report you say that you were worried at the end of March, 1955. You were pressing for revised estimates. You got those estimates, did you not, in April?—No, Sir.

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1807. I am sorry, did you not say that?—We tried to get them in April. We got the estimates for the driving system, which is one small item, and in the driving system contract there was something which made me believe that there was something which had gone wrong with a part of another contract.

1808. I think you used words to suggest just now that some question of re-design was involved?—Yes, and then the consultant was written to and asked to make a complete statement of the full financial obligations up to date. I warned D.S.I.R. that I thought there was some—

1809. When?—In April, 1955, but not until October, 1955, could we get the figures.

1810. You see, that is just the point I am after. You say that you had this serious warning, the worry about re-design?—I did not realise the magnitude.

1811. Let me sum this up to see if it is clear. You say that in April, 1955, you received new estimates as to the driving mechanism and you received the first indications of a fundamental re-design involving a considerably increased quantity of steel. Is that correct?—Yes.

1812. You then say that you went to D.S.I.R. in April. The D.S.I.R. say, as I understand it, that they had no knowledge of this until October when it was a very severe shock to them?—Well, I did mention it in April, 1955, but I had no idea of the magnitude myself, and I informed D.S.I.R. that I would give them a full account as quickly as I could. These were only unofficial approaches to D.S.I.R.

1813. What I want to know is, what was the reaction of the D.S.I.R. to that information given in April?—(Mr. Greenall.) I do not know, Sir, the wording of the letter that Mr. Rainford is referring to; I cannot say what interpretation would be put on it, I am sorry.

Mr. West.] Would it be in order if, perhaps, the Bursar could read the whole of the letter of the 31st March, 1955?

Chairman.] Is it a very long one?

Mr. West.] Both have been quoting it, you see, one side and the other.

Mr. Peyton.] Could I just pursue this point before we get back to the 31st March? A letter, apparently, was written to the D.S.I.R. in April giving the information for the new estimates for the driving mechanism and giving also, so we have just been told, the warning that certain fundamental basic redesign was involved, meaning a great deal of increased use of steel and a great increase in cost?

Chairman.

1814. Mr. Rainford used the word, that in April was the first time that you knew "officially". The implication was that you had had unofficial knowledge prior to that?—(Mr. Rainford.) Yes, for a few weeks I had been suspecting that there had been a certain amount of change in design; but it was only as a result of cross-questioning at a meeting on the 5th April, 1955, that I was able to find out that there had been this change in design.

1815. Who did you cross-question?—The consultant.

1816. Not Professor Lovell?—Both of them.

1817. And they both knew?—Yes, but Lovell had no idea that additional steelwork and additional weight had gone in. He knew the bowl had been altered in design but he thought it had not used any more steel than the original design.

1818. Had he got any evidence to support that belief?—Only his own diaries.

Mr. Peyton.

1819. Could we pursue this point? What I want to know is, when was this information passed to D.S.I.R.? Mr. Rainford, as I understand it, has said it was passed to them in April. I had previously understood the representative of D.S.I.R. to say that the information was not received until October?—(Sir Harry Melville.) Could I just discriminate there? Again, I was not in the Department, but what I understand is that we had a sort of unofficial warning; but we had no idea of the financial implication of that until a later date.

1820. What was the date of the actual warning?—I do not know, I was not there, but I do not think any serious view would be taken of the warning that Mr.

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Rainford has mentioned because he did not then know the magnitude of the extra sum involved. (Mr. Rainford.) All I did was keep D.S.I.R. in touch and promise that I would get this information for them as soon as I could. I was not able to get this definite information until October, 1955, and then they were informed officially. (Mr. Greenall.) We understood, Sir, that the increase would be in the neighbourhood of the £50,000 that has been mentioned, and we wanted a figure with some precision and some details to put before the Scientific Grants Committee of our Advisory Council. We were powerless to do anything until we had a definite sum and some reasons for the purpose for which it was required, but until October we did not have those details and then a sum of five times the size was given.

Mr. Hoy.

1821. Did I understand you to mean that you expected the completed price to be £50,000 on the original estimate of £430,000?—Yes.

1822. So you thought the total price would be £480,000?—Until October, yes. (Professor Cooper.) Yes, I think this is what we believed at that time.

1823. That is what you believed?—I think so.

1824. May I just say this to both D.S.I.R. and to the Vice-Chancellor: have you not both now come to the conclusion that you did not get the information at all that you were entitled to expect?—Yes.

1825. It was kept from you?—Yes.

Mr. Peyton.

1826. By whom?—"Kept from you" suggests a certain deliberation of purpose. It was not, it was plainly extremely difficult to get accurate financial information from the consultants.

1827. Since you say that, I feel obliged to ask you again—I take the point which I had already noticed that there is the quotation from the letter of the 31st March, but this is only a quotation and there is this remark to which you refer in your Report "I do not think the expenditure is in any way out of hand at this date"—what was your reaction to this reiterated suggestion made by the

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consultant: "I feel I ought to talk to the Department who are going to pay"? —I do not know what the general reaction of the University was apart, as I have said, from the fact that the University was not prepared to go to the D.S.I.R. with or without Mr. Husband until it had got real and accurate information.

Colonel Crosthwaite-Eyre.

1828. Could I take up one point? You just now said that you had no knowledge, as far as you were aware, that the consultants were going to put more steel in, as I understood it. Now, how do you square that with paragraph 14 of M.3 where it is made quite clear that on the 3rd May, 1954, Mr. Husband attended a meeting of the United Steel Structural Company, at the end of which he rang up Professor Lovell and talked to him about this very point?—Would you repeat the question, Sir?

1829. I understood you to say that you had no information of the extra steel requirement and that that was done by the consultants, and when you were asked for evidence you said you relied on the diaries of Professor Lovell?—I do not think I mentioned Professor Lovell's diary.

1830. The point was that you had no information. Now, I am drawing your attention to paragraph 14 of M.3 in which it is clear that directly this question came up and was discussed between Mr. Husband and the United Steel Structural Company a telephone conversation took place between Mr. Husband and Professor Lovell?—Yes, but we did not know about it.

1831. You mean that Professor Lovell did know about it?—I do not know what he knew about it.

1832. The impression you certainly gave me, and I want to be clear about this, Professor, is that this extra charge for steel was done by the consultants and in your report, too, in various places the impression is given that the consultants were the people who incurred this extra cost?—Yes.

1833. And yet here is clear evidence that Professor Lovell was told about it at the beginning?—Well, you see, I do not know at that date whether it related to redesign or not or whether it

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related to putting steel into the existing design. The Bursar has referred to certain entries in Professor Lovell's diaries

which give a rather different picture of that transaction.

* * * * *

The Witnesses were directed to withdraw and after a short time were again called in.

Mr. Peyton.

1837. Sir Harry, I am bound to say that I personally am not at all satisfied that adequate steps were taken during the whole of the time covered by these events to keep the Department informed. Do you not now feel that it was left far too much to the University to acquaint you of what was happening instead of feeling that the onus was upon the shoulders of the Department to find out that public money was being spent in the way that was intended, that there was not an unexpected liability being incurred?—(Sir Harry Melville.) Of course, that came out of the Committee of Inquiry when these matters were discussed. This new mechanism of keeping us informed monthly of what was going on was put into operation. We were well aware of the fact that there had not been sufficient knowledge of what was going on and that was remedied after the Committee of Inquiry met.

1838. Do you now accept that, whether or not someone in the position of the University keeps you informed, there is a duty upon you to find out?—Oh, I think so. That is the lesson of this exercise, without question.

Chairman.

1839. I think, Professor, that we cannot go any further with you today. We have had a mass of evidence, and very complex evidence, and we shall have to consider very, very carefully how we treat it. For the time being, therefore,

that finishes our examination as far as you are concerned?—(Professor Cooper.) Thank you very much. Would it be proper for me to say two things, Sir?

1840. Certainly, if you wish?—I am very conscious of the fact, as I say, that Mr. Husband is not here and I have the usual inhibitions about laying charges against someone. It was with very great reluctance that I brought up the evidence about his own admissions in the Committee of Inquiry. I did feel that otherwise I should have been less than frank with you, but I did that with very great reluctance.

1841. That we realise?—The second point is to me, in a way, very much more important. Mr. Husband has felt very strongly that the statement that there was no consultation has been extremely defamatory of him. We did, and would as an institution, wish to ally ourselves thoroughly with the statement that Sir Harry has made that where scientific and technical matters are concerned there was the fullest collaboration at every point. My only reservation is as to the financial implications of these things.

1842. Thank you very much. As a matter of fact, we are quite conscious that we have a difficult problem of our own in dealing with the evidence and the Report of last year. We have not overlooked that?—Thank you very much, Sir. I am only concerned that justice should be done to him in his absence.

CIVIL APPROPRIATION ACCOUNTS, 1956-57 (CLASSES VI-X).

CLASS IX.

VOTE 8.

DEPARTMENT OF SCIENTIFIC AND INDUSTRIAL RESEARCH.

Mr. R. G. ELKINGTON, Director of Establishment and Finance (Group A), Department of Scientific and Industrial Research, called in and examined.

Chairman.

1843. Will Members now turn to the Civil Appropriation Accounts, Classes VI-X, to paragraphs 147 and 148 of the Comptroller and Auditor General's

Report, Statutory Authority? Sir Harry, in paragraphs 147 and 148 the Research Council is referred to. How large is it?—It is ten members at the moment, but we are lacking two. We consider twelve

18 March, 1958.] Sir HARRY MELVILLE, K.C.B., F.R.S., [Continued.
Mr. S. H. SMITH, O.B.E., Mr. P. D. GREENALL and Mr. R. G. ELKINGTON.

is a reasonable number and there are actually two vacancies at the moment.

1844. What exactly is the Committee of the Privy Council for Scientific and Industrial Research?—Do you mean its actual composition?

1845. Yes?—I think it is the Home Secretary and several other Ministers. I am sorry, I cannot give you names.

1846. You will let us have a note?—Yes, certainly I will do that.*

1847. How often does it meet?—(Mr. Elkington.) I understand it has not ever met.

1848. It is quite a useful Committee? (Sir Harry Melville.) I do not know whether I should answer that one.

1849. If it does not meet, who appoints you personally? Have you been appointed?—Yes, and I have paid £4 to get in. (Mr. Elkington.) The Secretary is appointed by the Lord President. (Sir Harry Melville.) I was appointed before the new régime took office and I have a letter from the Privy Council appointing me to the office.

1850. Paragraphs 149-154. What progress have you made with this new machine, this electronic machine that is mentioned in paragraph 151, the new computer?—This is the new computer at the National Physical Laboratory, ACE. That is practically complete now and will be in working order in a few months, I understand.

1851. There are various other organisations working on this entirely new science. There is the National Research Development Corporation, there are the various universities and there are big firms like Ferranti's, for example?—Yes.

1852. Are you working in general consultation all together or are you each doing your own little bit of research?—No, as far as the Government is concerned there is a Committee called the Brunt Committee whose function it has been to advise the Secretary of D.S.I.R. since 1949, I think, on all the technical aspects of the development of computers. That Committee is there to make sure that there is not unnecessary duplication in the design of these machines. What happens in private industry, of course, is another matter altogether, over which we have no control at all.

*Information supplied: not printed.

1853. The Brunt Committee has no contact with private industry?—No, it advises the Department on the design and development.

1854. What are its terms of reference, just to deal with computers?—Only computers, yes. I can give you the detailed terms of reference if you like.

1855. No, if it is primarily for computers, that is all I want. Has it made any specific recommendations?—Oh, certainly, a whole host of recommendations to the Department in regard to this development.

1856. Have you found them useful?—Extremely useful.

1857. And you have implemented them?—The whole point is that this matter is a detailed technical affair and it is highly desirable to get a body of experts to advise us on the best technical course to pursue.

1858. Mr. Macpherson, are the Treasury happy about this general set-up?—(Mr. Macpherson.) We are happy that the Brunt Committee does exercise the right sort of control to ensure that there is not a duplication of effort.

Mr. Peyton.

1859. Sir Harry, was the same firm concerned in the Manchester University project as in this, for ACE and DEUCE?—(Sir Harry Melville.) No, DEUCE was done by English Electric and the Manchester machine, the first model, was done by Ferranti.

1860. But that is not ACE, is it? ACE belongs to the Science Museum?—No, it is a bit confusing. Pilot model ACE was the first machine designed by N.P.L. with the collaboration of English Electric. A by-product of that development came as a commercial machine, namely, DEUCE, but subsequently to that N.P.L. went on with the development of ACE and the machine that the Treasury referred to a few moments ago is in fact the final version as planned.

1861. And that belongs to whom?—That belongs to N.P.L.—D.S.I.R.

1862. And the one at Manchester University?—That is in the Department of Electrical Engineering and has been largely financed with D.S.I.R. money, and therefore belongs to D.S.I.R.

18 March, 1958.] Sir HARRY MELVILLE, K.C.B., F.R.S., [Continued.
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Chairman.

1863. Not the University?—No, it belongs to D.S.I.R. (Mr. *Elkington*.) Technically it belongs to D.S.I.R., but it is left at Manchester University as long as they make good use of it. If the machinery of their department broke down we should have the right to call it back. (Mr. *Greenall*.) The Ministry of Supply used to pay out the money and when we took over the contract they handed the machine over to us for nominal ownership.

Mr. Peyton.

1864. Does the University in fact pay you for it?—(Sir *Harry Melville*.) Not a penny. We gave it to them.

1865. What use do they make of it? Do they hire it out to anybody? Do they make any money out of it?—No, this machine was a pilot model, again not for use as a commercial computing engine but for research on the techniques of making computing engines, which is quite a different story.

1866. What can it do itself?—It can do the most elaborate calculations.

1867. Is it of positive use to anybody?—Oh, certainly.

1868. Do they make it available?—They make it available to the University for computational purposes.

1869. Supposing somebody else outside the University wants to use it, can they?—A private firm?

1870. Anybody?—If it was another university, Manchester University would help another university with computational data, but if it were an individual private firm then I should imagine they would make some arrangement so that the firm would pay for time on the machine.

1871. Who would get the money?—Manchester University.

1872. Manchester University, rather than D.S.I.R.?—Yes.

1873. Why would Manchester University have a claim? They are not paying anything for it, are they?—They are paying an enormous sum, I think, to keep it in good trim. They have a considerable bill for that purpose.

Mr. West.

1874. With regard to DEUCE, apparently that was sold to you for

about £30,000 to £35,000 less than the cost of construction?—Yes.

1875. They did that, I gather, because of the know-how which they acquired?—Yes.

1876. Are you satisfied that the value of the technical knowledge was £30,000 to £35,000, or was it a good deal more?—I think this is a very good bargain for D.S.I.R. It was a matter of negotiation between the then Director of the National Physical Laboratory and representatives of English Electric and, as I have heard, I think our Department has done very well out of this. We had no right to expect this, but we did get such a machine for a very nominal sum.

1877. As a matter of interest, how did you estimate your charge of £25 to £30 per hour for this machine?—Well, it is done on a strictly factual basis.

Mr. Hoy.

1878. By a computer?—Certainly. It is put on this general basis that we are not subsidising the user of the machine to any extent at all. We expect to charge what it really costs to do the job and equally, of course, we do not expect to make any substantial profit.

Mr. West.

1879. Have you any idea how the charge compares with that which is made commercially for hiring out?—I believe our charges are very modest.

Chairman.

1880. How much do they charge for LEO?—I do not know. We have never used LEO. We do not need to.

Mr. Peyton.

1881. How does Manchester University come to be so favoured?—I think the connection is purely coincidental between the telescope and the computer.

1882. Perhaps the computer can explain to us the secret of this coincidence, then. It is quite beyond my powers to calculate?—The computer has got to be instructed to do a job, it does not solve a problem.

Mr. Hoy.

1883. When a specific line of research like this computer is undertaken what steps do you take to exercise financial

18 March, 1958.] Sir HARRY MELVILLE, K.C.B., F.R.S. [Continued.
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control over the project?—You mean, a project in one of our stations?

1884. Yes, on this computer?—Oh, we have the strongest financial control because it is wholly within the Department.

1885. How is it, then, that you failed to get Treasury authority for this one?—That is a matter where, if we expend in a station for a particular item sums of a considerable magnitude, then

we are expected to ask the Treasury for permission to do that.

1886. And you did not?—And we did not do that, and we admit that, but as you will see—

1887. One more lesson learned?—Well, yes, you could put it in that way. But I must explain that the expenditure on this item was within the budget for the laboratory. There is no question about that.



THURSDAY, 20TH MARCH, 1958.

Members present:

Sir George Benson, in the Chair.

Mr. Arbuthnot.
Mr. Collins.
Mr. Hoy.
Mr. Ramsden.

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

Sir FRANK TRIBE, K.C.B., K.B.E., and Mr. J. MACPHERSON called in and examined.

CROWN LANDS—CROWN ESTATE ABSTRACT ACCOUNTS, 1956-57.

Mr. R. M. J. HARRIS, C.B., M.V.O., Second Commissioner and Secretary, Office of Crown Estate Commissioners, called in and examined.

Chairman.

1888. I think this is the first time you have appeared before the Public Accounts Committee, is it not, Mr. Harris?—(Mr. Harris.) Yes.

1889. Will Members turn to the Crown Estate Abstract Accounts, to page 10, paragraphs 1-6 of the Comptroller and Auditor General's Report? I see that there has been a change now, that the Crown Estate Commissioners have replaced the old Commissioners of Crown Lands?—Yes.

1890. Does that make any fundamental difference?—The Commissioners are, I think, more independent now than they were.

1891. Independent of whom?—Independent of the Government.

1892. Of the Treasury?—Not at present of the Treasury. Treasury powers so far have remained unaltered except that the power of direction in the Lord Privy Seal and the Secretary of State for Scotland has come in concurrently with Treasury powers.

1893. The present accounts overlap the two groups of Commissioners, I take it you accept responsibility for the whole of the year?—Yes.

1894. With regard to these negotiations which began in 1951 between London University and the Commissioners, there seems to be a curious laxity of thinking because the whole of the negotiations were extremely tentative, as paragraph 2 says: "Following tentative negotiations". Yet on a whole series of tentative negotiations and draft leases and references to "as soon as a binding

agreement is reached", the Commissioners of Crown Lands seem to have gone ahead under the assumption that they had actually entered into a binding agreement with the University. How came that about?—It was on the basis of—to use the exact terms used by the surveyor on behalf of London University—the definite offer made on the 16th June, 1953, on behalf of the University and it was not until after that definite offer was made that steps were taken to buy in leases and arrange for the Ministry of Works to vacate.

1895. What were the terms of that definite offer? Was it a verbal offer?—No, it was an offer in writing.

1896. An offer in writing to enter into an agreement?—A definite offer to enter into an agreement on stated terms without any qualification.

1897. Were the terms stated?—Yes, I have them here.

1898. So the Commissioners had some reasonable ground for incurring this expense?—The position was that we had this definite offer and we kept in close touch with London University and informed them of how things were going, that we had obtained Treasury authority and that we were arranging for an agreement for a lease to be drawn up.

1899. But if you had a definite offer, so definite and so detailed, why did you require a further lease?—That is the normal practice of the Crown Estate.

1900. I know it is. Anyhow, apparently, judging by the ultimate decision, you had no legal claim against

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Mr. R. M. J. HARRIS, C.B., M.V.O.

[Continued.]

the University?—That was the advice of Counsel.

1901. So it could not have been as binding as the Commissioners thought?—No, Sir, that is correct.

1902. Certainly, in view of all the tentative phrases recorded in the Comptroller and Auditor General's Report I must say that it seems odd that the Commissioners assumed that the matter was, so to speak, clinched?—If I might just quote, Sir, we had this definite offer without qualification in writing, and we were also informed by the University that "no further authority from the Court or Senate is needed and the surveyors have power to close the deal completely".

1903. The surveyors have power?—"Have power to close the deal completely."

1904. But they had not closed the deal when that was written?—They had made this definite offer and we proceeded, as is our normal custom, to get Treasury authority and then proceeded to have an agreement for lease drawn up, which we sent to the University. It was only when they had had the agreement for lease for six weeks that for the first time, after 2½ years of expressing not only an interest in but a keen desire to have this terrace, they expressed any doubt about the transaction at all.

1905. I know, but expressing keen interest and expressing a desire to have are not binding agreements?—No, Sir.

1906. I rather stress this point because the Public Accounts Committee have always taken the line, and I think the Treasury endorse the attitude, that before commitments are entered into there ought to be binding agreements to justify those commitments?—Yes.

Mr. Stevens.

1907. Before we leave that, may I ask one very small point? The definite offer did not contain the quite usual words "subject to contract"?—No, it did not.

Chairman.

1908. How much has this rather abortive transaction cost the Commissioners?—The money spent on the acquiring of leases is not, of course, nugatory. Nearly £18,000 was spent in buying in leases. As things have turned out that expenditure will not be nugatory, because as the leases ran to

1967 we should have needed to buy in these leases eventually in any case in order to carry forward our present plans for converting the terrace, but owing to the abortive negotiations we bought them in perhaps three years before we need have done. Of course, it is possible that some of those were bought then on more favourable terms than they could be bought now, but the expenditure which is nugatory is the rent we have lost through arranging for the Ministry of Works to vacate and the money we have had to spend on custodians and the minimum of heating in winter to prevent deterioration.

1909. Mr. Macpherson, who actually is going to bear this loss, the Crown Estate or the Treasury?—(Mr. Macpherson.) Well, the Crown Estate, Sir, as part of the operation of the estates, but the Exchequer to the extent that this expenditure reduces the revenue payable to the Exchequer.

1910. You are the ultimate loser?—Yes.

1911. Have you any comments on the general procedure of this transaction?—No, Sir, except that it illustrates the need to ensure that before you do enter into a transaction of this sort you should have got a firm commitment.

Mr. Hoy.

1912. One question, Mr. Harris, following what you have been asked: why was it that, although you informed the University in August, 1953, that you had the authority of the Treasury, it was not until December, five months later, that you forwarded the draft agreement? Why did it take all that time?—(Mr. Harris.) I suppose, Sir, that was simply the time taken by our lawyers to draw up the agreement.

1913. Do you not think it is an appalling time, in view of all the negotiations that had gone before, that you still took another five months after you had got Treasury approval to do this?—I think it was a long period, yes.

1914. Perhaps it was in that time that the University then decided to break the agreement and, in fact, it might be partly due to the dilatoriness of your Office?—I do not think so, because the ground on which the project foundered was a quite definite one, which was a complete change in the plan of the University.

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[Continued.]

1915. In view of this long delay I think we should like some assurance that you will pay rather more attention to that side of your business and not allow these very long delays to take place?—Yes, certainly, Sir.

1916. What is the position now, are losses still being made on Cumberland Terrace?—The losses being made at the moment are losses of rent, that is, on the assumption that the Ministry of Works had remained in the Terrace until today, so we have lost the rent, and we have had to spend money on custodian services and heating; and the annual loss under those two heads is £9,000. That is on the assumption that the Ministry of Works had stayed in until now. Of course, with our present plans for the converting of the Terrace we would in any case have had to take steps before now to arrange for them to vacate.

1917. Have the University given up all idea of ever using this Terrace as a hostel?—Yes; they indicated in January, 1956, that they would like to abandon the idea and they have since shown interest, possibly, in other sites in Regent's Park.

1918. When do you expect to start your own conversion scheme for Cumberland Terrace?—It was stated in the House on the 13th March that the mews site is expected to start to be prepared in October and the actual conversion and rebuilding of the Terrace in April, 1959.

1919. In paragraph 6 the Comptroller and Auditor General says that the total cost was provisionally estimated at about £650,000. Is that your latest estimate, or would you like to bring that figure up to date?—That has actually been confirmed within the last 24 hours by a report of a quantity surveyor following a complete structural inspection of the Terrace. That figure is now confirmed.

Mr. West.

1920. Mr. Harris, I see that the negotiations with the University began in 1951?—Yes.

1921. And at that time it appears that they were anxious and willing to take over these properties on a full repairing lease?—Yes.

1922. Now, the offer was not accepted by the Commissioners until about

August, 1953?—It was not made, Sir, until June, 1953.

1923. That is about two years?—That is right.

1924. What was taking place over the two years?—The reference to 1951 refers to very tentative discussions between the Commissioners and the University, I think initiated by the Commissioners, in view of the reference to possible use of some of the terraces for the University hostel in the report of the Gorell Committee. It was not until April, 1952, that the University informed us of the general approval in principle of the University Court to the project, and negotiations did not therefore start until the middle of 1952.

1925. Then the negotiations continued, and those negotiations, I would take it, covered the rent, the terms and conditions of the leases and matters of that sort?—Yes.

1926. Finally, you had from the University something reliable that you had agreed upon terms, although they had not been put into a formal document?—That is right.

1927. How much expense had you incurred up to that stage as a result of the negotiations with the University?—Up to the time we got the definite offer we had incurred no expense, subject only to this, but it was not connected with it, that in 1952 we bought in one lease with Treasury agreement because a particularly favourable opportunity occurred to buy it in; but it was not until after the definite offer in June, 1953, that we took active steps to buy in other leases and ask the Ministry of Works to vacate. The next purchase of a lease was not until November, 1953, and the Ministry of Works were not, of course, to vacate until September, 1954.

1928. I understand that you undertook these purchases and incurred this extremely heavy expense as the result of the negotiations with the University and an understanding that they were going to honour the terms which had been provisionally agreed?—That is correct.

Chairman.

1929. But may I on that point draw your attention to the first line of paragraph 3: "This offer was not in terms accepted by the Commissioners"?—Yes, Sir. I understand by that that no letter was sent in reply to the University's

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[Continued.]

letter formally saying "We accept your offer"

Mr. West

1930. In June, 1953, they had made a definite offer to take a full repairing lease?—That is correct.

1931. Having incurred this heavy expense you found yourselves completely let down by the University?—I do not wish to cast aspersions, but—

1932. We have to face the fact. Is that so or not?—It was a complete bombshell to us in February, 1954. On February 12th there was the first indication of any kind that the University had doubt about this project, and at that stage we had bought in four leases out of the seven which were bought. We had already bought those before the letter arrived.

1933. Were they aware that, following the negotiations that you had had with them, you were embarking upon this substantial expenditure to fulfil the agreement?—Yes, Sir. The action we took was in response to at least two very strongly worded requests from the University that we should get possession of these buildings, because in one letter they referred to it as being of the essence of the contract that we should be able to give possession on the due date, and it was in response to those representations that we began buying in the leases and arranging for the Ministry of Works to vacate after the definite offer had been received.

1934. What is your estimate of the total loss which you have sustained as the result of the abortive negotiations?—To January, 1958, the total figure of loss is £44,000, but as I have already explained to the Committee, some of that expenditure is not nugatory. I think the expenditure of £18,000 on the buying in of leases could be regarded as not nugatory.

Mr. Arbuthnot.

1935. How many flats do you expect to provide in Cumberland Terrace?—At the moment the plans provide for the retention of six of the original large houses in their present form in the north block, and for six small houses. As regards flats, for 48 high-rented flats overlooking the park and 29 single or two-room flats on the side of the mews, looking into Albany Street.

1936. That was the next thing I wanted to ask you. What do you reckon the rent is likely to be?—That is an extremely difficult question to answer. We must naturally try to get the highest rent we possibly can and we hope to take some of our return in premiums.

* * * * *

1937. Have you made any assumption of what sort of return you reckon it will bring in to you?—I would like to emphasise to the Committee, if I may, that these are extremely tentative estimates and calculations about something two or three years ahead, which it is very difficult to prognosticate about, but our present estimate is that we might, if all went well, get a return of about — per cent.

* * * * *

1938. What sort of sum have you got in mind?—Of return?

1939. Yes, the total sum that you are likely to get?—A total net rental of about £—

1940. What would you regard as an economic return?—I think it is very difficult to give an immediate answer to that for this reason, that it is so dependent on planning. Obviously, if planning allowed office user in the Park one might look for a return of — per cent. or more, but as the Committee are probably aware, this is zoned as residential. The Gorell Committee recommended that it should be kept as residential, and the Commissioners fully accept and agree with that, which means a residential user; and I think also it is far from clear what return developers get now on purely residential redevelopment of flats. It is, as I understand it, still very speculative and I think, making a comparison with the possible rental of new buildings, with cost of building as it is at the moment, that — per cent., if it is obtainable, could probably be regarded as something not uneconomic.

1941. What I am really wondering is whether you have the power to make an investment of this kind which may well be uneconomic purely and simply as a contribution to preserve lovely buildings?—The first point on that which I would like to make is, of course, that these buildings are scheduled. They are not technically scheduled, as they cannot be because they are Crown buildings, but they are included in a

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[Continued.]

list which puts them in the same position as buildings scheduled under the Town and Country Planning Acts, and therefore we are under a strong obligation, to put it no higher, to retain these buildings if we possibly can. Secondly, as I have already explained, there is the planning restriction. Although the Crown Estate is not subject to planning formally, it does try always to conform to planning; and therefore we are restricted in the use to which we can put these sites. When account is taken of those factors, the Commissioners feel that they are justified in going forward with this project as a pilot project in Regent's Park, which is a unique estate of great historic and other importance; and they feel that they are fully justified in going ahead with this project.

* * * * *

They can only hope that they will be borne out by the facts, but, as I say, one of the purposes of this project is to prove whether or not this can be done; and as the Commissioners have made clear in their statement which was published last November, there would be no question of the Commissioners feeling it right to embark upon a wholesale restoration and retention of the Regent's Park terraces if their experience in Cumberland Terrace shows that it is quite uneconomic.

1942. So, not only do you say you have the power, but you say you have the duty as well?—We feel we have a duty to do this, as a good landowner.

1943. How do you reconcile that with the function of the Commissioners, which is mentioned in paragraph 2 of your Foreword, "to secure as large an income as is consistent with good management"?—Because we consider that good management of the Regent's Park Estate requires us at least to prove whether or not the Regent's Park Estate can be preserved and retained in something like its present form on an economic basis.

1944. Mr. Macpherson, in paragraph 6 of his Report the Comptroller and Auditor General refers to making "some unprofitable contribution to preserve lovely buildings." Will this unprofitable contribution ultimately be at the expense of the Exchequer?—(Mr. Macpherson.) It must be, Sir, as the net revenue from these estates is paid to the Exchequer.

1945. Are you content with these proposals?—Yes, these proposals were made on the initiative of the Commissioners and were accepted by the Treasury and the Government.

Sir Colin Thornton-Kemsley.

1946. Mr. Harris, the freeholders here are the Portland Estate, are they?—(Mr. Harris.) Of the Regent's Park Estate?

1947. Of the Regent's Park Estate?—No, the Crown, except for one bit of Portland Place which was a farm that the Crown was unable to acquire in the Eighteenth Century.

1948. So you do not anticipate any difficulty in acquiring freeholds from the Crown?—They are all our own freeholds. I am afraid I have not got the point?

1949. I understood from the Comptroller and Auditor General's Report in paragraph 2, I think, that these houses are, in fact, leaseholds with about 60 years to run, and later on that you are in fact acquiring the freeholds in some cases. Perhaps I have got that wrong. It is the leaseholds you are acquiring, I see?—Yes, it was the remaining 16 or 17 years of the Crown lease that we were acquiring.

1950. I understand. Now, on paragraph 6, can you tell the Committee if that £650,000 odd, representing the cost of conversion of these 33 houses, would have been much less if you had not to preserve the existing facades and comply with the requirements of the planning authorities because these were scheduled houses?—If there were, so to speak, no architectural restriction on the facades I think it is almost certain that the Commissioners would have proceeded by their normal procedure, which is, if a building is regarded as having served its time it would be demolished and the site would be let out on a ground rent. That would be their normal procedure. Depending on the ground rent which would be obtainable for sites in Regent's Park Estate, it would or would not be more profitable to the Commissioners than using existing building after spending this money on them.

1951. The Commissioners are professionally advised, are they not, on these matters?—Yes.

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[Continued.]

1952. The normal procedure, I suppose, nowadays on a conversion of this kind would be to sell the flats which are created by the conversion on a long lease? You would sell a long lease of the flats at quite a low ground rent?—Yes.

1953. Is there anything in the policy of the Commissioners which would prevent that?—There is nothing, Sir, and we are in fact considering that possibility, but we are very conscious of the dangers of selling flats at high prices and not leaving the ground rent sufficiently covered. We are considering what means there are available of ensuring that the Commissioners in 50 years or even less do not find themselves landed with a very difficult management problem.

1954. That, of course, might be a dangerous time, because the buildings by then will be that much older than they are now?—Yes.

Mr. Stevens.

1955. Mr. Harris, in 1953 it was estimated that the cost of conversion was to be £2,000 a house?—Yes.

1956. But in 1954, a year later, the estimate had gone up to £12,000 a house?—Yes.

1957. I heard you say in answer to Sir Colin a moment ago that the Commissioners are professionally advised. Did they receive professional advice on the first estimate?—Yes, Sir. The position was this, that the London University scheme, which estimated a cost of £2,000 per house and a total expenditure of about £75,000, was based on the assumption that the minimum of conversion would be done to the houses to make them into a hostel. The understanding was that there was this terrace on which a very large sum of money had been spent by the Ministry of Works, that it was available, that it could be put to good use as a hostel for London University with the expenditure of a relatively acceptable sum by the University, £75,000, and with no expenditure by the Commissioners and at a reasonable rent. It was on that basis that the definite offer was made and the original plan drawn up. The proposals later of the London University architect were on quite different lines. I think the figures are quoted here. When the plans were produced

they provided for a very substantial structural alteration of the Terrace which had two effects: not only did it put the cost of conversion up to £200,000, but for anybody thinking of spending £200,000 on converting the Terrace it became very important that they should make sure that the structure was absolutely sound; and therefore the structural overhaul expenditure went up *pari passu* with the £200,000. It is not that in the original estimates it was wrong. In the Commissioners' view it is simply that the whole basis of the proposal had been changed.

1958. It was a change of policy really?—A complete change of policy.

1959. Another Member raised the question of the dual object of the conversion of Cumberland Terrace to preserve the amenities of Regent's Park and also to obtain up to date experience of that kind of conversion, and I think you said in answer that this was intended as a pilot scheme?—Yes.

1960. So that the purchase and conversion of other houses in Regent's Park is contemplated?—The possible conversion of other terraces, yes, but not necessarily by ourselves. The Commissioners have made it clear in their statement that it would be their hope that developers would be found who would undertake the conversion of other terraces on terms to be agreed.

* * * * *

1963. They would be restricted as to user and as to conversion in exactly the same way as the Commissioners?—Yes, except only that where there is a part of the terrace or site which faced outwards, for instance, on the Marylebone Road, we hope they would be able to obtain some permission for offices. The opportunities for that are very few, but there are one or two sites where that possible element might enter in.

1964. As far as Cumberland Terrace is concerned, not even the flats facing on to the mews are available for office occupation?—No. That is entirely residential.

* * * * *

Chairman.

1966. Just one further question: are you sure that you have got on top of the dry rot problem?—The latest

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[Continued.]

report of the structural engineer who has opened up Cumberland Terrace in 600 places in the last three months and has put in a report, does not use the term dry rot at all in the report.

1967. What does that mean?—That having opened up in 600 places he has not found any dry rot.

1968. But there was evidence of very widespread dry rot in Nash's buildings, was there not?—There was, and the Ministry of Works dealt with that, of course, when they converted Cumberland Terrace for offices. The latest evidence of the structural engineer is that they dealt with it so effectively that the risk of anything but, perhaps, a minor local outbreak is not a very serious one.

1969. Paragraphs 7-10, Investment Policy. Following the change of the Commissioners has there been any change in investment policy?—I think it would be true, Sir, to say that there has, to this extent that we now have on the Board of Commissioners a representative of a City banking house with whom we keep in close touch. In pursuance of the recommendation of the Committee on Crown Lands, the Eve Committee, that the Commissioners should manage their own investment portfolio and although I think the Commissioners in any case before that had accepted that their portfolio ought to be as liquid as possible, which was a point which had been stressed on more than one occasion by this Committee, I think, perhaps, it would be truer to say there has been not so much a change of policy as that the change of arrangements has made for the more effective carrying out of that policy.

1970. You are still expected, then, to obtain a steady income for the Exchequer?—A steady income, but very much subject to the first priority of maintaining the capital value of our investments.

1971. To what extent do you take into consideration capital appreciation and regard that as of equal importance to immediate yield?—I think, Sir, that we are thinking now in terms of a portfolio of dated stocks spread over a period of maturity dates of, say, 10 or 15 years, maturing at intervals; and to the extent that we can buy securities which give us capital appreciation

within that portfolio we regard that as a legitimate and right thing to do.

1972. Mr. Macpherson, does the Treasury also regard that as an item of consideration?—(Mr. Macpherson.) The Commissioners also have the long-term view that the size of their portfolio will be considerably reduced as opportunity offers to acquire real estate.

1973. Of course, you are primarily a property holding organisation?—(Mr. Harris.) Yes, Sir.

1974. Presumably, your portfolio of Government securities should remain not larger than would enable you to cope with probably desirable purchases?—Yes. I think there are two purposes, first as you have pointed out to enable us to buy real property as it becomes available and secondly, of course, to carry out interest-bearing improvements, for instance, on our agricultural estates. Those are the two main purposes.

1975. Primarily your portfolio is merely a reservoir for investment and development of land?—Exactly, Sir.

1976. It is rather large, is it not?—It is, Sir, and it is exactly the aim of the Commissioners, as Mr. Macpherson has said, to reduce it. They have not so far, I am afraid, been very successful in that aim because large sums accrue from time to time and put us back to where we were.

1977. That will inevitably happen, surely. Are you satisfied with the spread of investment, as shown in paragraph 9?—The Commissioners are waiting for a favourable opportunity to sell their undated and very long-dated stocks and, as I have said, their aim is to recast the portfolio on the basis of everything being dated with nothing longer than a maturity date of about 15 years. So, we are not satisfied with our present holding. (Sir Frank Tribe.) I might say in the light of views previously expressed by this Committee, that these figures show a great improvement on the position as it was at the end of March, 1951, when undated stocks represented 47 per cent. and long-dated stocks, over 15 years, 44 per cent.

1978. How far in your portfolio policy do you keep in touch with the Treasury?—(Mr. Harris.) The procedure is that we first discuss the matter with our Board Member who comes from the City, and any ideas that we form as a

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Mr. R. M. J. HARRIS, C.B., M.V.O.

[Continued.]

result of such discussions are then discussed with the Treasury; and our investments are actually effected for us by the National Debt Office.

Mr. Stevens.

1979. Mr. Harris, paragraph 8 tables the sales and purchases of the Estate for cash during eight years. Why did the Commissioners sell over £1 million worth of land and estates in those eight years?—There are, of course, very large compulsory sales. When I say “compulsory sales”, although quite often we are not legally or statutorially bound to sell, we do, in fact, have to sell, for instance, to local authorities. To St. Pancras Borough Council, for instance, we sold an enormous area east of Albany Street—acres—and I think most of these sales would be found to be of that kind.

1980. Compulsory purchase, in other words?—Compulsory purchases, where we felt obliged to act as though the Crown were subject to compulsory purchase.

1981. I see that in the last three years there appears to have been great reluctance to reinvest the proceeds in other land. Why would that be?—The position there is that the position in the Crown Estate Office was somewhat uncertain between 1955 and 1956. As the Committee are aware, there was a Committee sitting and changes were coming; and those of us who were concerned with them did regard their duty as something in the nature of a care and maintenance duty and of holding the field for the Board of Commissioners when it was set up, and they felt that it was not a time to embark upon large-scale investments. But it is rather interesting that the figures to date for the year 1957-58, that is the current year, show sales of estates of £290,000 and purchases of £190,000 with two prospective purchases adding up to another £130,000, which would actually mean that in the present year we are investing more than we are acquiring, which reflects a more active policy of buying real property by the present Commissioners.

1982. There is now an agreed policy on the type of property which should be purchased?—I think perhaps it would be wrong to imply that there is a clear policy. It is, I think, an extremely difficult thing to formulate a definite

policy and it is more a question of buying properties of various kinds as they come to the notice of the Commissioners.

1983. What sort of properties would the Commissioners look at?—I think that most of the properties which they have bought in this current year have been agricultural properties, largish farms, bordering their estates. They have not invested in any new large agricultural estates but they have proposed to buy quite important farms adjoining estates, and there is a prospective purchase of a fresh agricultural estate also in that sum that I gave, of £133,000.

1984. Is not the primary function of the Commissioners to hold land rather than investments. Am I wrong?—That is right, Sir, yes.

1985. And yet the investment portfolio is a very substantial one, is it not?—Yes.

1986. So it does not look as though the policy is being fully carried out?—I think it is true to say so far that in their investment in real property the Commissioners have not found it possible to do more than invest the capital accretions that occur steadily. If I might give one example, £600,000 from the Canadian Government for the Hampton's site at one fell swoop at once put us—it is obviously false to use the term “in the red”—but it meant that our balance as between sales and purchases was put back and we have had to try to catch up again.

1987. What sort of return do you look for from property which is purchased from this fund?—One obviously has to make a distinction between urban and agricultural. I think it would be true to say that if we are buying urban property we think in terms of 8 per cent. or 9 per cent. return. For agricultural estates we have found from experience that it is very dangerous to think in terms of calculating a prospective return from an agricultural estate; and if I may suggest it, I think the third item in the Comptroller and Auditor General's Report before the Committee today, the large property acquired from the National Land Fund is extremely illuminating in the context because it is the case of an estate—but perhaps I should not go on to that now?

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[Continued.]

Chairman.

1988. We shall come on to that later?—I only mention it as an illustration that you can work out a calculation that an estate may yield, say, 3 per cent., but you might be able to get a very good estate which for special reasons, because it was not in good repair, or something, would not yield you anything for a year or two but in two or three years you might be in a position where it would yield very well. Therefore, the Commissioners of policy do try and avoid applying a rigid yardstick of rate of return on agricultural purchases.

Mr. Stevens.] In view of what you have just said would it be unfair to ask you what you think the trend of estate and land purchase is going to be over the next eight years? As I say, the past eight years have shown this falling-off in estate purchases. Would you like to express a view as to what the next eight years will show?

Chairman.

1989. Do you think we can ask the witness that?—I only expressed a hope, I think.

Mr. Stevens.

1990. It does seem to me that the primary function of this authority is land purchase and yet they do not seem to have been very enthusiastic about it for the past eight years. Mr. Harris has told us why. I am just wondering, now that difficulty is out of the way, whether we should not see something?—I think, if I may say so, it is a very fair comment on the operations of the Commissioners for the last eight years.

Sir Colin Thornton-Kemsley.

1991. Am I right in saying that the amount invested in securities has increased but the proportion of undated and long dated stocks has been reduced?—That is correct.

1992. Were any losses incurred in making the switch to shorter dated stocks?—I do not think so, Sir, because the reduction in the proportion of undated stocks has come about not through a sale of undated stocks but through an increase in the shorter dated and, particularly, Treasury bills. I think I am correct in saying that such sales of securities as there have been have been in fact not sales but maturing

securities redeemed at par or sold, in one case, shortly before they were due to be redeemed at a slight capital profit.

1993. Can you think of any example where losses on disposals of securities have been made?—I cannot, Sir, not in this year.

1994. I asked that because I wondered, if that were the case, where those losses would be shown in the Accounts. I have not been able to find any myself?—I think, Sir, that they would be shown because the Capital Account on page 4 shows on one side cash realised on securities sold—I do not think they would be truly reflected in the Accounts.

1995. On page 5 of the Account, the one below the one you have directed the Committee's attention to, the statement of securities sold shows only the nominal amount and the cash realised. Could that not be expanded to show the cost price?—I think it could, Sir. I think it ought to be.

Mr. Arbuthnot.

1996. Mr. Macpherson, do the Treasury agree with the views of the Eve Committee as given in paragraph 10, particularly with reference to the Commissioners managing their own investments?—(Mr. Macpherson.) This, Sir, is something that has got to be looked at in the third stage, as it were, of the development of the Crown Estate Commissioners. We are now in the second stage envisaged in the Report, and as you know the Commissioners are charged with looking at the existing statutes. It would be fair to say that when consideration is being given to the new legislation and the relationship of the Commissioners to the Treasury, this is one of the factors which will have to be considered at that time. At the moment the position is as Mr. Harris described it.

1997. So you are satisfied, so far as you have gone?—So far as we have gone it has been in full agreement with the Commissioners.

1998. Have any steps been taken to implement the recommendations?—I think Mr. Harris can answer better than I can, but at the moment the Commissioners are, we understand, working on their plans and we would expect—Mr. Harris will correct me if I am wrong—to get them in the next few months.

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[Continued.]

1999. You can confirm that, Mr. Harris, can you?—(Mr. Harris.) That is correct, Sir. I was not quite clear whether or not you were enquiring on this specific issue of managing our own investments?

2000. Yes, I was?—I think it would be fair to say, through the appointment, as I have already said, I think, of a City representative on the Board who has already given the Commissioners advice before—

2001. Who is he?—Mr. Michael Berry of Robert Fleming & Company—the Commissioners are in a position to play a more active part in their investment policy, even although the third stage of legislation has not yet come.

2002. To what extent, Mr. Macpherson, do the Treasury influence the present Commissioners' investment policy?—(Mr. Macpherson.) They are certainly consulted, and the National Debt Commissioners are consulted at the same time. It is difficult to say how far we influence it because I think the Treasury and the Commissioners have been going along the same path. I doubt whether we have done anything, at any rate recently, to influence the Commissioners other than in a direction they would themselves have wished to go. Again, Mr. Harris probably will wish to comment on that. (Mr. Harris.) I would only like to say that we have found the consultation with the Treasury on this matter very helpful, and not the other way.

2003. I am interested in the position of the National Debt Commissioners. They hold all the securities. Are they merely agents now?—(Mr. Macpherson.) No, they are responsible for the securities. (Mr. Harris.) Could I answer the question? The position, I think, is this: they make the investments for us and they still have a function in making suggestions as to what investments it would be appropriate to buy at any particular time, assuming a policy. Through discussion between the Commissioners and the Treasury a policy is worked out for a certain portfolio but the National Debt Office would then be given an opportunity of expressing their views within that policy as to what particular securities might be the most suitable ones to buy to carry out that policy.

2004. You have not got the people yourselves to give you that advice?—Well, I think that our City representative on our Board can do it, and in fact does, but it is in effect a double check.

Mr. West.

2005. Mr. Harris, what are the Commissioners' present powers of investment?—The trustee list, Sir, subject to Treasury consent.

2006. Are any further powers being sought?—That question is under consideration in connection with the projected further Crown Estate Bill.

2007. Would you like to invest in equities?—I do not think so, Sir.

2008. Do you still own the lease of Queen's Hall, which engaged the attention of the Committee some years ago?—Well, the freehold of the site is the Commissioners', and it is in hand.

2009. Are you getting any income from it?—As a car park, yes.

2010. What did it cost?—To buy in?

2011. Yes?—The figure paid to Messrs. Chappell's was £112,000.

2012. Are you getting a good return on that?—Not yet.

Mr. Collins.

2013. Mr. Harris, on page 12, paragraph 9, the Comptroller and Auditor General points out that at 31st March, 1957, securities which cost £3.7 million had a market value of £2.9 million. That is a loss on paper of approximately 21 per cent. Has there been considerable additional paper loss since that time, since 31st March, 1957, on the undated and long-dated stocks?—Speaking from memory, I think the price of undated stocks has sunk more, has it not, with the bank rate of 7 per cent., so there would be a further loss shown as compared with that date.

2014. I take it your general policy, though, with regard to investment is that you would not sell at a loss if it was avoidable, that is to say, unless you positively had to have the money?—That is a point which the Commissioners are very actively considering at the moment in relation to the whole shape of their portfolio; and they do feel as at present advised that there are grounds

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[Continued.]

for, shall I put it, accepting a certain capital loss now in the interests of beginning to pull the thing back by a date; in other words, a switch from undated securities into the right sort of 10 or 15 year dated security.

2015. Would it not be better to try and pull it back, if they were going to sell undated stocks, by investments in land?—By converting it into land instead of into stocks?

2016. Yes?—I think it might well be.

2017. Take, for example, those stocks which have lost 21 per cent. If a similar investment had been made at the time in land would it not by this time have shown an enhanced value, in all probability?—I do not think it would have shown a lesser value certainly.

2018. You think it likely that with inflation the monetary value would have been much higher?—I should think so.

2019. Would it not then be advisable in the future to consider following the same policy, in other words, not to invest in equity but in real estate, real values?—Certainly, Sir, if the real property investments had been available, and I am very grateful for that suggestion.

2020. Let me put it another way, then. Would the Commissioners take the view that if suitable estates were available for purchase they would sell these long dated stocks and make a loss in order that they could buy the land, rather than hold on for many years leaving the money idle and so avoid making a loss?—Yes, I think that is correct.

Chairman.

2021. On that point, I presume that you realise your securities as and when suitable property comes into the market?—Yes.

2022. Your main function is to own what the Americans call real estate?—Yes.

2023. And your portfolio grows or decreases according to how your fundamental property transactions go?—Yes, but as I think I have rather indicated, in recent years we have done little more than reinvest capital

accretions; and since I have been at the Crown Estate Office, I think I am right in saying that we have not actually had to realise securities to make real property investments.

2024. Does that mean that you have been short of real property investments?—Yes.

2025. You can buy new City property to show 8 per cent. can you not?—I used the term "urban" property to cover that kind of property, yes.

2026. You can buy first class commercial property to show about 6 to 8 per cent?—I think that is about the normal sort of figure we look for, but it may be of course, that our failure to get suitable investments is because we have been looking for too high a return.

2027. What do you expect to get from agricultural property?—Our present average return on all our agricultural estates is only 2.8 per cent.

2028. I know, but that is historical. What do you expect to get on agricultural investments at the present time?—As I tried to indicate to the Committee, Sir, we have at times thought in terms of, say, a 4 per cent. basis to buy, but the Board does feel strongly that it is a mistake to apply a rate of return test in buying an agricultural estate. But they would certainly hope that after a period of a few years an estate would be showing a return of 4 per cent. or more, perhaps 5 per cent.

2029. So you are prepared to buy agricultural estates showing not much more than half the return you can get from modern first class City property?—I think that is probably correct, Sir, yes.

2030. Mr. Macpherson, is that policy agreed with the Treasury?—(Mr. Macpherson.) This is largely the Commissioners' policy, Sir, but we certainly do not disagree with it. The point to be emphasised is the availability of suitable investments. As Mr. Harris has pointed out, it is not easy to get the right sort of investments at the present time; and as he has also said before 1955, pending the result of the Report of the Eve Committee and the setting up of the Commissioners in the new form, there was probably not as active a policy as there is now and

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probably will be when we get the new legislation.

2031. All I am concerned to find out is whether you prefer to buy agricultural property at 4 per cent. rather than gilt-edged City property at 8 per cent.?—(Mr. Harris.) May I make a comment, Sir? I think the Commissioners would feel, with an estate the size of the Crown Estate, that they ought to have a certain proportion of their funds in agricultural land and a certain proportion in urban land; and that the sort of balance which exists at the moment is about right. But the difficulty is that in buying new agricultural estates to keep up that balance the market is so distorted by artificial factors that if you are buying as a fair investment it is extremely difficult to buy an estate which is going to yield straight away a clear yield of more than 3 or 4 per cent.

Mr. Collins.

2032. Before we leave that point could I ask whether, in considering it satisfactory to try to buy agricultural land for an average return of 4 per cent., the Commissioners do not have regard to the balance of probabilities that the real value of such an estate is likely to increase more than the so-called gilt-edged City properties?—Yes.

2033. You get an expanding and increasing investment although you have a lower return, would that not be right?—I think that is so, and, of course, your security of land has scope for capital appreciation as compared with bricks and mortar.

Chairman.

2034. Paragraphs 11-14. Mr. Harris, you might just refresh our minds as to how the Commissioners got hold of this estate?—Yes. In 1950 Lord Portman was forced to sell the Bryanston Estate of 3,700 acres in order to raise money for the payment of death duty, and he showed great keenness that the estate should be retained as a single agricultural entity. It was accepted by the Treasury and paid for out of the National Land Fund, for £120,400. It was agreed between the Treasury and the Commissioners at that date that the estate should be conveyed to the Commissioners without any immediate payment and that the question of what sum it would be appropriate for the Commissioners to pay for the estate should be assessed in

consultation with the Valuation Office of the Inland Revenue Department after five years.

2035. What was the estimate at the time by the Commissioners of the value of the estate to them?—The then Permanent Commissioner visited the estate, and purely as a spot figure said that he did not think the Commissioners would be justified in paying any more than £70,000 for it.

2036. And you eventually paid £120,000 for it?—£120,400.

2037. And you have had to spend, I think, £30,000 on it and incurred a loss of £7,000 a year for five years, so that in your books it stands you in at approximately £185,000?—The capital position has greatly improved since the figures quoted in the Report before the Committee. Owing to the sale of a large number of cottages, the capital expenditure figure has been reduced from £30,000 to £17,000.

2038. Let us take the gross capital situation. You have paid £120,000 for it?—We have now paid £120,000 for it.

2039. You had to spend £30,000 on it on capital expenditure?—That figure has been reduced to £17,000.

2040. One moment. You lost £7,000 a year for five years so that gives you a gross of £185,000, of which you have recouped £17,000, so it stands you in still at £168,000; and your original estimate was that it was worth £70,000?—Yes.

2041. Who pushed you into buying it?—It was offered to the Commissioners by the Treasury, as I understand it, at the request of Lord Portman; and the Commissioners felt that on the basis of taking it over without paying anything for it, on the understanding that a price would be considered later, it might turn out to be a good bargain for them.

2042. You considered it was worth £70,000 in 1950. It now stands in your books at £168,000. Do you still feel you have got a good bargain?—It is true that the estate showed a loss consistently until 1955-56, but in 1956-57 it shows a profit on revenue account of £3,600. That is estimated to be £5,900 in the current year, and we hope that that will go up to something like £8,000 in another year or two. On present figures, if you include all the

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[Continued.]

revenue expenditure as if it were capital expenditure, in other words, take that into your calculations, on the 1956-57 figures it is now showing, we are glad to say, a 1.9 return, including depreciation on all improvements, and we hope that that figure will within a year or two be up with the average for the Crown Agricultural Estates as a whole. It is a very promising picture.

2043. It shows that return on the £168,000 that it has actually cost you?—Yes.

2044. Not on the £120,000?—No.

Mr. Collins.

2045. You have just mentioned that in 1956-57 there would be a return of 1.9 per cent., and then you said that you hope in due course it will come up to the average of 2.8 per cent., I think it is. But are you not doing yourself less than justice? If it is going up to £8,000 surely it will be rather in excess of 4 per cent. on the investment, will it not?—Yes. I spoke rather hastily. We hope it will be rather better than the average.

2046. So the return on this property is likely to be above the average?—Yes, I think so.

2047. On that basis you would consider it a good investment in land?—Yes.

2048. How many acres is it?—3,784.

2049. And how many farms?—I think, about ten farms.

2050. So you have only paid about £45 an acre, including farm buildings?—I think we have paid less than that.

2051. Less than £45 an acre?—I am sorry, there are nine farms.

2052. How do you account for this improvement?—Well, it has happened in two ways; the rental has gone up consistently. When we took over the estate the rental was 19s. per acre and it is now 54s. per acre.

2053. Have you had any difficulty? Have you had to take any cases to arbitration?—I do not think we have had an arbitration. We have had certain difficulties because, of course, this was an estate which before the Crown acquired it had a tradition of, shall I say, very paternal management. It was running at a loss of £5,000 a year and the tenants had a number of advantages

which the Crown has not been able to continue.

2054. When they had those advantages of lower rents perhaps they had less advantages in the way of fixed equipment that you are able to give them?—They did, yes.

2055. That accounts for quite a part of the outlay on the estate which you have mentioned?—Yes, that is interest bearing, of course.

2056. You do not know whether cases of rent dispute went to arbitration. Do you know if any tenants left their farms because of higher rents?—I do not think any did, no. It went to tender.

2057. So, broadly speaking, you think that the tenants are paying an economic rent and are satisfied?—Yes.

2058. And that the farms are better equipped?—Much better.

2059. And possibly able to do a better job?—Yes.

2060. In view of that apart from the sale of the cottages which you have mentioned, are you going to keep the estate intact or are you selling any part of it?—No, we hope to keep the estate intact because it is an extremely attractive estate and we think it is always of a kind that will appeal to potential farmers. We had a tender only recently, this year, and we had an exceptional number of applications and quite a high rent.

2061. I know the estate, and for that reason I was asking questions and hoping to get the answers you have given. With regard to these cottages, were they not necessary to the estate?—No, we kept all the cottages that were necessary for the running of the farms and are selling off the rest.

2062. They would be sold not for farm purposes, for private residences?—Yes.

2063. And you were able to get a fairly high figure for them?—Very good prices, yes.

Chairman.] Now, we will turn to the Accounts themselves. I have no questions.

Sir Colin Thornton-Kemsley.

2064. I understand the Crown Commissioners own a good deal of salmon fishings in Scotland and elsewhere, do they not?—Yes.

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[Continued.]

2065. I cannot quite see where your revenue from that is shown. "Unimprovable rents", is that what it is called?—No, Sir, "Sales of produce" in the income account on page 6. There is the heading "Sales of produce". The figure for the year under review was £43,588, which is included in the £96,000.

2066. That is the total sales of produce?—Yes.

2067. In fact it is a rent, is it not?—It is shown under Agricultural Estates, Sales of produce.

2068. Is that correctly shown? It is in fact a rent, is it not, an annual rent of the fishery?—I think, with respect, it is not, Sir. There are two things involved here: the Crown owns the sea salmon fishings all round Scotland, which are rented.

2069. Yes, that is what I was enquiring about?—I am so sorry, I was thinking of the net fishings which we actually carry out ourselves.

2070. No?—The rent of salmon fishings would be in the figure of Crown rents and royalties, Agricultural Estates, I think of £453,000, for Scottish agricultural estates, but I am not absolutely sure about that. It might be hidden under some other heading of Miscellaneous.

2071. But the amount is about £43,000?—No, I am afraid that was the other figure. I could send you the amount of the rents.

[Sir Colin Thornton-Kemsley.] It does not matter, thank you.

TREASURY MINUTE ON PARAGRAPHS 1-6 OF THE THIRD REPORT OF THE COMMITTEE OF PUBLIC ACCOUNTS, 1956-57.

Sir CHARLES CUNNINGHAM, K.B.E., C.B., C.V.O., Permanent Under-Secretary of State, Home Office, called in and examined.

Chairman.

2072. Will Members turn to the Treasury Minute on paragraphs 1-6 of the Third Report? I see, Mr. Macpherson, that the Treasury Minute states that there is a new procedure now, that prior to the purchase of any approved school over £5,000 the Home Office must be consulted?—(Mr. Macpherson.) Yes.

2073. But if you look at paragraph 1 of the Committee's Report you will find that on this particular approved school the Home Office was consulted and approval was given?—Yes, the answer is that the procedure in the Home Office is different. There is a much greater control within the Home Office itself.

2074. What exactly does that mean?—The Home Office issued a circular explaining what their new procedure was, and as I understand the situation the Home Office internally ensured that there was much greater consultation between the various bodies concerned and the inspectors to ensure that every aspect of an application was looked at, not only the building itself, but the need, the suitability, and so on.

2075. How many approved schools have been bought since this was raised last in the Public Accounts Committee last year?—I do not know, Sir. (Sir

Charles Cunningham.) Might I answer that Sir? No local authority schools have been provided for a good many years because the number of cases sent to approved schools has been falling.

2076. So all this is, so to speak, theoretical. I am now looking at what the Treasury have said with regard to our comments of last year, and the Treasury say they have tightened up very considerably?—(Mr. Macpherson.) I do not think we have said the Treasury have tightened up. The Home Office procedure, as it now exists, is much tighter.

2077. It is the Home Office that have tightened up the procedure?—(Sir Charles Cunningham.) Yes, Sir, the Home Office procedure in relation to local authority approved schools is now precisely in line with the procedure which was recommended by the Local Government Manpower Committee for use in relation to local authority services generally. It works, I think, in this way, that if a local authority wanted to provide a new approved school and, of course, very few approved schools are provided by local authorities, they would seek Home Office agreement in principle to their proposal. That proposal would then be

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[Continued.]

considered with the help of the inspectors and the architects, and if it was decided that there was a need for additional accommodation and that the premises proposed to be acquired were suitable, the local authority would be authorised to buy them within the price fixed by the District Valuer. In fact that procedure has not had to be operated in relation to approved schools since its adoption because no new ones have been provided by local authorities. A somewhat similar procedure is, however, in operation in relation to adaptations and improvements where, if it is proposed by a local authority to incur expenditure in excess of £5,000, precisely the same procedure would be followed; that is to say, the proposals would be examined from the point of view of suitability by the approved school inspectorate and from the point of view of architectural suitability by the architects. If the proposal was to cost less than £5,000, if it were apparently a reasonable one designed to meet a shown need, it would be approved and the local authority would then be free to go ahead.

2078. Have there been any cases of adaptations costing more than £5,000?—Yes, there have.

2079. And you are able to check what the local authority are wanting to do?—In detail where the cost is in excess of £5,000 and in principle where it is below £5,000. Exactly the same procedure is being followed in the case of other services, child care, police, and so on.

2080. Are you satisfied that you have got the necessary control now?—Oh, indeed. We have precisely the same degree of control over this service as we have over others; and the experience of the last six or seven years shows that it is working well in practice. I ought perhaps just to add that most approved schools are, of course, provided and maintained not by local authorities but by managers, and in those cases the control is much closer because all proposals are subject to approval in detail.

2081. It is only in the local authority approved schools that you have not had quite the same control that you had over the normal approved schools?—In the case of the local authority approved schools the control is in line with that exercised in other services.

Mr. Ramsden.

2082. Mr. Macpherson, what does "Substantial nugatory expenditure" mean? It sounds to me like a contradiction in terms?—(Mr. Macpherson.) Substantial expenditure is one thing, nugatory is another. Expenditure has been incurred of a considerable size and nothing has resulted from it.

2083. I thought "nugatory" meant, "on trifles"?—"Unrewarding", I think, is a better explanation.

Mr. Collins.

2084. It means a considerable loss?—(Sir Charles Cunningham.) In fact, the buildings in the case considered by the Committee last year were disposed of last May.

Mr. Hoy.

2085. What did you get for them?—£4,800, which was £800 more than the District Valuer's figure.

Chairman.

2086. And they cost something like £32,000?—The total cost was just over £33,000—£33,057 15s. 10d.

Mr. Hoy.

2087. It would be interesting to know what this £33,000 was for, which was given away for £4,800, I think you said. What use was the building going to be put to?—I do not know for what purpose it was bought—I am sorry, I should say, for what purpose it was sold. We know for what purpose we bought it, but if the Committee would like to know for what purpose it was sold I can easily find out.

Chairman.

2088. You might just let the Committee know?—I can. It was sold at auction.*

Mr. Hoy.

2089. For £4,800, £800 more than the District Valuer had said it was worth. One of the things that troubled me when this was first raised was the question of the Home Office being able to assure itself that the building it was proposed to buy was in good condition; because you will remember, Sir Charles, though

*Note by witness: It is understood that the intention is to demolish the main buildings and develop the vacant land (about seven acres), the remainder being already let to agricultural or controlled tenants.

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[Continued.]

it was before your day at the Home Office, that the surveyor who surveyed this did submit a report saying that this building was in good and fit state and recommended its purchase. As you know, he has proved to be entirely wrong. How would the Home Office act today, would they put in a surveyor of their own to satisfy themselves?—In any case of importance our own architects would have a look at the building and report on it, so to that extent we would have a check on the view of the local authority's officer.

Chairman.

2090. On the other hand, one of the main problems here, dry rot, is most difficult to spot, is it not?—I think all experience shows that it is very difficult to detect.

Mr. Hoy.

2091. I would not want to argue that one in some cases, but I think it might be agreed that in this case the whole building was rotten with dry rot?—We would hope that this case would not form a precedent.

Mr. Hoy.] I would hope not, too.

Mr. Collins.

2092. Talking of precedents, Sir Charles, I cannot get over the fact that this house was bought with Home Office approval and it cost originally more than £5,000. So that the same thing could happen again; the local authority would have to consult you again if the original cost was more than £5,000, but I cannot see in the Treasury Minute what the difference of procedure is even now in securing the approval of your Department when the original cost is more than £5,000. What is the essential difference?—The present arrangements were, of

course, introduced after the purchase of the school in question which was bought, I think, in 1947. There are two differences, I think, in procedure: the first is to leave the local authority with a rather greater freedom in the case of the small items of expenditure below £5,000; the second is, by domestic arrangements within the Home Office, to ensure a rather closer scrutiny of expenditure in excess of £5,000. For example, if it were now proposed to purchase this school I think it would certainly be examined by an architect before approval was given.

2093. That is really the point that I wanted, whether in a sum exceeding £5,000 the approval would not be merely formal but it would follow investigation?—Oh, indeed, yes. (*Mr. Macpherson.*) The operative phrase is "At the same time arrangements were made for closer consultation between the administrative and technical officers of the Home Office and local authorities", which was not the practice when this project was originally submitted. (*Sir Charles Cunningham.*) We have really two questions to consider in this kind of case: the first is whether there is a need for additional accommodation, and if we are satisfied about that the second question is whether the accommodation proposed to be provided is reasonably suitable for the purpose and a sound proposition.

Chairman.

2094. This was bought and then there was a complete change in the circumstances, was there not?—This was bought at a time after the war when the numbers which had to be looked after were mounting year by year; then there was a complete change in the curve, which began to go sharply downwards.

CIVIL APPROPRIATION ACCOUNTS, 1956-57 (CLASSES I-V).

CLASS III.

VOTE 1.

HOME OFFICE.

Chairman.

2095. Will Members turn to the Civil Appropriation Accounts, Classes I-V, to page viii, paragraphs 19-24 of the Comptroller and Auditor General's Report? Sir Charles, I see, according to paragraph 20, that there were originally about

3,000 of these British subjects from Egypt, whom you were responsible for housing and feeding. What is the number now?—I think that the total number who have been assisted since the beginning of the scheme is between 7,000 and 8,000. The number at present

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being looked after is roughly 2,000, of whom about half—between 900 and 1,000—are in hostels and the remainder, that is, rather more than 1,000, are being assisted to live outside hostels.

2096. How many hostels have been closed?—Of the ten hostels, seven have been closed and three are still in use.

2097. What type of financial assistance are you giving to the 1,000 people who are not in hostels?—A wide variety of financial assistance is available. So far as subsistence is concerned, that is, the weekly allowance which they get to live on, the Anglo-Egyptian Resettlement Board examine each case on its merits and decide what is appropriate. As a guide they have been given a figure of £6 a week for a single man and £10 a week for a married couple. Some allowances are in excess of that because of an assessment of the individual circumstances; but that is a rough measure of the assistance that is given.

2098. How long do you expect the Anglo-Egyptian Resettlement Board will have to continue?—I think it is very difficult to answer that question, Sir. The numbers have, as the figures I have given show, fallen considerably. To what extent they may fall still further will depend in part on the outcome of the financial negotiations with Egypt. I feel it is too soon to say how long they will continue.

2099. How did you manage to reduce your figures from something like 7,800 down to 2,000? Have these people found work or have they emigrated, or what?—Yes. The whole object of the policy has been to help the refugees from Egypt to become absorbed in the community. A number of them have emigrated and a number have found work. A question was, in fact, answered in the House yesterday which pointed out that up to 31st January of this year the Ministry of Labour had found work for 1,129 refugees, that many more had got employment through their own efforts or with the help of voluntary societies or their former employers, and that 1,347 have been helped to emigrate. So, in one or other of these three ways, either by placings through the Ministry of Labour, by finding employment for themselves or with outside help, or by emigration, the numbers have been brought down.

2100. How do you finance the Board? They have to state their requirements,

and how frequently do you meet those requirements?—They submit a statement every quarter showing what they have spent in the last quarter and what they expect to need in the following quarter. These estimates are examined and discussed with them and then during the quarter advances are made as they require the money.

2101. You supply them with the money as it is actually required?—As it is required, yes, on the basis of a quarterly estimate of needs.

Mr. Collins.

2102. Sir Charles, would it be competent for the Board, for example, to advance money for training in a new industry or for setting up in business? Could they do things like that?—Certainly, for setting up in business.

2103. That would be subject to repayment, I suppose?—No, for the purpose of establishing oneself in business the instructions to the Board provide for assistance both by way of grant and by way of loan. The Board are authorised—I am quoting from the instructions they have been given—"in cases where this appears to offer the best chance of resettling a refugee to make, in addition to payments described above"—which are payments for accommodation, furnishing and so on—"grants of up to £750 and loans of up to £2,000 where necessary". Where the Board consider larger grants or loans justified the case has to be referred to the Home Office. In addition to that, and to some extent superseding that, a good many of the British refugees who have assets in Egypt are being given, in accordance with an agreed scale, loans on the security of those assets. These loans may range, according to the amount of the assets, up to a maximum of £5,000.

2104. It would seem probable, Sir Charles, that those who would emigrate or get into jobs or go into business would be likely to be the younger and more energetic. Could you say what proportion of this 2,000 residue are people who if they were in this country would be beyond pensionable age—would be over 60 or 65?—I do not think without notice I could give the actual number. There will be a substantial residue of elderly people for whom permanent provision of one kind or another will have to be made. In fact, I think the Parliamentary Under-Secretary of State

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[Continued.]

indicated in the House last week that discussions as to the possibility of settling these elderly people in some kind of permanent accommodation are going on at the moment.

2105. Do you agree, Sir Charles, that it would be more economical to face up to this problem of the elderly people now, or as soon as possible, rather than let it go on under present conditions until it created real difficulties?—I think that the sooner the problem of the care of the elderly people is settled the better, and discussions are in fact in progress at the moment.

2106. In paragraph 23 the Comptroller and Auditor General mentions that approximately £36,000 has been paid for advances of pensions to former pensioners of the Egyptian Government. Are those pensions from the Egyptian Government now in payment?—They are now being paid, and no further expenditure has been incurred, in the great majority of cases.

2107. Have the advances been repaid by them, do you know?—I would not like to be certain about that. My impression is that they have been repaid, but I would like to confirm that.*

2108. So, the pensions from the Egyptian Government are in payment and as far as you are aware there is no immediate indication when payment is likely to stop?—We have no indication, no.

Mr. Hoy.

2109. Paragraph 21 of the Comptroller and Auditor General's Report says: "The allowances were to be on a scale commensurate with that of the National Assistance Board". Was it for these allowances you substituted the £6 and £10?—Yes, the allowances which have been recommended as a guide to the Resettlement Board are in substitution for National Assistance Board rates.

**Note by witness:* Out of a total of 455 pensioners resumption of payment by Egypt occurred in 372 cases, leaving 83 still receiving advances. Pensioners have repaid or are in course of repaying advances made to them for periods subsequently covered by resumption of pensions, i.e. where they have received money from two sources. It is understood that pensions for the period before the date of resumption in each individual case have been paid by the Egyptian Authorities to the Government sequestrator in Egypt pending a settlement between the British and Egyptian Governments.

2110. Substantially more. You may be quite right, I am not objecting, but there is quite a wide difference. On paragraph 24, was it a complete reply that you gave when you spoke about the grants and loans which are mentioned there? Is it for business purposes?—I did refer to grants and loans for business purposes. In addition to that, the Resettlement Board are authorised to give allowances towards the cost of new accommodation. For example, they can give a grant of up to £500—I think £400 plus £100 legal expenses—to cover the initial payment on the cost of a new house. They can give furnishing allowances which vary according to the size of the family. I think the rate is £250 for the first two adults and then extra if there are children. Allowances can also be made up to a maximum of £100 for professional equipment and tools; and, of course, a great deal of money has been advanced by way of loans, as I think I mentioned, on the security of assets in Egypt.

2111. On paragraph 23, I see the Anglo-Egyptian Aid Society were left with about £60,000. What kind of welfare work do they undertake with this money? They have retained a balance of some £60,000 of the money raised by public subscriptions?—I would not like to give a definite answer to that. These, of course, are voluntary funds which they are using. I do not have information as to the precise use to which they are being put.

2112. This is in order to supplement the constructive welfare work?—I think that probably the answer is that they make small grants in cases where the rules to which the Board are subject preclude them from helping. The total money available, though £60,000 is a large sum, is small in relation to the expenditure that is being incurred in assisting these refugees. (Sir *Frank Tribe*.) I believe there is a report of the Society for the year 1956 which envisages that they should spend their money partly on additional help towards education and welfare of old people and invalids; partly on help after termination of resettlement assistance from the Board; partly on assistance to people in this country whose income from Egyptian sources has been reduced; partly on assistance to refugees settling in other countries; and partly on the establishment of a social centre in London. (Sir *Charles Cunningham*.) If the Committee

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[Continued.]

wish, we can try to get up-to-date information from the Society.

Mr. Hoy.] No, I do not press it.

Sir Colin Thornton-Kemsley.

2113. Sir Charles, has assistance been limited to British subjects?—Yes. Under the Deed there is a definite limitation. It provides: "The following persons shall be the specified persons for the purpose of the Deed, namely, British subjects and the spouses and relatives of British subjects being persons," and so on.

2114. So, had they all roots in this country?—Most of them had.

2115. I believe that in the 1957-58 Estimates and Supplementary Estimates Parliament has voted about £6½ million to the Anglo-Egyptian Resettlement Board. Is the rate of expenditure now declining?—The Estimate for 1958-59 is £1,580,000.

2116. Is an account being kept of all these moneys pending a financial settlement with the Egyptian Government?—All the expenditure of the Anglo-Egyptian Resettlement Board is fully accounted for and, indeed, is subject to examination by the Comptroller and Auditor General.

2117. No, I am sorry, I did not make myself clear. I asked if an account was being kept of all these amounts pending a financial settlement with the Egyptian Government; meaning that we have, I think, in this country, have we not, certain frozen assets of the Egyptian Government against which at some time if we have a financial settlement with Egypt these amounts might be offset?—Full accounts of the outlays are certainly kept. From the point of view of the Resettlement Board I think the item which is most relevant to the financial negotiations going on with Egypt is the item of loans made on assets in Egypt held by refugees; and the loans which have been made are, of course, very well within the reckonable value of the assets in Egypt and are recoverable.

Chairman.] Paragraphs 25-28. I have no questions.

Mr. Ramsden.

2118. Sir Charles, can you tell us the total of the sum raised through the Lord Mayor's Fund and given to the

British Council for Aid to Refugees?—I think, about £2,350,000.

2119. Have they spent all of that?—Well, it lasted up to last October when the remaining Hungarian refugees were taken over by the National Assistance Board. There is, I think, a balance.

2120. What will happen to that?—Well, it is held by the Lord Mayor and I suppose it will be one of the many balances of charitable funds.

2121. It has gone back to the Lord Mayor?—The Lord Mayor held it and made advances which kept the British Council going until last October when they handed over their remaining responsibilities to the National Assistance Board. I understand he has a balance of money.

2122. Have most of the refugees been settled satisfactorily?—Oh, indeed, yes.

2123. But there are still some whose maintenance is chargeable on Public Assistance?—There are some who are still being looked after by the National Assistance Board, but in the main they have been absorbed into the community.

2124. Is any other form of National Assistance, for instance through your Department, being given currently?—No, I think I could give you the actual figures. At the end of last year there were still 1,427 living in hostels, 709 of whom were in employment and contributing to their maintenance and that of their dependants, and of those that were employable there were less than 200 still without work. So, in the main they have been absorbed into the community.

2125. So this item will not appear again on your Vote?—No, the Home Office responsibility is discharged.

Mr. Collins.

2126. You are agreed, Sir Charles, that, generally speaking, this is a satisfactory outcome of quite a big scale operation?—I think that both the Anglo-Egyptian and the Hungarian operations have been satisfactorily handled. In both cases it has been a case of adapting the arrangements to constantly changing circumstances with unpredictable numbers. I think it has been well handled by the people who have been dealing with the refugees in the field.

TUESDAY, 25TH MARCH, 1958.

Members present:

Sir George Benson, in the Chair.

Mr. Arbuthnot.
Mr. Collins.
Colonel Crosthwaite-Eyre.
Mr. Hoy.
Mr. Ramsden.

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

Sir FRANK TRIBE, K.C.B., K.B.E., Mr. J. MACPHERSON, and Mr. A. T. K. GRANT, C.M.G., an Under Secretary, Treasury, called in and examined.

TREASURY MINUTE ON PARAGRAPHS 42-45, 46-49, 50-54 and 55-58
OF THE THIRD REPORT OF THE COMMITTEE OF PUBLIC
ACCOUNTS, 1956-57.

Sir GILMOUR JENKINS, K.C.B., K.B.E., M.C., Permanent Secretary, Ministry of Transport and Civil Aviation, called in and examined.

Chairman.

2127. Will Members turn to the Treasury Minute on paragraphs 42-45 of the Third Report? Sir Gilmour, when did you issue this memorandum that is mentioned in the fourth line? The Treasury say: "The Ministry has issued a memorandum to all licensing authorities". That is the one I am referring to?—In October, 1957, Sir.

2128. It is a bit early, but do you know whether there has been any response to it yet?—Yes, there has. Compared with 1955 there has been an increase of 15 per cent. in the number of tests carried out and £10,000 in the way of additional duty collected. The expense which the authorities say they have incurred in collecting that £10,000 is also £10,000 extra, but we are not sure that the 1955 figures were accurate and we are not really attaching too much importance to that.

2129. In future you will get regular weighing returns, will you?—This is going ahead. Some of the authorities which have not done any weighing have taken on extra staff and are getting on with it; and the new procedure, which we suggested and which they have adopted, I think is going to pay dividends. That is the procedure by which they exclude all those in the categories which are not likely to show any change and concentrate on the ones where the increase in weight would bring in extra duty.

2130. Mr. Macpherson, are you satisfied with the action taken?—(Mr. Macpherson.) I think it is early days to say, Sir, because this circular was issued in October, 1957, so we will not really see the benefit of it until the latter part of 1957 and, possibly, 1958.

Mr. Collins.

2131. Mr. Macpherson, in paragraph 45 of the Third Report the Committee say that the local authorities have no financial incentive to obtain maximum revenue. In considering this matter did the Treasury consider recommending that greater revenue might be obtained or a higher rate taken if means could be devised to give local authorities financial incentive?—No, Sir, the responsibility is put on the authorities by statute. It is their responsibility. I do not think there is any suggestion that local authorities have been deliberately dragging their feet. The problems of staffing, and so on, have been the trouble, not any desire on the part of the authorities not to do the job.

2132. Yes, but the investigation showed that road testing by some local authorities was nil. Surely they had some staff to do the testing? They had not got no staff at all?—I find it difficult to answer that. The fact that in some cases no testing has been done was one of the reasons why the Ministry took the action they have taken, obviously intending to follow it up by keeping the matter under close review.

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[Continued.]

2133. Could you help here, Sir Gilmour? Is it the case that your investigation showed that where local authorities had done no testing it was precisely because they had no staff for that purpose?—(Sir Gilmour Jenkins.) That was the explanation they gave.

2134. Would you regard the statutory powers placed on local authorities as incompatible with some arrangement with the Ministry whereby they might reap some financial reward from these dues arising from this?—I think the Treasury have answered that. They are the agents of the Treasury in the collection of these duties. They get no proportion of what they collect, but whether they should do is a matter for the Treasury, not for me.

2135. Do you think, Mr. Macpherson, that it would be incompatible with the statutory obligation to give them some portion of the fees collected, in order to give them financial incentive?—(Mr. Macpherson.) Yes, given the relationship of local authorities to the Central Government.

Sir Colin Thornton-Kemsley.

2136. Sir Gilmour, just one question: the first purpose of the memorandum which you have issued is to ensure "greater discrimination in the selection of vehicles for test weighing". Are licensing authorities advised to accept the very detailed specifications of weights, and so on, supplied by manufacturers of commercial vehicles, or are they advised by you not to accept them?—I do not know that we give them advice on that. I think the answer is that they would accept in the case of a new vehicle that the weight was right, but as we explained when we discussed this at some length last time, various things happen to vehicles in their life which puts the weight up and so takes them over the next stage into a new category, and that is why the test weighing is carried out. I do not think they test every vehicle on its first registration; it would be impossible.

2137. The reason I asked was because I have just this week had an example in buying a Land Rover, which is a standard article. My own county council were very reluctant to accept the manufacturer's specification, they wanted it reweighed. I wondered whether it was

because of your circular?—I think it is at the discretion of the authority.

Chairman.] Now, the Treasury Minute on paragraphs 46-49. I have no questions.

Mr. Collins.

2138. When this matter was considered, Sir Gilmour, it was thought that accounts could not be produced in a form which would be acceptable to the Committee without substantial increases in staff. Now it has been agreed to produce satisfactory accounts have you had substantially to increase the staff?—There will have to be an increase to do part of it, yes.

2139. Have you any idea by how many or what the cost will be?—No, it has not been done yet; it is under consideration at the moment. As to the scope of it, it does not cover all the aerodromes.

2140. It is a pilot scheme?—No, not quite that, but only the main aerodromes.

2141. Do you think the cost will be substantial, or not?—I could not give a guess at that offhand, no. We have switched a certain number of staff on to this work already, and as it develops more staff will have to go on, which might have to be new staff or it might have to be staff which could have been dispensed with otherwise; but I cannot guess what the amount will be at the moment.

2142. But you do not anticipate any difficulty in obtaining the necessary staff, either through transfer or obtaining additional staff?—No, I do not. There is one point I think I may have misled the Committee on inadvertently. I said that we were not doing all aerodromes. We are, of course, doing all aerodromes. What I meant was that each one is not done separately. There is a group of the smaller ones at the end of the table which are grouped together.

Chairman.

2143. The Treasury Minute on paragraphs 50-54, Rents at Airports. Mr. Macpherson, in the Minute, paragraph 2, you refer to the provision for revaluation in the year 2000, that is, about 42 years hence. Do you really regard that as an adequate safeguard for the taxpayer?—(Mr. Macpherson.) This is a very difficult field, as we said in the

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[Continued.]

Treasury Minute. The Committee's recommendation seemed to us to be very difficult to fulfil because no prospective tenant could really plan ahead if he had the uncertainty of fairly frequent revisions of his liabilities. This particular case is, I think, the best that could be done in the circumstances.

2144. Sir Gilmour, Mr. Macpherson has just implied, and the Treasury Minute does, that it would be impossible to get tenants if you attempted, with arbitration powers, to review rents at frequent or infrequent intervals. Have you tested that out?—(Sir Gilmour Jenkins.) No, Sir, we have not had the opportunity of testing it yet because there have been no new leases coming along since then. A great many of them were in negotiation at the time but they had to be settled on the old basis. We have offered the alternative which the Treasury suggested in two cases, and the leases have been agreed on that basis: that is, an escalator clause, the rent going up by stages during the course of the tenancy. That was, of course, free from the objection which tenants would almost certainly raise against an undetermined liability, a liability which they did not know in advance. With the escalator clause they do know where they are.

2145. What were those two cases?—There was a building lease for B.E.A. at Gatwick for maintenance hangars and a building lease to Air India for their maintenance base at London Airport.

2146. If and when you get new tenants is there any reason why you should not actually discuss whether they are prepared to have an escalator clause, depending upon the facts of the situation as settled by arbitration in the future?—We have always avoided arbitration, for the reason that we do not know whether arbitration would go against us. It ties our hands in exactly the same way, of course, as it ties the tenant's hands.

2147. I do not want to argue this over again, but in view of the enormous increase in air traffic surely it is hardly likely that arbitration would decrease the rents?—It would depend to some extent on our success in getting people to take leases on that basis. We have been advised that no tenant who is properly advised professionally would in fact take a lease of that kind if he could possibly avoid it. Now, a great many of

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our people can avoid it, of course. There is no reason why foreign air lines should set up maintenance bases in London. They can set them up on the Continent close at hand, and if that were to happen to any extent and people like engine builders and others set up their bases outside the airfield, as they could quite well, the result would be to reduce competition and reduce the value.

2148. Yes, I take your point?—We think now, if I may continue, Sir, that the first alternative which the Committee gave last year is much more possible than it seemed earlier, at any rate in London Airport. We have a pretty good idea, or we shall have soon, I think, what development is going to take place and therefore we ought to be able to judge the type of escalator clause that would be appropriate; and we think with the Treasury that that is a practical solution.

Mr. Hoy.

2149. Mr. Macpherson, while it is true that people should not be asked to take these properties on very short leases would you not have thought they could have got a much more reasonable term than the year 2000, even if the Lords of the Treasury have arranged for arbitration in the year 2000?—(Mr. Macpherson.) I am sorry, Sir, I do not know the history of this particular negotiation.

2150. One would have thought, with this tremendous development going on, that it would have been some protection as far as the Ministry of Transport and Civil Aviation is concerned, because of increasing aerodrome development?—The protection, as Sir Gilmour has said, that we are now looking for—

2151. Now looking for, but I am talking about what has happened previously?—But this is, as I have already said, a very difficult field. It may be that in dealing with aerodrome development the Ministry's technical advisers have got to take an even more far-sighted view of development than is expected of them in normal commercial development. That is, I think, probably the lesson we have learned.

Mr. Arbuthnot.

2152. Sir Gilmour, you do agree, do you not, that the value of these properties to the tenants is likely to increase

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[Continued.]

at a very rapid rate as air transport increases?—(Sir Gilmour Jenkins.) In many cases I should think that is true. I would not be certain that it would in all cases.

2153. Do you know that it is the Colonial Office's policy in many colonies to review rents at ten-year periods?—No, I did not know that.

2154. That is so, and would you have another look at the question whether you cannot get tenants to accept leases under which the whole thing could be renewed at ten yearly intervals?—Yes, certainly. We tried that, but what I think would be very difficult would be to be instructed to make that a condition at the same time that there is a condition already laid down that nobody can go to the premises until he has signed a formal lease. That is almost the irresistible cannon ball and the immovable post.

2155. The same applies to the Colonial Office leases, you know?—At the same time, many of these people are building maintenance bases which are going to last, I do not know, perhaps 50 or 100 years. They want to know what their commitments are because they cannot move out once they are there.

2156. At any rate, you will have a look at it again?—Yes, certainly.

Mr. Ramsden.

2157. To quote from paragraph 54 of the last Report: "The Air Ministry Lands Branch maintain that it is impossible to forecast the extent to which the value of a site is likely to be enhanced by subsequent development". You were telling the Committee earlier, were you, that that idea had been revised lately and that you now thought that it would be possible to forecast developments and make a more frequent revision, as the Committee suggested?—The Lands Branch were talking about making an accurate forecast. I think we could make a reasonable forecast, not necessarily accurate, but having quite a reasonable relation to the facts. The Lands Branch are naturally a professional branch and would want solid support for everything they say.

Chairman.] Paragraphs 55-58, Sale of Solent Flying Boats. I have no questions.

Mr. Hoy.

2158. Just one question. Sir Gilmour, you remember that last year this Committee showed some concern about the status of the officials in your Department who carried out these negotiations. Have you in fact done anything about that?—Yes. The desirability, as the Committee suggested, of getting legal advice on these matters has been considered.

2159. And also the status of the official concerned?—He has not been punished.

2160. No, I am not suggesting that he should be punished. You have got to accept the responsibility for that?—Certainly.

2161. All I am suggesting is that the Committee did express some concern that a member of your staff in a category quite as far down as it was should have been able to negotiate a deal of this kind?—I think the answer I gave then, if I remember rightly, is this, that a great deal of the work is naturally devolved quite low down but the authority for doing it and the authority for supervising it lies with officers much higher up; and there was no question but that the officer who did this had authority from his superiors.

2162. He may have had authority, but the supervision was lacking?—Well, that goes back to the whole discussion we had last year.

2163. We naturally have these discussions in the hope that you will find solutions, Sir Gilmour, and that it will not happen again?—That is what we have tried to make sure.

Mr. Collins.

2164. On the point which has just been raised, I do not know quite the status of the individual who negotiated these contracts, but the point that occurs to me is, are you quite sure that in future the individual will be of sufficient standing, irrespective of whether legal qualifications are or are not required?—Yes; but as I said, the actual authority for doing what he did was in fact given to him by the Deputy Secretary to the Ministry. There is no question of it having been done at too low a level on the authority of somebody of inferior rank.

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[Continued.]

CIVIL APPROPRIATION ACCOUNTS, 1956-57 (CLASSES VI-X).

CLASS IX.

VOTE 2.

ROADS, &c., ENGLAND AND WALES.

Chairman.

2165. Now will Members turn to the Civil Appropriation Accounts, Classes VI-X, to page xxxi, paragraphs 114-116 of the Comptroller and Auditor General's Report? Sir Gilmour, why do you continue to bear the Scottish part of this expenditure on your Road Vote when the Scottish Home Department have a Road Vote of their own? They not only have a Road Vote of their own, but you have to rely on their officers to scrutinise transactions for which you pay?—Yes, they took over responsibility for the roads and with that the staff which we used earlier. It is just an agency agreement by which they carried on doing the work with the same staff in the new circumstances.

2166. Why have an agency? Why not transfer the whole duty to them?—That is a question for the Treasury. We are the agents for the Treasury in supervising the collection of this tax quite irrespective of the responsibility for the roads. The roads were transferred, the responsibility for collecting the new taxes was not transferred, but by an arrangement the staff which we used before, which is Scottish staff, is being used still, we think economically, to do the same job.

2167. Mr. Macpherson, why should not this responsibility be transferred to Scotland under the Scottish Home Department?—(Mr. Macpherson.) I am speaking without a brief, but my understanding is that it was considered that this was a job which would be better concentrated in one Department.

2168. It is not concentrated in one Department?—(Mr. Grant.) If I may add something, the question was discussed in some detail; and the administrative difficulty of having two Departments collecting the same tax in the country was thought to be very considerable because there would be a question of applying rules and regulations and acting on precedents with two different agencies. It could have been done, but I think it would have meant more administrative complications than the slightly illogical set-up which has come about.

2169. The point has been seriously considered?—The point was considered when the roads were transferred.

Chairman.] Will Members now turn to the Account on pages 197-200? We have before us Subhead E, Registration of Motor Vehicles and Collection of Motor Vehicle Duties. I have no questions.

Mr. Arbuthnot.

2170. Why was £184,000 spent more than was granted under Subhead E, Sir Gilmour?—(Sir Gilmour Jenkins.) I have not quite followed where you are at the moment.

2171. Subhead E on page 198, the Account. I see you say in the footnote: "Increases in staff costs", but did that account for the whole of it?—The answer is that that was an increase in rates of pay.

2172. How many people were involved?—We do not know; they are local authority people.

VOTE 4.

CIVIL AVIATION.

Chairman.

2173. Now, paragraphs 117 and 118 of the Comptroller and Auditor General's Report, Vote 4, Civil Aviation, Outturn of the Account. How much of the surplus on Subhead A.1 is due to postpone-

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ment of work and how much due to delays pending reconsideration of this major plan for London Airport?—It is difficult to divide them quite like that, but may I say that of that increase, £700,000, which is a very large figure,

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[Continued.]

was due entirely to exceptional causes: £78,000 by the failure of foreign airways to finalise negotiations for a site; £65,000—

2174. I am on paragraph 118. I am asking you about a saving, of £1½ million under Subhead A.1. How did that arise?—That is what I am on, Sir. May I start that again?

2175. Yes, certainly?—There was something over £200,000 which was purely accidental in that the amount did not accrue in that year. £78,000, as I say, was because of the failure of a prospective tenant to finalise his negotiations. £65,000, through slow progress in measurement and the payment of bills did not accrue in that year; and another £65,000 was paid actually in the previous year after the estimate had been put in but before the end of the financial year. There was another £490,000 which arose through delays in acquisition of lands and buildings where negotiations were going on but were not finalised in the year as we expected. Of that nearly £300,000 was due to one company at London Airport. The company did not get their claim in in time and they had changes on the Board. That amount is not paid yet. The bill has not come in but as soon as a contract is made of course we have to pay it. So you have something like £700,000 of that which was purely accidental before you come to the postponements, and so on. Now, £250,000 was under-spent at London Airport because the Millbourn Committee was sitting and the work was postponed and there is another £106,000 for a temporary freight building on the Bath Road and some changes in the passenger building in the centre which were also postponed for the same reason. The Millbourn Committee got down to work after the estimates had gone in and so account could not be taken of what they were likely to propose until later in the year.

2176. So the answer really is that the whole of it has been postponement?—Postponement.

2177. Apart from that £700,000 which is accidental?—Yes.

2178. How much actual economy is there in it? Is there any element of economy in it?—I am rather thinking aloud in this, off the cuff, Sir. There

will be some because, for example, the temporary freight building will probably not be needed if we can get ahead with the permanent freight building. It will depend on that, but if we do get ahead then there will be some saving there. Whether there is a final saving on account of the others I could not say.

2179. On a matter of bookkeeping, when you have big variations like this why does not the Ministry include somewhere in the Appropriation Account details giving the analysis of the variations on Works items? You are one of the few Ministries that do not?—There is a footnote there, Sir.

2180. This footnote is not as adequate an explanation as we get in a number of other Departments' Accounts showing the detailed causes of the variation when you find under an item there is a very big variation between the estimate and the actual expenditure?—I will certainly look at that, Sir, and in consultation with the Treasury produce more detailed notes, certainly.

2181. Will you do the same thing for Subheads A.1 and B.1 on Roads? Perhaps you might consult with Sir Frank as to the form of your Accounts on this particular point?—So far as roads are concerned we will consult the Treasury about that, Sir, if we may. There are a good many technical difficulties, mainly due to the fact that we are dealing almost entirely through local highway authorities, but if we may we will talk to the Treasury about it and see if we can work something out.

Mr. Collins.

2182. Sir Gilmour, paragraph 117 mentions that the net Estimate of £6½ million, in round figures, was following the Chancellor's announcement of certain economies under this head. Can you say what the amount of the proposed economy was, the amount of the cut?—No, I have not got the figure for that.

2183. You do not know what the projected economy was?—No.

2184. So in any case the full Estimates were not met by nearly £2 million?—(Sir Frank Tribe.) The original Estimate was £11,113,000 gross and that was reduced by the Revised Estimate to £10,780,000.

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[Continued.]

2185. So, in effect, the proposed economy was £333,000 and against that there has been an overspending of nearly £2 million?—(Sir *Gilmour Jenkins*.) No, Sir, an underspending.

2186. No, as I see it, surely the net expenditure exceeds £6 million. It amounts to £6,850,000, I think, whereas it was supposed to be £7,550,000. So there has been, in effect, an overspending?—(Sir *Frank Tribe*.) I think, if you look at page 211, you will see the Revised Estimate; the net is given there and the expenditure and there was a saving of about 30 per cent. with a surplus to be surrendered of nearly £2 million.

2187. But, Sir Frank, in your paragraph 117 you mention a gross expenditure of £8,800,000 against Appropriations in Aid of less than £2 million. That gives a higher figure than the net figure of £6,555,000?—The amount applied as Appropriations in Aid was £4,225,000.

2188. I see; the figure there, a surplus of £1,967,000, is a surplus of Appropriations in Aid?—(Sir *Gilmour Jenkins*.) It is over and above Appropriations in Aid.

2189. The main part of the economy, nevertheless, did arise from unforeseen deferments?—Yes.

Chairman.] Paragraph 119, Cost of Operation of Aerodromes. I have no questions.

Mr. *Hoy*.

2190. Sir Gilmour, these figures show that the operation of aerodromes entails a substantial subsidy. Is it still the Ministry's policy to aim to make them self-supporting?—Oh, certainly, yes.

2191. Why is the assessment of depreciation and interest described as a provisional assessment? Is there any reason for that?—The answer, Sir, as far as we are concerned, is that we have not agreed it with the Treasury yet, but that is the best estimate we can make. (Sir *Frank Tribe*.) I believe the assets are being revalued. (Sir *Gilmour Jenkins*.) Yes.

2192. You do not see eye to eye with the Ministry, is that right, Mr. Macpherson?—(Mr. *Macpherson*.) No, I do not think there is any dispute in this. It is just a question of revaluation.

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2193. Just a question of it taking time. May I ask you then how much of the expenditure represents what I think you call "Technical Services for Navigation, &c." in this summary?—(Sir *Gilmour Jenkins*.) The technical services cost practically £1½ million out of the total of £8½ million.

2194. Are any or all of these services provided free?—They are, in effect, provided free because the landing fees and other fees do not cover our expenses; but our hope would be that they would be covered as part of the total expenditure by the total income, not necessarily as a separate item, but as part of the total.

2195. Mr. Macpherson, what are the Treasury views about charges for these technical services?—(Mr. *Macpherson*.) We with the Ministry, Sir, are hoping it will be moving towards a situation where this service will be self-supporting, but we agree with Sir Gilmour that it will not necessarily mean that the fees for a particular service will match the expenditure in that service, that there may have to be in terms of the letting of amenity facilities at airports, and so on, a means of building up a total income.

2196. But you will agree that these services are costing the Ministry £1½ million, a considerable sum of money?—Yes, but we are also concerned at the net cost of £5.4 million, which is a very big gap to bridge.

Colonel *Crosthwaite-Eyre*.

2197. We are providing this £1½ million for technical services. Presumably quite a lot of these services apply to foreign airlines using our aerodromes?—(Sir *Gilmour Jenkins*.) Yes.

2198. Is there any foreign aerodrome which gives similar services to us at this sort of loss?—Yes, practically every one, I should think.

2199. If you looked at the account, shall we say, of Air France or K.L.M. you would find a large sum shown for technical services which were not recouped by the airline concerned?—It would be the French Government or the Dutch Government, not the foreign airlines.

2200. I was thinking of Air France, which is publicly controlled?—They provide the services for B.O.A.C. and

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[Continued.]

B.E.A. just as we provide them for K.L.M. and Air France.

2201. Mr. Macpherson, are you satisfied from studying other countries accounts on different subjects that what we are providing free for foreign airlines is roughly equivalent to what foreign Governments supply to our airlines in foreign countries?—(Mr. Macpherson.) I cannot say it is roughly equivalent, I can say this is the normal service which is provided for airlines by Governments.

2202. But you have not actually looked at that point to see whether what we are providing is in line with or above or below what is the scale you expect abroad?—We have not looked at it. The Ministry would have. (Sir Gilmour Jenkins.) On that, Sir, I think you could scarcely use that as a basis. We are bound to provide here for our own airlines and for everybody using our airfields the best facilities we can. Other people are doing the same; whether their standard is the same as ours is very difficult to say but you could not measure it by money.

2203. I am sorry, my question gave you the impression I was talking in terms of money. What I was asking for was the charges in relation to these services?—Practically nobody charges for these services.

2204. They are taken as a Governmental expense, are they?—They are taken as a Government provision for their own and for other airlines. (Sir Frank Tribe.) Perhaps I can make it clear, the £1½ million which we have been discussing is the cost of technical services which are attributable to aerodrome approach, landing and take off, quite apart from other technical services for so-called overflying aircraft, known technically as the "Maybury" services, which cost in the year rather more than £1½ million; so there is in the year over £3 million on technical services.

2205. That is all part of the burden which any country bears. Would you think that the charges we make for the actual use of our aerodromes in relation to the services provided bear comparison with what foreign Governments charge for services provided against charges they make?—(Sir Gilmour Jenkins.) Yes, generally speaking. Our landing fees are among the

highest in Europe. We make usually over the whole field of services a higher charge than other people.

2206. Sir Frank refers in this paragraph to a note on page 214 in the Account. What is the notional revenue credited in respect of services provided free to other Government Departments?—I am sorry, I have not found the reference yet.

2207. In the last line of the note on page 214 you will see the part that Sir Frank quotes?—(Sir Frank Tribe.) I understood this to refer to the fact that the Ministry do not make a cash charge against the Air Ministry or the Ministry of Supply for landings of their aircraft on the Ministry's fields. (Sir Gilmour Jenkins.) That is true. We have not got a figure for it, but Royal Air Force aircraft and Ministry of Supply aircraft land on the airfield without a fee.

2208. I see from the note that you have made an estimate of this revenue. I wanted to know what the estimate was?—I have not got the details here, but I will let you have them.

Colonel Crosthwaite-Eyre.] I do not want a split, I just want the total amount of notional revenue, if that is possible.

Chairman.

2209. You will let us have that, will you, Sir Gilmour?—We have not got the details. The best guess we can make here, just as we are, is somewhere about £200,000 to £300,000.

Colonel Crosthwaite-Eyre.

2210. No more than that?—No more than that. But I could let you have the figures, perhaps.

2211. All I would like is the estimate in gross, not in detail?—Yes, thank you very much.*

Chairman.

2212. Paragraphs 120-122, Blackpool (Squires Gate) Aerodrome. In the middle of paragraph 121, Sir Frank notes your policy as envisaging "the

* Note by witness:

Landing Fees etc. ...	£114,000
Rents receivable ...	£93,000
	<hr/>
	£207,000

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[Continued.]

retention or purchase only of aerodromes from which the Airways Corporations operated scheduled services," and only those. Is that your policy today?—No, Sir, the history is, very broadly, that it was expected that Blackpool might attract scheduled services to a greater extent than it has in fact attracted them. B.E.A. decided that they would not go in, but there are scheduled services run by some of the independents in association with B.E.A., but not to an extent that is anything like what was expected in the early days.

2213. So that, really, this aerodrome is not providing the particular service that you anticipated when you acquired it?—It has not been needed to the extent that we thought it was going to be needed, no.

2214. What rent were you paying before you purchased it?—I do not know that. It is rather a long time ago. It was a wartime requisition from the Blackpool Corporation.

2215. You paid £200,000 for it, did you not?—(Sir Frank Tribe.) I believe the rent they were paying was £2,300 a year mainly to the Blackpool Corporation. (Sir Gilmour Jenkins.) Yes.

2216. You paid about £200,000 for it. In other words, you bought it at the rate of about 100 years' purchase. How came it you paid such an enormous price?—How it was fixed I do not know at this date, Sir, but it was a negotiated purchase from the Blackpool Corporation.

2217. Do you intend to retain it now, seeing that it barely fulfils the requirements you lay down for owning an aerodrome?—There are several possibilities. We should like to see Blackpool Corporation take it. They refused earlier to take it back and operate it themselves. There is still a possibility, I think, that they might do.

2218. At the price you gave for it?—We should have to try and negotiate that with them if they wanted it back. But we have to wait, I think, until Hawker's, who have a factory by it and who were using the aerodrome for factory purposes, have withdrawn, to see whether somebody else takes it on who might require the aerodrome. We do not know; we should have to discuss that with the Ministry of Supply when it happens.

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2219. Or if it happens?—Yes, if it happens. If it does not happen or if the circumstances are such as to justify it, we should have to consider closing it down.

2220. And that will mean that your £200,000 has gone completely west?—The annual loss, of course, is quite considerable. We have to balance that against the capital loss if we should not get a good price for it.

2221. In other words then, you are going to lose if you keep it and if you sell it you are also going to lose quite heavily as well?—Well, that we do not know yet but that was one of the aerodromes that was acquired as an element of precaution at the time, or the negotiations started at the time, when it looked as if it would be needed.

Mr. Thornton.

2222. Sir Gilmour, would you have bought this property if it had not been to help the Ministry of Supply?—No, I do not think we should. It was a joint decision, Treasury, Ministry of Supply and ourselves, and it was thought that it was most appropriate as it was a civil aerodrome that the Ministry of Civil Aviation should take it. That was before the amalgamation, of course. But, guessing, I doubt whether it would be purchased purely for civil aviation purposes.

2223. If the judgment of your own Ministry would have been decisive in the matter you would not have purchased this?—The Government for that purpose are bound to act as one. If two Departments are concerned one cannot pursue an entirely selfish policy. They have to work together.

2224. Can you tell us why the Ministry of Supply had to build a new runway at a cost of over £½ million?—That was to take the aircraft which Hawker's were testing and running there.

2225. It seems a very large amount?—It is a Ministry of Supply point, but I think the answer is that the aerodrome was quite useless without that extension of the runway for the aircraft which were wanting to use it.

2226. Why did your Ministry rather than the Ministry of Supply buy the aerodrome land?—There was, as I say,

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a discussion between all the Departments concerned, the Treasury, ourselves and the Ministry of Supply, and it was decided that we were the most appropriate people to do it. It was not really appropriate to anybody individually.

2227. It looks to me as if it would have been equally appropriate for the Ministry of Supply to have bought the aerodrome?—Yes, it might have gone either way.

2228. What was the decisive factor in this decision?—They were decisive in the expansion of the runway but, of course, not in the possible development of the aerodrome for civil aviation purposes. I think the decision might have gone either way.

Sir Colin Thornton-Kemsley.

2229. Sir Gilmour, what were these valuable assets which had been created during and since the war?—I think it is the factory.

2230. But if you were going to buy the airfield you must have done more than think it was a factory, must you not? You must have known why you were buying it?—The answer is that the valuable assets were the Ministry of Supply concern.

2231. The factory is occupied by Hawker's on the adjoining land?—Yes.

2232. And it was essential for their purposes that they should have an airfield adjoining or nearby, was it, so that they could try out the machines that they were building?—That is right, yes.

2233. But, in fact, the airfield had not got a long enough runway for them, had it?—Not at that time, no, but it was a Ministry of Supply interest that they should develop their aircraft which did require the longer runway.

2234. So, the anticipation was that it was worth buying because Hawker's were going to make considerable use of it?—Yes. That was one of the factors.

2235. What were the other factors?—The other factors were that it was expected that there would be much more flying of a commercial character from the aerodrome than in fact has come along.

2236. What was the acreage?—I am afraid I have not got that.

2237. But you bought the airfield?—Yes, but I do not carry the size of it in my mind.

2238. You knew the Public Accounts Committee was going to examine you on this question, did you not?—I can let you have it; I have not got it here.

2239. I am sure we should like it. Then, were you advised about the price by the Air Ministry Lands Branch?—Yes, the Lands Branch were the advisers of the Ministry of Civil Aviation at the time.

2240. And they advised you to give 100 years' purchase of the annual rent?—It was a negotiation in which they were the technical advisers.

2241. You bought it by agreement from the Blackpool Corporation, did you?—Yes. (Sir Frank Tribe.) Perhaps I could say, 310 acres were bought from the Blackpool Corporation at a cost of £153,000 and in addition to that another 104 acres were bought from the Clifton Estates, which I presume is a private company, at a cost of £48,000. That makes up the total of £201,000 for 414 acres.

Mr. Collins.

2242. That is £480 an acre for the private estate, is it?—Yes, about £480 an acre.

Sir Colin Thornton-Kemsley.

2243. About £500 an acre, is it not? Would you agree that the figure was about £500 an acre?—(Sir Gilmour Jenkins.) Yes, I think it must be; yes, I would.

2244. How close in to Blackpool is this airfield?—It is about five miles.

Chairman.

2245. How far is it from the shore?—It is near the shore, how far I do not know.

2246. It is between Blackpool and St. Annes?—Yes.

Sir Colin Thornton-Kemsley.

2247. And this airfield now stands you in at £2,000 an acre because you have spent over £812,000 on it?—(Sir Frank Tribe.) The Ministry of Supply bought the additional land.

2248. Yes, but the total cost of the airfield and the amount spent on road

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diversions and construction work of the new runways exceeds £812,000, does it not, Sir Frank? That appears in paragraph 121 of your Report?—Yes.

2249. And for 414 acres that is something like £2,000 an acre, is it not? Do you see any chance of getting anything like this figure back, Sir Gilmour?—(Sir Gilmour Jenkins.) I have not an idea, Sir. A considerable part of it, as you yourself pointed out, is really ancillary to the factory. That depends, I think, to a great extent on the future of that factory.

2250. Are Hawker's still operating the factory to the fullest possible extent?—No, they are not. They are pulling out, and that is one of the reasons why we have to wait to see who takes it on. The Ministry of Supply are expecting that somebody else will take it.

2251. When did Hawker's leave the factory?—It is just about now.

2252. They have only just given it up?—I think they are in fact in process of giving it up at this moment.

2253. In paragraph 122 the Comptroller and Auditor General tells us that the airfield has been operating regularly at a loss and that last year that amounted to £57,758, exclusive of interest on capital and depreciation of runways, buildings, etc. Do you know what figure ought to be put down for the interest on capital and this depreciation?—We could work that out, Sir, if you would like it, but I have not got it here.

2254. I think it is important that we should know, Sir Gilmour. How was it that Hawker's, although they accounted for less than 6 per cent. of the total landings, paid more than a quarter of the fees?—That depends on the size of the aircraft. Landing fees depend on the size and weight of the aircraft. They were operating big aircraft, the others were all quite small ones.

2255. Do you take a fairly gloomy view about your prospects of getting your money back on this airfield?—We do not know yet, of course, whether it will have to go or not, whether Blackpool will take it, whether the Ministry of Supply will want it for some other factory after Hawker's go. We are undecided.

2256. But if they do not you are going on losing money heavily on it, are you not, year after year?—Oh, yes.

2257. So can you see any prospect of making it pay?—I do not think there is any prospect of making it pay; and if it is not required for purposes other than civil aviation I think it must be closed down.

Colonel Crosthwaite-Eyre.

2258. Sir Gilmour, you said this was a negotiated purchase. Does that mean that both sides viewed it as a sale between a willing buyer and a willing seller?—Yes, we were willing buyers and Blackpool were willing sellers.

2259. There was no question that the Air Ministry acting on your behalf were told to purchase it on the best terms they could?—So far as we were concerned, no. This is rather outside my sphere, but I think at that time the Ministry of Supply did regard it as important that they should have the aerodrome for Hawker's purposes, which is really a factory use rather than an aerodrome use. It was not a civil aviation need.

2260. This, I understand, was a grass aerodrome? There were no permanent runways on it?—Oh, yes, there are runways for the heavy aircraft that Hawker's were using.

2261. I am sorry, at the time you purchased it were there any runways? I know the Ministry of Supply built runways afterwards. I am asking, at the time of purchase were there any runways on it?—I am not quite certain, but I think the answer is Yes because what the Ministry of Supply did was to extend the runway, not to lay a completely new runway.

2262. It does say in the Report that it was a grass aerodrome originally?—Yes, originally.

2263. What sorts of buildings were included in the purchase price? How many hangars were there, and was any value set on them at the time of the purchase?—There must have been some. I have not got the detail of it.

2264. Can you answer the second half, what value was put on them?—No, I cannot say that separately.

2265. Could you say how much you paid for the land and how much for the buildings?—Not separately, no.

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[Continued.]

2266. Was any estimate made at the time?—The purchase was for the aerodrome as it stood.

2267. But did the Air Ministry acting on your behalf, that is, the Works Directorate of the Air Ministry, not tell you how they made up the sum they recommended you to pay as between the land and the buildings that you had acquired?—I do not know, but I think not.

Colonel *Crosthwaite-Eyre*.] I would be interested to know.

Chairman.

2268. Perhaps Sir Gilmour will let us have a note?—Certainly I will.*

Colonel *Crosthwaite-Eyre*.

2269. At the time the Ministry of Supply asked you and you went into consultation with them and then purchased this, was any approach made to Hawker's to see whether or not they would contribute towards the purchase of this aerodrome?—That I cannot say. The Ministry of Supply would have to answer that. I think Hawker's were acting under development contracts with the Ministry of Supply.

2270. But if they were going to have all the advantage of this aerodrome and the use of it was it not possible at least to ask them to contribute to the cost?—It may have been. That is entirely a matter for the Ministry of Supply. I could not say.

2271. Before you went into the final purchase, knowing that Hawker's were going to be largely the users of the aerodrome because of their factory, was any request made to Hawker's to state how many years they would be there or whether in the event of them suddenly leaving, which seems to have happened after two years, they would make some contribution towards the final cost of the aerodrome?—I do not know. That is entirely a matter for the Ministry of Supply to negotiate with Hawker's. We have nothing to do with that.

2272. You have no further responsibility than merely to purchase the land?—It was decided that we should be the purchasers of the aerodrome, yes, but the Ministry of Supply interest in it was, of course—

2273. I do not want to press you too far on this, but if you are acting on

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behalf of various Departments as the purchaser, while I entirely agree that the Government is responsible for the final decision, do you not as purchaser think it necessary to see that the bargain for which you are going to be responsible is satisfactory?—Well, I think that is a general responsibility for the three Departments which are concerned, the Treasury, ourselves and the Ministry of Supply, but the relationship between the Government and Hawker's was a Ministry of Supply relationship and not a relationship with ourselves.

2274. If you pay the money, because it appears, as I understand it, on your Accounts, you are the Department responsible, particularly to the Public Accounts Committee?—Certainly.

2275. Which in turn is responsible to the House for seeing that money granted to you is properly spent?—Yes.

2276. Would you not then think it your duty to make sure from the other Departments that the money is properly expended?—The other Department concerned, the Ministry of Supply, said, and it is their responsibility, that they needed this aerodrome for the development contract with Hawker's, but we would not try to interfere in that side of the business.

2277. You do not feel that your Ministry, although it paid the money, has any further responsibility beyond accepting the word of the Ministry of Supply?—No, I do not think so.

Mr. West.

2278. Why did you not tell the Ministry of Supply, Sir Gilmour, that this was outside your function and that they would have to come and justify their expenditure to the Public Accounts Committee?—As I said before, there was a doubt as to which was the more appropriate Department to purchase this. That was discussed at considerable length between the Ministry of Civil Aviation, the Ministry of Supply and the Treasury and it was decided on balance, as one Department should do it, Civil Aviation should do it.

2279. Sir Frank's Report says that "as a matter of expediency" it was decided that you should do it. What was the expediency in your doing it?—I think it would have been a matter of

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expediency also if the Ministry of Supply had done it. It merely was that you had to have one purchaser instead of two, that is all.

2280. With regard to the local authority land which you acquired, did the District Valuer look after the local authority interest in that?—Whether that was the District Valuer or our own valuer I do not know.

2281. Is it not a matter of general practice that if a local authority either acquires or disposes of land they are guided always by the District Valuer, or is that not always the case?—I do not know; that is a local authority business.

2282. Am I right in thinking that when local authorities either buy or sell, particularly in matters of this magnitude, that they would have to obtain Ministry approval?—I do not know.

2283. Do you know whether or not any Ministry approval was obtained to the sale of this land to you?—I assume it was a legal sale, so I assume everything which ought to be done was done; but that is a matter for the Ministry of Housing and Local Government, of course.

2284. Who valued for you and negotiated for you both with the local authority and with the private owner?—Our legal advisers, the Lands Branch of the Air Ministry.

2285. Did you have a proper valuation before you finally agreed to pay that amount of money?—Oh, certainly.

Sir Colin Thornton-Kemsley.

2286. May I perhaps just give Sir Gilmour an opportunity of correcting what I am sure was a slip? The Lands Branch of the Air Ministry surely are not your legal advisers, are they?—I am sorry. They were our professional advisers, I am so sorry.

2287. Professional advisers, not legal advisers?—Yes.

Mr. West.

2288. I rather take it that you had the Lands Branch advice and also legal advice with regard to it?—Yes; the Department, of course, have their own legal advisers. The Treasury Solicitor is the legal adviser of the Department.

Mr. Hoy.

2289. What I fail to understand is that your Ministry came to the conclusion that this particular aerodrome was absolutely of no use to your Department, is that not right?—No, Sir.

2290. Did you not?—No; we would say so now, but at the time when these negotiations started years ago when the development of the aerodrome was taking place that was not the view. It was expected that it would be a useful aerodrome, particularly for the independent operators.

2291. Perhaps I am being a little misled, but in paragraph 121 the Comptroller and Auditor General says: "In these circumstances the Ministry of Civil Aviation considered that there was no civil aviation justification for retaining the aerodrome on a long standing basis, and therefore that purchase by the Ministry would be a departure from policy"?—Yes. At that stage by itself, as I said earlier, if it had been a civil aviation interest only we should not have taken it.

2292. Let us just stop there. So we agree on that, your Ministry did not require it. Am I right in assuming, then, that the need for acquiring it was in fact because the Ministry of Supply wanted it to use for testing these aeroplanes that were being built by Hawker's?—I do not think it is quite so cut and dried as that, Sir. I think the fact is that adding the two needs together—

2293. Two?—There was some use for civil aviation purposes; there was not enough use to justify it purely for civil aviation purposes, but there was some use. That, added to the need of the Ministry of Supply, made it worth while in the view that was then taken by all the Departments concerned in taking the aerodrome.

2294. But it was only worth while to the Ministry of Supply, Sir Gilmour, and what I cannot understand is why you did not say to the Ministry of Supply: "Well, if you want it for that purpose"—because that was the main purpose—"then you make yourself responsible for the purchase of it"?—Well, there are other factors which come in there, Sir. I was not, of course, in those discussions at that time. It is a long time ago.

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2295. It is not so long ago surely?—It is before the amalgamation of the Departments. The discussion was a tripartite discussion, a discussion between the Ministry of Supply, the Treasury, and the Ministry of Civil Aviation to see who was the more appropriate. In dealing with that one would naturally take into account not only to whom it was most useful but also who had facilities for doing the things which had to be done, such as providing the navigational aids, and such things. The decision was taken that the more appropriate Department was Civil Aviation partly for that reason, I have not any doubt.

2296. But this considerable sum of over £½ million for the new runway—and I know you are not responsible for it—I understand was undertaken by the Ministry of Supply?—Yes.

2297. Would it not be a fact that a considerable part of the cost of the development of this aircraft, while in fact undertaken by Hawker's, would be paid for by the Ministry of Supply?—I do not know; that is entirely between Hawker's and the Ministry of Supply.

2298. I think we shall have to see the Ministry of Supply about it. Now, if I may turn to the land on which so much has been spent, it would appear from the answers you have already given that land which you were able to rent for £2,000 per annum you then purchased from the Corporation at about £495 an acre?—Yes.

2299. And something like £463 an acre from the private landowner, and that this land was at least five miles away from Blackpool. What made this land so terribly expensive?—I do not know. That was the negotiation between the two, both being professionally advised, as to what the right value was. Land for an aerodrome is usually very expensive.

2300. I should think it might be expensive, but I have never heard of it costing £500 an acre five miles away from a city like Blackpool which had no civil aviation at all. You held this land on requisition, did you not, or your Department did?—Yes, it was held on requisition.

2301. What was so essential that you should get rid of a £2,000 rental at this exorbitant figure? You held the land on requisition?—Yes.

2302. Blackpool, I understand, were not pressing you to take it back. They were getting £2,000 a year out of it and they were not desperate about it. What made your Department pay so much money for the 100 years' purchase price?—Again I can only surmise, but the fact was, I suppose, that it would not be possible to extend the runway as the Ministry of Supply wished in an aerodrome which was not owned by the Government.

Mr. West.

2303. Before you leave that point, Sir Gilmour, it is correct to say, is it not, that the Ministry of Supply when they constructed this runway also acquired the additional land for it?—Yes.

2304. Was that land transferred to you or transferred to them?—It became part of the aerodrome and certainly is part of the aerodrome now.

2305. So, part of the land which now comprises the aerodrome appears on the Ministry of Supply Vote and the remainder appears on your Vote?—Yes, it was paid for, certainly, by the Ministry of Supply.

2306. Was that one of the expediences which made it desirable for it to be transferred into the name of your Department?—I think that as the Ministry of Supply required the land it was reasonable that they should buy it and when they wanted the runway extended that they should extend it.

2307. But you had to bear the cost of the land for the aerodrome originally and when they acquired more they paid for that and had that on their Vote?—Yes.

2308. I do not understand that position at all, I must confess?—That was decided between the Departments and the Treasury as to who were the appropriate people to take it on the Vote. The payment had to be made, anyhow.

Mr. Collins.

2309. I would like to enquire whether this additional land which has just been referred to was the land for which you paid or the Ministry of Supply paid, an average of £463 an acre to another owner?—(Sir Frank Tribe.) No, the two acreages I mentioned, 310 from Blackpool Corporation and 104 from Clifton Estates were both purchases by

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the Ministry of Civil Aviation. The Ministry of Supply paid an additional £17,000 for other land for the new runway.

2310. How many acres?—I am afraid I do not know how many acres.

Colonel *Crosthwaite-Eyre*.

2311. When you answered a question just now you said it was not the Ministry of Supply's desire to erect a runway except on an aerodrome which you owned, but as I understand this paragraph you had it under requisition and there would be nothing to stop you keeping it under requisition?—(Sir *Gilmour Jenkins*.) They had to buy extra land for making that additional runway or for extending the runway.

2312. I am not talking about that. I am talking about the original land which was under requisition. You would have been able to use the Defence Regulation, whichever it was you requisitioned under, to keep it, would you not, if you had so desired rather than purchase?—How long it will last I could not say offhand.

2313. It certainly would have existed up to now?—It exists up to now, yes.

2314. Would you not have been in a much better position if you had been able to hand it back to Blackpool Corporation then than if you bought it?—That was considered at the time and it was decided the right thing was to buy.

2315. But you could have kept it on requisition if you had wanted to?—I could not say for certain but I think so.

Mr. *Hoy*.] Before we go any further on this I find this unsatisfactory, I am bound to say. Do you not think we could arrange for somebody to come from the Lands Branch who could explain the intricacies of this and why all this money was spent? I know it was done before Sir *Gilmour*'s day.

Mr. *Collins*.

2316. Is that not going to come in the memorandum which Sir *Gilmour* is going to let us have? I understood he was going to let us have a breakdown as provided by the Lands Branch as between land, buildings and other components of the purchase price?—That is right.

Chairman.

2317. I think we had better have the memorandum before we call any other Department in?—I think we can cover it in the memorandum.*

Mr. *Collins*.

2318. I should like to try to clear up one or two points now designed not only to ascertain about the cost but what you now actually own as a Department. One thing which has been mentioned is the State-owned factory. The State-owned factory was built during the war, presumably. Who paid for that?—I do not know, but I imagine the Ministry of Supply, or more probably the Ministry of Aircraft Production, I should think.

2319. The State-owned factory is on the land?—It is not on the aerodrome.

2320. On which land is it, on any of the three lots of land about which we have heard, the Blackpool land, the Clifton Estates land, or the other?—No, it is not on any of the land we own.

2321. It is a thing quite apart?—Yes.

2322. Can you say, Sir *Frank*, why the fact of the State-owned factory is mentioned here in your paragraph 120?—(Sir *Frank Tribe*.) As far as I understand the position, the new runway had to be able to meet the needs of this factory. That is why I thought it necessary to mention the factory. If it had not been for the factory none of this would have happened, as far as I can see.

2323. Does any of the land, then, adjoin the land on which this factory stands?—(Sir *Gilmour Jenkins*.) Yes, it is because the factory is by the side of it that the aerodrome is required.

2324. Now, in answering a question from another Member it appeared to me that you said that for this money, £201,000, you did not just acquire land, you acquired other things on these sites?—Yes.

2325. What else did you acquire on these sites?—There are buildings; I will cover that in the memorandum that I am going to put in. There were buildings there for accommodation of aircraft.

2326. But they were not buildings that were purchased or supplied by the Blackpool Corporation?—That I do not

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know, but I should think they were built by the original owner. As I say, that is a point we can cover in a memorandum.*

2327. If those buildings were not built or supplied by the Blackpool Corporation—?—The Air Ministry had it as an operational aerodrome during the war.

2328. What I am trying to get at is what you acquired for your £201,000 plus £72,000, and if you acquired buildings were they in fact originally paid for by another Government Department?—We will cover that point, too.

2329. If they were, in fact, paid for by another Government Department then it does mean, Sir Gilmour, surely, that you did pay some £490 an acre for land alone to the Blackpool Corporation?—If that is so, yes. As I say, I do not know the facts.

2330. I wanted to get that point established?—(Sir Frank Tribe.) The Air Ministry had certainly done some development on the site, as I mention at the beginning of paragraph 120.

2331. The Air Ministry had?—The Air Ministry.

2332. I am concerned to know whether Blackpool Corporation in fact, either by purchase or by building or in any other way, did contribute anything in addition to the land. Sir Gilmour, you cannot really answer that?—(Sir Gilmour Jenkins.) No, that is the main point of the memorandum which I am producing.*

2333. If, in fact, the Air Ministry or some other Department provided those buildings, then although you may now have acquired them, you will have acquired them free from the other Government Department and not from the Blackpool Corporation?—That is a question of fact which I will let you know.

2334. Now, Squires Gate is at the extreme end of the trolley-bus route in Blackpool. There is no development there at all, no seaside development, no amenity development there at all?—It is a place, I gather, where trippers go. I am afraid I do not know it; I have never been there.

Mr. Collins.] It is the extreme point where trippers get off the bus and there is nothing there.

Mr. Hoy.] Except this aerodrome.

Mr. Collins.

2335. Are you aware, for example, that there is no more shore amenity than is enjoyed by certain boarding houses that advertise as "Sea View"? That is the position. I am anxious to find out what in any case could possibly prompt such an enormous price for land, and perhaps you will indicate in the memorandum you are giving us whether it was considered there was any amenity value and if so, what justifies what you call the very high price which is normally paid for land for aerodromes?—That I have already said will be in the memorandum.*

2336. As far as the factory is concerned, is it not the case that Hawker's have been closing this factory, or running down this factory, as far as the employees are concerned, over a period of nearly twelve months?—I do not know.

2337. Do you know the number of employees approximately who were there?—No.

2338. You do not know if it is something of the order of between 3,000 and 4,000?—No, I know nothing about it actually at all.

2339. It is mentioned in paragraph 120 that the aerodrome land was purchased in 1956 "to safeguard the valuable assets"?—That was the end of a very long negotiation.

2340. Yes, but it says: "To safeguard the valuable assets". Against whom were you safeguarding them?—They would deteriorate if they were not looked after. As I say, these questions of the land and the buildings I have already promised to cover in a memorandum.

2341. Yes, but were not the runways, and was not the aerodrome as a working aerodrome, and apparently it is still a working aerodrome, part of the assets you were thinking about?—Everything there is part of the aerodrome.

2342. But as far as the safeguarding of the assets is concerned what I am interested in is that you acquire the land to do it. Who would have interfered with the assets if the land had still belonged to the Blackpool Corporation

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or the Olifton Estates?—It is difficult to say that. The assets belonged to the Government, they were on somebody else's land and in order to get possession of them, seeing that they are fixed property, one has, I suppose, to buy the land.

2343. Apparently you told Sir Frank that this agreement to acquire the land was "in order to safeguard the valuable assets created during and since the war." Now, it is true that there were valuable assets there on land owned by somebody else, but why was it necessary to acquire that land, in some cases at 109 years' purchase, in order to safeguard those assets?—I suppose because it would revert to the owner of the land if the land was not purchased. They are fixed assets.

2344. You hold it under requisition?—Yes.

2345. So unless Parliament ended the powers under which that requisition was made the owner could not then acquire the assets for nothing, could he?—That is a legal question, who held property in the assets.

2346. In any case, surely, you could have taken steps to safeguard them by means of a lease?—That was all considered by the Treasury and the Departments concerned before the decision was taken to purchase.

2347. Your Department has no interest in the factory, it is not even on its land, and therefore if you were trying to sell this aerodrome the factory would be outwith it. You would just have to sell the aerodrome, is that right?—That is right.

2348. If the aerodrome was completely unused, if you did not carry on an air service there at all, have you any idea what would be the annual cost of maintenance if the buildings were unused, and the aerodrome were unused? Would it be substantial?—I do not know.

2349. Do you think it would be anything like the loss of some £50,000 a year odd which is at present being incurred?—It would not be as much as that providing the technical services and other services at the aerodrome stopped.

2350. So it does seem, in default of any proposal from the Ministry of Supply, that you will have to give fairly

urgent consideration to disposing of this property despite the inevitable capital loss?—If it is not required for Ministry of Supply purposes, yes.

Chairman.

2351. I think we have got practically all we can out of this now?—(Mr. Macpherson.) May I just add a note on this valuation point? In 1955 when we were asked finally to agree to the purchase of the land at a cost of £152,000 we were then told that it had been represented to the Ministry that the value put on this land by the Town Clerk of Blackpool was £300,000.

Mr. Hoy.] But that means nothing at all, Mr. Macpherson. The Town Clerk wanted to sell it and get as much money as he could out of it for Blackpool. When you think what has transpired since then surely that would not surprise you?

Colonel Crosthwaite-Eyre.

2352. I hope we may take it that that does not mean in future that if anybody wants to sell something to the Treasury and says any figure the Treasury will with gratitude accept two-thirds of it as being a reasonable price?—No, I offer it as no more than an indication of what was in at least the Town Clerk's mind about its value.

Mr. Hoy.

2353. I do not want to continue this, but what they are saying, if that is the figure they are asking, is that this land for an aerodrome was worth about £2,500 or £2,600 an acre. I should say you could buy oilfields in Irak for that?—The initial view was that the land should not be regarded as agricultural land but should be regarded as available for residential purposes.

Mr. Hoy.] But even at that price it would be exorbitant. It has worked out just now at £500 an acre.

Sir Colin Thornton-Kemsley.

2354. May I just ask the Treasury representative if he has any idea what the Town Clerk thought the annual rental ought to be?—I do not.

Chairman.

2355. Paragraphs 123-126, Development of Gatwick Airport. Sir Gilmour, why did you suddenly decide in 1955 to

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transfer the development of Gatwick from the Air Ministry Works Department to private consultants?—(Sir *Gilmour Jenkins*.) It was not a sudden decision, Sir, it was considered for quite a time and it was decision of the Cabinet in the end that on balance that was the right conclusion.

2356. What were the grounds that the conclusion was based on?—There were various grounds. Gatwick was an entirely new conception. There was a feeling that it would be a good thing to get a new view. The Air Ministry Works Department were the experts on military aerodromes. This was not a military aerodrome, this was something entirely new with rail access, quite different from the kind of aerodrome that the Works Department had mainly dealt with; and the conclusion was that to get, as I say, a new view on it, it would be a useful thing to use a consultant instead.

2357. Were the consultants experienced in aerodrome building?—Yes. This particular consultant who was used had done airport construction before.

2358. Between May, 1956 and December, 1957, your estimates rose by something like 20 per cent. from £6 million to £7·2 million?—Yes.

2359. Despite the fact that you had at the same time reduced the specification by cutting out hangars?—No, we had not reduced it. That was done first. The history of that is that a tentative figure, as the Comptroller and Auditor General says in the Report, of about £6 million was given by the Air Ministry Works Department right at the beginning, but that was tentative without going into detailed planning of any kind. We got the first estimate—

2360. The £6 million was including hangars, was it not?—(Sir *Frank Tribe*.) Yes, the £6 million included about £½ million for hangars. (Sir *Gilmour Jenkins*.) Yes. That figure was used during the inquiry before the Commissioner. But the first solid estimate based on detailed study of what was required was produced in March, 1956, by Snows and they put the cost of the civil engineering works at a figure which would have brought the whole scheme up to £7·2 million. In order to bring it down again various economies in the plans were made then, to bring the figure

down again as near as possible to £6 million. The width of the runway was reduced, among other things, and only one of the three fingers of the terminal building was to be proceeded with instead of the three that had been originally contemplated. That brought the figure down again to about £6 million, or £6·3 million.

2361. How much did the railway work that you had to do contribute to the cost?—We paid the Transport Commission £240,000 for the work which they did in providing a station there.

2362. A comparatively small amount compared with your £7 million?—Oh, yes.

2363. You say that the increase from £6 million to over £7 million despite a reduction in the amount of work covered was due to the fact that your £6 million was a very insubstantial estimate, is that correct?—No, the second estimate of £6 million or a little over £6 million was a fairly good estimate. It was not absolutely solid but it was a good estimate.

2364. But that involved cutting down a great amount of work?—Yes.

2365. One of your fingers, for example, and cutting out hangars; so that your original £6 million was a very insubstantial estimate?—Yes.

2366. An approximation. Were there any other reasons for the increase besides more accurating estimating?—The increases that have happened since, Sir, have been due mainly to two causes: first, to changes in the requirements. You see, the factor there was that, owing to the delay because of the opposition to using Gatwick at all and the inquiry, and that sort of thing, and the absolute necessity of getting the aerodrome as quickly as possible, getting it into operation by this summer, 1958, there were only three years in which to do the whole of the planning and the work; so that the planning and the actual work were going on side by side the whole time. The result of that was that it was extremely difficult to estimate in advance what the whole scheme was going to cost. Changes were taking place all the time involving civil engineering work as well as the main work that was required. As a result of the Vulcan accident, for example, at London Airport, for safety reasons we moved the ground control

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apparatus to the end of the runway whereas it had been designed in the middle. That required not only a great deal of extra cable but also an extra substation on the ring supplying it. Where it was originally designed it could be supplied from one of the substations already there. Where it had to be put in the end it required another, and that kind of thing was happening because it was not possible to wait for complete planning before starting the work. The other major factor, and the most important single factor, was the difficulties with the site itself. It was not possible to make a complete survey in the time of the ground on which the aerodrome was to be built. Only a few test borings were made and when the work started it was found that the conditions were really quite different from what had been anticipated.

2367. That, judging by Public Accounts Committee experience, is inevitable?—I think it is unless you can spend the time and the money on doing a complete survey first. That survey, if they had done it, would have cost £50,000 and would have taken six months to do. It had to be cut out because of the need for speed. I do not think in any case it would have made any difference to the result, but it did make it difficult, and this is a serious matter from the point of view of this Committee, to forecast what the cost was going to be. Rock was found on the aerodrome which nobody expected. They found that underground streams had been diverted in wartime. There were no plans to show that had been done, with the result that the drainage had to go much deeper. They found a great many unplanned land drains which had the same effect. So, all those factors increased the cost. Then, of course, the worst feature of all was the bad winter last year. In this extremely difficult clay soil they had to go straight ahead digging out and filling in with better stuff to an extent which was far in excess of anything that had been contemplated. That increased enormously the cost of the job and the difficulty of doing it. Those two, the site difficulties and the fact that we were planning as we were building, are the main factors in the increase.

Mr. West.

2368. Sir Gilmour, I wonder if you could tell me, did the Air Ministry Works

Department in 1952 satisfy you with their proposals and layout and plans and things of that kind? Were they responsible for them?—They did not satisfy us. There were only quite tentative sketch plans as to what was required and they did not pretend that the figure they gave of £6 million had any certainty at all. They could only say: "On the basis of this rough planning this is the sort of figure."

2369. What I do not quite understand is that in 1952 there was this tentative scheme which the Air Ministry Works Branch had put before you, and then in 1955 you decided to go to the Cabinet for authority to engage private consultants. Why was that necessary? What was wrong with the Air Ministry's Works Branch at that time?—They had not done anything except make this very tentative guess as to what the thing would cost. They had done no detailed planning at all. No detailed planning was done until the consultant came in.

2370. When that tentative figure of £6 million had been arrived at had they not then undertaken surveying and planning the site?—No, they knew something about the site because part of it was an existing aerodrome, but they had not produced detailed drawings of buildings, and that sort of thing. What they knew was the kind of building we wanted, its capacity and what it was required to do; and on that basis they made their estimate.

2371. But during the three years before the consultants were appointed was nothing at all done?—Practically nothing, because it was not decided whether the aerodrome was going to be there or not. We lost that time over the opposition, which was very strong, to having the aerodrome at Gatwick. You remember there was a public inquiry which did not report until 1954.

2372. What is the relationship between you and the Air Ministry Works Branch? Do you have to pay them for the work that they do?—Yes.

2373. What did you pay them for the work that they did not do on this occasion?—They get a percentage of the cost of the work that is done, so they did not have any payment for that particular thing.

2374. They had no payment at all for this particular scheme?—No. They

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[Continued.]

did not make a scheme. (Sir *Frank Tribe*.) I believe they did carry things far enough to advise the Ministry of Transport and Civil Aviation that in their view the Gatwick site was far from a good one and would be expensive to develop. (Sir *Gilmour Jenkins*.) Oh, certainly, but that was perfectly well known. Gatwick was not ideal. Gatwick had all these site difficulties. We found they were much worse than they were thought to be. The point was that there was no other place in which it could be built. That was chewed over for a good many years.

2375. What were the consultants' fees finally?—The consultants' fees were something of the order of £300,000, about half of what the Works Branch would have charged. (Sir *Frank Tribe*.) In April 1955 the Air Ministry told the Treasury that they had already done topographical and soil surveys and preliminary designs and layout.

2376. Were these passed over to the consultants?—(Sir *Gilmour Jenkins*.) No.

2377. Did the consultants have to go through all this work again on their own?—Yes.

2378. Why was that? Why duplicate the work and increase the cost?—The answer we got on that was that it would not be satisfactory for one consultant to rely on what had been done by another. With that we had to be content.

2379. Do you know in the result whether their investigations were in any way different from those which had been carried out by the Air Ministry's Works Branch?—The investigations in neither case were exhaustive, but the fact was that the work had to go on without a proper investigation at all. A detailed investigation had not, so far as I know, been made by the Works Branch and the work had to be started because of the need for speed after the hold-up due to the difference of opinion about the site and to go straight ahead with the work without waiting for a survey.

Mr. *Hoy*.

2380. Sir Gilmour, I just do not understand your answers to these questions. First of all you said that they did not have time to carry out a proper investigation. Then it would appear that some

years earlier the Air Ministry's considered opinion was that this was an absolutely rotten site for an airport of this kind and thirdly that a survey was carried out by the Works Branch and this report was presented. Now, it could not be for all those reasons. It could not be, first of all, because of speed and, secondly, it could not be because they were not able to carry out certain investigations, because these investigations apparently were carried out and as early as 1952 it was reported that this was a very bad site?—It was a bad site in the sense that it was an expensive site to deal with. It was the only site, and that is why Gatwick had to be chosen. In the considered opinion of the Government it was the only site where we could get what was required, that is, an alternate for London Airport in the proper position from the point of view of airways and navigation, and from other points of view. It was a difficult site because of the large amount of water there, the River Mole, underground streams and all sorts of things, but that did not mean to say it was not a site which ought to be developed for this purpose.

2381. But it did not take you by surprise?—No.

2382. For that reason I do not understand why you were not able to make a better estimate. In view of this long delay why was it so essential just at this moment to push ahead with it without having any really accurate estimate of the amount involved?—I think there are two reasons. The first was that it was essential to have the alternate in being as soon as it could possibly be done. We required it by this summer and there was not any question about that, it had to go on. The second was this, that having decided that Gatwick was the site, there was nothing lost in going ahead with the work because, even if you made a survey, you could not decide you would not have it there. We knew we had got to have it there. Except for estimating there was no substantial reason why we should not go straight ahead and, as I say, it was absolutely essential to go straight ahead in order to get it done in time.

Colonel *Crosthwaite-Eyre*.

2383. When did you decide that you must have Gatwick in operation by the summer of 1958?—It was certainly

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[Continued.]

three years ago. It may have been a little longer, certainly three years ago.

2384. What I do not understand is, if I have got your statement down correctly, the survey work would have cost £50,000 and taken six months?—Yes—to make the survey.

2385. Directly the Government by holding an inquiry showed that it seriously wished to have this at its site, provided that the inquiry did not find some insuperable objection, why did you not authorise this money to be expended? You had plenty of time?—I do not think we should have got sanction to do that until it was known that that was the site that was going to be used.

2386. Surely it is better to spend £50,000 which may be wasted if a public inquiry goes against you than to spend over £½ million which seems to be the amount lost in the course of rushing on an unfavourable site a work which cannot be done in that manner?—No, I would, with respect, differ from that diagnosis. What we did fail to do was to know in advance what it was going to cost. I do not believe that anything we had known in advance would have made it possible to build this aerodrome for less than it is being built for now.

2387. Has it proved, for instance, that some of your structures over the River Mole have already collapsed?—Not as far as I know.

2388. There are Press reports—I have one here—that a 200 ft. wide pavement has already subsided over the old course of the diverted River Mole. Would that be true?—It may be. In that case it is the contractors' responsibility to put that right.

2389. Without any additional cost to you?—Certainly.

2390. Could I then ask you one or two questions about the consultants? I think you said their fee was £300,000, is that correct?—Yes. It will depend, of course, on the final cost, but that is the sort of figure.

2391. What is the basis on which this fee is fixed?—It is on a percentage of the first estimate plus a lower percentage on the additional cost.

Mr. Hoy.

2392. What are the details?—It is 5·4 per cent. on the first £3·1 million and 4·25 per cent. on anything over that.

Colonel *Crosthwaite-Eyre*.

2393. Is it true that the Air Ministry Works Department would have charged you 10 per cent.?—Something of that kind, yes.

2394. Are you satisfied that the consultants' basis of remuneration is the same as that of the Air Ministry Works Directorate? You will get as much service from them as you would from the Air Ministry?—Oh, we think so, certainly.

2395. That is not quite my question. Are they on all fours as regards the terms of contract?—They are doing precisely the same work, yes, as the Works Department would do.

2396. Does civil engineering works include the runway?—Yes.

2397. The whole installation?—Yes.

2398. Whilst I can see that there is a saving, what is the practical advantage of having a private consultant rather than the Air Ministry? Surely they are the experts in this type of construction?—There are advantages and disadvantages of both. We have never used a consultant before to do a whole aerodrome like this, but consultants have been used before on buildings in various places to bring, as I said earlier, a fresh mind to bear on it. The Government's view was that they would get at least as good value, and they thought better value, out of a private consultant than they would out of the Air Ministry Works Branch for an entirely new project of this kind involving novel features which did not occur in Air Ministry work at all.

2399. So you are satisfied that you have got on better, as it were, through a fresh mind than you would have through using the old-established firm of the Air Ministry?—Yes, we think so. At any rate, I will go this far without any question that we think that the consultant has done an extremely good job of work very fast and with very good results, as far as we can see.

2400. Is it normal for you when you make contracts of this nature to lay down that nobody from the contractors is allowed to talk to the Press?—Not so far as I know.

2401. You have seen that again, that people who have asked about Gatwick have been told that the contractors are

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[Continued.]

not allowed to talk to anybody from the Press under any circumstances?—Yes, I have seen that.

2402. I am quoting from one paper: "Written into contractors' agreements with the Ministry of Transport and Civil Aviation is a clause that forbids them talking to the Press"?—I do not think that is so. I think it is probably the consultants who have asked them not to talk too much.

2403. I think you said in answer to somebody that you had to make certain alterations, particularly after the Vulcan disaster. Is it true to say that the big jet aeroplanes which will be coming into operation in the autumn of this year will be unable to land at Gatwick?—With this present runway, yes, that is so.

2404. So this present aerodrome is too small?—I am sorry, they can land but they cannot take off.

Colonel *Crosthwaite-Eyre*.] That is a lot of use, is it not?

Chairman.

2405. You are going to get quite a collection there in time?—They cannot take off with a full load.

Colonel *Crosthwaite-Eyre*.

2406. That is the situation already this autumn within six months of the aerodrome being opened?—Yes.

2407. I understand that the position will be much worse in 1960 when still bigger aeroplanes are in operation?—Well, we have not got the big jets yet. As I say, they can land at Gatwick and they can take off without a full load. They cannot take off under full load, but they would not want to at an alternate aerodrome. Gatwick has not been produced for the purpose of dealing with large overseas aircraft. It is designed for B.E.A. and Continental services generally. The big aircraft will come to London, but, of course, you have raised a very wide question whether it is going to be the responsibility of the owners of aerodromes, Governments and others, to provide runways long enough and strong enough to take any aircraft that the Lines want to use.

2408. I do not want for obvious reasons to press this, but here you have built an aerodrome under very difficult circumstances according to your evidence. As I understand it, it is not able to take all kinds of traffic even within three

months of completion?—No, it was not designed to take all forms of traffic. It is designed as an alternate for London and to deal with the shorter distance services, not the main services.

Mr. Collins.

2409. When you asked for Cabinet approval for the appointment of the consulting engineers did you state at the time that their fees would amount to something like £350,000?—It was known that their fees would be lower than the Air Ministry Works Department.

2410. Did you mention a figure in excess of £300,000?—I really do not remember whether a figure was given at all. In any case, that is advice to the Cabinet.

Chairman.

2411. Now, paragraphs 127 and 128. Sir Gilmour, apparently the consultants, either owing to bringing them in at a later date or because of the urgency, find that they cannot prepare full bills of quantities. Is that due to the fact that you brought them in after you had been consulting the Air Ministry for some considerable time?—No, not at all. It was merely due to the need for speed. If we could have waited for the full design and full quantities to be estimated, and so on, the contracts could have been let on that basis. They were let on this basis, that is on notional quantities, merely for speed.

2412. Were the Air Ministry involved at all in the development of Gatwick, in the early plans for Gatwick?—They made some tentative plans, yes. There was no detailed planning by the Air Ministry but they did some rough planning, certainly.

2413. When you get these notional, tentative quantities how can you be sure that you are paying properly for work done and work that you have authorised?—That is the responsibility of the consultant. I think a tender of this kind is perfectly satisfactory from the point of view of deciding who shall do the work. Afterwards the actual quantities that have to be used must be checked by the consultant and it is his responsibility to see that the right quantities are used and measured.

2414. So you completely absolve yourself from all responsibility for seeing that your payments are accurate?—May I put it this way? We cannot set

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[Continued.]

up a separate department of experts to check what the consultant does. He is employed for the purpose of providing the expert guidance on quantities, and such. We make the contracts on his advice with the contractors and the bills we check so far as pure finance is concerned, not as regards quantities and technicalities of that kind.

2415. In view of the haste and in view of the inadequate quantities, the notional quantities, that have been taken, you are in a very poor position to make any check whatsoever as to what is going on, are you not?—We are in a poor position to estimate what the final cost is going to be. We are not, I think, in any worse position—or the consultant is not—in deciding whether the right quantities are being used and what quantities he wants as he goes on.

2416. Are you in constant contact with the consultant?—Yes.

2417. Mr. Macpherson, are the Treasury satisfied with the position?—(Mr. Macpherson.) This is one of the points that disturbs us, Sir, because we have expressed our concern to the Department about the way costs seem to be increasing. We have recently been informed that there is a further increase above the figure mentioned in the Comptroller and Auditor General's Report. Our concern is (a) in relation to the gross costs and (b) in the way that the expenditure seems to be running very close to, if not in excess of, the authorised estimate; and this is something we want to take up with the Department.

2418. Is this in any way connected with the dropping of the Air Ministry and the employment of private consultants?—Until we have gone into this with the Department, Sir, it is very difficult to say, but it seems to me that if you have this tentative basis of quantities it is necessary to have some check, because otherwise you do not have the safeguard that you have if you have a truly competitive fixed price estimate.

2419. If the Air Ministry had been employed as usual, would this doubt and this insecurity have been avoided?—Again, Sir, it is difficult to say. I do not know, for example, how far the Air Ministry would have employed their own quantity surveyors as a check.

2420. What have they done previously?—I am not sure what they

have done in cases where they have used consultants. The normal method, of course, is for them to contract direct.

2421. Exactly. The Air Ministry have been pushed out. I am not making any implication about that, but consultants have been selected instead of the Air Ministry. I want to know how far that change of policy led to delay and how far that delay led to inadequate quantity surveying?—I do not think it led to delay, Sir, and on the second point I am not in a position to say until we have gone into this with the Department.

2422. You will go into it?—We are already, Sir.

2423. Sir Gilmour, was there any delay in starting your survey as a result of the change in policy?—(Sir Gilmour Jenkins.) No, none whatever, Sir. The delay was due entirely to the dispute whether Gatwick should be used or not. As soon as the public inquiry was finished it went ahead as quickly as we could go.

Colonel Crosthwaite-Eyre.

2424. I would like to come back to this question where, for instance, subsidence occurs. You told me in answer to a previous question that it was the responsibility of the contractor and it would not add to your cost. I think I am quoting you correctly?—Yes.

2425. How does that happen if you have only got tentative bills of quantities, and so on? For instance, the runway is altered, as Sir Frank says in paragraph 127. If the runway is not heavy enough or not deep enough because of mud and drains how can the contractor be held responsible?—The contractor is only responsible if it is due to his default that something goes wrong. But I do not think that has anything to do with quantities. What has happened is that the quantities used are measured as they are used and not estimated first.

2426. Perhaps it is my fault for not making myself clear. If, because you have only been able to issue rough estimates which do not correspond to the job you want doing, as you say, because of the water-logged condition and the field drains and the rest of it, the contractor carries out what is laid down in, if you like, the *pro forma* specification which then does not prove satisfactory

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[Continued.]

and it collapses, why do you say the contractor is responsible and not the Department?—May we take your runway case, which is much more important? What happens is that the consultant is continually on hand to decide whether the work that has to be done is safe and to decide the course of the work the whole time. He is the man who is supervising the whole thing and it is his responsibility to see that what is done is safe; and when the contractor who is doing the job comes upon, for example, field drains, which nobody had thought were there it is the consultant's job to say how that should be dealt with. He does not just leave it to the contractor on a hit or miss basis to go ahead and do what he had told him to do. They are in constant contact the whole time and that is what the consultant is there for, to make sure that the runway has the proper foundations and is properly made with the proper quantities, and so on.

2427. Would it be true to say, then, that such has been this close contact that you can assure me that no excess cost has been incurred through working so fast and the subsequent discovery of a snag has not increased the cost of the work already done?—I think that is so. I think there has been no increase in the cost of the work due to the fact that it had to go fast, except to the extent that they have had to go on working in unsuitable weather. But that would have happened however you were doing it. I think that the consultant has kept a proper supervision of the whole thing and that the work that has been done is quite satisfactory.

2428. So that any criticism of work that has to be redone is the fault, in your view, of the contractor and not of the Department or the consultant?—Without knowing the facts it is difficult to be absolutely dogmatic, but I should think, yes.

2429. I am talking about a big thing like this reported 200 ft. pavement which collapsed?—I have not seen that, so I do not know.

2430. Would you know if it had happened?—Yes, it would be known in the Department, but I would not know personally.

Colonel *Crosthwaite-Eyre.*] I am using "you", of course, for the Department, not you personally.

Mr. *Hoy.*

2431. What was this originally estimated to cost? I am getting a little mixed with figures. What was the original estimate?—The original estimate on which one could rely was £6.3 million.

2432. Is that the October one, £6.6 million?—It was June, 1956.

2433. June, 1956, £6.6 million?—£6.3 million.

2434. Now, by December you have got to £7.2 million?—Yes.

2435. What stage has it got to now?—We have been told that claims have come in for something of the order of £½ million. We do not know how much of that will rank so far.

2436. £½ million in excess of the £7.2 million?—Yes.

2437. Would it be true to say that it has now reached the stage when it is really being operated not on an estimate at all but on cost-plus?—No, Sir, it is being operated on the basis of paying for the work that actually has to be done. There are only odd things that cannot be quantified, such as the filling in of ponds, and that sort of thing that could be said to be on a cost-plus basis.

2438. I am bound to point out to you that between October, 1956 and September, 1957, the cost has gone up by over £1 million?—Yes, but the contractor is still not being paid on a cost-plus basis.

2439. It is difficult to understand?—They are being paid for work actually done, decided by the consultant.

2440. It has actually put rather more than £1 million on in twelve months?—Yes.

2441. It is rather difficult to understand where the control is. Is it this that is worrying the Treasury, Mr. Macpherson?—(Mr. *Macpherson.*) It is, but as Sir Gilmour has said, this method of contracting does mean that you get tenders on a competitive basis for the work but you do not get the estimate of the work to be done. To the extent that the work increases then there is an increase in the total.

2442. That I can understand. Do you think that the day will ever arrive when the Treasury will say to one of these Departments: "Look here, we are sick and tired of what has happened in the

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[Continued.]

past. You are exceeding your estimates 99 times out of 100. Let us have a firm estimate before you are going to get any Treasury approval?"—Well, first of all I would hesitate to agree that estimates are being exceeded 99 times out of 100.

2443. For this type of work?—It may be that the cases which this Committee see are the cases which are 100 per cent., but I would hesitate, as I say, to go as far as to agree that the overall picture of all works services is as black as you paint it.

2444. Well, it is very bad?—We are not complacent.

Mr. *Hoy*.] It ranges from telescopes to airfields.

Mr. *Collins*.

2445. Arising out of the reply you have just given, do you notice in paragraph 127 the Comptroller and Auditor General says that under this system of bills of quantities there might not be any resemblance to the final cost of the completed works. Does that not have a familiar ring? Is that not often the case where there are estimates and there are fixed quantities?—Well, of course, in these days when costs are going up you are almost inevitably faced with material and wage variations provisions.

2446. Sir Gilmour, what proportion of this project has so far been billed to your Department?—(Sir *Gilmour Jenkins*.) On the civil engineering work the total is something like £2½ million.

2447. That is only about one-third of the project?—Yes, but that does not include the acquisition of land and all the other things.

2448. Which is included in the original £6·3 million?—Yes.

2449. So it is probably a £1 million increase on, perhaps, two-thirds of the original total estimate, is it?—No, all the increase is not on that. The bulk of the increase is there, yes.

2450. Is this payment of the consultants by a percentage the normal practice in your Department?—That is the universal practice.

2451. The universal practice in the Department?—Not of the Department, the universal practice throughout industry.

2452. You have put no limit other than a reduction in the percentage over a certain amount?—No.

2453. So it does have the disadvantage that he gains financially the higher the cost?—Not necessarily, because his expenses go on all the time, and how the reduced fee that he gets on the higher figures compares with his expenses I do not know.

2454. The total bill has obviously to be greater under this system?—Yes.

2455. On this point of your refusing to agree that this present system was cost-plus, are the contractors not receiving agreed percentages of the costs on the ascertained quantities?—They are being paid for the work that they do on the ascertained quantities, certainly.

2456. In other words, the cost is ascertained and there is an agreed percentage put on?—No, I think not. No, there is a fixed amount in most cases, at any rate, there is a fixed amount for their profit and to cover their overheads. They are paid straight and the payments are on the basis of the work that is being done.

2457. You find out the quantities after the work has been done and, therefore, if the quantities are ascertained after the work has been done?—As the work is being done.

2458. —surely the cost is ascertained at the same time?—Yes.

2459. Then to that cost is applied a particular agreed percentage for overheads and profit?—No, the consultant gets his fee on the total amount of the work that is done in the end, a certain percentage on the first amount, a lower percentage on the rest, but he is not doing the work, he is directing the work.

2460. I am not talking for the moment about the consultant. We want to know how the costing is arrived at, not by the consultant, but by the contractor. You have already said that the Bills of quantities are not known before the work commences?—No.

2461. Notional figures are taken?—Yes.

2462. Therefore, the quantities must be known after the work is done or as it is being done?—As it is being done.

2463. As the work is being done you apply to those quantities?—You apply the rate which has been agreed with the contractor.

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[Continued.]

2464. But you apply the rate which has been agreed with the contractor and to the same total you apply other percentages?—No, you have got to make variations, of course. There are variations in the contract for an increase in wages and prices and that sort of thing, but you are on the contract price which was in the tender, paying for the actual quantities that are being used. There are no percentages.

Mr. Collins.] I really cannot see how if there is a variant, if the quantities are not known until after the work has been done, it can be applied to a fixed price without costing in accordance with the quantities.

Chairman.] The fixed price for quantities is a price for a specific piece of work, the shifting of a cubic yard of soil, or so many cubic yards of concrete.

Mr. Collins.] That I understand, yes.

Chairman.] You cannot fix the final price. What you do is to fix the price

for the units that go up to make the complete job.

Mr. Collins.] That is exactly as I understood it, and that just could not be ascertained in advance. Then, when you have ascertained those quantities they must include, even if not added, a proportion for overheads and profits?

Chairman.

2465. No. I am afraid, Sir Gilmour, I am taking your job over for you?—Yes, thank you very much.

Chairman.] In your prices from your contractor you get a price which includes his overheads and his profits.

Mr. Collins.] So, it is cost-plus?

Chairman.

2466. No?—We do not add a percentage; there is no percentage. You, Sir, have described it, if I may say so, with respect, precisely. You apply the price per cubic yard to the actual number of cubic yards.

THURSDAY, 27TH MARCH, 1958.

Members present:

Sir George Benson, in the Chair.

Mr. Arbuthnot.
Mr. Collins.
Colonel Crosthwaite-Eyre.
Mr. Hoy.

Mr. Oliver.
Mr. Stevens.
Mr. Thornton.

Sir FRANK TRIBE, K.C.B., K.B.E., and Mr. J. MACPHERSON called in and examined.

CIVIL APPROPRIATION ACCOUNTS, 1956-57 (CLASSES VI-X).

CLASS IX.

VOTE 4.

CIVIL AVIATION (Continued)

Sir GILMOUR JENKINS, K.C.B., K.B.E., M.C., Permanent Secretary, Ministry of Transport and Civil Aviation, called in and further examined; and Sir CYRIL MUSGRAVE, K.C.B., Permanent Secretary, Ministry of Supply, called in and examined.

Chairman.

2467. Will Members turn to the Civil Appropriation Accounts, Classes VI-X, to paragraphs 129-133 of the Comptroller and Auditor General's Report? Perhaps, Sir Gilmour, you will briefly describe the landing instrument system, not too technically?—(Sir *Gilmour Jenkins*.) The system consists of three pieces of equipment on the ground plus the equipment in the aircraft. The equipment on the ground is in three parts, as I say, first, the localiser which gives the aircraft through its instruments the line of the centre of the runway. The glidepath gives him the proper line on which to descend.

2468. The angle of descent?—The angle of descent, and not only the angle but the place, of course. The marker beacons indicate to him what distance he is from the touch-down point so that he knows at what point he is on the glidepath.

2469. Was this equipment for which you placed an order of an entirely new type? Was the order breaking new ground?—Yes, the design in 1945, immediately after the war, was an entirely new design.

2470. Who was the contractor with whom you placed the order?—Pye. Because of the reputation of the British Electronic

Industry perhaps we might be able to take the name out of the record, Sir?

2471. I am not sure. The name of the contractor has been published by the contractor himself by a repudiation in "The Daily Telegraph" of the Report?—That is true.

2472. If he is not worried I do not see why we should be. I see from the last sentence of paragraph 129 that complete assurances were given that there was not the slightest risk in placing a production order for 35 sets. Who gave that assurance to the Treasury?—That assurance we gave to the Treasury on the best technical advice which was available at that time, Sir. It was given by the Civil Aviation Radio Advisory Council over which Sir Robert Watson Watt was presiding at that time. It turned out to be wrong, but it was the very best technical advice that was available then—very shortly after the war, of course.

2473. The advice was that this could be designed without any danger of it being defective?—Yes.

2474. But what was this certainty based on?—I cannot say, Sir, technical considerations, electronic considerations. All we laymen can do is to rely on the

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and Sir CYRIL MUSGRAVE, K.C.B.

[Continued.]

best technical advice that there is. What it was based on I do not know.

2475. In the event it turned out that you took a very great risk?—Some risk had to be taken, Sir. (Sir Cyril Musgrave.) If I may interpose there, Sir, the equipment eventually produced did come up to the original specification.

2476. But when was it produced?—1950. It was very late but it did come up to the original specification, the point being that in the meantime the requirements had been speeded up very considerably in the light of experience of civil flying after the war.

2477. What about these defects that developed in the glidepath?—They were sufficient to warrant the civil aviation authorities not using the glidepath.

2478. That seems exactly to contradict what you said a moment ago?—Yes, but with the measuring equipment that was available to us at the time they seemed to be all right.

Colonel Crosthwaite-Eyre.

2479. When you say "at the time", at what time?—At the time the component parts of the system were accepted from the contractor.

2480. Are you talking about 1946, when the contract was placed?—No, I am talking of 1948 and 1949. In the light of those measuring equipments which were available at the time the system seemed to be all right. It was only when it came into continuous operational use that it was found that there were random variations in the glidepath which made it unacceptable for civil aerodromes.

Chairman.

2481. What you mean, in fact, is that in 1949 you thought it was all right on inadequate experience?—Exactly, yes.

2482. And the result was that it cost you about £100,000 in useless equipment?—The glidepaths were useless, yes.

2483. You have been able to use the other material?—Yes.

2484. What about this American equipment that you ordered? You ordered that blind, more or less, did you

not?—(Sir Gilmour Jenkins.) No, Sir, We did not order that blind. We ordered that on the strongest evidence as to the excellence of its performance. It had been used in the United States for quite a considerable time and we knew that that equipment was right. It is, of course, of American design, but the production is in this country.

2485. And it has proved perfectly satisfactory?—It has proved perfectly satisfactory and all the testing that is being done now shows more and more how reliable and how accurate it is.

2486. So that you have really got a perfectly satisfactory job now?—That is so, yes.

2487. Mr. Macpherson, have you anything to say about this?—(Mr. Macpherson.) We accepted the proposal in 1946, Sir, to order in advance of the prototype having been tested, as Sir Gilmour says, on the strength of the evidence that it would be satisfactory.

Colonel Crosthwaite-Eyre.

2488. I understand, Sir Gilmour, that the original contract was placed in 1946?—(Sir Gilmour Jenkins.) That is so, Sir, yes.

2489. And it was not until 1949, as I understand it, by a supplementary I asked, that any question arose as to the efficiency of what you had ordered?—Nothing was produced. What happened, Sir, was that, I think, in the enthusiasm for electronic equipment immediately after the war in the minds of the technical people there was a great optimism as to the speed at which these things could be produced. In fact, nothing was produced for a very long time. There was no question of testing until they were produced and it was not until 1949 that we got to the stage of even testing the components. Because the whole thing could not be produced quickly enough we were driven back to testing bits of it as it came off the production line. I am not suggesting that the contractors were blameworthy for that. It was, I think, that the technical difficulties they came up against were much greater than they thought in 1945, when much less was known of these matters.

2490. At what period, then, between 1946 and 1949 was any intimation made to the contractors of any further or more

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detailed or more exact specification of what was required?—(Sir Cyril Musgrave.) The contractors were kept informed of the discussions which led to the more stringent I.C.A.O. requirements throughout the contract.

2491. Then, may I put this question to you: when did the more stringent requirements from I.C.A.O. become apparent, first to the Ministry and when were they notified to the contractors?—1949.

2492. Not until then?—Not until then. That is when they were formulated by I.C.A.O.

2493. So, up to 1949 there was no reason to believe that what had been originally specified would not be acceptable?—(Sir Gilmour Jenkins.) You cannot put an exact date, Sir, I think. The consideration of the question of making the requirements more stringent was going on throughout 1949—possibly the later part of 1948—and they were kept in touch with the thought, but they did not become operative until 1949.

2494. I do think it is very essential, because of the strictures in these particular paragraphs, to have this clear. Is it true to say that until late 1948 or early 1949 no further requirement, be it by way of stringency or anything else, was passed to the contractors?—Yes, certainly.

2495. That is true?—That is true.

2496. So, between 1946 and late 1948 or early 1949 the contractors would have had no idea that there was any variation in the original requirement?—No, that is so.

2497. When did you tell, and what were the means that you took to tell, the contractors of the new modifications? Was it done officially or by a series of negotiations, or how?—They were in day to day touch, because our technical staff were desperately wanting the apparatus and were keeping in day to day touch with them and telling them what was wanted; but in fact they did not produce the apparatus that was required by the original specification even by that time.

2498. By which time?—By 1949.

2499. I understood from you that you had not asked for any production before 1949?—No, we asked for production

from 1946 onwards as quickly as possible, but the contractor, I think, had not produced the complete component—

2500. I am sorry, may I then alter my question? When you placed the original contract in 1946 what was the date of first delivery mentioned in that contract?—I think there was no date of production. They were given at that time mainly, I think, because everybody was rather groping, a much wider latitude to design the set than they would be now.

2501. May I put it this way then: was there any reason in late 1948 or 1949 for the Ministry to complain that the contractors had not produced the set?—Yes, very much. They were very much behind the date when they themselves and everybody else expected they would be ready.

2502. What was the date they were expected to be ready?—(Sir Cyril Musgrave.) The indications from the firm—I think this is quoted—

2503. I am not talking about indications. May I make this clear: what was the date that had been agreed between the Ministry and the firm, or laid down by the Ministry, whichever you prefer?—There was no date laid down by the Ministry. This was a case of developing a new equipment, but in 1946 we received indications from the firm that the prototypes would be ready in "several months"; that is mentioned, I think, in Sir Frank's Report. In actual fact it was not until two to three years later than "several months" before the prototypes of the individual items were delivered for testing.

2504. And the prototypes that were delayed for the length of time you have mentioned were exactly the same as laid down in your specification in 1946?—They eventually, on such measuring equipment as was available to us at that time, conformed with those specifications.

2505. May I put the question the other way: between 1946 and the delivery of the first prototypes were any modifications made by the Ministry?—I do not think so. I am not perhaps as positive on that as I would like to be, for this reason, that the contract was of a kind that we do not normally place now. It was a loose contract in the sense that the firm were free to develop the

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equipment provided it complied with the general requirements laid down. They themselves were the design authority, and they themselves would be making any alterations, if any were made, in order to meet that general specification.

2506. In paragraph 131 the Comptroller and Auditor General starts off by saying: "In July, 1954, the Ministry informed the Treasury that, although development work had commenced some years before the I.C.A.O. specification was issued". When was that specification issued?—(Sir *Gilmour Jenkins*.) 1949.

2507. So it would be true to say that a new situation developed in 1949?—Yes.

2508. Do you agree or not that, in the two years that passed between the purchase of the pilot set of American design in 1954 and the production order in 1956, things had altered?—They had altered to this extent, that after a great deal of difficulty the localiser and the marker beacons were giving satisfactory service and they were all right. The glidepath was quite unsatisfactory and no modifications that could be made to that seemed likely ever to make it a satisfactory instrument, or one that we dared use.

2509. Not even with the new valve that was mentioned?—No. The valve was a perfectly good valve for other purposes, though not for that purpose, but the use of the wrong valve was only one of many defects.

2510. I must ask you this question, advisedly, I think: you mean to say that the British effort to meet this requirement had failed?—Yes.

2511. And you saw no prospect of having the failures in the British equipment remedied in time to meet your requirement?—None whatever, not only within the time required but at any time.

2512. Did you during this rather crucial period, for reasons which are as obvious to you as to myself, ever consider approaching any British firm or another British contractor?—We considered, I think, everything, but everybody was very anxious to go on with the people who were already producing the design. To start off again on an entirely new attempt would have

delayed production indefinitely and that course was not adopted. We knew there was the perfectly satisfactory American design and so attention was turned on to that rather than starting afresh the whole process of design from scratch.

2513. Would it be true to say that during this period the R.A.F. had a satisfactory system as far as their own planes were concerned which was of British manufacture?—(Sir *Cyril Musgrave*.) Yes, Sir, at a slightly later date than those which you have been mentioning.

2514. I am talking about 1954 to 1956, remember, at the moment?—Yes. We in the Ministry of Supply placed a development contract with this firm for a military version of this equipment.

2515. Do you not mean a civil version?—No, a military version and that has been satisfactorily developed and produced and is now in operation at, I think, eleven airfields; and I am informed by the Air Ministry that nothing more than normal teething troubles have been encountered and that Bomber Command considers in general that the equipment is a reliable one and it is being used by their crews with confidence. But I must say that the equipment developed under the 1951 contract has considerable differences from the equipment developed under the earlier civil contract.

2516. Was no effort made by the Ministry of Supply to see whether this military type could not be adapted to what you required as far as civil purposes were concerned?—With respect, Sir, I think that is a matter for the Ministry of Transport and Civil Aviation. (Sir *Gilmour Jenkins*.) The answer to that, Sir, is that we did try. We got this apparatus much later, of course, than the R.A.F., and while it is satisfactory, we understand, for military purposes it is not satisfactory for civil purposes. We are hoping, however, that modifications which are now being made may make it satisfactory for some civil purposes where the density of traffic is not so great as in the main civil airports. We are hopeful; we cannot say more than that.

2517. May I ask one further question: why did you receive it so much later than the Ministry of Supply?—

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Because the Ministry of Supply, I think, had one prototype which was available for their purposes, and for our purposes we did not get it until much later.

2518. Surely, where a prototype of this nature is developed it should be a matter of common interest between your two Departments?—Certainly, but I think you cannot make two separate lots of quite different tests. Our requirements are quite different.

2519. Did you know, to the best of your belief, at the earliest possible moment of this new set or this new type of set?—We did, yes.

Mr. Thornton.

2520. Sir Gilmour, I take it that there was an urgent need for this new equipment in 1946?—There was, yes.

2521. Was it so urgent that you could not wait for the full testing of the prototype before placing the production contract?—That was the advice received, yes.

2522. What type of equipment was then in use in 1946?—It was a modified wartime equipment which, I am sorry to say, is still in use.

2523. So, it is the same type of equipment as is referred to in paragraph 131 as "unsatisfactory equipment"? That paragraph refers to a "A number of sets to replace the unsatisfactory equipment (and some wartime sets which were still in operation) at major airports"?—Yes. The wartime sets are in operation. They give quite reasonably good results but they are terribly expensive and difficult to maintain.

2524. And some of this equipment is still in use, is it?—Yes.

2525. Now, in the last sentence of paragraph 130 the Comptroller and Auditor General refers to practically all the Pye equipment having been delivered by 1951. How much of this equipment is still in store unused?—The localisers and the marker beacons are mostly in operation. The glidepath equipment is still in store. We have been able to use a certain amount of equipment as replacements. We have saved £15,000 of that, which reduced the £100,000 mentioned by the Comptroller and Auditor General since then; and we are hoping

that some of it, as parts of course, will be usable or can be sold later, but we have kept it as spares so far.

2526. You have no idea what the write-off will have to be?—No. At the moment it stands at about £85,000.

Mr. Stevens.

2527. Sir Gilmour, we have heard that Bomber Command of Royal Air Force are satisfied with the new sets being produced by the British contractor, but you said that the requirements of the Ministry of Civil Aviation are very different from those of Bomber Command. Could we hear a little bit more about these differences? What are the great differences?—There are three major differences. The first is that the density of traffic which a civil airport like London has to face is quite out of proportion to anything the R.A.F. have to deal with. The second is that for civil purposes we have to work to lower weather minima, that is to say, the conditions of visibility under which we have to operate civil airports are very often of a lower order than for the R.A.F. The third, which is perhaps the most important is this, that civil airports necessarily have a large number of buildings in close proximity to the runways. You have the passenger buildings, you have the maintenance bases, and so; and in fact it is to our financial advantage that there should be these buildings there, particularly the maintenance bases and other factories. For that purpose, in order to operate in those conditions, you have to have a narrow beam—I do not know the technical term for that—which will not be reflected or not affected by the proximity of buildings. On an R.A.F. airfield, on the whole, you are clear of any large buildings, you are clear of built-up areas and, generally speaking, you can operate with an equipment which is less fine in the matter of the beam that it is using.

2528. Turning to the American equipment, the original set is referred to as a "pilot set", but I understood you to say, in fact, that it is only "pilot" so far as this country is concerned, because they have been operated to a substantial extent in the United States?—It is being produced by a different manufacturer on the American design, that is



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why it is a pilot set, I think. (Sir Cyril Musgrave.) Yes, there is a certain amount of anglicisation of it. (Sir Gilmour Jenkins.) The standards are British standards instead of American.

2529. The set, as a set, had been operating for a number of years in the United States?—Yes.

2530. What was the cost of this pilot set?—(Sir Frank Tribe.) I think I can give you that: £20,980; that was the set installed at Hurn.

Chairman.

2531. £21,000, in fact?—Yes.

Mr. Stevens.

2532. Do you accept that figure?—(Sir Gilmour Jenkins.) Yes, I am quite prepared to accept that. It was of the order of magnitude I had in mind, yes.

2533. It looks as though it is twice the cost of the British set?—Yes, it is a different equipment, very much finer, as I say. It will give this narrow beam, it will give the other refinements that we need for civil aviation purposes and it inevitably costs more, so I am advised.

2534. The sets which have been ordered, however, are an improved version. Are they going to be made partly or wholly in this country, though American designed?—I am sorry, I do not know quite which ones you mean?

2535. I understand from paragraph 132 of the Comptroller and Auditor General's Report that the Ministry "learned of an improved version of the pilot equipment" and an order has been placed for the improved version. "Delivery is expected to begin in the autumn of 1959". Is that not the improved version?—Yes, that is the final version of the American design.

2536. My question was, is that going to be made in the United States of America or is it going to be made here?—It is to be made here.

2537. It is going to be made wholly in this country?—Yes.

2538. So there is no dollar element?—There is no dollar element.

Chairman.

2539. Apart from royalties?—(Mr. Macpherson.) There is a very modest dollar element. I think we were told

there would be a 7 per cent. dollar content; it is very small.

2540. I did not quite follow what you are doing at the airfields under your control at the moment pending the receipt of these improved designs. How are aircraft in fact landed without a glidepath?—(Sir Gilmour Jenkins.) They are landed by an apparatus which was developed during wartime. It is out of date. As I say, it gives satisfactory results but it is very difficult and very expensive to keep going.

2541. To operate?—Yes, its maintenance is very heavy. But, of course, we have got part of this British apparatus in use, the localiser and the marker beacons.

2542. Can you give us the figure of cost per set of the improved version of the American equipment?—It will be about £30,000 a set.

2543. Three times as high as the British?—(Sir Cyril Musgrave.) Not quite, Sir.

2544. Very nearly?—If you are referring to the military version which is the only satisfactory one to compare it with—

2545. No, at the beginning of paragraph 129 I see that the Ministry obtained Treasury sanction for the purchase at an estimated cost of £350,000 of 35 sets?—Yes, but those sets proved to be unsatisfactory. I think the only fair way to compare it is with the redesign, the satisfactory military set, is it not, which we estimate will cost about £13,000 each plus installation costs, which we estimate at about £2,000 per installation.

2546. Can we then have the comparative cost? That would have been £15,000?—Two to one, I think, is roughly as near as we can get.

2547. The American designed set will be about twice as much?—Yes, but as Sir Gilmour said, we are not comparing exactly like with like.

2548. And yet they are designed for the same purpose?—(Sir Gilmour Jenkins.) No, they are designed for much finer use. The narrow beam and the other improvements in that set make it, I am advised, quite a different set. It has a longer range also.

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Mr. Hoy.

2549. I did not want to interrupt, but further to what has just been said, you told us the British set was £13,000 plus £2,000 installation cost. Is that right?—(Sir Cyril Musgrave.) Yes.

2550. Then you said the American set would cost £30,000. Is it £30,000 plus installation costs, because that is the comparison?—(Sir Gilmour Jenkins.) I think it is inclusive. (Mr. Macpherson.) It is £30,000 excluding works element.

2551. Is it? Let us have this clear if we are making a comparison. It is £30,000 plus what?—When it was put to the Treasury, Sir, the estimates were shown separately. The estimates for the equipment were shown at £30,000 each and there was further expenditure for the works services necessary to install the sets.

2552. What does that amount to?—For six localisers and twelve glidepaths, the estimate given was £42,000.

2553. So that it is much more than double, Sir Cyril, contrary to what you have just said?—(Sir Cyril Musgrave.) Yes, I have not any knowledge of the Ministry of Civil Aviation's costs of the American set. I was merely intervening to give such information as I have of the R.A.F. set.

2554. In other words, the comparison is between £13,000 and £30,000?—It looks like it, yes.

Mr. Hoy.] That is the comparison.

Chairman.

2555. Does the delay factor enter into it? Is the £13,000 the original estimate in 1946 of the cost of the English apparatus or is it the current cost?—It is the current cost of the improved military version.

Mr. Stevens.

2556. How many of these American designed sets have been ordered?—(Sir Gilmour Jenkins.) Eleven glidepath installations have been ordered.

2557. Why would eleven of the American designed sets be sufficient whereas, apparently, in 1946 35 sets were ordered?—There are two answers: the first answer is that this

very fine apparatus we must have in the interests of safety. There is no question about it, if the best equipment in the world is that, we must have it for London and the busiest airports on the grounds of safety. We would not propose to install that at the aerodromes which were not so busy or which had not so many buildings so close at hand. For those we had hoped to use an improved R.A.F. set. The R.A.F. set as it is would not do. We have hopes, as I say, that we might be able to get improvements. We would use that whenever we could for other aerodromes. For the busy ones we must have the best that there is.

Mr. Oliver.

2558. Sir Gilmour, going back to paragraph 130, did the Ministry of Transport and Civil Aviation draw up the specifications for the production contract?—The specification, as Sir Cyril has said earlier, was very much less stringent in those days because everybody knew a great deal less about it; and the specification really stated the operational requirements which the Ministry of Civil Aviation required and left the contractor considerable freedom to develop something that would produce those results. That is not the type of contract I believe that would be contemplated today.

2559. That was due, was it not, to this idea being in its embryo, is that right?—That is so, it was a very early stage when comparatively little was known about it.

2560. Had you any precise idea of what would emerge from the contract when the contract was given, or did the Ministry of Civil Aviation know exactly what they were seeking to accomplish?—(Sir Cyril Musgrave.) I think this is probably a question that I ought to attempt to answer. The wartime Government did decide that the Exchequer should bear the cost of developing prototype radio installations for civil use after the war, giving the radio or electronic industry the benefit of the knowledge that had been gained during the war; and a number of contracts were placed, of which this was one, in the most general terms to enable the industry to cut its teeth on this new type of work and establish itself in this new field. Nowadays, of course, we do not place such contracts, we place them,

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particularly in this field, to strict specifications and we retain under our own control the design authority. For example, in the case of the military equipment for which we placed an order in 1951 the Royal Aircraft Establishment is the design authority in contrast to this 1945 contract when it was left to the firm.

2561. When did you have any doubts about this equipment?—I think the doubts rather emerged in May, 1951, when it was put into operational use for the first time at London Airport although we would know in theory with the formulation of the stricter I.C.A.O. specification—or we would have known earlier than that—that it was unlikely to meet this stricter requirement. Sir Gilmour will check me if I am wrong, but it was not until it was put into operation at a busy airport that we were certain that it would not do satisfactorily what it set out to do, and that was in May, 1951. (Sir Gilmour Jenkins.) That was in May, 1951.

Colonel Crosthwaite-Eyre.

2562. This is a most important point. I think you said that the I.C.A.O. stricter regulations came into force in 1949. Therefore, when you say you would have known some time earlier it is really that you should have known two years earlier?—(Sir Cyril Musgrave.) In 1949 we were receiving the first units for test, the result of the work which Pye's had been doing for four years, and we tested those and individually they seemed to be all right. The Ministry of Civil Aviation had placed a production contract some time earlier and they were receiving during 1950 the equipments which came off that contract. They installed them at London Airport and it was not until then that it was found that they were not satisfactory, even as compared with the existing makeshift equipment that the civil aviation people had in operation. (Sir Gilmour Jenkins.) I might perhaps add to that, Sir, there was another development at that time and that is a development in the accuracy of the testing devices in our own aircraft testing unit. They became much more accurate and they threw up the inadequacies of this particular set in a way that would not have been possible had tests taken place in 1949. All this was developing very fast on both testing and production.

Mr. Oliver.

2563. I see, Sir Gilmour, in the middle of paragraph 130 the Comptroller and Auditor General says: "The first two sets were brought into operational use at London Airport in February and May 1951 and appear to have developed numerous faults". Now, were those faults which developed in operational use in 1951 due to the failure of the contractors to meet the contract specification?—Yes, they were due to a failure to produce a set which would meet the requirements even of the earlier specification.

2564. But if they had the contract specification before them, how is it that they departed from that?—They did not depart from it. As Sir Cyril said a few minutes ago, the specification was a specification of performance, not a specification of design. They produced a design intended to produce the performance, and in fact they did not produce the performance.

2565. Then, did they meet the specification or did they not meet the specification in the contract?—They did not meet the requirement, but it had been thought earlier when they had been tested with the less exacting equipment that we used by 1951 for testing that they would do so. You see, at London Airport they came up against one of the problems that I mentioned just now, the proximity of buildings, and that is only just one factor which it had not been possible to test before.

2566. I was going to ask you, was there any basis for a claim against the contractors but from what you say it was so loosely drawn and so tentative that you could not possibly base a claim against the contractors?—(Sir Cyril Musgrave.) That is true, and particularly when the individual units with such testing equipment as was then available to us appeared to have done what they set out to do. They had undoubtedly passed prototype tests.

2567. In line 5 of paragraph 130 the Comptroller and Auditor General says: "But it had apparently not been possible, even at that date, to carry out field trials of a complete set of equipment". Why had it not been possible by 1950 to carry out field trials of a complete set, as mentioned there?—(Sir Gilmour Jenkins.) Because a complete set had

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not been delivered. That was due to the delay in production, the delay which led to the type test of components and not of the whole unit; and it was not until that time that a complete unit was available to test.

2568. Had you asked them to expedite the delivery so that you might have a complete unit so that you could get on with the testing?—Oh, certainly. They were under pressure the whole time both from the Ministry of Supply and from the Ministry of Civil Aviation to produce the set, certainly.

2569. I see you got Treasury sanction in June 1946, and the delivery started in 1950. Were you trying to get them on the move to get these sets delivered?—They were under constant pressure, yes.

2570. What answers did they give to you for not delivering before 1950?—(Sir Cyril Musgrave.) They delivered the prototypes of the individual units earlier than that and, indeed, type approval was given to the localiser in November, 1949, and the glidepath in 1950. The reason that they could not do it earlier was that they were just not able to solve the technical problems involved in producing the equipment of this kind in a short period of time.

2571. Was that the answer they gave to you when you were pressing them?—Yes.

2572. I see the reference to the standards of the International Civil Aviation Organisation. When was the I.C.A.O.'s new and more exacting standard of performance introduced? I think you did say that?—(Sir Gilmour Jenkins.) 1949.

2573. When was the contract placed, do you say?—1946—well, 1945. (Sir Cyril Musgrave.) 1945 for the development contract and 1946 for the production contract.

2574. When you got this higher standard did you consider cancellation of the contract for such parts as had not been completed?—It was too near

the actual delivery for that to have been worth while, and there was hope that this new equipment could be retrospectively modified to bring it nearer to the new standard, and indeed some retrospective modification did take place.

2575. I know you were exploring and contracting in a new field, but was it possible for you to say if something better came up from somewhere else it would be possible to bring the contract to an end? Certainly the manufacturers would not have lost any money?—Yes, all our contracts are subject to a break clause, the standard break clause.

2576. You did not operate it here?—We did not operate it here, no. We had every hope and belief that something was coming out at the end that we should want.

Mr. Hoy.

2577. As a matter of personal interest, I use this airport twice a week. You said that one of the things which had not been considered when this was being tested out was the proximity of buildings. Did you mean buildings within or outwith the airport?—(Sir Gilmour Jenkins.) I meant buildings within the airport. I did not say that it had not been considered but that the testing had been done at places where that particular difficulty did not arise. It was only when we came to London Airport where we had all these problems that these particular difficulties were thrown up.

2578. I would have thought that really in the ordinary course of development people would be bound to know that there were going to be buildings at London Airport. What reason was there for not taking that into consideration? We do not fly from grass fields; there are buildings, you know?—In fact, you see, they failed to produce a set in this particular instance that complied with the requirements even away from buildings when they were tested with the final and more accurate means which we now have at our disposal.

*Correspondence between the Comptroller and Auditor General and
Pye Telecommunications, Ltd.**

Chairman.

2579. We have before us the letters from Pye's. I am not sure that all

the points that arise on them have not been answered. I have just one point that I would like complete confirmation of. In the letter to "The Daily Telegraph" in the last paragraph Pye's say:

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“British equipment is available on the shelf”. That British equipment is not up to the standard you require and will not, even in 1959, be equivalent to the American equipment you are buying. That is clear, is it not?—The broad answer to that is that they are talking about quite a different set. This is the military set which had been redesigned, but that has no relation whatsoever to the civil set which had to be written off. This was an entirely new set and even if we had been able, as Civil Aviation, to adopt the military version this write-off, this loss, would have been there just the same.

2580. Is it true that the military set is not up to the standard you require?—Yes.

Mr. Hoy.

2581. Sir Cyril, you heard Sir Gilmour say earlier in reply to Colonel Crosthwaite-Eyre that the valve mentioned in the first paragraph of Pye's letter was not the only cause of complaint. Would you agree with that?—(Sir Cyril Musgrave.) Yes.

2582. Is it true then, as stated in paragraph 2, that you asked Pye's to proceed in conjunction with the Royal Aircraft Establishment to redesign the system?—Yes.

2583. Did you specify then that it was to bring the system up to the I.C.A.O. Standard?—Yes, plus other things.

2584. Plus other things?—I think they are set out in Pye's letter, and there were in addition certain special requirements which the R.A.F. wanted.

2585. Is it true then, as is stated in paragraph 3 of Pye's letter, that this redesigned system received design approval by the R.A.E. after rigorous testing as early as 1953? Was it true that they agreed it had received this testing?—Design approval was given piecemeal for the R.A.F. equipment at dates ranging from early 1953 for the main part of the localiser to early 1954 for the remainder of the localiser and the middle of 1954 for the glidepath.

2586. What I find difficult to understand is that it is said in paragraph 3: “This redesigned system received design approval by R.A.E. after rigorous testing in 1953”. Is that correct?—Well, it

is correct up to a point. The design approval was given piecemeal and the first piece of approval that was given was in 1953, so to that extent it is correct, but the last pieces that were given design approval were given that approval at various dates up to the middle of 1954.

2587. What I would like to know is, what is meant by “design approval”? Does design approval mean that you were ready to go into full scale production because you approved the design?—Yes, the design is approved for use for the purpose for which it is intended.

Colonel Crosthwaite-Eyre.

2588. By the Ministry of Supply?—By the Ministry of Supply, yes.

Mr. Hoy.

2589. Yes, it is the Ministry of Supply I thought I was questioning?—This is military equipment we are talking about.

2590. If you go on to paragraph 5 of this letter, and I do not need to read it out, can you confirm the statement that is made in that paragraph of Pye's letter?—I am in some difficulty because there are paragraph 5 and point 5 in a separate section. Is it point 5 you are referring to?

2591. In paragraph 5 they say: “As we pointed out in our letter”?—That is point 5.

2592. Point 5. Can you confirm or deny that statement?—Yes; it has only been in operation for twelve months and therefore I would be inclined to say that a claim that it is highly reliable is a premature claim; but at the same time I can say that it is giving satisfactory service to the Royal Air Force and to Bomber Command in particular.

2593. That is now?—There were certain teething troubles that are associated with new equipment of this kind but they were not extraordinary.

2594. That is at the present time?—Yes.

2595. Supposing I had asked you that question a couple of years ago, in 1956, what would have been your answer?—I could not give it, because they only came into operation in May, 1957, or early 1957.

Colonel Crosthwaite-Eyre.

2596. I do not quite follow—it is my stupidity—the last question. I thought

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you were asked to confirm that this design had received—this is paragraph 3—approval in 1953 after rigorous testing?—Yes.

2597. Why do you say now, in 1957?—The rigorous testing in 1953 was testing of the prototypes of the individual units that make up the system. The complete system was put into operation by the R.A.F. for the first time in February, 1957, and when I was answering the honourable Member I was answering him on point 5, which says that “all subsequent field experience has shown that the new British equipment is highly reliable”.

2598. There is all the difference, surely, between what the manufacturer or contractor can supply by units and what any user may do with it once it is supplied. If, for instance, a bomber station of the R.A.F. fails to use the equipment correctly you would not blame the contractor for the units which had passed rigorous test in 1953, would you?—No, I would not suggest that at all.

2599. I am sorry, but that is rather the impression I am getting from the answers you have given?—I am sorry, perhaps I might recapitulate. We get prototypes of the individual units and we test them at the Royal Aircraft Establishment as part of their experimental work. We find that those units are satisfactory and the contractor then proceeds to produce them to that approved design. By February, 1957, the first complete equipment is there installed at a bomber station of the Royal Air Force and from 1957 it goes into actual operational use. Since February, 1957, the R.A.F. report that it is giving satisfactory service. The honourable Member asked me whether I would agree that it was highly reliable, and I ventured to suggest that it was a bit premature after only twelve months operation to say whether a particular piece of equipment is highly reliable or not, but I have no reason to think otherwise.

2600. Could I ask you then, going back, because this seems to be a very good test that you have mentioned, what was the operational reliability of the American set that you bought?—(Sir Gilmour Jenkins.) We bought the American sets, not the Ministry of Supply.

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2601. This is, of course, a most difficult thing. May I just clear it; would it be correct, going right back to paragraph 129, which it says: “The Ministry of Civil Aviation obtained Treasury sanction” that, in fact, the Ministry of Supply was operating on your behalf?—For the earlier set, yes.

2602. I would like to clear this, because the Ministry of Supply is the Department which actually does the work of placing contracts, is that not correct?—Yes.

2603. Therefore, I think it is fair to ask the Ministry of Supply this question: what was the experience you had of the American sets before you authorised this purchase?—We placed the order for the American sets. The Ministry of Supply are our production authority.

2604. You can only place it with the consent of the Ministry of Supply who are your purchasing agents?—No, Sir, not for that set. The British sets were produced on a development contract of the Ministry of Supply. The American set was already in being.

2605. Then, may I go back to what I asked you, Sir Gilmour? What was the length of experience you had had of the American sets before you actually purchased them or put the order?—The decision to purchase was taken on the experience of the United States Air Force.

2606. The United States Air Force?—Yes, the United States Air Force, after our own technical people had seen it in operation and had tested it with the American Air Force authorities.

2607. Had you at that time any experience from American civil air lines?—I do not know whether the civil airports are using the same set, but we got it from the American Air Force.

2608. What puzzles me is that I think a great deal of evidence has been adduced that while Pye's set was suitable for the R.A.F. it was not suitable for civil airports?—Yes.

2609. Now, it would appear that you bought an American set on experience by the American Air Force but with no knowledge of civil use in America. Is that not a slight contradiction?—No, I do not think so because the technical

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staff who went over to test it were fully aware of all the considerations they would have to take into account in our airports here and they certainly satisfied themselves that the set would in fact meet the needs. The set we have got has proved that up to the hilt since that time.

2610. Leaving aside the question of proof for the moment, how did the people who went to America have any further knowledge of what was required by way of a set to operate at a civil aerodrome in this country than Pye had already provided through the R.A.E. to the R.A.F.?—The technical staff who went to inspect this set in the United States were Civil Aviation staff who knew precisely the requirements that they had to meet. They were the people who had set down the specification of what is required.

2611. If that is so, why was it not possible to do the same with the Pye set?—It was quite possible to test the new R.A.F. Pye set, and it was tested and it does not satisfy the requirement. The American set does. That is the difference between them.

2612. May I leave it then at this, that both tests were done *ex parte* on what you might call armed forces sets and at armed forces stations?—What precise tests they carried out I cannot say. They came back, after having seen the equipment, fully satisfied that the set, though it was an American military set, would satisfy all our civil requirements, and, as I say, they have been proved absolutely right by everything that has happened since. (Sir Cyril Musgrave.) Might I possibly supplement that by saying that a representative of the Blind Landing Experimental Unit of the Ministry of Supply has personally flown the system and reported very favourably on its performance?

2613. I shall have many more questions on this when the Ministry of Supply is the witness in chief. Who on behalf of the Ministry of Supply did make this decision, was it you as purchasing department?—That was a decision taken by the Ministry of Transport and Civil Aviation. All we have done in connection with the American equipment is to place the production order as their agent and provide this

helpful piece of advice from the Blind Landing Experimental Unit.

2614. Who is responsible for that?—For the Blind Landing Experimental Unit?

2615. Yes?—It is a branch of R.A.E., Farnborough.

2616. In charge of Service personnel?—No, I think it is mostly civilians. No doubt there are Service personnel.

2617. How far in a branch like that are the people responsible to you officers who have retired from the Forces and have one or two years still to go before they get a pension and are loaned to you for that period in various capacities?—I am afraid I have no information at my finger tips as to the exact constitution of the staff of the Blind Landing Experimental Unit. I do not know of any such cases; there may be one or two but, generally speaking, our experimental units are staffed by scientists, engineers and technicians and if they are a flying unit there is almost certain to be a large sprinkling of R.A.F. officers serving on loan to us.

2618. When you say “serving on loan”, do you mean in the full heyday of their career or towards the end of their career?—At every stage from early, middle and late career.

2619. In responsible positions?—In responsible positions and doing executive work for the Ministry.

Colonel *Crosthwaite-Eyre*.] I do not wish to pursue this too far today because this is the wrong time to do it.

Mr. *Hoy*.

2620. I am finding it a little difficult to follow this because of the two Ministries involved. Sir Cyril, did your Department approve of the purchase of this American equipment rather than British in 1956?—We neither approved nor disapproved; it was not our business to do so.

Colonel *Crosthwaite-Eyre*.

2621. But why?—Why should it? The Ministry of Transport and Civil Aviation are masters in their own camp.

2622. No, you are charged with the responsibility of these purchases?—No. (Sir *Gilmour Jenkins*.) No.

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2623. Do you mean to say if the Ministry of Civil Aviation say: "We wish to do that or this at a cost of X million dollars" you immediately give consent?—(Sir Cyril Musgrave.) There is no question of our giving consent. Our functions are divided into two separate and distinct parts. We are responsible for having new equipments of this and all other kinds developed for the Services and for the Ministry of Transport and Civil Aviation by British firms. If, however, the Ministry of Transport and Civil Aviation says: "We want to buy an American equipment", we then exercise our second function, which is simply that of purchasing agent and our function is to see that we fix the best price for the article that the Ministry of Transport ask us to buy for them.

2624. And you have no responsibility to say whether you think it is necessary or not?—Naturally, if we thought that the Ministry of Transport and Civil Aviation were buying unnecessarily, or if we thought that they were buying the wrong thing, we would give them our technical advice; but the decision is theirs and they are free to reject it or accept it.

Mr. Hoy.

2625. Arising from the answer you have just given, surely you must have thought the Ministry of Transport and Civil Aviation were buying the right thing?—I am not sure that we consciously addressed our minds to it. (Sir Gilmour Jenkins.) We took full responsibility for choosing the set that would meet our requirements.

2626. Yes, I am not objecting to that. I can understand you as a Department saying: "We think this is best for our Department", but it has got to be done through the Ministry of Supply. If the Ministry of Supply have in fact been employing firms to develop this apparatus one would have thought that when you decided to have this, the Ministry of Supply would then have said: "Well, we think that this British production is equal to what you are buying at a much less price"?—(Sir Cyril Musgrave.) If we had so thought, I think we probably would have said so.

2627. It is because you did not think so that you approved this order, surely?—If that is approval, yes.

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2628. That is all I am asking; I just want to know?—(Sir Gilmour Jenkins.) Can I put it this way: there is constant contact on these highly technical matters between the Ministry of Supply people and the Ministry of Civil Aviation people, but the responsibility for deciding what set would meet the requirements was inescapably and rightly the responsibility of the Ministry of Transport and Civil Aviation, on any advice that we could get from the Ministry of Supply, of course. But we knew by that time that the military set, which looked as if it was going to be satisfactory for military purposes, would not be satisfactory for us. The Ministry of Supply then came in because clearly we did not want to spend dollars on an American set, we wanted the American design produced in this country. The Ministry of Supply who have the knowledge and the apparatus for dealing with that sort of thing were our agents in getting it produced, but the responsibility for the choice of the set was ours and ours alone.

2629. I do not disagree with that in the least. All I am saying is that the Department concerned with regard to the development of these sets was the Ministry of Supply; and I would have thought if, in fact, the British production could have done this job even equally satisfactorily that they would have said to you: "Well, you can get it in Britain"?—Oh, I think they would, certainly. As Sir Cyril says, we could have taken that advice and we should certainly have paid the greatest attention to it, but we could equally have rejected it.

2630. I should have hoped so, if there was a British set available?—I do not think there was any difference of opinion between the two Departments at all.

Mr. Hoy.] That is all I wanted to know.

Mr. Arbuthnot.

2631. Sir Gilmour, what was the date that the expert went over to test the American equipment?—I think it was 1955, Sir.

2632. Now, you told us that you had a new form of testing equipment which I think you said fitted into aeroplanes to show how adequate the performance of the landing equipment was. What was the date that that equipment became available to you?—Well, it is a

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continuous process, Sir, but certainly there was considerable advance between 1949 when the first tests were made and middle and late 1951 when the complete apparatus was introduced into London Airport. It was tested there with our more accurate testing apparatus.

2633. There is one thing in the letter from Pye's to the Comptroller and Auditor General that I do not quite follow, and perhaps you can help to clear it up. In point 1 they say: "The original I.L.S. glidepath failed for the reason that the glidepath equipment was found to employ an unreliable valve for which no alternative type was then available." That was 1950-51?—Yes.

2634. They go on to say: "At this juncture"—that is to say, still 1950-51—"the Ministry of Supply asked our company to proceed . . . with a complete redesign . . . to do three things", and one of the three things was: "To eliminate the faulty glidepath valve for which a replacement had subsequently become available". How could the Ministry of Supply have asked them to put in something that was not available and they had not known about in 1950-51? Is that statement completely false or is there any basis of accuracy behind it?—(Sir Cyril Musgrave.) The original equipment was under design from the year 1945 until 1949 and during that period the valve referred to was the only valve available. Therefore the equipments that went into operation and were tried out in February and May, 1951, at London Airport incorporated that valve. In 1951 we started Pye's off on a fresh redesign of this equipment and it has proved to be different in many respects; and during the period between 1951 and 1953-54 when they presented their equipments for test another valve became available. There is not any question of the two valves being available at the same point in time.

2635. Is it true, as Pye's say in paragraph 3 of their letter to "The Daily Telegraph" of 6th March, that you, Sir Gilmour, propose to place a substantial order this year for the new British equipment?—(Sir Gilmour Jenkins.) That is too positive a statement at the moment. As I said earlier, we have hopes that it may be possible with some modifications to use this military type of apparatus at some of our airports, but we are not sure yet.

2636. Do you happen to know whether it is a fact that the Pye equipment was preferred by the Swiss for the Geneva International Airport?—No, Sir.

2637. So is it that you have no knowledge of the statement made in paragraph 2 of the letter to "The Daily Telegraph" or is it inaccurate?—No, we do not know that, Sir.

Mr. Thornton.

2638. Might I just follow that point, because the following paragraph of the letter to "The Daily Telegraph" states: "Many other overseas airports"—and "airports" as distinct from airfields—"are now putting it in". Are you aware whether there is any truth in that, Sir Gilmour?—I did not catch the last words, I am sorry?

2639. The third paragraph of the letter to "The Daily Telegraph" says: "Many other overseas airports", and I take it they mean by "airports" civil airports and not military airfields?—I presume so, yes.

2640. "Many other airports are now putting it in". Have you any knowledge as to whether that is correct or not?—No, I have not.

Chairman.

2641. Just one further question. You have not entirely excluded the use of the redesigned Pye apparatus have you, Sir Gilmour?—No, Sir. We have hopes, as I said, that with some modifications we may be able to use it at some of the less busy airports.

2642. Exactly. It is merely that it does not fulfil the specification for specific airports?—But you realise, Sir, that that is not the equipment which has been written off.

2643. No, that is new?—This is quite new.

2644. This is the equipment that Pye's refer to as available off the shelf?—Yes.

Colonel Crosthwaite-Eyre.

2645. Could I ask one last question, which I hope will enable you to give just a short answer: in your knowledge or in the knowledge of the Ministry of Supply, has any set for this purpose

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ever been developed for civil purposes except out of a modification of a design suitable for military purposes? In other words, the military set must come first and then subsequently a civil design?—(Sir Cyril Musgrave.) In the case of the Pye equipment it happens to be the other way round.

2646. Which Pye equipment is this, the first one?—The first Pye was for civil purposes. It is not entirely satisfactory and, of course, it is true to say that the success in the subsequent military development is due to a considerable extent to the experience that Pye's gained in their first civil contract.

2647. May I put it this way: you would not know of a successful set for civilian use in employment at any airfield in the world at the moment which was not a development out of a military set?—I am afraid my knowledge does not extend to answer it one way or other.

2648. You could not deny it anyway?—I am not able to deny it or affirm it.

Chairman.

2649. One question on the letter to the Comptroller and Auditor General, arising from the top paragraph on page 2. This refers to the damage to a potential export market of £2 million. Do either of you gentlemen know, in fact, about that or have you any comments to make?—One can only speculate. My

Department is responsible for Government sponsorship of this industry and it is our duty to try and maximise the amount of exports from the electronic industry. Before I could comment on it I should have to get my staff to consult with the firm, see how they make up their £2 million and form a judgment as to whether it was a true figure or not. I think I could comment to the extent of saying that they would probably now find it more difficult to sell; they will have more sales resistance, but whether the £2 million is an accurate figure or not I could not say without consultations with the firm.

2650. "Potential" cannot be accurate?—No, but when one tries to do a piece of market research one gets from the firm a list of the places where they expect to sell and they say: "Well, we are getting inquiries from this, that and the other" and we would consult our overseas agencies and try and get a check on it.

Colonel Crosthwaite-Eyre.

2651. You would agree that these paragraphs in the Comptroller and Auditor General's Report are not conducive to increasing British exports in this particular market?—I am afraid that is so.

Mr. Hoy.

2652. But if they are correct it is right that they should be said, surely?—I am not criticising the Report at all.

FINANCE ACT, 1956 AND TRANSPORT (RAILWAY FINANCES) ACT, 1957, ACCOUNTS, 1956-57.

Chairman.

2653. Will Members turn to the Finance Act and Transport (Railway Finances) Act Accounts, the White Paper, to the Comptroller and Auditor General's Report, paragraphs 1-5 on page 8? Mr. Macpherson, is this system of monthly advances applied to all the nationalised industries?—(Mr. Macpherson.) It has been, Sir, other than the Coal Board, which is done on rather a different basis.

2654. Is there any particular reason for it?—We have got to look at the history of this, Sir. As you know, prior to the provisions of the Finance Act, 1956, the nationalised industries

borrowed progressively from the banks over a period until they then went to the market for an issue guaranteed by the Treasury. The Chancellor explained in his Budget speech in 1956 why it was felt desirable to change that practice. The Treasury with the nationalised industries considered how the new system should work, bearing in mind that for day to day working capital the nationalised industries would be going to the banks; and they also had regard to the Treasury doctrine that we should not make money available earlier than was necessary to meet the reasonable requirements of the industry. This was a very new field and what was worked

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out after considering other proposals, including quarterly advances, was that a month was a reasonable period at which the Treasury should make the advances, bearing in mind that for day to day working capital and variations in requirements the nationalised industries could go to the banks. That pattern was established in 1956 and has operated until now. We have, with the industries and the Ministries, looked at the operation of this over the period since it started and we have come to the conclusion, with the agreement of the industries and Ministries that we are going to vary it; very broadly on the lines that the advances will be twice monthly on fixed days, not necessarily the same days for each industry, bearing in mind the factors that affect the particular industry and bearing in mind also the Exchequer's position in relation to the dates when cash would be more readily available, and so on. It is hoped that this new system will operate from April.

2655. We see in paragraph 4 that the B.E.A. found they did not want the money in the middle of March and asked if they could defer their drawings until April 1st. Now, as you commented a moment or two ago, it is a good Treasury doctrine that money should not be provided to Departments until it is necessary?—That is true, Sir. I do not think I would go as far as to say "until it is necessary". We have always tried to make it clear that reasonable requirement was the criterion rather than absolute need, because obviously absolute need can only be translated in terms of day to day advances. The system of monthly advances was the pattern that seemed best to us in 1956 and, having established that pattern, we were reluctant to make departures from it. May be we were over-reluctant to vary it, but having decided that this was how we would do it we decided to stick to it.

2656. Despite the good Treasury doctrine that you should not hand out money until it was reasonably required—I will not use the word "necessary"?—I do not think we would say "despite"; rather that it did not seem to us that making this sum available for the month was unreasonable, given the pattern we had established.

2657. Even despite your own Treasury Minute of January 1st, 1958?—I think there, Sir, we made it clear it was a reasonable requirement.

2658. I see?—There are obvious factors why we should not, having set a pattern, wish to depart from it. If we felt, for example, that an industry was seeking to vary the pattern because they were playing a bunch on interest rates, then obviously we should not want to be party to that; and that was one of the considerations we had in mind when the fixed and regular pattern was established. It was, as I have said, a rather new field; there was nothing quite comparable and, in fact, again as I have said, against a previous pattern of market issues being made probably annually, certainly, I do not think more frequently than annually.

2659. Sir Gilmour, why are the Air Corporations required to give detailed statements of their requirements and the Transport Commission not?—(Sir Gilmour Jenkins.) The main reason, Sir, is that the British Transport Commission is a very much more complicated concern than the Air Corporations. The Air Corporations want their capital advanced mainly for buying aircraft, that is the big thing, but with the British Transport Commission there is everything from a number of diesel electric locomotives down to a packet of pins. Part of it is controlled regionally for the railways, another part is controlled by the wholly owned subsidiaries running the bus companies which are independent for these purposes, another is the docks, and so on. It is a much more complicated affair and whereas it is possible to get a reasonable return from the Corporations it is very much more difficult in the case of the British Transport Commission. The other difficulty is that there are two Acts to work under, there is the Finance Act, 1956, and there is the 1957 Act for financing the revenue deficits of the Commission. It would be quite impossible to distinguish those two things on a basis of frequent returns. That is done, of course, over the annual returns. We do not think—it is a Treasury point as much as ours really—that there is any need to go into enormous detail in these matters because the incentive is there to borrow as little as possible. In the old days the Transport Commission went out into the market and borrowed £80 million, or something of that order. They were then in a position, of course, to deal with the money that they were not using immediately by investing it. Now, when they are getting relatively small sums very

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frequently they do not want to have to pay interest on money that they are not using. They cannot invest it, the money is too small, and it is turning over too quickly. Therefore, the incentive—as has been shown by the B.E.A. case where they deliberately asked not to have to pay interest for half a month—the incentive being in that direction, we do not think that there is any need to press them for detailed returns but to rely first on the incentive and secondly on the annual statements which we get at the end of the year.

2660. Are you satisfied you have got sufficient information to know that they are not asking for too much?—Yes, I think so, in a general sense. We are in touch with them closely, both in relation to finance and in relation to their development programme, so that we see the two. The people concerned are closely in touch and there is no reason at all to suppose that they are asking for more than they need. In fact, all the evidence is the other way, because they frequently have to resort to the banks for temporary loans up to a total of £15 million. It varies from day to day and week to week; they may be in funds or they may be £13 million or £14 million in debt until the next instalment comes in. So, there is every incentive to them to keep the figures right.

Mr. Thornton.

2661. Sir Gilmour, does the Transport (Railway Finances) Act give the Transport Commission the right to borrow the full amount of the deficit certified by its auditors, or can the Minister turn it down if he so wishes?—It is at the Minister's discretion under the Act. The total is fixed but the amounts advanced are at the Minister's discretion.

Colonel Crosthwaite-Eyre.

2662. Are the limits of the overdrafts referred to in paragraph 3 settled with you as well as the bankers?—The banks do not come into that.

2663. I am talking about the overdrafts?—(Mr. Macpherson.) Yes, they are fixed quarterly and guaranteed by the Treasury and a statement is laid before the House of the amount for which each guarantee had been given.

2664. They are fixed?—They are fixed, yes.

2665. Do these sums carry a Treasury guarantee for their repayment to the bank?—Yes. That is why they are tabled under the provisions of the Act.

2666. Are they subject to that—I think this is paragraph 4 of the Foreword—in the sense that they are repayable over a long period or are they purely looked upon as bank advances for a limited period by the bank?—I think the banks regard them as setting a limit to the industry's day to day requirements to meet its working capital. (Sir Gilmour Jenkins.) I think there is a misunderstanding there. It is paragraph 4 of the Foreword you are on?

2667. Yes?—Those are the advances made by the Government to the Commission and not by the banks.

2668. That is what I want to get; they are separate?—They are the Minister's advances in pursuance of his powers under the 1957 Act.

2669. What rate of interest do these overdrafts bear, in view of the Treasury guarantee?—(Mr. Macpherson.) The current rate at the moment is for the Air Corporations $5\frac{1}{2}$ per cent., for the others it is $5\frac{3}{4}$ per cent.

2670. So it is thanks to the Treasury guarantee that it is much less than the private individual would have to pay?—Well, their bank borrowings are presumably at bank rate.

2671. I thought you said these loans were only having to pay $5\frac{1}{4}$ per cent.?—From the Minister. (Sir Gilmour Jenkins.) These are our advances. (Mr. Macpherson.) There are two quite distinct advances.

2672. I am sorry, I am talking about the overdraft referred to in paragraph 3 of the Report of the Comptroller and Auditor General?—Those are bank overdrafts by the industries on the banks guaranteed by the Treasury, within a limit established by the Treasury and notified to the House.

2673. What is the rate of interest?—I understand, bank rate.

2674. Exactly bank rate?—I understand so.

2675. So, probably, about 1 or $1\frac{1}{2}$ per cent. less than any other person would have to pay?—Presumably. I think

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there the public are paying 1 per cent. more than bank rate.

Chairman.

2676. Paragraphs 6-8. Sir Gilmour, the deficit for any given year does not necessarily equal the actual cash outgoings of that year? There will be depreciation and sums taken to reserve and all that kind of thing, will there not?—(Sir Gilmour Jenkins.) Yes.

2677. How much of this £54 million referred to in paragraph 7 is represented by depreciation charges, for example?—(Sir Frank Tribe.) I believe the accounts show that £21 million of that is depreciation. (Sir Gilmour Jenkins.) Yes, it is in the account.

2678. When you make an advance you do it on the assurance from the Commission, do you not, that their deficit will be so much?—Yes, certified by the auditors.

2679. That is not the Comptroller and Auditor General?—No.

2680. Those are private auditors?—They are the auditors appointed by the Minister under the 1947 Act. They are the same auditors. (Sir Frank Tribe.) It is on their certificate that the final payment is made. Of course these monthly advances do not have any audit certificate. (Sir Gilmour Jenkins.) The Commission are under an obligation, of course, to repay anything which they have had in excess of the final certified annual total. In fact, we had to make an extra payment to them in the only year that has happened so far.

2681. But it may happen that money is advanced from the Consolidated Fund before it is actually needed under those circumstances?—No, Sir, I do not think so.

2682. Does the Transport (Railway Finances) Act give the Transport Commission the right to borrow the full amount of a deficit?—No, Sir. I am not sure whether we are quite on the same point, Sir. The Minister may in his discretion make the advances. He is not bound to make the advance of the amount which the Commission ask at any particular moment.

2683. The Minister can refuse?—Yes.

2684. Has he ever done so?—No, he has not.

2685. This is rather an unusual position. Mr. Macpherson, this is practically the only case where money is issued from the Consolidated Fund on the certificate of private auditors, is it not?—(Mr. Macpherson.) I agree, I think, on the method. I know of no other case where it is done on this basis.

2686. Other than this, no moneys can be issued except on the certificate of the Comptroller and Auditor General, is that not so, Sir Frank?—(Sir Frank Tribe.) I think other advances from the Consolidated Fund to meet current as distinct from capital expenditure are subject to my audit subsequently and I have a means of ascertaining whether the sums advanced are correct. Of course, when the demand comes to me for issue from the Exchequer, as the Comptroller of the Exchequer I have to issue what the Treasury want to have issued, subject to it being within the limit that Parliament has approved. But in other cases it is possible for me through the audit activities of my office to ascertain that the sums have been rightly advanced. In this case I have nothing to rely on except the published audited accounts of the Commission, which may not come out for many months afterwards.

2687. You feel that a weakness in financial control?—I thought it necessary to bring this to the notice of Parliament. There is no doubt it is covered by the Act, but sometimes I wonder whether Parliament realised in passing this Act, that it was, as far as I know, for the first time authorising deficiency payments from the Consolidated Fund simply and solely on the audit certificate of professional auditors without, any way so far as I know, giving power to go behind the account. On this figure of £21 million depreciation, I do not know whether the Minister has given any instruction as to the rate of depreciation and there may be charges involved which might possibly be regarded as rather on capital account than on current account. This is the total deficiency of the Commission minus its surplus revenue from ancillary activities and the advance is made, as I said, just on these audit certificates.

2688. In other words, what this does is that it raises a curious constitutional point?—Yes, I think so. There is no doubt that Parliament agreed to it,

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but I thought it right to bring this point to Parliament because, as far as I know, it is an unprecedented procedure.—(Sir *Gilmour Jenkins*.) If I may interrupt, Parliament scarcely agreed to it; it is in the Act; it is an Act of Parliament.

2689. I think Sir Frank is querying whether Parliament realised what it did agree to?—I am not prepared to comment on that.

Mr. *Hoy*.

2690. Sir Frank would not make that suggestion, I think?—(Sir *Frank Tribe*.) No, I would not do that, but sometimes it is the duty of an auditor to point out the financial consequences of legislation.

2691. Have you any suggestion to make? You just merely wish that Parliament shall realise what Parliament has done?—If you like to put it that way, yes, Sir. I have no suggestions to make.

Mr. *Collins*.

2692. Sir Gilmour, I understood you to say that you were not obliged to allow the British Transport Commission under the Transport (Railway Finances) Act to borrow the full extent of any deficit, is that right?—(Sir *Gilmour Jenkins*.) Yes, section 2 (1) of the Act says: "The Minister may advance to the Commission any sum which the Commission are authorised to borrow by paragraph (b) of subsection (1) of the foregoing section, and the Treasury may issue to the Minister out of the Consolidated Fund", and so on.

2693. I was just interested to know what would happen if you declined to allow them to borrow the amounts that they required?—Well, I think that is a hypothetical question, Sir; I could not answer that.

2694. I was under the impression that it directly arose out of a reply you gave to an earlier question?—No, what would be done if they did something which there is no precedent for their doing I really do not know. That would have to be considered, obviously.

Colonel *Crosthwaite-Eyre*.

2695. Sir Frank, as I understood the point you were making, and please correct me if I am wrong, it was very difficult at the present moment when you were faced with a figure on the audited

accounts of any one year to be absolutely certain that the sum shown as a deficit was truly applicable to current rather than capital account. Would that be really the point?—(Sir *Frank Tribe*.) That would be one point, yes. But the broader issue is that the issues from the Consolidated Fund are based upon audited accounts which have not been subject to any Government audit.

2696. Yes. The deficit is, of course, shown as a result of the figure brought from revenue to capital account, but if certain items had been left out one side or the other, shall we say, of revenue account because of an *ex parte* decision it could have quite a considerable influence on the final figure to be paid, could it not?—Yes.

2697. Therefore, could I ask you, Sir Gilmour, what directions, if any, are given by the Minister to the auditors as to what items should be included in the revenue rather than the capital account, or *vice versa*?—(Sir *Gilmour Jenkins*.) That is already provided for under the 1947 Act by the Minister's power, which he has, of course, exercised, to lay down the form of the accounts of the Commission. He has full authority to decide that.

2698. What I am getting at is this, that as I read paragraph 6, which mentions in particular "other activities"—That is of the Foreword, is it?

2699. No, this is on page 9, paragraph 6 of the Report. Those activities could result in surplus revenue?—(Sir *Frank Tribe*.) They do, in fact. (Sir *Gilmour Jenkins*.) Yes.

2700. In which case it would be set off, as I understand it, against any loss that the main activities of the Commission would make?—Yes.

2701. If, on the other hand, the other activities resulted in a loss they could not be set off *vice versa*?—No, they could not.

2702. Now, pursuing that a bit further, how far does that sort of decision—it is not for us to ask you whether it is right or not—affect the calculation of their revenue account as against their capital account in any given year's balance sheet?—I do not quite know how to set about answering that question except in very general terms.

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[Continued.]

The form of the account is settled by the Minister, who appoints the auditors to see that his instructions as to the form of the account are carried out. The form of the account clearly distinguishes between capital expenditure and revenue out-goings. The accuracy of what is done is certified by two auditors, as I say, appointed by the Minister, with the highest professional qualifications.

2703. I am sorry, there is no question of challenging the credit of the auditors. What I am getting at is this: in any ordinary company there are always a lot of marginal items which can either be put to capital or revenue account. All I wanted to know is what instructions, if any, has the Minister given to the auditors on that sort of marginal question?—There are no special instructions, so far as I know, given to the auditors as to that, apart from the very elaborate layout of the account, but the auditors in any such case where there is any doubt would always come to us and discuss it.

2704. May I put it this way, then, that you have no fear that, shall we say, any capital account surplus sums were brought into revenue?—No, none at all.

Mr. Thornton.

2705. Could you detail what these other activities are, Sir Gilmour, that are referred to which may help to reduce the railway deficits?—The rest of the Commission's activities; they are the Road Haulage Services, the Road

Passenger Services run by the Tillings and the Scottish Motor Transport concerns, the Docks, the hotels, London Transport, the Shipping Services and Inland Waterways.

2706. Generally speaking, do those undertakings make a surplus?—Yes, in total they make a surplus.

2707. Now, the advance of £52 million for the 1956 deficit obviously had to be made after the close of that year?—Yes.

2708. For later deficits do the Commission take advances in the course of the year?—Yes.

2709. How do you satisfy yourselves, Sir Gilmour, that the sums asked for are justified by the losses incurred?—We do not do a detailed audit, of course—it is not our function—but we are quite satisfied from our knowledge and our close contact with the Commission that they are honestly put forward and that there is no serious risk of anything going wrong.

2710. Do I understand from what you have said earlier that you are satisfied with the system of incentives, so to speak, that the fact that the Commission will have interest to pay on moneys borrowed is sufficient to keep them within reasonable limits?—That answer did not apply to these particular advances. It applied to advances for their ordinary working capital, but the same considerations broadly apply here also.

TUESDAY, 1ST APRIL, 1958.

Members present:

Sir George Benson, in the Chair.

Mr. Arbuthnot.
Mr. Collins.
Mr. Hoy.
Mr. Oliver.
Mr. Ramsden.

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

Sir FRANK TRIBE, K.C.B., K.B.E., and Mr. J. MACPHERSON, called in and examined.

CIVIL APPROPRIATION ACCOUNTS, 1956-57 (CLASSES I-V).

CLASS V.

VOTE 5.

NATIONAL HEALTH SERVICE, ENGLAND AND WALES (Continued).

VOTE 11.

NATIONAL HEALTH SERVICE, SCOTLAND (Continued).

Sir JOHN HAWTON, K.C.B., Permanent Secretary, Ministry of Health; and Mr. J. ANDERSON, C.B., Secretary, Department of Health for Scotland, called in and further examined.

Chairman.

2711. Will Members turn to the Civil Appropriation Accounts, Classes I-V, to pages xvii and xviii, paragraphs 58-62 of the Comptroller and Auditor General's Report? Paragraph 60, Sir John, starts: "One of the specialised drugs". What is the drug there referred to?—(Sir John Hawton.) This is cortisone and a lot of its allied preparations. In effect, cortisone and its preparations.

2712. According to paragraph 61 the Ministry stated that similarity between many of the contract prices "appeared to derive from competition rather than lack of it". How do you arrive at that conclusion?—Simply because it started with competitive tendering and all the other competitors gradually came down to the lowest tender. It seemed to me a very good example of the effect of competition.

2713. On the other hand, if you look at paragraph 62, the last five lines: "The identical prices quoted for the central contracts for these seven drugs suggest that there is little effective price com-

petition"?—Yes, I quite agree; on those seven I think the situation is different. There there is not sufficient evidence of competition and we tried to get costing clauses put in the contracts and could not do so. We cannot do without the drugs so we shall go on trying to get them in. There are redeeming features to that, but perhaps you will be coming to that in a moment.

2714. How comes it that you cannot enforce a costing contract? Are these almost monopoly productions?—Two of them, I think, are each made by only one firm but if the manufacturer says: "I will not accept a costing clause" we have no power to insist on putting one in. We could, of course, refuse to buy the stuff, but we cannot in these cases do that because of the need of the patients. I do not want to take too long in answering, but there is some relevance here that these are cases where most of the firms, I think, are subsidiaries of American firms and the prices are about one-third lower in this country than in the United States. That is not conclusive of anything but it is a pointer that there was not in any way an excessive price.

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[Continued.]

2715. How much is spent by the National Health Service on drugs under central contracts?—I shall have to do an addition there because some of them are given here separately. I have not got the aggregate figure here exactly, but it is about £2 million, I believe, and we will correct that if it is wrong.

2716. If that is radically wrong you might just correct it; if not, it is near enough?—It is about £2 million.

2717. Is that sufficiently large to make it worth while to have a real fight on costings?—As you see, here we are dealing with a number of different situations. In some of them we should not say costing was necessary, the ones where the competition has brought the price all the way down to the lowest level, and going on from there is dropping now below that level. On these other seven we would say we would want costing ideally, and we are going to try and get it; but whether we shall get it I do not know. I am afraid I am answering at length, which is a bad habit, but one other thing is that a lot of these as proprietaries are caught up ultimately in the voluntary price agreement, the elaborate scheme which I explained to the Committee last year.

2718. The export price, and so on?—And the other alternatives; the thing which we agreed with the Association of British Pharmaceutical Industry last year. They will not be caught up at the moment because most of these are new and there is a three year clear period, but they will be caught up in that later, we should hope.

Mr. Oliver.

2719. Sir John, in paragraph 60, in the last sentence, the Comptroller and Auditor General says: "Other features of the contracting for this drug and its allied preparations are that manufacturers tendering for the first time normally did so at existing prices, and that contract prices are apparently the same as ordinary list prices paid by chemists". Are these list prices similar to those which you pay the chemists for cortisone used in prescriptions?—In the case of this paragraph similarity with list prices must not be misunderstood. The list prices were fixed after the contract prices, so that the contract price was not imposed on us by the level of the list prices; it is the other way round.

2720. For cortisone?—That is the cortisone group, I think.

2721. Now, I see that the Comptroller and Auditor General, in one of the paragraphs of his Report, indicates that chemists are able to buy drugs at prices lower than your list prices. Is there any reason to believe that this does not apply to their purchases of cortisone?—Cortisone here is under central contract. We are attempting, as you know, when you come to that other paragraph, to deal with this business of a disguised profit if they can buy below list prices, both for chemists and the opticians.

Mr. Stevens.

2722. There is some conflict in my mind, Sir John, between the statement in the middle of paragraph 60: "Contracts . . . estimated to total over £700,000 per annum have . . . resulted almost entirely from identical or single tenders", and the statement in the middle of paragraph 61: "The Ministry had been given specific assurances by contractors that there was no collusion on prices". Is the conflict in my mind justified or have I misread one of those?—Our reason for accepting that assurance is largely that the unity of amounts has come at the lowest competitive level at a time when competitive tendering was taking place; and if they can come down to the lowest tender we think that is good evidence that competition has done its levelling and that the price is reasonable. Now, in addition to that one would expect from time to time that there would be adjustments and it is now beginning. A lot of plant expenditure is put into these new drugs at first and when they come to full production you would expect the cost to be a little less, and it is now beginning. One firm has already announced a reduction in some of these drugs and others have announced their intention of following suit and are now beginning on that, which is proof it is working. I want to be quite clear, on the examples referred to elsewhere where there is no costing we are not so satisfied.

2723. Even where the prices appear to be on the low side, or reasonably low, it cannot only be coincidence, surely, that they are identical between different contractors?—No, but so long as they are identical at the lowest level and are not at a higher level.

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[Continued.]

2724. How would you know that, in fact?—Because they were competitive to begin with. It was the lowest tender which set the pattern and the others decided to come down to that level.

2725. If the others decided to come down to the same level there is collusion, even if it is at a low figure, surely?—Collusion, or competition in the good sense.

Chairman.

2726. Mr. Anderson these questions are addressed equally to both of you; so if you have anything to say on any occasion, please do?—(Mr. Anderson.) Yes, thank you, Sir.

Mr. Thornton.

2727. Sir John, might I ask you to look at the last three lines of paragraph 61? That says: "One of the contractors concerned has in fact now notified a reduction in prices for certain items covered by the contract, with effect from December, 1957". Did he volunteer this reduction or had you to ask for it?—(Sir John Hawton.) We are always approaching them to get the lowest possible prices, but he did agree to do it; and, as I say, that is not quite up to date because again the process is working. Some of the others seeing that happen are bringing theirs down.

2728. So this contractor is not getting all your business, the others are falling into line and have fallen into line?—That is why I think in this case this really is competition in the good sense.

2729. Now that the contractors have brought down or are bringing down the prices, do you know whether they have also reduced the list prices to chemists commensurately?—I am not absolutely certain. Again I will correct it if I mislead you, but I am almost certain that the two go together.

2730. That is, the alterations in the prices have been made together?—They are bringing their prices down.

2731. Do you know why this contractor reduced his price in the first instance? Was it due to pressure you brought on him?—I think because, as I say, the initial period of expensive plant and small production gradually gives way to full production, and then they are able to bring the price down a bit. We find that a fairly common thing.

2732. What method have you now for deeming whether these prices are reasonable or unreasonable? Have you any method, apart from the competitive element in the contract?—In the case of those where competition has brought the price down we think that is good evidence that they are not unreasonable. In the case where we have not got costing and have not got the same degree of competition having the same effect, and that is the second group on those we are not so satisfied. There we have to rely, in the absence of costing, on extraneous matters such as the fact that they are sold over here much more cheaply than in their parent country, America, and also to rely, in the little longer term, on the fact that the voluntary price agreement will pick up lots of them after their three years has expired.

2733. I wanted to follow up that point about the American price. Do I understand you rightly to say that the prices charged in America are by American producers of the same drug?—It is the same product and in most of the cases I am talking about now the companies concerned, who are not being costed by us, are in fact subsidiaries of these American companies producing the same thing.

2734. They are producing the same thing in America with American labour, and so on?—Yes.

2735. Would it not be true to say that, generally speaking, many commodities in America are higher priced than they are in this country due, I think, to their high costs of production?—Yes, I think that is fair.

2736. Do you feel that the American test is really an effective test? I should have doubts?—I have just been given some more information on this. We seem to have these drugs more cheaply over here than not only America but about eight or nine other countries to which American conditions do not apply. I am sorry I had not got that before.

Sir Colin Thornton-Kemsley.

2737. Sir John, the Report in paragraph 62 says that out of 59 items on the tender schedules in 43 cases there were identical prices and in the remaining 16 items only single quotations were received. Have you, in view of these

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[Continued.]

examples of identical tendering, ascertained whether the firms concerned have notified the Registrar of Restrictive Trading Agreements of any agreement?—I am told that they do not come within that code.

2738. None of them?—In more detail, any price agreement associated with the licensing of a patent is specifically excepted from registration under that Act; so that these would be excluded.

2739. I have not quite got that. What does the Act say about it? It excepts what from registration?—This is only a summary of it: any price agreement connected with the licensing of any patent.

2740. Is this the licensing of a patent?—It is a price agreement connected with it.

2741. Has the Treasury any view on that?—(Mr. Macpherson.) Frankly, I do not know, Sir, whether this applies. I understood that this was exempted, but I am not absolutely certain.

2742. Can the Comptroller and Auditor General help us at all?—(Sir Frank Tribe.) No, Sir, I am afraid I have no information. I am a little surprised that the apparent price restriction methods in this industry are not subject to examination by the Registrar, but I do not claim to have any expert knowledge on the matter.

2743. I am surprised, too, and that is why I asked?—(Sir John Hawton.) May I answer?

2744. Certainly?—The example is of the kind I described to you and each of the antibiotics concerned here are controlled by one single firm with exclusive patent rights coming within that exclusion.

2745. Is that a British firm or an American firm?—Mostly American or subsidiaries, I think.

Mr. West.

2746. Sir John, I see from the end of paragraph 62 that the Comptroller and Auditor General had asked the Ministry what evidence they had "that prices being paid were no more than fair and

reasonable". What answer have you given to the Comptroller and Auditor General with regard to that?—The answer is the one which I tried to give just now, that we agreed that in the absence of costing you cannot have absolute evidence in these cases because of the lack of competition and the common prices; but we cannot get costing yet. We are going to try on each renewal, and the price we pay compares, I think, as I said, with about nine other countries of mixed type very well and is lower than they are. So we feel that that, coupled with the fact that the voluntary price agreement picks this up is probably as much as we can get at the moment.

2747. Am I right in thinking that you negotiate contracts for these particular drugs and you notify the hospitals concerned of the contractors?—In these cases we negotiate a central contract.

2748. You notify the hospitals of the contractors who have agreed to supply and you inform them of the terms and conditions of the contract?—Yes.

2749. When you informed them of that did you request them to treat the prices as confidential?—Normally, yes, that is the practice, to keep them as confidential.

2750. If you refer to paragraph 60, I could not quite understand how all the suppliers became aware of their competitors' prices in July, 1955, which was only a month after the start of the contracts. How do you think they got them?—They did not get them from us, but I do not think it is very difficult for people engaged in the same industry to find out what sort of tendering is going on.

2751. If they act upon that in relation to negotiations between supplier and supplier that is really, in effect, collusion, is it not?—Yes, if you like to use the word "collusion"; but in the case where they found out the price in competition their collusion took the form of bringing all their prices down, which seems to me not to be too reprehensible.

2752. I see. You mean, one of the competitors then was undercutting the other because he knew the price of his competitor was lower than his own?—They all came down to the lowest.

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[Continued.]

2753. Then that left you with the choice of deciding which one you are going to take?—Yes.

2754. How many contractors have you for this particular drug?—It is a little complicated to answer this. You see, I have got the list of the number of the contractors for each of the drugs concerned, but if you just add them up it is not necessarily the number of the separate firms because some would tender for two drugs. Some overlap. I can tell you, or perhaps if you prefer it, send it in because there is a list of them and the numbers concerned. It runs something like this: for the different antibiotic drugs, one in one case, one in another, two in another, three in another, eight in another, two in another and two in another; but then some of them may overlap.

2755. Where you have eight all their prices are the same?—Yes, under this arrangement.

2756. I wonder if you could say how it is that the manufacturers tendering for the first time were able to quote existing contract rates?—I am so sorry, I do not quite follow that?

2757. I am looking at paragraph 60: "Other features of the contracting for this drug and its allied preparations are that manufacturers tendering for the first time normally did so at existing prices". How were they able to do that?—This is on the group where the competition brought them down to the lowest level.

2758. That is so, yes?—On this system when they tender for the first time they tender at that lowest level.

2759. Yes, but if they tender for the first time there must have been some consultation, some information from somewhere, to enable them to tender. There is therefore no competitive tendering?—You do not start to appear in this group without competitive tendering. You in fact have arrived at a situation where it has had, I should have thought, an excellent result because it has got all competitors down to the lowest common denominator.

2760. That depends whether the lowest common denominator is excessive or reasonable, does it not? If all competitors say: "Now, look here we can

make a great deal more profit by agreeing upon a figure. We will put that figure in and then we are genuinely competing against one another", and if contracts are placed upon that basis it is not competitive tendering, is it?—If the lowest price here by them all in the end was the lowest tendered price, as it was, that seems the normal way of arriving at the lowest price you can get a thing for. You put it out to tender and when you get the lowest tender, you accept it. If all the others fall into line and come down to that level we are only too pleased.

2761. Yes, but that does not get rid of the question how it is that those tendering for the first time are tendering on existing contract prices. It is all very well for them to tender and then have an agreement afterwards that they will supply at the lowest tender, but here you have manufacturers who are tendering at existing contract prices, and I would like to know why?—You mean, how they know what those prices are?

2762. Certainly, yes?—That must be within their own organisation.

2763. If that is so, how can you be satisfied that you are getting any real, genuine competitive tendering?—Because we got it to start with and the whole of this is built upon the lowest result; and because now it is even going lower because production is enabling them to drop the price.

Mr. Hoy.

2764. Sir John, following on what has been asked about collusion, even after the prices were fixed along came a single contractor and said to you; "Well, I am getting too much, I want to cut my price", is that right? It says so here?—You mean the one who has just dropped the price?

2765. Yes?—No, we are always asking if they can offer a lower price and as a result of that one of them reached the point where he said: "I can give you a lower price".

2766. He just came voluntarily and said: "I can give you a lower price"?—Yes.

2767. This man having said so, everybody else said: "Well, we can give you

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the same lower price", having heard about this one?—They said: "We will come down to that price if you will buy our things." If not we would buy all from one.

2768. Let us take it step by step. How did these other people know that this man had intimated a lower price? Did you write to them all and say: "Here, we have got a lower price" or did somebody else tell them?—I think they just heard from one another.

2769. Do you not think that a little strange, if I may say so, that if a man has lowered his price he then writes to his competitors and tells them of his lower price and hopes that they will all follow suit? Would he not be likely to exploit his lower price to get a greater share of the business?—But it would become known very, very quickly because it is known to every hospital which indents on that manufacturer.

2770. It may be known that somebody is getting more than is originally intended, but how do they know what price he is being paid?—There are so many ways he could know. The hospitals would know what this reduced price is, and quite a lot of people would know.

2771. What you are in fact saying is that somebody in the hospital goes and tells this fellow's competitors? I thought these prices were confidential?—Am I to assume—I am not quite clear—that you would prefer the prices to be kept up by the others because they are confidential or would you like them to come down to the lower level?

2772. No, you are not entitled to assume anything of the kind. What you are entitled to say to yourself is that if in fact this is going on there must be collusion or else the other competitors would not know?—What I am saying really is that if there is what you call "collusion" it is having a good result.

2773. You only think that because you are getting the lowest, but the lowest might be fixed at such a high level that it would be difficult for them to accept anything more than that?—That is true of all tendering.

2774. That is what I say. The only assurance you have got is that you say you have been given specific assurances. What were the specific assurances?—

The assurances are one thing, they say there is no question of collusion—that is what they say—but the thing we are looking at is that we have in fact adopted a tender system and, like all other tender systems, obtained one price lower than others and the result, quite happily, is that the others have dropped to that price.

2775. Why will not the manufacturers have a cost investigation? You cannot have a cost investigation because the manufacturer says to you: "We will not allow it", is that right?—I do not think it is necessary in this group.

2776. No, but in the next group?—They will not have it, no.

2777. In other words, they are afraid to allow you to come in and have a costing investigation?—Well, the firms' answer is that they will not have it.

2778. We will think out the reasons for it. May I just follow up a little another question about these comparative costs as between America and Britain? When you said they were costing a third less were you in fact making allowances for the difference in value between the pound and the dollar?—No, I was quoting simply the fact; but it is not only America, it also is less here than in Australia, Brazil, Mexico, Austria, Belgium, Finland, Germany and Sweden.

2779. But it may also be due to the difference in currency? For instance, if you are comparing Britain and Australia you would have to make allowance for the difference between the British and the Australian pound?—It is not an infallible test, but it is an indication.

2780. Mr. Anderson, you are involved in this, are you not, because this is all bought centrally? You do not buy separately?—(Mr. Anderson.) No, we do not buy separately. In negotiating these central contracts for special drugs the Ministry of Health act on our behalf as well as their own.

2781. Do you accept what the Ministry of Health say?—I have nothing to add to what Sir John has said, I think.

2782. No, I am not asking you that. I am asking you a different question. Having got this cost, are you able to say, from the Scottish point of view, "We think we are paying too much." Do

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you ever go to the Ministry of Health—not to Sir John personally, but to the Ministry—and say: “Look here, we think we are paying too much for that,” because there are plenty of Scottish chemists who will give you a little advice on these matters?—No, I do not think we have ever approached the Ministry in that sense. We have discussed these matters with them from time to time.

2783. You just accept them?—I think so.

Chairman.

2784. Paragraph 63. Sir John, what are these basic drugs mentioned in the first line?—(Sir John Hawton.) They are the drugs which form the component parts, usually, of either proprietaries or of standard non-proprietary drugs, which are mixtures. You see, they are simply the broken down ingredients.

2785. The various headings in a prescription?—There are really three kinds of drugs to bear in mind in the whole of this next part, I think. There is the standard drug, which is the non-proprietary drug which one can have prescribed, and it may be a compound of a number of things. There is the proprietary with which you are familiar, which again can be a compound of a number of things and then there are the ingredients, several of which put together create the standard or proprietary; and we call that the basic drug. It is very seldom bought as such, it is usually bought in compounds.

2786. What are these changing conditions mentioned about nine lines from the bottom: “I have recently been informed by the Ministry that owing to changing conditions and developments in the industry the need for detailed cost investigation in some sections of the basic drug field may have diminished”. What are these changing conditions and why is cost investigation now unnecessary?—Since we started on that, and stopped it for other reasons, if you remember, a lot of particular basic drugs have gone into wider production or have been mopped up, if you like, in the voluntary price agreement for the proprietaries, and it may be that these different drugs much less need investigating now. I am not necessarily saying that conditions are all different, what I

am saying is that one does not necessarily assume that the things which most required looking at then are exactly the same now, and that is what we are looking at with a view to a new investigation. We have already started this in insulin.

2787. The voluntary price scheme is one based on export prices, is it not?—It has the three-pronged basis which we did describe in a memorandum last year, which you printed.

2788. How do you expect this voluntary price scheme to show you whether the cost of basic drugs is reasonable?—Well, it does not show directly or literally, but if in fact the voluntary price scheme produces a reasonable total figure for the product then presumably one can assume that the things which make up the drug are reasonably priced.

2789. And these basic drugs are the major drugs that are sold and put in prescriptions?—They are the things you make up the prescription from.

2790. I know, but a prescription may have three or four drugs in it. These are the common drugs, are they? Does “basic” also imply “commonly used”?—No, basic implies here simply the basis from which you make up a compound drug, either standard or proprietary.

2791. I see. In view of what you say, does this imply that you do not regard testing of prices in the major investigations as any longer necessary?—No, it does not imply that at all. It implies that it may not be necessary with the same basic drugs as it was before. They may be manifestly all right now and we can switch to others, but we are at the moment reviewing the field to see which are most worth examining.

2792. You are still keeping up your pressure on costs of individual drugs?—Yes. I am sorry, I do not think I am being very clear. We started a cost investigation of basic drugs some years ago. We stopped in the middle. It was going to be a long process and we decided—it was a Ministerial decision, actually—that it was much better to try to get the problem of the proprietaries settled over the whole proprietary field by agreement with the A.B.P.I.—if I may call it that, the Association—and so obviously that overlapped and we concentrated on that. That terminated in

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the voluntary price agreement we announced to you last year, which is now in operation, under which we have got to watch the position. Now we can turn back and have another look at basic drugs, having got the other thing off the plate. That is the position.

2793. I am afraid I misunderstood the paragraph?—It is made more complete if one adds that you can disregard standard drugs, because we investigated them first before all these and found that they were all right.

Mr. Collins.

2794. I am still not quite clear, Sir John, in what way the Voluntary Price Regulation Scheme for proprietary drugs can provide evidence as to the reasonableness of the cost of basic drugs?—Only if we assume that it works and therefore produces a reasonable price for the drug as a whole. Then, the greater includes the less and if the price is reasonable for the drug as a whole it must be for its component parts.

2795. Yes, but it surely would not produce any evidence with regard to the rest of the proprietaries as to whether they were extravagant or otherwise?—If that Voluntary Price Agreement works it produces *ex hypothesi* an agreed reasonable price. That agreed reasonable price must cover everything which is put into the crucible, or whatever it is, from which you make up the compound because otherwise the resulting total would be wrong.

2796. I can understand that, but if you do not know whether the cost of basic drugs is reasonable then you cannot know that the cost of proprietary preparations is reasonable?—I did go into this rather a lot last year. The Voluntary Price Agreement is not obviously 100 per cent. perfect. It consists of the alternative formulae which we have agreed with the Association. What we do feel is that it is the best and quickest thing to do to cover all the proprietary field reasonably. I am not saying that you will not have some excess somewhere; perhaps you will. The alternative is to go through for years and years costing every single item separately.

2797. At the foot of paragraph 63 there is an indication that you are

resuming discussions with basic manufacturers in one section of the field. What section is that?—Insulin.

2798. Just the one?—The reason is because that is one where we came to the conclusion that the situation is suitable for investigation and that changing circumstances have not made it unsuitable.

2799. Will you do costing in the case of insulin?—Oh, yes, if necessary.

2800. What are the considerations which make costing suitable and appropriate in the case of insulin and not with other basic drugs?—I am afraid I am not an expert in drugs, but I think in general terms that it is that conditions obviously have not changed very much in this whereas in some of the basic drugs they have.

2801. What I am trying to get at is why it should be all right and appropriate for insulin and not, apparently, for other basic drugs?—We think it is appropriate. We are trying to find out which are the other ones to get going on. We happen to know first that insulin is a good subject to get going on first, but that does not mean there are not others; indeed, the whole point of this review is to see what others to cost investigate.

2802. What method do you pursue to decide whether other basic drugs are suitable to begin a cost investigation?—It depends on a lot of things. It depends on the extent to which they are prescribed, the proportion which they seem to bear towards the cost of the drug bill, things of that kind. Obviously, one which is causing more cost than another, if possible, we have a look at first. That is one criterion, obviously.

2803. Could you say at present, at this stage, which other common drug you are likely to investigate in this way?—No, we are not quite ready to say that.

2804. Not sufficiently advanced?—No.

2805. But you might be ready quite shortly?—To say which, I hope so, but I do not want to give you the impression that this individual costing is a very quick process. That is why we suspended it when we took the proprietaries. Obviously it takes a long time to take them one by one and do them.

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2806. Have you ever made any general investigation into the overall profits made by drug manufacturers and wholesalers, for example, profits in relation to capital employed or any quite simple investigation of that kind?—All that was considered in the elaborate negotiations of the Voluntary Price Scheme and the discussion with the Association of the matter. All of those were really points which we argued out at the time.

2807. Did that reveal that any sections of the drug industry were in fact making high profits?—I should say that it varies enormously. I should think that we would find that some were making high profits and some were not; and we tried to arrive at a formula which would fix reasonable prices for all drugs rather than take them individually.

2808. Did that investigation show that firms tended to concentrate on production of a small number of basic drugs, different forms of particular drugs?—I really do not think there is a single answer to that. Some firms do a lot and some concentrate on one thing.

2809. My reason for asking was that it might well be that the higher profits were related to the drug and not necessarily to the efficiency and capacity of the firm?—In some cases it may well be.

2810. Mr. Anderson, have you any comments to make on this particular point we are raising?—(Mr. Anderson.) No, Sir, this is another field where the Ministry operate on our behalf.

2811. Mr. Macpherson, are you satisfied with the extent of costing so far envisaged?—(Mr. Macpherson.) As reported by Sir John, yes. This is a very difficult field, as the Committee know; and as the Treasury said last year, agreement with the A.B.P.I. was regarded as a step in the right direction but as not necessarily the final answer.

Chairman.

2812. Paragraphs 64-66. What was the average difference between your tariff prices and what the chemists actually paid as disclosed by the inquiry?—(Sir John Hawton.) The inquiry covered 30 drugs and in 24 of those 30 we

judged on the results that there was a concealed profit of about 14 per cent. That is in 24 of the 30 sample drugs taken.

2813. How much do you pay for ingredients used in prescriptions? What is your annual bill?—For the whole prescriptions?

2814. For ingredients for prescriptions, the cost of the prescription apart from the fee?—This is, of course, hard. These 30 drugs in this investigation are standard drugs, not proprietaries, and there, I think, it is about £9 million.

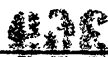
2815. £9 million will be involved in these 30 drugs?—No, in the whole of the prescribing of standard drugs. The 30 were a sample actually.

2816. I see. Have you estimated the profits chemists make over the whole field of prescribing?—No, not if I understand you rightly.

2817. How far does this investigation of the 30 drugs and the profits made throw out the calculations you made as to the profits from prescriptions of the chemists?—In fixing the Drug Tariff?

2818. In fixing the chemist's remuneration. The chemists were making, apparently, something like 14 per cent. profit on these basic drugs?—In this 24 out of the 30 cases to that extent their remuneration is wrongly calculated.

2819. What do you propose to do about it?—There are several things you can do about it. I should say at once it is a little difficult for me, because the decision as to what to do on it is at the moment before Ministers; but one can say this, that the picture presents several alternatives. One might have to say that if that is the position on 24 drugs it must be broadly true of the whole field and we will have an arbitrary cut over the whole field. We are not ourselves advised yet that that would be a fair thing to do. Another one would be to do what the chemists would like us to do and to say, "Well, the tariff price is not fair in 24, but there are extenuating circumstances. Take some of the 24 and make a cut on them." A third solution is to say: "Well, we are going to cut on the 24 and then we will go and follow it up." It is a choice between those which at the moment is



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before Ministers, both at the Treasury and ourselves. I think it is better if I can confine it to saying that there are those possibilities.

2820. It is assumed, however, that the chemist does not make a profit on the items in his prescription?—That is the theory and he then gets paid for them.

2821. As far as your investigations go, in the cases you investigated, 14 per cent. profits were being made?—In 24 drugs, yes.

2822. And the profit was supposed to come from the dispensing fee?—I am awfully sorry, I have forgotten exactly how that dispensing fee is made up. We did not in fact always reveal each of the items of that kind in the negotiations, but I can, I feel sure, if it would help, let the Committee have in more detail how we arrived at the figure.

2823. You are proposing to send in a memorandum?—If you would like the details of how it is made up. I am afraid I do not carry them all in my head.

2824. Very well. You can mark the memorandum "Confidential" and it will not be published?—Yes, Sir. It is not always politic to reveal the whole make-up.

Mr. Hoy.] That would apply to both the Scottish service and the English service?

Chairman.

2825. I presume so. Is that so, Mr. Anderson?—(Mr. Anderson.) Yes, certainly.*

Mr. Hoy.] Of course there are two different agreements.

Chairman.

2826. Are you proposing to make further price investigations to cover the whole range of basic drugs?—(Sir John Hawton.) You mean, are we going on beyond these 30?

2827. Yes?—Yes. I am sorry to keep on quibbling over words but they are not now basic, they are standard.

2828. I beg your pardon, standard, yes. When you make your cuts, are you going to make them retrospective at all?—As I say, what is done about it is out of

*Information supplied: not printed.

my hands at the moment. It is for me to carry out afterwards. The Treasury are also in the same position, I think.

2829. Mr. Macpherson, the Treasury have always been concerned about this problem, that anything that can be saved on this goes to the advantage of the Treasury?—(Mr. Macpherson.) Yes. Sir John has indicated that that is a matter which is before Ministers.

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2830. In other words, you do not want to be pressed at the moment as to what the situation is?—We would prefer not.

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Chairman.] I think that will satisfy the Committee.

Mr. Oliver.

2831. The 24 out of the 30 you referred to, I see, are not proprietary preparations. Are they excluded from consideration?—(Sir John Hawton.) So far in this examination we dealt with non-proprietary because usually the proprietary drug is made by one manufacturer in a familiar priced pack which there is no quarrel about and this renders it less likely to produce this kind of thing. It simply was a case of taking our sample from the most likely field first.

2832. You do not exclude them from consideration at some time?—I would not exclude them completely but I think we should have found much less result if we went to the proprietaries. I would much rather go to the standard drugs.

2833. The general ones, yes. I see, according to your statistical section, the prices paid by chemists for most of those drugs are on the average well below the Drug Tariff rates. Does that mean that they are obtaining a discount on their purchases?—That means the 14 per cent. below tariff rate in the case of 24 drugs which we discovered.

2834. 14 per cent. below?—Below our tariff rate.

2835. If these costs are based on tariff rates and you know that chemists are getting them 14 per cent. less than tariff rates, is there any reduction?—That is precisely the point that, as Mr. Macpherson and I have said, we have now put to Ministers to decide which of the

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three alternative methods for a reduction which I did describe, I hope fairly, should be adopted ;

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but quite obviously you cannot ignore this, a case for a reduction under one of these alternatives is obvious.

2836. Sir John, you said it was in respect of 14 per cent. What about the others that you have referred to?—I said that we took 30 drugs as our first sample. Twenty-four of them showed that there was this excess payment on the Drug Tariff in comparison with what the chemist was paying, and that averaged 14 per cent. excess over those 24 drugs.

2837. What about the other six?—They were more or less all right.

2838. That is what I wanted to know. At the bottom of the page the Comptroller and Auditor General refers to a discussion which has taken place "with representatives of the chemists and the Association of British Pharmaceutical Industry about the action called for in the light of the report" having recently begun. Have you had any result in respect of that discussion?—Those are all part of the discussions leading up to the position where the three possible alternatives which I have mentioned crystallised out and on which we then made a recommendation to the Ministers and on which we are both waiting for the answer.

Mr. Stevens.

2839. Sir John, 30 drugs are covered by the pilot inquiry and you said that your inquiry is now extending from that. How many drugs altogether have you investigated, in round figures? It is thousands, is it not?—I really do not want to try and give a figure. We know there are thousands of proprietaries, but we have not got there yet. There must be at least hundreds of standard drugs, but of course they are not all in equal use or causing an equal drain on the drug bill. Our job must be to find the field for investigation which is likely to be most productive from the cost point of view.

2840. How did you select the first 30?—We selected them largely on the amount they are costing in proportion to the cost of the bill, the kind of thing

which will be worth looking into, and on the basis of general experience.

2841. The inquiry covered 2,370 chemists. Did that include a fair proportion of large as well as small chemists?—Yes, it covered all of them, including the very big multiple chemists.

2842. Do the chemists themselves accept the results which you have so far achieved or the results which you obtained from the 87 per cent. of the forms which have been completed?—They do not accept them in the form which I have described. They accept that there was something and they are arguing as to what we should do about it ; and what they would like would be, of the three alternatives, to take the one, as I said, which would reduce the tariff prices of not the 24, but a few of the drugs which they would agree showed an excess. They would not like it taken over the whole 24, still less taken any further. But that has been part of our discussions with them.

Sir Colin Thornton-Kemsley.

2843. Sir John, I wonder if you would explain how you fix the Drug Tariff rate?—I was trying to think how to put it without elaborating it too much. We take the lists of obviously well known accepted reputable firms and we compare with the A.B.P.I. list—I am sorry to use those initials, but it is such a long name—and we arrive at it in that manner in discussion.

2844. How often do you revise it?—Every month.

2845. Do you have to obtain the agreement of the chemists to any revision that is made?—We discuss the revision, yes. We are not bound to accept their opinion, but we do discuss it as a matter of courtesy.

2846. Mr. Anderson, do you use the same Drug Tariff in Scotland?—(Mr. Anderson.) No, we have our own Drug Tariff devised in much the same way as Sir John has described for England ; in some cases our quantities may differ, and so on.

2847. Can you be a little more particular in telling the Committee how it differs from the English one?—I think in some cases we may have assumed in the Scottish Tariff that the chemists may be buying in smaller quantities, since on

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the average the Scottish chemist is a smaller man. I think the difference is the size, in that sort of way.

2848. Do you consider that in Scotland chemists are paying more for drugs than chemists are in England?—You mean, that they may be paying higher prices?

2849. Yes, higher prices?—We do not have any very firm opinion on that as yet because the inquiry on which we are engaged is still not completed. For the first sample of drugs which we have taken there appears to be some evidence that, at least in some drugs, Scottish chemists are paying less than the prices which we pay them; but over the whole field I would not like to generalise since we do not really have the information.

2850. Your inquiry is directed to the rate of use of certain drugs, is it not?—Might I explain how we have done this?

2851. Please do?—We came to the conclusion that the most profitable way of starting this was by looking at the quantities in which the chemists purchase their drugs; and in order to arrive at that as far as possible on a factual basis we asked the Drug Accounts Committee, our pricing bureau, to take out for a representative sample of 50 chemists and in relation to a short list of 30 drugs the actual quantities dispensed in two representative months. That, we thought, would give us a reasonable line on the quantities in which the chemists might be assumed to have bought. That method of approach is in fact showing some success. As I say, we took our first sample of 30 drugs, comprising 15 standard preparations and 15 proprietaries. We had the prescriptions examined by the pricing bureau, we have discussed the results of it with the chemists, and we have reached a provisional agreement with them that in relation at least to certain of these drugs our prices are overstated. The agreement is still provisional at this stage because our information is being supplemented by a questionnaire the results of which are only just coming in, but when that is completed in the course of the next few weeks we should rather hope to be able to reach a final settlement on our first group of 30.

2852. What I am still not quite clear about, Mr. Anderson, is how a preliminary inquiry into the rate of use of certain drugs gave you information about the prices chemists are actually paying?—The actual prices, of course, will emerge from the questionnaire. The line of thought was that if you establish the rate of use you can make a very firm guess as to the rate of purchase and if you compare the rate of purchase with the Drug Tariff prices you can then see how the two compare.

2853. So, presumably, you are getting in the answers to the questionnaire now or have had a lot of them in already, I suppose?—We have got a lot of them in already, yes.

2854. How long do you think it will be before you have some firm evidence on the prices paid by Scottish chemists?—I hope, as soon as we have got the questionnaire in and have been able to discuss it with the chemists, we shall see where we are on our first group.

2855. Do you think that any alterations in your Drug Tariff will be necessary as a result of the inquiries you have made so far or in the light of the pilot inquiry in England and Wales?—I think probably, yes; in fact, almost certainly, yes.

2856. So you anticipate that there will be a change in the Drug Tariff very soon, do you?—Yes.

Mr. Arbuthnot.

2857. Mr. Anderson, do you revise your Tariff list every month as Sir John does?—Yes.

2858. How did you select your 30 drugs, 15 standard and 15 proprietary?—We took the drugs which seemed to us to be in most common use, which we most frequently prescribe, and where consequently the expenditure was likely to be greatest.

2859. I was slightly puzzled by two of your answers. In the first place you told the Committee that the difference between your price and the price in England took into account the fact that the chemists in Scotland were small; and yet you said that the price of Scottish pharmaceuticals seemed to be smaller in many cases than that which prevailed in England?—No, I do not think I

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said that the Scottish prices were smaller. I did not intend to convey that impression.

2860. Do you think that the prices in Scotland are higher?—The evidence we have so far, and it is not final yet pending the questionnaire, is that over this group of 30 drugs if we were to reduce our Drug Tariff prices in accordance with the quantities in which we now assume the chemists to be buying, we should save about 10 per cent. on that group.

Mr. Collins.] I think the answer to which Mr. Arbuthnot is referring and the answer which you gave, Mr. Anderson, was that the chemists are actually paying for these drugs less than you were paying them. That is the precise answer you gave.

Mr. Arbuthnot.] Then I got it wrong Thank you.

Mr. West.

2861. Sir John, why should there be any difference between the actual cost of the drug and the Drug Tariff rate?—(Sir John Hawton.) The actual amount paid by the chemist and the Drug Tariff rate, in the cases where we have found there is a difference, is presumably because they get a discount from the firm for their purchases.

2862. Do I understand the position to be this, that you entered into arrangements with the Pharmaceutical Society recognising that you were going to pay the actual cost of the drugs, together with the additions, to the chemist?—And assuming at the same time that that is what the chemist would pay.

2863. Yes; as I understand the position you agreed with the Society, or the body acting on behalf of the chemists, that you would pay the chemists the actual cost of the drug plus the supplements?—May I just amplify that, that we would pay the actual purchasing cost of the drug embodied in our Drug Tariff and we now are finding through our inquiries that in some cases, while that is the correct paper price to pay, they are in fact getting a discount from some of the manufacturers; which means that they are being paid the full paper Tariff rate and in fact not themselves paying it, and that is the problem.

2864. But did you not in the first place when you formed your Drug Tariff rate recognise that there would be some discounts?—No, we did not know that.

2865. Did you not have any communications from the manufacturers?—No, we did not know that that practice happened.

2866. It does appear, does it not, that over the years some very substantial sum of money has been paid to the chemists in excess of that to which they were entitled?—It means that we are finding that excessive sums have been paid but, of course, whether it is over a long period of years or whether they have always been excessive is another matter, because it would depend obviously on the varying amount of drug purchases. A discount is presumably more likely to be given for big purchases than for small. (Sir Frank Tribe.) Perhaps I may say, the Treasury brought this to the notice of the Ministry as early as June, 1954, and they suggested that discounts might well be obtained on large purchases; and a year later they said they could not possibly agree to any settlement with the chemists which failed to take into account the actual prices which they paid. (Sir John Hawton.) All the negotiations with the chemists on everything to do with remuneration have been continuously checked in their progress by the fact that the introduction of shilling charges or the introduction of a shilling per item charges may alter the whole situation. We have always had these delays in dealing with chemists' remuneration. But this point now established on the inquiry we made, which took some time, will now be dealt with.

2867. Has it come as a very great shock or surprise to you to know that discounts are frequently paid in respect of drugs which are supplied by the drug houses to the chemists?—We did not know that anything of this extent was happening in these cases. First we must deal with this and then we would be interested to see how much further afield it goes. The same thing, it is perhaps not irrelevant to say, up to a point applies to the optician in buying his lenses and frames. That perhaps comes later, but we have the same problem.

Mr. Hoy.

2868. Having found out that you have been paying them so much do you intend

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to get some money back, unlike the Scottish Department who allowed the chemists to get away with £¼ million or £½ million? What are you going to do about it, follow the same bad example?—What we are going to do about it is for our Ministers to decide, but I should have thought, speaking merely as Accounting Officer, that it would be difficult to think in terms of retrospective recovery, which would be a breach of the contract made with the chemists.

2869. The chemists get retrospective payments. Why should it not work the other way?—Because we did undertake to pay them on a certain basis.

2870. Even if the basis were wrong, because you did not know of this part?—I do not want to be drawn too much into this, for obvious reasons, but I would not like to repudiate the agreed basis after the event simply because we found it could have been better.

2871. What proportion of the total cost of the ingredients in all prescriptions do proprietaries represent? Is it a large sum?—I think it is something over 66½ per cent., but I have not got the figure. May we say that and correct it if we are wrong?

2872. Certainly?—I am told it is 66 per cent. in price.

2873. That is two-thirds. You remember that last Session's Committee of Public Accounts suggested to you that if any inquiries were to be held they should cover proprietary preparations. Why did your inquiry not cover proprietary preparations?—The proprietary preparations were covered completely by the agreement reached for the voluntary price control which we announced to the Committee last year.

2874. You see, I find that a little difficult to understand. You will have seen paragraph 65 of the Comptroller and Auditor General's Report which says: "In England and Wales a pilot inquiry has been carried out covering some 30 drugs, but no proprietary preparations"?—I did answer that just now.

2875. I did not quite gather the reason?—I am sorry, the reason was that in taking 30 to start with, we felt there was a much larger field of possible over-payment in the non-proprietaries than in the proprietaries which

are usually made up in standard packs by one firm and there is a pretty established price which we usually pay. (Sir Frank Tribe.) Of course, a different view was taken in Scotland where they took 15 of each.

2876. Yes; I would like to come to that later?—(Sir John Hawton.) May I interrupt again, because on Sir Frank's remark I think it is true—Mr. Anderson will correct me if I am wrong—that they have not the standard pack agreement in Scotland which we have in England. (Mr. Anderson.) Not in the same form, no. (Sir John Hawton.) So that does alter the situation.

2877. Even so, Sir John, what I found a little curious was that even when this had been singled out by the Public Accounts Committee last year one would have thought that if you had even taken five out of the 30, and apparently you had time to do 30, five of them might have been proprietaries and that would have accorded with the wishes of this Committee?—I am sorry, I am getting a little bewildered because this inquiry must have been in progress when I came here last.

2878. It was in progress?—I think so; I cannot remember dates, but it must have been.

2879. All I can say is that you will remember that we asked for it, and I just wondered why it had not been given?—That is the reason why we stopped where we did. This is not a concluded exercise.

2880. In your discussions with the chemists and the wholesalers are you covering proprietaries and other drugs in the whole discussion?—I am sorry, which discussions?

2881. I take it that you are in the course of these investigations having discussions with wholesalers and chemists about the supply of drugs and the cost. All I want to know is, you will be discussing with them the question of proprietaries?—Oh, we discussed with them the whole of the field of drugs, but on this particular investigation the 30 were just non-proprietaries. Similarly, we chose proprietaries for the other separate exercise which produced the Voluntary Price Agreement. These things are really all part of one picture going on all the time.

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2882. So, in the course of your investigations you would be able to find out from the chemists what they were paying for these proprietaries, would you?—If we included proprietaries in another batch like these 30, then we should.

2883. In view of the fact that this Committee thought you ought to and recommended so, would you not include it?—Of course, if this Committee really thinks that there is anything like as much Exchequer interest in including proprietaries in this line of investigation as there is in including non-proprietaries, of course we shall take our usual account of their recommendation.

2884. Mr. Anderson, your inquiry did cover proprietary drugs as well as standard drugs. You took 15 of each, that is correct, is it not?—(Mr. Anderson.) Yes.

2885. Have you any information which suggests that the Scottish chemists may be making profits on proprietaries which are dispensed?—Yes, out of the 15 proprietaries that we took in our first sample the evidence to date, and may I emphasise that this is all still provisional, does show an apparent excess in the case of certain of the proprietaries as well as of the standards; but I should say, as Sir John Hawton has mentioned, the arrangement which we have in Scotland with regard to proprietaries is not quite on the same lines as the English one and there may, therefore, have been some scope hitherto for excess payments in that field. We hope to catch it up in this investigation.

2886. That was all the more reason why you should have an investigation on your own?—Yes.

2887. Did you find that Scottish chemists' profits on proprietaries were perhaps generally higher than on other drugs, or not?—I could not answer that offhand, for this reason, that until we have got the questionnaire in and the results tabulated we really cannot say.

2888. I was wondering on the samples already taken whether it has shown that. It might be interesting to know. I do not press you at this moment if you have not got it, but perhaps you will let us know?—If there is anything useful I can put in, perhaps I may do so.*

*App. 2.

Mr. Hoy.] Thank you.

Mr. Collins.

2889. On this sample of 2,370 chemists in England and Wales, could you say roughly what percentage of the total number of chemists in England and Wales that represents?—(Sir John Hawton.) I am no arithmetician but I am told it is about one-fifth or one-sixth.

2890. It is a very substantial percentage?—Yes.

2891. It should produce a very worthwhile result, assuming that you have taken a fair cross-section, large and small?—Yes. In fact, I think, to be exact on those drugs we took 20 of the more largely used drugs and 10 of the others, but we did take a fair proportion of different types of chemists. That is, the big chain members and the small members.

2892. This 14 per cent. which you have said the chemists are paying less than you are allowing them for drugs, I take it, is an average figure over the whole?—That is in respect of 24 drugs.

2893. But in the 24 that 14 per cent. is the average and that must mean, of course, that some are getting more than a 14 per cent. discount and others getting, of course, less?—Yes.

2894. Do you remember in 1956 telling me in answer to a question on this subject that it was going to be extremely difficult to carry out a survey of this kind as chemists were very loth to give information?—We did find a great deal of difficulty in getting it going but they did in fact co-operate in the end and produce the information.

2895. Do you recall that I mentioned this, that in answer to a telephone request a chemist friend of mine told me that he was getting 20 per cent. discount?—I do not remember.

2896. But in view of this average figure of 14 per cent. you would now accept that some chemists are getting 20 per cent. discounts on their purchases?—Some will be getting more than 14 and some less, and also it would be more than 14 or less on the different drugs included in the 24.

2897. But having regard to the average figure of 14 per cent. it is not unlikely that some are getting 20 per cent.?—I cannot put a figure to this.

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[Continued.]

2898. You also remember issuing us with a statement after one of our sittings giving the average profits or remuneration which chemists enjoy from prescriptions subdivided into chemists who dispense from one to 500, 500 to 1,000 and so on, and the smaller chemists were actually losing 1s. or slightly more than a shilling per prescription?—Yes.

2899. Would you say that these smaller chemists, broadly speaking, are those who are not benefiting from this concealed discount?—I am trying to think of a fair answer to that. I would not like just to say Yes or No to that, but I should say it is true; the indications are that it is the big chemist who is more likely to benefit from these discounts because of the size of his purchases.

2900. It is true in fact that there is a definite percentage discount related directly to the size of the purchase?—It is usually based on bulk purchase.

2901. If they buy 100,000 aspirins they get 20 per cent., if they buy 1,000 they get nothing?—And if that is the system, in any case obviously it would point to the bigger purchaser or bigger chemist being more likely to benefit from it.

2902. Do you recall that we have expressed concern about the position of these small chemists, who are very likely to be in small communities, losing money in this way? Have you any evidence to suggest since this matter was raised that any of these small chemists have gone out of business?—I have not any evidence on that at all.

2903. In view of the result of this inquiry that you have so far, are you giving consideration in any further arrangements you may make with the chemists to any modified form of differential payments which would assist the small chemists?—That would be a matter for general examination and discussions.

2904. You are not excluding that, though, are you?—I do not exclude anything from discussions of this kind.

2905. If it was found necessary you might adopt such an expedient rather than fix the general remuneration so high that it made extravagant profits at the top?—That might be an expedient

to adopt but I should not like to go on record yet as saying that we would like to adopt it, because we do not know enough facts.

Chairman.

2906. Paragraphs 67-69. From paragraph 69 it appears that your 1956 questionnaire was not particularly effective in that you have no information about income and only very partial information about expenses of opticians?—We abandoned the original one, as you know, Sir, as I think I told you last year, because it was a failure. We have adopted the other as a simpler one, but I should not, with great respect, agree with the Report which says that it is, in effect, of no value. What it is giving us is a general picture of the overheads of opticians chosen as being wholly or practically wholly engaged in optical work. We get then a general picture of their overheads, which we may assume are £X for a given optician with a certain number of assistants. We then have the old Penman Report about the length of time spent sight testing and dispensing, and we then have to work out on the Whitley Council and negotiate a settlement which, bearing in mind what their overheads are and what the items of service which can be got into a full-time day under different conditions are, will produce a reasonable income. In fact, I think we have got a fairly good simple method there of arriving at a basis for negotiation.

2907. You feel that you can estimate what the income of opticians is from the information you have got?—We can get what his overheads are. We can then balance that against how much work he is doing, if he is full time, what sort of a day should he have, how long should each sight test take and how many can he be expected to get in. We have got information from other sources on that, the Penman Report. We think we can on that negotiate a reasonable figure.

2908. Are you finding the opticians recalcitrant in providing you with the information you require?—No. The Whitley Council to get down to this is meeting in a fortnight's time.

2909. Will the Whitley Council investigate opticians' expenses or will they have to work on such information as you have been able to get?—They will

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[Continued.]

work on the information which we have got from this questionnaire plus the information about the time it takes to do the various operations of an optician and then there will be thrown into the negotiation, and there would have been anyway even if the full questionnaire had been completed, a number of unknowns which have got to be based on argument and assumption, things like proper rates of profit and a whole list of others.

2910. The rate of profit is surely one of the things you are negotiating about, not a factor to be taken into consideration in the negotiation?—It will be one of the things which has got to be done and my only point is that it still would have had to be done if we had had the other questionnaire.

2911. Was your 1956 questionnaire as full as the 1954 questionnaire?—No, that was the whole point of it, it was simpler.

2912. By "full", I really meant, would it give you the basic information you require?—It gives us the information we think we need to enable the Whitley Council to settle this. It does not give as much information, as the Comptroller and Auditor General said, as the other earlier one would have given.

2913. Would it give you the information you really need?—I think so.

2914. You think it does?—Yes.

2915. You do not think you are going into this Whitley Council negotiation inadequately prepared?—No, I think we have got enough information there to have a successful negotiation.

2916. Mr. Macpherson, what is the Treasury view on this?—(Mr. Macpherson.) On the subject of the questionnaire, Sir, we agree that the earlier questionnaire should have given better results; but it was obvious from the returns that we were not getting sufficient replies to give a worthwhile result, and we therefore acquiesced in the simpler form in order to make some progress.

2917. Do you agree with Sir John that the simpler questionnaire has given you a worthwhile result?—We accept that and we have agreed the basis on which the Ministry have now gone forward in

the negotiations which I understand are going to be resumed on the 15th of this month.

2918. You are satisfied that the Ministry are adequately armed for the negotiation?—Yes.

Mr. Collins.

2919. Sir John, when you received such a small proportion of replies from the 1954 questionnaire did you approach the professional organisation of opticians to inquire as to the reasons?—(Sir John Hawton.) We were in touch with them all through and it was quite obvious we were not going to get any more.

2920. To what reason did they attribute the meagre result?—They said that they were hearing from all those who had received the forms that it was much too complex and difficult a form to fill up accurately. In other words, if they had tried they might have put down just anything, which would not have been of any use.

2921. By inference, in view of the revisions in the next one you accepted that explanation as reasonable?—We were advised by statisticians that that was a fair sample and fair basis to attempt.

2922. Now, the satisfactory questionnaire produced 1,400 odd acceptable returns out of nearly 2,600. Do you regard that as satisfactory?—We are advised by the experts that in this case that is a satisfactory cross-section.

2923. Is there any reason why you should get a 65 per cent. return from opticians and an 87 per cent. return from chemists and you regard both as satisfactory?—I think the opticians' one is a much more difficult one to complete.

2924. Even for professional men?—For a busy optician, yes.

2925. I will not argue that one. Has it occurred to you that this not overwhelming number of returns might have been prompted by reluctance to reveal the particulars you asked for?—Naturally, that rather cynical thought occurred to us, but we were still left with the situation that we could not enforce the return and therefore it is better to have a return that is useful than to have a complex return the results of which are worthless.

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[Continued.]

2926. In paragraph 68 Sir Frank points out that agreement has not been reached despite full exchange of views and that the possibilities of separate agreement appear to be exhausted. Does the last sentence in that paragraph mean that when you have got the information, when you have decided what is fair, you are going to tell the opticians' side that this is what you are prepared to do?—Well, I do not want to prejudice negotiations. At this stage we have got much nearer them and we have got—when I say “we” of course I do not mean the Ministry as such, I mean the Whitley Council management side, technically—have got proposals covering the whole field as a result of all this. They have been put to the opticians and they are going to be discussed in 14 days time. I would rather not prejudice the result by saying what will happen if that breaks down. I hope it will not.

2927. So you are not convinced that the possibilities of mutual agreement have been exhausted?—Oh, no, I am not convinced of that at all yet.

2928. You are hopeful, in fact, of the opticians' side accepting what you regard as a fair sight testing and dispensing fee judged on the result of your investigations?—I am hopeful that the result will be a solution which both sides feel to be fair.

Mr. Hoy.

2929. Mr. Anderson, are the Scottish opticians included in this figure that is given?—(Mr. Anderson.) Yes.

2930. What was the sample taken from Scotland?—The questionnaire was sent—this is the 1956 questionnaire—to 244 opticians in Scotland, 131 of whom replied, and 122 of those were effective.

2931. That is just your Goschen formula comparing with the English counterpart. It works out very accurately, does it not?—It was intended to be a fair sample.

2932. One would have thought the Scottish opticians would have shown a little more intelligence. May I ask you about the 1954 one, then? What was the sample taken from the Scottish opticians in 1954?—83 opticians, 18 replies and only 14 useful ones.

2933. After all, it is not the Health Department which is looking for an in-

crease, it is the opticians who are wanting an increase. When they are so dilatory in supplying the information do you begin to have a doubt that may be they have been overstraining their case?—Well, the suggestion they made, of course, was that the questionnaire was too complicated, and it certainly was a very full one. I think it is difficult to guess what their motives may have been. On the face of it it seems a reasonable explanation.

2934. But, Mr. Anderson, supposing the Scottish Department sent out an examination paper for the 11-plus and the pupils sent it back and said “This is too difficult” and you sent out another one which made it more simple, you would not regard it as a very fair test of what you wanted to find out, would you?—Well, in this case the simpler examination paper has produced results which we think are reasonably satisfactory.

2935. Not fully satisfactory?—Well, as near to it as we can get in this imperfect world.

2936. It is difficult to understand that, if that is true. Then, one would not have sent out the original paper which you thought was a paper which would give you the accurate return. It is very difficult to square the two of them?—Well, we may have been a little over-ambitious on the first one.

Mr. Arbuthnot.

2937. Sir John, a Health Service patient is required to pay certain charges to the optician supplying his glasses?—(Sir John Hawton.) Yes.

2938. What do the charges cover?—He pays the whole of the cost of frames and he pays 10s. for each lens.

2939. Is there an adequate choice of frames supplied under the Health Service?—There is a fairly good choice supplied under the Health Service, but there is a growing practice recently of supplying the Health Service lenses in private frames which, of course, makes no difference to the Exchequer because the purchaser pays the full cost of the frame anyway.

2940. Is the permitted charge for a Health Service frame supposed to cover its cost without any profit to the

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[Continued.]

optician?—Well, that comes in the dispensing fee. You said “profit.” The cost for the frame itself is simply meant to be what he pays for the frame without any other element added.

2941. I think you said that if the Health Service lenses are supplied in other than Health Service pattern frames the optician still receives the same dispensing fee, is that correct?—Yes, that is true. I was just wondering if I ought to qualify it. That is true at the moment, but it is one of the things which we do not necessarily think should continue; and that must be part of the negotiations starting in a fortnight as to whether there is any case for a different fee in such a case.

2942. Can the optician charge what he likes for private pattern frames?—He charges what he can get, I suppose.

2943. So you have no say in what he charges for the private pattern frames?—No.

2944. So that, in effect he would be able to make a pretty considerable profit on private pattern frames?—That is why that must be one of the factors to be taken into account in deciding the settlement with the opticians which we are about to discuss. One of the factors must be whether the very point you make should be taken into account.

2945. In view of the possible, not to say probable, extra profit, would you consider paying a lower dispensing fee for glasses if they are supplied in private frames?—That is what I meant; that is one of the points that may have to be considered.

2946. You would consider doing that?—It all will go in the melting pot in this discussion.

Mr. Stevens.

2947. Mr. Anderson, what is the Scottish practice with regard to privately supplied frames? Is it the same as the English?—(Mr. Anderson.) Just the same.

2948. And that is also under discussion at the present moment?—This is a Great Britain Whitley, so the discussion will cover both countries.

2949. What is your view with regard to the extent to which private practice should be taken into account in these matters? From the reference in the middle of paragraph 68, that is one of the items at the moment under discussion. What account if any should be taken of private practice? Have you any views on that?—Yes, I think this is one of the points which may well have to be looked at in the Whitley discussion, but it is difficult to be too specific until we have really got into it.

2950. I should know this, no doubt: is the Treasury taking part in these discussions, too?—(Mr. Macpherson.) The Department and the Ministry discussed the terms of the offer which has been made and which is to be discussed on the 15th April. We agreed the terms with the Ministry.

2951. Could you say now if the Treasury have any views about the level of fees when private frames are supplied?—We certainly endorse, as Sir John has indicated, this suggestion that there ought to be a different dispensing fee where the frames are supplied privately as distinct from under the Service. That is an integral part of the proposal that has been put forward.

2952. Sir John, I believe you had an accountant investigating chemists' costs several years ago?—(Sir John Hawton.) Yes.

2953. Have you done the same thing with regard to opticians?—Not in the same way, no. This return and all the information we are getting is going to enable us to reach a settlement this way.

2954. Would you not have been given more information if you had done accountancy investigations?—Well, this is really taking us back to the more detailed questionnaire which broke down. That would have produced more information than this one does.

2955. I believe the opticians are asking for an increase, are they not, or are you asking for a decrease?—They put in a claim in 1952.

2956. Why do you consider a claim at all until they have provided you with the information you require?—That will be the main onus put upon them when they discuss in Whitley.

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[Continued.]

2957. So that, unless they provide you with full and adequate information you would just refuse a claim, is that it?— Unless we are quite clear from all sources that there is a case we should refuse it; and indeed we might even go the other way if we were satisfied there was a case for a reduction.

2958. You can always get the information you require by reducing their fees by 10 per cent. this year and 10 per cent. next year?—We did quite a lot of that kind of thing at the beginning of the Scheme when I think it was necessary, but arbitrary action of that sort is not

now in this development of the Scheme I think to be preferred to negotiation.

2959. When your questionnaires are not answered I think you are entitled, surely, are you not, to take, shall we call it, disciplinary action?—The one we are basing our proposals on now has been answered.

2960. You are satisfied?—Exactly, like Mr. Anderson, I am satisfied that, bearing in mind that we could not enforce the earlier questionnaire, this one gives us quite a reasonable basis to work on.

TUESDAY, 22ND APRIL, 1958.

Members present:

Sir George Benson, in the Chair.

Mr. Arbuthnot.
Mr. Collins.
Mr. Hoy.
Mr. Peyton.
Mr. Ramsden.

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

Sir FRANK TRIBE, K.C.B., K.B.E., and Mr. J. MACPHERSON called in and examined.

TREASURY MINUTE ON PARAGRAPHS 66-68 AND 69-72 OF THE
THIRD REPORT OF THE COMMITTEE OF PUBLIC ACCOUNTS.
1956-57.

Sir EDWARD PLAYFAIR, K.C.B., Permanent Under Secretary of State, War Office, called in and examined.

Chairman.

2961. Will Members turn to the Treasury Minute on paragraphs 66-68 of the Third Report of the Committee of Public Accounts? Sir Edward, what progress have you made in this attempt to make your Forces cost-conscious? —(Sir Edward Playfair.) I told the Committee last year that we were going to start by setting up a Committee on Army administration. That has been set up under the chairmanship of General Sir Robert Mansergh. It has started work and is doing much of value for Army administration generally. I have asked them to look into the particular question of cost-consciousness. We started by presenting them with two possible methods of attack about which we were not hopeful, but which we felt as a matter of conscience we had to try, that is to say, costing the operations of a unit, full costing and a kind of half-costing. They gave us the answer on that which we expected, that it would not help us in our aim because it would throw a great deal of work on the unit, it would be manifestly out of proportion to the results produced and was, in effect, a misuse of commercial methods on a non-commercial problem. They have since sent us a series of suggestions which came in only last week and which I am having examined. They believe that there is quite a lot that can

be done in this connection by the ordinary means of education, leadership and discipline. They suggest that there should be a certain number of quite short courses for officers and, above all, that it should play a regular part in the training of officers in the ordinary way including, in particular, the Staff College. They suggest that we should work out in the War Office, without burdening units, a certain amount of well-chosen and well-presented information so that people should know not only what their particular operations are costing but that they should know what the cost of the Army is as a whole and how it relates to the national income and national expenditure. They have also made, I think, two very wise suggestions, one, that any campaign of this kind is doomed if it comes from my civilian department; it must go down the military channels if it is to be of any effect, and two, that we should avoid the use of the word "cost-conscious." I think they are both good points. I should hope that within a year we should be seeing some results.

2962. I think the Committee had in mind the education of the people who were handling valuable material?— That is what I meant by the units. This is all directed to the regiments and the battalions, who are handling the stuff themselves.

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[Continued.]

2963. And the privates?—From the Commanding Officer down, but this is going to be aimed at the soldiers, the other ranks.

2964. Paragraphs 69-72, Control of Works Services. These are questions directed to you, Mr. Macpherson. I see it is proposed that, in future, major services should be defined as costing more than £30,000 as compared with the present definition of £10,000. Why do you propose that it should be raised to this figure?—(Mr. Macpherson.) The £30,000 is the figure at which at present the Service Departments are required to come to the Treasury for authority, which is a higher figure, as you know, than the £10,000 on which the division is made in Estimates. But this difference has existed for some time, I think, since shortly after the war. We felt that for this purpose £30,000 was the proper dividing line rather than £10,000.

2965. It means, of course, that the Departments will be able, without any Treasury consultations to start works up to £30,000?—They have been able to do that for a long time. They did not need to come to the Treasury up to £30,000, since the late 1940s.

2966. Does that mean that the Comptroller and Auditor General will have no advice as to the items up to £30,000?—He will have no advice in the sense that he would not have a list, but I understand that that information is available to the Comptroller and Auditor General; in fact, one of the items to which he referred last year was an item actually under £10,000. But I know of no difficulty in Sir Frank getting this information from the Department, if required.

2967. He will not be advised of it?—He will not be advised of it, according to this proposal.

2968. I presume that you regard the control of the Finance Branch of the Department as adequate?—It is a recognition, Sir, of what has been the existing practice. So far the responsibility for justifying those new projects under £30,000 as being urgently necessary in the public interest has rested with the Service Department.

2969. Do you propose to schedule items under £30,000 in the Estimates

or not, or will £30,000 be a limit?—That is something, as you know, Sir, that was considered by the Select Committee on Estimates some years ago and by the Public Accounts Committee, and at that time the Select Committee on Estimates asked that we should stick to the £10,000 figure; but we are at the moment with the Service Departments considering the question of the level of delegation for major works services, and it may be as a consequence of that that we may make proposals for amending the existing level of £10,000 in the Estimates. But that is something on which in the normal way we will consult the Estimates Committee and the Public Accounts Committee.

2970. What about the Civil Departments? Is this £30,000 going to apply to them also?—At the moment the position with the Ministry of Works is that they show their major works in Estimates at £10,000 although they have Treasury delegated authority up to £30,000.

2971. Sir Frank, are you satisfied with the new proposals?—(Sir Frank Tribe.) Yes, I think so, Sir but I think the Committee should realise what is involved in this. I shall not under this scheme have details given to me of works costing less than £30,000 and no ready means of checking up as to whether, on items under that amount, the War Office are spending savings on other services not provided for in the Estimates on items which they consider to be essential on grounds of urgency in the public interest. It may be that I might be able to pick up one or two cases such as Mr. Macpherson has just mentioned, as I did last year; but I certainly could not give the Committee any guarantee that I should be able to pick upon minor items below £30,000 which had been treated in this way. I think the Committee should realise that before the war this figure was £2,500. After the war it was raised to £10,000 and it still is £10,000, as Mr. Macpherson said, in the current 1958-59 Estimates. I think this is a matter on which the Estimates Committee should be consulted, because it seems to me desirable on the whole that these two figures should coincide; in other words, the definition of what is a major Service should be uniform as regards the Estimate and as regards this list which is to be sent to me. Subject to that, and subject to the agreement of the Estimates

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[Continued.]

Committee, I feel myself that when you are dealing with a subhead on a Vote of about £33 million, £30,000 is not an unreasonable figure to have as a major work; and that if you go down to £10,000 it does mean that you have a large number of comparatively small items which I think should be delegated to the discretion of the War Office, providing the War Office can give the Committee an assurance that the exercise of power in regard to these works of urgency is controlled by their Finance Department and not entirely left to the units.

Mr. Hoy.

2972. If I remember rightly, Mr. Macpherson, was it not garages we dealt with last year as being urgent work?—(Mr. Macpherson.) That was the case I referred to and that was an item costing less than £10,000.

2973. I think we should want some assurance that it was not items such as that which were regarded as being urgent. The other question which suddenly struck me was with regard to minor repairs. We had a long list through the University Grants Committee of people who were spending £25,000 and nearly up to £30,000, not quite £30,000, on what were described as major repairs. Do you not think we would want some better guarantee than that for a sum costing up to £30,000?—I do not know if Sir Edward has anything to say on this, but the Departments are governed by the Treasury Minute of 1953 and have the responsibility in the field for which they have delegated authority for deciding whether a particular project meets the criterion then laid down, and I have no reason to think that the Service Departments do not so treat those projects. (Sir Edward Playfair.) We propose to be guided by the same principles that we get from the Treasury.

Mr. Collins.

2974. Has the question of cash been the only criterion considered in deciding whether something was a minor or a major work? Without being facetious let me put it this way: minor repairs have been mentioned. If minor repairs totalled over £30,000 would they be a major work?—I am, frankly, a little flummoxed by this case, which is outside

my experience. I am quite certain that minor repairs as we know them in the War Office could not equal £30,000. They would just define themselves out. I am not quite sure what this university case is. We tend to have a system by which, if there are a lot of things at the same time, they are lumped together in a programme and form a service; so that you cannot just add up an infinite number of the same things in the same place adding up to £30,000, all counting as small ones.

2975. Could you, Sir Frank, give us any approximate idea of the relationship between the pre-war cost of works of this kind and post war? Is it three, four or five times as much?—(Sir Frank Tribe.) I have not got any accurate figure, but I should have thought it was quite three times.

2976. About three times. So in real terms we are in fact talking about something which is £10,000 or less than £10,000 in pre-war terms?—Yes.

Chairman.

2977. You are perfectly satisfied that your Finance Branch has got adequate control, Sir Edward?—(Sir Edward Playfair.) Yes, Sir, I certainly am at the present moment, but I ought to say that we are introducing a completely new system, as you know, which is not yet under way. (Sir Frank Tribe.) May I just say, I am not certain whether I am right in saying three times compared with pre-war. I was really thinking of three times compared with the immediate post-war period when the figure was £10,000, and I should have thought on the whole costs have gone up pretty well three times since 1945.

Mr. Collins.

2978. They would be five or six times then, compared with pre-war?—Pre-war, yes. I have not any figures about pre-war.

Mr. Collins.] I was thinking of the pre-war figure of £2,500. The difference is not so great in real terms.

Chairman.] No, I think from the point of view of real accountancy we must also take into consideration that we were spending £700 million before the war, and we are now spending £5,000 million.

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[Continued.]

ARMY APPROPRIATION ACCOUNT, 1956-57.

Chairman.

2979. Will Members turn to the Army Appropriation Account, to paragraphs 16-18 of the Comptroller and Auditor General's Report: "Outstanding Claim for Vehicles, &c., supplied to Malaya and Singapore". With regard to this £325,000 which apparently the Federation Government received from sale of War Department vehicles, what progress are you making in collecting that money?—(Sir Edward Playfair.) What we are trying to collect is the £463,000 mentioned at the beginning of paragraph 17. That is the claim due to us, and I regret to say we are making no progress. It has been a most frustrating business in which we have gone round and round in circles and got back apparently to exactly where we started. Right at the very end we discovered by pure chance that this sum of £325,000 existed which ought to have been reported to the Colonial Office if it is what it purports to be; and it ought to have been paid in, not to the War Office, but to the Treasury as Exchequer Extra Receipts under the arrangement, but it is pure luck that we found out about it. When we made this claim Malaya, which acted on behalf of both Governments, first denied the thing in principle and then they shifted their ground and queried the details. Then they proposed a compromise offer and finally they said that our claim was a good one and they would go back and get the Singapore people to do likewise. When they came back after a long delay they denied the whole thing all over again on the grounds of principle from which they had started. Then their financial adviser went sick, then they had Merdeka and we are absolutely nowhere on it. It has been extremely frustrating but we have been at them all the time, with the Commonwealth Relations Office helping us. Meanwhile, we have discovered this sum of £325,000, in the course of conversations, which they are holding back and would like to use as an offset, but that is really separately due now. It is not a claim for which the War Office is responsible though we know about it because we found out about it. The Commonwealth Relations Office is still reminding them.

2980. It is a bit difficult when your debtors refuse to pay on the grounds of high principle?—Terribly difficult, Sir.

Mr. Arbuthnot.

2981. Why was it pure luck that you found out about this £325,000?—It is this way, Sir: the agreement with Her Majesty's Government said that they could keep M.T. vehicles acquired before the date of the handing over of the Civil Government, but if they sold any then they should account to us for the proceeds. They did sell some but they did not account to us for the proceeds. They put it away in a suspense account hoping to use it in these negotiations, and it was just in the course of a happy conversation that we discovered the existence of this sum which ought to have been reported but was not.

2982. Have you got any mechanics so that in future discoveries of this kind will be made by system rather than by luck?—As between Governments there can be no mechanics but only the hope of good faith. This is the action of a separate Government.

2983. So it is considered bad faith on the part of the other Government?—I think I would put it as carelessness because they were all at sixes and sevens; they ought to have reported it and did not.

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Chairman.] Paragraphs 19-22, Welbeck College. I have no questions.

Mr. Hoy.

2984. Sir Edward, have you any comments to make on the increasing costs of this College, which in 1956-57 averaged £659 per student?—Yes, if you will allow me. There are two points about this. The first to bear in mind is rising costs over this period. The second is the nature of the original estimate which we made. Costs have been rising all the time, and if you compare it with the original estimate which we made of £60,000 a year, the cost of staff which was, of course, an important element, is now slightly below the 39 per cent., roughly, that teachers' salaries plus the ordinary labour have gone up during that period. Heating and lighting we must have over-estimated, because they have hardly gone up at all. Where we have gone wrong is unquestionably on the maintenance of the building. We were far too optimistic at the start—much too

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optimistic. The figure which we put in the original estimate was £10,000 for that. The 1956-57 figure, which is almost certainly a peak figure, is £23,100. The first preliminary account which we have got from the Ministry of Works of the 1957-58 expenditure is £17,000. I suspect that that is too low and will increase, but we expect to come down, once we have made up the backlog, to a figure of about £18,000, perhaps, a year which compares, if you take the original £10,000 and add perhaps 30 per cent. (I have not a precise index for building prices) with, perhaps, £13,000. The answer, of course, is that this is an expensive building. If you look at the figures per student which are undoubtedly high, as we always knew they would be, I think they are high for the following reasons: one, we had to get a good and attractive school to attract the kind of people we wanted to get, to wit, the scientifically minded products of the grammar schools and secondary modern schools in the North of England and Scotland who have got plenty of other attractions. So, we went, as my predecessor told this Committee, for a pretty good house, knowing it would be rather expensive. The next point to make is that it is a small school, it is 150 boys and it is for two years only, which is 16 to 18; a high staff ratio is therefore necessary; and it comes out, therefore, a good deal more expensive. Finally, I have not been able to get any genuine comparative figures as boarding schools are not very willing to come up with their true figures of cost. This covers more, of course, than any school fees which you will see because we cover practically everything, but I am quite sure that one of the big things in this is the fact that not only have we got an expensive house but we have had to buy a house after the war, and most schools have pretty well written off their major central buildings. But I am not going to deny that we were at fault in making a far too optimistic assessment of the cost of maintenance of the building.

2985. Who were your advisers?—The original estimate was produced by our own people with the help of someone in the Ministry of Works, but they produced the figure of £60,000 in a hurry, which is always a rash thing. It was then put forward to us as being a very

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rough assessment. It was put forward to the Treasury as being a rough assessment and it has since come to have more and more value attached to it. Then the Ministry of Works went in to the building, and I should add, incidentally, that as a mere matter of accounting that adds 12½ per cent. at once to our costs, because normally speaking if one does one's own works by the usual financing rules one pays one's own overheads, but, of course, we pay agency charges to the Ministry of Works. They have done it very well, but they have done it very thoroughly, it is a large building and there was a backlog to do. Incidentally, I do not want to over-rate this, it is not a very important point, but over the years perhaps £20,000 to £30,000 is work which otherwise would have had to be done as dilapidations because we were in occupation before, but it is not a central point. We have now pretty well made up the backlog and it should come out cheaper, but we always knew this would be an expensive way of getting officers and its justification is that it has produced extremely good results.

2986. You say you had difficulty in making a comparison of costs. Mr. Macpherson might be able to tell us: what is the average cost of the scholarship schemes run by the Admiralty and the Air Force?—(Mr. Macpherson.) I am sorry, I do not have those figures.

2987. Do you have them, Sir Edward?—(Sir Edward Playfair.) I should have the figures of cost; I have some details here. I would say, in my own view, there is no question about it, they are much cheaper, but we do not believe they would have got us the people.

2988. Have you anything, Sir Frank?—(Sir Frank Tribe.) Yes, I have some figures here. Of course it is a different scheme. The Admiralty and the Air Ministry have scholarship schemes for attracting candidates for commissions under which they reimburse tuition fees at the boy's own school up to a maximum of £100 a year and in addition make maintenance grants according to means within the limit of another £100 a year. I am told that in 1956-57, which is the year corresponding to the £659 here, the cost to the Admiralty was £126 and the cost to the Air Ministry was only just over £100. The Secretary of State for Air told the House in March of last year that since the Air Ministry

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had introduced that scheme there had been a marked improvement in the quality and numbers of general duties cadets entering Cranwell. So it appears that the Air Ministry are quite satisfied with their scheme, which is only about a sixth of the cost of the War Office scheme. (Sir Edward Playfair.) Yes. We do not, on the other hand, believe it would have produced us the product we were trying to get which was a slightly different type, not general duties but the scientific types for scientific services. We have a much larger recruiting problem, of course. The advice we got was that we had pretty well drained at that time what we could hope to get from the traditional sources, the traditional military schools who produce the finished product. It was up to us, really, to try to create a new source of them, hence this experiment.

2989. In as much as this is costing you about six times as much as any other Department, do you think this scheme has been justified? Do you think it ought to continue?—Yes, we certainly do. We think we are getting in relation to total Army expenditure an entirely invaluable product which we doubt whether we would get otherwise.

2990. The lease which is now under negotiation for this College would extend for another 30 years, I think?—Subject to breaks; the first break would come in 1960.

2991. Do you think that by 1960 you will not require it any longer?—Yes, Sir, we undoubtedly do.

2992. You think you will require it?—Yes, unquestionably.

2993. Do you think you will require it for another 40 years?—I do not know, I cannot look as far ahead as that, which is why we have seven-yearly breaks in the lease.

2994. In view of these figures, Sir Edward, I think you might think it over?—Yes, but please think of the product too.

Mr. Hoy.] Oh, yes.

Mr. Collins.

2995. Does this cost, Sir Edward, include any amortisation on this £165,000?—No.

2996. Do you normally spend as much as that on a property of which you have

no enforceable legal tenure?—I do not think I would like to answer “normally”, Sir. We have, in fact, had five years’ tenure. We could not be turned out for another ten years and I would take an ordinary commercial guess that the Duke would be very unlikely to wish to turn us out, so I regard this as a necessary, and I think on the whole, a good risk.

2997. What is the difficulty, then, in agreeing on another lease? Is there difficulty about the rent or conditions?—Conditions. It has been an enormously complicated process in which I hope that the very last steps are being carried out this afternoon. You know how it very often is, that people are not under any very great sense of hurry. Their lawyers have taken it slowly; they want to get every detail tied up.

2998. Yes, but if you were turned out in ten years’ time there would be an extra £16,000 a year cost on the course, would there not?—Yes, true.

2999. Which would add something like £200 a year to the cost of training a student. Do you not think as a matter of principle it is most unwise to enter into large scale expenditure until you are sure of tenure, either through acquisition or lease?—I think we might be blamed if we did not have a break and we are not likely to have a break going only one way. We have taken it as a lesser risk to have a break clause. We have suffered sometimes through not having break clauses.

3000. In paragraph 21 of the Report the Comptroller and Auditor General mentions that 16 of the staff of 20 are qualified teachers. What are the other four who are not qualified teachers?—I think they are people like physical culture staff.

3001. Physical training?—I think so. I am sorry, I have not got the exact answer. May I correct it on the note if I am wrong? (Sir Frank Tribe.) I have it, I think. They are workshop and lab. assistants and one skilled labourer.

3002. With all respect, it mentions the present establishment of 67, which includes 20 teaching staff of whom 16 are qualified. The other four must be teaching staff?—(Sir Edward Playfair.) I think that is right.

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3003. They would not be lab. assistants?—Oh, teaching labs. (Sir *Frank Tribe*.) They are assistants to the teachers in the workshop and laboratories.

Mr. *Thornton*.

3004. Did I understand you, Sir Edward, to say that the estimated works maintenance cost would be £10,000 per year and that is working out at about £17,000?—(Sir *Edward Playfair*.) It was originally estimated at £10,000 and it is going to work out at £17,000 in 1957-58. That is a rather low figure. It is a provisional one and I think it will come out to be rather higher.

3005. I see from paragraph 20 that the estimate for parental contributions was taken at £5,000 which I think is about £33 per student. Has that estimate been pretty accurate?—It is a lot higher now. It is about £8,000.

3006. So, that makes the estimating rather worse if the income is more than anticipated?—Yes. It should be said that that figure of £5,000, the original one, was made at the beginning of 1952 as a pure shot in the dark, and they said so.

3007. This establishment of 67 to 150 students seems rather high, does it not?—The teaching staff is not high.

3008. No, I am not saying the teachers, the non-teachers?—The rest of it is partly a phenomenon of the house, the size of the house and grounds.

3009. Could you tell us how much do the boys do in the way of servicing themselves, making their beds, shoe cleaning, waiting at meals, and so forth? Are all those services provided for them?—I cannot give you that. I can give you a note on that.* I do not know offhand how much they do themselves in that way. I take it they do it by the ordinary standards, which is a good deal.

3010. It seems to me a very big non-teaching staff ratio, 47 to 150?—When you take into account the house and grounds which require some keeping up, I think it is justified. It was certainly and quite recently passed as justified by our own people, accompanied by a representative of the Treasury.

3011. How have the staff costs worked out in relation to your estimate?—They

*App. 10.
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have almost exactly gone up by the change in wage and salary rates—slightly below.

Sir *Colin Thornton-Kemsley*.

3012. Sir Edward, the works maintenance costs which you have given the Committee, which you hope will come down to about £17,000 in 1957-58, are for purely structural maintenance of buildings, are they?—Yes, they are. There is a separate figure for maintenance of equipment, about £3,300.

3013. Could you explain why they should be so high in 1956-57, about £23,000, the next year £17,000 and you hope it will be about £18,000 a year?—I think that £17,000 is probably an under-estimate, and it will turn out when we have got the final figures to be rather higher. To some extent it is a question of particular works shifted over from one year to another which accounts for the rather sudden drop, but to a large extent it is a question of backlog. What we have been doing over these years has been to some extent deferred maintenance which was put off during the wartime occupation of Welbeck Abbey.

3014. Repairs to the roofs, and that kind of thing?—That kind of thing.

3015. Can you give the Committee any sort of figures? £18,000 a year seems an enormous amount, settling down to that figure, because presumably that is after the backlog has been made up, is it?—Well, it is a very enormous building, that is one of the troubles about it. I can certainly, I think, give further details of the kind of thing. What we have been doing recently are things like repairs and repointing to a library, relining a swimming pool, repairing an external corridor, asphaltting gutters and drainage, asphaltting the boys' common room, and cement renderings to a semi-underground building, a strange product of the last century.

3016. Is this done still by the Ministry of Works for you?—Yes, it is.

3017. And there would not be advantages, you think, in doing it yourselves?—The Ministry of Works have considerable experience of looking after large houses of this kind, more than we have. I should hesitate to form any view or to make any change when we are just changing over our whole works organisation. That is something,

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I think, which will come up for review in the ordinary course when the new reorganisation is in hand, but I do not wish to imply by that any dissatisfaction with what the Ministry of Works are doing for us; it is very heavy work.

3018. Sir Edward, have you compared the Welbeck staff and student ratio and running costs with those, for example, of some of the public schools?—The teaching staff, yes. They are a little high, but there is not a very direct comparison because Welbeck only has boys of 16 and 17. I can give you a few figures for boarding schools, covering the whole school career from 11 to 18. The average for a dozen public schools is one to twelve. The words used by the Ministry of Education when we asked them were that our ratio was "generous but not lavish." The neighbouring Worksop College, which is the nearest boarding school, is 1 to 10.5. The range is between Llandoverly College, which is 1 to 10, and Eastbourne, which is 1 to 14, but all those cover the usual range of 11 to 18.

3019. What is the maximum contribution that well-to-do parents are required to pay?—£30.

3020. £30 a term?—Yes.

3021. Three terms a year, £90?—Yes.

3022. Why do you not get higher contributions than that?—It is a point which the Treasury have recently made to me, Sir, and we are going to look at it again. I think there may be grounds for putting up the upper limit with the rise in prices and everything to which I have been referring, but we are very anxious not to frighten people away from our school. There are plenty of other things for these boys to do in the North and in Scotland and we do not want to make it in any way unattractive and, therefore, before agreeing to do it, it is something we want to discuss with our Board of Governors who are going to look into it.

3023. With well-to-do parents the boys would still be at school; they would in fact be at other public schools?—"Well-to-do" is only a comparative term here. The children of the very rich do not come to this place. What we are after is people of medium income. We are not here concerned with

the children of the poor because we would not ask them to give any more, it is the medium people, the bright boy from the grammar school, we want to catch who might be going off to earn or to go into an apprenticeship or to go to a technical college or to train further for a university. Those are the people we want to get.

3024. Whatever the means of his parents you are not asking them to pay more than £90 a year?—No.

3025. What is the Treasury view about that, Mr. Macpherson?—(Mr. Macpherson.) As Sir Edward has said, Sir, this is a point we feel we must go into with the War Office in seeking an increase, particularly in the higher bracket, which we do not think on a rather inadequate knowledge at this stage will really chase away the parents in that group. We are perturbed about the overall costs at Welbeck and this is one of the points we have raised with the War Office as a means of trying to reduce the net cost.

Mr. Arbuthnot.

3026. You say that you fear if you raise the cost there is a possibility that you may frighten away potential candidates. Do you think that if you provide something to the parents on the cheap it is going to be more appreciated or less appreciated?—(Sir Edward Playfair.) Well, judging as one who had a very generous scholarship at school, more appreciated.

3027. Do you see any end to these maintenance costs?—No, Sir, I do not. As I say, I hope we shall settle down at about £18,000 or thereabouts; that is the advice which we have had. I should be just misleading the Committee if I suggested we could wish them away.

3028. What I do not understand is what this school produces for you that you cannot get from the public schools?—More officers and, particularly, more officers with scientific qualifications. We are short of officers. When Welbeck was founded the R.E.M.E. was short by about half the officers needed. Of course, it is far too early to say what difference this will make because only two generations have come out through Sandhurst from it. They have done very well and they are meeting our wishes. They have done better in quality than the well-known public schools.

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3029. Is there any undertaking on the part of the student that he will go on in the Army?—No. You cannot get an absolute undertaking, it is up to us to see that they do not drift way. We have actually had practically no cases of falling by the wayside. I leave apart medical and compassionate grounds, of which we have had two cases coming out of Sandhurst.

3030. So you are, in fact, providing an expensive scientific education at public expense for somebody who may well decide that he does not want to go on in the Army and wants to accept some of the attractions in industry instead?—That is a risk you have to take, Sir, in the knowledge that if we had not given him this he would have got it out of the State at a university, probably. It is our belief, and so far justified belief, that it is an attractive life, an attractive career, and people will stick to it. You cannot enslave them for ever.

3031. If he had got it out of the State in other directions it would not have been quite so expensive?—No, it would not have been quite so expensive; it is an offset.

Mr. West.

3032. What is the proportion of entrants who come from the grammar schools?—About 55 per cent.; it is rising.

3033. When you fixed the contribution at £30 a term what income bracket did you take into account?—More than £700.

3034. What happens to those who are below that range?—Shaded off down to £0.

3035. That is the maximum, whatever the income might be?—Yes.

3036. With regard to this building which requires so much annual expenditure for maintenance, what rent do you pay for it?—£2,200. It is a low rent which corresponds with the large—

3037. I was just wondering whether there would be anybody in the country who would be prepared to take a building of this nature at £2,000 a year and an obligation to spend £18,000 a year in maintenance?—Perhaps I am

wrong in this, Sir, but I would have thought that is a low rent for that size of accommodation you are getting, but you would expect it to be a low rent. I am not an expert in rents, but I should have thought that what you had got to look at in this was really the rent plus maintenance.

3038. Plus capital expenditure of £165,000?—Yes, but may I just say, from the point of view of what we are getting as distinct from what we are installing. The things we are installing, like workshops, and so on, are our own choice, but if you look, say, at the £18,000 plus £2,000, you are giving £20,000 for all that accommodation, which is what you are paying. Obviously, if the landlord looked after more we should pay much less.

3039. You think, having regard to the terms which the landlord had, that it was quite safe to spend £165,000 without getting the lease completed?—Oh, absolutely. He has in fact proved a reliable friend of the school. There is no question about that.

Mr. Hoy.

3040. May I just ask one more question? When you first took a lease of this property did you in fact come to an agreement during the war that you would pay for the maintenance of the fabric, the outside of the building in addition to the rent?—No, Sir, what we did during the war was requisition it, I think, and this is the first lease, hence the complications. It is not a continuation of a lease. We have, in fact, been in occupation for five years or so under a lease which has not yet been signed in spite of all efforts, but which we hope is about to be signed.

3041. I had not appreciated that. Do you mean that the lawyers are taking all this time to get this agreement done?—Yes, it has been fantastic; it really has.

3042. What share does he get? What do his fees amount to?—I would refer you to the landlord for that.

3043. But you have got to pay it at the end of the day?—Not under these terms. It all comes out of the £2,200 a year.

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Chairman.

3044. Is there any possibility under any circumstances of this building being let to anybody else but a Government Department?—I have not the least idea, Sir, but I must say, possibly, a nationalised industry.

Chairman.] I should think it very unlikely.

Mr. Hoy.

3045. Who is the owner?—The Duke of Portland.

Chairman.

3046. I should think he is delighted to get £2,000 a year for a white elephant?—I really do not think the danger of us being thrown out is great.

3047. I should think it most unlikely?—That is why that aspect of it does not worry me very much.

Mr. Hoy.] May be he is not effecting the lease so that he can hold on to you.

Chairman.

3048. Paragraphs 23-25, issue of full pay for periods of unemployment prior to retirement. Sir Edward, could you give us any further explanation than we have here as to why officers are kept on full pay for as long as 15 months?—Yes, if I may, Sir, I would like to. What happened was this: our system of tenures, that is of people being appointed for a given time, works very well in a period of a stable Army with nothing very much happening, but about the period when this happened there were a good many changes. Anti-Aircraft Command packed up, the Army was beginning to diminish and it became more difficult to plan. We found officers coming up who had given us long and valuable service, who were in a tenure with the ordinary expectation of serving to its end, and the tenure would be shortened or alternatively they had come to an end in the ordinary way, were nominated for a job and the job folded up under them. One of the cases to which Sir Frank drew attention was that of a Major-General who was appointed to two jobs in succession, both of which are abolished before he could get to them. Now that meant that under the provisions of the Pay Warrant we either had to temper the wind to some extent to them or throw them out

abruptly without any notice at all before they had finished their proper tenure and before the retiring age. Now, what we ought to have done in that case was what we, in fact, did do much later, though before we heard from Sir Frank about these cases, which was to recognise the existence of a trend, discuss it with the Treasury and decide how to set up internal machinery, and get the Treasury's permission where necessary. We failed, in fact, to recognise a trend. There are a great many officers all the time retiring and the number of cases which Sir Frank discovered, and I do not think we discovered more than about one more ourselves, was a dozen over a couple of years. We ought to have noticed it but did not. Now, the bad effect of that was double. On the one hand we had not sharpened up our own internal machinery enough, that is one point. The other is that we did not go to the Treasury at the proper time. It is not always very easy to recognise what the proper time is in any given case because what our Pay Warrant says is that the man has to be retired when no further employment for him can be foreseen. That is to some extent, a subjective judgment and we kept on hoping with some of these people. Each of these two bad effects, as I think, have a cumulative effect. If we had told the Treasury about these cases they would have told us to refurbish our machinery. If we had refurbished our machinery even without the Treasury we would have noticed the trend. We picked it up, but even so a dozen cases earlier on had gone. I cannot defend the way we treated them as a matter of form, but in most of these cases had we detected them as a trend and gone to the Treasury we would have proposed very similar treatment. You see, it is rather hard. If you take an officer who has been serving for 35 years, near the age for full pension, he has an ordinary expectation of tenure to the end. Suddenly the thing packs up under him and he is told at no notice at all "You are out". It is not only hard but it is not even very economical, because if we do not keep him on for a time hoping to place him, if we just say at the first moment "You are out", we pay his pension and when a couple of months or three months later a place which he could have filled has come up we have to promote somebody else to take his place. What we have done now is to

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have a regular machinery for watching all cases where there is any long unemployment. We discuss monthly all cases of officers who have been unemployed for more than three months—we are now turning that into more than two months—and I ought to add, those periods of three months and two months include officers who have disembarkation leave—it suits our system so to make it—sick leave, various forms of leave like that, so they are not all as bad as they look. It does not include terminal leave.

3049. So you have a regular machinery now for dealing with the problem?—Yes, we have.

3050. Have you obtained the Dispensing Warrants which you failed to get?—No, we have not yet done so. We are awaiting the discussion here, and I think we shall have to send in a formal letter. We discussed these cases, of course, with the Treasury but formal action has not yet been taken. (Mr. Macpherson.) That is correct.

3051. Have you some person or department specially responsible for this type of problem?—(Sir Edward Playfair.) We have got on the one hand the Military Secretary's large department which is responsible for posting people but, of course, his primary job is posting. This is where I think we slipped up before. His primary function is posting people rather than throwing them out. It is his job to throw them out too, but there is my Department also whose job is to see that things are done in proper order. What we have done is to establish a regular system whereby the Military Secretary's Department will monthly give a list of all officers of the rank of Lieutenant-Colonel and above who have been unemployed for at least three months, and now it is to be more than two months. They discuss them and try to think of means how they should be disposed of.

3052. Mr. Macpherson, the last sentence of paragraph 24 says: "The position was not considered so serious as to call in question the existing regulations". Are you agreed with that?—(Mr. Macpherson.) I think it was not so much the regulation as the interpretation. (Sir Edward Playfair.) What we meant when we said that was that the position was not so serious as to make us want to suggest that the regula-

tion should be changed. What was needed was action under the Dispensing Warrant, but unfortunately we dispensed ourselves and I do not defend that.

3053. Are the Treasury satisfied with the present method of determining retiring duty for these officers?—(Mr. Macpherson.) As Sir Edward has said, Sir, the new arrangements have in fact been arrived at in discussion with the Treasury; in fact, it would be fair to say that the Treasury, when they knew from another case what had happened, did take up immediately the general question with the War Office and there is now this new system of bringing to the attention of the finance side of the War Office officers who have been on the unemployed list for more than two months. The Treasury are also having a report at the end of this year from all the Service Departments covering the cases where an officer has in fact been unemployed for more than two months, with a statement of the circumstances in each case over three months.

3054. So you are satisfied with the new procedure?—We are satisfied with the new system.

Mr. Collins.

3055. How long ago, Sir Edward, did difficulties arise with periods of unemployment on full pay amounting to as much as 15 months, as mentioned in paragraph 24 of Sir Frank's Report?—(Sir Edward Playfair.) We were always hoping to place these men.

3056. No, how long ago was this?—These were over, roughly, 1955 and 1956, I think, practically all of them.

3057. Is it now the case that the maximum period in the case of any officer would be likely to be three months?—It will sometimes be more. If you have got a particular officer whom you want for a particular post and the time is a little longer it will be, but we shall know about it and if necessary get Treasury consent. On the whole, the higher the rank the more that is apt to happen simply because there are very few officers of the rank of, say, Lieutenant-General, and very few vacancies.

3058. If an officer of that rank had only six months to serve before his normal period of retirement would you not be likely to retire him then rather than keep him?—Yes, we should.

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3059. Does this new system lead to any increase in short-time appointments and frequent changes of appointment for senior officers?—No, Sir. Let me say this, it is not a new system of posting: it is greater care in posting together with a new system for notifying and bringing to light cases where people have been too long. We are not changing our tenures.

3060. One gets the impression, Sir Edward, from some of the replies that it is a case of filling up holes for a short period. Is that a wrong impression?—There is temporary employment sometimes when you have got a man whom you know is wanted in about, shall we say, eight months' time for a job; well, you do your best to find him temporary employment meantime, filling up holes like that. That, I think is right.

3061. And in a senior job, of course, he would be in that appointment long enough, really, to do nothing useful?—No, that does not apply to very senior jobs, but I can think of one case of a Lieutenant-General who did a most necessary job as Chairman of a Committee for about nine months between coming out of a Command and joining the Army Council. But the kind of filling up of holes that I am speaking of would be much more apt to happen on the Lieutenant-Colonel-Brigadier level.

Mr. West.

3062. Sir Edward, what notice of retirement is an officer entitled to receive?—He is not entitled to receive any. That is one of the troubles. We try to give him six months or more. At the present moment, during the rather horri-fying process of run down, we are making it a principle to give them all six months. We have so far, to the best of my knowl-edge, managed to do it without running into trouble in this way simply by careful arrangement.

3063. Have the Treasury approved of your giving six months' notice, even though it involves long periods of un-employment?—They have approved of us giving six months' notice in general. They have not approved of our keeping officers unemployed in doing it. If we run into trouble in any case, i.e., giving an officer six months' notice, which we are committed to do, we must go to the Treasury, but primarily it is up to us to avoid that by good planning.

3064. Why did you give terminal leave to an officer who was unemployed for a long period?—Because it is one of the laws of the Medes and Persians that an officer is entitled to terminal leave, one month normally.

3065. Are you influenced at all by the fact that a longer period of service, even though during unemployment, counts for retirement pension?—I think we have been, and I personally think we always should be, within reasonable limits, that is to say. If the man's tenure suddenly packs up, I think it is a very hard thing that he should for that reason, through no fault of his own, get a lower pension; but it is a thing to be taken into con-sideration. Of course, we cannot keep people on unemployed, we have done so in the past on particular occasions, but it is exactly the kind of thing we should have to come and talk to the Treasury about. I should expect to find them sympathetic but rather ungenerous.

3066. May I ask, Mr. Macpherson, then, if he considers that there should be a hard and fast limit to the period during which an officer should receive full pay while unemployed?—(Mr. Macpherson.) As Sir Edward has said, provided notice is given in reasonable time, the six months in this connection should not lead to him being six months unemployed before retirement, but if there are cases where through inadvertence or any other reason it has not been possible to give him notice while he is still in employment, I think the Service Department should come to us. Prob-ably we would be sympathetic but not very generous. I do not think we would accept that the six months' rule in these cases is absolutely rigid. (Sir Edward Playfair.) It might be worth mentioning that in these lists of officers who have been unemployed for three months or more there is no officer awaiting re-tirement in the latest return.

Sir Colin Thornton-Kemsley.

3067. Sir Edward, would it surprise you to know that almost without excep-tion every retired officer who applies for civilian employment claims that he is a good administrator and adaptable?—That is very true, Sir.

Sir Colin Thornton-Kemsley.] I could not agree more.

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[Continued.]

Chairman.

3068. Which is true, the fact or the statement?—Both, Sir.

Sir Colin Thornton-Kemsley.

3069. How many retired regular officers are being employed as temporary Civil Servants in the War Office?—I am sorry, I have not got that figure in my head. It is quite a number. We use them to an extent that the other Services do not, but, may I say, as Civil Servants filling military jobs.

3070. Yes. Now, would it not be possible to make some of these able administrators who are so adaptable do these jobs and release temporary Civil Servants for other work?—Well, I do not think I could turn them quite on to work other than military work. You see, this is a system which has been introduced for employing retired officers in lieu of military posts, and if I were suddenly to throw out an established Civil Servant doing an ordinary civilian's job in order that he could give way to a retired officer so that a serving officer could do a retired officer's job, I think I should run into some trouble.

3071. Supposing the retired officer was doing an unestablished civilian job in the War Office could you get rid of him and replace him with a serving officer for whom you had no other employment, bearing in mind their adaptability and their efficiency at administration?—Quite obviously it could be done, Sir, but I do not know that it is our aim to increase the military staff of the War Office or to cut short the careers which we have offered to the retired officers, usually for a limited time.

3072. Surely it is one of your aims to reduce the enormous costs of running the War Office?—Do we do that by substituting a serving officer for a retired officer, Sir? I should have doubted it.

3073. You would reduce the men required for the service of the Army would you not, as a whole?—No, I would have thought on the whole we would increase it, on average. I am sorry, I have not come prepared with these figures, but I believe it is on the whole cheaper to employ a retired officer than a serving officer.

3074. But if you have no job for the serving officer, and after all, the impli-

cation of these paragraphs that we are considering is that they are unemployed and would have to be paid in full during the period of unemployment running up to five and six months and that sort of thing?—You mean during that period of unemployment?

3075. During that period of unemployment?—In that case, I think, adaptable as they are, I would rather hesitate to put them on to the kind of jobs which retired officers do so splendidly, involving past experience and staying at the job for a long time. On the other hand, I am sorry, I am afraid to some extent I misunderstood you on this.

3076. It is my fault; I did not make myself clear?—In essence I think that is what we do. The retired officers' jobs, in so far as they are not static and stable, are military jobs. We do fit in people for short-term things; for example, I can give you the simplest possible example of a man I know who came back from Germany, who is going to Larkhill. There was a two months' delay, so we said: "Give a hand in the Military Secretary's Department dealing with your own corps". That was a very sensible thing to do.

3077. I was not being facetious at all about the efficiency and adaptability of officers who are staff trained, and that sort of thing; I think they are extraordinarily good, and that is why I should think where you have officers who have to be paid and yet for whom no military appointments can be found for a period of months it might be worth considering putting them into the War Office and for them to take the place of retired officers who are acting as temporary Civil Servants?—The only trouble about that will be that, you see, we do not nowadays—reformed by Mr. Macpherson—think in terms of five months' unemployment. After three or two months' employment we would have sacked the retired officer and away goes the serving one to B.A.O.R. I think we find it easier just for short periods of unemployment like this to look and see where there is a hole at this minute rather than say "Fire Bloggins".

Mr. Thornton.

3078. Sir Edward, why did you not take steps earlier to retire a number of officers when you knew the number of

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[Continued.]

appointments was decreasing?—As I told you, we did not detect the trend. I must make it clear that this was—

3079. Why did you not detect the trend?—May I just explain? I must make it clear that these were 12 cases coming up over two years, not all dealt with by the same people. It was not a kind of tremendous flood of cases which you could see at once was a change, but having said that, I think we ought to have detected it, and had our machinery been better we would have, and I am here to say so.

3080. You have taken the step now, have you, to retire more officers?—Yes, we have now.

Mr. Ramsden.

3081. How many cases of long periods of unemployment on full pay were there which came to light as the result of the Comptroller and Auditor General's Report?—12, and we found one more.

3082. In the context, how long is "long"?—"Long" is up to 15 months, exclusive of terminal leave, but from all of them should be deducted disembarkation and accumulated privilege leave, about two months to be taken off that. They were not all as long as that, or anything like. Actual unemployment, if I may just flick through, 10, 3, 12, 5, 12, 4, 12, 9 months; something of that kind.

3083. You were telling the Committee, I think, why it was that you kept on officers whom there was no possibility of employing further. Why was it?—First of all, Sir, we did not usually recognise until halfway through this time that there was no possibility of employing them further. We hoped there was. These people were being trawled for jobs. Secondly, having realised it while they were still being trawled for jobs we thought we should give them some degree of notice to adapt themselves. It is those reasons together.

3084. I think you told the Committee you mistook a trend towards fewer future appointments?—Yes.

3085. I put it to you that really you did not want to be too harsh as employers and you chanced your arm and stretched a point in the regulations?—That is perfectly true. That is absolutely true; I think both the statements

are true. Had we really noticed the trend we could have taken more steps beforehand to avoid this and we could have dealt with it as we are trying now to deal with it; but the reason for keeping them on was unquestionably the sense of obligation as an employer.

Mr. Peyton.

3086. You have repeatedly used the phrase that you "failed to recognise the trend", as though that phrase has some significance in War Office vocabulary. Could you give us any idea when a number of isolated instances is recognisable as a trend?—When we notice it, Sir. This has no War Office significance—

3087. This is begging the best question that I have ever heard?—Of course, it is. The answer is that we found that there were these dozen cases over a couple of years, they were not all dealt with by the same people, and after a time we—particularly we on the finance side—noticed that something was up; and it was no use just treating these as individual cases which you could deal with here or there and we started to sit up about it. But let me assure you that there was nothing esoteric about the phrase "noticing a trend". It is, I am afraid, a statement of some administrative failure.

3088. It is not somebody's particular job to go about detecting trends?—Trend noticer, no. We do not pay people wholly for that. Would that we did!

3089. Mr. Macpherson, just one question. Is the position roughly the same in the other two Services? Have officers been treated on more or less similar lines in the other Services?—(Mr. Macpherson.) I cannot answer definitely, but I do not think there have been any similar cases. Of course, the problem in the other Services is very much smaller than in the case of the Army, but all three Departments are conforming with the new rule.

3090. You have no reason to think that the principles applying to the other two Services are any different from those applying in the War Office?—No, I think in the terms of the good employer approach the other two Services would have the same considerations in mind. (Sir Edward Playfair.) I believe we are the only Service which uses the pejorative term "unemployed".

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[Continued.]

Chairman.

3091. Paragraphs 26-28. Sir Edward, to what extent does what you have already told us on the previous paragraphs apply here?—Almost entirely, Sir. May I add something to that?

3092. Certainly?—I would just like to say that I think the cases are usually more justifiable because very often you know where the man is going. May I just give the upshot of last April's examination of these people unemployed for three months or upwards? There are 11 such officers out of a total strength of about 3,000, I think it is. Of those, 10 are waiting for known appointments to which they are being put. The one is being trawled but is still sick and is not yet fit for work.

3093. That is at the present moment?—At the 1st April.

3094. What has happened over the last twelve months?—It has come down. When we started this system, which was last year, not as long as twelve months ago, it was 28 and we have reduced that now to 11.

3095. How many of these cases did the Comptroller and Auditor General pick up?—About 14 or 15, I think. (Sir Frank Tribe.) 17, I think it was. (Sir Edward Playfair.) I would also like to add this, if I may, looking at it from the other point of view, how many officers were unemployed; when the system of full pay instead of half pay was introduced just before the war, it was reckoned then that there would be a margin of about 3 per cent. of officers of these ranks held unemployed between posts. I do not want to say that with any great validity. The system was a new one and has not actually been tried. We are actually about 2 per cent. (Sir Frank Tribe.) In 1956-57 there were between 50 and 80 Colonels and above on the strength of the London holding unit for unemployed officers.

3096. How long had they been unemployed?—(Sir Edward Playfair.) Colonels and above; the figure in February, which is the last figure for Colonels and above, is 30. (Sir Frank Tribe.) Then it has come down since a year before. (Sir Edward Playfair.) This is the good effect of this system, Sir.

3097. Is there any regulation limit as to how long you may maintain an officer

on full pay pending new appointment?—Not while employment can be foreseen for him.

3098. So you may keep him there indefinitely?—If we could foresee employment for him. It would become a bit like Nelson.

3099. Is this problem something that is kept constantly under review by your Finance Branch?—Yes, Sir, but what I said before in the other case applies here. I do not think our review was systematic enough before. Now we have got a more systematic arrangement.

3100. What do you regard as the limit of time that you can keep an officer unemployed?—I do not think we have ever phrased it like that, Sir. We obviously would not keep an officer unemployed with a view to using him at a future date, for, say, a year or 18 months ahead, or ought not to, anyway. On the other hand, we might keep him for a known job for quite a long time; and the other thing is trawling people around, fixing them up. We have not thought of it quite in those terms.

3101. I am looking at paragraph 27 where the Comptroller and Auditor General suggests a number of examples from five up to seventeen months?—Seventeen months is obviously much too long. I am not here to defend that. One must say that probably in those cases—I am not sure about the 17 months' case—there is some accumulated leave to be taken off.

3102. Mr. Macpherson, what is the Treasury point of view on this?—(Mr. Macpherson.) The new system, Sir, will cover periods of temporary unemployment as well as unemployment prior to retirement. So, it ought to be caught and any cases of anything longer than three months ought to be subject to individual examination.

3103. Have you been aware of these long periods in the past?—I do not think we have. I do not think we have been brought in, but we shall now under the review arrangements.

Mr. Thornton.

3104. Sir Edward, on the long intervals between appointments as referred to, ranging from five months to seventeen months, are any cases known where this has been due wholly or in part to choice

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[Continued.]

of appointment on the part of the officer concerned?—(Sir *Edward Playfair*.) No, Sir, only in this sense, that there have been cases—there certainly was in one of the retirement cases—where an officer has been posted to some foreign place and appeals on compassionate grounds against posting.

3105. Those would be the only exceptions?—Yes.

3106. Now, paragraph 28 makes reference to the fact that in recent months that there has been a lessening in the amount of the unemployed. Do I understand you to say that is due entirely or mainly to the steps that the War Office has now taken?—Largely, Sir.

3107. Or is it due to any exceptional causes?—I do not think so, not between employments. On retirement, of course, it is obvious the redundancy scheme makes a difference. Between employments to the best of my knowledge, no.

3108. It is due to the tightening up?—I think it is.

Mr. Peyton.

3109. Am I right in saying that the half-pay system was really a sort of relic of very much older days? That is right, is it not?—Yes, it is.

3110. Now, Mr. Macpherson, can you tell me whether the same system applies throughout the Service, to all the three Services?—(Mr. *Macpherson*.) Yes. It

was as a result of the Warren Fisher recommendations just before the war.

3111. What about the case of an ordinary Civil Servant for whom it is not possible to find a job immediately, or can a Civil Servant always be found a job?—There, too, there are provisions for premature retirement when there is redundancy.

3112. This is not strictly relevant, but it is an interesting point: can you tell me why it is that an ambassador who leaves a post and comes back home on leave, after his leave expires, and pending another job being found for him, is not paid a penny?—I am sorry, Sir, I do not know.

Chairman.] I am afraid, Mr. Macpherson will have to have notice of that question.

Mr. Peyton.

3113. I would like to give the notice now, if I may. What are the grounds for making any distinction? As these are senior officers of any kind in the Civil Service or in the Forces who are paid by the Crown, what are the grounds for distinguishing between them in any way during periods of temporary unemployment?—If I may, Sir, I will produce something on that.

Chairman.

3114. Could you let us have a note on that?—I will, Sir.*

*Information supplied: not printed.

Statement showing the financial position of Territorial and Auxiliary Forces Associations on 31st March, 1956.

ARMY APPROPRIATION ACCOUNT, 1956-57 (continued).

Chairman.

3115. May we pass now to paragraphs 29-34, which concern the Territorial Army? Members also have the White Paper showing the financial position of the Territorial and Auxiliary Forces Associations. Sir Edward, is it necessary for these Associations to hold such substantial reserves?—(Sir *Edward Playfair*.) I would say, Sir, that the kind of reserves which they hold has always been left as a matter of their own judgment, within limits, ever since their setting up 50 years ago. We have stressed as far as

possible the independence of the County Associations to run their affairs reasonably well. They can hold back expenditure for the moment and save up for later, but there is a limit to that; and I think it was well put by the Committee under Sir Fitzroy Maclean, which pointed out that the accumulation of reserves was not an end in itself.

3116. Yes, but from paragraph 33 it appears that even now the reserves are £430,000, very nearly £½ million. That is a fairly high total, is it not?—It is

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[Continued.]

fairly high, Sir, but that amount in relation to the £2 million worth of property which they occupy and their fairly large annual turnover I do not think is enormous. Leaving aside, if I may, for the moment this question of the effect of National Service, the general level was considered rather carefully by the Maclean Committee whose results were accepted by the Secretary of State for War, and they thought that the total should be reduced from some £700,000 to about half that figure, which we accepted, and I would be reluctant to go behind that very careful examination.

3117. What do these reserves consist of, securities, long or short, or cash, or what?—Securities long and short and cash.

3118. Have you any idea how they are split?—They vary extraordinarily. I think a rather high proportion of them, particularly of the older ones, tended to be in long and undated.

3119. Do you keep an eye on them or have they complete autonomy?—This is part of our general principle that they have autonomy. At the same time, they are accounting bodies who perhaps should be reminded, and I have this in mind, that when you are a body accumulating reserves out of current grants, those are meant fundamentally to be spent, therefore that they should not be too long.

3120. How long have they held these reserves for?—Some of them pretty well since the foundation.

3121. Which would suggest that they have more reserves than they really require?—They are part of their life now, because, you see, some of them have adapted their lives to the interest from these reserves. Some of them are from back long past the Statute of Limitations, well before the First World War.

3122. How far do you keep your eye on the reserves when making grants?—We do. It depends a little, Sir, much more where building is concerned, but it is open to us to do so and if I may, at the risk of possibly anticipating. I have got it in mind as one of the things to say about the points which Sir Frank has rightly brought up here, that the people with high reserves pending a further review had better not increase them.

Mr. Ramsden.

3123. Going to the last sentence of paragraph 32, Sir Edward, can you amplify that a bit, about the Association which sold Government securities being allowed to deduct depreciation?—Yes, Sir. The point is this, that the recommendation of the Maclean Committee was that their reserves should be stabilised at 30s. per head at the 31st March, 1955. What the War Office really did was to say: "You can keep that and you pay back all the rest." This phrase was not of my choosing. I do not think I would quite put it like this. What the War Office really did was to say: "We have told you what you keep and you can hand over the rest and if it involves selling securities you will hand over what it produces and not the cost price of many years before."

3124. It was reckoned on what the securities were worth at that date, I see. Did any of these Associations incur a loss when they sold securities?—Yes. The bank rate had gone up in some cases. They are entitled to do this over three years. The period has not yet finished.

3125. Have you any figures about the losses incurred so far?—Yes, we have.

Mr. Collins.

3126. The financial position is shown on page 3, paragraph 9 of the White Paper. That says that 51 showed a loss and 22 showed a gain?—That is a one year's figure, though. I think what is being asked is how much they lost on this particular transaction, handing over the reserves.

Mr. Ramsden.

3127. At the time of handing over, ves?—And that is exactly what I am trying to find. I am sure I have got it here. (Sir Frank Tribe.) I can give it. I believe that the Association sold securities for which they had paid £135,000 for about £102,000 and incurred an actual loss of £32,514.

3128. That is over how many years? - —That is when they were called upon to make their refund. (Sir Edward Playfair.) I think the figure you quoted is the annual one, which we have got, of the loss incurred on the actual sales of securities, which may have been bought in 1910 or 1920. (Sir Frank Tribe.) It is the difference, as I understand, between the market value at the

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[Continued.]

time of sale and the cost value in the books of the Associations. (Sir *Edward Playfair*.) Yes, and, of course, it was not a very happy time for selling. (Sir *Frank Tribe*.) But, of course, that £32,500 is not recorded in the Appropriation Account, because the War Office take the view that it is not a loss of moneys for which they have to account to Parliament.

3129. Will that fact ever appear anywhere?—(Sir *Edward Playfair*.) The losses appear in the Abstract of Accounts whenever they sell. It will not appear as part of this transaction separately though, of course, I can easily put in figures on this. The losses on sales of investments year by year are published and laid before the House.

3130. Perhaps you would consider putting in figures to make it more readily accessible?—On this particular point?

3131. Yes?—I can very easily put in a note, Sir. I am afraid it is only my stupidity that the matter is not put on the record now, for failing to find my place.*

3132. Have you any further comment, Sir *Frank*?—(Sir *Frank Tribe*.) This annual paper to which the witness has referred does show the market value of investments at the beginning of the year and the end of the year and shows whether the market value had depreciated or appreciated, but it does not, as far as I can see, give any indication of how much was lost by realisation of the investments during the year. It would, I suppose, be possible in future papers of this sort to include a paragraph saying if any realisations did take place, and if so, whether the realisations showed a loss or a profit. (Sir *Edward Playfair*.) I should be glad to consider this. If only on the grounds that I doubt if we could get another column in the page, I think one ought to have it in the way of a general note. (Sir *Frank Tribe*.) I was thinking of a note on page 3. (Sir *Edward Playfair*.) You mean a *holus bolus* one; I do not think there would be any difficulty about that, if the Committee thought it advisable.

Mr. *Stevens*.

3133. You said just now that the Associations have held these reserves for many years, in some cases going back to before World War I. In fact, by what

*App. 11.

authority did they retain these reserves?—The grants are handed out to them under Acts which I ought to have at my fingers' ends, but I have not, for expenditure. They are not public funds in the narrow sense of the word and they can spend them at such pace as they think fit on regulational objects, and I think they are entitled to put them by and let them earn.

3134. But when these grants are made do they not take into account unexpended balances of previous grants?—No, Sir, except, as I say, that we can make them do so, but it has always been a principle that they should be allowed to carry forward from year to year, and that goes back to pre-war days.

3135. Is it a question of set principle laid down anywhere?—I am not sure whether it is set out specifically there but they have an independent existence and are entitled to hold their own money in their own property and we pay grants to them like that.

3136. Including the unexpended balances?—Certainly, except in cases where we deem it expedient. An example is just before the Maclean Report, we deliberately restricted issues to them. We can say how the grants shall be calculated but as a matter of policy we have over the 50 years that it has existed accepted their right to hold over.

3137. Then, as a matter of policy it was decided that the Associations should refund the reserves in excess of 30s. a head?—Yes, certainly.

3138. Yet, apparently, on the basis of the modern strength of the Territorial Army, that is excluding National Servicemen who are no longer eligible, the Comptroller and Auditor General says in paragraph 33 of his Report that at 31st March, 1957, on that up-to-date basis the general reserves held at that date were equivalent to an average of over £5 a head and some Associations held reserve funds much higher than that. There is a great deal of difference, is there not, between £5 and 30s.?—There is a good deal of difference, but I think it is relevant to say this: the real use which has been made of the Territorial Army's drill halls and facilities has always been by the volunteers. What the Maclean Committee did was primarily, as they themselves say here, to start off by fixing a figure which they

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[Continued.]

think is a reasonable figure for them to have. They say: "The immediate result of action on the lines we propose would be to reduce the total level of general reserves from some £700,000 to about half that figure. This represents about one-quarter of the total annual income received by Associations". They then went on to give that a per caput expression in the terms of those times, that is to say, the 30s. a head of the much enlarged Territorial Army strength. Now, I do not think myself that the fact that it is now £5 per volunteer, or was then, has much relevance, as you would think straight away, but that it has some relevance I do not seek to deny for a minute; and I think when the Territorial Army has settled down on a more stable level—at the present moment, of course, the National Servicemen are just written off like that, but the figures for volunteers are still steeply increasing—there will be room to look again at the general level of reserves and it is pending that look that I am suggesting we should restrict a bit issues to those people who already have high reserves.

3139. As the amount of grants in certain circumstances takes no cognisance of unexpended balances brought forward it is clear that you may get results of this kind. I am not thinking now so much of the 30s. but the £5. It is an average of £5 and some Associations hold reserve funds much higher than that. In other words, this seems to me, I am bound to say, rather a hit or miss method. Would you not agree this is much less thorough than the control normally extended to grants in aid?—Well, yes, Sir. The ordinary grant-aided body which is subject to the full probings of Sir Frank admittedly is. The County Associations, as I say, have always been on a much looser string and designedly we tried to foster their independence in this matter. (Sir Frank Tribe.) If I may say so, it is not only the "probings of Sir Frank," it is partly, I think, a matter of Parliamentary control. In the case of Grants in Aid Parliament is definitely informed in Estimates that any balance of the grant unexpended may be retained by the grant-aided body, but there is no similar note put to the War Office Estimate voting this money to the Associations. It has been the practice accepted for many years, but I have never been too happy about it for the

reason that Parliament is not specifically told that the grants are outside my examination and the Associations are allowed to keep them.

3140. Just one other point I would like to mention, and that is this: whether the figure be 30s. or £5 a head, it does seem to me that there is legal justification for allowing these Associations to retain certain of their balances and not surrender them. But nowhere in either Vote 2 on page 10 nor in this Statement showing the financial position do I see any note of that position. Reserves are referred to in the Statement, showing the financial position to be £627,000, but there is no indication that any substantial part of these balances is not surrenderable. Should that not be stated?—(Sir Edward Playfair.) May I look into that, Sir? I think you have got a point there. This is Sir Frank's point also, and I should be very happy to look into that.

Mr. Arbuthnot.

3141. Sir Edward, does the War Office statement quoted at the end of paragraph 34 mean that there will not be a periodic review of the reserve holdings and therefore adjustments if the holdings appear to be excessive?—No, it does not mean that. It really follows, Sir, the concept of the Maclean Report which said: "We do not suggest that any excess which might occur in a particular year should immediately be refunded or that the grants of the Association in a succeeding year should automatically be restricted". I think there is ground for a look from time to time, but I should like to stress that the County Associations, on whose goodwill this rests, are very jealous of their independence and we have lived in a state of very happy symbiosis now for 50 years and I should not like to have a lot of Civil Servants going round interfering with everything they do; but I would just like to repeat what I have just said, that I think there is ground, with this sudden change of National Servicemen being removed, to look once again at this situation in two or three years' time when the position has stabilised.

3142. Mr. Macpherson, are there any other cases of semi-autonomous bodies being allowed to retain and invest as they like the unspent balance of Parliamentary grants?—(Mr. Macpherson.)

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[Continued.]

This is a matter of history. I think the original intention was that there should be a certain amount of flexibility of carry forward to allow for accumulated items of maintenance and that sort of thing, but in practice it seems to have grown to be much more a case where the reserves have been invested and the income from them has tended to be looked on as an annual source of income. I think, as Sir Edward has said, that is probably one of the things which ought to be looked at in the course of this review which we accept, with the War Office, should take place when there is a greater experience of the growth of Territorial Army strength in the new conditions.

3143. Mr. Macpherson, what I asked you was, are there any other cases of similar occurrences? Are there any other semi-autonomous bodies?—Without the records I do not know of any. As Sir Frank said, there are cases where grants are noted in the Estimates as indicating that in these cases any unexpended balances may be carried forward.

3144. Do you know of any other cases, Sir Frank?—(Sir Frank Tribe.) As far as I know in all other cases such balances as a body may have from the previous year are taken into account by the Treasury in making its grants, and this Committee has always attached great importance to the principle that moneys should not be made available to grant-aided bodies in excess of their current needs for the year. (Sir Edward Playfair.) I would just like to say that I think there is a certain rough parallel between County Associations and local authorities. They are statute-founded, independent bodies which receive grants, not grants in aid. (Mr. Macpherson.) We take notice of the question, Sir. We will look at it with Sir Edward and see if there is any justification for the current practice.

3145. Are you satisfied with the present position? That is really the key to this matter?—(Sir Edward Playfair.) The answer to that is that we have undertaken to consider this as part of the review, which will deal with the size of reserves as well.

3146. So you are not satisfied with the present position?—I do not think it is a question of being satisfied or dissatis-

fied, I think it is a question of looking at their requirements in the light of their new conditions because there have been very considerable changes in conditions.

Mr. West.

3147. Are the accounts of the various Associations subject to audit?—Under a special provision of the Auxiliary Forces Acts, 1953, the Associations appoint their own auditors. Sir Frank has not got access to the details of expenditure although, of course, he has access to the auditors' report and to the Associations' annual financial return.

3148. Are those auditors' reports submitted to the War Office?—Yes.

3149. Have you any control at all over the method in which the County Associations dispose of income from investments?—Yes. They can only dispose of it for regulational purposes, which are the usual ones, or with our consent.

3150. Is there anyone either in the Treasury or in the War Office who gives direction or has control over the investment policy of these County Associations?—We have never attempted to control their investment policy. This has been a quite explicit question of policy adopted by the Secretary of State, that one should respect the independence of the County Associations.

3151. Do you mean that they can invest their surplus funds in any sort of security?—I would not like to say whether, as a matter of law, they are bound to gilt edged. I have looked before coming here through quite a number of lists and cannot see that anybody has ever strayed outside gilt edged.

3152. But you do not know whether they are under an obligation so to do?—I cannot say for certain. I should add that they have had specific permission to invest in buildings of use to the Associations and, with due provision for depreciation, in motor cars for the use of the Associations.

3153. Are there any provisions for the surcharging of members of the Associations if they expend money irregularly as there are in the case of local authorities, which you said were on a comparable basis?—I said a certain analogy, Sir. I do not know, but I doubt it.

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[Continued.]

Mr. Collins.

3154. Mr. Macpherson, what is the essential difference in build-up of this fund which we have been discussing and the Treasury Chest, which figured in the Budget? How did the Treasury Chest start?—(Mr. Macpherson.) I think it started a good deal earlier than these funds which date from the last 50 years, but the intention is quite different. This is an arrangement to take the deficiencies in one year with the excesses in another. In practice I think it has grown up that those surpluses have been rather greater than deficiencies and they have been invested by the Associations and have come to be regarded as a source of income. But that is something, as was said, we will have to look into to see whether we should not try to get back to what was probably the original intention that those surpluses were to be kept in a form readily available to meet any emergency.

3155. I asked that question because I thought the Treasury Chest might be another example of making extra payments out of Government funds when there were already unexhausted reserves, a similar case, I should think?—No.

3156. Sir Edward, in reply to a question you mentioned that this sum of reserves of £430,000 or whatever it is now, was small in comparison with the £2 million capital value of the assets and also the annual cost of the Territorial Army. What is the annual cost?—(Sir Edward Playfair.) I am awfully sorry, I seem to have a mixed-up figure for Territorials and the Auxiliary Forces Associations, which is much less, £5 million. I will give you, if I may, the Territorial Army figure at the next meeting.*

3157. I thought you might have the figure in mind, having answered the question in that way?—Yes, as I answered it I wished that I had the figure in front of me.

3158. Do these reserves serve any other purpose than working capital for the Associations?—Well, to a large extent they are working capital. But there is also some which has practically drifted into the position, particularly the older investments, of being a regular source of investment income to the Associations.

3159. Is there any other purpose for these quite large reserves other than

*App. 11.

working capital?—I think working capital is the only contemporary justifiable reason. I am very reluctant to say that there is no reason for something which has been accumulated through the wisdom of our ancestors for 50 years.

Chairman.

3160. Is it the wisdom of your ancestors or the slackness of the Treasury?—The wisdom of the Treasury too, Sir.

Mr. Collins.

3161. That at present must relate to a working investment of £5 per man on the 80,000 man power figure. Do you not think that is too large?—It may be, and I repeat, I think this needs to be investigated when stabilised. I think it also should be remembered that the £5 is also coming down as the numbers go up.

3162. You have been asked questions about the actual losses on realisations of investments during the year, and it was elicited from you that you did not feel you should give any guidance to the Associations about their investments, you should leave them completely autonomous, but do you not think it is a significant figure that during the year 1955-56 their investments depreciated by £45,000?—A lot of people's did during that year. I am not sure what significance to attach to it. I think myself that if I were to attach significance to anything it is that quite a high proportion of the stocks that they had to sell were undated stocks, which implies a certain degree of permanence about them. I think the kind of advice we should give, which would otherwise be general, would be to relate them to the purpose of the funds, which I agree should be primarily working capital and therefore available.

3163. But that year, 1955-56, was not a particularly unfortunate year. The succeeding twelve months, or rather the most recent twelve months, would have shown a much worse picture?—Yes, I dread coming to that.

3164. The purpose of my question is this question of guidance. Do you not think the least you should do if you want to leave them at least some degree of autonomy is to give them guidance about investments which do not show

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[Continued.]

depreciation?—You mean very short-term ones?

3165. Yes, preferably short-term ones, but they need not be very short-term, seven-year investments?—Yes, I agree; I think there is a strong case for dated securities, if only in order to remind them of the purpose for which this is to be used.

Mr. Hoy.

3166. That is, cash?—Cash.

Mr. Collins.

3167. One can quote examples where the depreciation on investment shows a very high proportion in relation to what are the total costs of maintenance of buildings, and things like that?—Yes; of course, it must be said that the depreciation when the War Office intervened and switched it back was on investments which they presumably had been expecting to live with, and in some cases had lived with for 20 or 30 years, and presumably got a higher rate of interest for a good many years for it being undated.

3168. But this £45,000 is not on realisation, it is a depreciation?—Exactly. They would say "Until the War Office came and switched it back this was our central nest egg which we would never have sold except in favourable circumstances".

3169. Will you give particular consideration to the question of advice on the point of investment in securities not subject to depreciation?—Certainly.

Mr. West.

3170. May I ask one further question? Are the members of the Associations appointed by the Secretary of State?—Yes.

3171. Does he appoint them on account of their business experience or their military experience, or on account of neither?—There are always a great many very experienced business men on them.

Mr. Peyton.

3172. Would it be terribly dangerous if we were to ask for particulars of your answer, a great many experienced business men on these Associations?—All information is at your disposal.

3173. Does it put you in a very vulnerable position?—It would put me in, shall I say, the very embarrassing position of choosing which experienced business man had more experience than another.

Chairman.

3174. Paragraphs 35-41. On paragraph 35, why, when the Associations get annual grants for maintenance and separate supplementary allotments for major renewals, do they need to build up reserves for works services?—Simply for spreading over from year to year. They sometimes save up for several years to do some particular work which they want to do, and this is a case very much where we take account in this case of the reasons they have.

3175. You do?—Yes.

3176. They will save up from their grant?—Yes.

3177. That means they will get a grant, then, in excess of what they actually need?—No, in excess of what they need for that year.

3178. Yes, during the year?—It may be, yes.

3179. Is that a good policy?—I do not think I see any harm in it as equalisation of their needs over the years. Some of the things have been quite specific. It is interesting to note, it is a very small case, but one of the cases which Sir Frank picked out as having been excessive, for instance, is now down to £0 owing to their having saved it up and spent it on a drill hall.

3180. I gathered from your tone that you feel it is rather desirable that they should save up for some specific purpose?—I do rather, yes.

Mr. Hoy.

3181. Is there not a temptation, perhaps, to save it up and then spend it quickly in case somebody takes it off them?—I am afraid by the time this Committee has published its Report there will be.

Chairman.

3182. Are all surplus Territorial Army quarters occupied by Regulars or other entitled persons?—They are all entitled persons and I think all Regulars, to the best of my knowledge.

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[Continued.]

3183. Who are entitled persons?—They are the sergeants and quarter-masters and people of that sort. They are the officers whom we lend. There is quite an establishment of people, small in relation to the total numbers, whom we lend from the active Army.

3184. They are not entirely Regulars; entitled persons are also Regulars?—Yes, I think they are. I think they are all Regulars.

3185. So that really "all entitled persons" is redundant?—I may have been mistaken on that point, Sir. I am ashamed to come unprepared on that point, but I am afraid I have let that one pass.

3186. If you are wrong you will correct it?—May I correct it, thank you.

3187. Paragraph 41, the minimum of twelve volunteers. Are there many centres who have this number?—No, Sir. The kind of place where the twelve is applicable is in places like the Highlands. On the other hand, there is a constant danger that if there is a time, unlike the present, of dropping down, you will have two adjacent places which started off, we will say, at 20 and in the fullness of time they both dropped to about twelve and the bus services improved—a rather unlikely happening, but it does happen—and it is that kind of case that we have to keep our eyes on. What we have done now is to ask Commands to review six monthly the need for keeping any unit on with less than 20.

Mr. Collins.

3188. Does that minimum of twelve include officers?—Yes.

3189. So we could have an almost disembodied unit of twelve officers and no privates?—As I think you will know, Sir, that is one of the constant dangers of the Territorial Army, the imbalance between officers and other ranks.

Mr. Peyton.

3190. Do they have permanent staff at small units?—I do not think so.

Mr. Collins.

3191. Apart from the one example of the Highlands would you say it is the sparsely populated areas which have the

weakly supported T.A. units very often rather than the strongest units?—Certainly they are. Incidentally some of these small, so to speak, Highland units are among the keenest, so that we do not want to bash them on the head too strongly.

3192. I put that question to give you an opportunity of wiping out an impression that there might otherwise have been?—Thank you very much.

3193. Paragraph 35, Sir Frank, says: "Maintained by the Territorial Army Associations out of annual grants based on the capital costs of the building". Does that mean that the grants bear a fixed relationship to capital cost?—Yes, they do, to pre-war capital costs, and the rate is 3 per cent. for permanent and 5 per cent. for temporary buildings.

3194. So they receive that grant irrespective of whether they spend out on repairs or not?—Yes, these are the maintenance grants as distinct from capital grants; and I think I did not make myself clear enough in answer to the earlier questions.

3195. So, in any case, they would receive these grants and that would be one way of accumulating reserves?—They do not find it so. In fact, they are all bitterly complaining that it is much too small. This is on a pre-war capital basis and the grants were last fixed in, I think, 1954 or 1955 (Mr. Macpherson.) 1951. (Sir Edward Playfair.) 1951. Of course, prices are going up. Sir Frank Tribe.) The percentage is also higher. (Sir Edward Playfair.) Those percentages were fixed in 1951. That is what I was looking for, but since then I do not think it has been increased in the last four or five years, has it?—(Sir Frank Tribe.) I understand that for the permanent buildings, the pre-war rate was 1 per cent., it was later increased to 2 and is now 3 per cent. (Sir Edward Playfair.) The pre-war rate, of course, but since they were fixed, which was in 1951, I think, prices have gone up.

3196. You say, Sir Edward, that they complained bitterly because the grants are not enough and therefore they cannot accumulate reserves, but what check have you in fact over these repairs to ensure that the unit is efficiently spending the grant as compared with one which simply says: "We will accumulate

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[Continued.]

reserves and not spend at all"?—Well, they have got to keep the buildings up. I believe that our Command engineers keep an eye on their buildings. It is entirely in terms of buildings.

3197. I agree, but do you know? I have this point in mind: we, looking at figures, might think that a unit accumulating reserves was efficient when in fact it might be the worst of the lot?—Yes. I quite agree that that is so. It is part, surely, of the general question of the duty of the War Office, which I hope we maintain, of judging the efficiency of the units generally; the units and in this case, of course, the Associations. The funds have gone to the Associations who have themselves to determine how to divide them among the units.

3198. Could you now just add a word about the Army Cadet Force? Reading this Report it would appear that you are going to push them off, is that so?—Push them off?

3199. Yes, from the sentence about the future deployment of the Army Cadet Force in paragraph 38. The future of certain headquarters is dependent on what is going to happen about the Army Cadet Force?—There has been a Report, Cmnd. 268, that is referred to in paragraph 41, and what we are now doing is examining the various stations. As Sir Frank reports, I think 108 are being occupied; actually we are going to make sure and find out. Certainly, we are going to keep the Army Cadet Force. 44 of the buildings are found to be useful, it would be 45 that are still being examined and the balance of about 10, they are moving out of.

3200. If it could be shown that a headquarters not required by the Territorial Army, was nevertheless properly required by an Army Cadet Unit would it be retained?—Certainly.

Mr. Hoy.

3201. How did you say the recruiting was going on for the Territorials?—Very well, Sir. May I give you a figure or two?

3202. Yes, please?—What we have got now are the normal volunteers and the National Service volunteers. If you take the position at 31st December, 1956, we had 65,700 normal volunteers;

15,700 National Service volunteers; 81,300 total—I am rounding off by hundreds as I go, so that does not quite add. A year later, 31st December, 1957, which is the latest figure I have got, normal volunteers 76,200; National Service volunteers 10,000; total 86,000.

3203. How do you account for this increase in the normal Territorial Army?—They like being part of the volunteer force.

3204. They just like it?—Yes. It has made all the difference, there is no doubt about it.

Mr. Peyton.

3205. Sir Edward, I do not want to prolong proceedings, but have you got any idea of the average capital cost, and capital costs are referred to in paragraph 35? What do they tend to work out at?—Average capital costs?

3206. You have referred to capital costs of the buildings. What normally would you expect as a sort of average?—A drill hall?

3207. Yes?—Well, yes, I can give you that, how much they cost.

3208. I just want a rough idea?—New Territorial Centres at the present moment costing anything from £30,000 to over £100,000, the average, it says rather mysteriously here, "when a number of centres were built", which must be quite some time ago, was £70,000. We have not been building any recently.

Chairman.

3209. For a number of centres was the average £70,000?—Yes.

3210. A number averaging 70,000, not a number for £70,000?—No, a number averaging £70,000.

Mr. Peyton.

3211. There are a number of figures in the next paragraph, 1,709 centres held at 30th June, 111 were disposed of or transferred to other official uses by the 30th June. What sort of other official uses?—Anything which the Government wants a building for.

3212. In other words, you do not count the Army Cadet Force as an official use, you do not put that in?—No, we have not transferred them to that.

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[Continued.]

3213. The 44 earmarked for disposal, were they absolute shacks?—No, not more than the 111. The “earmarked for disposal” means that you go through this immense grinding process of disposing of a Government building.

3214. Are these in use at the moment?—Of these 44, 18 are still in process of disposal, two in temporary use, one is to be re-opened for Territorial Army and one is being considered for Army Cadet Force. That shows quite a good spread.

3215. What happened to the 60 reported as being not of use?—Six have been disposed of, 19 are being disposed of, two have been re-opened for the Territorial Army and the rest, I think, are still not in use.

3216. Will you agree that this procedure is not at any rate precipitate?—I would agree—oh, I would.

3217. Have you any suggestions as to how it could be speeded up?—None whatsoever, I am afraid.

3218. Have you anyone you wish to blame?—No, not at all, except the fates.

3219. I can describe the fates more personally, I think, but I will not. The next paragraph has the phrase: “Responsibility for surrendering Territorial Army redundant property rests with the Associations”. Are you satisfied with the position?—Yes, because we do needle them.

3220. You do needle them?—Yes, we do. We cannot run this show without the Associations.

3221. Do you find the Associations jump when you apply your needle? That is what I am after?—Adequately, I think, yes, and if not there is another jab.

3222. I was wondering what the standard of application is to make them jump. I do not want to say anything rough, but it does seem to me that the next four paragraphs represent an absolute masterpiece in adding the barest possible minimum to the information already available?—Thank you for that congratulation, Sir. It was so intended. You see, honestly we have not much information either, that is the trouble.

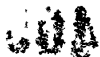
3223. I was giving you the benefit of the doubt there and I assumed you had not, but it does seem to me to be a very vague position anyhow?—It is.

3224. I was wondering rather whether there is adequate control at all from any source here. Do you think there is?—Yes, I think there is plenty of control, but the trouble about it is, having a controlling hand, the muscles that move it are pretty uncertain of wagging it at the moment until we get our Territorial Army deployment straight.

3225. There is an interesting umbrella clause in the middle of paragraph 40 saying: “If they could conveniently and economically be occupied by Regular personnel or other entitled persons”?—I must apologise. I was looking at the wrong bit earlier. “Other entitled persons” does not relate to the Territorial Army entitled people at all; I do apologise, Sir. This is saying that where there is a Territorial Army quarter which is not needed for the Territorial Army any more we will use it for general War Department purposes. That is what it means, so all that I said before was out of point. For Regular personnel, of course, we are desperately short of quarters. The other entitled persons are the other kind of people like key civilians, War Office Constabulary, firemen, and people of that kind. As regards the numbers which we want it is perhaps enough to say that the number of surplus Territorial Army married quarters was at the last count 491. The number of separated families in the United Kingdom whose husbands are stationed in the United Kingdom is 6,500 and on top of that there are 850 families in hostels.

3226. At the beginning of paragraph 41 the Comptroller and Auditor General says: “In view of the factors referred to above, the War Office thought that progress in the disposal of surplus Territorial Army property was not unsatisfactory”?—Those words were carefully chosen, Sir.

3227. If I may say so, I think they do you credit. Now I cannot restrain my curiosity about Centres which have twelve volunteers, or perhaps a few more. At what stage in a Centre's numbers is it thought justifiable to have permanent staff?—I am afraid I should need notice of that, but I do



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[Continued.]

not think that a Centre with twelve volunteers would have it. May I give you information on that?

3228. I would very much like to know and if there are any vacancies, too?—May I put in a note on that? I shall jostle you at the head of the waiting list, Sir.*

3229. Then, I like the remark at the end of it, which is the only optimistic remark in the whole page: "Frequent review would be made with the object of closing Centres which were proving uneconomic"?—We will try to get

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you into one which drags on slowly, Sir.

3230. I must say I do frankly very much doubt whether any of them are proving terrible economic?—Perhaps we were wrong in using the phrase "uneconomic" because, of course, to some extent all Centres are uneconomic. They are all money spenders. The point is, ought we to keep them open, weighing one thing up with another. The absolute limit is twelve.

Mr. *Collins*.] You want to stop these Centres of twelve volunteers becoming a very comfortable little place with recruiting so as to keep the numbers up to twelve.

THURSDAY, 24TH APRIL, 1958.

Members present:

Mr. Arbuthnot.
Mr. Collins.
Mr. Oliver.

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

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

Sir FRANK TRIBE, K.C.B., K.B.E., and Mr. J. MACPHERSON called in and examined.

ARMY APPROPRIATION ACCOUNT, 1956-57 (Continued).

Sir EDWARD PLAYFAIR, K.C.B., Permanent Under Secretary of State, War Office, called in and further examined.

Mr. Collins.

3231. Will Members please turn to paragraphs 42-46 of the Comptroller and Auditor General's Report on the Army Appropriation Account? They deal with the sale of reserve stocks of petrol. Sir Edward, how did it come about that you were able to release this large quantity of petrol from reserve stocks in the summer of 1956?—(Sir *Edward Playfair*.) It was the change of strategic assumptions, Sir. We had been drawing our stocks down, hitherto at a rather slow rate so as not to flood the market, but in the old days before the thermo-nuclear bomb we were thinking in terms of a large number of men mobilised and active for many months in this country. That idea has changed and we now feel that we want very much smaller stocks. Therefore we have been drawing our stocks down over the years and that process is still continuing.

3232. But the announcement of this reduction, and this was part of the far larger reduction, was not made until the end of June, 1956. Were you not then aware of the possibility of difficulties arising over Suez?—Not to cause us to put off this degree of reduction. We still had got plenty in store.

3233. Do you not mean you thought you still had plenty in store?—Well, indeed we had, Sir, and we still have got quite a lot.

3234. Are you satisfied that those reserve stocks that you held were not in excess of those authorised by the War Office, in other words, there was no over-provision?—No, Sir.

3235. Could you not then have reduced your reserves by releasing them for current consumption?—We did, Sir, but the aim under the Chancellor's policy was to reduce our stocks in one year by very much more than a year's consumption.

3236. In paragraph 42 of the Report there is a reference to standing arrangements made with the oil companies for managing and turning over your stocks. If you have these arrangements for preventing loss by deterioration why was it that a proportion of the reserve started to deteriorate?—The arrangement for preventing deterioration is precisely to turn over the stocks, to sell them to the companies for use in so far as we do not ourselves take them into consumption and to replace them by new petrol.

3237. Is this turnover a continuous arrangement or is it just dealt with periodically at intervals?—Every year there is some of it. We test the petrol from time to time and fortunately the chemistry of petrol gives one a little warning. There is an oxidation test. When it shows itself unstable under the pressure of considerable oxygen the petrol is still usable but that is a sign that in six months the gum content will rise and will choke the carburetters.

3238. So the process depends on chemistry, not on the calendar?—Yes.

3239. What was the difference in the price per gallon, or per ton, as between the replacement and the non-replacement prices? I do not know whether I make

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[Continued.]

myself clear?—Yes, you do, Sir. In the case of this first transaction mentioned here, if we had got full replacement cost—it is not absolutely easy to say—but I think it would have been £13 9s. 0d. I say “not absolutely easy to say” because I am not sure of the actual dates on which the replacement would have taken place, and the price of petrol does vary. We did not replace, but had it been replaced it would have been replaced a little later, possibly.

3240. What was the price per ton that you actually received?—£12 10s. 0d.

3241. £13 9s. 0d. you might have got, £12 10s. 0d. you did get?—Yes.

3242. Did other possible buyers that you approached offer the same price? Was there any evidence of collusion?—They refused to buy.

3243. They refused to buy at any price?—Yes.

3244. How does this lower price, the reduction of approximately 8 per cent., compare with the wholesale margins for petrol sold in bulk?—I am afraid I do not know about the wholesale margins. The prices with which we had been concerned had been the comparable landed prices, and I do not know anything about the distributive trade.

3245. In paragraph 44 the Comptroller and Auditor General mentions another managing company purchasing in May and June, 1957. What was the price at which they purchased, per ton?—Two prices according to quality, £14 11s. 0d. and £15 9s. 11d.

3246. So that, in effect, on that petrol you received considerably more than the replacement price you might have expected?—It would correspond to the replacement price at that later date.

3247. Had that petrol not also deteriorated in quality?—No, it had not, it was in good condition.

3248. Why did you sell it if it was not deteriorated, then?—Because we were trying to reduce our stocks.

3249. Did that have any effect on the end of petrol rationing at that time?—I should have said the amount was far too small, it was about 34,000 tons; but the sale was after the end of petrol rationing, I think. It certainly would not have affected it one way or other.

3250. When this deteriorated petrol was sold I assume it was unfit for use

in Army vehicles? Did it have to undergo a process before it was resold?—It was deteriorating, not deteriorated. It was fit for use in Army vehicles and some of it was so used in the Suez campaign, but before it was sold it certainly had to be upgraded because it was below the normal octane grade which is customary in commercial petrol today.

3251. So that it may well have been the case that this petrol sold at £12 10s. 0d. a ton was, at least in part, resold without any further process and that very soon afterwards the value of that same petrol varied from £14 11s. 0d. to £15 a ton?—I am sorry, may I make myself clear? This was fit for use in Army vehicles which are accustomed to accept a lower octane rating than commercial vehicles. Nothing of less than 76 octane is now sold commercially. This would certainly have had to be upgraded.

Mr. West.

3252. How do you arrange your contracts for the supply of petrol, Sir Edward?—By tender.

3253. In the contract that you enter into with the supplier is there any provision at all for the retaking of surplus fuel by them?—First of all there is an absolutely clear provision—I am talking now simply of our reserves—for the terms on which they will retake petrol for turnover, then supplying a corresponding amount. There is a general obligation on them to buy back from us any petrol which we want to get rid of but without any obligation as regards terms or price on the grounds, which we have always hitherto felt valid, that a general obligation would prove so expensive to write in that we would do better to negotiate it on each occasion.

3254. You have had in the past experience of these surpluses which have had to be taken back, have you?—Yes.

3255. What consideration would there be which would make it preferable to leave the figure negotiable rather than fixed?—Simply this kind of circumstance: we believe, and the one time when we have tried it so far has borne out that view, that the companies would charge too high a rate against the dangers of having to take back petrol in circumstances unforeseeable by themselves, like this one. Nevertheless, we propose to try it again and see if it does work. I am rather dubious, myself.

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[Continued.]

3256. What about the other Services? Have you any liaison with them? Do you know anything about their petrol requirements?—The reserves cover the R.A.F.'s petrol requirements for motor vehicles. We look after them. I do not know about the Navy's, but I believe they are very small.

3257. So there was no need for you to offer any war reserve stock to the R.A.F.?—No, this covers the R.A.F.'s reserves.

3258. Is there no co-ordination at all between the Government Departments about petrol?—Very close indeed. Mr. Macpherson could tell you more about it than I can, I think. (Mr. Macpherson.) There are arrangements for the Service Departments to act together at the tender stage and they know what each other's requirements are, but the Air Ministry requirements of petrol of the sort we are now talking about, commercial petrol, is not very high, certainly not in relation to the Army. Their petrol has a much different octane content. (Sir Edward Playfair.) We deal with all their ground requirements for reserves.

3259. They estimate annually the quantity they require for ground purposes?—Yes, we deal with that, and we cover their reserves, which is what this rather special case deals with.

3260. Was any of the reserve which you had to dispose of allocated to the R.A.F., or was it purely within the War Department?—It is all ours. We pay for it, they can draw when they need it. They can draw on the reserves.

3261. Mr. Macpherson, do the Treasury agree that the need to get credit to Army Votes in a particular financial year should override the need to dispose of surplus petrol at economic rates?—(Mr. Macpherson.) I do not think the point arises here, Sir. This was a normal disposal proposal. It linked, as Sir Edward has said, with the policy decision that there would be economies in 1956 and 1957, but I do not think the War Office would say that by disposing of it as they did they really lost.

3262. I gathered from the first sentence in paragraph 42 that the "War Office decided in June, 1956 to sell some of their reserves of petrol with a view to securing receipts estimated at £1.64 million for credit to the Vote". That

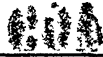
was the purpose of the sale?—It was a combination of an economy and, as Sir Edward has said, a decision, because of the change of defence policy, to reduce the stocks. (Sir Edward Playfair.) Might I amplify that, Sir, if you will permit me? The long term decision to reduce our stocks was part of our purely War Office policy. The decision to sell as much as the 112,000 tons that we intended to sell that year, and to do it quickly, was, so far as we are concerned, simply part of our share in carrying out a major decision of Government policy.

3263. Having decided to dispose of such a large quantity did you, as it were, have to take a lower price than you normally would have done if you had carried it out in the ordinary course of your transactions?—We did not expect at that time to do so; and indeed in kerosene and fuel oil, which were dealt with at the same time, we did not get a lower price, but the market was bad for petrol and the price for petrol was comparatively low at that time. But I would myself, with respect, demur against your phrase "an un-economic price". I think it was a fair market price at that time.

3264. It might have been a fair market price at that time, but if there had not been the decision to realise such a large quantity of the reserves for the purpose of securing a credit to the Vote, might you have obtained a better price for it by disposing of it in the ordinary course?—We could not at that time say whether we would or not. The range of movement of the markets was quite normal, it was not a kind of rock-bottom thing. We could not tell, and I think we should have been very much criticised if it had moved otherwise and we had held off, playing the market in the hopes that it would move the other way. Generally speaking, we try not to play the market.

3265. Did you get any advice as to whether this was a suitable time to unload?—Oh, of course, we discussed this with the Ministry of Power at great length.

3266. They advised you, did they, to dispose of it?—I should think we did not ask their advice on price, we are fairly well advised ourselves. On the actual process, whether we should unload at that time, certainly we were in contact with them. Indeed, we were



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rather anxious for them to help us to get the whole thing done a little quicker, but it turned out that they could not. We asked them, for example, in the case of the second company whether they could persuade the company to take it, but they advised that that was impossible. We went to the Treasury and the Treasury agreed that we must take the Ministry's advice.

3267. Could I put this one specific question to you, Mr. Macpherson? Do the Treasury think the decision on that occasion was the right one?—(Mr. Macpherson.) If you are referring to the policy decision, Sir, I do not think it is for me to answer, but we do not think the disposal by the War Office in this case was wrong or that the results were uneconomic.

Mr. Arbuthnot.

3268. Mr. Macpherson, towards the end of paragraph 45 the reasons are given for which the War Office did not consult the Treasury. Did the Treasury in this case expect to be consulted?—No.

3269. So that you agree with the reasons which the War Office adduced for which they did not consult the Treasury?—This is not a field in which we would normally expect to be consulted by the Department. The Department might come to us and say they were trying to dispose of certain things and they considered the price then being offered was not as high as they thought they could accept, and they might say to the Treasury: "We have got a choice either to defer decision to dispose of the stocks and wait and see if we can get something better", or might say to the Treasury: "This is the best price we can get, do you agree that we should get rid of the stores". But we do not think those circumstances arose in this case.

3270. Sir Edward, you were telling the Committee about the oxidation that goes on in petrol which deposits a resin which eventually gums up the carburettors?—(Sir Edward Playfair.) No, not quite, Sir. What I was saying was that you take a sample of petrol and subject it to a jet of oxygen or whatever it is, special oxidation, to see whether it retains its stability. If the result of that test is that the stability has dropped it means that gum will develop in the petrol in about six months.

3271. If it does, is it not a comparatively simple business to redistil it so as to remove that gum?—It certainly can be done, Sir, but though it is technically perfectly simple and practical it is rather expensive and was open to quite special disabilities and disadvantages at the time in question. That was exactly why the second company were not prepared to take it.

Sir Colin Thornton-Kemsley.

3272. Sir Edward, in paragraph 44 the Comptroller and Auditor General reports that a managing company rejected an offer made by the War Office in January, 1957, to sell them back some petrol. Was that at a named price?—They were not prepared to take it at any price because of the difficulties I was just mentioning, the question of distillery balance and their desire at that time to put as much crude oil as possible through the refineries in order to produce more of the medium and heavy fractions which were so extremely short.

3273. The company's offer was accepted in October, 1956?—The first company, Sir.

3274. The first company's offer. That was some months, was it not, after the military measures had been put in hand?—No, Sir.

3275. Well, some months after the preparations had been made?—Yes, but it was in a moment of rather happy relaxation when it was being announced that there was every chance of a peaceful solution.

3276. In a week. So at that time the War Office presumably thought that there was no risk of petrol scarcity resulting from interruption of Middle East supplies?—An inconsiderable risk. That was our advice.

3277. So you were quite happy to take any risk there might be of a shortage rather than lose the proceeds of the sales for the credit of the Vote?—You mean a national shortage, Sir?

3278. Yes?—I really do not think that we could have, so to speak, betted against the nation in that way. Possibly it is our innocence but that particular calculus I do not think entered our minds. We thought rather whether we should hold on to this from the military point of view, was there any danger in reducing our stocks? Our advice was

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that there was not, and we felt it our duty to go forward in accordance with the accepted policy.

3279. Later you actually issued for the operation some of the reserves which you had wanted to sell, I think, did you not?—No, Sir. Not quite. I put it like this: we issued some jerrycans full. It was a matter of a few thousand tons out of total holdings running into hundreds of thousands, so it did not make a substantial difference. We took account of that when we sold because we took that out of particular tanks.

3280. You would agree, would you not, that looking back on the thing, postponing the sales would not only have been prudent but would also have been more economic, as things turned out?—I would say it would have been economic. I would not agree that it would have been prudent and I am sure that it would have been against the policy by which we are governed.

Mr. Oliver.

3281. Sir Edward, just one point about the company offering a lower price for petrol unless you were replacing it. What was the reason for that?—It really is a question of the position in the refineries. Normally speaking, when we had on other occasions sold on a favourable market we got roughly the same price, and that is why we put in that estimate. But at the time in question there was a glut of petrol, the price of petrol had just gone down, there was a shortage of the medium and heavy distillates, and if we had sold down-graded petrol of this kind which would have to be passed through the refineries for blending it would have meant that the companies would have been unable, as I am informed, to pass through three times that volume of crude and that would therefore accentuate the existing shortage of the fuels they were trying to sell. They were even running short, at that earlier stage, of storage for petrol.

3282. If you cannot get a better price is there any use for trying another company?—We did, Sir.

3283. I appreciate that, but is there not a pretty close tie up between one petrol company and another, and if one would not buy there is rather a remote possibility about the other people buying?—I am not quite sure. I would not like to be sure about that, be-

cause short-term circumstances may be different from time to time. One may have more space in its tanks, for example. We thought it worth a trial, anyway.

3284. Have you ever found a case where they differed at all in their commercial proceedings and in their prices?—I can give you two particular examples, Sir. One is that one of these managing companies was prepared to buy at a certain price and the other was not prepared to buy at all, and the other is where one company bought from us in 1956 at £12 10s. 0d. and other companies at corresponding freight distances had sold to us at about £11 10s. 0d., at a time when the Mexican Gulf price was rather higher.

3285. So you accept that, Sir Edward, as evidence that there is no close tie-up between the companies?—No, that was not your original question, Sir. You asked had we found any case of differences. I said, yes, we had.

Mr. Oliver.] I appreciate that.

Mr. Collins.

3286. Just one other question, Sir Edward: not in cost, but bulk or gallonage, what was the amount of petrol involved which you sold here?—We sold in the end to the first company 67,700 tons and to the second company in June, 1957, 44,405 tons.

3287. That is, just over 30 million gallons?—Yes.

3288. Paragraphs 47 and 48, Transfer of stores &c. to the Jordan Government. Was the figure given in paragraph 48 of £8,392,000, the cost figure for the stores or did it allow for depreciation?—No, Sir, it was a peak figure, a cost figure for the value of fixed assets and book value for the rest.

3289. You reached agreement to transfer the stores at approximately half their value. Was that because you thought that was their real value or were there other reasons for reaching agreement at a lower figure?—It was really too elaborate for that. There was an enormous number of claims set off against each other here. There is no doubt in my mind that this figure of £8 million is much above the real value of them, as, for example, it included the fall in cost of some items which had been taken from our depot at Zerqa and were in the hands of the Jordan Forces.

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3290. So the loss is not anything like as great as it appears?—No.

3291. Has Jordan made any payments at all under this agreement?—Yes, she has paid punctually. Only one has been due so far, and it has been paid.

Mr. Oliver.

3292. I see the new Jordan Treaty provided for a payment by the Government of Jordan of £4,250,000?—Yes.

3293. Over a period 1957 to 1963?—Yes.

3294. Then, if I read the thing aright, in the next paragraph a sum of £8,392,000 had in fact been handed over to the Jordan Government long before 1963, because it is only 1958 now. Have I made myself clear?—I think the answer is that we handed this stuff over as at the date of the Treaty, which was 18th March, 1957. The Treaty then provided for instalments. This is the pay-as-you-go system. The stuff was all handed over at the moment of the Treaty and did not have to wait for the payment of the loan instalment. Have I answered your point?

3295. As I understood it, from 1957 to 1963 the sum of £4,250,000 would be handed over in instalments?—Yes.

3296. Then I see from the next paragraph that goods worth £8,392,000 had already been passed over?—Goods worth it, Sir, is perhaps putting it a little strongly. That is the cost price, the price at which it stands in our books and, of course, there were a number of claims set off against each other here to reach the general figure of £4,250,000. You cannot, in fact, relate that figure precisely to a neat balance sheet of figures; it was a bargain figure.

3297. What remains to be handed over now, or what value of things remains to be handed over in the years between 1957 and 1963, anything?—The period 1957 to 1963 is simply the period of the instalments. The first instalment, £1,250,000, was paid on or about the 1st May, 1957. The rest is being paid by six equal instalments of £500,000 on the 1st May in each of the years 1958 to 1963. That is all that remains to be done, barring a few minor adjustments.

Mr. Peyton.

3298. Just one question. How did you know how much equipment you had got

in Jordan?—Simply our normal book-keeping process.

3299. You were entirely confident in that, were you?—I have no reason to doubt it, Sir.

3300. In the past you have had very sharp reasons, I should have thought, for doubting your normal bookkeeping process?—It is getting better all the time, Sir.

3301. There is room for that, obviously. Was there any special effort made on this occasion to check up on what was there?—We had it in our books. As I say, by the time we got to the actual negotiating of the Treaty we had to hand over Zerqa to Jordan to look after and half this stuff was in their hands, but it is my duty to write off what I cannot account for afterwards.

3302. It would not be unreasonable to assume, would it, that, coupled with your normal bookkeeping process and the circumstances of the time, this was probably a pretty hit or miss figure, was it not?—Certainly. The only thing it gets with any degree of accuracy is stuff which has been on our books as having been despatched to Jordan.

3303. That is no indication that it is still under Army control or possession at the time, is it?—Some of it was not in Army control or possession, since bits of it had been wasted, lost, and so on, and some of it, much larger amounts, had been taken into custody (at our request, I must say) and removed by the Jordanian Forces.

Mr. West.

3304. What would be the total value of the claims that you had against the Jordanian people and the total value of their counterclaims against the Government?—I shall find it very difficult to give you a precise answer, I think, Sir, because some of them were not even valued very closely. The total amount, so far as the War Department are concerned, is governed by the amount which we write off, so far as our side are concerned. I do not think we ever agreed a particular figure.

3305. But in arranging a figure which the Jordanian Government agreed to pay, account was taken of the claims and the counter claims?—Yes, but they were not all War Department ones. We did not negotiate this Treaty ourselves and

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it contains much more than usual, perhaps.

3306. But have you no information at all as to the total balance due to or from them on these claims and counterclaims?—Not unchecked ones, because one of the processes of a general agreement of this kind is that when you reach some kind of agreement you decide not to check off all the various claims and counterclaims against each other.

3307. I notice in paragraph 48 that it was exclusive of certain loaned equipment which was handed over free of charge?—Yes.

3308. What was the value of the loaned equipment which was handed over free of charge?—I can give you that.

* * * * *

Mr. Collins.

3309. Yes?—It was £— million originally, but it was training equipment which had been handed over by the Commander, Middle East, and was in use for many years; and certainly its real value is unascertainable, but very much less.

Mr. West.

3310. So that, really, we have no idea at all what advantages the Jordanian Government has had as a result of the arrangements which have been made?—It is terribly difficult to say, because to do that I think you would have to answer the question which Mr. Peyton put: you would have to know how much these things were really worth as distinct from how much they stood at in our books. You would have to consider what would be the counter advantages we would have, how much we would be able to sell of fixed assets in a place where we could no longer remain and heavy material which we should have doubtful capacity of carrying away. That is why I do not think you can find any basis which produces a suitable value except the single artificial one of saying how much have you written off. The truth is that you are in a special position when you are leaving a country.

3311. What I am more concerned about is how much in total has it cost the British taxpayer?—Yes.

3312. We cannot ascertain that until we know what the value of the claims

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and counterclaims were?—No. So far as we are concerned, I can give you that answer straight away. It is a figure of £8 million plus the figure of £— million which I gave you earlier. The counterclaims were a great deal smaller, I think.

Chairman.

3313. Paragraphs 49-51, Supply of stores to Central Ordnance Depots. Sir Edward, the sad state of affairs revealed in paragraphs 49 and 50, apparently, so far as Didcot is concerned, has now been remedied. Have you made sure that there is no such overlapping at other depots?—This is a special Didcot problem. This concerns the first two paragraphs in particular. The problems are different, if I may take 49 and 50 first.

3314. We are taking them all together, but I was asking the question relating to paragraphs 49 and 50?—No, this is a Didcot problem, fitting up quarters, and so on, with a variety of different kinds of furniture and equipment, which is what comes from Didcot which deals with general stores. I do not think the same thing arises elsewhere.

3315. Have you found out whether there is a new service department as distinct from a maintenance department at any other depot?—There is not, Sir, no.

3316. Then, quite apart from avoiding this particular dichotomy at Didcot, have you also ascertained that there was no overlapping of similar stores between depots generally?—There could not be, no. There is not because the division between depots generally is by nature of the stores they deal with.

3317. By that you mean that another store would not be dealing with blankets or oak chests?—Yes.

3318. And individual depots each deal with different kinds of stores?—Yes.

3319. With regard to paragraph 51, the ponchos, did the War Office make their instructions clear or were the staff not very intelligent?—It must be a bit of both. I am afraid it is a bit of both. It was also, I understand, due to that awful instrument, the telephone, that a misunderstanding occurred.

3320. What you mean is there was a general shortage of intelligence both at headquarters and at the depot?—Yes;

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I would not seek to divide it between the two.

3321. Did anyone get a bad mark for it?—Yes, there was a bit of rapping of knuckles.

3322. Rapping of knuckles. Did that extend to removing them to other depots?—To the best of my knowledge it did not, nor am I awfully keen that it should. I believe that a person should be punished or not punished on a job but if he does badly he is not just to be turned on to another one.

3323. It might be that he was not up to the job?—It might be. I should not myself take such a severe view of the man at the other end. It is possible among the many instructions which the War Office send to misunderstand them.

3324. You will recall that on Tuesday we expressed unease about payment during unemployment. This seems to me rather relevant. If nothing happens to an officer who makes a very serious mistake he is not excessively discouraged from making similar mistakes again?—Well, it is not a very good mark for an officer, who by the way, of course, may perfectly well have been a civilian, I do not know; it is not a very good mark for him.

3325. Reverting for a moment to the blankets, in the last sentence of paragraph 49, was the order for blankets cancelled before or after the Comptroller and Auditor General reported?—After, I am afraid.

3326. But you do feel sure that this just could not happen again?—No, Sir, not this mistake.

3327. Not that one?—May I say one thing, Sir? There is a choice of evils here. Until this happened we thought it was better worth while to have the rather special technique of new service ordering in one hand. This episode has shown us that that is not so, and we have changed round to pure subject ordering. It was not just stupidity on our part that we had that system before, we do lose something in not having the one man whose main job is to see that the whole set of things on a schedule gets to a given place at a given time and is fully responsible for them. It is on balance an advantage, and we accept that we got the balance wrong here.

3328. Have you now an organisation which, when a depot or Department indents for goods, is in a position to and in fact does consult a central stores department to ascertain what the stocks are?—The answer is that such indents for oak chests, or whatever it may be are all now dealt with by one individual.

3329. On the question of ponchos again, which are jungle equipment, would not the main stock of jungle equipment be held in reserve in the Far East?—It was, but of course there were operations going on in the Far East and I think that is what gives rise to the misunderstanding.

3330. Is this not another example of stocks being held in two places, at home and overseas? Is it not desirable that whether the stocks are at home or overseas depots they should, in fact, be regarded as one stock?—Within limits, Sir, but our whole system is based on having a central stock and theatre stocks under the hand of the theatre commander or the commander generally. There must be some point at which they pass from one to the other and the mistake was in thinking that that had occurred at this point.

3331. Is it not normal practice, at least when jungle equipment is being ordered, first to ascertain what stocks are held overseas?—It was known that these stocks were held. It was thought that they were to be held inviolate as a local strategic reserve.

3332. But apparently this equipment is now to be superseded by other items?—Yes.

3333. Why, then, should you order a further large quantity?—It was not then, I think, to be superseded by other items. It is now to be superseded by other items.

3334. If it is proposed to be superseded by other items, how is it proposed to use up the stock?—Because we shall not buy the new stock until we have finished all this up. Forty-two months' stock is what we have got in hand.

Mr. West.

3335. What was realised on disposal of the surplus?—Of the oak chests?

3336. Yes?—These oak chests have not been disposed of. They have been kept. Three hundred and seventy other

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oak chests are being disposed of; I do not believe they have been sold yet.

3337. The disposal would be in the usual way that one sees advertised?—Yes, by the Ministry of Supply.

3338. By Ministry of Supply sales. By auction, is it?—I believe it is nearly always by auction, but it may be by tender. It is their responsibility and I am afraid I do not know the details.

3339. They usually result in a substantial loss to the British taxpayer?—Oh, yes, I am afraid that must be so.

Mr. Peyton.

3340. Sir Edward, the process here of ordering without making sure that stocks were not available seems to me to be in very sharp contrast to the procedure which is adopted when a Government Department has a property which it wants to get rid of. Then they hawk it round to every other Department and say: "Do you want this, can you possibly use it, before we give it back to the public to whom it belongs". Why can that procedure not be observed in purchasing?—I have no answer, Sir, it ought to be observed. It ought to be observed at least within the realms of practicality. We cannot in practice walk round to the Ministry of Works, the Ministry of Education and everybody to see if they have got 370 oak dressing chests, because too many such things happen. The property you are referring to is usually landed property which is in bigger parcels but, of course, we ought to look round all our own repositories first.

3341. I am sure you ought to do that, but do you really think it would be too much to have some sort of central Government Registry of stores who would know that so many million boots and blankets were available?—I think it would be absolutely impossible. The task of managing our own stores, as this Committee unfortunately knows, is almost superhumanly hard. To have a central management of all stores seems to me impossible. I believe that the only way of dealing with this problem, in so far as it is dealable with, is to have a certain Department storeholding for all the Departments concerned; and as it happens, the Defence Administration Committee, of which the Minister of Defence announced the setting-up to the House, is at the present moment investigating the possibility of having a

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single department looking after the storeholding of all furniture such as these oak chests for all Service Departments. Furniture has been chosen simply as a trial run. Now that, I think, is as far as we can get, but I do not believe that we shall ever get to the point where we have every Department doing that.

3342. In paragraph 50 there is this dramatic announcement that in future the total stock position will be checked before stores are ordered. It does not seem to me to be really a terrible novel principle which is reported there. It is quite a good idea?—Of course, it always ought to have been done and now it will be done, we hope.

3343. In the next paragraph, halfway down, there is a reference to the fact that an order which had been placed for 42,500 ponchos costing £99,000 odd was not reduced when the revised procedure came into force. It rather leads one to wonder whether the revised procedure does not need revising?—The revised procedure does not refer to paragraph 50, Sir, it refers to sentence 1 of that paragraph.

3344. Oh, yes, I understand that?—This did not only refer to ponchos, Sir, it referred to all the reserve stocks and the mistake was made as regards two items, ponchos and bags pack. Bags pack were rectified and ponchos were not.

3345. The point that I am after is that, whatever it refers back to, and I accept what you say, the revised procedure did not seem to me to be quite as good as one might have hoped?—No, Sir, but I would ask you to remember that probably that would cover something like 200,000 items and it had bad effects in the case of ponchos.

3346. In the last sentence of paragraph 51 the Comptroller and Auditor General says: "I was informed that the current stock will last for about 3½ years and is within the limit fixed for retention and that although the supersession of these equipments by new items is under consideration it is intended to use up the stock". Is that going to be quite as easy in practice as it is to say?—I think so. We shall just not issue the new items until we have used up the ponchos.

3347. What are you going to do with the new items in the meanwhile?—We shall not order them.

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3348. Until you have finished with this lot?—Yes, it is under consideration, naturally, and that usually means a gap of . . .

Chairman.

3349. Arising out of the penultimate question, is it so much the procedure that needs revision or is it more the case that you should see that the procedure is carried out?—Entirely the latter in this case, Sir.

3350. We now turn to paragraphs 52-58, on the subject of the supply of boots. Sir Edward, would you have ordered these half million pairs of boots and soles if you or the Ministry had not wanted to use up the stocks of leather and maintain continuity of production until a new type of boot could be ordered?—Probably not, Sir, not at that stage.

3351. In paragraph 53 the Comptroller and Auditor General says that the quantities ordered would have been within War Office estimates of requirements, but according to paragraph 55 that estimate was quite wrong?—Yes, it was.

3352. In fact, the depot's figures would have justified only 200,000 boots?—That is right, Sir.

3353. This is a case, therefore, where the depot was right and the War Office was wrong?—Yes, it was, Sir.

3354. That is in reverse. So, it does seem to show that not only in some cases do the depots need re-organising, but there should be a similar overhaul of the main supply branch at the War Office in order to check this kind of thing?—Yes.

3355. Are you having that done?—Yes. The main point is this: so far as the human side is concerned there were two officers involved, one military and one civilian. The one has retired and the other is dead. So far as the procedural side is concerned, seeing that this does not happen in future, two things, I think, are needed and both are being done. One is much closer contact generally between the depots and ourselves; the other, and I think this is the most important of all, because all this nonsense would have been stopped if we had had it, is that we should get copies of the calculations on which the depots base their orders and should not attempt to do sums on our own without reference

to the ones which the depots have done. That was the big mistake here.

3356. Would you agree, however, that the most important essential is that the supply branch should always be aware of the overall stock position before new contracts are placed?—Well, Sir, not quite that, with respect, because there was never any discrepancy in the views of this overall stock position. Where the mistakes took place was, one, in the current usage and two, a mistake in the depot because we had taken this figure from the depot in the calculation of the reserve liability.

3357. As the object was to place the smallest order that would keep production open, would you have placed this order for half a million pairs whatever your actual requirements had been?—No, I do not think so. I think 200,000 is all we should have placed.

3358. Do you now feel that you placed too much importance on this question of keeping production open?—There is no doubt on that keeping production open point, yes. It is very hard to look back and say what we ought to have felt on the basis of the knowledge that we had at the time, and I think they were justified to take it fully into account. The leather argument stands but the argument from production, so far as boots, as distinct from half-soles, is concerned fell considerably later on.

3359. If according to the depot's estimate only 200,000 pairs were ever needed, why is it that 1½ million pairs of boots are now available for disposal?—Quite a different subject, Sir. There really was no connection in that way except the obvious one, that if we had ordered 300,000 less the surplus would have been less. The reasons these large amounts have been put up are, one, a smaller future requirement because of the smaller future Army, the running down of the Army, two, a smaller requirement, rather analogous to what I said about the petrol for reserves, and, three, almost most important of all, the decision to abandon the old policy of keeping ten years' stock if we had it and to cut down to a figure which is, though not rigid, approximately 4½ years' stock.

3360. In view of the answer to the question which was given by the Secretary of State yesterday on this subject, that

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the decision to change to the new type of Army boot has not yet been made, is it still the case that 1½ million pairs of these boots are surplus?—We have actually changed our figures, and as a result of the further consideration put here, the figure will not now be 1½ million but it will be a large figure. Shall I explain what the figures are now Sir?

3361. Yes, please?—What we have decided to do—we are still discussing with the Treasury as regards boots—is to throw up 950,000 pairs as surplus. That is on the basis that we will keep 4½ years' supply, which is our normal figure, but dating it is as from now not as from a year ago. On top of that we shall have a war reserve calculated by war needs, but which is equivalent to five years of peacetime use. Therefore, when we get this new boot we shall still have 9½ years of old boots to use in one way or another. 4½ we shall use anyway, just in ordinary issue. Whether we shall then start ordering new boots and put them to war reserve and pull out the old boots, or start issuing the new boots and put the old boots to reserve is a matter to be decided much nearer the time according to the tests we shall make on the boots according to their living power and other considerations. We have not reached a decision on that. But, at any rate, the need for this new boot is not terribly urgent. Should I deal with the other figure of half-soles while I am at it?

3362. I think we should leave that because other Members of the Committee may have questions on that point. The figures are most impressive, but it does rather seem to me that before the old boots are worn out the troops may be airborne?—Exactly, Sir.

3363. What does the Treasury say about this, Mr. Macpherson? Did the Treasury sanction the order of half a million pairs of boots in 1955?—(Mr. Macpherson.) Yes, they did.

3364. And for the half-soles?—Yes.

3365. Were you aware then that these orders were intended to use up the leather stocks and keep production going rather than to meet their requirements?—We certainly were not aware of the figures which were subsequently revealed by the depot, which showed that the deficiency was not 1 million as we had understood in the case of boots, but

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something of the order of 200,000. It is difficult to say what our reaction would have been to the argument for purchase based largely on the continuity of production. It is very difficult to answer that hypothetical question, but I think probably we would have been putting a great deal of emphasis on the desirability of eating into the reserves, but it is very difficult to say.

3366. Do you think that the Treasury should have been informed in June, 1956, when the depot reported a large surplus and the cancellation of 317,000 pairs?—I think so, Sir, because by that time it was known that the assumptions on which this had been put to the Treasury were no longer valid.

3367. Had you known that it is probable that you would have pressed the War Office to cancel that part of the order which had not been placed?—Again, it is very difficult to answer that hypothetical question, but certainly this argument on the continuity of production would no longer apply, because by that time it was clear that the new boots were not going to come in within a period where continuity of production was valid.

3368. In other words, you would not have agreed if in full possession of the facts that it was right to place the order for half a million pairs on the grounds of continuity of production alone?—I think we are dealing with two separate things here. The first point was, would we have agreed to an order for 500,000. As I said, that was put to us on the basis that there was a need for maintenance in 1956-57 of 1 million pairs. In fact, as we now know, to meet the requirement something of the order of 200,000 were needed, therefore, the argument for the 500,000 rested very strongly on the continuity of production. What our answer would have been at that time is very difficult to say. The second point is, should we have insisted on cancellation. That again is very difficult to say, but certainly, as the argument on continuity no longer applied, we might have pressed very hard in the light of what the reserve position was for the case of cutting one's losses and meeting any cancellation costs that would have been involved in cancelling the larger number.

3369. Have you made any representations over the fact that you were not informed of the position in June, 1956?

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—We have made our views known to the War Office while we have been discussing the related problem of the disposal, where we indicated to the War Office that we would like to go into the economics of the disposal plans in relation to the prices likely to be realised for the existing boots, the cost of keeping them in store, the advantages of going over to the new boot, and so on, but we have not yet gone into that with them.

Mr. Oliver.

3370. Sir Edward, paragraph 57 says: "The War Office added that the depot had now declared surplus for disposal 1½ million pairs of boots and, 1,080,000 pairs of half-soles". How much loss is there likely to be on the disposal of those two items?—(Sir Edward Playfair.) It is impossible to say with any certainty.

* * * * *

As regards the half-soles, the situation has substantially altered. The basis on which the depot put forward 1 million pairs of half-soles was the same general figure of 4½ years' maintenance for each. Now, that would have the effect that if our calculations were right the last pair of half-soles would be issued at the same time as the last pair of boots are issued. Well, that obviously does not make sense because the last pair of boots would never get repaired. The right way, I think, to treat half soles is to treat them in the same way as we do spare parts of obsolescent motor-cars: we keep enough of those spare parts to see through the main item which we have in store. Now, the effect of treating half soles in that way and relating them to the boots we have is that, in relation to the boots which at various points we have had and we have now got, we have never had a surplus of half-soles; and on the basis that we throw up a surplus of about 950,000, or anything less, we shall not throw up a surplus of half-soles at all. They are, incidentally, a very much easier storage liability because they are flat.

3372. So, though the number given here is 1,080,000, there is no surplus at all?—No, and similarly, if you project back this policy, which I think is a sensible one, if you go back to the

point in December, 1956, where it refers to 235,000 pairs of half-soles, on that same policy we should not then have cancelled. We have always been behind-hand, or now, on the basis of throwing up a large surplus of boots, roughly in balance for the first time on our requirements of half-soles.

3373. Going to paragraph 58, Sir Edward, did the Air Ministry or the Ministry of Supply ask the War Office if they could provide the 24,130 pairs of boots before the additional contract was placed in September and December, 1956?—No, they did not, and this comes back, I think, to Mr. Peyton's point. I do not believe that the obligation of hawking round is possible except on two bases, one, this would happen automatically if and when we had declared a surplus, which we had not, and two, on the basis that, where two Departments or three Departments are using the same object, one Department does the stockholding for them all, which is a complicated process, but one which has got a future and which the Service Departments and the Ministry of Supply, under the chairmanship of the Ministry of Defence, are now investigating.

3374. It would not be quite the same as the question Mr. Peyton submitted, would it, Sir Edward? He was talking about hawking around. This is a question of an inquiry?—That is rather the same, is it not? I think Mr. Peyton wanted us to hawk articles around, did he not? However, it is not for me to say. As a pure matter of merit I think the mechanical difficulties are very much the same. You have, if I may venture to say so, put your finger on a weak part of our complicated system, and it is exactly that which we are trying to look after and to improve by an extension of systems of common stockholding, just as we now hold the reserve petrol for the Royal Air Force, and just as we now look after the foodstuffs of the Royal Air Force.

3375. Of course, when the Departments know the importance you attach to the continuity of manufacture I should have thought they would have inquired?—They did not know that we had more than we wanted. The Ministry of Supply did not; at least, I do not think they did. I am not suggesting that they should have known more than they did, I do not think they could.

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3376. I should have thought the Ministry of Supply would have asked the War Office whether they could supply the Air Ministry before they gave this order. I should have thought that was a very ordinary thing to do?—The complications of doing any business at all are such that I am not in the least surprised that they missed this one out. I think the main thing for them is to get on with the job and get what the customer wants in this case. They did not know that we were long in boots, they just knew that we were buying boots.

3377. You see, if you accept the point that Mr. Peyton put to you, you would disregard this altogether and say it is of no effect?—I must not go on referring to Mr. Peyton in this way, but Mr. Peyton was, I think, saying to me that we ought to have a system by which when one Government Department was buying we should hawk around our requirements just as we hawk about our assets.

Mr. Peyton.

3378. I do not want to have too much made of my point. The general principle or practice to which I was trying to call attention was the reluctance with which a Government Department disgorges anything ever and the avidity with which it obtains more?—Not us, Sir, we love disgorging.

3379. You certainly have got plenty to disgorge?—(Sir Frank Tribe.) I should perhaps say that subsequent to this event, in June, 1956, the Ministry of Supply were made aware by the Air Ministry that they would want 24,000 pairs to be put out to contract in the following January, 1957. By that time the Ministry of Supply were aware of the War Office position and they suggested that the Air Ministry should meet their requirements from War Office stocks, which the Air Ministry did. So, the Ministry of Supply, as soon as they were aware of the surplus, did take action.

3380. It is the business of the Ministry of Supply to be aware of it, is it not?—The Ministry of Supply has to order what individual Departments want.

3381. I do not understand the procedure, Mr. Macpherson. Sir Edward Playfair comes along to you with a bright smile on his face and he touches his hat to you and says: "Good morning", and then a few tears appear, and

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he says: "I have not got enough boots". He does not necessarily say: "I have a friend round the corner who is embarrassed with a lot of leather and I must help him out", he says: "I must have more boots". You say: "How many boots have you got?" and he says: "Half a million pairs and they are not enough for me". You do not disbelieve all Sir Edward says to you, of course, but do you ask him: "Are you certain you have not got enough boots"?—(Mr. Macpherson.) I have the correspondence here on this subject. The War Office first came on the 29th June, 1955, with this proposal. The Treasury replied very shortly afterwards and said: "Would it not be possible in the circumstances you describe to avoid any order of the present pattern boot for maintenance next year?". That was the first retort, to which the War Office replied in July, 1955, later on in the month, where they listed the arguments. The Treasury took that up with them in a further letter and subsequently met with the War Office and went very carefully, not only into the arguments of need, but also into the arguments on continuity of production and the state of the Ministry of Supply leather stocks, and it was not until August, 1955, that the Treasury finally agreed to this order.

3382. Did the Treasury, for instance, go to the depot—I believe there is a depot involved in the boots? Does it ever occur to the Treasury to say: "Let us hear from the depot, or from whatever body is responsible for these boots, what their figures are, and whether they are sure about this"?—The Finance Branch at the War Office are the responsible people. We assume that the questions we ask are answered for the War Office and we do not distinguish between the depot and the Finance Branch.

3383. You must have a depressing feeling in your mind that once anybody has determined this—I do not want to make too much of it with Sir Edward either—he must come along with a clear picture in his mind as to what he wants?—I am not going to suggest that the Treasury are quite as complacent as that. There are many instances which I can think of where the Treasury, by dint of its lay criticism, have reduced the requirements. I can think in terms of stores where the Treasury have pressed the Service Departments very hard to live on their fat, particularly at estimate time.

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3384. There was certainly plenty of fat in these boots. Sir Edward, I feel, reading this page, that it may be that the War Office have not been particularly the culprit. You have been rather quixotic, but it is the Ministry of Supply who have been in trouble here with a tremendous lot of leather?—(Sir Edward Playfair.) No, Sir, with respect, I do not think that. I think that the Ministry of Supply, as it turned out, rather exaggerated the production argument at the beginning.

3385. This maintaining continuity of production?—Yes, but as they tested out the trade they laid lots and lots of stress on that and we, I am bound to say, used it at least one stage later than we ought to have used it, as this record shows. As regards the leather, they simply stated facts. It was we who would have to bear the cost of selling the leather, which is pretty unusable stuff on the civilian market, if we had not used it up. It should be remembered as one of the small points—I do not want to justify us in what I think was a thoroughly botched business—that the leather business was not nonsense, and we might have been accused, on the basis of the ten year limit in force at that time, if we had incurred a lot of nugatory expenditure: it was for us to make the decision. No, I think I must take the blame.

3386. I think everybody has been terribly careful. You said just now, 9½ years' supply of boots. Is it possible to visualise any emergency arising where 9½ years' supply of boots is going to be a valuable strategic asset?—Only the effluxion of 9½ years. The 4½ years are simply that we have got these things and we just keep them and turn them through. We do not aim as an act of policy to have 4½ years' maintenance.

3387. The whole point is—there may be a perfectly good answer to it—that one has the impressions that these war reserves and other reserves are fantastically and astronomically large, and in point of fact, if 4½ years were cut down to two years, you would be running a perfectly justifiable risk?—Could I just say this, I really can distinguish two things which are added to one another, one is war reserves and the other is maintenance reserves. 4½ years is the upper limit of our maintenance reserves, but we do not aim to have that, we aim to have something which is limited to the

time it takes to order them and get the stuff through, which is perhaps a year and a quarter in this case, but if we already have the stuff we keep it for three years on top of that rather than sell it at a considerable loss and buy again three years later. That explains the 4½ years. The five years is not, of course, a concept of a war going on with cobblers hard at work mending shoes for five years, but it is the rather larger number of people in time of war. All I can say is that, as you know, Sir, reserve figures are not permanent; they may be changed, and we are always trying to cut them down, but our best advice is that a figure which corresponds to five years' peacetime use is a sensible and prudent war reserve.

3388. I think if this Committee suggested to the War Office that it ought to go easy on boots that would not be an extravagant recommendation, would it?—We should welcome it. We are taking that very much to heart at the moment.

3389. You have already been asked about this, but I do not really understand. When the depot made this recommendation they sought War Office approval to ask the Ministry of Supply to cancel orders. Was it you who produced the argument that continuity of production must be maintained, or was it the Ministry of Supply?—We produced it. Frankly, on this I found it very hard to reconstruct history. The record is not very precise. That argument by itself really does not make sense at that stage.

3390. Exactly?—I think it was the leather argument which was the real one.

3391. In fact, you are really repeating the Ministry of Supply's argument, are you not?—I think when we used that we were repeating it, but we were repeating it out of turn and it was not then valid except for half-soles, where for a different reason it was valid.

3392. At the end of paragraph 55 the Comptroller and Auditor General says: "There was admittedly no longer any prospect of maintaining continuity of production until orders for the new type of boot could be placed". That must have been heartbreaking for somebody who had been relying on that argument for years, must it not?—Well, it led to a certain intellectual jolt.

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3393. But here we are back in the next paragraph, still trying to keep production going because the half-soles would be needed subsequently?—I do not want to appear pedantic, but there is a certain difference between the two on this argument if I might explain.

3394. The half-soles and the boots?—The continuity of production argument. For the continuity of production argument in boots at an earlier stage it was hoped that this new boot would be coming in quite soon and the idea was to keep the bootmakers going until they could come to these new moulded-sole boots. As soon as we found we had enormous quantities of boots for years that really disappeared. The argument they advanced on half-soles was rather different. It was that, knowing that we were not going to buy any more boots, we would like to keep the people going who were doing half-soles until we had got all the half-soles we would ever buy, because under the new arrangement he would be possibly making boots for us in the future but not possibly making half-soles for us in the future.

3395. We have seen this phrase about maintaining continuity of production right the way down the page, and all through this business I always think there is a great danger that one of these catch phrases which has been repeated two or three times then gets passed into the category of Holy Writ and nobody ever challenges it again?—Like detecting trends, Sir; I think you are entirely right, and I think that bedevilled this business.

3396. Would it be possible for you to issue an edict through the War Office that once an argument has been used half a dozen times it has got to be taken out for a time and given an airing?—A pretty good idea, Sir, thank you.

Sir Colin Thornton-Kemsley.

3397. Sir Edward, the maintenance reserve of boots you have is to cover not only the Regular Army and the National Servicemen but the Territorial Army also, is it not?—Yes.

3398. And the war reserve is based on, as you say, this five years' supply, which is based on the existing peacetime requirements?—No, it is based on a completely different calculation of what we shall in fact require in time of war.

I have merely translated it into terms of the equivalent in annual peacetime requirement.

3399. You take into account the expansion of the Territorial Army?—Yes.

Mr. West.

3400. Am I right that you would not have placed this order if you had not received Treasury sanction for it?—Certainly, yes.

3401. Mr. Macpherson, I, like Mr. Peyton, had some questions to put to you along lines similar to his, because as the Treasury are the keepers of the public purse I think it is the Treasury, not the Ministry of Supply or the War Office, who are to blame here. I would like to know what evidence you require before you give sanction for an order like this being placed?—(Mr. Macpherson.) In this case we wanted to know what the stock position was, what the requirements were for reserves and what the maintenance demand was likely to be.

3402. The evidence now shows that the information you had was false?—Yes.

3403. What steps do you take to test the validity of the statements which are made to you when sanction is required for the placing of an order? This is not an unusual experience, is it? You frequently get this kind of thing in your experience?—Some might say, all too frequently, but I really do not see, Sir, that the Treasury can say to the Department: "The information you are giving us is false and on that basis we are not prepared to give you authority to place that order." You see, at this time, on the evidence given to us it was quite clear that, if the figures used by the War Office were correct, the War Office had a requirement for 1 million pairs of boots to meet their maintenance demands in 1956-57; and that was based on the assumption that in 1955-56 the consumption for maintenance would be 1 million pairs in the year and in the previous year it would also be 1 million pairs. In fact those figures were wrong. They were, I think, an over-estimate by something like 200,000 in each year. So that in itself reduced the requirement from 1 million pairs to 600,000 pairs. In addition there had been, as Sir Edward said, a miscalculation in the depot of what was the war reserve requirement,

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and in fact they produced a further 400,000 pairs.

3404. So the fact of the matter is, as Mr. Peyton suggested, that what the Department has to do is to come along and say: "We want to place an order for such and such an amount" and you accept that statement and you do not verify it before giving sanction for it?—No, I cannot accept that, Sir. There is a limit if, on the facts, and these were facts, we had the wrong information.

3405. Sir Edward, what was the reason for the War Office estimate being 150 per cent. higher than the depot's estimate? The depot were accurate, the War Office were wrong. Why was that?—(Sir Edward Playfair.) There were two reasons, Sir. We started from the position of having 5½ million stock, that was a known and agreed figure. Against that we had to find what was earmarked for war reserve. We put a figure which we got from the depot of 4.5 million. Very shortly after we had been to the Treasury on this, the depot recalculated that and found that they had made a mistake in reading our instructions. The figure ought to have 4.1 million. They corrected that so far as they were concerned by an internal instruction. They believe, from speaking to them after we heard from Sir Frank about this, that we ought to have known of this and would have had a copy of it, but we have not, or at least we cannot trace that we had. That accounts for .4 million. The other, which I think is less excusable, certainly as far as the War Office is concerned, is that we had assumed continuance of usage at the previous rate, that is, the rate of 1954-55 and previous years, which had been going at the rate of 1 million pairs per annum, but in fact the rate had dropped and the correct rate to assume for this was 800,000 per annum, a drop of 200,000. Now, if you take those things together you will get for two years, 1955-56, 200,000 out in each for the maintenance, that is 400,000, and an economy of 400,000 in the war reserve liability, total 800,000, to set against a deficiency which we had calculated as a result of all this at 1 million. Therefore, instead of having a deficiency of 1 million against which we placed an order of 500,000, we in fact had a deficiency of 200,000.

3406. Are you arguing now that it is the depot at fault or that it is the war

Office at fault?—No, it is the War Office at fault. I say that it is only in a minor sense the depot at fault and the Treasury not at all at fault.

3407. Except to rely on the representations you made?—The Treasury never rely on representations, but they are in my view absolutely entitled to rely on facts which we give them and the whole basis of our relationship with the Treasury is broken if they cannot rely on honest facts from us. Now, these were honest but stupid, and they were wrong.

3408. At the end of the day what is it going to cost the taxpayer?—It is going to cost the taxpayer the loss which we make on 157,000 pairs of boots. The total original cost of this was £275,000. I made a guess just now at what we might get but I cannot say what that will be.

Mr. Collins.

3409. We now turn to paragraphs 59-62, New Works Services. Mr. Macpherson, you will see in paragraph 61 that the Comptroller and Auditor-General says: "The War Office have informed me, however, that they did not regard this is applicable to a Supplementary Estimate in which a reduced estimate was shown and that the content and lay-out of the Supplementary Estimate had been approved by the Treasury". What are the Treasury views on this point?—(Mr. Macpherson.) We do not think that the War Office are at fault in this at all, Sir. What they did was the literal interpretation of what we we thought was the right solution.

3410. Have you noted that although this is a Supplementary Estimate in which a reduced estimate is shown there are considerable increases included in it, for example, one item on page 40, £497,000—that is (a) in the lower half of the page—and (b), for £726,000, next to it. Do you still feel that this method shows the true picture? Do you still approve of it?—We are quite prepared to consider this with the Service Departments, Sir, and meet this point by showing Supplementary Estimates in the same detail as the original Estimates, i.e., the ups and the downs.

3411. Yes. In other words, you would consider splitting it into separate Sub-heads for Part I, Part II and Part III?—Giving the details of those Part I services—I think it is only the Part I

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services that are in fault here, Sir—showing the split as is done in the Appropriation Account, in the Supplementary Estimate.

3412. Is it the case, Sir Edward, that this note to Vote 8 on page 21 of the Account relates to all new works started but not provided for in the Estimates, or does it in fact only relate to Part I services?—(Sir Edward Playfair.) It refers to all new works.

3413. And not only the Part I services?—No, I think Part II, also. I am very sorry, I am told I am wrong. It is only Part I, Sir. (Mr. Macpherson.) I understand it to be Part I. (Sir Frank Tribe.) The note shows expenditure of so much incurred under Subhead A which, of course, in the case of the War Office includes Parts I, II and III, but in fact these figures are only in relation to services costing over £10,000 which in the other two Service Departments would be classified under a separate subhead.

3414. So in fact, Sir Edward, they are only Part I services costing over £10,000?—(Sir Edward Playfair.) Yes, I apologise.

3415. Then the note on page 21, which refers only to the small sum of £65,720, is not really strictly accurate, is it?—No, Sir, it looks as though we should qualify the wording of that. May I look into that next time, Sir?

3416. Yes. Could you make it clear in future under this Subhead about Parts II and III services as well?—Part III?

3417. Maintenance and repairs?—Yes; Part III, maintenance and repairs, is such a running thing that I doubt if it is capable of being so treated. You do not contemplate repairing a burst pipe, so to speak, at the time. (Sir Frank Tribe.) There is a similar note in the case of the other two Service Departments which relates only to Part I services and that is all, I think, one would expect of the War Office. (Sir Edward Playfair.) I think the thing to do is to keep to that and make our note clearer. (Sir Frank Tribe.) Or expand, as the other Departments do, Subhead A into three Subheads, A, Part I, B, Part II and C, maintenance.

3418. Is there any reason why you should not render this in the same way as the Navy and Air Services do?—(Sir Edward Playfair.) It sounds as if we

should. May I look into that? I did not know about the way the Navy and Air Services do it.

3419. How much did you spend in a year on services not included in the original Estimate?—£975,000 approximately, Sir, of which a large proportion was operational.

3220. So, it was nearly £1 million compared with, as far as we are informed in this note, only £65,000?—Yes, well, £65,000 since the Supplementary.

3421. Is it not the case that £65,000 is in fact the net figure after some increases and some deductions?—(Sir Frank Tribe.) The Supplementary, Sir, reduced Subhead A by £1,500,000, but the Committee can now see from Appendix II of this Account, which Parliament had no means of seeing when they considered the Supplementary Estimate, that that net reduction of £1½ million included 13 items in which there was a reduction and 9 items, two of which you mentioned earlier, Sir, in which there was an increase.

3422. If you refer to pages 39 and 40, Sir Edward, you will see that there are in fact these quite substantial items of increases of which Parliament was not aware, and for which no estimate was given at all?—(Sir Edward Playfair.) Yes, I understand your meaning now, Sir. I am afraid I did not take it in at first. It relates certainly, as it were, to a revised list. Suppose we have a Supplementary under the new procedure for sending in your list of things, of course we shall send in a revised list explaining what is covered by it, and then the note will only relate to things outside that list. (Mr. Macpherson.) If the Supplementary is to be a revised list, as we think it may be, but including not only the increases but the decreases as well, then the note in its present form will be strictly accurate. (Sir Edward Playfair.) Yes.

3423. Perhaps you would bear in mind in future also this other point of splitting it up into Parts I, II and III, so as to bring it into line with the way the accounts are rendered by the other two Services, the Navy and the Air Service?—I would like to look into that.

3424. Mr. Macpherson, would you ascertain the views of the Estimates Committee about the details to be shown in Supplementary Estimates and raise this point with them?—(Mr. Macpherson.) We normally do, Sir. Before making any

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substantial change in the Estimates we advise the Estimates Committee of what is proposed and, of course, this Committee.

3425. Paragraphs 63-66, Property formerly used by A.A. Command. Just two points, Sir Edward. Is it not now the general policy to cut down holdings of Army stores of most kinds?—(Sir Edward Playfair.) Yes, Sir, it is very much so.

3426. Then why should the War Office want to have an additional 100 storage depots?—We hope to release other less economic and less easy ones which we have got and move stores into these ones.

3427. Does that mean then that the retention of these 100 buildings would be reflected in the return of rents or other costs elsewhere?—Certainly.

3428. Paragraph 66 reports the disposal position in October, 1957. What is the position now?—It is very much the same, Sir, as in paragraph 66. We have not been decreasing as fast as I should wish, because of the difficulty of getting our final assumptions about what stores to get rid of.

3429. Mr. Peyton extracted a promise earlier from you that when a formula had been used some six times it should be put out to grass. I notice you still use the words here “keeping the matter under constant review”. Do you regard that as sufficient, or is it time there was some action in this particular case?—I am really at a loss to express myself without using clichés. All I can say is that we got the needle stuck into us good and proper by our own Ministers recently, and no doubt they will continue to do so.

Mr. Peyton.] Jargonisation. The War Office is a hive of horrible words. You have reminded me of a lot of them now: “civilianisation”, and all those things.

Mr. Collins.

3430. My point, and it has emerged in the examination this afternoon particularly, is that you want to go on. You said you wanted to disgorge, but there is no evidence of disgorging here; the position is the same now as it was seven months ago?—The position is much the same as it is in these actual depots.

3431. You are quite right, the storage depots?—I was thinking of the 100 which are very much the same, which

we have not got rid of. I am afraid I do not know the latest position on this. The other 48 we are trying to get rid of. They are going through the mills. I do not know, but I can easily find out what the latest form is about getting rid of them. We are trying to get rid of these as early as possible.

3432. So you would like to amend your earlier answer that there has not been any change in the last six months?—Yes, I would, and send in a short note. I was thinking of the 100 depots which we are keeping.*

Mr. Peyton.

3433. In paragraph 63 the Comptroller and Auditor General says: “The War Office informed me that, bearing in mind the complicated procedure involved”. Whose fault is that?—It is the fault to some extent of economics and to some extent of policy. There is the process of hawking around, which you have mentioned. There is the next point of the announced policy of the right of former owners to re-acquire land which was formerly agricultural, which usually takes up some time. There is then the usual process of going to auction and the like, and finally there is the absolutely appalling slowness of any transactions dealing with land; but I am not a lawyer so I cannot answer for that.

3434. In the next paragraph, at the end, reference is made to “a reasonable period while other Departments determined whether they had a use for them”. That has a nasty ring about it?—My brief, Sir, says this can take several weeks.

3435. I can quite believe it?—On the other hand, Sir, if I may just add to that, it does produce results at times. For example, these operations rooms; the position now is that we have got rid of all of them except five. Feelers are out for all those 5 and as the market value of such specialised things is about 1 per cent. of their cost, I think it is well worth while making an effort to see that there is a use for them.

3436. In the next paragraph Sir Frank says: “They were retaining 100 against

**Note by Witness:* The total number of depots declared redundant has increased to 50. Of these, 7 have now been disposed of, 17 are up for sale and 26 at various stages in the normal machinery for disposal.

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[Continued.]

ultimate requirements as at present foreseen". How have the ultimate requirements varied with the passage of time?—This is the point, really, which I gave in answer to the other point. We are all too slow to know our ultimate requirements, and in terms of stores we are trying to push them down to the maximum.

3437. The minimum?—May I just add the fact that the 100 is not a round, but a calculated number. It is our bad luck that it looks like that.

3438. "In the meantime they wished to avoid unnecessary expenditure on movement of stores until firm plans had been made". Have firm plans been made?—No, Sir, the matter is constantly under review.

3439. When do you expect firm plans to be made?—During this summer, I hope. Let me say this very seriously, the Army has been, as you know, tremendously shaken up in the last year or 18 months and transmuted that into terms of hundreds of thousands of items is really a super-human task.

Sir Colin Thornton-Kemsley.

3440. As I read paragraph 63, Sir Edward, it seems that the Comptroller and Auditor General had asked you about the operations rooms and the storage depots which were not on offer to other Departments, and it is in that context that he says: "The War Office informed me that, bearing in mind the complicated procedure involved". Mr. Peyton asked you about that complicated procedure and the first thing you said was that you were offering it to other Departments but I think that is precluded, is it not, in this case? What really is the complication in the procedure, because presumably these operations rooms and storage depots are not agricultural land within the meaning of the terms used after the Crichel Down debate?—No, Sir, the depots are, of course, very often.

3441. The depots, yes?—May I say that Sir Frank, as so often, has put a double-barrelled question. He asked the War Office "(a) whether the likelihood of their future official use justified the continued expenditure on their maintenance and (b) whether the progress in disposing of those not on offer to other Departments was considered satisfactory". I think I was entitled to answer

both parts. The operations rooms, of course, have got no satisfactory market except for official use.

3442. It is more the procedure I was trying to get out?—The procedure is complicated as regards first clearing off the possibility of other official use. After that you come simply to the delays of the law.

3443. There is nothing complicated about offering them, if you have to, to the former owners. After that you put them up for auction or for private sale?—That is it. There is a series of steps, each of which takes time. As a matter of fact, there is very often great complication because you have to trace who the representatives of the former owners are and that is not quite as simple as it looks.

3444. But that is done by the War Office Lands Agent, I suppose? Is it not his Department?—Yes.

Mr. Collins.

3445. Paragraphs 71-73, Additional Married Quarters. Sir Frank, there is here a record of a virement of nearly £23 million. Are you suggesting that there are objections to the use of virement on this special Vote to the extent of £23 million?—(Sir Frank Tribe.) I thought this was a matter which I ought to bring before the Committee, because I do not think the operation of these Acts has worked out quite as Parliament expected. Perhaps, if you will allow me, I would like to amplify that a little. This method of financing the construction of married quarters out of loans was introduced in 1949 with the declared purpose of bringing the provision of capital for Service housing more into line with general housing finance and of assisting the Services (partly as a stimulant to Regular recruitment) to build more quarters than could be provided for under the normal Works Votes. When it appeared in 1951 that the Service Departments were not spending all the money provided on their ordinary Works Votes the Treasury proposed that the savings should be used to meet expenditure which otherwise would have been met out of the Special Vote for Married Quarters, thus avoiding borrowings from the Consolidated Fund which can only be repaid by 60 annual instalments of principal and

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[Continued.]

interest. The matter was referred to the Public Accounts Committee of 1950-51 who agreed to this proposal on the condition that the use of virement for this purpose was covered by a note in the Estimates. The Committee had been assured, actually by Sir John Lang, speaking on behalf of the Admiralty, but the Committee understood that he was speaking on behalf of all three Service Departments, that there was no intention and little opportunity for the Service Departments to over-estimate their ordinary Works Services Votes in order to avoid borrowing from the Fund. That is what Sir John Lang told the Committee. Nevertheless, since then large surpluses have in fact occurred on those Votes, and as I point out in paragraph 72 of my Report only £30.5 million of £53.3 million expended out of the Special Votes for Married Quarters has in fact been financed by borrowings from the Consolidated Fund. As far as the War Office itself is concerned, as I say in paragraph 73 they have drawn nothing from the Fund since 1952-53, although they have since then spent nearly £9 million out of the Special Vote for Married Quarters which might have been financed by borrowings under the Acts. It has, of course, been financed by virement of surpluses on Vote 8. In fact, as I say, I rather doubt whether the Public Accounts Committee of 1950-51 when they agreed to this virement envisaged that its use would be anything like as extensive as it has proved. It does seem to me in a way to defeat the original purpose of the Armed Forces (Housing Loans) Acts. These Acts are due to expire in two years' time and it seemed to me that, before their possible extension is considered, the Committee might desire to express their views on this very wide use of virement and possibly, in the light of the last nine years' experience, on the wider issue of the purpose of the Acts and their continuance after 1960.

3446. It is clear then, Sir Frank, that the Public Accounts Committee of 1950-51 only agreed to this virement on the assurances that they were given that the amounts were likely to be marginal? —Yes.

3447. And, in fact, that it would not be possible to over-estimate to the extent of the amount of £23 million shown here. That really is the position?—I think that is a legitimate inference from

the evidence which was given by Sir John Lang on that occasion, Sir.

3448. You would regard it is an essential premise of their decision at that time?—Yes. Perhaps I could just read you one sentence? He said: "The prospect of our really being careless" —on the Works Vote—"to the tune of £100,000 or £200,000 a year in order to have this money available to vire later on is a very small risk indeed. That is not certainly the purpose for which we are asking for the privilege". It has not been a matter of £100,000 or £200,000 but of many, many millions of pounds.

3449. Sir Edward, although it would have been difficult in the opinion of Sir John Lang to have been careless to the extent of £100,000, the War Office since 1949 has been careless to the extent of £23 million?—(Sir Edward Playfair.) I had no notice of this, of course, and I had no knowledge of what Sir John Lang had said. This comes as a surprise to me. I am speaking simply from memory but I thought Sir John Lang's words were different. I thought Sir John Lang said: "A possibility of our being careless to the extent of £100,000 or so to avoid borrowing". That is a very different thing. That is what was read just now, but I must apologise if I am a little at a loss because I had no warning at all that such a point was to be raised.

3450. Quite apart from what Sir John Lang said, it is quite evident to anybody from paragraph 72 of this Report that a sum of nearly £23 million has been met by virement in the course of years since 1949?—That is very true, but Sir Frank, as I understand, was accusing us by implication of having intentionally over-estimated in order to defeat the intentions of the Act of Parliament, and this without warning. (Sir Frank Tribe.) I was not intending to do that. I have quoted this evidence of Sir John Lang because he did say that the details of the Estimates were subject to examination by the Treasury at an early stage in the financial year before they commenced to spend money and that throughout their Works services are subject to precise scrutiny. He led the Committee to believe, I think, that the Works Votes of all three Departments were subject to very close scrutiny and it was therefore unlikely that these large surpluses would arise. Of course, the Committee

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in the last two or three years have considered the reasons why there have been large surpluses on the Army Vote 8. I am not suggesting that it has been done deliberately in order to vire money for this purpose, but the fact remains that for quite a number of years now the War Office have not found it necessary to invoke these Housing Loans Acts at all.

3451. No. Sir Edward, on this particular point and with particular reference to paragraph 72, it is clear to me and it must be clear to you that the extent of this virement must amount to nearly £23 million?—(Sir Edward Playfair.) Yes, Sir, there is no doubt about that.

3452. And it could only have been possible through successful over-estimating over a period of years?—Unsuccessful over-estimating, Sir, professional failure.

3453. Shall we say, inaccurate estimating?—Yes, of course it is, Sir.

3454. Which you have been able to vire in this way for this purpose. Now, if your Department or, indeed, if any Department, became aware during the year that it was going to spend substantially less on certain estimates or a particular estimate, it might, relying on the Treasury power of virement, greatly increase its expenditure on other forms of expenditure without the authority of Parliament?—Well, Sir, it is not our habit. If we wish during the course of the financial year to increase our expenditure on one Vote hoping to obtain virement in another, we must go to the Treasury and ask for that explicitly; and the Treasury use their power of virement subject to their known functions of ensuring that Parliament is not over-ridden in this fashion. In this particular case here, the particular case of virement between Votes 8 and 11, I think I would say this, if you will allow me, first of all, that, as this Committee well knows, our record in bad estimating on Vote 8, which is a record of our failure to get these things built which we wanted to get built, has been a source of constant anxiety and unhappiness to the War Office. Our record has, I think, improved year by year on that but it is still not what we should desire and we hope to improve on it. I cannot think that, in the two years that I have been in the

War Office, or earlier from what I have heard, any idea of being slack on that in that we say: "Oh, well, we can always fall back and pass the thing to Vote 11" passes through one's head. It was we who wanted the Act to be passed, and we are very willing to borrow under it and we shall regard it as an Act of pride when the day comes when we get our Vote 8 fully out and we are properly borrowing under Vote 11.

3455. Whilst one would be prepared to accept that this was not done with any deliberate intention, the fact is clear that this is what has happened over the years?—Oh, perfectly clear, Sir.

3456. It is a fact of significance and surely, Sir Edward, it cannot be denied that this money has been expended in this way for purposes different from those for which it was voted by Parliament?—Through the act of virement, certainly, Sir, *pro tanto*. (Sir Frank Tribe.) Transferring it from below the line in the Budget to above the line in the Budget. (Mr. Macpherson.) Except to the extent that there is virement between Votes 8 and 11. The sum vired is counted against the total of the £75 million in the Act and the £75 million approved by Parliament. So, it is not in fact using the Vote to the exclusion of the Act in the sense that the total is being diminished to the extent of the virement.

3457. But, Mr. Macpherson, you appreciate that if the Act had been used to build these houses it would have been below the line expenditure?—Yes.

3458. In effect, it has been provided out of current revenue above the line. Now, one or two comparatively minor points, Sir Edward. In paragraph 73 there is shown a balance of £995,337, nearly £1 million, over-borrowed from 1952-53. Why have you not used this?—(Sir Edward Playfair.) We have carried it forward on the ground that the procedure of virement having been instituted, we ought to use that rather than spend this amount which was over-borrowed, but, of course, we must dispose of it during these two years which remain and we will do so.

3459. It seems to me another example of hanging on?—Except that we have been good enough to lend it back to the Exchequer, Sir. We never hold actual balances in our hands, of course.

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[Continued.]

By that I mean that during the year issues are restricted to that extent and over the end of the year borrowing from the Consolidated Fund is restricted to that extent.

3460. Had you used it, it might have meant a reduced Estimate?—A reduced gross, but not a reduced net Estimate.

3461. Are you paying interest on this money?—Yes, we are.

3462. How much per cent.?— $4\frac{1}{2}$, I think.

3463. What rate of interest is charged generally on these housing loans, or is it a varying rate of interest?—It is a varying rate, according to the current rate.

3464. You may now be paying as much as 6 per cent., then?— $6\frac{1}{4}$, I think. (Mr. Macpherson.) The current rate is $6\frac{1}{4}$ per cent.

3465. Is it your feeling that you need this £995,000 and for that reason you have not repaid it?—(Sir Edward Playfair.) We felt that we should wait for a year in which we had to borrow and then restrict our borrowings by that amount so as to leave the net amount of borrowing as it was before; but that year has not yet come forward.

3466. You now feel that you will use that?—We must do it before the end of the Act, whatever happens. Of course

the key to this thing is that there is no power in the Act to pay back except over 60 years. Having drawn the money we have no power to push it back into the Exchequer, that is why we have had to adopt his very odd, and I must admit, untidy procedure. It was the first thing I questioned when I came to the War Office. (Mr. Macpherson.) It is the intention to use, I understand, £ $\frac{3}{4}$ million in this financial year.

3467. This Act is due to expire in 1960?—Yes.

3468. Is it your hope that it might be renewed?—I do not think it has been announced, but plans for its renewal are being made.

Mr. Collins.] Paragraphs 74-78. I have no questions.

Mr. Peyton.

3470. I think somebody on the Committee ought, after the remarks that have been made in the past, to ask Sir Edward if he is aware that the suggestion that storekeeping and stocktaking is improving is very welcome indeed, and I hope it will be continued?—(Sir Edward Playfair.) Thank you very much, Sir. That will give gratification to the responsible people.

Mr. Collins.

3471. And that fact is signalled in a very pleasant way by no questions being asked?—Thank you, Sir.

TUESDAY, 29TH APRIL, 1958.

Members present:

Sir George Benson, in the Chair.

Mr. Arbuthnot.
Mr. Collins.
Colonel Crosthwaite-Eyre.
Mr. Hoy.

Mr. Ramsden.
Mr. Thornton.
Mr. West.

Sir FRANK TRIBE, K.C.B., K.B.E., and Mr. J. MACPHERSON called in and examined.

TREASURY MINUTE ON PARAGRAPHS 66-68, 77-80 and 98-101 OF THE THIRD REPORT OF THE COMMITTEE OF PUBLIC ACCOUNTS,

Sir MAURICE DEAN, K.C.B., K.C.M.G., Permanent Under-Secretary of State for Air, called in and examined.

Chairman.

3472. Will Members turn to the Treasury Minute on paragraphs 66-68 of the Third Report? Sir Maurice, on paragraph 66 you will remember we raised last year the question of the Service Departments taking steps to make the rank and file, as well as the officers, conscious of the very valuable material they are handling?—(Sir Maurice Dean.) Yes.

3473. What have you done?—If the Committee would bear with me for a second, I would like to tell you what we have done, not so much since we discussed this a year ago here, but over the years. We have, in fact, given a great deal of thought to the question of cost in the Air Ministry. If you look at our Estimates for the current year they contain about £242 million for what I might call material items and about £170 million for what I call manpower items. The first point I want to make is that we have to watch, therefore, not only things but people. On the material side, by giving thought to it, we do our best to eliminate waste; and under that heading we have to watch, first, provisioning because you can waste through over-provisioning; secondly, storekeeping, as the Committee knows, because we can waste through losing things or letting them go bad; and thirdly, after taking the things out of store we have to see they are used economically. We have given a lot of thought to all three of those headings. We have kept a careful eye on the provisioning system, and we hope to improve it by going to electronic machinery. We have put in a lot of hard work

on our store accounting and storekeeping; and finally, in the field of economical use there is first what I might call the technical use of technical stores, where we rely on our technical officers to see there is no waste. In the field of non-technical stores, barrack equipment, and that sort of thing, I should not have thought that, by and large, the Service had a tendency to be wasteful. In fact, they may show a tendency in the other direction, holding on to stuff long after it has ceased to have any real value. On the manpower side, the Royal Air Force has a long history of looking at manpower costs. It got a tremendous boost in the war when it presented itself in the shape of getting the maximum amount of operational effort out of a given number of men and aeroplanes. The operational researchers went into that very carefully, when it was essentially a question of control, of course. Then, the end product was different, trying to get the maximum output for a given input. Now we are out to get a given output with the minimum manpower; and, as you know, that has blossomed out into a full scale Works Study organisation. On cost accounting we have in the past—I am talking about before the war now—carried out one or two cost accounting experiments, sometimes with rather disappointing results, but we are not discouraged and we are thinking about carrying out another possible experiment in cost accounting. Finally, we have a central costings branch which we do make good use of. It has been going since 1951. It has the functions of costing elements of the various R.A.F. programmes as they come along, of costing particular units and

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comparing them, where practicable, with costs in industry; and, finally, we also use it in the field of repayment services. Where we have to make a claim against people we rely on our costings branch. I do not want to bore the Committee, but it has in fact been a very busy branch. In 1956 and 1957 it did no less than 321 costings and was responsible for some very useful economies. I have one or two examples here, but I will not give them because I do not want to take up your time. Finally, I might mention that we have a special procedure for provisioning and control of specially expensive items like new engines and we have a six monthly stocktaking of what are called "valuable and attractive" items. That is in a positive way what we do to try and keep down costs. There is also a complementary field of training. There we have tried to inject a proper appreciation of costs into our various training syllabuses and in particular, of course, we combine indoctrination in costs with an approach to work study, which is given at a great many points in our training syllabus. I have the details here, but I only want to give you a general idea. The other thing I want to mention is that we have given a lot of thought since we came here a year ago as to whether there is anything more we could do in this field of control of costs and, in fact, we have discussed that at a meeting of the Air Council. A year ago I told the Committee we were discussing a campaign of impressing on personnel the need for the exercise of care in the equipment they use, but for the moment we have decided not to do that on the ground that it would be a mistake to try to supplement in that way what we are doing in all the other fields. To sum up, therefore, we have approached this problem from the point of view of looking after our material costs, looking after our manpower costs and looking after our training; and we shall keep a careful eye on the training to see if we ought to give more emphasis to it in the various syllabuses. At the moment we do not want to go in for a campaign of publicity but we do not want to decide that finally and we shall look at it again.

Mr. Collins.

3474. I am not quite clear why you did not carry out this idea of a campaign through the giving of letters to Commands. You referred to that just now as "publicity". It is publicity of a

kind?—It is really Service publicity, publicity inside the Service.

3475. I can appreciate all the other things that you are doing, but although I listened carefully I did not quite hear that you have included in it a direct appeal through Commands to personnel to study this question as relating to themselves as taxpayers as well as Service personnel?—We have thought very carefully about whether we ought to have a system for bringing home to the man on the job the question of the importance of the equipment he is using; and, as I say, for the moment we have decided not to do it. Now, the reason that activated us in that is that we believe that the question of control of costs is finally a function of management. We consider it is our responsibility to keep an eye on costs and we do that by making it difficult for people to be wasteful and trying to bring home to them the consequences of waste if they are wasteful. We also approach it through the question of training. I quite appreciate that, complementary to that, you could have a system in which in orders you told a man: "Be careful how you use so and so, it is very expensive, here are some costs", but I believe—and certainly we have discussed this very carefully since I was here a year ago—you have got to do that sort of thing with very great care. You can give too many instructions and you can make people rather resentful, and so forth. It is a question of judgment; and at the moment our view is it would be a mistake to do more than we are doing at the moment. We would rather see how we are getting on.

3476. Would you bear in mind that in industry at least such things as: "When you are walking all over your material you are walking over your own goods" have not been found to be resented and might do good in the Service?—We will watch it and if we think it will do good we will do it.

Chairman.

3477. Paragraphs 77-80, Repayment rates for mechanical transport. Sir Maurice, when were these new rates introduced?—At the beginning of the year.

3478. Can you give us some idea as to how they compare with the old?—It is quite tricky. The new rates are a combination of so much per mile—may

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I deal first with passenger-carrying motor transport?

3479. Yes?—The new rates are a combination of so much per hour and so much per mile run, and so far as this particular group of motor transport is concerned, whether or not they are more expensive than the old depends on the distance run. It is rather difficult to make a direct comparison. Then there are different kinds of motor transport such as vans, coaches, and so forth and the various technical motor transport like lift trucks and tractors where, on the whole, the new rates are higher than the old ones; but it is very difficult to make a direct numerical comparison.

3480. Are you proposing to adjust rates as costs vary from time to time?—Yes. We will not let it go so long next time. We are going to do a regular review.

Mr. Collins.

3481. Sir Maurice, you will be aware that in paragraph 77 it is reported that the Navy had in 1954 increased their charges by approximately one-sixth. Could you give us any approximate idea of what the proportionate increase is compared with 1951 of the new charges?—Once again, there is a complication there. We have over the last six or seven years gradually changed our method of servicing of M.T.; and indeed it is one of the things we looked at with our costings branch. We now think we arrange our repairs much more cheaply as a result of certain assumptions about servicing policy and going out to the trade rather than doing it ourselves. So, our costs have come down as regards maintenance though the prime costs of materials, and so forth, have gone up.

3482. You mean, the cost of work has come down but the cost of materials has gone up?—Yes, both factors have been at work, though I do not say they are necessarily in balance.

3483. You do not mean, since 1951, surely? There must have been some increase overall since then?—I was not giving the precise dates. I really meant, since the last rates came in.

3484. The last rates came in in 1951?—Yes, that is right, then.

3485. Are you now telling us that, in fact, the new charges do not show any

appreciable monetary increase over 1951?

—No, I am not saying that. What I am saying is that it is quite difficult to compare the two rates because in the new system we have gone on to a rather different basis from the old. I will not go into the details of the difference because it is quite complicated to make a comparison, and it is not quite a straight percentage. In the case of the passenger transport the rates are cheaper or more expensive according to the assumption you make about the length of run—cheaper in one case, more expensive in the other. In the case of the other M.T., what I might broadly call technical M.T., re-fuellers and so forth, the new rates are on the whole higher.

3486. Can I put it this way: is a higher proportion of the cost of passenger vehicles now recovered than formerly?—We recover the whole of the cost where we have to.

3487. You are satisfied now that, at least when they were fixed, the new charges do in fact cover the whole cost?—Yes. You realise, of course, we have two different scales, the fully entitled and partly entitled.

3488. Yes?—What we are satisfied about is that in both of those scales, according to the assumptions appropriate to each scale, we are recovering the full costed amounts we should recover to meet our outgoings.

Chairman.

3489. Paragraphs 98-101, Control of expenditure on works services. What steps have you taken to improve your technical control here, Sir Maurice, particularly to make your estimates realistic?—I think that a number of factors have been at work. One is that we have, as a result of the enquiries we have been making, directed a great deal of attention in the Department to increasing awareness of the importance of scrutiny of estimates. In a way, the problem has become easier for us. There has been a slight lifting of tension, the staff position is a little better, the volume of the job is slightly less. I think that this will be reflected in due course in the result of our estimates—the outturn as compared with the estimate being better.

3490. The volume of the work being less, that means you can control it better?—Yes, there has been a slight turn-down in Subhead A.

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[Continued.]

3491. Do you now draw it to the attention of the Treasury when you submit a purely conjectural estimate?—Yes.

3492. Are you satisfied, Mr. Macpherson?—(Mr. Macpherson.) There has been an improvement, Sir; and, as Sir Maurice has said, the cases that were before the Committee last year were cases going back some years, when there was considerable pressure under the building programme and when there was a shortage of staff. The advent of the fixed price contract in itself should make a contribution too.

3493. Sir Maurice, does Mr. Macpherson's suggestion that there once was a shortage of staff now imply that you have no shortage of staff on your control side?—(Sir Maurice Dean.) No, I would not go as far as that, but certainly the position is better than it was.

Mr. Hoy.

3494. Sir Maurice, while it may be true that you have a better control over the expenditure as it is taking place, what control have you over people who decide to change the whole type of building?

In other words, if you refer to the Committee's Minutes of last year you will find that when you were going to put up three prefabricated dwellings at a cost of £7,500 it turned out that somebody gave instructions for them to be permanent structures at a cost of £13,500, and your Department apparently knew nothing at all about that?—Yes, that case you are quoting (it was, I think, Gibraltar, speaking from memory) does go back a great number of years.

3495. All I am asking you is, while you may be controlling expenditure, what greater control have you over people who make these alterations without informing you?—I think my answer to that would be that the episode that you are quoting happened just about at the peak of our difficulties about staff. It goes back to the early 1950's or so at the time when we were under the stress of the Korea emergency, when there had been an enormous increase in the works programme and there was no fully competent staff available to control and supervise it. I do think today the situation is better. Certainly we would not expect a change of the character you have mentioned to be authorised without getting proper authority.

AIR SERVICES APPROPRIATION ACCOUNT, 1956-57.

Chairman.

3496. Will Members turn to the Air Services Appropriation Account, to paragraphs 2 to 7 of the Comptroller and Auditor General's Report? On paragraph 4, from the last sentence, Sir Maurice, I see that Vote 8, Works and Lands, was overspent by nearly £4 million, and that expenditure amounting to £2·7 million was for new works which had not been provided for in the Estimates and which were commenced in the year under delegated authority. How much of this work was really urgent?—(Sir Maurice Dean.) We would say, all of it. Indeed, we have to give a certificate to that effect, as you know.

3497. When did you first realise that you were likely to overspend on Vote 8?—The first time we realised seriously that we were going to overspend on Vote 8—mind you, there were earlier indications, but the general tendency is for works officers rather to overestimate early in the financial year how

much they are going to spend, so the first indications need not be taken too seriously—the first time we had a really serious indication in the Air Ministry that we were going to overspend was in October.

3498. How came it then that you did not get a Supplementary Estimate?—We knew at the same time that we were probably going to underspend in other parts of the Estimate.

3499. Yes, but is that not rather using virement in a way in which it is not intended to be used?—Well, I would say, No. I would say that we did what we thought was right.

3500. On the other hand, you did have a Supplementary Estimate in February. Why, when you were so heavily overspent on this particular Vote did you not include that in your Supplementary?—Our Supplementary was a purely token Supplementary.

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[Continued.]

3501. Nevertheless, this was in February, and it was in October that you realised you were going to be overspent?—Overspent on Vote 8, yes. We had no indication at that time that we were going to be overspent on our Estimates as a whole; indeed, the contrary.

3502. I know, but when you are taking a Supplementary, surely it is desirable to include your overspending rather than to rely on virement?—I listen to what you say, Sir, with the very greatest respect. I can only say that when we made our Supplementary everyone concerned was fully aware at that time, including the Treasury, that we were going to be overspent on Vote 8 without being in excess on Air Estimates as a whole; and as we interpreted the regulations at that time there was no requirement upon the Air Ministry to set out the Supplementary in detail. The Supplementary, as you know, Sir, was purely for technical grounds not involving any expenditure.

3503. Strictly, no. Mr. Macpherson, what have you to say about it?—(Mr. Macpherson.) I venture to suggest that there is nothing abnormal in this arrangement. The Treasury, as you know, under the Monk Resolution procedure have this power of temporary virement. Certainly, we did not consider that the overspending on the Vote, when there were savings elsewhere on the Estimates, made it necessary to take a Supplementary.

3504. Sir Frank, what do you say?—(Sir Frank Tribe.) I do not altogether agree with Mr. Macpherson. I think the most critical aspect of this was that, as shown in the note on page 21, the Air Ministry in this year spent £2·684 million under Subhead A alone of Vote 8 on various new works, which had not been included in the Estimates, on grounds of urgency in the public interest. They spent that sum of over £2½ million knowing that they were going to run into a deficit on Vote 8 and relying entirely, apparently, on the Treasury approving virement from other Votes—particularly, I suppose Vote 7—under powers which, of course, the Treasury are given in the annual Appropriation Act. I do not remember any case in which that power of virement was exercised in order to enable a deficit to be increased by as much as over £2½ million on new works of which Parliament had no knowledge whatever.

I should have thought that when a Supplementary Estimate was being taken Parliament should have been informed about this. The witness has agreed that the Air Ministry knew all about it at the time and I suggest that Parliament should, in a Supplementary Estimate, have been given an indication of the extent of the new works which were being undertaken which had not been included in the original Estimate. The result would still have been a token Vote so far as the Supplementary was concerned, but the Ministry would have taken powers in the Supplementary to have diminished the grant under Vote 7 and increased the grant under Vote 8 to meet these exceptional works undertaken purely on grounds of urgency in the public interest without any knowledge of Parliament at all.

3505. What have you got to say to that, Mr. Macpherson?—(Mr. Macpherson.) As the Committee knows, Sir, in respect of works outside the delegated authority given by the Treasury the Service Departments have got to come to the Treasury and justify them as being urgent in the public interest so admittedly there is no Parliamentary control; but there is Treasury control within the field in which works come to them. There is a point arising on this which has just emerged in the last few days. Strictly speaking, I think the note on page 21 is not accurate. There is a peculiarity in this arrangement because some of the work shown here as amounting to £2·684 million was, in fact, work for which the Air Ministry had had authority in the previous year. This emerged when we were seeking to identify the items which made up the Air Ministry's list on which they were supposed to have come to us. We were not able to identify anything like the number of items for this year, the reason being that some of these items which they were showing as new items were in fact recorded by us as continuing services in that they had been approved as being urgently necessary in the previous year. Although commitments had been entered into actual payments had not been made until the year we are dealing with now, 1956-57. So, there is this technical difference that they were regarded by us as being commitments in 1955-56 but in this note only brought into the Account when the first payment occurred. The provision was made for them as a continuing service so, strictly speaking, the

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£2.7 million figure is not a measure of the money spent on new works begun in that year as being urgently necessary in the public interest.

3506. That merely pushes it back on the fact that they ought to have been in the Estimate?—They were in the Estimate, but they were in the Estimate as continuing services. (Sir Frank Tribe.) If they were in Estimates for this year, 1956-57, that puts a different aspect on it; but the note implies that this expenditure of over £2½ million was on works which Parliament had not approved at all. (Mr. Macpherson.) As I say, Sir, this is something which has emerged in the course of the last few days. We feel that the note as set out here is not strictly accurate and we will have to discuss with the Air Ministry how the note should be amended if in fact this sort of situation arises in future. (Sir Frank Tribe.) Even if the figures were only £½ million I should have thought Parliament would have expected to have authorised these works. The Public Accounts Committee have always attached the greatest importance to Parliamentary control over works services. They have been very unwilling that works services should be put in hand, whether by a Service Department or a Civilian Department, during the course of the year without Parliamentary approval. They have generally insisted on Supplementary Estimates being submitted so as to secure approval for new works services.

Mr. Hoy.

3507. May we get the sum? I was about to ask before Sir Frank made his last comment. Could we be told what sum included in this £2.684 million was in fact accounted for in the previous year's Estimates?—(Mr. Macpherson.) We have not completed our analysis of this, but we think, provisionally, that instead of £2.7 million it is of the order of something under £1 million.

Chairman.] I am not quite sure whether this makes the position more righteous or less.

Mr. Hoy.] That is my view.

Mr. Collins.

3508. Could I just follow this point? Do you say, Mr. Macpherson, that the whole of this £2.684 million was in the 1955-56 Estimate, or some was in the Estimates for the year and some in the

Estimates for 1956-57?—Some of it was in the Estimates for 1956-57 as a continuing service because the work in fact had been authorised by the Treasury as urgently necessary in 1955-56.

3509. But it was not in Estimates for the year 1955-56?—No.

Mr. Hoy.

3510. I was going to ask a very similar question. I find this very difficult to understand, and I would like this point cleared up, because it seems to me to be very difficult when we have a note which says that this was done with Treasury approval "on grounds of urgency in the public interest". Surely, when the Air Ministry came to the Treasury did not they put the proposals before the Treasury, Mr. Macpherson, and say: "Here is work which is going to cost £2.6 million"—or whatever it is—"which we require urgently"?—It came to us in respect of these items costing more than £30,000 on an individual basis but, as I say, some of them had come in 1955-56 and authority was given; and although the Department had entered into commitments in 1955-56 they had not spent any money and until they spent money on them they did not regard them as new services and, therefore, they showed them in 1956-57.

Chairman.

3511. Did you want to say something, Sir Maurice?—(Sir Maurice Dean.) Yes, I wanted to say two things: first, as we understood it, it was absolutely 100 per cent. correct and in accordance with the regulations that if we were confronted with an overspending on a particular Vote we had the right to go to the Treasury and ask for authority to vire. In this case they gave authority and we vired in accordance with the procedure which goes back many years. Now, by a purely fortuitous circumstance we had to go to Parliament on what I hope I may be forgiven for saying was a purely token or technical point. We did not want any more money, we wanted to bring in front of Parliament the fact that we were going to make the grant and get their authority to make a grant to certain welfare organisations. That was purely fortuitous. It might not have happened that year, it might have happened a year earlier, it might have happened a year later. It was pure chance. Can it be really founded on

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that chance, and because we had to go to Parliament and ask for £10 for welfare organisations, that therefore we ought to have asked for an authority which, apart from these extraneous circumstances, we had under the power to vire. Is that really a logical cogent argument?

Mr. Hoy.

3512. No, but I think we would be entitled to ask whether such a wide form of virement would have been approved by this Committee and by Parliament as between such widely different Votes?—Can I make my second point, Sir? It is that I think the impression has been given that a substantial part of this £2·68 million was put in hand after we realised we were going to be overspent. Now, that is not so. I have looked at the dates rather carefully. As I said, we really became aware that we were going to overspend—we were really frightened of overspending—in October; and from that moment we authorised very little. I have a note here: “After October, 1956, only about half a dozen services were approved. They were all needed for urgent operational purposes and apart from the Suez emergency works”—this was Suez time, you remember—“they cost us less than £50,000 in the year.” So, just to repeat, when we really became aware we were going to overspend we stopped this business. The only cases we put forward were those we began on operational grounds and the expenditure in the year was only £50,000.—(Sir Frank Tribe.) May I make two points on that? The first is that although the Air Ministry may not have been definitely aware that they were going to run into a deficit until October, I am told that, according to their internal figures, as early as the early part of July, 1956, the internal estimate was a deficit of £1½ million on Vote 8.—(Sir Maurice Dean.) That is quite true.—(Sir Frank Tribe.) Secondly, on the other point Sir Maurice raised, I should have said, on this question of there having been a Supplementary Estimate with regard to this rather technical point of welfare services, that was not really very relevant. It was mentioned because there was a Supplementary Estimate taken but I should have thought, whether there had been one or not for other purposes, there should have been one for this particular purpose in order to get Parliamentary approval for this expenditure of £2½ mil-

lion on new works services.—(Sir Maurice Dean.) But may I ask Sir Frank a question in turn? Suppose there had been no question of a Supplementary for welfare, what circumstances distinguished this case of viring in respect of Vote 8 from any other normal case where the power was exercised? What distinguishing factor was there on this occasion?—(Sir Frank Tribe.) I should have said the distinguishing factor was that the Air Ministry knew all along, or for the greater part of the year, that this particular Vote was running at a deficit and that they had no right to increase that deficit by a very considerable amount without getting Parliamentary approval for new works services. After all, the Air Ministry may be right in saying it has been the practice to go to the Treasury and in accordance with the regulations, but the Treasury only exercise a power of temporary virement in accordance with the annual Appropriation Act, and it is the duty of the House on the advice of this Committee each year to examine the use by the Treasury of these powers which Parliament gives them year by year in relation to virement; and neither the Air Ministry nor the Treasury have the right to expect that Parliament will automatically approve any degree of virement between any of the Votes of the Service Departments.

Mr. Collins.

3513. Is that not exactly the point we were on with the Army last week on a very substantial scale, £20 million odd over a period of years without any authority whatever?—Yes.—(Sir Maurice Dean.) I would really like to say a lot of things about what Sir Frank has said. First, it is absolutely true that the Departmental papers showed a possible overspending in July, 1956, but as I think I said, the Finance Officers are very used to the works people saying they are going to spend much more money than they do. There is a built-in tendency to over-estimate. Therefore, I repeat that it was not until October that we really had substantive evidence that we were going to overspend. Secondly, the power that we have at the moment to put new works in the programme, provided we can certify to the Treasury that they are urgently necessary in the public interest, is one that strikes me as absolutely vital if the public business is to be carried on properly. Nowadays when we are drawing up our

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Works Estimate we do so under very great difficulties. There are great uncertainties in the programme. We may not be able to settle every detail. It is very different from the conditions which obtained before the war, and many items which are put in when we are making up our Estimates drop out. This is a two-way process, and it seems to me most necessary on administrative grounds that we should have the right to put other items in the programme, provided we can honestly give a certificate to the Treasury that they are necessary in the public interest. Incidentally, you realise, of course, that part of this is for the American Services—more than half.

Mr. West.

3514. Sir Frank, assuming that the works were urgent and necessary in 1955-56 and the Treasury on that ground gave permission for the expenditure of money and for the works to be undertaken, and the works in fact had been performed within that year of account and had been paid for within that year of account, what objection would there have been?—(Sir Frank Tribe.) In 1955-56 no objection, if they had been included and paid for then, but I was assuming that this note on page 21 was the literal truth when it says that expenditure of £2.6 million “was incurred . . . on various new works services”—in 1956-57—“estimated to cost in total”—over £6 million—“which had not been provided for in Estimates.”

Mr. West.] Yes, but according to Mr. Macpherson's explanation, as I understand it, the urgent works had been authorised in 1955-56, but the bids, as it were, for the job had not come in until 1956-57. Therefore, in principle, he says there has been a mistake in the way in which this has been referred to in the note, but it really is in no way wrong because if it had been paid for in 1955-56 everything would have met Parliamentary approval and would have been in order.

Chairman.

3515. Let us get this in order. Is it correct that this work was done in 1955-56 or merely authorised in 1955-56? It was done in 1956-57, I assume?—(Sir Maurice Dean.) My understanding is that the work was started in 1956-57.

Chairman.] The work was not done ever in 1955-56?

Mr. West.

3516. So, whatever was done in 1956-57, it was not so urgent?—I assume what settles when it comes in is the date the first payment was made. (Mr. Macpherson.) That is the point. The first payment went in in 1956-57 but commitments obviously had been entered into before, and in many cases the commitments were entered into in 1955-56. The point I was trying to make, in pointing out that this was not literally true, is that the £2.7 million here is not a true measure of new works begun in this year as being urgently necessary in the public interest.

Mr. West.

3517. I was very sympathetic to Mr. Macpherson's explanation, but I must confess that the latest answer seems to cause some disquiet in my mind, because I thought that these works had been sanctioned as works urgently necessary, but they were not so urgent and necessary as not to be undertaken until the following year of account?—It was a question of their getting authority to go ahead with the commitments. The Service Department cannot enter into any commitments at all without Treasury authority. (Sir Maurice Dean.) Can I give you an exact timetable and value of a particular work to show you what happens? I have one item here where we wrote to the Treasury in September, 1955, and said this was urgently necessary in the public interest. In November, 1955, the Treasury approved. In February, 1956, under the impression that the work was going to start, we put it in the Vote letter as a continuation service. In February, 1956, the contract was let and in May, 1956, the first payment was made.

Mr. Hoy.

3518. Would you give those last dates again?—In September, 1955, we went to the Treasury. In November, 1955, the Treasury approved. In February, 1956, we wrote the usual Vote letter to the Treasury and put it in as a continuation service because we hoped that a start would have been made by then. In February, 1956, the contract was let, but the first payment did not mature until May, 1956. Now, the expenditure in that year would figure in the note. That is the exact timetable you had in mind? (Mr. Macpherson.) Yes, that is just the sort of thing.

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Colonel *Crosthwaite-Eyre*.

3519. What was the nature of this work that was so urgent that when you wanted it in September one year you did not even ask for it until February the next?—(Sir *Maurice Dean*.) Our first act, of course, was to write to the Treasury, and then we got Treasury approval.

3520. If something is urgent in the public interest can it really remain like that in a state of suspended animation from September of one year to February the next before even a contract is signed?—I doubt if you are doing full justice to our Works Department in saying it remains inactive for that period. We get Treasury approval, but it does not follow that the contract can be made immediately after that.

3521. Do you consider that sort of delay of six months is reasonable?—We had approval in November, 1955, and the contract was let in February. I have not the exact dates, only the months, but at the very most it would be three months. If the date happened to be towards the beginning of the month it might be less.

3522. Do you, when you ask the Treasury for permission as a matter of urgency, expect it to take two months to get an answer from that Department?—It would not surprise me.

3523. That you consider a reply as a matter of urgency. If it was not urgent you would be content with six months?—I think we would all agree that the word "urgency" is capable of different shades of meaning.

3524. I thought we had been discussing this word "urgent" for the last half hour. It does seem to me the most extraordinary story that you write as a matter of urgency to the Treasury and you are quite happy if you do not get a reply for two months. You then wait three months more before you sign a contract and apparently it takes three months more before there is anything done whatsoever which warrants any payment. I would not have thought it was an urgent timetable in any sense of the word?—Perhaps I could point out that there are quite a large number of these items urgently necessary in the public interest. I have a list in front of me here.

3525. I would rather stick to this particular case which you have quoted, if I

might, just for the moment. Do you consider this as typical and reasonable?—I would say that the word "urgent" is capable of a number of different shades of meaning. If there is a question of an urgent operational matter we could get approval from the Treasury over the telephone.

3526. I thought the spirit of the argument was that we were discussing things most of which had arisen out of the Suez emergency?—Oh, no.

3527. I thought that is what you had said earlier on in your evidence?—No.

3528. None of this was to do with Suez?—One or two of the items were, but it was not a dominant feature.

Colonel *Crosthwaite-Eyre*.] I thought that is what you said.

Mr. *Hoy*.

3529. I must say that what you did say to a question I put earlier was "You have got to remember this was the time of Suez"?—No, may I repeat what I said? I said I would not wish the Committee to think that we authorised this £2.68 million after we knew that we were going to overspend and I said that we first really knew we were going to overspend in October, 1956. What I said was that after October, 1956, we knew we were going to overspend, and I said it would be quite wrong to think after that date we authorised a lot of new things not in the Estimates; and I said that after that date only half a dozen or so services were approved. They were all needed for urgent operational purposes, and apart from the Suez emergency, they cost us less than £50,000 during the year. There was also a Suez item which came to a rather larger figure. But coming back to your question, Sir, I would say there are varying degrees of urgency. This was not a matter of the highest operational burning urgency that had to be settled in a matter of days. If that kind of case happens we can go to the Treasury and get approval, if necessary, over the telephone. But this was urgent in the sense that it was highly desirable to get approval to go ahead as rapidly as possible. In those circumstances we gave the certificate and I do not regard the timetable we worked to as unreasonable, bearing in mind that it was only one of a large number of items which were also in the same category.

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3530. Is that timetable representative of the large number of which you have got details there?—It is a difficult question to answer. I am sure there are many other cases to the same sort of timetable.

3531. Do you expect when you put a letter to the Treasury for permission of this nature to wait, as a rule, two months before you get an answer?—I really could not go into the statistics of that, I am afraid.

Mr. *Arbuthnot*.

3532. You have been asked what was the nature of this particular contract which was supposed to be so urgent. I do not think you quite answered that?—The particular item that I read out was a school of cookery.

Mr. *Collins*.

3533. There are two points which I want to put to Mr. Macpherson. I think he made just a slip in answering a question. You said, Mr. Macpherson, that you had approved all items of £30,000 and upwards. Did you not mean £10,000 and upwards?—(Mr. *Macpherson*.) No, there is a difference. The Part I services shown in Estimates are those in excess of £10,000, but that is not the same figure as the delegated authority by the Treasury to the Service Departments, which is £30,000, and you will recall that when the War Office witness was being examined I was asked why we had used the £30,000 figure in the list which has now been given by the Service Departments to Sir Frank Tribe. I explained that we had done it because for items over £30,000 the Treasury had to accept the responsibility of saying that they were urgently necessary in the public interest. For those under £30,000 the onus was on the Service Department.

3534. So that this figure of Part I new works, additions and alterations, total expenditure in excess of £50 million, on which there is a deficit of more than £4½ million, was not wholly approved by you as to each individual item?—No.

3535. Have you any idea what part of it was between £10,000 and £30,000 and what over £30,000?—No, I could not hazard a guess at that.

Mr. *Hoy*.

3536. I want to ask one question about urgency. I think we have got to remem-

ber, Mr. Macpherson, that even with the best face you can put on this, there is at least £1 million of new works involved for which nobody got Parliamentary sanction. Is that not correct?—Yes.

3537. I often wonder what is your test at the Treasury of what is "urgent in the public interest", because we have had two Service Departments here within the last twelve months, one has produced certain private garages and the other has produced a school of cookery. What is your test of "urgency" and "in the public interest"?—In the case of the garages, that was within the Department's delegated authority. Without reference to the papers I do not know what test would apply to the school of cookery. I would really want to know the circumstances and the arguments put forward. (Sir *Maurice Dean*.) Perhaps I could mention one thing; we were having to shut down two other schools.

Mr. *Collins*.

3538. Of cookery?—Yes.

Mr. *Hoy*.

3539. In any case, we do not even know whether they were closed. I think it is that sort of thing which always gives this Committee some little trouble, this excuse of "urgency" and "public interest"?—I would not like the Committee to think that the school of cookery is typical of these.

3540. No, I just took the case you brought forward yourself. I thought that was a reasonable thing to do, if I might say so?—I thought it would help the Committee to have a timetable.

3541. Certainly. There is one other question, Mr. Macpherson. Do you agree that these Departments have this much power of virement?—(Mr. *Macpherson*.) It is not exercised by the Department, Sir, it is exercised by the Treasury.

3542. Do you think you have a right to go into these large new public works?—It has been the Treasury practice, and also the Treasury has indicated its responsibility to this Committee in the Treasury Minute of 1953, that they would be responsible for judging what was urgent in the public interest. May I say, Sir, that it is not automatic that when the Department comes to us with

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a works service as being urgently necessary in the public interest that it is accepted; nor is it automatic, as I said in an earlier meeting to the Committee, that virement is given because there is, as pointed out, in 1957-58 a case where we did require the Air Ministry to take a Supplementary Estimate which they would not have required for money reasons.

3543. One is left just to wonder what control actually is operated when, in fact, what you have told us this afternoon, Mr. Macpherson—and I am not disputing it—is that even this explanation is wrong to the extent of £1,700,000 out of £2,684,000?—I think the explanation is largely a technical one, the difference being the point at which you regard it as a new service. Do you regard it as a new service at the point at which it is authorised by the Treasury or do you regard it as a new service when the first payment occurs?

3544. All I can say in reply is that if I accept your word that the Treasury has been using this power of virement for such a long time one would have thought that the Treasury had made a decision on that point long before this?—The Treasury's authority on virement is a purely temporary authority and it is an authority the exercise of which is considered by this Committee. (Sir Maurice Dean.) May I just add that, in addition to the new items coming to £2.68 million on new works which were not provided for in the Estimates, we also took a lot of items out of the Estimate; and the figure which I have for those items taken out of the Estimates, items submitted to Parliament but not proceeded with, came to £4.1 million, so that the essence of what we did was to put different items in.

3545. I do not want to carry this any further, but I never even find that argument about the things which had been put in and not done and the money used for another purpose particularly impressive. That, if I might say so quite frankly, does not impress me. I have seen that done in other Departments and other Services and I have always viewed it with a great deal of suspicion. I do not want to go any further?—I would just like to add that the power to put new items in the programme is one which is of extreme importance to the Air Ministry if they are going to carry out

the works programme with reasonable efficiency.

Chairman.

3546. Paragraphs 8-12. In paragraph 9, Sir Maurice, the Comptroller and Auditor General's Report refers to the fact that "difficulties in the financial control of works services have arisen in the past" because of provisional bills of quantities, but in paragraph 10 we learn of 15 large contracts, in all of which the bills of quantities were provisional to a greater or a lesser extent. How far do you try to get your bills of quantities reasonably accurate?—We do everything we can, consistently with the fact that we sometimes have to work against a very exacting time scale and that we sometimes have to work in areas where there are difficulties about labour, and so forth. I would say we do everything in our power to get our quantities as firm as we can.

3547. Can you give us some idea, not in detail, but some general idea, of what these 15 contracts were for?—Yes, I could. I think there were 19 in fact, Sir.

3548. Yes, but there are 15 of them in which the bills were provisional. There are 19 major works, but the Comptroller and Auditor General specifies 15 as having very provisional bills?—Yes. In line 4 of paragraph 10 the Comptroller and Auditor General says "Five contracts of total value £1.8 million were based almost entirely on provisional bills of quantities". You would like to know, Sir, what those five were?

3549. I do not want to go through the whole 15. There are five, nine and one. What type of work was it?—Mentioning the five first, Sir, there were two fuel installations, two runways, and one item of accommodation at an operational station. Those were the first five.

3550. It does not strike me as the type of work on which it would be difficult to get proper quantities?—If I could mention the two fuel installations first, they were for the Americans and they were urgent. In the case of one of the runways at Lyneham, it was a question of getting the runway fit to take the Britannia.

3551. Why should that mean provisional quantities? It is surface work?—It meant urgency.

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3552. Or even urgency?—We had to get the work done in time to be ready for the Britannia. We had to strengthen and extend the runway and we wanted the runway to be out of use for as short a period as possible. The only way you can apparently find out what work you have to do to strengthen a runway is to roll it with a heavy roller, and that puts it out of use because where it is weak it goes down.

3553. That means you have miscalculated the time at which your Britannia was coming into operational use?—In a perfect world we would no doubt have foreseen the exact date when the Britannia was coming along and have done all our work in time.

3554. You must have known that the Britannia was coming along?—Oh, certainly.

3555. Surely you ought to have ample time to get your quantities for the runways?—I do not know the detailed history of that, but what I do know is that by the time they got around to the work they had to do it as quickly as they could. Perhaps I may say one word about provisional quantities as a whole. The Comptroller and Auditor General has said in his Report in paragraph 12 that we are now intending to let contracts for building and civil engineering work wherever we can on a fixed price basis. That is, of course, qualified by the considerations that sometimes it may be impracticable to do that on the grounds of urgency and sometimes the contract may be at a place where the station is remote or special considerations apply. I might mention the airfield at Gan as an example of that sort of consideration.

3556. You are saying, in the case of the airfield at Gan, wherever that may be?—I am saying, Sir, we want to go for fixed price contracts wherever we can, but sometimes we may not be able to because conditions of urgency may stop us from adopting that kind of procedure. I said also that there may be instances where the place is remote or there may be special factors which also stop us from having fixed price contracts, and I mentioned Gan.

3557. I would like to revert to the Britannia and the fact that you had to lengthen runways. How long was the Britannia under development?—

Under development; that is a different point, because an aeroplane is under development—

3558. How long had it been ordered, then?—I do not know; I think we ordered it in 1956 or thereabouts, but that is a guess. I do not know.

3559. That is near enough. When did you lengthen the runway?—It was authorised in November, 1956.

3560. Surely there was no urgency there? When did the Britannia come into operational use?—Surely the point involved, Sir, is when we get the Britannia.

3561. When did you get it?—We have not got it yet.

3562. Then, what on earth was the need for rushing to increase the length of the runways? You gave that as an example of urgent work which necessitated your doing the job without full quantities?—Yes.

3563. Now, if you have not got the Britannia yet and you are aware in 1956 that you are going to get it, how under any circumstances can you argue that those runways were a matter of such urgency that you could not get quantities for them?—Lyneham, of course, is one of our main Transport Command places. You would naturally wish to cut down the period when it was out of service to the smallest possible limits. I can well understand that the authorities would be very anxious to have the runway ready in good time for the Britannia which we hope will be delivered later in the year. I must say it seems to me most normal that we should regard that as urgent.

3564. The mere calculation of bills of quantities does not put your airfield out of use. The question is, why for these runways you did not get proper bills of quantities and the fact is that, apparently, on your own showing you had ample time and you had any amount of time to get your bills of quantities?—I am not an expert on the subject, but when you strengthen a runway what you do is to roll it. You put a heavy roller over it and you then know the places where you have to strengthen it. Once you have done that the airfield is or may be unsuitable for use. I can well believe that if you first roll the runway, thus putting it out of use, and then proceed to prepare all

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[Continued.]

your quantities on the basis of the results of your rolling, you would take much longer over the job than if you just got on with it using provisional quantities; and that is in fact what happened. But I speak very much as a layman. As I was saying, Sir, we are making progress, and as Sir Frank Tribe has said, it is our intention now to let contracts on a fixed price basis wherever we are not stopped from doing so by considerations of urgency or special factors like remoteness.

3565. With whom rests the final decision that a job is urgent?—It would rest with the operational authorities in the Air Ministry.

3566. How far up has consent to be given?—I do not know, but I should guess, probably, in an important case at Member of Council level or Director-General level.

Mr. Ramsden.

3567. To get back to the Britannia, was it a question of lengthening of runways of strengthening, or both?—Both.

3568. The exact calculation of what quantities would be required in the case of lengthening would not have involved putting the runway out of action, would it?—No, but then not all the bills were provisional.

3569. The bills for materials required for strengthening would have been provisional bills?—I imagine so, yes.

3570. And must have been very provisional indeed if they depended on putting a heavy roller over the runway before it was known what work would be required to be done?—In the case of the strengthening, yes. In the case of the lengthening, full site investigations were made to the extent necessary to produce reasonably accurate bills of quantities.

3571. So, was the tender in the case of lengthening based on a provisional bill of quantity or an exact figure?—I have not got the details here, but I would suspect that the quantities for the lengthening were firmer, if I could use that term, than those for strengthening, because the ones for strengthening would have been affected by the results of the rolling.

3572. I cannot quite see why the contract for lengthening could not have

been based on an exact figure?—I do not think it was the practice at that time to do firm bills at that stage.

3573. What happens when a tender is submitted on a provisional bill of quantities? How does the tenderer set about it? Does he quote to you a rate for each of the items on the bill?—Yes, I have got one here.

3574. And, presumably, the rate he quotes would be fixed by the quantity likely to be ordered?—Yes.

3575. Your provisional quantities would often vary very greatly from the final quantities, presumably, in the out-turn?—Sometimes yes, sometimes no.

3576. But it can happen that there is a considerable variation?—Yes.

3577. If your provisional quantities are seriously underestimated the tenderer may, as a result of that, quote much higher prices than he otherwise would have done?—Yes.

3578. If that is the case and those higher prices influence the total of his tender, how can you be sure that in fact the tender that you accept is the cheapest overall?—If you are asking for an absolute answer I think the answer is that you cannot be certain, though the people who look at these tenders are very much alive to the point you have mentioned and watch out for it. On this question of provisional bills I would point out that, as indeed Sir Frank has mentioned, we are going more and more to fixed price contracts, which means firm quantities; and I have a note that of the requisitions for new contracts made in the first three months of this year, 43 tenders are being invited on a fully fixed price basis and only five on a variable basis. So, there has been a trend more and more in the direction of firm quantities wherever we can. You will say, why is the practice changing, and I would say that there are a number of factors at work: first of all, operational pressure is less acute than it was; secondly, we have got further away from the upheavals of the early 1950s when we were working under tremendous pressure; the staff position, though not perfect, is now better; and finally, there has been a development of Government policy. The announcement in April, 1957, of Government policy was an important milestone.

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[Continued.]

3579. Turning to paragraph 11, the Comptroller and Auditor General speaks there of "provisional sums included in bills of quantities for work that cannot be sufficiently defined at the stage of tendering." Are those sums a fairly close estimate or merely a token figure put in and altered later when the work was done?—Would you mind giving me the reference again?

3580. In paragraph 11, near the end. Sir Frank mentions the insertion of provisional sums in bills of quantities for work which cannot be accurately defined at the time of tendering, or words to that effect?—Yes.

3581. Are those sums a fairly close estimate or are they inserted as a token figure which is amended when the whole thing comes out in the wash?—Under the practice today they would be certainly as close as we could possibly get.

3582. But in practice what happens? Do they come out close to the final figure?—I cannot give you a general answer to that. I might just mention, of course, that in all these 19 cases we are talking about the present indications are that the outturn of cost will not exceed the Treasury approval except in two instances which are showing an excess of something less than 1 per cent. in one case and 5 per cent in another. So, I do not think there has been any failure, so far as I know at the moment, of financial control in this.

3583. No. What I think the Committee is concerned in is whether this system of estimating on various provisional figures really does result in a competitive tender?—In all the 19 cases that the Comptroller and Auditor General has quoted, we did in fact get competitive tenders. On the point you made that if every item is not firm you can never be absolutely certain that you are getting the lowest tender, all I can say is that the point you have mentioned is one to which our contracts officers are very much alive; and in one particular case that I mentioned where the work was underestimated, the Director of Contracts did go back and get a reduction, and that will be done from time to time. But I do emphasise that we are looking forward to increasing use of fixed price contracts; and the figure I have quoted showing that in the first quarter of this year we had 43 on a fixed basis out of

48, does suggest that we are making good progress in that direction. There were perfectly good reasons, incidentally, why the other five were not on a fixed price basis. Perhaps I could say, whilst we are talking about these 19 cases, that I have looked at all of them in some degree of detail and if we had to deal with those cases in the atmosphere of today we should in some cases certainly go for fixed price contracts where we were not bound by the factor of urgency and that, as I say, reflects the fact that there has been a gradual tightening up right across the board in our works practice.

Mr. Arbuthnot.

3584. Sir Maurice, how long was the runaway for the Britannia before you started to lengthen it?—It was 6,000 ft. and it was lengthened to 7,200 ft.

3585. You told the Committee that you were now inviting fixed price basis tenders in the ratio of 43 to 5 variable. Have you placed any works contracts yet on a fixed price basis?—My understanding is that of those 48 cases, 43 of the contracts resulting will be on a fixed price basis.

3586. Yes. I do not think you have quite got the question. I am differentiating between tenders which you have invited and contracts which you have placed?—Yes.

3587. Have you yet placed any works contracts?—Oh, yes, undoubtedly.

3588. Are any of them large ones?—I have not got the details here, but my understanding is that that proportion you mentioned will reflect not only in the tenders but in the contracts.

Mr. West.

3589. Sir Maurice, with regard to the provisional bills of quantities which were used as the basis of contract, when the work was completed was the contract price exceeded, or not?—I imagine that in each of the cases we are talking about there will be adjustments, both up and down.

3590. There are 19 cases which have been referred to in paragraph 10?—Yes.

3591. I take it that the contract was entered into for a certain figure which was competitive tendering?—Yes.

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[Continued.]

3592. On the basis of the provisional bills of quantities?—Yes, some were provisional. Some were firm, of course.

3593. Yes, but of the 19 cases we are referring to, was it that 15 were based on provisional bills of quantities?—There were five which were almost entirely on provisional bills of quantities—I am quoting from paragraph 10 of Sir Frank's Report—nine where contracts relating to external services were on a provisional basis, and some other provisional items. The point I am making is that throughout these 19 cases there were both provisional quantities and firm quantities.

3594. I am more concerned about the provisional ones?—Yes.

3595. In the cases of provisional bills of quantities, was the contract price exceeded at the end of the day?—I do not know.

3596. Why do you not know?—Because these contracts, you realise, related to the period of six months before the 31st March, 1957. I think that only two of them are complete and I have no doubt there is a great deal of negotiation still ahead.

3597. Of the two which are complete, has the final cost exceeded the contract price, based upon the provisional specification or bills of quantities?—I do not know.

Chairman.

3598. Can you let us have a note on that?—We have not got the final bills.

Mr. Collins.

3599. Sir Maurice, on paragraph 9 of the Report, referring to the fact that tenders are invited where the work to be done could not be precisely defined, just how did the contractors base their tenders on work which could not be defined? Did they relate the tender to provisional quantities or how did they give a tender which you could compare with other tenders?—I cannot attempt to give you a generalised answer to that question. There were 19 cases. I happen to have the bill of quantities of one of the cases in front of me. It has in front of it the words "All provisional" and the document goes into a great deal of detail—detailed rates with a sum at the end—and in that particular case there

should, I should have thought, be no particular difficulty in judging between the tenders.

3600. With respect, I think you have answered my question. In other words, the prospective tenderer takes the provisional quantities, ties prices to the items, adds it up and that is his tender?—That is his tender and I have it before me. That, if I may say so, is an easy case.

3601. Tell me a hard one?—There are more difficult ones, and I think the best example I can give you is where we put in an experimental installation at one of our operational airfields of a device known as Fido, where the contract was naturally of a very provisional kind; and I imagine that the settling between the tenders in that case was more difficult. I have now given you what I regard as a straightforward case and a more difficult one.

3602. So, in some cases sometimes the decision as to who has a contract will largely depend on your opinion of the contractor and his probity and your previous experience with him?—It is rather difficult for me to argue the case without the actual documents in front of me.

3603. In paragraph 9 again, who does the actual subsequent measuring of the work done?—Either our surveyors or a private firm.

3604. It is one or the other?—Yes, we use both.

3605. If you use private quantity surveyors do you rely wholly on their opinion as to what it is reasonable to pay the contractor?—The quantity surveyor would be concerned, would he not, mainly with quantities. In a good many cases we should hope to have a great many prices in our tender.

3606. You mentioned that you had both your own quantity surveyors and a private one. If you employ private ones, who negotiates the rates payable for the types of work that were not specified in the contracts?—That would be done by our Director of Contracts.*

* *Note by Witness:* Rates would be negotiated by the quantity surveyor in the first instance but would be subject to review at the Air Ministry.

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[Continued.]

3607. In other words, the private surveyor would not negotiate those rates at all?—No, that would be done by the Director of Contracts.*

3608. Then, providing you have provisional quantities, you start off with what is, in fact, a competitive tender related to those quantities?—That is right.

3609. Then the only remaining question is with reference to the last sentence of paragraph 11, where the Comptroller and Auditor General mentions that it need not "lead to difficulties in financial control or loss of benefits from competitive tendering". If you have got your original tender based on provisional quantities, the surveyors appointed by the Director of Contracts actually fix the rates for unspecified work?—Well, the Air Ministry.

3610. And relate it to the actual measured quantities of work done?—Yes.

3611. In that case you have got as nearly as you could to competitive contracting at the beginning and related the actual quantities to that. You have the nearest thing to competitive tendering?—That is exactly it, yes. We are doing our best, in fact, and we are moving steadily towards firm quantities and fixed price contracts wherever we can, subject only to conditions of urgency and special problems.

Mr. Ramsden.

3612. How near you get actually to a competitive tender depends on how much these provisional sums turn out to be, or how large the true figure related to the provisional sum turns out to be?—All I can tell you is that in each of these 19 cases we got competition, therefore there were more tenders than one; and our highly experienced contracts officers went through them and picked out what they thought was the cheapest tender, and I feel that they did it very skilfully. They have a wealth of experience. But I agree, if you have all firm contracts and rates your task is enormously simplified and that is why we are pressing towards firm contracts and fixed prices, and not without success.

* *Note by Witness:* Rates would be negotiated by the quantity surveyor in the first instance but would be subject to review at the Air Ministry.

Chairman.

3613. Paragraphs 13-15, Rents of fuel storage. Sir Maurice, I see that you fixed rents for this storage on a provisional basis in 1948 and it was not until 1954, six years later, that you succeeded in getting actual rents agreed, and even there they were only until 1952. What is the cause of the delay?—We were a bit slow. It may be we were a bit optimistic, too, about the rates we were going to get. But the story ended, I think, Sir, reasonably happily. We did settle the rate, we think the rate is a reasonable one, it covers the period up to December, 1957—

3614. Wait a moment. There are two periods here. There is the period for 1948-52 where you were charging a provisional rent and you did not settle the amount of the provisional rent until 1954, six years after the rent started?—Yes.

3615. What I want to know is, how was it that it took so long to fix the provisional rents for the 1948-52 period?—I think the fact is, Sir, that we did undertake an exceedingly long drawn out negotiation with the oil company in which we could not see eye to eye with them about the basis on which the charge should be made, and the negotiations did drag out for an unconscionable time.

3616. Later on you decided to change the basis of charge and it took you until January, 1958—this year—to fix the rents for 1952-53 onwards. Here you have again an unconscionable time in which there had been provisional rents?—I think the answer to that, Sir, is to say, yes, we were terribly slow; but as I tried to say earlier there is a happy end to the story in that we got a reasonably good rate and we have sent out a bill and we have had it paid.

3617. Can you give us some idea of what improvement you got as a result of all those long years of negotiation?—It is very difficult to compare. For the period 1st July, 1948, to the 30th June, 1952, when we were finally paid, the rates changed were broadly on the companies' formula plus a contribution towards the cost of maintenance; and the companies' formula, as I understand it, was a charge on the basis of throughput. Now, the new charge, Sir—

Mr. Hoy.

3618. What did it amount to? That is a long technical explanation. Could you

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[Continued.]

put it in cash to us, Sir Maurice?— I have not got the notes here, I am afraid, for the period 1948-52.

3619. I want to get a little clarity in this. You say you have an improvement, but how are we going to measure this improvement?—I am sorry, I have given you a wrong impression of what I meant, and I will restate the matter. Over the period July, 1948, to June, 1952, we were paid on the basis of what I call throughput.

Chairman.

3620. You were paying, you mean?—We were paid on a basis of throughput, and we were a very long time in reaching an agreement with the oil companies, while we argued with them, in fact. Thereafter starts a new chapter, which begins in the middle of 1952 when we proposed an entirely new basis of so much per ton per week on capacity. Now, what I was saying was that we did as a result of this lengthy negotiation improve the rate which the companies were at first willing to give us in the period July, 1952 onwards. I am not saying that we improved on the rate over the period 1948-52, I am saying we improved on the rate the companies were willing to give us after 1952. Now, going back to the first question, what happened was really a sort of Dutch auction in that we started off by asking for so much per ton per week and the company naturally offered so much less and we argued the toss and finally we agreed on a compromise after many months had passed.

3621. Can you give us any figure which shows the improvement you have got on your last rents as compared with your earlier rents, or is the basis not comparable, or are the amounts not comparable?

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Our first proposal to the companies was that they should pay —d. per ton per week for these tanks. That was based on our own formula which took account of capital cost, and so forth. The figure finally arrived at was —d. per ton per week from the 1st July, 1952, and from such enquiries as we have made we think that is, from what we have heard, a reasonable figure.

[Mr. Ramsden.] And the original figure was what?

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Chairman.

3624. That is the original figure you got, I take it?—The period I am talking about is July, 1952, to the present date, if you like. We opened with a bid of —d. per ton per week. We argued the toss and finally settled on a figure of —d. a ton per week.

Mr. West.

3625. I think the question that is puzzling Members is what was the rate you were receiving in 1948 when you first let them?—As I say, it was then not on a basis of so much per ton per week but of throughput. Per ton per week relates to the capacity of the tank.

3626. At the end of the day how much was it? Were you up or down?—Oh, we were up.

Chairman.

3627. Is it possible to compare the different rates? Are the same tanks being used as they were in 1948 or are they different tanks?—The new terms certainly represent an improvement on those in force before July, 1952. I cannot give you the exact figure.—(Sir Frank Tribe.) This might help: the Ministry told me that from the 1st July, 1952, to the end of 1957 they would collect about £— more than they would have collected at the pre-July, 1952, figures.—(Sir Maurice Dean.) Yes, I know it is an improvement.

3628. I think that is the answer. The result of your bargaining means that you will be up £— up to the present time. Are all the companies up to date with their payments?—I think I am right in saying that the bills we have submitted have been paid, namely, up to December, 1957.

Mr. Hoy.

3629. Which two companies continued to use your tankage after June, 1952?—Do you mean the names of the companies?

3630. Yes?—It was— and —.

3631. Which is the one from whom the Comptroller and Auditor General says in paragraph 14 that you obtained no rent on account?—I am afraid I cannot answer you that offhand. All I know is they both paid up in the end.

3632. That is not quite the point. You will see that the last sentence of paragraph 15 says that a company owed you

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[Continued.]

£130,000 for the period July, 1952, to December, 1957. What I want to know is, was that the same company? Surely it is the same company?—I am terribly sorry, I just do not understand your question.

3633. The Comptroller and Auditor General says that there was a company that you did not get rent from on account. That is paragraph 14, line 6?—Yes.

3634. Is that correct?—Yes.

3635. All I am suggesting is that this was the company that must owe you £130,000 for the period July, 1952, to December, 1957, if you look at the end of paragraph 15?—Yes.

3636. That is correct, is it?—We had a payment on account from one company but I think no payment on account from the others. (Sir *Frank Tribe*.) It was the same company in both cases.

3638. Yes, that is what I want to know. Now, how much was outstanding from this company for the earlier period, that is, July, 1948 to 1952, when you reached an agreement in December, 1954? Look at paragraph 13, line 15?—(Sir *Maurice Dean*.) I cannot tell you what the details of the early bills are. (Sir *Frank Tribe*.) I think I can. The outstanding debt was £73,000.

3639. They seem to have been doing well out of this?—(Sir *Maurice Dean*.) You are not suggesting the bill has not been paid, are you, Sir Frank? (Sir *Frank Tribe*.) No, the debt was outstanding for a long period during which, as far as I know, no interest was paid. (Sir *Maurice Dean*.) The one that was paid in 1954?

3640. That is the question I am about to come to. These are considerable sums that were outstanding. Did you make any provision for them paying interest on those sums or have you just been left without any interest at all?—In the period 1952 onwards we got the highest figure out of the company we could.

3641. You got the highest figure. I am saying, whatever happened, that was the rent they were prepared to pay. All I am saying to you is that it amounted to a considerable sum of money during these years and they were paying you nothing at all, you were not even getting payment on account. All I am suggest-

ing is that it must have cost the Treasury or the Exchequer a considerable sum in interest?—We did not forget the question of interest, but it was perfectly obvious that negotiation would break down completely and it would have been impossible to extract anything under that head. But even allowing for the non-payment of interest, we believe that the rents we got were quite favourable.

3642. They may be reasonable, I am not disputing that for a moment in the way it has turned out, but it does not compensate for the loss of interest on considerable sums of money over that very long period?—This, Sir, was a negotiation. We are not in a position to dictate to the company, we have to get the best terms we can.

3643. One would hardly say that anybody was dictating to them. I am perfectly sure they were dictating to you because you could not get a settlement for many, many years, and that is what the Report says?—Well, it was a negotiation.

3644. What does the Treasury think about this? Does the Treasury not think there was a lot of interest being lost here, Mr. Macpherson?—(Mr. *Macpherson*.) As we understand the position the reason why a settlement was not reached quicker was because the Air Ministry was opening its mouth too wide. Their opening gambit terms were much higher than the companies were prepared to pay. In negotiation which took several years, as you know, the Air Ministry got a settlement which compares favourably with arrangements made by other Government Departments for a similar sort of facility. In the negotiation account was taken of the non-payment of interest in the case of the £130,000 in the actual settlement.

3645. Well, I cannot understand why the Treasury always comes with this reason, that they got a good settlement at the end of the day. It is like the people who spent £710,000 on a telescope that was going to cost £350,000 who came saying "But we really got a good telescope". There does not seem to me to be any real argument in it. Did the Treasury never suggest to the Air Ministry, for example, that they might get a payment on account? The firm they were negotiating with would be bound to know that they must pay some form of rent. They could not live rent

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[Continued.]

free?—I do not think the Treasury were consulted. I was only explaining the situation as I understand it, but not from the point of view of having been consulted and having agreed with the procedure. (Sir *Frank Tribe*.) One of the companies was making payments on account regularly. The other did not do so and did not pay anything by way of interest at the end.

3646. That is what I understood. May I ask this, Sir Maurice: at the end of the day are these two companies paying different rents?—(Sir *Maurice Dean*.) No.

3647. So, in fact, the reason you gave before just does not hold water at all. The one is not paying more than the other to cover the interest that was not paid and the other one is only paying sufficient to cover the charges over these years, and they both cannot be correct?—I am not sure. The differential on account of interest would not, I imagine, have worked out at a very large figure

per ton per week but this was a negotiation, there were no other possible bidders, we had to do the best we could. If there is a criticism I think it could be that we opened our mouths too wide and went on too long after, perhaps, a more careful judgment would have shown that it was hopeless. But the indications are that we tried to drive a very hard bargain and I have yet to be persuaded that we did not do the best we could.

3648. No, there is nobody dissenting from that point of view. What you said was that you took account of these interest charges when you were in fact fixing the rent. Now, when both firms, one of whom was making payments on account, are paying the same rent, the same excuse cannot be given in both cases?—Perhaps I gave again the wrong shade of meaning when I said we did take account of that. But we are very much alive to the distinction.

Mr. *Hoy*.] I will not take it any further.

THURSDAY, 1ST MAY, 1958.

Members present:

Sir George Benson, in the Chair.

Mr. Collins.
Colonel Crosthwaite-Eyre.
Mr. Hoy.
Mr. Peyton.

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

Sir FRANK TRIBE, K.C.B., K.B.E., and Mr. J. MACPHERSON called in and examined.

CIVIL APPROPRIATION ACCOUNTS, 1956-57 (CLASSES VI-X).

CLASS VIII.

VOTE 2.

AGRICULTURAL AND FOOD GRANTS AND SUBSIDIES.

Sir ALAN HITCHMAN, K.C.B., Permanent Secretary, and Mr. C. H. M. WILCOX, Principal Finance Officer, Ministry of Agriculture, Fisheries and Food, called in and examined.

Chairman.

3649. Will Members turn to the Civil Appropriation Accounts, 1956-57, to the Comptroller and Auditor General's Report, paragraphs 62-66 on Class VIII, Vote 2, Agricultural and Food Grants and Subsidies, which deal with the Lime Subsidy? Sir Alan, I see that the Comptroller and Auditor General says that the subsidy has increased over the last ten years from £2.6 million to £9.3 million. To what extent is that due to increased consumption?—(Sir Alan Hitchman.) The additional tonnage is 3.1 million tons.

3650. What is that proportionately?—Over half of the increase is due to increased consumption.

3651. Could you give consumption figures?—The consumption has gone up from 3.1 million to 6.2 million tons.

3652. Then your consumption has exactly doubled?—Yes.

3653. So, £2½ million is due to increased consumption and £4 million is due to increased price, is that correct?—(Sir Frank Tribe.) And a higher rate of contribution which went up from 50 per cent. to 60 per cent.—(Sir Alan Hitchman.) I have a breakdown of the £6.7 million increase, Sir.

3654. That would be interesting?—Taking the 3.1 million tons, the 1946-47 tonnage, the increase there by applying the higher rate of subsidy is £.8 million. The increase in tonnage accounts for £3.411 million and the spreading subsidy is nearly £1¼ million; and the increased cost of materials and delivery is £1.235 million.

3655. What is the spreading subsidy?—That is the contribution towards the cost of spreading the lime.

3656. To the farmer?—Yes.

3657. I understand from what the Comptroller and Auditor General says that your costs are based upon a 1937 figure?—Well, certain factors which are used in converting cost increases into tonnage rates have been developed from the 1937 figures, yes.

3658. What was the consumption in 1937, approximately?—It was just over 1 million tons in 1938.

3659. In other words, it has gone up six times. Do you not think that would justify an entirely new cost investigation?—No, Sir, we have not thought that. Effectively what happens when an application for an increased price to be recognised for subsidy is made is that

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Sir ALAN HITCHMAN, K.C.B., and
Mr. C. H. M. WILCOX.

[Continued.]

we do an investigation of that application and we check the facts and, subject to the maximum figures derived from the 1937 investigation, we only accept the increases which are proved on the basis of that investigation. In 1947 a new investigation started but was terminated before it was concluded because of the freeze in prices that the Government decided on at that time, and therefore the continuation of the investigation would have had no purpose.

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We think that the fact that, of the total increase of £6·7 million, less than £1¼ million is due to increased charges is in itself good evidence that we have kept the rates down very low on this basis; and so far as we can make a direct comparison—and we can make a direct comparison in the case of burnt lime, because it is also used for industry—there are clear indications that the industrial price for burnt lime is substantially higher than the price we approve. So, all the information that we have indicates that our system has been very restrictive of increases.

* * * * *

3663. You are perfectly satisfied that you are getting your lime at the rock bottom price?—Yes.

Colonel *Crosthwaite-Eyre*.

3664. I am not quite clear on this, Sir Alan. Do you mean that you are getting the particular limes and other components you want at what you know not to be a fair market price?—Well, it means that under our arrangements we take account only of prime costs, that is, particularly, labour, fuel, bagging, and so on. We do not take into account increases in overheads and the question, I think, really is whether there should be more of a share of overheads between agricultural lime and other users of lime and chalks than so far under our system has emerged.

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3666. You say that, as far as you are aware industrial users of lime are paying more than you are?—Yes.

3667. How far would it be true to say that if you were paying a proper price industrial users would have to pay less?—I do not think I could give an answer to that question.

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3668. May I put it this way to you then: whilst, of course, it is part of this Committee's job to applaud economy, I do not think it has ever been part of this Committee's job to relish the idea of Government buying under the proper price at the expense of other users of the same commodity?—It is not a question of Government buying; that is the first point. Perhaps that is a point of detail. The other point is that I think, in so far as there is a variation, it is because the industrial users probably carry a good deal of the overheads.

3669. That comes to the same thing?—Then it is a question of judgment as to whether agricultural lime can be taken as an excess product and those overheads would be incurred, or a fair proportion, anyway.

3670. I do not think that is a fair argument and I should not think you would, either. That is to say that you are trying to put yourself in the marginal consumer's position and, of course, industry or anybody else would like to do the same thing?—That is so.

3671. You cannot take that privileged position for yourself. Since 1947 have the lime producers asked you for any review?—There has never been a group approach to ask for it, no.

3672. There has never been what?—No, there has not been, is the answer.

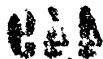
3673. No approach whatsoever?—Under the scheme it has to be an association of producers which requests a review, and they have never done so.

3674. What is the range of approved prices for lime that you supply?—I have got here a table—I had it got out—for producers in the South-Western Region, which was thought to be a fairly representative one. Burnt lime ranges from 33s. to about 78s. For ground limestone it ranges from 19s. 5d. to 38s. Chalk is a small one, and it is around 22s.

3675. Would it be right to say that on the figures we have been given there is something like a 100 per cent. margin in the various prices?—It gets towards it, yes. I think there probably are questions of quality, and so on, hidden in this.

3676. Of the range you have given, how much do you expect to be at the bottom and how much at the top of the range?—I am sorry, I should have to

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let you have a note on that.* I would think there would be a cluster at prices around the mean.

3677. When any particular firm is sanctioned, shall we say, to supply under your scheme is he given an actual price or merely a price between the ranges that you have quoted?—No, he is given a maximum price which we will recognise for subsidy purposes.

3678. Does that happen in relation to the margins that you have quoted, say, of burnt lime?—Yes.

3679. In the area you have quoted there is a 100 per cent. difference. Is one firm given a particular price, say, at the top and another at the bottom?—It is dealt with on the basis of individual firms. I quoted the South-Western Region.

3680. You chose that?—Yes, that is five or six counties. In Cornwall, for example, there is a particular sand which has a high lime content which is sold; that is outside this. Let us take a chalk quarry. A particular chalk quarry has to establish that his costs require a certain price in order that he should make a reasonable profit, and that is examined in the way I have tried to indicate.

3681. May I put this question to you, then, because I am quite certain this Committee does not want to go into the relative merits of any chalk quarries: what is the margin of profit that you allow so as to show, between the bottom and the top quotations you have given, an equivalent amount of profit to the firms or quarries concerned?—We are always dealing with claims for increases in prices and we attempt to meet those increases. We are not attempting to decide margins of profit. We are attempting not to diminish them.

3682. May I put it this way to you: when you get this great variation which you have mentioned, is the marginal price solely determined on the quality of the lime that can be expected from the particular firm or quarry concerned?—No, the price is determined on the basis of an assessed cost increase. It is really a cost increase inquiry in each case. (Sir Frank Tribe.) I understand the difference is to some extent due to the

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transport costs which are involved. In some cases a farm may be many more miles away from the source of production than others and the transport costs are heavier.

3683. I thought we were discussing at this moment the cost ex-pit or to the firm concerned, not the cost to the farmer?—(Sir Alan Hitchman.) That is right. I think, if I may say so, what the honourable Member finds surprising is these very big variations. The reasons are partly variations of quality but there is a very sharp limit to the distance over which it pays to deliver these things. The upper limit, I understand, is about 60 miles, so within quite narrow distances quite different prices can obtain. That is one reason why we go on with this very special and very peculiar system.

3684. Either I or Sir Frank Tribe or all of us have got mixed up. Are the figures you have given the price ex the pit or is it the price delivered to the farmer?—I understand it is the price ex the pit or quarry.

3685. So, when you talk about transport it is really nothing to do with it?—(Sir Frank Tribe.) No, in that case I am misinformed. I thought these figures included transport.

3686. I thought, quite honestly, Sir Alan was saying the same thing when he spoke about 60 miles. If it is that this variation is purely ex the pit and does not include delivery that is one thing, but of course if it does include delivery you would get these wide variations. So could I ask you, Sir Alan, are these prices ex-pit or do they include delivery?—They are ex the pit. (Mr. Wilcox.) If I may intervene, transport has this bearing: the fact that transport is such a large and important element in total cost means that it may be more economical to buy at a high price from a small and relatively inefficient local producer than from a low cost producer a distance away who has to transport his stuff there. That, I think, is one of the explanations. (Sir Alan Hitchman.) That is the limitation of 60 miles.

3687. That is obviously not a factor in your figures. Also, if I may say so, Sir Alan, it rather destroys your argument for not paying the same as industrial users because if this was applied to industrial users over a 60

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mile radius you would expect to get the benefit?—I am sorry, I am obviously not making myself clear. These differences arise because of the differences in actual cost within the different institutions. Some quarries are very small, some have difficult conditions, others are the reverse. Those are the reasons why these differences in cost arise. With respect, whether we should accept the price that is paid on the market for industrial purposes is, I think, a separate question; but certainly, as far as our information goes, it would put up the Exchequer cost if we did and I do not think, with respect, that it is a self-evident proposition that we must accept for agricultural lime purposes exactly the same proportion of overheads as industry does.

3688. Could I change the subject? Can you say how the total production and the relative quantities of the various materials which your Ministry purchased under this subsidy have changed in the 20 years since the 1937 investigation?—Yes, I have the main figures here. I have the 1938 and 1956 figures. The burnt grades in 1938 were 955,000 tons and are now, or in 1956 were, 600,000 tons. There has been a substantial fall. Ground limestones have gone up from 30,000 tons to 3 million tons. Chalks have gone up from 20,000 tons to nearly 1½ million tons. Then, a quite new quality has come in, industrial wastes, of which 1 million tons are sold and then other miscellaneous grades, I have here at 350,000 tons.

3689. Would you expect these rather large increases to reduce the cost of production?—They would in some instances, yes.

3690. Could you give us any instances of where they have been reduced?—I think it could only be done by reference to the relatively small increase in the costs rating for subsidy. I have a firm here whose pre-war price for ground limestone was 14s. 6d. and the price in 1958 is 22s. 4d. That means only a 50 per cent. increase in the price as compared with a general rise of price increases of between two and three times.

3691. I am always rather suspicious of figures that are given for one particular firm. Would you say that is general or is it a particular example which you would not like to repeat anywhere else in the country?—I have another one here.

39254

3692. Or even two?—I should have to get out 650—

3693. Are they typical, in your view?—I think that sort of thing is quite reasonably typical for that grade, but I am free to confess that there are other cases in which much bigger increases have occurred.

3694. When these increases do occur and you have just given us two examples, what steps are taken by the Ministry to check that the increase is justified?—The producer has to apply for permission to increase his price and if the increase ranks for subsidy, he has to give detailed particulars of the reasons why he wants that increase. For example, if there is a rise in rates of wages he says it is because of wages. He has to say and we look at his books. Similarly, if he says the price of coal or oil has gone up for his drying or burning he has to give the figures. Similarly, if he says the increase is in the price of sacks, if he delivers limestone in sacks, he has to show it.

3695. Wherever a producer asks for an increase he has to prove it?—Yes.

3696. There is no question of increases being granted without investigation?—No, it is always investigated. Normally it is agreed.

3697. Do you actually check by way of the share terms which are shown on the Stock Exchange and elsewhere that the profits of the companies supplying these particular items to you have not increased unduly?—No, I do not think we have done that.

3698. You would not look? If it was the case that XYZ chalk pit's profit had gone up by 30 per cent., say, in the years since the war, that would not be brought to your attention at all?—Certainly, as far as my knowledge goes, we have not applied that particular check. A good many of these producers are quite small, one-man businesses, and not, I think, limited companies at all, but some are.

3699. You would be able to give this Committee an assurance that the producers are not making an undue profit? This is rather the reverse of the first question I asked you?—To the best of our knowledge they are making no higher rate of profit than they were making in 1937.

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[Continued.]

3700. Did you have a standard rate then?—We had an investigation then.

3701. What was the rate you allowed then, or considered just then?—We had an investigation in 1938 and we started off from the beginning on the basis not that we would investigate the profits of individual producers, but that we would vet applications for increased prices against increased costs.

3702. I thought you said, in answer to the question I have just asked you, that they are not making more than the rate of profit they made in 1937?—That is right.

3703. If you do not know the rate of profit in 1937 how do you know they are not making more?—Because we have taken their applications for price increases and have assured ourselves, as far as we could, that the increases are genuine ones, and we have not allowed for subsidy more than those. A point I should have made, perhaps, going back, if I may, to your point about investigating profits, is that, as I have indicated, a number of these concerns, and particularly the bigger ones, have interests quite apart from agricultural lime and chalk and they might well be making higher profits on account of other aspects of their business. So, I do not think the fact that a particular concern was making higher profits would be conclusive, relative to agriculture.

3704. No, I understood that you said you were dealing with chiefly small one-man quarries?—I am sorry, I think I said a number of these cases were small one-man quarries.

Sir Colin Thornton-Kemsley.

3705. With how many companies are you dealing over these lime supplies?—There are about 650 producers but how many are companies I cannot say. I no doubt could but I have not it here.

3706. Could you give the Committee any idea of what proportion of those suppliers have asked for increased awards?—I think they have all asked for them. They ask for them quite regularly because of the steady rise in certain costs.

3707. Are these suppliers effectively organised?—Oh, I think so, I think they have an association.

3708. You do not know what it is called?—I do not know what it is, but I have very little doubt they are.

3709. So they are well able to look after themselves in a case of that kind?—I would have no doubt of it, no.

3710. If they are well organised and have an effective organisation that organisation could be rather tough with you?—It could ask for an increase. It would have the right to.

3711. But it has not done so?—It has not done so.

3712. You told the Committee you had a costings investigation in, I think, 1937 or 1938?—1938.

3713. You decided then that you would like another one in 1947, was it?—1947 or 1948, yes.

3714. If you thought it was a good thing to have another costings investigation then, presumably because a war had intervened and you wanted to see how things had gone after the war, why is it not desirable that you should have one now?—The reasons for that are two, that, as I have endeavoured to indicate earlier on, all the general evidence we have indicates that the price increases which we have allowed to rank for subsidy have been moderate. We do not think there is any evidence of extravagance; on the contrary, as another Member has indicated, probably the reverse. The investigation that we did have on this—it was not completed—did indicate that the Exchequer would not have benefited had it been completed. We have felt that in those circumstances the Exchequer would not benefit by another inquiry and if the producers wanted one it was open to them to ask for it and then, of course, it could not be refused.

3715. But you rely upon an inquiry which was not completed in 1947 or 1948 because you found that the facts upon which it had to go were of no value because of the rigidity of conditions or values, or something of that kind?—No, excuse me, that was not the reason. The reason it was not completed was because there was a general Government decision to freeze prices in, I think, 1948. It was one of the decisions of that kind which applied generally and seeing that prices were at that time to be frozen, there was no point in going on with the investigation.

3716. Then, how could the investigation as far as it had gone have given any indication at all which would be of

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value?—Well, some results came out, you see, but not complete results.

3717. It appears from paragraph 62 that you are able to examine producers' books and accounts yourselves at any time. Is that so?—Yes.

3718. Would you be bound to disclose and act upon the results of your own costs investigation?—I think the answer to that is, yes. What happens is that a producer makes a claim for an increase. We examine it and then we discuss with him what our findings are and, as I say, normally—even, I think, invariably—we agree on a price increase, which is not by any means necessarily what he asked for originally.

3719. That being the case, why are you so reluctant to test the findings of your technical officers in selected cases by investigating the relationship with the approved prices and current production costs?—We think that our system, which does involve our people going to these firms on the average at least once a year to look at costs, is an effective check on improper claims for increases.

* * * * *

3721. Part of the Government's policy in determining the guarantees of support to the agricultural industry is to take into account the benefits of savings in production costs owing to increased efficiency, new techniques, and so on. If you are so scrupulous to do that when you are discussing the Annual Review with farmers why do you not display a similar care in respect of the incomes of lime suppliers?—Because we have not a statutory duty to do it, I suppose, is the first answer. Under the Agricultural Act, 1947, the Minister has a very specific statutory duty to ensure proper incomes to farmers, landowners and farm workers, but he has no such duty, as far as I know, in respect of lime producers.

3722. I am not concerned about ensuring proper incomes, I am concerned with the fact that you knock the farmers down and do not allow them any part of the benefits of increased technical efficiency?—But we do.

3723. They have to bear a large part of the cost themselves then. But going to another point, in paragraph 66, down towards the end, Sir Frank says: "Where supplies increase sufficiently competition operates to moderate selling prices". You have pointed out to the

Committee that the variation in costs due to freight charges has limited the effectiveness of competition between suppliers, have you not?—Yes.

3724. If competition were fully effective you would be able to dispense with your price controls altogether, would you not?—Yes, I think that might be so.

3725. But it is largely, I suppose, because of the differences in transport costs, and so on?—Exactly, yes. If there were a really universal free market, as at present advised, I think we should get rid of this, and of course we should be extremely glad to do so. It is an extraordinary arrangement. When I first discovered it I regarded it with suspicion, but I have been convinced that despite its rather unique character the Exchequer does not suffer.

Mr. Stevens.

3726. All these applications for price revisions are examined by Lime Technical Officers. Now, what qualifications have these officers got? Presumably they know all about the effects of lime on soil, but what other qualifications have they got?—I think that does not really fall within their duties. What have they to do; they really are trained, in effect, in a very careful kind of costs investigation; that is what it comes to.*

3727. They know more about cost than they do about chalk?—They do know, in fact, quite a lot about the process of producing lime. They are, I am sure, quite often able to suggest better methods, and so on, but their primary duty is on accounts.

3728. Their primary duty is on accounts, and they have some real accounting qualifications?—They have been trained to do their work. They are not professional accountants, but it is a specialised grade. They spend their lives doing it.

3729. Do you feel that they are qualified to tie in what would be proper increases in prices to meet increases in production costs?—Yes, they are, of course, under supervision, and so on.

**Note by Witness:* On reading my evidence I feel I ought to make it clear that when a lime technical officer examines a producer's accounts he is primarily concerned to verify that increases in cost claimed have actually been incurred and are unavoidable. He would then assess the effect of such increases on the cost of the finished product.

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Taking the fact that they are under supervision, with the general supervision of the administrative branch the facts can be established.

3730. You think they can establish the facts without actually investigating the costs of production?—They do. If a producer says he must have a higher price because his wages have gone up they do go and look at his books and establish that his wages have, in fact, gone up.

3731. They do, in fact, do that?—Yes, and similarly if he says his coal costs have gone up they go and see that that is so.

3732. It is on the advice of the Lime Technical Officers that price increases are granted?—Yes.

3733. I think I heard you say earlier on that in all cases where applications for a price increase have been made some increase has been granted, though I think I heard you say, in many cases not the whole of the increase?—It is certainly not by any means always the whole of the increase. I do not think I actually said in every case where an application comes in an increase is granted, but I think that would be the normal thing.

3734. Then, you cannot say in how many cases no increase has been granted as a result of an application?—I cannot at this moment of time, but I can no doubt have it got out, if it would be of interest. It would be an unusual thing because, after all, this has been going now for 20 years. I think the system is so well known in the industry and it is so well known that any application is tested and has to be proved that I would not expect really improper claims to be put in.

3735. The producers would not think of making a claim unless they were pretty certain of being on sure ground?—Reasonably sure, yes.

Mr. Peyton.

3736. Just one or two questions. What proportion of the lime output of this country is in fact supplied to agriculture?—I am sorry, I certainly do not know the answer myself and I am not even certain whether there are statistics which would give it.

3737. Would you be able to make any guess?—No, I am afraid I would not, but I would certainly, if I might, let you know if the figures are available.*

3738. The Committee would be quite interested to hear that. But supposing you did a very rude thing and said to the next person who asked you for a price increase: "Look here, we are not at all satisfied about the price agricultural lime is attracting and we think, far from their being an increase, the price should be decreased". What do you think the reply to that would be? Do you think, to use that ugly word, it would act as a disincentive to other people to apply for price increases?—I think if we really did an outrageously unjust thing we would not be allowed to get away with it.

3739. If I come along to you and say: "My wages have gone up, the price of my coal has gone up and I have had to pay more for my wheelbarrows, my ploughs are awfully expensive, my drills are awfully expensive" you then say: "How much"?—"Produce the invoices", we should say.

3740. There is no encouragement as there should be to these people to keep their costs down. If all I have got to do is to prove that my costs have gone up there is not really a very sharp encouragement to me to keep them down, is there?—I think there are two answers to that, in broad terms. One is, while, as I have said, there is not by any means absolutely free competition, there is a significant amount of competition. That is point one. The other is that, on the question of labour, in previous years, apart altogether from its cost, labour has been so short that, for example, there has been quite a notable incentive towards mechanisation; that is the sort of thing. You see no producer knows either that he is going to get any increase at all, or still more, that he is going to get exactly what he would like to have. I would have felt, while it is true there is no incentive—

3741. To take the position for the moment of the most efficient, economical lime producer in this country, supposing you were to say: "We are never in any circumstances going to give anybody a higher price except by proving that very exceptional circumstances

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apply to them which do not apply to the efficient man"?—Let us say that; then the supply of lime and chalk would dry up.

3742. You mean that some of them would drop out?—They would just have to, they would not be able to continue. That is why we have been driven into this particular system, and if you have got an area which is served by a particular quarry whose costs are high, if they can prove that they ought to have a higher price, you have to give it. If you do not they may be going on for a time losing money, but in the end they cannot go on.

3743. Suppose you were to say: "Twelve months hence we want to see your costs and before we continue to pay you what we have paid you, let alone give you any more increases, we want evidence of effort on your part to reduce your costs." Would that not be quite a reasonable thing to do?—We have, for example, I think, a few cases, when we were able to show that the cost of sacks had fallen, and we were able to get something off for that. I think if we had, and no doubt we are now entitled to expect it, two or three years in which the general run of costs is stabilised.—

3744. I am sorry to interrupt you, but the general point I am after is, to put it very mildly and very politely, you are a very, very good customer?—The farmer is.

3745. No, you are?—No, the farmer is.

3746. The farmer would not be if it was not for you?—That is true.

3747. You really are fixing the price, it is true, but you are a very, very good customer?—Yes.

3748. I am not making undue criticisms?—No.

3749. It does put a fairly large stick into your hands. We really are very seriously concerned about getting this bill down, and we ask you, all of you, next time we sit to bring with you evidence to show us you have done your best to lower the cost?—That is really what we do. I would ask you, if I might, to bear in mind that we have been operating this virtually in an inflationary situation. The whole run of costs, and particularly costs in this field

where fuel and labour are high, have been constantly rising and we have been putting the brake on all the time.

3750. With great respect, that is one of the things I am after. It would be quite unfair to blame you alone, in fact I am not blaming you at all, but the difficulty about these constantly inflationary situations is that a great many people tend to say: "We cannot help this. We are part of this inflationary situation and we are going up with it." All I am saying is, it would be quite a good thing if some big customers decided for once: "We are really going to make a determined effort to see if we cannot get something to go down"?—That would mean being even tougher than we are.

3751. Oh, very much?—All I can say is that I can imagine that a situation of this kind may operate to that effect, but I assure you, Sir, we will see if we can do better.

* * * * *

Colonel *Crosthwaite-Eyre*.

3753. I would like to ask just one further question. I think in answer to a previous question you accepted that these producers of lime were a well organised body?—I said, as far as I knew, they were.

3754. May I just ask you this, because in answer to a previous question by me you had given me to understand that there were a large number of small independent producers?—Yes, I believe there are.

3755. Have you to your knowledge received any approach on behalf of a substantial proportion of people who supply you with lime by any body that you recognise?—No, not to my knowledge.

3756. In other words, you accepted from Sir Colin when he said that they were a well organised body of employers, something which is not so?—I am sorry, I do not follow that.

3757. If it is a well organised body of employers they would deal with you as such?—I think I said that, as far as my knowledge went, they were effectively organised. I do not see how that is inconsistent with the other statement that, again as far as my knowledge goes, we have had no collective representations against this system.

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3758. You have always had it from individuals?—That is as far as my knowledge goes.

3759. You have never had anything from any body representing the producers who supply you?—Not to my knowledge.

Mr. Hoy.

3760. In all these negotiations, Sir Alan, have you ever had a firm who said to you: "Well, we refuse to supply you at this price", in other words, you could not reach a settlement?—I cannot give a categorical answer to that. As far as my knowledge goes in the end we have reached a settlement, but not on the basis of the first request. It is quite conceivable that a particular producer has said: "I cannot go on producing if you will not give me more than this", that we have stuck to our guns and he nevertheless has gone on. But it is equally conceivable that in an individual case somebody has given up. I am sorry, I do not know, but I would be glad to make enquiries if you would like to know.*

Chairman.

3761. Paragraphs 69 and 70, dealing with egg packers' costs. Sir Alan, there seems to have been a considerable delay here in the costings investigations referred to in paragraph 70. Are you satisfied you could not have hurried it up more?—I am, in short, yes. The point was that we thought it would have been undesirable to start a new investigation until we had reached a conclusion on the basis of the previous one so as to be quite certain that the new investigation was as well devised as it could be. The decisions based on the previous investigation were not finished until May, 1956, and then we went to a new accountant, we widened the sample, and so on. I think the thing was dealt with reasonably expeditiously.

3762. Were your costings results available for the 1958 Review?—Yes.

3763. What were the results?—The results have not been discussed with the packers, and therefore anything I say is subject to the proviso that the packers might have points to make which we have so far not taken. But the broad result is that had we been going on with

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the previous system it would have led to a reduction of about 5½d. per long hundred.

3764. What actually was your estimate of how much profit they ought to have made on the long hundred?—I am sorry, I am not sure that I follow that. We thought that we could have reduced the allowances which they have by that amount.

Colonel Crosthwaite-Eyre.

3765. Could we have this: from what to what does the 5½d. cover? Is it from 10s. to 9s. 6½d. or from 1s. to 6½d.?—The total allowances were 3s. 1d. and that would have reduced them, therefore, to 2s. 7½d.

Mr. Collins.

3766. 3s. 1d. per long hundred?—Yes.

Chairman.

3767. Do you estimate their costs?—That is what this investigation did, yes.

3768. How much profit were they supposed to make per long hundred?—The packers had a margin of 2s. 6d. as well as a packaging allowance of 6d. and a transport allowance of 1d. Out of that margin they had to meet their general expenses, and so on.

3769. What was the margin? That is what I want to get at. What was the margin that you allowed for?—The point is that we allow them that for their expenses and to make a profit.

3770. But surely, when you are fixing these figures, what you have in mind is actual bare costs and the profit?—Yes, I am sorry, I see the point.

3771. What was the profit which you allowed for when you fixed the cost and what was the actual profit?—We estimated that the profit in the packers' margin was about 1½d. per long hundred.

3772. What did it turn out to be?—I am sorry, I cannot answer that question now. I shall have to let you know.

3773. Can you help us, Sir Frank?—(Sir Frank Tribe.) I am told, Sir, that as compared with the allowable profit of 1½d. which the Ministry had hitherto regarded as reasonable, the result of this cost investigation showed that they were getting a profit of over 10½d. per 120 eggs, that is 10½d. profit as compared with the 1½d. which had

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been regarded as reasonable in the past, in other words, an excess profit of over 9d. on 120 eggs.

3774. Their profit was seven times as large as was allowed for? If this is complicated could you put in a paper on this?—(Sir Alan Hitchman.) Yes, I would much prefer to.

Mr. Hoy.

3775. I find it just a little difficult. I was rather waiting to get it. I would have thought if there was such a wide difference, as there appears to be, between 1½d. and 10½d. Sir Alan would have been able to tell us right off. It is not much use pursuing enquiries if we do not know whether this is a correct margin or not?—We could come back to it on Tuesday, if you wish.

Chairman.] We can come back to this on Tuesday.

Mr. Collins.] Is Sir Alan aware that egg packers are in a position to allow egg producers a special rebate of 5s. on a 60 dozen box and some of them, I think, are doing it now; at any rate they were doing it last week. 5s. on a 60 dozen box is 1d. on a dozen eggs, and the profit mentioned by Sir Frank of 10½d. per long hundred is also 1d. on a dozen eggs. In other words, the efficient packers are giving the whole of that profit and still make a profit on top of that. Are you not aware of that, Sir Alan?

Chairman.] I think it is rather difficult to examine the witness on what seems to me to be an extremely important point if he has not got the evidence, and I think it will be much wiser to leave this point over until Sir Alan can answer it.

Mr. Hoy.] All I am saying is that if it is in fact correct it is surely an extraordinary situation.

Chairman.] We certainly cannot let the matter slide, but it is no use enquiring now unless Sir Alan can give us the answer. That figure is so startling that I think we had better leave the question of the packers over until Tuesday and investigate it much more fully. A profit of seven times as much as is calculated is extraordinary.

Colonel Crosthwaite-Eyre.

3776. Could I just ask one question on this? I cannot quite understand why

in the original costings investigation one-third of the people selected were found unsuitable?—The reason for that was that they did not keep their accounts in a form in which the accountants could effectively produce the information required. That is why. They were mostly, I think, small ones.

3777. I would like, if I might, to go into that in more detail on Tuesday?—Yes, I will have more detail on that. That is the answer.

Mr. Collins.] Before we actually leave paragraphs 69 and 70, in view of the fact that Sir Alan is going to prepare a statement by next Tuesday, could we ask him to mention not only these profits but the range of special rebates which are given by packers on a 60 dozen box and which, as I have said, in the West Country amounts to 5s. per 60 dozen box or 1d. a dozen and, of course, the packers get a profit on top of that. Would Sir Alan include in the Paper the range of these rebates which, in fact, are in existence now and which still show a profit?

Chairman.

3778. I presume this point having been raised Sir Alan will come armed cap-a-pie?—Yes, I will certainly get the answer if I can.

3779. Then we will leave that over. Now, paragraphs 71 to 74, Milk subsidy. Who selects these samples?—They are selected by our Director of Costings in conjunction with people who deal specifically with milk.

3780. Is your Director of Costings a qualified statistician?—He is a qualified accountant.

3781. No, that is not my question. Is he a qualified statistician?—I do not think he has got a statistical degree, but he has been doing this sort of thing for very many years.

3782. Let us take this sort of point: in paragraph 73 you work out the profit per gallon to 1·741d., that is, to one-thousandth of a penny per gallon?—Yes.

3783. Any statistician will tell you that if you have a spread of prices of 1s. 0½d. and your sample is 85 your probable error must be plus or minus ·25 of 1d., which is a farthing, and you have worked it out to a thousandth?—Not being a statistician myself I

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[Continued.]

am afraid I cannot comment on it. At this moment all I can say that it is on this sort of basis that it has been done for a very long time.

3784. As I say, if your probable error is a farthing it is not much worth while working it to a thousandth of 1d. is it?—No, on your first assumption I think that might be the conclusion.

3785. I am afraid it is not an assumption, that is an ordinary statistical fact. Now, let us take another point. In selecting the retailers, I see from the end of paragraph 74, you take into consideration three factors, function performed, size of business and geographical situation. How many geographical situations did you take?—They were spread over the whole country.

3786. What is the approximate number, two, three, four or five?—They were all over the country, they were not concentrated in any one town.

3787. Have you not any idea? These 85 investigations were localised, as you say you have taken geographical situation into consideration. How many geographical situations did you take, how many areas?—I cannot say. I would have to get these 85 broken down by counties, or something like that, I suppose, which I must do.

3788. Would it be more than half-a-dozen?—It must be. I have not actually looked at the whole 85, but I am sure, and I have no doubt it is so, that there is a general geographical spread.

3789. That means per county?—Well, per area of consumption.

3790. What is that? Surely, when you are giving statistics that is an important factor? Have you taken half a dozen different areas or is it more?—I should think it was more. It takes account both of country and urban areas.

3791. Then, let us assume it is half a dozen. Now, how many different sizes of businesses did you take? These instances vary from the small retailer to the huge multiple concern which deals with hundreds of thousands of gallons?—I have not got that.

3792. Did you take a dozen?—I am sorry, I cannot give that fact.

3793. Well, let us say you took half a dozen. What about functions? What different functions are performed?—It depends on the kind of business. Some retailers simply buy bottled milk from a wholesaler and processor and deliver it. Others have their own processing plant and some act as wholesalers as well as retailers and the very big firms do the whole range of things.

3794. That is at least two different types. So you have six times six, that is 36, multiplied by two, that is 72 different types; and you have got 85 samples to deal with with 72 different combinations. You have different geographical area, different size and different function. On the bare minimum of figures I have suggested you have 72 different combinations for which you have taken only 85 samples. What I am suggesting is that these figures are completely meaningless. Have you a qualified statistician in the Ministry of Agriculture?—Oh, many, yes.

3795. Why do you not get one on to doing this job?—I am not saying he has not, but I find it hard myself to believe that the qualified firm of accountants who carried out this job in the whole of the milk trade would allow the system to go on for something like 20 years on a completely irrelevant statistical basis. It may be that that is so, but I cannot myself accept it and I do not believe it.

3796. To revert to the question of a thousandth of 1d. a gallon, it is a very, very simple method to work out the probable error. The probable error on the figures you have given, that is, a spread of 1s. and 85 cases, must be plus or minus a farthing and you have worked it out to a thousandth of 1d.?—Without really studying that calculation and getting a statistician's view on it I cannot accept it.

3797. Would you ask your own statistician to look at these figures?—Yes, indeed.

The witnesses were directed to withdraw and after a short time were again called in.

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[Continued.]

Chairman.

3798. Well, Sir Alan, I am afraid we have wasted a fair amount of the Committee's time in discussing this matter. You say you have a professional and qualified statistician. When you come next Tuesday would you bring him along?—Yes, I think it would mean bringing two people. I can bring them both.

3799. That does not matter?—I think that would be more satisfactory.

3800. I am not a statistician and those points I have raised are very simple from a technical, statistical point of view. However, time is getting on and we would like to continue this?—I think that would be very satisfactory.

Chairman.] So I propose to adjourn the Meeting until Tuesday, if that is agreeable to Members.

Mr. Hoy.

3801. And you will bring a statistician?—Yes, indeed.

TUESDAY, 6TH MAY, 1958.

Members present:

Sir George Benson, in the Chair.

Mr. Arbuthnot.
Mr. Collins.
Colonel Crosthwaite-Eyre.
Mr. Hoy.
Mr. Peyton.
Mr. Ramsden.

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

Sir FRANK TRIBE, K.C.B., K.B.E., and Mr. J. MACPHERSON called in and examined.

CIVIL APPROPRIATION ACCOUNTS, 1956-57 (CLASSES VI-X).

CLASS VIII.

VOTE 2.

AGRICULTURAL AND FOOD GRANTS AND SUBSIDIES (Continued).

Sir ALAN HITCHMAN, K.C.B., Permanent Secretary, and Mr. C. H. M. WILCOX, Principal Finance Officer, Ministry of Agriculture, Fisheries and Food, called in and further examined; Mr. H. PALCA, a Statistician, Mr. W. F. C. CLARK, Director of Costings, and Mr. R. P. ASKEW, an Assistant Secretary, Eggs, Poultry and Potato Division, Ministry of Agriculture, Fisheries and Food, called in and examined.

Chairman.

3802. Will Members turn to the Civil Appropriation Accounts, Classes VI-X, to paragraphs 69-70 of the Comptroller and Auditor General's Report on egg packers' costs? What exactly did this cost investigation reveal, as regards profits?—(Sir Alan Hitchman.) It revealed a gross profit of an extra 8½d. per long hundred. That was the result, as it were, of the crude sample; and as I said before, and I should repeat, none of these figures has been discussed with the packers as normally would have to be done, so they are to that extent provisional. As a result of various adjustments which we think ought to be made to that crude figure we consider that it comes down to 5½d. per long hundred.

3803. What was the profit that you aimed at allowing?—1½d.

3804. How do you explain the difference?—It is due to a number of factors. The main one is the big increase in throughput as compared with the time when the previous costings were done.

3805. What does the 5½d. amount to in a global sum?—It amounts to £1.26 million.

3806. £1¼ million. Is there any provision for recovery of excess profits?—The arrangement now is that an amount in respect of all administration is included in the price for eggs which is determined every year at the Price Review when it comes up for review. Therefore, the facts revealed by this inquiry were reported to Ministers when the price for eggs was being determined and it was one of the factors which Ministers had in their minds in deciding what the price of eggs for the following year should be; and they did in fact reduce the price of eggs by 1½d. per dozen. (Sir Frank Tribe.) But on your point, Sir, I gather there is no provision for recovery of the excess profits made in the previous two years.

3807. There is no possible readjustment?—(Sir Alan Hitchman.) No, that is true, and if I might develop that for one moment, I think the only way that could have been done would have been, when we determined the allow-

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ance in respect of administration initially, to have made it a provisional figure subject to review. We should have had to get the farmers and the Egg Board to agree to that. I think it would have been a difficult thing to do in the very first year of the Board's operation. In any case, if I may make a point of fact, the only way in which account could have been taken of this would have been to make the initial allowance provisional and subject to readjustment.

3808. Have you included that in your subsequent agreements and will you in future agreements?—For the future the amount will be taken note of as part of the overall situation affecting the egg price.

Mr. Collins.

3809. Sir Alan, I notice from paragraph 70 that one-third of the packing stations originally suggested by the Costings Division were unsuitable. Why were they unsuitable?—What in fact happened was that of the original sample which was selected by the Director of Costings, who is here, 14 fell out, and before we got them replaced a total of 19 fell out. Five fell out because the businesses were complicated and the costs could not be separated; four for lack of accommodation and shortage of staff; there were two changes of ownership; one was a newly established business; another said it was very inconvenient. It was that sort of thing. One or two declined without any reasons. In one case I think we were satisfied that the records were incomplete.

3810. So, really, these people were selected without your having first of all consulted them as to whether they would be prepared to co-operate in this investigation?—It was a random selection in the first place.

3811. Now, were the substitutes you put in for the 19 who suddenly dropped out again your own selection or were they suggested by the trade?—No, they were our selection. We consulted the trade about them, I think they raised objection to two and I think we selected a further two. (Mr. Clark.) That is so.

3812. Under those conditions is there not a danger that it would be no longer a random sample, as was originally intended?—(Sir Alan Hitchman.) Mr.

Clark will correct me if I am wrong, but I know that the original selection was random and I understand that the substitutes were selected at random within the relevant groups.

3813. Were you satisfied that the final composition was a reasonable cross-section of the trade?—Yes.

3814. Were the costings completed in time for the 1958—this year's—Price Review?—There was one return, as I understand it, which came in late—from Scotland, was it not? (Mr. Clark.) No, not from Scotland but from the North-East. (Sir Alan Hitchman.) But 59 were in, and as a matter of fact the information that went to Ministers gave them the gross figure resulting from this investigation without the adjustments which we considered should subsequently be made.

3815. There were sufficient in to be taken into consideration in the Price Review?—Yes.

3816. I think you said that the packers' margin was 1½d. per long hundred?—That was the sort of target profit, yes.

3817. Can you say whether you were aware, for example, that the Co-operative Wholesale Society can afford to allow egg producers 5s. per box of 60 dozen as a special inducement?—We do know that many egg packers do give extra bonuses, yes.

3818. An extra bonus of 5s. for 60 dozen is 1d. a dozen, which is quite a big amount having regard to the target figure of profit which you had in mind?—Yes.

3819. Have you considered that fact in reviewing the profit margins?—Yes, we have. As far as our information goes the main source from which these bonuses come is the retail margin, what the packer gets through selling direct, making the final sale, which is excluded from these costings because these costings relate to the packing operations. We think that is the main reason. It indicates, of course, that there is pretty vigorous competition between the packers, which we think is a good thing.

3820. Whilst unquestionably it is a good thing, the fact that they can give these allowances is surely proof that the profit margins are rather on the liberal side?—It is undoubtedly true, of course, that this costing has shown that

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at the current rates of throughput the margins do give, on the average, a pretty high profit; but I do not think the fact of the bonus payments is in itself evidence of that because, I repeat, as we understand it the major part of it comes from the retail element in these packing stations.

3821. I wonder if you would bear in mind, of course, that though the Farmers' Co-operative can give bonuses to their members, there can be no retail element in that profit because they would be dealing in almost all cases with wholesalers, and the additional retail allowance that they are allowed would have no effect on the bonus. I am quite content to leave that if you will bear that particular point in mind?—I certainly think that some Co-operative packing stations do sell direct, for example, to hotels.

Mr. Hoy.

3822. Are we to understand that, although these packers get a profit at least four times greater than was intended, you are going to take no steps to recover that excess profit?—No, I do not think so, Sir. Under the control which now operates there is not, as there was in the past, a direct Government control on these margins, but in future these will be taken account of in dealing with the egg price; and, as I indicated, the egg price was substantially reduced by very nearly the full amount that is allowed under the Act.

3823. What I could not understand was your reply that throughput accounted for this large increase. I do not see the connection. One would have thought that, if the throughput was much larger, then, of course, there would have been a lot more three half-pences, but what I cannot quite understand is that because of the throughput it should go up to 6d. per long hundred?—The reason is that the fixed costs, that is, the rent and certainly managerial costs and much of the wages, the charges relating to machinery, and so on, are not directly related to the throughput. As the throughput goes up so the amount of those costs per dozen falls.

Mr. West.

3824. Did the costings investigation determine the amount of capital employed?—There was an attempt to determine the capital employed, yes.

3825. I see in his Report Sir Frank says: "Including for the first time an attempt to assess the capital employed," but my question was, did the costing investigation determine the amount of capital employed by the packers?—Perhaps Mr. Clark could answer that? (Mr. Clark.) Yes, Sir, it did, but in a very nebulous manner. It would be unfortunate to attempt to base too much on this because there are so many composite businesses involved and it is a difficult question to split between one and the other with any degree of accuracy.

3826. So it would be quite impossible to ascertain what would have been the target profit expressed as a return on capital?—(Sir Alan Hitchman.) We did make an estimate of that. It came out at 6 per cent., roughly, that is, on the target profit.

3827. What was the emergent profit?—If you take it that the further 5½d. is correct, then it is roughly 18 per cent. more.

3828. From paragraph 69 I see you felt that new costings were needed before the Egg Marketing Board took over. Do you think the failure to get the investigation completed before the Board took over resulted in extra cost to the Exchequer?—The position was this, that it really was, I think, as a matter of fact, impossible to get a new costings inquiry completed in time for that. There were two reasons: one was that we could not get going with the new instructions, and we made quite a number of changes in what we did. For example, we got independent accountants to do this instead of relying on the packers' accountants and we did not want to do any of that until we had finally completed our discussions with the Treasury on the previous inquiry, which took us until May, 1956. Then there was the great question whether this whole system would continue and that was a matter for discussion with the Egg Marketing Board; and had the negotiations with the Egg Marketing Board not gone through we should have had a quite different system under which none of this might have been required. So, I think it really was not practicable to do it.

3829. No, I may agree it was not practicable to do it, but the question I would like to put to you is this: did the fact of it not having been done result in extra cost to the Exchequer?—I think

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that is a hypothetical question. I think my own answer is No, at any rate, not significantly. It was complicated with other issues, Suez for example.

Chairman.

3830. Paragraphs 71-74, Milk subsidy. Sir Alan, this is the point on which I raised one or two technical questions on your statistics?—Yes. Mr. Palca is here.

3831. I gathered from something you said that Mr. Palca was not responsible for these statistics?—No, not responsible for these costings, but he is an expert on sampling.

3832. Mr. Palca, if you take, for instance, the sample costings on milk of retailers profits worked out to three places of decimals, quoted in paragraph 73 of the Comptroller and Auditor General's Report, that is a thousandth of a penny per gallon?—(Mr. Palca.) Yes.

3833. You have a sample of 85 and a spread of 1s. 0½d. Your probable error, therefore, would be at least plus or minus .25 of a penny?—Well, Sir, the actual sampling error is a little less than that, but not much less; it is just a little less than a fifth of a penny, if you take the actual readings.

3834. I agree with that, yes, a fifth of a penny instead of a quarter. That is a fifth of a penny on either side, that is, two-fifths of a penny, and is it not rather nonsensical to work it out to three places of decimals, which is one thousandth, if you cannot be more accurate than two-fifths of a penny?—Yes; I do not think it is misleading. You have not suggested that, but I think it is unnecessary to take figures to three places of decimals.

3835. I should say it is very misleading, because the variation in profits is £½ million per tenth of a penny, and if you work it out to three places of decimals I think people would assume that you are extremely accurate, whereas apparently you do not know the profit to within £2 million to £2½ million?—Yes.

3836. So, the whole thing is completely misleading?—That is true, if people regard the number of decimal places as indicating the accuracy. I would say, in that case, at the most one or two decimal places would have been enough.

3837. Now, take your sample which is referred to in paragraph 74. You would agree that sampling, particularly when you have got some 40,000 cases, is a highly technical statistical point?

—Yes. But I am told that when the number of cases is quoted at 40,000 that includes a vast number of very, very small retailers who could not be really regarded as part of the sample because they take up a very small percentage of the total gallonage. In fact, the total population at risk is about 3,000, I understand. (Sir Alan Hitchman.) I think 3,000 retailers sell 90 per cent. of the milk.

3838. You take into account three factors, function performed, size of business and geographical situation. How many functions are involved in these retailers?—(Mr. Palca.) You mean, if you multiply each class, supposing there were X regions and Y different types?

3839. Y, prices, and Z, functions, yes?—I agree, if you do that you come to a very high figure, possibly 50 subdivisions.

3840. I think Sir Alan told us that so far as geographical situation is concerned it was done on a county basis?—(Sir Alan Hitchman.) Well, if I did I was certainly wrong.

3841. How many geographical situations were taken?—(Mr. Palca.) Just the urban and the rural.

3842. That is two?—Yes. As I understand it, it was a kind of two-stage sample. It is not that they took a sample of each type of distributor from each county, they first of all chose a sample of locations and then within the locations another sample.

3843. It seems to have been pretty haphazard?—No, it is statistically defensible to use a two-stage sample.

3844. It is statistically defensible, no doubt, if is done by a statistician, not if it is done haphazardly. How much did this add to your probable error on the profit?—I do not think that is a question one can answer, if you mean by "haphazardly" not done systematically.

3845. Not done by somebody who knows what sampling is or how sampling should be done. You agreed yourself that sampling was a highly technical proceeding?—Yes, it is, I suppose, though I think we statisticians sometimes

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rather inflate our own value; but I think, providing that the people who chose the sample did it genuinely—haphazardly, as you say—and were not biased in any way, then we can estimate the sampling error from the results. The danger in any sample is if you get a deliberate bias creeping in, and I see no reason why bias should have crept in in this sample.

3846. You mean, they did not know what they were doing so they did not probably make any deliberate mistake?—Well, I would not like to say that. (Sir Alan Hitchman.) If you think so, say so. (Mr. Palca.) I think that is a little unkind to them. No, I would not say they did not know what they were doing.

3847. Do you feel sympathetic to people who work out to three places of decimals?—I think it is a financial approach as opposed to the statistical approach. No statistician would do that, because statisticians automatically think of the number of decimal places as indicating the order of accuracy, as you suggested; but I imagine the financial approach is different.

3848. I do not know whether it is or not. I would say that this Committee places a considerable emphasis upon accuracy rather than on, shall we say, theoretical exercises. However, you would agree that these statistics are really of very little value?—No. But I agree there is little value in quoting three decimal places, certainly if that is what you mean.

Chairman.] I mean, to quote a figure with a probable error which may make a difference of £2½ million in the profits.

Mr. Peyton.

3849. Is there a short answer to the difference between what is haphazard and what is statistically defensible?—(Sir Alan Hitchman.) I wonder, could I have a word on this sample? I do not pretend to be a statistician and I am never sure that I understand their language, but I understand your criticisms are based on the principle that this sample is supposed to be a true sample of the universe—I think that is the expression—of experiences. That really is not the basis on which this series of enquiries works. The target margins have really been developed historically from the beginning of the war and they are

related to a specific sample which started on a much smaller scale, as I understand it, at the beginning of the war. We have endeavoured, as far as we can, to preserve that sample so as not to raise any more question than could be avoided about the validity of the target profits, the object of the whole exercise being to calculate, as far as we could, the change of trends in costs. That has been the object, because the end result has got to be an adjustment in the margins corresponding to changes in costs. I understand, and Mr. Palca must say what he thinks, that in considering this sample on that basis as a reflection of trends in costs the theoretical error is considerably reduced as compared with the theoretical error in taking the sample as an attempt to assess the whole universe. That is right, is it? (Mr. Palca.) Yes. (Sir Alan Hitchman.) Do say if it is not.

3850. Do I understand you correctly to say that each year's costings are taken strictly in comparison with the previous year's?—That is right.

3851. Do you ever get any abrupt shocks? For instance, in any one year do you suddenly find that the margin of 1s. 0½d. between the maximum profit and the maximum loss expands or contracts much?—Perhaps the Director of Costings should answer that. I believe this experience was particularly wide, but Mr. Clark, could you say? (Mr. Clark.) Yes, it is a wide sample and we do get fluctuations.

3852. It does seem very, very wide, over 1s.?—Yes, they are extremes, of course.

3853. Incidentally, do you ever take any sort of friendly interest in the gentleman who makes the loss of 6d., to find out his fate?—Yes.

3854. Has he stayed quite happily in business?—It is difficult to pinpoint the reason for that type of thing, but very often it arises from labour troubles or they have been having plant trouble; one can sometimes give a reason to it, not always, but on occasion we can.

3855. Did you say "plant troubles"?—Yes.

3856. Would you take something quite exceptional like that into account?—No, we expect them to run the business in the ordinary way. If for any reason the plant has got to be closed down for a couple of days and they have got to

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buy their milk elsewhere than that is not a factor we should bring into the picture because it is an abnormal distortion.

3857. As I understand it, you said just now that the 6d. loss was partly accounted for by, for example, plant troubles?—Yes; I am sorry, I did mislead you there. We do on occasion look into these things and it is often possible to assign some sort of reasons to it which we have got to take into account.

3858. Are you satisfied that with a mixed business you are able to apportion the overheads properly in your costing?—Those are done by the investigating accountants in conjunction with the auditors of the firm concerned who, generally speaking, can agree on a technical basis. They vary from one business to another, but as far as it is possible to do it with any degree of accuracy we do the best we can.

3859. Judged over the years do you find that retail profits are, for the sake of example, in larger firms in towns, whereas the losses are in smaller firms in the countryside, or anything like that? Is there any rule of thumb that has emerged from these things?—No, none. It is quite wide.

3860. It is completely unknown? You are not left any the wiser with any firm conclusions as the result of these costings?—(Sir Alan Hitchman.) I think it is the experience, is it not, that London distribution costs are the highest, even though they are big firms? (Mr. Clark.) Yes, that is a regular thing with a big firm, the costs are very high, but the large loss that creeps in, the extraordinary one, is very often due to domestic reasons which we cannot really enquire into.

3861. Now, on paragraph 74, of the 85 retailers who were sampled how many can you say were making a loss?—No, I have not got those figures.

3862. I do understand that this must be an appallingly difficult puzzle to work out, but the words used here are: "endeavoured to obtain results from as wide a range of distributors as possible". Do you go out of your way to select—I am only asking for information—a very good distributor and a very bad one, or not?—No, by and large until we have actually costed, we have no idea what they are going to be like at

all. So that, from our point of view, it is very much a haphazard selection.

3863. If your people get into a really thoroughly inefficiently run concern, presumably they are not going to take much notice of that situation where costings are concerned. Would they accept the results or would they just reject them as being unrealistic?—If the whole thing was quite unrealistic the whole thing would be rejected. (Sir Alan Hitchman.) As I understand it, the basis of this is that both we and the distributors agreed on this basis and by and large, unless there is a special reason the whole range of costs has to be taken into account. (Mr. Clark.) Oh, yes, but I think we were speaking about something quite off the beam altogether, something that was ridiculous.

3864. Would you be able to give a percentage either of retailers who are selling at a loss or the gallonage of milk which is sold at a loss?—Yes, I think we could do that. Out of the 85 experiences costed there were twelve selling at a loss, and of those, eight were selling at a loss of under 1d., three at a loss of from 1d. to 2½d. and one over 5d.

Mr. Arbuthnot.

3865. Sir Alan, you will remember giving evidence before the Committee last year in conjunction with Sir Gilbert Flemming on the question of milk in schools. The "Milk Industry", which is the journal of British dairying for April, reviewing the evidence before the Committee, has this to say: "Nowhere in the report of the proceedings do Members of the Committee appear to have been told that although £230,000 may have been saved by the Ministry of Education on school milk supplies this has been offset by the reimbursement to distributors by the Ministry of Agriculture, Fisheries and Food for diminished margins as a result of discounts to schools. Nobody seems to have told them that it has been very nearly a case of paying Peter the savings of Paul". Is that a correct assessment of the situation, Sir Alan?—(Sir Alan Hitchman.) I have not looked up the minutes of evidence to see whether this point did come out or not, but it is true that giving discount to an education authority reduces the margin of profit and if there was no increase in efficiency to compensate, then over a period of time that would be the result; because we aim at

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this target profit under the system and if these costings we have been talking about revealed this situation then we should have to make an adjustment. It would, of course, be a global adjustment. The individual would not get it back and, of course, the local education authority individually would be better off.

3866. Is it your view that the Committee is wasting its time in trying to suggest that the education authority should do its best to get the maximum discount that it can?—No, not at all. I think the education authority should try to get the maximum discount. It must be right that each individual authority should reduce its costs as far as possible. The other reason is that, taking these arrangements as a whole, one would expect them to lead to an increase in efficiency because one would expect, taking the thing in the broad, that the more efficient firms would try to get this kind of business and build up their turnover as well.

3867. What proportion of milk distributors would you reckon do supply schools, as a rough figure, 10 per cent. or 20 per cent?—We are guessing, I am afraid.

3868. Perhaps you would like to let us have a note on this suggestion that has been made in the "Milk Industry" for April, 1958? I think your attention has been drawn to it?—Yes, I had seen it before I heard it might be raised.*

Chairman.

3869. Might I just ask Mr. Palca a question on this: the effect on the milk distributors' price of this reduction in the costs of school milk will depend very largely on the number of distributors who supply milk to schools who are in your sample of retailers, will it not?—(Mr. Palca.) I am not sure that I follow that, Sir. (Sir Alan Hitchman.) Would you repeat that, Sir?

3870. The argument, I understand, used in the "Milk Industry" is that the remuneration of milk distributors is reduced by the way their charges for distributing milk to schools are reduced, but they say that is compensated by the overall increase in the milk margin, and therefore one cancels the other out?—That is so, Sir.

*Information supplied: not printed.

3871. Is it not a fact that the effect that the school milk reduction will have on the overall milk margin will depend entirely on the number of samples you take up of milk suppliers who are in the 85 on which you base your milk prices?—I think that is right.

3872. So, in reality, there is no validity in the argument of the "Milk Industry". They are really just scoring a debating point?—I am not sure that it is altogether a debating point. I think it would be a defect in the sample if this factor were not revealed in it. Could I make just one general comment on this question of margins generally? This whole system developed in the war and while we have done the best we can, and for the reasons I have indicated we have attempted to keep as far as we can a standing sample rather than have a sample which accurately reflects the whole universe of experience. The arrangements under which we do control margins depend on emergency legislation which expires, I think, at the end of next year. Ministers will have to decide before that time whether this whole system is to continue.

* * * * *

Mr. Hoy.

3873. Sir Alan, how were the profit targets fixed in the first place?—They did their best, as far as they could, in 1940 and 1941, as I understand it, to find out, on the basis, I gather, of a much smaller sample than this one, what the actual profits were.

3874. How do we know today that the profits are still reasonable if we do not know the capital employed?—The whole basis of it has been to take the profit margins that were originally determined and adjust them in the light of costs and other factors. I think it is a perfectly fair point, if I may say so, to say that if the original assessment was in fact wrong then certainly these are not right. I would like to confirm this, but my recollection is that the margins are now 30 per cent. of the retail price compared with 40 per cent. when the system started.*

3875. It is a point you should look at?—Yes.

3876. Could you tell me why the profits at the depots exceeded the target

*Note by Witness. I find that the figures are 32% and 42%.

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by so much?—I do not think we have any specific reason for that. The main reason, we feel reasonably certain, is that the throughput has been going up through these depots as a result of increases.

3877. When the costings show that the targets have been exceeded by so much, do you adjust the margins concerned?—We should unless the distributors when we discussed these results with them produced good reason why we should not.

3878. How much would you estimate that the depots have received by way of excess profits because of these throughputs in the last couple of years?—(Sir Frank Tribe.) Perhaps I could answer that. I am told that it is estimated that the figure for 1955-56 and 1956-57 combined is about £600,000. (Sir Alan Hitchman.) For each year?

3879. No, combined. If that is the estimate your Department has made do you ever take any steps to try and recover any of these extra profits?—No, the arrangement is that on the basis of these costs we alter the margins from year to year. I do not think we ever do it retrospectively; I do not think we could.

3880. You have in fact altered the margins, have you?—Yes.

3881. In view of these figures?—Yes.

3882. Have you altered it to such an extent that you hope to recover some of these excess profits?—No, I think we would not do that. I think we would aim in the future to get them down to this level.

Mr. Collins.

3883. Sir Alan, further on the point raised just now, it was given in evidence that 85 per cent. of the distributors of milk to schools gave margins back. From that would it not appear likely that some of them at least must have been included in this sample of 85 retailers?—Yes, I think they were. (Mr. Clark.) 4 per cent., roughly.

3884. Having regard to that fact would you think again, not now but perhaps later, the answer you gave to Mr. Arbuthnot that it would not make any difference, because if in fact this Committee is spending its time urging the Ministry of Education to get substantial rebates, and £230,000, after all, is equivalent to a twentieth of a penny

per gallon of milk, but then through the system it has to be refunded indirectly by your Department, then it is useless for us to waste our time on things of that nature. I cannot quite see the validity of your answer that it is still worth while pursuing those points if in fact the money has to be paid by another Department. Would you think that one out?—(Sir Alan Hitchman.) I shall have to deal with that in giving the note the honourable Member asked for, and I certainly will.

3885. Now, I am very unhappy about this point of a variation of 0.1d. per gallon meaning £½ million of total gallonage in the light of what has been said by Mr. Palca about a possible variation of 0.2d., which would be £1 million, and these figures to three decimal places of a penny. I do not want to go into the statistical position again but can you really say why you quote these figures to a thousandth of a penny? Is that to impress the farmers?—We do not do it to impress the farmers. It is discussed rather with the distributors.

3886. Is it to impress the distributors?—In the first place, I am not sure that we do quote it to the distributors. I am bound to say, as far as my knowledge goes, it was just worked out to that point in order to get a certain measure of accuracy. I am not even certain that this particular figure is quoted to distributors.

Mr. Peyton.

3887. It is not to please the Treasury, by any chance, is it?—In so far as we are talking about retailers, I am not at the moment clear that the Treasury at this moment of time are very interested because there is no subsidy at present on liquid milk; and, therefore, the person who suffers if we get this wrong as things are at present is, I think, the consumer because it means, for example, that we do not reduce the price in the summer as soon as we should, or something like that.

Mr. Collins.

3888. I think it is really that the trade do get these figures to three decimal points of a penny, because looking at this same article which is published by the trade I see they carried out costings of bottling and these are all to one thousandth of a penny: all milk, 3.046d.; third pints, 3.720d. and they

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seem to be accustomed to these thousandths of a penny. I will hand you this article?—I have the article, Sir.

3889. You will see they say: "Great credit falls to Sir Alan for having made the position so plain?"—I did notice that. I would not have referred to it.

3890. I think it is right that we should. There is another point in these costs that if in fact one form of bottle costs more than double the other then is that also taken into these profit margins?—If it does, yes, I assume it is.

3891. That is a consideration that is taken into account. Quite seriously when you are having regard in the future to what is reasonable and proper to quote, particularly in view of the fact that .1 of a penny means £½ million, do you also agree with regard to the point raised by Mr. Hoy that if this historical basis that you mentioned is inaccurate you will have to do some rethinking about it?—I have already indicated that there has to be a decision whether the whole system continues.

3892. In other words, this might well be next year's unhappy antiquity in essence and producing not a very good result?—It might be. I do not think the evidence really justifies that conclusion, but it might well be.

Chairman.] Paragraphs 75-79, the British Wool Marketing Board. I have no questions.

Mr. Ramsden.

3893. Sir Alan, under this guaranteed arrangement for wool part of the return to producers in excess of the guaranteed price in one year, that is to say, any profit that the Board makes, can be applied towards meeting deficiencies in future years. Is that so?—Yes.

3894. Which seems an excellent arrangement from the point of view of the Exchequer?—Yes.

3895. Producers have no quarrel with it, have they?—No, they have accepted it.

3896. Is it applied in the case of any other commodities?—No, I do not think so. In the case of other commodities there are, so to speak, sharing arrangements but this particular carry-forward arrangement does not apply.

3897. Is there any reason why it should not be applied to other commodities to reduce the burden on the

Exchequer?—I think that it is only a good arrangement where there is a reasonable prospect, at any rate in a fair number of years, of a profit. In the case of eggs and milk, for example, there has got to be a considerable change before there is going to be an overall profit.

3898. If there is a loss of course you are no worse off than you would be under any other arrangement, are you?—Under other arrangements we do require Boards in various ways to accept a proportion of the loss. In the case of the Eggs Board, the Eggs Board have to take the whole of the first 2d. below the standard price and thereafter they have to undertake 10 per cent. of the loss and the Exchequer bears 90 per cent. In the case of milk it is half under our complicated formula. So that if the general prospect is of a continuing deficiency I think myself, and certainly Ministers have thought, that there is a great deal to be said for having a requirement on the Boards to accept a proportion of the loss as an incentive to diminish it.

3899. Can you combine that holding up some of the profits with an obligation on the Board if a profit is made not to dish it all out but to hold some against future losses?—I think we could. It would be rather a complicated arrangement and all these arrangements, of course, have to be by agreement. Boards cannot be required to do these things.

3900. On the Board's marketing expenses, do these arrangements mean that if they are excessive they are met at the expense of the producers?—Yes.

3901. Out of the return to the producers?—Yes.

3902. Have you, or if not who has, any responsibility for seeing that they are not excessive?—No. As you yourself have said, Sir, the producers lose if the expenses are excessive. The whole loss falls directly on them and we regard that as the best incentive on the Board to administer their affairs economically; and indeed it was decided as a matter of deliberate policy to change with this Board from a system whereby we attempted to assess the administrative expenses to one in which we, as it were, had no direct responsibility.

3903. But you have got a responsibility for seeing that producers get a fair return, have you not, or have you

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devolved that entirely on the Board?—We have a responsibility for seeing that the producer gets the standard price.

3904. But if the Board's expenses eat up an undue amount of that the producer does not get it?—Our responsibility is to see that the price at which the producer sells to the merchant is made up to a standard amount but the administrative expenses are outside that.

Chairman.

3905. Paragraphs 80-85, Potato Marketing Board. The Potato Board have powers of regulation and also powers to trade. Could you shortly describe how their powers work?—The powers to trade are powers to buy at the support price established under the Price Review. They also have general powers to buy in the market as a stabilising arrangement. They also have powers to control acreage and to regulate the size of potatoes which are sold for human consumption purposes by adjusting the size of the riddle through which potatoes have to pass for that purpose. I think that is it, very succinctly.

Sir Colin Thornton-Kemsley.

3906. Have you any power over the sale of seed potatoes or are we only dealing with ware potatoes?—We are only dealing with ware potatoes. They do not deal with seed potatoes.

Chairman.

3907. When the market price is above the support price I suppose the producer can sell where he wants to?—Yes.

3908. So really the Board only purchases when prices are below the datum line, so to speak?—Any producer can sell to the Board at the support price if he wishes. The normal expectation would be that if the market price were above the support price none would be offered to the Board.

3909. Sometimes you buy potatoes which you allow to rot in the ground, is that not so?—Yes, in the clamp.

3910. Is that when there is a glut?—As a normal thing, yes.

Mr. Collins.

3911. Sir Alan, paragraph 83 refers to the 1955 crop, when the Board had to take up 43,000 tons in May, did that not arise because there were heavy imports during the month of April and

May?—That was the main factor, yes, I think.

3912. Many of those imports in fact rotted on the quayside and were never required. Does your Department give advice to the Potato Marketing Board on such an occasion?—We do advise, but those imports, of course, were licensed by the Board of Trade and I think the immediate cause of that happening was that the Dutch Government put an export ban on as at a certain date and a lot of potatoes were rushed into this country to get in, as it were, under the wire. A good many miscalculations were made, but not by the Board.

3913. Is it not likely then that the trouble would have been avoided if you took the same steps as you took in December, 1957, over this same crop in these conditions?—No, I do not think so. We did in fact, if I can recall, allow imports at about the same date in this particular year.

3914. And then embargoed them again, I think?—No, we did not. It was the Dutch Government which embargoed exports from Holland.

3915. On this point about buying potatoes which may have to be allowed to rot in the ground, is that not under the existing arrangements a risk which may well have to be taken?—Yes, that is the basis of the policy. Perhaps I should say here that the Ministers have announced that there must be changes in the system; and current discussions with the producers' representatives are now going on with a main object of seeing if we can devise methods of reducing the likelihood of that happening.

3916. On the other hand, would it not be less costly to have a small surplus rather than to have a very considerable shortage at high prices on the market?—You cannot with potatoes avoid the risk of frequent shortages unless you are prepared to accept surpluses in certain years, which, with the probable variation in the crop as between one year and another with the same acreage, might be 2 million to 3 million tons. (Mr. Askew.) Certainly 2 million.

Colonel Crosthwaite-Eyre.

3917. I believe you say, Sir Alan, that the Potato Marketing Board controls acreage. Is that a fixed level of acreage or does it alter from year to year?—The Potato Board have not announced

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any steps to date to change what they describe as the basis acreage quota but we have been advised in the last 48 hours that they propose to do that and make a change in the next six months. But I do not think they have imposed any acreage control or restricted the acreage which growers can grow.

3918. At the present moment the grower can grow as many potatoes as he likes, can he?—Yes, he has to pay levy on them and register as a producer with the Board.

3919. Subject to that there is no restriction?—No.

3920. When you say you have to buy potatoes at the support price those are, of course, potatoes for human consumption from the main crop. What happens when you sell them back for animal consumption?—(Sir Alan Hitchman.) They have to be sold back at the market price, so far as it can be assessed, and a big loss falls on the Board, of which 95 per cent. falls in turn on the Exchequer.

3921. But is it not perfectly possible for a farmer to make the Board buy potatoes for human consumption, for the Board then to say that they cannot move them, and the farmer then to buy them back (without the potatoes having been moved) for consumption of his own animals?—Yes, that is so.

3922. And the Treasury pays?—Yes.

3923. How much does that in fact happen?—In a year of glut that happens quite a lot.

3924. Does the Ministry think that it is perhaps a rather swift procedure on the part of the farmers concerned?—As a general rule, I think there is no escape from it under the present system. That is one reason why we are seeking to change it.

3925. Is the Treasury happy about that?—(Mr. Macpherson.) No, with Sir Alan we are hoping that a new system will be evolved; because this method has, in fact, resulted in there being very substantial payments in cases of that sort.

3926. Without a potato being moved at all?—Yes. (Sir Alan Hitchman.) Certainly. I should say Ministers have announced quite definitely that there must be changes and the precise method is what is under discussion.

Mr. Thornton.

3927. Sir Alan, reference is made in paragraph 82 to the average loss of £4.5 million for the three years. Now, we are told in paragraph 85, that the actual loss in 1955 was £439,000. Can you tell us what the actual loss was in 1956 and in 1957 to make up this average of £4.5 million?—Yes. The actual figures were £439,000 on the 1955 crop, £12,868,000 on the 1956 crop and it is estimated on the 1957 crop at about £1 million.

3928. In your opinion, is this £12 million loss on the 1956 crop quite exceptional or is it something that we can expect to recur at not infrequent intervals?—We certainly can expect it to recur if the present system continues. As I have indicated, it is because we do get these terrific swings that we are seeking to change the system in the hope that in various ways this kind of loss will be minimised. But if the present system were to continue, how frequently it could happen it really is impossible to say; it does depend on the rainfall and the climate, which are what decides it, but it could happen again, without question. (Mr. Askew.) It was a combination of high yield with relatively high acreage and this, I believe, is the largest surplus we have had in recent years. (Sir Alan Hitchman.) It could happen again.

3929. If it is exceptional in relation to a three year period then would it not appear that the average annual loss is likely to prove much less than £4.5 million?—We have had three years so far, two years of really very serious shortage and one year of a very considerable surplus. I do not think one can at this stage draw conclusions about the average experience over, say, ten years from those three experiences so far. I think it is too early to say, but I think that estimate is too high.

3930. But apparently your own estimate was at least based on an assumption of a trading loss of £2 million per year. I am quoting now from paragraph 82, about six lines down. So do you feel that that is an under-estimate over a longer period?—It may be. I really cannot say more than that, I am afraid. It does mean looking into the future and I think it may be an under-estimate. I think a good deal would depend, if we continue with this present system on

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whether the Board, for example, did restrict acreage. I would think that one moral from this experience might be—I do not want to say flatly, but might be—that there should be some restriction of acreages and that would tend to bring the averages back to this figure.

Mr. Collins.

3931. And put the price up?—Oh, yes, in some years it might well, but on many of these things you have rather to choose between how much the Exchequer pays and how much the consumer pays.

Mr. Thornton.

3932. The Committee then may understand from you that perhaps the £2 million estimate is too low and perhaps, on the other hand, the £4.5 million is too high. Might I then take a figure somewhat between, say, about £3 million? I take it on that basis, according to the figures we are given in this Report, that on each million pounds of trading loss the Board will have to find £50,000. So, on a £3 million loss the Board would have to find £150,000. That would be about 20 per cent. of the Board's own income. Is that correct?—That is right, I think, yes. The Board's income is about £700,000.

3933. Do you consider that a sufficient proportion?—I think if we were going on with the present system it would be too early to say that there should be an increase in the proportion. As I say, Ministers have decided that there shall be a change, so I do not think the point will arise. I, personally, would say that if it were possible fairly, after experience, to increase the percentage that falls on the Board in heavy years, well, I should be very happy to see it.

Sir Colin Thornton-Kemsley.

3934. Sir Alan, there are just one or two things following up what you have just been asked about. Could you tell the Committee why you left out the rates of 15 per cent. or even 10 per cent. in considering what proportion of losses should be borne by the Board when you finally fixed on 5 per cent.?—We have had three years now, of which in two years the Board have done very well and one in which they have done very badly. We might have had three years in each of which they did very badly, and through no fault of their own, their own

finances would have been heavily strained had that happened. On the 1956 crop, their share of the total loss will be very nearly £650,000 which is all but £50,000 of their own total revenue, out of which they have to meet their administrative expenses. So, I think we had that sort of factor in mind and also the factor that they were starting off. If they get to a position in which they have got substantial reserves then it might well be possible to see whether one could not get a better percentage. I think it was that sort of consideration which led Ministers to the view that 5 per cent. was fair.

3935. What are the "non-guarantee" functions of the Board?—Their functions of regulating the size of a riddle and controlling the acreage which were in their powers before the war, and also there are certain functions which they carry out of crop censuses, price investigations, and so on.

3936. None of those functions would really have been crippled, would they, by the imposition of a higher rate of loss, by the requirement that the Board should meet 10 per cent. or even 15 per cent. of the loss in any one year?—The estimate is that had they carried out in their first years the "non-guarantee" functions that they carried out pre-war and making a *pro rata* increase for those costs, that would have cost them about £200,000 a year; that was in 1955-56. If they had had to meet all of that and had to meet a loss of £650,000 they would have run into debt.

3937. What is the annual income of the Board applied to? Are they building up a reserve?—Yes, they are building up a reserve at the moment.

3938. They have got a fairly substantial one, I suppose?—It is around £900,000 at the moment, I think, yes.

Mr. Collins.

3939. In these two years, 1955 and 1957, when you say the Board did so well, is it not true that because of shortage the public through higher prices did very badly?—Yes, it is.

3940. And they paid prices as much as 6d. a pound as compared with 3d. a pound in 1956?—Yes.

3941. So, whilst the Potato Board paid some £12,800,000 out of taxpayers'

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money the public saved about £60 million in the prices they paid in the shops, a difference of 3d. a pound on 3 million tons of potatoes?—I have not worked it out but some such calculation must be right, I should have thought.

3942. So, might not it be a most economical policy to plan for a small surplus under economical conditions and risk in good conditions having an over-supply?—Yes, I think if one could guarantee a small surplus every year that would be ideal.

Colonel *Crosthwaite-Eyre*.

3943. That is a most extraordinary doctrine, is it not? You want to over-produce the food every year?—I think that the philosophy of it would be this: in order to be certain of having an adequate supply and keeping the price down you would, because of necessary climatic conditions, in fact have to take some small surplus.

3944. Which the Treasury then pays for?—Which the Treasury would have to pay for, but it would be a much smaller sum than £12 million. All I can add to that is that it is assumed in calculating what the consumer should pay for milk that he should accept some surplus in normal years as a guarantee against a shortage when there is no grass.

Chairman.

3945. Paragraphs 86-89, Expenses of the Board. You mentioned the administrative costs to the Board a moment or two ago. Why are 95 per cent. of the administrative costs of the Board borne by the Exchequer, in view of the very large income of the Board?—What was done was that the statutory instrument provides that administrative costs incurred by the Board attributable to buying and selling potatoes should count as part of the trading loss and 95 per cent., as has been explained, was the percentage for the trading loss met by the Exchequer and the administrative costs fell inside that sum and that arrangement.

3946. But why, when they have so large an income is so large a grant made? What do they do with the surplus of their income?—At the moment they are building up their reserves.

3947. For what purpose?—As a reserve against a succession, for example, of bad years.

3948. If the Exchequer bears 95 per cent. of the loss there is not much risk, surely?—I think the point is that in the bad year that we have had the Board will have to bear nearly £650,000.

3949. But still they have got an income of approximately £700,000 and they do not have a bad year every year, you know?—No, they do not have a bad year every year but there is no reason why they should not, from their point of view, have two or three bad years running.

3950. What is the size of the reserve now?—Just under a million pounds, now. (Mr. *Askew*.) Out of which they have an outstanding commitment for the 1956 crop. I think I am right in saying that, so it will be very substantially reduced.

Mr. *Hoy*.] What does the Treasury feel about this?

Chairman.

3951. What is your point of view about this, Mr. *Macpherson*?—(Mr. *Macpherson*.) This is one of the things which we think—I am sure the Ministry will agree—will have to be re-examined. In fact, there are proposals now under consideration for looking at this problem to see whether in fact we cannot get a new basis, a rather different basis than a straight 5 per cent., for instance, a fixed fee plus a small rate per ton of potatoes purchased by the Board under the guarantee arrangements.

3952. Has this 95 per cent. ever had Parliamentary sanction?—(Sir *Alan Hitchman*.) The broad arrangement by which the Board have a proportion of this paid has had Parliamentary sanction and the actual percentage is used to work out the Estimates, which have Parliamentary sanction.

Mr. *Collins*.] Is that not already mentioned in paragraph 80, the Statutory Instrument No. 690?

Mr. *Hoy*.

3953. Because the Instrument says they will get 95 per cent.?—No, it says "Such percentage as the Minister may with the approval of the Treasury prescribe".

Chairman.

3954. There is Parliamentary sanction for a contribution, but not for 95 per

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cent.?—(Sir Frank Tribe.) I believe the figure of 95 per cent. is mentioned in Part III of the Estimate, and to that extent it may be held that the annual Appropriation Act gives covering sanction to it; but apart from that there is no continuing Parliamentary sanction for this figure of 95 per cent.

Mr. Stevens.

3955. Sir Alan, I see in paragraph 88 what appear to me to be two contradictory statements. The first is right at the start, where you apparently stated that the cost of administering the guarantee was so completely involved with the cost of the Board's other activities that no precise allocation was possible. That sounds like a very nebulous organisation. But towards the end of the same paragraph you "claimed that the organisation necessary to implement the guarantee has to be maintained whether there are surplus potatoes or not". Now, that refers to an organisation which is surely not a nebulous thing; it is a thing capable of being identified. Are those statements contradictory, is either of them right, and if so, which?—(Sir Alan Hitchman.) I think they are both right and they are not contradictory. First of all, it is the fact that one of the reasons why Ministers have decided that there must be a change of system is the fact that you have got to keep together an organisation in the years of potato shortage which can properly, we hope, spend £12,800,000 in a year of glut. That means having experienced people who are able to calculate the tonnage of potatoes in a clamp, and as one Member of the Committee has pointed out, no doubt with the effect that in certain cases they go bad; nevertheless, these sums have got to be disbursed and you have got to have a trained and experienced organisation to deal with them. I say quite frankly it is one of the difficulties of the present system that such an organisation has to exist in years of shortage when to a great extent it is not wanted in order to cope with circumstances when there is a glut and a large number of potatoes are offered to the Board and have to be bought. So, that is the explanation of the second one. I do not think that contradicts the fact that it is impossible to make a precise allocation of that staff as between the functions of buying and selling potatoes and the other functions of dealing with

acreages, getting the information together, to decide whether the riddle shall be increased in size in a particular year, getting particulars of prices, and so forth. That is, I think, the reconciliation of the two statements.

3956. The organisation necessary to deal with the size of the riddle and that kind of thing must be quite a small one, surely?—It has to go out and assess at an early date what the size of the crop is likely to be. That does mean having a fairly widespread organisation which in particular can assess the yield in an area, and quite early on. You have to decide in August, or at the latest September, if there is going to be a considerable crop which would justify increasing the size of the riddle so as to reduce the ware potatoes coming on the market.

3957. Then the size of the organisation necessary to cope with disbursements of £12½ million must be quite a large organisation?—Well, it does cost between £500,000 and £600,000 a year.

3958. So, in years in which they do not have any disbursements to make, or only very small ones, what do they do then?—No doubt the Board can reduce the minor clerical staff, but the main structure of staff they have to keep together. The disbursements are handled, of course, by an accounts staff and that accounts staff has to collect all the information, and that sort of thing, so they are not completely idle; but there is no question about it, they have a slack time. (Mr. Askew.) Yes, that is probably true. They have endeavoured to save money by taking in work from which presumably we would have some benefit. For the staff they could not reduce, they have taken on additional work to save underemployment.

3959. Are not the staff employed by the Marketing Board, the accountants, for the purpose of these disbursements, replaceable, or is it possible to find other work for them on the Ministry's other responsibilities?—(Sir Alan Hitchman.) They would have to take on work of an agency character. What we are hoping is to get a different system to reduce the incidence of this particular difficulty.

3960. If I may refer back again to paragraph 81, the Potatoes (Guaranteed Prices) Order does say that there shall

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be taken into account the Board's administrative costs attributable to buying and selling potatoes, and yet it has just been admitted that no precise allocation can be made. So, is that Order being complied with?—It is being complied with as far as is practicable to do it. It is being complied with in this sense, that the best assessment that can be made has been made of these particular administrative costs.

3961. But you are so cagey about it. You are unable to say that the sum of £338,000 related solely to the appropriate expenditure?—We cannot produce a precise justification related to every penny of that kind, that is certainly so.

3962. Parliament has passed an Order with which it is impossible accurately to comply?—I think that is not unfair.

Colonel *Crosthwaite-Eyre*.

3963. There was a Potato Marketing Board, was there not, before the war?—Yes.

3964. How did it differ from the present one?—Primarily, it did not operate this guarantee system, which did not exist.

3965. Nor did it get a subsidy, did it?—No.

3966. How do you compare that? In comparing that, would it not be reasonable to expect the present Board to bear a larger percentage if it could be done free before the war? What is the reason why it should now need 95 per cent.?—It does do a big operation of buying potatoes and selling them which it did not do before the war, and that is a big and expensive operation. That is the first reason. The other reason is that it does produce certain statistical information for us on the basis of which, for example, we endeavour to decide whether or not to permit imports in a particular year.

3967. How many people are there in one category and another in the Potato Marketing Board? What is the total strength?—(Mr. *Askew*.) I cannot give you the total precisely, but it runs into some hundreds, 500 to 800.

3968. How many of these would be earning, say, more than £1,000 a year or, putting it another way, how many people would be going round the country adjusting riddles? Can you be a county

riddle inspector?—(Sir *Alan Hitchman*.) There must be an inspection of riddles, I imagine. (Mr. *Askew*.) Yes, but the area staff would, of course, be going on to farms and they do a lot of work on acreages of potatoes and the normal work that they did before the war.

3969. But do these people live in the counties and are they controlled from London, or do they all go out from London whenever they are required?—There is a divisional organisation.

3970. How many divisions?—I think there are about seven,* and they have sub-areas which tend to be concentrated in the potato growing districts. For instance, in the Fen District they would probably have a person for each county, an area person, who operates under the divisional supervisor and he in turn reports to the headquarters of the Board in London.

3971. You have not any idea how many offices they have got or how many thousand square feet they occupy? Are they in the country mansion type of house or do they live adjacent to the county council?—I think in the offices of the Ministry of Food, Potato Division, mostly and some of the offices, in fact most of the offices, we took over from the Potato Board during the war. I think that would be the answer.

3972. I gather that you pay them £100,000 for their responsibilities other than buying and selling?—Yes.

3973. Preparing statistics, and so on. Surely it would be possible to get all that information from the trade direct at a much cheaper price, would it not?—(Sir *Alan Hitchman*.) No, we do not think so.

3974. How did you get it in the old days then, or did you not ever have it?—You mean in the old days before the war?

3975. Yes?—We did not have it in this detail for this purpose because we did not control imports in the way that we do now.

Mr. *Hoy*.

3976. What size staff do they keep in London?—(Mr. *Askew*.) I should be guessing, but the bulk of their staff is in the areas; probably 100 or so. I think,

**Note by Witness*. I find there are in fact nine.

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it might even be less because most of their financial accounting staff is at Oxford. That is a throw-back to the days of the Ministry of Food Potato Division when the staff were out-stationed there, and as they are local staff they have never been brought back to London, so the headquarters staff in London must be relatively small.

3977. You think there is still work for them? Has nobody ever said to them recently: "You have got far too many staff here"?—(Sir Alan Hitchman.) Of course, the people who primarily should say that are the farmers. The farmers pay £1 an acre to support this, and farmers are very keen critics of administrative costs as a rule. They elect the Potato Board and appoint the general manager, and so on. It is for the farmers, I think, to ask that question first of all.

3978. You make a fair contribution yourself?—I know, but all the same the farmers would benefit if the staff were reduced.

3979. But you want to know if you are getting value for money, do you not?—We do.

3980. Have you ever taken any steps to find out whether or not in fact all this staff is necessary?—If I may say so, what we have concentrated on primarily is, if we can, not reducing administrative costs by even £100,000 but knocking a considerable hole in the £12,868,000 which we had to pay in one year, and as I have said several times, Ministers have now decided that that system must be altered.

3981. But apparently you need this £500,000 worth of staff to administer this £12 million?—If we can get a different system it may well follow that the staff can be reduced.

3982. May I ask you, do you know any other Department who, when they go to the Treasury, get a budget which allows an organisation to which they are paying an annual contribution to build up reserves? Some may do it unconsciously but what about the conscious one? Do you say that is the purpose of this?—No, I think it is quite reasonable that a Board like this should build up some reserves. I have said that I feel sure that if this system were to continue we should use the fact that the reserves have gone up to this

level to see whether we could not reduce the administrative costs. But of all Boards, I would say the Potato Marketing Board operating this system ought to have considerable reserves.

3983. How does the Treasury view this? I thought the Treasury, Mr. Macpherson, always frowned on people getting in their annual budget sums greater than they were going to spend. Is that right or wrong?—(Mr. Macpherson.) Well, this is not quite the same system. There is the 5 per cent. arrangement on losses which, as Sir Alan has said, has varied from quite small amounts to £650,000 in respect of the 1956 crop. This is an agreement worked out with the Board and it was thought to be the right type of agreement to fit the circumstances. On the administrative expenses we agree that so long as you are paying on the basis of 95 per cent. of the administrative costs there is not a very great incentive to economise, particularly when your organisation may have big demands on it one year and small demands in another; and it is for that reason that we are trying to move to a situation on administrative costs that we do it on a fixed fee basis with additions depending on the amount of potatoes the Board have to deal with, hoping that that will give the Board some incentive to cut their administrative costs.

3984. Five per cent. of the administrative costs is really a token contribution. I cannot understand why they are fixed at 95 per cent. and 5 per cent. Why did they not just say to the Ministry of Agriculture "We will take the whole lot from you". It seems to me to be absurd?—I do not think the 5 per cent. was anything more than an attempt to give to the Board an interest in keeping the costs down, but this was a negotiation. I do not think it was anything which the Ministry could impose.

3985. If you are only paying 5 per cent. of the costs on a sum of this size you do not get much encouragement. It does not seem to me to matter very much what the cost is if you have only got to pay 5 per cent.?—As I have said, we are not satisfied, we are trying to improve the position.

Mr. Collins.

3986. Is it not inaccurate to refer to this as 5 per cent. of the costs of

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administration? Is it not 5 per cent. of the loss?—(Sir *Alan Hitchman*.) It is 5 per cent. of the loss plus 5 per cent. of the administrative expenses attributable to the buying and selling of potatoes.

3987. And a loss is incurred for reasons very largely beyond the Board's control or anybody else's, it depends on the crop?—The loss, yes.

3988. Can you say what is the difference in function between this Board and the old Potato Division of the Ministry of Food, roughly? What extra functions does it perform?—Extra functions as compared with the old Potato Division? (Mr. *Askew*.) I think the present Potato Board does more work. They are gradually resuming their pre-war functions. There is a certain amount of research and development work, they hold demonstrations, producer education, and things of that sort.

3989. How does the cost of the old Potato Division compare with this £500,000 administrative costs of the Board?—The estimated cost of the old Potato Division of the Ministry of Food was about £500,000.

3990. So the cost of that is about the same as this Board, administratively, without allowing for increased costs or the addition of extra functions?—The Board itself, in addition to the guarantee functions, bears quite a substantial sum, more than £100,000, which is related to maintenance of its pre-war functions, and the object of both the Treasury and ourselves has been to get the Board to bear the full costs of its pre-war functions, but it was quite impossible when it was re-established for it to have borne that burden.

3991. I think you did not understand my question. The Board, we know, administers 700,000 acres, supervises the crops, looks after disease and all that sort of thing, and the administrative costs look to be about £500,000. I understand you to say that the Potato Division of the Ministry of Food also cost about £½ million?—It cost about £½ million, yes. (Sir *Alan Hitchman*.) Yes, but the same people would cost more now.

3992. So, on that basis the present cost is not inflated compared with the old one?—No.

Mr. *Hoy*.

3993. No, but the other basis might well have been wrong?—Certainly, yes.

Mr. *Hoy*.] If you build on a wrong basis it does not correct this one.

Mr. *Collins*.

3994. Is it not the case that people do not go round the countryside adjusting riddles? Do they not just go into the markets and examine the ware potatoes to see if they have been riddled properly?—(Mr. *Askew*.) It is the markets and shops that they would watch.

3995. So, in fact, you would have your inspectors somewhere near to or within travelling distance of the 23 main markets where they could inspect the riddles and see the regulations had been carried out. Is that the position?—(Sir *Alan Hitchman*.) I think that is generally so, yes.

3996. You said that the Board might have two or three bad years in succession, meaning, is that so, good crop years?—Yes.

3997. Bad years for the Board therefore might be likely to be good years for the public?—Just so.

Chairman.

3998. Paragraphs 90-94, Marine Risk Insurance. This insurance was a war-time activity largely to bolster up Lloyd's, was it not, Mr. *Macpherson*?—(Mr. *Macpherson*.) I think certainly one of the main considerations at the time was—

3999. To keep the London underwriting market afloat?—to keep it going, yes.

4000. Then why do you still want it?—It is all but finished now. (Mr. *Wilcox*.) As I understand, the Board of Trade have given it up and we are giving it up from the end of June.

4001. So, it is finishing?—(Mr. *Macpherson*.) It has been tapering off. It has not continued at the same level.

4002. With regard to this point in paragraph 93, this question of stamps, how did that error arise?—I do not think, on further investigation, Sir, it was an error.

4003. What exactly does that mean?—There seems to have been a letter written to the Treasury by Sir Walter Hargreaves, who was then the Govern-

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ment's insurance adviser, and head of the War Risks Insurance Office, and this letter could have been interpreted in either of two ways. If interpreted in the way Sir Frank Tribe has interpreted it here there would have been a difference of £275,000 due to Her Majesty's Government. We have quite recently seen a memorandum which was sent by the underwriters to Sir Walter Hargreaves on, I think it was, 4th January, 1950, before his letter was written, which made it quite clear that certainly as between the underwriters and Sir Walter Hargreaves there was no doubt about the basis of calculation used; and although we have said that we are taking this up in the light of this further evidence I would not like the Committee to assume that there is scope here for obtaining a further repayment by the underwriters.

4004. So the £275,000 has got to be written off, has it?—It is not to be written off, Sir, it was just never a basis of calculation which was agreed with the underwriters. We have not fully completed our inquiries, and although I am fairly sure that there will be no change I do not want it to appear too clearly in the record at this stage.

Colonel *Crosthwaite-Eyre*.

4005. On paragraph 92, I see you have not managed to get a final settlement yet for any of the ten years for which the revision was made of premium rates. When do you expect to get some settlement?—(Mr. *Wilcox*.) I think this is very largely a question of "General Average" claims which may involve protracted negotiations and possibly litigation. (Mr. *Macpherson*.) I understand this is not an unusual feature of marine insurance business.

4006. Ten years old and then settlement?—Yes.

Sir *Colin Thornton-Kemsley*.

4007. I am not quite clear, from what the Treasury representative has told the Committee, whether there was or was not a discrepancy such as is suggested by paragraph 93 of the Comptroller and Auditor General's Report. It seems to me that there is still a discrepancy between the premiums actually paid by the Departments and the premium income. Is that not so?—The difference of £275,000 which is referred to here is accounted for by the difference in two bases of calculation.

39254

4008. Which you think you have now resolved?—Which we think we have now resolved. It seems quite clear from the papers that the basis of calculation which was certainly in the underwriters' mind and in the mind of Sir Walter Hargreaves was the one which, to put it bluntly, does not produce the £275,000. (Sir *Frank Tribe*.) It was not the basis on which the Treasury were assuming the position to be, because the Treasury wrote to the Ministry of Food in 1950 saying: "The underwriters are meeting the cost of the stamp duty in relation to the contract" and the Ministry of Food reply in the same month accepted the position. (Mr. *Macpherson*.) The Treasury letter to which Sir Frank is referring was based on the letter we had had from Sir Walter Hargreaves of which I said the meaning was not altogether clear; but subsequently we have seen correspondence which indicates that the Treasury were wrong in the interpretation they put on Sir Walter Hargreaves' letter. Certainly, the Treasury were not aware that there were two bases on which the calculation could have been made, but the Treasury were concerned with the general arrangements and the agreement was actually concluded between the Government adviser on insurance and the underwriters and the basis used was entirely in conformity with the normal basis used in the marine insurance world.

4009. Sir Alan, were you aware of this possibility of a discrepancy before the Comptroller and Auditor General made his Report?—(Sir *Alan Hitchman*.) No, Sir, we were not.

4010. Now, you told the Comptroller and Auditor General, apparently, that the books and records of the Committee were examined by the Ministry. Was that examination made before or after the Comptroller and Auditor General sent out his inquiry?—You are referring to paragraph 94?

4011. Paragraph 94, yes?—That was after his inquiry.

4012. Why was it not made earlier?—This profit calculation is a global arrangement embracing both the Ministry of Food, as it then was, and the Board of Trade; and as I understand it the negotiations and the payments were dealt with centrally as between the Committee and the Treasury

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and the War Risks Office of the Ministry of Transport. We assumed that that calculation would be correctly carried out. We did not have all the figures because we did not have the Board of Trade side of it. We thought, and I think we were entitled to think, that an arrangement which could be negotiated centrally would be watched centrally and we took our shares. It was calculated centrally and sent to us.

4013. Just one other question, rather relating back to what you were asked just now. Are underwriters holding a large balance of public moneys against contingent claims?—I understand they are. (Mr. Macpherson.) They are, and it is one of the subjects Her Majesty's Government is going to discuss with the underwriters, how far we can clear those because they are holding—I am not very good at figures—quite substantial sums.

4014. What sort of sums are involved, have you any idea?—I would have to give you a note on that to be absolutely sure.* (Sir Frank Tribe.) I believe at the end of June of last year the underwriters retained reserves amounting to about £317,000 against unsettled claims.

Chairman.

4015. You might also let us know in your Memorandum how they come to have these reserves and retain these reserves?—(Mr. Macpherson.) Because it is waiting settlement of claims.

Sir Colin Thornton-Kemsley.

4016. "General Average" claims?—Yes.

Mr. Hoy.

4017. I would like to know something else: I would like to know how long they have been retaining them and do the Treasury get interest payments on these sums?—The settlements have been made from time to time as the claims have been settled, but there has not been any interest.

4018. It might be interesting to find out. They are holding considerable sums of public money from time to time, and who gets the interest paid on it?—The payments were in fact insurance premiums.

4019. Paid by whom?—Paid by the Board of Trade and the Ministry of Food, and the settlement of the

balances to be paid back to the Exchequer is determined on the settlement of claims and these have, as far as it has been possible to settle them, been settled as they were adjusted.

4020. I am thinking in particular of these balances. I thought that was perfectly clear. I wondered if there was any accrued interest which might have come back to the Treasury as well? It seems to me to be an important point?—We will look at it and the fact that there are sums outstanding is one of the reasons why we are considering whether we ought to have a block settlement without waiting for the settlement of the very last claim.

4021. Not forgetting the interest?—I shall not forget the interest.

Mr. West.

4022. May I ask one question of Mr. Macpherson on this, as to the question of cost of stamp duty? Under the terms of the agreement which was entered into between the underwriters and the Treasury, or the Ministry, surely this was one point that was obviously considered at the time the agreement was entered into, and who under the terms of that agreement was responsible for the cost of stamp duty?—The stamp duty was paid from the gross premiums and the balance after payment of stamp duty was the basis of calculation of the profit.

4023. Was the agreement silent as to which party was to bear the cost of stamp duty?—The memorandum to which I referred as having been exchanged between the underwriters and Sir Walter Hargreaves of January, 1950, made it quite clear that that was the basis of calculation.

4024. I am afraid I still do not understand whether under the terms of the memorandum either the Treasury or the underwriters were to be responsible for the cost of stamp duty?—As I say, Sir, the memorandum made clear that from the gross premium would be deducted the stamp duty which would be paid by the underwriters. That was quite clear.

4025. So that you are of opinion that under the terms of the agreement the underwriters are responsible for the payment of stamp duty?—Yes.

4026. So, on that basis £275,000 has, as it were, been underpaid?—No, we had in fact paid on that basis. If

*Information supplied: not printed.

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another basis had been taken, i.e., we had taken the gross premium and taken 20 per cent. of that and from that 20 per cent. the underwriters had paid the stamp duty, then Her Majesty's Government would have been due £275,000; but on the method used, i.e., the gross premiums from which we deducted the stamp duty paid by the underwriters and the balance used as the basis of the calculation of the underwriters' profit, this £275,000 does not arise.

4027. No, but some substantial sum does arise?—The repayments so far have been calculated on the basis agreed in the memorandum.

Chairman.

4028. Paragraphs 95-99, Australian meat. It appears, Sir Alan, that there are two guaranteed prices, one for mutton and lamb and one for beef, and apparently there have been deficiencies on beef but surpluses on mutton and lamb. Why have you not set the surpluses off against the deficiencies?—(Sir Alan Hitchman.) Because the agreement with the Australian Government does not provide that it should. The proposal was made at one time that that arrangement should be instituted but the reply that was given to us was that different sets of producers are involved, it is not the same people who produce beef who produce mutton and lamb; and therefore it was not right that the losses on beef should be offset against the profits on mutton and lamb because it would not be right, in effect, that the mutton and lamb producers should finance the beef producers.

4029. What have been the surpluses and deficiencies during the last two years?—On beef in the last two years; in the year 1957-58, the payment was nearly £4½ million. In the previous year it was just over £2½ million. In the year before that it was £122,000.

4030. Have you any idea of the surpluses?—I have got surpluses, yes.

4031. But not the global figure?—But I cannot tell you how it would come out in terms of the total quantities, I am afraid (Sir Frank Tribe.) The surpluses came to over £1½ million on mutton and lamb.

4032. Is that on the last two years, Sir Frank?—That is for the year ending October, 1957.

39254

4033. Only one year. It was half the deficiency, in fact?—(Sir Alan Hitchman.) No. The deficiency in that year was £4½ million.

4034. I see, yes. The £2½ million was 1956-57, was it?—Yes. £2·603 million, in fact. (Sir Frank Tribe.) The surplus on mutton and lamb the previous year, up to October, 1956, was nearly £800,000.

4035. Roughly, a third in each year? (Sir Alan Hitchman.) Yes, rather under a third, if that is right.

4036. Are you satisfied, Mr. Macpherson, that we pay on the swings and lose on the roundabouts?—(Mr. Macpherson.) It is a question of the terms of the agreement, Sir. We are bound by that.

4037. Have you suggested that it be re-negotiated?—I am sorry, I do not know what the provisions for interim amendments are. The agreement is due to terminate, I gather, in September, 1967; perhaps Sir Alan could say what the provisions, if any, are for re-negotiating. (Sir Alan Hitchman.) There are provisions for negotiating the individual prices but there is no provision for terminating the agreement, unless we could produce some other inducement which would induce the Australians to do what the New Zealanders did. The New Zealanders decided that they would prefer to take their chance in the free world market, and an agreement which runs to 1967 was made with them on this basis.

Mr. Collins.

4038. It is not quite clear to my reading, and I should be glad of your confirmation, Sir Alan, that in fact the Australians do receive the actual Smithfield prices of mutton and lamb and not merely the minimum prices. They do in fact receive that surplus?—(Sir Alan Hitchman.) It is the Smithfield prices which are the basis of calculation of the surplus.

4039. They actually receive that if they are above the minimum. If they are below, then they receive the minimum?—I am sorry, if they are above the minimum they get the market price. We pay nothing. If they are below the minimum we pay the difference.

4040. In paragraph 96 the Comptroller and Auditor General seems to imply that these new minimum prices are lower than the original schedule of minimum

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prices, is that correct?—I think that is right, yes.

4041. "Since the latter were related to but somewhat lower than"?—That is right, yes.

4042. Then, have you any idea how that difference compares with this surplus on the mutton and lamb prices in any way whatsoever, either globally or as a percentage?—No, I am afraid I have not. I have a note that the present prices are 7 to 10 per cent. below the first prices, but whether I can calculate how that compares with the surplus I am afraid I do not know.

4043. I would say at that rate we are not far out. If you look at paragraph 99 on beef, 2½d. a pound is 19 per cent. on beef, and assuming roughly the same for lamb, which one year was 1d. a pound difference, that would be about 8 per cent.?—Yes.

4044. Can you tell us this: what relationship is there between the original minimum prices or the new minimum prices and the rates fixed at which we bought under guaranteed purchasing arrangements, bulk purchasing arrangements? Do these prices represent an increase?—(Sir Frank Tribe.) I think I can give you the answer to that. In May, 1954, these prices were fixed. For beef they were fixed at 95 per cent. of the previous bulk purchase rates, for lamb at 93 per cent. of the bulk purchase rates and for mutton at anything varying from 75 to 93 per cent., according to quality. (Sir Alan Hitchman.) And those were the prices in 1954. They have fallen since.

Mr. Collins.] So, even with the surplus on mutton and lamb we must be buying cheaper than we were at that time.

Mr. West.

4045. Sir Alan, when the agreement was entered into in 1955 was there any quantity specified or were they entitled to deliver what quantity they pleased and you guaranteed the price?—Well, it was a requirement of the agreement that they let us have their whole exportable surplus subject to what went to Dependencies and, I think, Dominions; but it was a requirement to let us have all of it. At that time, of course, meat was rationed and red meat was in demand.

4046. Were there overriding considerations at that time which made it necessary to enter into an amendment to the contract, as it were, for the acquisition of all their exportable surplus?—Well, it was a 15-year agreement.

4047. Fifteen years with a revision after the third year?—A revision of prices after every three years, I think, but it was a 15-year agreement.

4048. A 15-year agreement, entered into in 1952?—October, 1951, and the consideration was that meat was very tightly rationed and the reason for giving so long a period was to give an inducement to the Australian producing industry to enter into the necessary investment to increase supplies. (Mr. Wilcox.) The first clause of the agreement states: "It is the intention of the two Governments to develop further the production of meat in Australia, to increase the export of meat to the United Kingdom and to provide a satisfactory market in the United Kingdom for the whole of the exportable surplus of meat from Australia during the term of the agreement".

4049. You considered in 1955 that the terms you entered into at that time were right and proper, having regard to the conditions which then prevailed?—(Sir Alan Hitchman.) And the terms of the agreement.

Colonel Crosthwaite-Eyre.

4050. I do not want to start another statistical argument, but are you satisfied from what Sir Frank says in his Report that actually you have enough data on which to assess the prices?—Yes.

4051. You have only seven of the largest importers of whom less than three give you regular figures. That is correct, is it not?—No, they all give us, I think, regular figures.

4052. According to paragraph 97, from the first three lines it would appear that under 50 per cent. of the importers give you regular returns?—Yes, each week.

4053. May I sum up my question in this way, that only 26 to 28 per cent. of the Australian meat goes through Smithfield?—Yes.

4054. From Smithfield you only get returns from seven importers, of whom only three give you regular returns. Therefore, it would be generous to say it only covers 12 per cent. or thereabouts of the Australian meat imported. Are

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Sir ALAN HITCHMAN, K.C.B., [Continued.
Mr. C. H. M. WILCOX, Mr. W. F. C. CLARK and Mr. R. P. ASKEW.

you still satisfied that you get enough information properly to arrange prices?—Yes, we think so.

Mr. Ramsden.

4055. Have you any means of testing the prices as notified to you from Smithfield?—There are the market returns. We can test them against those, and there is a meeting each week at which these are considered. The regular market returns from Smithfield, I think, are the main test.

4056. Who meets whom?—A representative of our Department meets with the Australian representative and then there is an independent chairman, a professional accountant.

4057. And they have before them the evidence supplied by these firms?—They have the evidence supplied on the basis of these returns, and any general evidence that they have.

4058. Have you ever considered whether there might be a more satisfactory method of determining prices?—We have. We cannot think of a more satisfactory method. We think that, for example, some of the bulk contracts which are excluded from this will probably be concluded, on the average, at a lower price just because they are bulk and tend to be forward contracts and, therefore, the buyer hedges against the risk of loss.

4059. Is there any ceiling in practice on the liability to the Exchequer?—No, there is not any more than there is, if you like, to the domestic producer.

4060. I would like to ask Mr. Macpherson if the Treasury is satisfied with these arrangements, particularly that the payment of the subsidy should be based on such a small sample of the whole range of meat imports from Australia?—(Mr. Macpherson.) It is

a small sample, Sir, but I think there is a very good check in that there is this panel which has a representative of each side and a professional accountant as chairman, and I understand that the panel does sometimes go to the market and check up just to make sure that they are right. But I am quite sure that if the Australian representative wanted to alter the figures, the British representative equally would be concerned to see that they were not altered, and that the result is that you have a fair price.

4061. I am inclined to regard that as an optimistic view of the spirit in which the discussion would be conducted as they would both be concerned to settle the thing as quickly as possible, would they not?—I think two at least have a rather different interest, but there is a professional accountant sitting centrally and neutrally, so one would hope, that arrangement would produce a fair price.

Mr. Hoy.

4062. They have a statistician with them, I take it, Mr. Macpherson?—I am not sure. I would hate to venture into those fields.

Mr. Ramsden.

4063. Have you any comments to make, Sir Frank?—(Sir Frank Tribe.) No, I thought I ought to bring this to the notice of the Committee because it appears that the information is not as full as one hoped it might be and the figures are not weighted, but I have no idea of how a better system could be arranged. (Sir Alan Hitchman.) I can assure the Committee, if I may, that we have considered whether we could have a better system and we cannot think of one. We do think that these are really pretty good figures.

THURSDAY, 8TH MAY, 1958.

Members present:

Sir George Benson, in the Chair.

Mr. Arbuthnot.
Mr. Collins.
Mr. Hoy.

Mr. Steele.
Mr. Stevens.
Mr. West.

Sir FRANK TRIBE, K.C.B., K.B.E., and Mr. J. MACPHERSON called in and examined.

TREASURY MINUTE ON PARAGRAPHS 32-38 OF THE THIRD REPORT OF THE COMMITTEE OF PUBLIC ACCOUNTS, 1956-57.

Sir CYRIL MUSGRAVE, K.C.B., Permanent Secretary, Ministry of Supply, called in and further examined.

Chairman. Will Members turn to the Treasury Minute on paragraphs 32-38 of the Third Report? I have no questions.

Mr. Collins.

4064. Sir Cyril, what are the "improved arrangements" which the Minute indicates have been introduced to give the Air Ministry access to the technical information they require on aircraft under development?—(Sir Cyril Musgrave.) We have the following new arrangements: all the Air Ministry Directors of Operational Requirements are invited to our progress meetings on projects. For each major weapon system we appoint a Ministry of Supply Development Project Officer who is responsible for that project, and in parallel the Air Ministry appoints a Project Requirement Officer. Those two work in close contact to watch over the progress of the weapons system as a whole. Then, finally, once a week the Performance Division of the Aeroplane and Armament Experimental Establishment send a report to us giving details of the trials held during the week; and copies of that report—six copies in fact—are sent to the Directors of Operational Requirements at the Air Ministry.

4065. Yes, but in this particular case that we reviewed some 492 aircraft were ordered, that was subsequently reduced to 170, and the first 39 were not delivered until nearly five years after the first order was placed. In what way do you think that the new arrangements are likely to give you a more informed opinion at an earlier stage?—I think that we in the Ministry of Supply had a completely informed opinion at every stage in the case of the Swift. The criticism was, if I

remember correctly, that the Air Ministry were not receiving as much information on the progress, or lack of it, as we were; and our new arrangements are designed to ensure that the Air Ministry receive equally up to date and complete information.

4066 No, the particular criticism in the example was that "the Mark 4 could not be relied on at altitudes at which it was required to operate." Are you saying that arrangements did not previously exist which would enable you to detect a defect of that vital character and that they do exist now?—Oh, no. We were unable to detect the defects of the Swift until we had one that could be taken up to that altitude, and when we did find that it did have those defects we took the necessary action. I do not think that there is anything new in the arrangements that would enable us to be certain of what an aircraft is going to do when it is actually put into operation that we had not got before. The only change in the arrangements is that the Air Ministry are kept more informed in detail of progress than they were over the Swift.

4067. Mr. Macpherson, in view of the explanation that Sir Cyril has just given, why do you say that you are satisfied that arrangements have been introduced which would give the Air Ministry access to the technical information, since it seems obvious that a similar set of circumstances could again arise?—(Mr. Macpherson.) The distinction I think, Sir, is between the arrangements for acquainting the Air Ministry of the progress, or lack of progress in this case, that was being made because of the difficulty of being able to test the Swift at the appropriate altitude and the actual

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Sir CYRIL MUSGRAVE, K.C.B.

[Continued.]

testing of the Swift, which was primarily the Ministry of Supply responsibility.

4068. So that, despite the new arrangements, or the improved arrangements for advice, it seems to me that the recurrence of something of this kind is a calculated risk which you feel must be taken?—In the development of aircraft this sort

of thing does occur.—(Sir Cyril Musgrave.) It is inherent in trying to do a very advanced project because one cannot be certain until the actual thing has been made and tested whether one is going to solve all the technical problems satisfactorily. I am afraid it is inherent in the nature of the work.

CIVIL APPROPRIATION ACCOUNTS, 1956-57 (CLASSES VI-X).

CLASS VI.

VOTE 9.

MINISTRY OF SUPPLY.

Chairman.

4069. Will Members turn to the Civil Appropriation Accounts, to pages vi-x, paragraphs 30-35 of the Comptroller and Auditor General's Report? Sir Cyril, what are the circumstances in which you borrow aircraft from the Service Departments for your own fleet?—When we think that the job for which they are required will be of relatively short duration it is more economic to borrow from the Services than to acquire a new aircraft for our purpose.

4070. Can you give us an example of the type of job you are referring to?—It would cover all sorts of jobs. The Committee which watches over the operation and allocation of aircraft in the fleet have applications before them for aircraft for research and development purposes, and they would be faced with a request to have an aircraft to try out some particular modification or to try out a particular piece of equipment. They would, perhaps, form the opinion that this aircraft would not be required permanently in the Ministry's fleet and they would say it would be better to borrow from the Air Force or the Admiralty than buy a new one.

4071. You seem to have a pretty large fleet. Are most of your aircraft specifically used for research and development?—Yes, most of them are.

4072. How much, exactly, does "most" mean, 75 per cent., 80 per cent. or 90 per cent.?—Taking the figures for January, 1958, which are the latest ones I have, we had a total fleet, including those that were waiting for disposal, of 565, of which 393 were employed on research and development work.

39254

4073. What were the other 170 used for?—For other purposes, of which 80 odd were awaiting disposal.

4074. Are they used or just lying in their hangars?—No, they are used for other purposes.

4075. What are the other purposes?—I can give you the list, if you wish.

4076. Give some of the main ones?—The main ones, apart from our research and development work, are aircraft employed on pilot training and on what is known as instrument rating, which is an annual test that every test pilot has to undergo to show that he is still competent to fly aircraft on instruments.

4077. Is there any arranged maximum number of planes that you are entitled to possess?—No, the number varies with the size of the programme we are carrying out; and because our programme has been coming down over the years, so has the number of aircraft.

4078. Of the 442, according to the Comptroller and Auditor General's Report, about half are located in contractors' premises. Is that for research facilities?—Yes, research and development facilities.

4079. When aircraft have been taken into operational use what particular type of further research do you do on them?—When an aircraft is taken into operational use it usually has certain limitations on it and the work in the fleet will be continuing with a view to removing those disabilities. Then, on top of that there will be work on modifications and changes which are required during the life of the aircraft in service; and finally, of course, there are a lot of aircraft, which are used not for purposes

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[Continued.]

of testing the aircraft themselves but as vehicles for testing pieces of equipment and armaments in the air and they may very well be, and some of them are, quite old types.

4080. You borrow aircraft and you buy aircraft. Do you use them both for experimental purposes, and why do you buy in some cases and borrow in others?—We only borrow when we think the need that we have for the particular aircraft is of a short duration, otherwise we buy. A lot of these aircraft, of course, are the prototypes which we have bought for the purposes of developing the aircraft.

Mr. Stevens.

4081. Sir Cyril, you maintain a number of aircraft for the training of test pilots?—Yes.

4082. The number of aircraft maintained for that purpose no doubt varies from time to time, but can you give us some idea how many aircraft are retained for pilot training purposes?—28 at January, 1958. I do not think it varies very much.

4083. But no doubt the number of pilots undergoing training varies from time to time. Can you give some idea of those?—The number of pilots we have in the test pilots' school is usually about 35. Actually, at the present moment it is only 26.

4084. They are being trained for Ministry of Supply duties?—Yes.

4085. You do not train pilots for any other purposes?—Yes, we have a few pilots from the Commonwealth and a few from allied countries training as test pilots in this school.

4086. The Ministry of Supply trains them. Does it recover the cost from the Commonwealth Government concerned?—Yes, it recovers the extra cost.

4087. It recovers the extra cost?—Yes.

4088. I am sorry, I am not quite clear what that is?—The extra cost that is caused by there being these additional pilots.

4089. You do not train pilots for the Royal Air Force at all?—Well, a great number of these pilots—in fact, the majority of them—are Royal Air Force men who will then go to our Research and Development Establishments for work and will eventually go back to the Royal Air Force.

4090. But you do not recover from the Air Ministry any part of the cost of bringing them up to this higher standard?—No, because we require them to be brought up to that higher standard for our own purposes. It is a flying training school, a test pilot school.

4091. I appreciate that fully, but none the less these pilots have to maintain a very high standard of flying, otherwise they would not be test pilots. You do not train them for contractors at all?—Not directly, no.

4092. Not directly; indirectly?—In the sense that some of them find jobs with contractors; that is what I had at the back of my mind.

Mr. Arbuthnot.

4093. What is the present size of the Ministry of Supply Air Fleet? I see that in October, 1957, there were 604 manned aircraft?—At January, 1958, which is the last figure I have, the total was 565, of which 81 were up for disposal or actually on offer to other potential users; which means an active fleet of 484 aircraft.

4094. Is it likely to be further reduced?—That depends upon the trend of aircraft development. The signs are that that will gradually decrease, and if so the fleet will decrease.

4095. How many of the aircraft are on use for civilian projects?—I doubt whether any are of use for civilian projects, unless we have a particular interest in them.

4096. Have you an interest in many civilian projects?—If we had been paying for the development of a civil aeroplane, then those civil prototypes would be in our fleet for our testing to see if the development contract was being done to our satisfaction, and there are some Comets.

4097. Have you any at the moment?—Yes.

Mr. Steele.

4098. In paragraph 34, Sir Cyril, the Comptroller and Auditor General says that in March, 1957, you had 17 aircraft employed on communication duties. Could you tell us exactly what those communication duties are?—Yes, we have a large number of Research and Development Establishments on the air side which are geographically dispersed;

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[Continued.]

for example, the Royal Aircraft Establishment, which is best known as Farnborough, also has places all over the country, at Bedford, at Aberporth in Wales, and at Westcott; and it has frequent business with the Aeroplane and Armament Experimental Establishment at Boscombe Down, with the Royal Radar Establishment at Malvern and other Establishments, Culdrose in Cornwall and West Freugh in South West Scotland. The purpose of the communications fleet is to enable that large complex of establishments to be run with the minimum amount of staff by providing means for the staff of the various sections of these Establishments to visit each other and visit their sister Establishments.

4099. What type of aircraft do you use for this purpose?—Devons, Ansons, Prentices; and three Hastings and a Bristol Freighter, much bigger aircraft, which are used for a different purpose, mainly for the transport of stores and equipment that is to be tested in the Tropics or in Canada for winterisation trials.

4100. Do you run any scheduled services or are they just used according to need?—There are a certain number of scheduled services which, for example, Farnborough run twice a week to Aberporth and daily to other places.

4101. Can you give me some indication as to who use these planes, is it only Ministry of Supply staff or do other people use them?—I think I can say Yes without reservation to that, but we carried 13,000 passengers last year and whether every one of those was a Ministry of Supply man or not I should hate to be put on oath to say; but generally speaking, they are all Ministry of Supply. It is quite conceivable—I am drawing on my imagination here, not on actual knowledge—that an aircraft contractor who was doing work for us might be at Farnborough, for example, in connection with his work and it was necessary for him and the Farnborough official whom he was seeing to fly over quickly to Bedford to see the result of a wind tunnel experiment at Bedford, and he would probably go in a Ministry of Supply aeroplane.

4102. So you would limit yourself to saying that everyone who travelled was on official business?—Yes, most definitely.

4103. Suppose we take this flight from Farnborough to Bedford, how would time and cost compare with the journey by car?—I am afraid I could not answer you exactly on that, but our establishments being situated on aerodromes they are not readily accessible to public transport. Of course, they are readily accessible to private car transport.

4104. Of course, you are not telling me the Ministry of Supply have no cars?—I am not, Sir. But one has to take into account the time saved which, I think, in connection with the sort of people we are talking of, who are senior technicians, is an extremely important factor.

4105. So, you are satisfied that the time saved compensates for any extra cost which is involved here?—I am satisfied that the use of air transport generally is fully justified. I am not so satisfied that we want as many as 19 aircraft and we have cut them in the last few months to 14.

4106. That brings me to my question to Mr. Macpherson. In paragraph 34 the Comptroller and Auditor General says that a "special review in consultation with the Treasury" has taken place. Can you give me any report on what has been happening?—(Mr. Macpherson.) The whole of the Ministry of Supply Air Fleet has been the subject of examination by the Treasury and, in particular, the communications flight. The review is not yet complete but I think it would not be unfair to say that the Treasury interest in this has contributed to the reduction in the size of the fleet. Whether we will make any greater contribution to the reduction I think it is too early to say, but it is something we are looking at very closely with the Ministry.

Mr. Hoy.

4107. Sir Cyril, you told the Committee that in the main you only carried Ministry of Supply officials. Would there be any spare room in these planes for carrying other cargo? I can think of a recent case where the Navy, apparently, carried some birds-nesting equipment to Spain on a battleship. Do you do anything like that?—(Sir Cyril Musgrave.) Not to my knowledge.

4108. Supposing you had, I really could not see any objection being taken if you could sell something. Now, would you look at paragraph 32, the last line? I would like to know if you have yet reached your target of two weeks for

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[Continued.]

deciding whether or not an aircraft is still required?—No, I think that is a very ambitious target, and it is a target.

4109. That was not what I was asking. I asked if you had reached it?—The answer implied, I think, is No.

4110. But you are hoping to?—We are hoping to.

4111. Now, apparently, as many as 10 per cent. of the aircraft allotted to research and development work remained so employed for a period of about four years. What sort of task is involved in this?—The fact that a particular aircraft is being allotted to a task for a long period arises, I think, from the fact that the nature of those tasks is continually changing. Of the 393 aircraft that we have on research and development work at the moment we have got 43 on clearance of the prototype or on test prior to the removal of limitations, we have 30 on the proving of armament stores of one kind or another, we have 25 on navigational and control installations, 41 on flight testing of electronic equipment. I do not know whether you want me to go on? That probably gives you some idea.

4112. I was wondering what sort of tasks they were undertaking for that long period?—Yes, not all those I have mentioned have been on that particular task for that long period. But we do feel it is an economy to go on using these old aircraft so long as they are of any use for the purpose rather than buy new and expensive ones.

4113. Again on paragraph 32, how many of the aircraft which were in temporary storage for over a year are still retained for use?—By the end of 1957 they had all either been scrapped or offered for sale or put into repair for further use by the Department. I am afraid I could not break down the eleven exactly between those three categories.

Mr. Hoy.] Temporary storage for over a year seems to me to be just a little long.

Mr. Steele.

4114. "Temporary" in the Civil Service sense?—May I in defence say that the phrase "in temporary storage" was, I believe, Sir Frank's.

Mr. Hoy.

4115. If you have taken no objection, either they were there or they were not?—They were there for over a year.

that is perfectly true, yes. You see, we are faced with a very difficult position on this sort of thing.

4116. What I was wondering was whether you could really justify them being there. Ought they not to have been disposed of sooner?—Well, yes, one can take a chance and dispose of them sooner, but I am not sure that that is really in the interests of economy because you do not get a very great sum of money for these old aircraft that have been altered for our special purposes; and if there is likely at all to be any use for our purpose it is an economy to keep them and use them again. Too hasty disposal might in the long run, I think, cost the taxpayer money.

4117. Do you keep costing records showing the running costs including fuel and spares, and so on, for the maintenance of aircraft whether at your own establishments or, perhaps, at a contractor's establishment?—It would be wrong to say that we keep costing records on which we can give those figures accurately, but we do periodically make a rough assessment of what it is costing us. We have done it again and the figure which we gave Sir Frank and which he quotes at £5 million is, we think, an understatement and it should be £7 million.

4118. That seems to be a lot of money. Do you have a periodic review of those things or how do you cover them? If you have no costings how do you know what is going on?—We give each establishment a strict allocation of money for the various kinds of stores and we leave it to them to manage within those allocations. At the same time we balance very carefully, Sir, use and allocation of these aircraft in the fleet.

4119. Are you satisfied with that sort of thing? After all, this is a lot of money. I think you will agree, £7 million is a considerable sum of money and yet you may say: "Well, we will allocate you £½ million." It may be in the first place that you have allocated too much, and apparently you have no costing records either at your own or any other establishment which would give you guidance as to whether even that sum was required?—Well, surely, the only way in which there could have been an overspending of money on fuel would be if the aircraft had been used and flown unnecessarily.

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[Continued.]

4120. There are such things as spares and maintenance of aircraft, and so on. If you undertake periodical reviews I wondered where you got your information from which made these periodical reviews worthwhile unless you had some different costing system?—It is done by the records which are kept in the establishments and at Headquarters of the use, for example, of petrol in aircraft. I could not answer your question about costing as a whole as I should have liked to have done because that would, I think, have conveyed the impression that we had a costing system which showed us item by item what it was costing us per hour of flight for each of the aircraft in the flight, and that would be misleading.

4121. I was also thinking of maintenance. You can eat up considerable sums of money in maintenance, and I would like to know what assurance you have that, in fact, these moneys have been spent on maintenance?—That they have been spent, I have no doubt about that.

4122. Perhaps that is not the way to put it. You know they have been spent, but have they been spent efficiently and economically? Do you know that?—I think I must in that respect rely on the officers who are running the maintenance depots of the various flying establishments.

Mr. Stevens.

4123. Would not the flying speeds of these older aircraft be 100 miles an hour or so less than the flying speeds of modern aircraft?—Yes.

4124. In that case, is it possible to carry out research and development of equipment satisfactorily in these very old aircraft?—Not in all cases and where we needed to test the equipment at very high modern speeds we would have to have a modern aeroplane, but there are some occasions when you can use them satisfactorily.

Mr. Collins.

4125. On two occasions in answering questions you have mentioned that you have borrowed aircraft from Service Departments for projects of short duration, but in paragraph 32 the Comptroller and Auditor General mentions that 46 aircraft were allotted for research and development projects prior to 1953. What is your view of a reasonable term for a project of short duration?—The 46 which were allotted prior to 1953 were

not, I think, borrowed aircraft. They would be aircraft of our own.

4126. They would be aircraft which you had purchased?—Yes.

4127. In paragraph 34 the Comptroller and Auditor General refers to "executive aircraft". What is the definition of an "executive aircraft"?—A small aircraft that carries executives about on official work.

4128. In other words, officials of your Department?—Yes.

4129. Some of these aircraft, apparently, would be pretty old ones?—Yes.

4130. You do not think that adds to the risk of a high mortality rate in executives?—No, because we spend adequate money on maintaining them and seeing that they are airworthy.

4131. Were all the 19 also mentioned in paragraph 34 executive aircraft?—They were all aircraft employed on communication duties. We checked up to find out whether our utilisation rate of 300 hours per year per aircraft was a reasonable utilisation in relation to the use of "executive aircraft" in business, and we found that it was.

4132. In this context the use of the word "executive" defines "use" and is not synonymous with "luxury"?—Oh, yes.

Chairman.] Paragraphs 36-40. I have no questions.

Mr. Collins.

4133. On paragraph 37, was the Construction Group a British firm or British owned?—It was a consortium of British firms.

4134. Was this overall fee that is mentioned, in addition to the prime cost, a fixed sum fee or a percentage on cost?—It was a percentage on cost with certain limitations. It was — per cent. subject to a maximum of £ — and a minimum of £ — . £ — represents — per cent. of £3½ million, and that was not to be exceeded unless the scope of the work was increased and then only if the total expenditure exceeded £4 million. In the result the fee paid was actually — per cent. of the total cost of the contract.

4135. — per cent. of £8 million?—No, £8 million is the whole project. The contract worked out at the end at £5,269,000.

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[Continued.]

4136. So, in effect, the fee was — per cent. on roughly £5½ million?—Yes, the £5½ million includes the fee and it is the total sum paid to the contractors.

4137. With regard to the provisional estimate of £3·1 million did it not seem to you unlikely that such a vast project could be kept within that compass?—It was never put forward as more than a preliminary guess in advance of subsequent drawings and the working out of the details of the work.

4138. And you would still expect it to cost very considerably more than that?—Yes.

Mr. Hoy.

4139. Following up that last point, who made the estimate of £3·1 million?—The estimate was made by one of the firms in the Group, Costain-John Brown, who had been assisting the Atomic Weapons Research Establishment at Aldermaston in drawing up the plans for this trial ground.

4140. Did they really make no survey? How did they arrive at this, just by some rough guessing, or what?—Yes, I think that is probably the correct answer.

4141. So, in fact, it was just a bad guess?—Yes.

4142. And it was not an estimate in any sense at all, is that right?—Yes, it was made before any detailed requirements and, indeed, before any measurements of the work to be done. It was the best guess that could be made at the time of what it might cost.

4143. Did the Ministry of Supply have a say in the choice of Maralinga as a site?—Yes. The survey team went out under our leadership.

4144. And in fixing the commencing date for trials in October, 1956, and the date for completion of the contract in July, 1956, was it?—In July, 1956, the contractors had to be off the site.

4145. Did you agree to that? Was that your considered opinion?—It was *force majeure*, in that we had to get the place ready by the time for which the trials had been planned; and that time is not easily moved in the sense that you have got to plan these trials when weather conditions are likely to be right, and so on.

4146. What I was thinking of was whether the time available was considered long enough to allow the work

to be carried out, or were you thinking behind it all “We will have to take special measures”?—We hoped that the time would be long enough, but it is quite clear that it was a very tight schedule and we had to speed up to get the thing done in time.

4147. In other words, both price and time were wrong to begin with?—Yes; I think “price” is an unkind word, if I may say so, because it was merely our attempt, with the assistance of those people who knew more about it, the Atomic Weapons Research Establishment and the contractor who was planning it, to go with them to the Treasury and give some measure of what the thing was likely to cost. It was never put forward as an estimate on which reliance could be placed.

4148. Sir Cyril, how much of the design work had already been carried out before the consulting engineer was appointed to complete it, and if I might ask you also, who had carried that work out?—I should think very little indeed was carried out before the consulting engineers were appointed.

4149. And who carried out that very little?—The Atomic Weapons Research Establishment, with the assistance of Costain-John Brown Limited.

Mr. West.

4150. Sir Cyril, did I understand you to say that the contractor's fee was £ — maximum and £ — minimum?—Yes.

4151. What in fact was the sum paid to him?—It was £ — .

4152. That was more than the maximum?—Yes, the maximum was to be exceeded if there were additions to the work; and there were additions to the work which earned him a further £ — .

4153. Why then was he required to withdraw in July, 1956?—For security reasons, because the people who were mounting the trial had to be on the site by that date.

4154. And who completed the work after he left?—The Australian Department of Works.

4155. How much did you have to pay them?—About £300,000.

4156. In paragraph 40 the Comptroller and Auditor General says: “A final settlement of the contract has not yet

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[Continued.]

been made". Has it in fact been completed now?—Yes, the final settlement is £5,268,843.

4157. My final question, Sir Cyril, is this: do you consider the total cost of the project to be fair and reasonable?—Yes.

Mr. Steele.

4158. Could you tell us, Sir Cyril, how you came to select this particular production Group?—We took advice from various people, in particular the Senior Trade Commissioner in Australia, our own Ministry of Works and the War Office. We also sought advice from the Federation of Civil Engineering Contractors as to the suitability of the firms and also, of course, the consulting engineers' advice was sought. The reasons why we chose this particular firm were that the component firms of the Group were jointly and severally experienced in work outside the United Kingdom. The Group had in fact recently carried out successfully a large oil refinery contract in Western Australia. They therefore had experience of labour recruitment and management in Western Australia and we were asked by the Australian Government to recruit labour in the west part of Australia only and not in the east. They actually had senior and experienced staff in Western Australia at the time just coming off their previous job. We thought (although in the event it did not prove to be right) that they would be able to transfer some of the construction plant from the oil refinery contract in Western Australia to Maralinga. All those reasons, backed by the advice of the people I mentioned, decided us to choose this particular contractor.

4159. Had any of the other companies that you considered had any experience of this kind in Australia?—None so recent or so convincing.

4160. Had this Group that you finally decided upon to bring in any other companies to assist them in the end?—Certain parts of the work were put out to competitive tender. Certain prefabricated buildings, and that sort of thing, were put out to competitive tender and we took the cheapest tender.

Mr. Stevens.

4161. Apparently in the early months progress was slow. Will you tell the Committee why progress was slow early on?—I think because they were waiting

for the detailed plans and specifications and drawings on which to do the work.*

4162. That resulted in considerable extra expenditure on measures designed to accelerate completion by the proper date. What were those exceptional measures?—Provision of extra plant, double shift working, overtime and the transport of pieces of equipment by air instead of the slow and laborious method across the Australian Desert by rail. The extra costs were of the order of £450,000, not, I suggest, extremely high in relation to the size of the job.

4163. I see that at the end of July the contractor, which I understand was in fact a consortium, was required to withdraw from the site. Why was that?—Because the people who were coming to explode the bomb had to be there by the 1st of August if they were to be ready to explode the bomb by the date planned.

4164. And yet there was outstanding work to be done?—Yes.

4165. Who did it, if the contractor was not there?—The sum at the time left undone was in fact deducted from the contractor's bill and it was eventually completed for us by the Australian Department of Works. It was not serious. The work left undone was final coats of paint and final coatings of bitumen on the roads, and that sort of thing.

Chairman.

4166. Paragraphs 41 and 42, titanium. Sir Cyril, could you give us a short dissertation on titanium, as to what it is like and what its uses are?—It is a metal that has special properties. It has a very high ratio of strength to weight, is remarkably resistant to corrosion and retains its various properties at high temperatures. Those are the three main characteristics of titanium which make it desirable as compared with other things.

4167. Is it used as an alloy with steel or is it used as a metal in its own right?—The latter is the case.

4168. What particular use has it?—Mainly in aero engines. It is a very new metal and the applications and uses of it have not yet been fully explored or even thought of, but mainly, initially, in aero engine work.

**Note by witness:* A more important cause of slow progress in the early months was the contractor's difficulty in establishing an organisation, labour, plant and materials in the desert.

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[Continued.]

4169. For the blades?—I could not tell you whether it is actually in the blades or what part of the engine.

4170. Were you required to take your full percentage under the arrangement in the first years?—No. We took 411 tons, which is considerably less than our full percentage.

4171. What about subsequently?—In 1957-58 we shall probably acquire a figure bringing it up to 1,900 tons.

4172. In three years is that? Is that covering 36 months' production?—I am sorry, I gave you the wrong answer there; may I correct it? We took 411 tons in 1955-56 and 667 in 1956-57. That is what we had to purchase under the agreement and placed in stock.

4173. That is considerably less than your maximum liability?—Yes.

Mr. Collins.

4174. That is not the 975 tons in the second year that is mentioned in paragraph 42 of the Report?—That 975 includes what was bought for use.

Chairman.

4175. Do you use it yourselves at all?—Yes.

4176. Or are you just buying and stocking under the agreement?—No. Certain quantities are bought either direct by the Ministry of Supply or by the Ministry of Supply contractors for actual use. That quantity is logged up against our liability under the contract and we merely have to buy the balance up to the total we are liable for.

4177. What I want to get at is, is this 1,100 tons the balance, or what you have bought for stock and what your contractors have bought? What I want to know is how much of the three-quarters of the 1,500 tons you are responsible for purchasing?—If I can use that phrase to cover purchases by our contractors under contract for us, in the first year, 1955-56, 445 tons was bought for use and 411 tons was bought under the agreement and put into Ministry of Supply stock, making a total purchase of 856 tons. In the next year, 1956-57, 308 tons were purchased for use and 667 tons were purchased for stock; so that at the end of 1956-57 we had an accumulated stock of 1,078 tons.

4178. That is for two years?—For two years, yes.

4179. What is the present position? How are things developing?—We

shall certainly have to acquire further stocks in the two remaining years and our total stock may, we estimate, eventually, at the end of the four years, be 2,300 tons.

4180. That means that you over-estimated the demand for the material?—Yes.

4181. Has it proved less satisfactory than you anticipated?—It has proved to be a little more difficult to use, a little more difficult to fabricate, and its uses in development have proved to be technically more difficult than was thought, although I should think the factor above all others that has caused our estimates to be falsified has been the reduction in the size of aircraft and aero engine orders.

4182. Is there a break clause in this I.C.I. agreement?—Not in the ordinary sense.

4183. How far are you likely to be able to dispose, satisfactorily and without much loss, of your stores at the end of the period, and over what period, do you know?—This is speculative, of course. I should think that, given time, we shall have no difficulty in disposing of the total stocks, but I think we shall probably have to sell them at less than we have given for them. I think the world price will fall. If it does not, then I think we shall have difficulty in disposing of our stocks.

4184. You mean, the production price is too great for the user?—Well, it is a great deterrent, particularly for commercial users. (Sir Frank Tribe.) May I say, I understood the agreement did contain a break clause requiring a month's notice. (Sir Cyril Musgrave.) Yes, I believe that is true, but we have dismissed the thought of taking action under that break clause as being infinitely more expensive than buying the metal.

Mr. Hoy.

4185. You must have known there was a break clause then, Sir Cyril, or else you would not have taken that decision?—That is perfectly true.

Mr. Stevens.

4186. I see that no sales of Ministry-owned titanium have yet been made?—No.

4187. That seems rather unfortunate, does it not?—The reason why we are

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[Continued.]

accumulating a stock is because there is not a sufficient demand for the total production.

4188. The Ministry is not then allowed to share in the sales at all?—There is nothing to prevent us selling if we could find a purchaser.

4189. I.C.I. are selling their output?—Yes, mainly to our contractors, and we get credit for that in the calculations.

Mr. *Arbuthnot*.

4190. What is the raw material from which titanium is obtained?—Rutile, I think it is.

4191. Is it associated at all with ilmenite?—I could not tell you. You are taking me out of my technical depth.

4192. Whereabouts does the production of it go on?—At Wilton in Yorkshire, the I.C.I. works.

4193. Is it mined or surface dug, or how is it obtained?—The ore is mined and the plant at Wilton extracts the metal in the form of sponge from the ore by a process which I am hoping to go and see in a few weeks time. I have not yet seen it.

Mr. *Collins*.

4194. At the end of paragraph 41 the Comptroller and Auditor General mentions world prices. How do you define world prices?—By prices quoted in New York.

4195. So, in fact, it is a true market price?—Yes.

4196. Have you any information about the I.C.I. cost of production?—No.

4197. So you have no means of knowing whether it would be more advantageous to buy at world prices or to have attempted to make a contract with them at so much in excess of cost of production?—No, but I do not think I.C.I., who really have taken on quite a hand-ful in this, would have agreed to anything other than world prices.

4198. I did not quite hear what you said in answer to an earlier question. Did you say that the world price of titanium had fallen, or was likely to fall?—Was likely to fall.

4199. It has not fallen recently?—I think it has been falling gradually over the last two years.

4200. By how much, or by what percentage has it been falling?—I am afraid I have not got that figure.

4201. Do you expect then that the world price is going to continue to fall?—Yes.

4202. So, the longer you keep your holding the greater the loss when you do eventually have to sell it?—Possibly. It all depends; we might bring the price down too much if we sold off too quickly.

4203. Is this stock in any way in the nature of a strategic stock?—No.

4204. So the object of this exercise is likely to encourage a home producer of titanium?—Yes, it was the only means by which we could get titanium. When the arrangement was made the only source of supply was the United States and they were using the whole of their production. I gather they are now only using 20 per cent. of their production; they have come up against the same trouble as we have.

Chairman.

4205. Cost?—No, partly cost, but partly the user has not materialised to the extent that we expected.

Mr. *Collins*.

4206. You told us that titanium was extremely resistant to corrosion. Does it deteriorate in store in any other ways?—No, we have no reason to believe that it will deteriorate in store, but do not forget we are dealing with a new product which is not very well known.

4207. You do not know anything about it. Have you placed any limits on the total stocks that you will allow yourselves to accumulate?—The only limits are those which we are bound to take under this agreement.

4208. That is only an agreement for four years. Are you under any sort of financial obligation if after the expiration of that four years you do not renew the agreement?—No.

4209. So that the penalties which would have been incurred had you operated the break clause will not be incurred at the expiration of the agreement?—No.

4210. I.C.I. therefore, presumably, will have hoped to recover a substantial part of their capital costs in those four years?—I do not think they will, as things have turned out.

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[Continued.]

4211. But in any case, so far as your Department is concerned, if it suits you you will be perfectly free to end the contract at the end of that four years with no obligation to take any part at all of the production?—No, we shall merely have our supply function of making sure that, should the demand appear to be there, we have a source of supply.

Chairman.

4212. Paragraphs 43-45, Leases. Sir Cyril, can you give us some statistics on this matter? How many Ministry of Supply factories or airfields are leased or in course of being leased to private firms?—I am not sure whether this will completely answer your question, Sir, but at the end of the war we had 7,000 requisitioned properties and all except 106 of those have either been derequisitioned or acquired.

4213. How many have you acquired?—I am afraid I have not got a note of that.

4214. Can you give us any approximate idea?—I do not know whether this will help, but since 1939 the Ministry, which includes the Ministry of Aircraft Production, has acquired title either freehold or leasehold to 1,150 separate sites. It is not exactly what you were asking me, but it gives you some indication.

4215. You have acquired either by purchase or taken long leases of those?—Yes. We have sold some 360 industrial properties or transferred them to another Department.

4216. Is that of the 1,150?—Well, except that the 1,150 refers to sites and in the 360 there might be more than one site involved. We have let 360 industrial properties. We have disposed of 150 non-industrial properties and we have about 400 agricultural lettings. I think that more or less completes the picture, except that there are 22 factories which are occupied by our agents.

4217. That leaves 1,150 out of 7,000. What about the other 6,000? If you have not got the actual figures, can you give me a picture?—At the end of the war we had 7,000 requisitioned properties and we have derequisitioned all except those that we have acquired, with the exception of 106.

4218. In effect, you have got rid of approximately 6,000?—Yes.

4219. And you have no further responsibility for them?—No.

4220. Are those that you have leased or sold to firms who are mainly concerned with your contracts?—Mainly, I think, yes, but not exclusively.

4221. Where the beneficial ownership resides in you, which do you try to do, sell or lease?—Sell.

4222. Sell, to get rid of them?—Yes, nowadays.

4223. If you do lease what length of lease do you grant?—We aim at 21 years.

4224. Is that what you have mainly achieved?—Yes, I think mainly. It depends upon whether there are restrictions on user for planning purposes and other complications.

4225. To what extent do you allow firms to enter into occupation without a firm and formal lease?—Oh, that often happens without a firm and formal lease, but we always get their agreement to a heads of agreement and to the payment of a rental.

4226. Why the difference?—Because so frequently we have not got title which would enable us to lease.

4227. In what circumstances is that, when you have got it on requisition?—Yes, and where it is on requisitioned land and we have not yet got title or where there is planning consent outstanding as to the particular user.

4228. That, presumably, means that if you fail to get title then the firm has got to go?—Yes.

4229. And if you fail to get planning permission for user, the firm has to go?—Yes, but in the meantime they will have paid us rent for the use of it.

4230. How frequently has that happened?—That we have failed to get planning permission?

4231. Yes?—Very rarely.

4232. Is it also rare that you only have heads of agreement and not leases?—Yes. Of course, our normal practice, naturally, would be to get a full lease at the commencement of the tenancy; but I think Sir Frank is drawing attention to the fact that there are a great number of cases where that has not happened.

4233. A great number of cases where the position is still, as I say, unsatisfactory?—Yes.

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[Continued.]

4234. Out of your 1,150, how many are unsatisfactory?—We have 54 tenants who have been in occupation two years or more without formal leases and if that defines “unsatisfactory”, then the answer is 54.

4235. It is about 5 per cent.?—Yes.

4236. Mr. Macpherson, have the Treasury any comment?—(Mr. Macpherson.) The Treasury views are this Committee’s views, Sir, that firm and binding leases should be entered into before occupation, but we think we must recognise that that is not always possible, and under this arrangement it means at least that there is a rent being paid while the property is being occupied and the rent agreed before occupation. Otherwise, the alternative would be that the property would sit idle pending a lease.

Mr. Stevens

4237. Sir Cyril, the Comptroller and Auditor General draws attention to twelve cases where no formal lease had been concluded after periods varying from four to eleven years. Could you outline the circumstances in which these very long delays have taken place?—(Sir Cyril Musgrave.) I think I must say immediately that the twelve cases are really 42; there are twelve cases which Sir Frank’s officers have seen, but there are in fact 42 cases where people have been in occupation for more than four years and we have not yet been able to complete a formal lease.

4238. But why?—For various reasons. The main reason accounting for the majority of cases is the difficulties in acquiring title. That accounts for exactly half of the 42 cases.

4239. And in the case of the other half?—Well, planning consent accounts for a few, and then protracted negotiations on the leases accounts for 13, and there are one or two cases where changed defence requirements have thrown us back to the beginning again.

4240. Do “protracted negotiations” indicate that some of the tenants have been objecting to some of the terms of the leases?—I think it covers every possible difficulty that arises when you are negotiating the lease of a property.

4241. The Comptroller and Auditor General says that these particular twelve cases are all with the Treasury Solicitor. Are the other 30 to which you have just

referred also with the Treasury Solicitor?—I cannot say that they are all with the Treasury Solicitor, although the majority of them are.

4242. On the other hand, in the case of the twelve which we gather are with the Treasury Solicitor, can you say how long they have been with the Treasury Solicitor?—It varies from case to case. For example, I am looking at a case here which went to the Treasury Solicitor in February, 1956. The company applied for planning consent for a further 21 years and obtained it in January, 1958, enabling the lease to be extended to 31 years, and that involved the Treasury Solicitor being re-instructed and it is back again with him. (Sir Frank Tribe.) Some have been with the Treasury Solicitor much longer than that. I came across one case which had been with him since August, 1946. (Sir Cyril Musgrave.) Could you identify that? (Sir Frank Tribe.) Simplex Electric Company, No. 10 Factory, Blythe Bridge. (Sir Cyril Musgrave.) My information does not tell me how long it has been with the Treasury Solicitor. My notes merely say that he prepared a draft lease in February, 1956, but in that case we did not acquire title until 1955, so I do not know what the Treasury Solicitor could have done with it between 1946 and 1955.

4243. It has taken nine years to acquire the title. Is there any possible way in which you, Sir Cyril, could minimise these delays? Eleven years does seem a very long time?—I wish there were, but we find that the procedure for compulsory acquisition is extremely lengthy and, indeed, it may only start after a long period of voluntary negotiation to acquire title which in the result has proved abortive.

4244. Do you find any practical difficulties arising from the fact that only heads of agreement have been signed and no formal leases?—No, I think that does protect us. I admit the position that we have not got formal leases is unsatisfactory, I acknowledge that, but by getting heads of agreement and getting the rent I think we have done everything we can to safeguard the position.

4245. You have had no quarrels with tenants over the responsibility for repairs, and things like that?—I know of none, although I expect there are cases.

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[Continued.]

Mr. Arbuthnot.

4246. If you could not reach an early agreement on variations from the standard form, as is referred to in paragraph 44, line 5, would the firm nevertheless be allowed to occupy the factory?—We do not often agree to vary the standard terms. We sometimes have to, but I know of no case where a firm is allowed to take occupation for anything longer than a short period without our being covered by a heads of agreement.

4247. How often does the time factor prevent you from reaching agreement on the rental before occupation is granted? I am referring to the next line?—If we cannot agree then it is left to be based on the chief valuer's assessment of the rental with a provision, if there cannot be agreement on that, for arbitration.

4248. I see that the Comptroller and Auditor General refers to a "defined basis" for determining rent. What is the defined basis?—I am not quite certain what that phrase refers to, unless it be the basis on which it is usually determined, the assessment by the Chief Valuer, and that is always current market value.

4249. Under your agreement does the tenant have to pay whatever rent is determined by the Valuer?—Subject to recourse to arbitration if the Valuer cannot get agreement.

4250. I am wondering whether your bargaining position is not weakened as a result of allowing the tenant to occupy before the rental is agreed. Are you satisfied about that position?—I think our position is weakened. In many of these cases the firm taking the lease of a factory has been occupying it under licence for war-time purposes, and that occupier will always naturally be in a better position than some complete outsider. But I think the alternative of keeping factories unused would be worse in the national interest.

4251. Does it normally take long to reach agreement on rents?—With the Valuer?

4252. Between you and your tenant?—I do not think in normal cases it does, but it is awfully difficult to generalise over a wide range of tenants, some of whom will be difficult, who will change their minds, who will say they

want to buy and then after a year's negotiation say they want to lease and you are back where you started.

4253. What is your position if the lessee vacates the factory before he has signed his formal lease?—We have received our rent and he is bound by the heads of agreement which he has accepted in writing, so he will have paid us the rent and will be liable for any other obligations imposed by the heads of agreement.

4254. Can you tell the Committee how many tenants now occupy Ministry properties in advance of completion of the lease?—There are 54 cases that are over two years old.

4255. There are 54 over two years old and 42 over four years old?—The 42 are included in the 54.

4256. Yes. How many are there who are in without having completed a formal lease at the moment?—I am afraid I have not a note of the number of cases of less than two years to make up the total.

4257. But you have reached heads of agreement which include the rentals of all the 54 cases which you were telling the Committee about?—Yes.

Mr. Steele.

4258. A number of these factories would be built by the Ministry of Supply adjacent to space already occupied by various industries, and I suppose in those circumstances your bargaining position for the rental, so far as the lease is concerned, would be a very difficult one?—I think such cases would have been taken care of at the point in time at which it was decided to extend the firm's factory. There would have been arrangements to cover that set of circumstances.

4259. Is the arrangement that at that time the lease would be for a particular period of years with the option to continue the lease after a number of years? I am thinking of what the original arrangements were when the factory space was built by you, but the period will now be arriving when a number of these leases will be expiring and new agreements will have to be made. Is that not the situation?—I think what happens in the sort of case you are speaking of is that we endeavoured, in the first place, to get a substantial contribution from the person whose property was being extended towards the cost of the

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[Continued.]

extension, so giving him title to the extension. If that was not possible or he could not be induced to put up a large enough sum of money to satisfy us there were various arrangements such as that the company entered into an obligation to pay us at the end of the period of occupation for the enhanced value of this property due to the creation on it of an asset at Government expense.

4260. Are there not cases where the Ministry of Supply themselves built this extension of the factory and still retain ownership and lease that part to the industrialist?—If we get title to the land on which it was built our position is all right.

4261. But surely in a number of those cases the factory space built by the Ministry of Supply was just an addition to what the industrialist already had, and was linked to the internal organisation of that factory?—Yes, but assuming that it could be used as a separate entity there would have been provision for the building of a party wall, leaving us with our separate property to lease or sell as we wished. But in many of those cases, as I was just saying, we are covered by the residual value clause, and we did not get title.

Mr. Collins.

4262. Do you own the factory at Squires Gate, near Blackpool, Sir Cyril?—Yes, we do.

4263. Perhaps you cannot answer this one. Do you own the land on which it stands? Do you know whether it is empty or not?—I know what is happening to the factory. I am afraid I cannot give you the exact position of our

legal title at Squires Gate out of my head. The factory is in the process of being closed down.

4264. And this is the kind of property for which you would shortly then be looking for a tenant?—Yes.

4265. But you do not actually know whether or not you have the title to the land on which it stands?—My Department will know. My colleague believes, and we are relying on memory here, that it is on a long lease from the Blackpool Corporation. But I would prefer, if you would let me, to put a note in if you want details of a particular factory.*

Mr. Collins.] If you would, please.

Mr. Hoy.] Is this not the one that the Ministry of Transport and Civil Aviation paid £500 an acre for?

Mr. Collins.

4266. The position is, of course, that the Ministry of Transport and Civil Aviation paid a fantastic price to Blackpool Corporation for the airfield land. The Ministry of Supply owned the factory which is just beyond the perimeter of the airfield land and I was just going to ask, Sir Cyril, since you hold it on long lease you will make sure you do not pay a fantastic price to Blackpool Corporation for the land if and when you decide to acquire it?—No, we always acquire on valuations done by the Valuation Department.

4267. I am quite sure, but they think that land there is worth almost as much as it is in Heaven?—I am afraid I do not know the value of that!

*Note by witness: The Ministry owns the freehold of the Squire Gates factory.

TUESDAY, 13TH MAY, 1958.

Members present:

Mr. Collins.
Colonel Crosthwaite-Eyre.
Mr. Oliver.

Mr. Peyton.
Mr. Stevens.
Mr. West.

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

Sir FRANK TRIBE, K.C.B., K.B.E., and Mr. J. MACPHERSON called in and examined

CIVIL APPROPRIATION ACCOUNTS, 1956-57 (CLASSES VI-X).

CLASS VI.

VOTE 9.

MINISTRY OF SUPPLY (*continued*)

VOTE 10.

MINISTRY OF SUPPLY (PURCHASING (REPAYMENT) SERVICES)

Sir CYRIL MUSGRAVE, K.C.B., Permanent Secretary, Ministry of Supply, called in and further examined.

Mr. Stevens.

4268. Would Members turn to the Civil Appropriation Accounts 1956-57, Classes VI-X, and paragraphs 46-48 of the Report of the Comptroller and Auditor General? I say paragraphs 46-48 because paragraph 49 ties in very closely with paragraph 7 of the Confidential Memorandum which we have all had; and I think it would be convenient, therefore, to take paragraph 49 of the Comptroller and Auditor General's Report with paragraph 7 of the Confidential Memorandum. Sir Cyril, in the case of aircraft which are built for the Royal Navy and the Royal Air Force the Ministry of Supply make certain payments for jigs and tools and patterns, and in due course if there are sales to other customers recovery is effected by means of agreed rates of levy on the sales. Could you tell us something about how these rates are agreed?—(Sir Cyril Musgrave.) They are agreed when the sales are in the offing and they are negotiated *ad hoc* in each case, the Department seeking to get the best bargain it can; in contrast to cases of civil aircraft where the rate of recovery by way of levy is usually determined and fixed at the outset of the contract.

4269. And the rate must be a rate per aircraft on anticipated sales?—Well, it can hardly be a rate per aircraft on anticipated sales in the case of military aircraft because the numbers of sales are more problematical, and we negotiate it when a sale seems imminent. The contractor tells us that he is in negotiation to sell a military aircraft abroad. He is under obligation to tell us that and to agree with us the rate of levy that he shall include in his price.

4270. If subsequently more sales are made is the rate varied at all?—Not as a rule, no.

4271. In the case of sales to foreign customers is the rate so fixed as to recover a fair proportion of the cost of jigs and tools which are used for the construction of those aircraft?—Yes, in theory, but, of course, in practice large quantities of such aeroplanes will have been made on those jigs and tools for the Royal Air Force.

4272. Is there anything in the contracts with the manufacturers which gives you a legal title to recover any part of those costs?—Yes, there is a clause in the contract which lays down that he must only sell them after permission and after

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[Continued.]

agreeing what the rate of levy shall be. That levy, incidentally, covers not only jigs and tools but also the cost of research and development.

4273. Research and development as well. From time to time, the levy having once been agreed, it is reduced in the light of special circumstances?—That does happen on occasions.

4274. Now, why does that happen? If you have a legal right to recover at an agreed rate is not the amount of that levy as much part of the manufacturer's cost as any other item of expense?—Yes, but we must have regard to what the market will bear. It would be of no point to insist on the total levy if by doing so we frustrated a sale.

4275. And yet if the levy is part of the manufacturer's cost why should it be the Ministry which enables him to reduce his price by reducing the only part of the expenses for which the Ministry is solely responsible?—If we reduce our levy we make sure that he reduces his profit.

4276. You do?—Yes.

Mr. Collins.

4277. Is this levy, Sir Cyril, only on airframes or is it also on engines?—It is on everything for which we have paid the cost of research and development and jigs and tools.

4278. Would it include spares?—Yes, it would include spares.

4279. This tooling element of the levy is virtually a rent paid by the contractors on Government assets and facilities used by the contractor, is it not?—You could call it that, yes.

4280. If it is that then it is an essential part of the costs?—Oh, yes, I do not dispute that.

4281. Do you think that any commercial undertaking would forgo its rights to royalties or rents or copyright?—I think rather than frustrate a sale a commercial company, being in the position we are, would reduce the amount in order to secure a sale, and it is not often that we forgo altogether. But in the case, of course, of sales of military aircraft other considerations than the commercial enter into it.

4282. Yes, but in an ordinary commercial case if the licensee pleaded that he was going to lose the order and then asked the copyright owner to forgo his right for that purpose, do you think that

any commercial undertaking would be likely to do that?—I could not say. I imagine there might be cases in which the owner of the rights would be willing to forgo his royalty in order that the seller might break into an entirely new market. He might, in other words, contribute towards an unprofitable sale in order to prepare the ground for larger sales in the future.

4283. In the case of a commercial undertaking that would only be possible to contemplate if breaking into new ground meant that they might subsequently earn royalties on their project?—Yes.

4284. But these special cases have arisen when you have completely forgone the royalties and there has not been any prospect of more profitable sales in that market thereafter, has there?—There is always the possibility, yes.

4285. You told the Committee just now that you must have regard to what the market will bear and also that if you made a contribution by means of a reduction of the royalty, as it were, you asked the firm to reduce their profit, but you still allow them to make a profit?—In some cases they have made a loss.

4286. But in paragraph 47, the third line, the Comptroller and Auditor General says: "There is normally no prospect of recovering any more than a relative small proportion of the Ministry's expenditure on development from sales made by the manufacturer to other Governments". So, in effect, as this levy figure is already only a small proportion of the Government's cost, you have already made a substantial contribution?—No, the position surely is that the cost of developing a military aircraft is part of the cost of the defence of this country, and the prime purpose of the Government in spending that money is to provide the Air Force or the Navy with an aeroplane or an engine for their equipment. If, that primary purpose having been served, the contractor is able to sell aircraft to a foreign Government it is only right that he should pay to us some acknowledgment of the expenditure to which we have been put in developing it and in providing jigs and tools. But this is not a commercial operation, as is the case with a civil aircraft. It is a case of an unexpected but very welcome benefit coming to us after the event. We do not pay for the cost of developing mili-

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[Continued.]

tary aircraft and engines with the object of selling them abroad. That is merely an incidental benefit that comes after the primary object has been served.

4287. But surely the sales of military aircraft to foreign Governments are sales of aeroplanes manufactured by the companies in addition to those required by Her Majesty's Government?—Yes, that is true.

4288. In that event would you not agree that they must have made a very substantial contribution to the diminution of their overheads per aircraft?—Yes, that is the reason why, even if we forwent our levy, it would profit us to allow them to sell because it would reduce the general overheads on our contract.

4289. Can you explain that a little more? I am looking at it merely from the point of view of a commercial company earning profits and paying dividends and the Government contributing to those profits and dividends by reason of the fact that they either reduce or forgo a levy. Now, apparently these sales benefit the Department. How is that?—Well, of course, if we get our levy they benefit the Department, obviously.

4290. But if you do not get a levy?—Taking the worst case where we get no levy at all, it means that the firm's overheads are spread over a larger volume of trade and therefore the share of overheads which our trade bears would be reduced. But in any case, even if we forwent the levy on the airframe, in many cases we should be getting the levy on the engines; or if we forwent the levy on the airframes and the engines we would still get the levy on the equipment that went in. It would be a very extreme case where we got nothing.

4291. So it is true, therefore, to say that if sales by these commercial undertakings of military aircraft are increased by these sales to other Governments, whether or not you get a levy, you do get an advantage because the reduction in their overheads eventually benefits the Department on that or on other contracts?—That is so.

Mr. West.

4292. Sir Cyril, were the aircraft which were supplied in excess of the Government's requirements or were they outside the Government's requirements?

—Outside the Government's requirements.

4293. So that they were manufactured by the company for their own commercial purposes?—Yes.

4294. Do they undertake that in the ordinary course of their business?—Yes.

4295. The Exchequer having borne the cost of development and of jigging and tooling, the company then is approached by a customer and they are proposing to sell these aircraft to them at what they consider to be a profit?—Yes.

4296. Was there discussion with the Defence Department as to the desirability of supplying aircraft to these countries concerned?—Oh, yes, they have to get our permission.

4297. And it was with their approval that the sale was in fact negotiated?—Yes.

4298. Were the terms of the sale negotiated with the Ministry of Defence or were they not concerned in it?—No, the terms of the sale would be negotiated between the contractor and the foreign purchaser, but they are under obligation to seek our agreement as to the amount they include in the price for our levy.

4299. In this particular case what was the profit that the company made in that particular year?—I am not sure which particular case you are referring to.

4300. I want to deal with the question of principle rather than the details of the case. In the ordinary course of its business the company contracts with a purchaser for the sale of certain aircraft, and they enter into an agreement. Now, the Exchequer having borne the expense of development, is there any reason in the world why the particular company should be subsidised by the Exchequer on a further sale to another buyer?—I do not think the company is being subsidised. The company will in its own interests get the best price it possibly can from the foreign purchaser, and if that price is adequate to cover our levy there is nothing more to be said. If, however, they find they cannot get a price which they consider to be adequate to cover our levy they will come to us in the ordinary case and say: "The market, we find, will not bear the full levy. Will you abate it?", and we agree or do not agree to abate it; and as I said in answer to an earlier question,

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before we agree to abate we look to see what sacrifice the company is making.

Mr. Peyton.

4301. Sir Cyril, would it be right to say that the whole of this difficulty is caused by the increasingly hot competition there is in selling aircraft overseas?—Yes, it certainly contributes very much.

4302. How much part is the American aircraft industry playing in this?—An enormous part.

4303. Are the American Government coming into it very much?—Only in the sense that, so far as I know, the American Government do not get a levy as we do from our contractor to cover the cost of research and development borne by the Government.

4304. The American aircraft company do not?—The American Government does not take a levy from the American aircraft contractor, as we do

4305. I see, yes. I notice at some stage firms have pointed out to you that it is likely that it will be more and more difficult for them to pay the levy in the future? More occasions will arise in which the levy will not be available to you?—I would not like to prophesy that that will be the case. We keep on getting cases where they contend that they cannot pay the full levy; and I think you are probably right in thinking that the competition will get hotter and therefore there will be more cases, but I might be wrong.

4306. Do you think that this question of the sale of military aircraft to foreign Governments by the various Governments in N.A.T.O. is being conducted on a reasonable basis, or not?—I have no reason to think otherwise.

4307. You do not think that it is reasonable to impugn the policy of the American Government on this?—No, in my restricted sphere I have no evidence that would lead me to impugn the American Government.

4308. These firms are not constantly complaining about the methods used by the Americans to force these sales?—Oh, yes, the firms complain that American aircraft are being pushed unduly on N.A.T.O. countries; but whether that complaint is entirely justified or not I would not like to say.

4309. Taking the broad view, it is rather difficult to envisage the possibility of continuing an alliance which depends upon economic and military co-operation if you do not get some kind of understanding in this field, would you not agree?—Yes, but this is getting rather outside my sphere.

4310. Yes. Now in paragraph 47 the Comptroller and Auditor General says: "There is normally no prospect of recovering more than a relatively small proportion". What do you mean by "a relatively small proportion"?—It depends, of course, on the number of aircraft that are sold abroad. If there is only a handful sold, 20 or 30 or 40, then obviously our levy will only recover for us a very small proportion of the total cost of developing the thing.

4311. I take it that no manufacturer can sell military aircraft to other Governments without the agreement of the British Government, is that right?—That is so.

4312. That means the Ministry of Supply does it, in this case?—Her Majesty's Government as a whole. Other interests than the Ministry of Supply's enter into it.

4313. Provision is made that the jigs and tools are to be held by the contractor at the disposal of your Department. What, in point of fact, happens to them in the end?—They are held for as long as we regard it as necessary, as long as there is any chance of their being required.

4314. Does it really amount in the end to being a net benefit to the manufacturer?—No. We have paid for them and any proceeds of their sale would come to us.

Mr. Oliver.

4315. There are two points I would like to ask. In respect of the price charged for the loan and use of the jigs and tools, how is that price assessed?—It is usually lumped in with the sum we seek to recover for research and development. One levy per aircraft is made to cover both research and development and jigs and tools; and I think the only principle we follow is that we seek to obtain the maximum we possibly can.

4316. I take it that the price of the manufacture of the jigs and tools as a

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[Continued.]

separate item is taken into consideration in fixing the amount assigned for his use?—Yes, but it is much more likely to have a relationship to the cost of the aeroplane. If one aeroplane is worth twice as much as another, other things being equal, the levy on the first will be twice as much as the levy on the second because the size of the expenditure on the jigs and tools will have depended on a lot of factors that are extraneous to this foreign sale. We may have duplicated or even triplicated jigs and tools in order to step up production during a rearmament period for our own Forces. In that case the jig and tool bill will be higher. In theory, if everything worked out, the amount recovered on foreign sales would in total bear the proportion to the total expenditure on jigs and tools that foreign sales bear to the total sales, including those to Her Majesty's Forces.

4317. And the price would be determined, too, by the run of the job, would it not? If they produce 20 aircraft rather than one the price would be proportionately down?—Well, the price would be per aircraft. It would be £X per aircraft.

4318. Just one other point. In the case where the price which is obtained does not permit of the full levy being paid, is there not an incentive, therefore, to give a little elasticity for the manufacturer to lean over a bit and say: "Well, now, we cannot get that, but we can get something less if your Ministry is prepared to take something less"?—Yes, that does happen, but we see that he also takes something less and we do not bear the whole of the loss, so to speak, or the reduction in price.

4319. There must be a corresponding reduction in the price which the manufacturer receives?—Yes.

4320. Is that worked out on some accountancy basis?—No. It works like this, I think, that the manufacturer will disclose to us his price, the profit he is expecting to get at his first quotation. He will say: "I cannot get that quotation accepted, I wish to reduce my price accordingly. That will mean that my profit is reduced. Will you reduce your levy?" and we make what we think is a fair bargain both for the taxpayer and for the firm.

Confidential Memorandum by the Comptroller and Auditor General in amplification of paragraphs 46-49 of his Report on Civil Appropriation Accounts (Classes VI-X), 1956-57.

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Mr. Stevens.

4321. May we now turn to paragraph 7 of the Confidential Memorandum and take it in conjunction with paragraph 49 of the main Report, because they go together? Sir Cyril, when an aircraft or an aero engine has a dual utilisation either for civil purposes or military purposes, such as the Britannia aircraft or the Avon aero engine, how do you categorise them between civil and military types for levy purposes?—(Sir Cyril Musgrave.) There may be a common rate on all or there may be one rate for civil engines and another for military engines. It will depend on the conditions of the particular case and whether the company have themselves borne some

cost of the development as they usually will have done in these days in the case of civil applications.

4322. The answer is really a compromise?—You cannot generalise.

4323. The Confidential Memorandum refers to only three cases where the agreed rate of levy has been reduced. In two of these cases the reduction was made without reference to the Treasury. Are those the only two cases in which you have reduced the levy without reference to the Treasury?—The Public Accounts Committee was concerned, I think it was last year, with some reductions that are made on the civil side on Viscounts and Dart engines.

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[Continued.]

4324. And those were similar to these three cases Sir Frank has dealt with?—
Yes.

4325. Mr. Macpherson, I see that the Ministry asked you for confirmation that this practice of reducing agreed rates of levy was still acceptable to you. Have you indicated whether or not it is acceptable?—(Mr. Macpherson.) No, Sir, we are still discussing to what extent the Ministry should have authority to reduce agreed levies without coming to the Treasury. There is, as has emerged from Sir Cyril's evidence, a very real taxpayer's interest in this, in that there are substantial sums to be recovered; and what we are considering now is whether the Treasury in its watch-dog capacity should be associated with any reduction in agreed levies before they actually are given.

4326. Have you, in fact, agreed that any of these reductions may take place without authority from your Department?—No, in the two cases, to which Sir Frank has referred, the Ministry interpreted their authority as giving them discretion to do this, but in a more recent examination of our relationship we have taken up the point as to whether they should have that discretion, and that is one of the points under discussion at the moment.—(Sir Frank Tribe.) If I may say so, I only mentioned these three cases in particular but I have come across other cases somewhat similar in the sale of military aircraft abroad where reduction in levy has been made without Treasury sanction.

4327. Sir Cyril, what do you say?—(Sir Cyril Musgrave.) We have been acting in the belief that in the case of military levies we have discretion from the Treasury to negotiate the best bargain we can in particular cases, but as Mr. Macpherson has said, the Treasury are not sure whether that is right or wrong and we are discussing it with them. It is not a case, in other words, of our omitting to refer to the Treasury something which we ought to have referred to them under the rules. We were operating in accordance with what we thought were the rules, which are now being re-examined.

4328. Where there is a reduction from the normal rate, as you say, in these three cases and the others to which Sir Frank has referred, would you not expect to see that fact, if not the

amount concerned, noted in the Appropriation Account as a claim abandoned?—(Mr. Macpherson.) I do not think so, Sir. It is a matter of negotiation. It is, in fact, part of the sale.

4329. You take Sir Cyril's view that it is not a loss of any kind, it is simply a "not gain" or a "not profit"?—If you did not have agreed figures this could come up on each individual transaction and therefore you might agree a figure which for the transaction was the right figure, and therefore there would be no loss; but I do not think because you have a particular agreed figure and then you have a reduction from that that the status—

4330. Precisely; we have an agreed figure which is subsequently abandoned for reasons which may be perfectly sound and fair but you would not expect that to be noted anywhere?—I do not think so, no. (Sir Cyril Musgrave.) I would not regard it as an agreed figure which applied in every case. It is in the ultimate negotiated on each occasion having regard to the price which the company can get for its sale. We will say: "If you get your normal commercial price you must pay us £X". We do say: "If you charge your normal commercial price you must pay us £X per aircraft". But sales are not rule of thumb matters, and if the company has to abate its price then it renegotiates that levy with us. I think that is different from an actual contractual right to a certain sum which is abated.

Mr. West.

4331. What do you regard as the commercial price? What element of profit do you regard as being a proper one?—They look for about — per cent. profit, I think, on the commercial sales of goods. (Sir Frank Tribe.) I understand that the Ministry are entitled under their contract to receive these levy payments. It may be that subsequently they forgo them, but it seems to me to come very near to a claim abandoned. (Sir Cyril Musgrave.) I am asking a question myself, which is perhaps improper—

Mr. Stevens.

4332. Rhetorically, Sir Cyril?—but are we entitled to a definite sum of £X per aircraft? Are we not entitled under our contract to require the contractor to negotiate with us the amount of the levy before he makes a

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sale to a non-Government customer? The relevant clause is the famous 6/15A which gives us our right: "The contractor shall not sell otherwise than for the purposes of the Government any articles to the said design or grant any licence to manufacture articles to the said design without first agreeing with the authority the sum or sums which shall reasonably be repaid to the authority" and that is our contractual right. It does not say in the contract that we are entitled to £X for this aeroplane and £Y for that one. Our contractual right says that they must agree with us in each case what sum, if any—it says "if any"—should reasonably be paid to the authority—that is, ourselves—by the contractor "in respect of such sale or grant having regard in law to the amounts paid or payable by the contractor to the authority under this contract". In other words, it seems to me that it is negotiable on each sale. (Sir *Frank Tribe*.) And reducible to nil in certain circumstances. (Sir *Cyril Musgrave*.) Yes.

Mr. *Hoy*.

4333. But with all due respect, Sir Cyril, there must have been an agreement as to what you were to receive. If there had not been an agreement then there would have been no interest for the company to come to you and ask for an abatement, that must be right?—In order to get the business within manageable proportions we would say to a company: "When you sell your aeroplane at normal prices we shall require from you £X". At the same time we say, and they know, that if they have to abate their price they can renegotiate. It is merely in order to reduce the number of individual and separate negotiations that we agree a standard figure for a standard sale.

Mr. *Peyton*.

4334. But is it not really fair to say in circumstances which nobody can anticipate that such agreements really must necessarily contain a larger element of pious hope than they do of commercial probability?—Yes, they certainly contain a certain amount of pious hope.

4335. I want to make it quite clear that I agree that pious hope is inevitable?—Yes. In other words, the point I am trying to make is that whatever

happens in fact, in form we negotiate this levy on each sale under that clause which I read out.

Mr. *West*.

4336. Could I put one question to Mr. Macpherson: assuming that the Treasury had exercised a power to give consent or to refuse consent to the abatement of the levy would the fact that the company concerned refused to disclose the profit that it was making on the deal influence the Treasury in whether it would give or withhold consent?—(Mr. *Macpherson*.) This point only arises in the case of one deal.

* * * * *

4337. But there is no limit to which the Treasury would not go?—No, I do not say that, Sir. I think we are generalising on the facts of a particular case and, I should hope, a unique case. One of the factors the Treasury has in mind in being associated with the Ministry of Supply on whether or not the Ministry should have delegated authority to waive levy is to what extent there should be investigation of the contribution that the company is making to put any particular deal through. The Treasury are very concerned that this is not a one-way traffic; in other words, it is not Her Majesty's Government every time which is giving up its due.

4338. May the Committee take it, Mr. Macpherson, from your answer that there may be circumstances where a company, even if it refused to disclose the profit, may nevertheless get sanction from the Treasury to receive from the Exchequer considerable sums of money by way of abatement?—Not to get considerable sums of money by way of abatement, but there may be circumstances in which the Treasury with the Ministry of Supply will come to the conclusion that the deal is so important for one reason or another that they are prepared to accept that approach by a company.

4339. A company refusing to disclose what profit it makes?—That is possible. I do not leave it out.

Mr. *Stevens*.

4340. May we turn to paragraphs 50 and 51? Sir Cyril, has any decision been reached with regard to these three incomplete Comet II airframes?—(Sir *Cyril Musgrave*.) Yes, they are being

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[Continued.]

charged to the main Vote in 1957-58 in a Supplementary Estimate that we took in 1957-58.

4341. As what?—At their cost to us.

4342. What is going to happen to them? Are they going to fly or are they going to be scrapped, or what is going to happen?—They cannot fly because they are incomplete airframes.

4343. But they have now been charged to the Vote as incomplete airframes?—Yes.

4344. Are they going to be completed?—No.

4345. What is going to happen to them?—They will be broken up and sold as scrap.

4346. So no further expenditure is going to be incurred?—Unless there are any parts of them which would prove to be of use in subsequent Comet manufacture.

4347. Was it originally intended that they should be reserves for the Royal Air Force?—This was dealt with by the Public Accounts Committee in Session 1955-56. The Committee criticised us for charging these incomplete airframes to the Purchasing (Repayment) Services Vote, and in your Report you said that if after a reasonable time no use had been found for these they ought to be transferred to the main Ministry of Supply Vote. That is being done in the year 1957-58.

4348. What would you say is a reasonable time?—We think a reasonable time for this sort of thing would be three or four years, but we have naturally examined every possibility of making more profitable use of these pieces of metal, and we have exhausted those possibilities.

Mr. Hoy.

4349. You remember, Sir Cyril, in 1950-51 and 1953-54 the Comptroller and Auditor General reported on the three Princess flying boats. I was glad to hear what you had to say about this falling on the Ministry of Supply main Vote, but are the accounting arrangements for the Princesses the same?—No, speaking from memory, the cost of the Princesses has either been borne on the main Vote or, I think, more probably, their cost was incurred when we only had one Vote, when we did not have a separate Purchasing (Repayment) Services Vote.

4350. What is the present position with regard to these three Princesses?—They are cocooned and stored near the Isle of Wight.

4351. And are likely to be scrapped, too?—There are signs that there may be a use for them.

4352. What has been the total expenditure on these three Princesses up to date, Sir Cyril?—I am afraid I have not that in my head.

4353. But you have it in your books?—Yes.

4354. You could send it along?—Yes, I could send it along. It was all reported many years ago.

4355. Yes, but obviously a few years have elapsed since then and I am taking it there has been further expenditure? If not, you will be able to prove I am wrong?—No, there has been no further expenditure except about £5,000 a year, I think, on ensuring that the preservation is sound.

4356. Even at that it adds up to many thousand pounds, and perhaps when you are sending us a note about the others you might let us know what the cost has been on this so far?—Do you wish to know the cost back ten years ago?

4357. I want to know what they have cost; that should be simple, what the three Princesses have cost up to the present time?—Very well, we will let you have that.*

Mr. Stevens.

4358. May we now turn to paragraphs 52-55, Purchases of textiles? Sir Cyril, when this Government decision was taken to make a special purchase of £18.6 million, was that amount agreed with the consumer Departments at the time as within their approved programmes?—Yes. It was accelerating the purchase of textiles, but it was anticipated at the time, and I believe the Treasury insisted, that no more should be bought than would eventually be required by the Services.

4359. How long was it expected to be before the material concerned would be absorbed by the Departments?—During the next few years, the next three or four years.

4360. Apart from this special purpose, would you normally, in the absence of a Government decision of this very special

*Information supplied: not printed.

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[Continued.]

kind, have always obtained firm requisitions from the customer Departments before ordering textiles?—We order textiles on forecasts provided by the Services as to their requirements for clothing, in order that we may have the textiles there and ready for making up when the actual requisitions for clothing come in.

4361. But the amount of the orders is on estimates provided by the consumer Departments?—Yes.

Mr. *West*.

4362. Mr. Macpherson, in paragraph 53 the Comptroller and Auditor General tells us that a sum of just under £1.5 million was, in effect, paid out of the Ministry of Supply Vote to the Repayment Services Vote?—(Mr. *Macpherson*.) Yes.

4363. Might not a transaction of this sort provide the Repayment Services Vote with extra purchasing power in any year?—No, Sir, because at the time the Estimates were being prepared if a payment of £1.3 million was included in the main Vote it would also be shown as a receipt in the Purchasing Repayment

Vote, so there would be control; but the Purchasing Repayment Vote is a net Vote.

4364. So it would not be extra purchasing power for them?—No.

Mr. *Peyton*.

4365. Is there any more surplus to be declared, Sir Cyril?—(Sir *Cyril Musgrave*.) Yes. We have, as a result of the rundown in the size of the Forces and the reduction in their requirements, accordingly had a special review of the holdings of textiles, and there are further surpluses to be declared in 1957-58 and in 1958-59.

4366. I take it that you are not making any new purchases, then, of any substantial nature?—Not of the particular things that we are disposing of.

4367. There is nothing of a substantial nature of the same kind?—No.

4368. How soon did your purchasing policy take account of those surpluses? This purchase was made in 1952, was it not?—I think I should make it clear that the textiles purchased under the acceleration scheme are only a relatively small proportion of the surpluses.

THURSDAY, 15TH MAY, 1958.

Members present

Mr. Arbuthnot.
Colonel Crosthwaite-Eyre.
Mr. Hoy.
Mr. Stevens.

Mr. Thornton.
Sir Colin Thornton-Kemsley.
Mr. West.

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

Sir FRANK TRIBE, K.C.B., K.B.E., and Mr. J. MACPHERSON called in and examined.

TREASURY MINUTE ON PARAGRAPHS 66-68 OF THE THIRD
REPORT OF THE COMMITTEE OF PUBLIC ACCOUNTS, 1956-57.

Sir JOHN LANG, G.C.B., Permanent Secretary, Admiralty, called in and examined.

Mr. Thornton.

4369. In the first place, Sir John, I am sure that all Members of the Committee were sorry to hear of your unfortunate accident. We are glad to see you around again and we hope that you will soon be completely recovered?—
(Sir John Lang.) Thank you, Sir. If I may follow that by expressing my regret to the Committee that I did inconvenience them a month ago by having to ask to be excused on the day originally set for my hearing, I would really like to put that on record because I was very sorry indeed that I just could not make that day.

4370. We quite understand, Sir John, thank you. Will Members please turn to the Treasury Minute on paragraphs 66-68, Encouragement of Cost-Consciousness in the Armed Forces? Sir John, could you tell us briefly the results of your consideration of this question?—Yes, Sir. In my evidence last year I mentioned the costing system that was in operation in the dockyards and certain other establishments, which has the object, amongst others, of ensuring that the dockyard management from foremen upwards are continually aware of the progress of expenditure on all dockyard and similar jobs. That information, of course, is known to the captains of ships under repair, the engineer officers, and so on, who are associated with the repair work. The Admiralty have done a good deal in the last two or three years in emphasising, principally at the middle and upper levels of the Service, the importance of husbanding resources

and avoiding waste in order that the Navy may not be hampered in its programme of re-equipment; and this has included items like a special appeal from the First Sea Lord to the Commanders-in-Chief and other administrative authorities showing them that he is personally completely behind this programme of careful use of everything that the Admiralty control. During these last two or three years, too, we have been running a special review of the supporting services of the Navy, rather imaginatively called "The Way Ahead Committee"; and in the course of that we have done a lot to establish how the money goes in the various establishments and the various services that the Navy use, which again must have brought home to a great number of officers, both in the Fleet and in the shore establishments, the various factors affecting cost and the impact which expenditure in any one form has on the ability of the Admiralty to buy things or equip itself in other ways. Since the Committee talked to me last year about this we have embarked on quite an ambitious programme of work study in the Fleet and Fleet shore establishments. This, of course, is closely allied to cost-consciousness, and in the process of showing everybody in the Fleet, from the rating upwards, how one can improve working methods it brings home to all the importance of minimising the use of resources of all kinds. In addition to that we have sought the co-operation of Commanders-in-Chief and senior officers generally in the dissemination of cost-consciousness, using just that phrase, to

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[Continued.]

all ranks by measures such as including the subject in training syllabuses in the various schools and courses. We are circulating to Establishments from time to time any results of costings of Establishments which we do in the Admiralty for one purpose and another and we are recommending, though we have not actually done this yet, the circulation of exhortations by the Admiralty probably once a year, at any rate to start with because we are aware that if you try to exhort people too often, particularly from high places, you do not necessarily get results; and in the course of these exhortations we are reckoning to include a number of specific examples of the cost of items or the cost of services which are familiar to the Fleet, the aim being to bring home to all and sundry how important it is not to waste this or that form of resources.

Mr. Thornton.] Thank you, Sir John.

Mr. Arbuthnot.

4371. Sir John, what is your contact, if any, with SACLANT in this connection?—None at all, Sir. SACLANT is an officer of the N.A.T.O. organisation. We have no control over him. The internal administration of Establishments of the Royal Navy that are declared to N.A.T.O. and therefore come under SACLANT administration and operational use in war, is, in fact, in the hands of the Admiralty.

4372. What I have in mind is that the cost-consciousness and the control of stores and the like that is operated in SACLANT would appear to be far ahead of anything that we have in this country. Can you do anything to emulate their example?—Could I suggest to you that it is not so much that cost-consciousness and store control, and so on is operated by SACLANT, it is operated by the Commander-in-

Chief of the United States Navy in the Atlantic. It happens to be the same person, but it is not in his SACLANT capacity; and I was misled by your questioning to think that you were really thinking of something in the N.A.T.O. field. We are aware of certain arrangements which the Americans have described in this field. We do not know all that we would like to know about them yet, but we are trying to find out more and we will obviously follow that up as part of our programme so soon as we know anything about it.

4373. Would it be worth while to send a team across there to see what they are doing?—Certainly, if in fact the enquiries which we have so far made do not produce satisfactory results without that.

4374. You have a very senior officer over there with a number of less senior officers in the Establishment, have you not?—But we have got to be awfully careful, Sir. We have got a senior officer over in Norfolk, Virginia, but he wears a N.A.T.O. hat only and we are not entitled to ask him to find out what the American Navy are doing. We have got an organisation in Washington which is in close touch with the American Navy Office—the Admiralty of the United States Navy—and that is the channel through which we are bound to pursue enquiries about what is the practice in the United States Navy. We shall have no hesitation at all in arranging for some of our people to go out there if the result of the enquiries which he is to make on our behalf do not produce enough evidence for our purpose.

4375. Having seen it, may I suggest to you that the work that they are doing there is extremely impressive and is well worth following up as quickly as you possibly can?—Thank you for letting me know, Sir.

NAVY APPROPRIATION ACCOUNT, 1956-57.

Mr. Thornton.

4376. Will Members please now turn to the Navy Appropriation Account, 1956-57, to paragraphs 8-10 of the Comptroller and Auditor General's Report on Overpayment of Sick Pay to Industrial Staff? Sir John, why did you not amend your instructions when you were told of the correct interpretation in December,

1953?—The background to the Admiralty's action or, if you like, inaction in this matter is that the interpretation that was questioned in 1953 had been in operation for five years over a very wide field of Admiralty staff and was thus very well established. Whilst we as a Department were prepared after the meeting of the Treasury Wages Co-ordinating Com-

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mittee in December, 1953, to accept the Treasury's views on the proper interpretation of the 1948 rule, we felt that it would not be in accord with the principles of modern relations with work-people generally for the change to be made unilaterally by the Official Side without consultation with the Trade Union Side of the appropriate Whitley body, in other words, the Admiralty Industrial Council. We did open up discussions with the Admiralty Industrial Council and those discussions were later transferred to the corresponding Whitley body covering the whole field of the Government's service, the Joint Co-ordinating Committee, and apart from a delay of about four to five months when the papers were mislaid in the Admiralty that problem of consultation with the Trade Union interests took until November, 1955. It was not until that date that it became evident that the Trade Union Side, who had at first when we went to them been very violently opposed to any alteration in what they regarded as a privilege, had abandoned their opposition to the change. At that stage obviously there was nothing more to be said. The Trade Unions had accepted it, the Admiralty accepted it and we then—but, of course, that was January, 1956—issued the revised rules. It is quite true that we were making overpayments and we knew we were making overpayments while we continued for two years to apply the old rules. But I still feel that we followed the right course in not introducing the new rules until either the Trade Union Side had agreed the change or alternatively formal disagreement had been registered between the two sides which would leave the Official Side no alternative but to take executive action. It was purely because we were sure, and I still am sure, that the right thing was not to alter the rules without proper opportunity for the Trade Union Side to make their case that we did not make the change until January, 1956.

4377. There appears, Sir John, to have been a complete lack of co-ordination between the Service Departments on the implementation of the Treasury ruling. Were you aware that the War Office and the Air Ministry had amended their instructions?—We were aware some time before January, 1956. We were not, I think, aware right at the beginning. We had believed, and I do not really know even now whether we were right or wrong, that the other Departments had

not experienced difficulty with their Trade Union representatives. The difficulty occurred with our Trade Union Side and I believe subsequently with the Ministry of Supply Trade Union Side, and it was as the result of those protests from the Trade Union that the matter was taken to the national body, the Joint Co-ordinating Committee; and then, of course, it was clear that we should really have been under extremely heavy criticism if we had altered the rule then.

4378. Yes, I appreciate that, Sir John, and I am well aware of how slowly these questions of industrial negotiations can move on occasions, but two years is rather a long time, is it not?—Two years is certainly a long time, but once we had said to the Trade Union Side, as we did in May, 1954—that was the four to five months in which we mislaid the papers and therefore did not get on with it—that we reckoned that the rules had got to be changed, the rest of the motions flowed from that and there was at no stage any real undue delay in getting down to it. There were discussions in the first place between the officials of the Treasury, the Admiralty, the Ministry of Supply, and so on, with the Joint Co-ordinating Committee which reached certain conclusions and there were then the discussions with the full Joint Co-ordinating Committee including the Trade Union representatives; and it was at a meeting in January, 1955, that is, roughly one year after the December, 1953, starting point that the joint discussions opened, and at that Committee it was agreed between the Official Side and the Staff Side of the Joint Co-ordinating Committee that a special *ad hoc* body of Trade Union and Official Side representatives should be appointed to go into this and see whether the change in the rules was the right thing to do or whether some other course ought to be followed. That particular Sub-Committee started up in March, 1955, and both Sides took the problem away to work out their own particular approach to it after the first discussions. At the beginning we understood the Trade Union Side were going to prepare quite an emphatic dossier on this question; and it was only after some months of pressure on them saying: "Look here, what are you doing about it?" that we discovered that they were not going to do anything about it.

4379. Mr. Macpherson, did you give instructions in December, 1953, that the Departments were to apply the correct

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interpretation? What were your instructions at that time?—(Mr. Macpherson.) At the meeting held on the 7th December, 1953, the Treasury Chairman made a statement to the meeting, and on the basis of that statement it was ruled that the new interpretation should be applied.

4380. Do I take it that you were seriously disturbed at the Admiralty's failure to observe your ruling?—The Treasury view is as recorded by the Comptroller and Auditor General.

4381. Have you taken steps to see that your rulings are observed in the future?—We normally expect our rulings to be observed.

4382. Are you satisfied they were in this case?—No, they obviously were not. (Sir John Lang.) If I may comment on that, Sir, I think I really must make the point that at the December, 1953, meeting, which was a meeting of Official Sides only, and a meeting, incidentally, at which some of the Departments and the Admiralty were included, tried to persuade the Treasury that the rules as established in 1948 should not be altered, the Treasury Chairman ruled that the practice which was applicable in the non-industrial field would have to be applied in the industrial field; in other words, he ruled that there would have to be a change for the work-people. But I do not regard that as a ruling that the Departments must at once modify their rules. It was a ruling that the Departments must take steps to modify them, and we did take the steps to modify them by going to our Trade Union Side and saying: "We have come to the conclusion that the present wording of the rules is not the right one," and everything flowed from the fact that we took the line, and in fact still maintain it was the right line, that we were not in a position to issue new instructions which would affect the payment of sick pay until we had given the Trade Union people a proper opportunity to discuss with us whether our view was to be maintained or not.

Mr. Thornton.] I still feel that two years was a very long time, Sir John. I do not know what the Committee's views on it are.

Mr. Stevens.

4383. Did I hear you say, Sir John, that three or four months' delay was caused by the loss of a file?—Yes.

4384. Could you tell us something of the circumstances in which the file was lost and subsequently discovered?—No, except that my knowledge of what happens on these occasions is that the papers get tucked away in the wrong tin or they get tied behind the wrong file, or that they lose themselves by finding themselves in the wrong Department; and they only come to light when somebody either remembers or has his attention called to the absence of action and he then searches round until he finds them, or if, to take the example I quoted, two papers have been tied up wrongly together, at some stage somebody spots that the papers at the back are not connected with the papers at the front and they then get back to their proper circulation. I am not trying to defend the loss of the papers. The loss of the papers was a fault inside the Admiralty, but the fact remains that papers will sometimes lose themselves against one's best endeavours.

4385. I was thinking along rather different lines. The Chairman has just said that he feels that two years' delay was rather lengthy, and if three or four months passed by without anyone having cause to go to the file it does not sound as if the atmosphere of the Admiralty was one of very great urgency?—I do not think it is that, Sir. To some extent I am interpreting this and I am not pretending that I know exactly what the facts are. But I would be pretty certain that what happened was that after that December meeting the Admiralty representative came back to the Admiralty and reported to the particular branch: "The decision has gone against us. You will be getting the minutes of this meeting within a week or so and when you do we must then take up the matter with the Trade Union Side". Probably the minutes arrived a few days afterwards and the individual concerned began to take stock of the position, and he very likely said: "Well, we had better have a memorandum written so that we can table it at the next meeting of the Admiralty Industrial Council", and he may well have sent it to another section of the branch to draft the memorandum. Now, if at that stage the papers went astray, whether they went astray by being tied up with something else, or whether they went astray by being lost in another Department because the messengers had taken them to

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the wrong place, the section that was supposed to draft something would not know that they were expected to do it, and the man who thought he had given the instruction would believe that the section was still doing it; and in the course of a week or two it would have passed his mind for the moment because it was not in fact in front of him. It is quite easy for people to overlook in those circumstances that there is some uncleared action.

4386. Is there not a bring-forward system in the Admiralty?—Well, it would not operate in those circumstances. If I am right in my guess that it went from one section of the branch to another it would not operate there.

4387. I think you said that, a man having given the instructions, having taken that action, it would pass from his mind. I should have thought he would have seen to it that the Central Registry put a "bring forward" on it for a reasonable date ahead?—Always believing my example, he would believe that the section of his branch—it is in the same branch—would be working on it and would bring it to him. He almost certainly would not try to get the bring-up section to check that his people were doing their job. The bring-up section would very likely come into it if the papers had passed to another completely different Department, but I do not think he would take bring-up action if it was his own staff doing the job because he would believe they were doing it; and unless he happened casually to remember one day: "Oh, I have not seen those new instructions about sick leave for industrials", and then start asking Mr. Somebody why he had not seen the proposed draft, it could very easily, in the sort of general pressure of work that was going on, have just passed from his ken and not come back to it until something positively brought it back.

Mr. Arbuthnot.

4388. Sir John, you have drawn a sharp distinction between modifying the rules and taking steps to modify the rules. You did so in answer to the Chairman?—Yes.

4389. So, like Felix, you keep on walking from December, 1953, to January, 1956?—True, Sir.

4390. What steps did you take to tell the Treasury that you were not carrying out their instructions of December, 1953?—I am maintaining, Sir, that the Treasury did not give an instruction that the rules were to be modified just like that. The Treasury told the Departments that their view about the interpretation of the rules was wrong and therefore the rules would have to be changed, but accepting that the rules had got to be changed does not say that we must change them in defiance of any procedures for consulting the Trade Union Side.

4391. The other two Services took a different view of the instructions of the Treasury of December, 1953, and modified their instructions, did they not?—They modified them at dates that were appreciably before the Admiralty's date, but how far they had no difficulty with their Trade Union Sides I do not know.

4392. Is there not a serious lack of co-ordination between the Services, bearing in mind that you did not obtain this information from them that they had modified the rules?—In the ordinary way, Sir, I should not have expected the other Services either to tell us that they had issued their new instructions because they had gone through whatever were the appropriate motions, nor would I have expected us to tell the other Services what difficulties we might be having in the matter. Looking at it in retrospect, and if I had this problem to deal with again, I am quite certain that as I came away from the Treasury meeting I would have said to my colleagues in the other Service Departments: "Look, we had better keep in touch with each other about this because it would be embarrassing if your Trade Union Side take one attitude and my Trade Union Side take another attitude and therefore can we ensure that we go to our Trade Union Sides at about the same time and according to the reactions of the Trade Union representatives we can have a further talk about how to handle it".

4393. You told the Committee that you tried to persuade the Treasury that the ruling should not be altered?—At the meeting prior to December, 1953, Yes.

4394. So that the interpretation that has an air of possibility about it is that, being unwilling to alter the ruling, you decided to drag your feet until really forced into it?—No, Sir, I do not

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accept that view at all. We did not drag our feet over this, not by intent.

4395. But at the same time you did not inform the Treasury that you were unable to implement the decisions of the meeting of December, 1953?—We assumed they would recognise and accept as inevitable that the implementation of those decisions meant approaching the Trade Union Side, explaining the position to them, and endeavouring in the first place at least to secure their concurrence.

4396. Mr. Macpherson, are you satisfied that you were kept properly informed by the Admiralty of their inability to carry out the instructions which you had promulgated?—(Mr. Macpherson.) At one stage after December we were aware that the Admiralty had not immediately followed the Treasury ruling of December, 1953, but the delay until January, 1956, was more than we had contemplated, and that was what led us to say we were seriously disturbed.

4397. You told the Chairman you expected your instructions to be carried out. In the light of what has happened in this instance have you now instituted any form of check-up as to whether they are in fact being carried out?—Not that I am aware of, Sir, but I know of no other case where we have got evidence that they have not been carried out when they are given.

4398. This is the only instance that you have where this has not been done, is it?—It is the only instance I know of.

4399. It is unique?—In my experience it is unique.

Mr. West.

4400. Sir John, I see that when the scheme was introduced in 1948 instructions were given to all the Service Departments and it is upon those instructions that these payments were made. That is right, is it not?—(Sir John Lang.) I would rather put it this way, Sir: when the scheme was introduced in 1948 all the Government Departments affected, in other words, the big employers of industrials, were together in the plan and a common formula was drafted between them; and they all issued in this particular respect exactly the same formula as part of their scheme. It was not, as it were, a dictation from the Treasury or any other Government Department what

should be the formula, it was a pooling of ideas which led to a certain wording of the formula, and all the Departments adopted it.

4401. That formula, whether it was accurately recorded or not, was in fact the fair approach, as it was thought by those Departments, for the payment of sick pay?—Yes, it was, but in the light of after events I think one has got to accept that the formula was not as clear as it ought to have been, because it was early in 1953 that one or the Departments began to wonder whether the way in which the rule was being applied was correct or not.

4402. Yes, that is what has rather puzzled me because it had continued for five years. Why should it suddenly have struck the Department that there was some question about it? Was it an instruction of the Government Department again?—Oh, no, Sir. It is a very involved business and it centres on the way in which you calculate an overriding limit in the sick leave regulations. There is an overriding limit which talks about not more than one year's sick leave in four and the problem hinges on whether that one year in four relates only to paid sick leave or whether it includes perfectly regular sick leave but sick leave which has been unpaid because the individual in question has passed beyond whatever is his paid entitlement. One of the Departments must have had somebody of a particularly inquiring turn of mind, very likely somebody who had had experience in dealing with the application of the non-industrial sick leave regulations, who suddenly observed that the practice for the industrials as it had evolved from this formula was working out rather differently from the practice for non-industrials; and he must have said: "I wonder if this is right". That is what caused him to raise a question. As a result of the question then, the whole thing was reviewed by the Treasury and the Departments and it led to a ruling that the interpretation which the Departments had given to this 1948 formula was the wrong one.

4403. Were there no consultations with the Treasury in 1948?—Oh, undoubtedly the Treasury saw the formula in 1948.

4404. And accepted the interpretation of the formula at that time?—No, Sir,

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they accepted the formula, but in retrospect I would believe that the Treasury people must have read the formula with the view which they ultimately expressed whereas the other Departments were almost certainly reading the formula with the view which they expressed in the 1953 discussions, and that was an example of an ambiguity which led to the eventual trouble.

4405. Now, with regard to the mislaid file, I wonder if you could say what happened? Did you in fact give the explanation to the Committee of the mislaying of the file based upon conclusions you drew or past experience or as the result of your investigation into the precise circumstances of this occurrence?—Purely from my past experience, and I did try to say I do not know the exact circumstances covering the loss of the file. Clearly, if the Committee attach importance to those circumstances I will find it out and let you know.

4406. I was more concerned to find out how frequently files are mislaid for months on end?—I do not know; probably half a dozen times in a year I get something brought up to my level with a complaint about papers having been lost or papers having been seriously delayed and that kind of thing—not more than half a dozen times a year, but it may well be something of that order. But I would have no knowledge at all of the number of papers that are lost for short periods, or even rather longer periods where the incident does not give rise to a difficulty. But in a Department of the size and complexity of the Admiralty where the number of papers which are passing from Department to Department in the course of a year is up in the many hundreds of thousands, anyhow, I think it would be a miracle if papers never did go astray once in a while.

4407. Have Organisation and Methods had a look at the organisation and methods adopted in your Department?—Well, we have got a fairly energetic party on Organisation and Methods in our Department who are always at the problems of improving office machinery to ensure that things will go as smoothly as possible. But no Organisation and Methods section can guard against the odd accident unless, of course, we are going to have a meticulous system of recording the passing of papers between

individual and individual and, as your colleague said, a bring-up system which is going to be meticulous in its completeness, all of which is going to make the system frightfully cumbrous and on the whole even slower than it is today.

Mr. Thornton.

4408. Sir John, just one last point before we leave this question. Would it not be a fact that a number of the trade unions on each of these representative bodies for your Department, the Air Ministry and the War Office would be the same unions, would they not?—Undoubtedly the same unions. They would not necessarily be the same individual representatives, and a great deal does depend on the temperament of the particular representative.

4409. Yes, but I should have thought, seeing that in the main the same unions would have to be dealt with through the three different joint bodies, that this was a case where there ought to have been co-ordination in implementing the decision?—In retrospect, as I have said already, given a parallel instance again of a change which did affect three or four Departments and meant discussion with the unions, I would reckon positively to have tried to lay on co-ordination between the Departments. Whether it was done in the form of having a joint meeting with the trade unions of the three or four Councils or whether it was done on the basis of each Official Side keeping in touch with its brother Official Side so as to ensure that any differences of approach between the trade unions was taken account of, I have got quite an open mind; but I would certainly agree with you that if we had a parallel example again we ought to get together to ensure that all Departments have a common line in their dealings with the trade unions.

4410. Paragraphs 11 and 12, Coal Shipments to the Mediterranean. Sir John, paragraph 11 says that the coal is purchased from the National Coal Board without competitive tender and without formal conditions of contract. Could you tell us why you do not have formal conditions of contract with the Coal Board?—There has been some discussion going on for a fair time now between the National Coal Board people and ourselves on formal conditions of contract. I do not think either party have regarded the lack of a formal

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contract as much of an impediment because we are both fairly representative and steady-going people who can be relied upon to play fair with each other. There have been a certain number of difficulties in trying to establish what kind of a contract we might have and those discussions have now reached a state at which I am advised that we ought fairly soon now to be able to establish standard and formal conditions of contract over these coal supplies. Frankly, I do not think that factor, in other words, the absence of formal conditions of contract, should make any difference to the main point of the Comptroller and Auditor General's Report which is that when we send coal abroad we have to pay a surcharge on it.

4411. But what happens now, Sir John? Do you just pay what the Coal Board asks without any question?—So far as the cost of the coal is concerned we have got no alternative whatever but to do that. We shall not have any alternative even when there are formal conditions of contract, because the Coal Board take the line that they are precluded by legislation from giving any difference of treatment between one customer and another on the price of coal.

4412. Do you accept the position, Sir John, that when this coal is consigned to Her Majesty's establishments abroad that is an export?—Yes, Sir, and if we did not the Coal Board would not give us the coal to export.

4413. Have you taken any steps at all to try to avoid this extra charge for so-called exports? It appears to me to be rather strange that coal consigned to Her Majesty's establishments overseas is deemed to be exports. Have you not challenged it at all?—We have not challenged it in the form of an active fight based on the premise which you have outlined. Right at the beginning we undoubtedly said to the National Coal Board: "Oh, look, this is not fair, trying to charge us export prices", but we were brought up with a complete round turn when it was recognised that the National Coal Board is not a Government Department, it is a nationalised organisation instructed by the Government to manage the coal trade, and although the Minister of Power has certain authorities over the operations and the functions of the

National Coal Board he has not got any authority over their declaration that they are a commercial organisation selling coal; and if they can get a better commercial result by selling their coal abroad as compared with selling it in England they say: "All customers to us are the same, whether you are Government Departments or otherwise and we are going to insist on charging you the export price". We did have one tussle with the National Coal Board, not strictly speaking on this issue, but on a slightly related issue, but that led them to come back and say that they had gone through the statutes which governed their working and they saw no reason why special arrangements in price should be made in connection with Government Departments. They pointed out a section of the Act under which they operate which said that they were not to give any undue preference to any consumer and they said that in their view if they were to single out Government Departments for any price advantages that would be the very type of preference which the Nationalisation Act told them they were not to give; and behind that we just could not go.

4414. Yes, I think that in the Report the Comptroller and Auditor General says: "The National Coal Board maintain that they are debarred by statute from giving an undue preference to any consumer". Have you been legally advised on this question?—No, not in the sense that we have referred the matter to the Law Officers for a ruling. But we were convinced when we saw the way in which the Coal Board were handling their case that we had not got a leg to stand on.

4415. You did not think it was necessary to obtain legal advice on this point?—No, Sir, we did not.

4416. As to whether the coal exported to Her Majesty's establishments overseas were exports?—No, Sir.

4417. Sir Frank, can you help the Committee? Can you tell us under what statutory powers the export of coal is controlled?—(Sir Frank Tribe.) Yes, Sir, I understand it is controlled by the Import, Export and Customs Powers (Defence) Act which received Royal Assent on the 1st September, 1939, which says that that Act "shall continue in force until such date as His Majesty may by Order in Council declare to be the

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date on which the emergency that was the occasion of the passing of this Act came to an end". Of course, it was obvious in view of the date what that emergency was. The Act is still in force and the latest Order was issued by the Board of Trade in 1956, which says that coal, among other things, shall be "prohibited to be exported from the United Kingdom unless there is in force a certificate issued by or on behalf of the Minister of Power in respect of the exportation of the said goods". So, the Admiralty apparently are debarred without getting a licence issued on behalf of the Ministry of Power by the National Coal Board from sending coal to their own establishments abroad under an Act which was passed for the defence of the realm.

Mr. West.

4418. Sir John, at the time that you entered into these arrangements with the National Coal Board there was, of course, a national shortage of coal, was there not?—(Sir John Lang.) Yes.

4419. In fact we were importing coal into the country?—Yes.

4420. And the National Coal Board at that time had to make up the loss on imports. Now, supposing you and the National Coal Board could not have come to any terms on the supply of coal for your foreign stations you would have been forced into the world market, is that right?—I think so, yes. I have never envisaged that we might get our coal otherwise than from the National Coal Board.

4421. Irrespective of the price?—If we reached the situation where we said to the National Coal Board: "We are not going to take your coal unless we can get it on our terms", so to speak, and the National Coal Board said: "Well, we are not going to give you the coal unless you meet our terms", the Admiralty would either have had to make do without any coal or would have had to find another source of coal, which would have meant paying the world price.

4422. My approach to this problem at the moment is whether there has been an excess payment made by the Admiralty for the coal that they bought from the National Coal Board. That is to say, could they have bought it cheaper elsewhere or would they have

had to pay a higher price elsewhere for the coal they purchased from the National Coal Board? I rather would have felt you would have had to pay a higher price?—I cannot speak with authority for the whole period during which this has been going on, but undoubtedly the world price of coal was appreciably higher than the inland price of United Kingdom coal and the National Coal Board were in fact offsetting part of their loss on imported coal by having a higher price for United Kingdom produced coal, and that would have meant inevitably that had we not been willing to pay the surcharge which the National Coal Board were demanding and had paid the world price that would have meant that we would have paid a higher figure still.

Colonel Crosthwaite-Eyre.

4423. Sir John, I can follow the argument of Sir Frank. Once you have bought the coal and it is in your possession you must get an order to export it, but why do you have to pay the surcharge in addition?—Because the Ministry of Power people will not give us licences to export it unless we agree to pay, and in a sense it is logical that they should not do so because otherwise we could dodge the payment of these higher prices for exported coal by taking everything into our ownership to start with and then exporting it everywhere on the sly.*

4424. Whilst I can see you are under a legal obligation to obtain permission to export coal, surely it is quite a new theory that to get a licence you have got to pay a surcharge? I have never heard of that before?—You are paying a surcharge only in the sense that you are paying the same or approximately the same price for your export coal that you would have to pay if you bought it for direct export. In the last resort the National Coal Board are in a good position here. No Government Department is in a position to say to them: "You must give a licence for the export of coal" on terms other than those they are prepared to lay down.

4425. But what is the statutory right of the National Coal Board to demand an export surcharge of £3 a ton?—I cannot answer that.

4426. Sir Frank, may I ask you if there is any known basis for it?—(Sir

*See also App. 13.

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Frank Tribe.) The certificate authorising the export is issued by the Minister of Power, not by the National Coal Board, except in so far as the Minister may have delegated certain powers of his own to the Coal Board for that purpose.

4427. But is there any legal justification for an export surcharge?—I am afraid I cannot answer that.

4428. Could I ask the Treasury if they know of any powers under which it is possible for a nationalised industry to tell a Government Department it cannot have a licence unless it pays a surcharge?—(Mr. *Macpherson.*) I am subject to correction on this, but I think the Ministry of Power lay down the price at which coal is exported.

4429. Is it possible, then, for one Minister to say: "You are not in fact allowed to move your own possessions abroad unless you pay what is tantamount to a fine"?—Not if this is regarded as export, as it obviously is. I think the point is that the National Coal Board, certainly at this time, were importing coal at world prices; and it was open to the Admiralty if they thought the prices they were being asked to pay by the Coal Board were too high to consider an alternative source of supply, if they could find suppliers.

4430. This is not quite the point. Here is coal owned by the Admiralty, bought from the National Coal Board. They wish to export it. They can only export with a licence. They can only apparently get a licence if they pay £3 a ton fine for the privilege?—I do not think it can be regarded as a fine, but as paying a sum, as I understand it, which brings the price of the coal up to the world price.

4431. May I put it this way: do you know of any other transaction between two Government Departments in which one charges the other a sum of this nature just to be able to move its own possessions?—I do not think it is a case of one Government Department charging another, it is one Government Department laying down a price which the other Government Department will pay a nationalised industry. It is not paying another Department.

4432. I thought Sir Frank had told the Committee that whatever powers the

National Coal Board had to issue these licences were entirely dependent on powers granted to them by the Ministry of Power?—Yes, the power to issue the licence, but I do not think that applies to the price paid to them which is the price paid to the National Coal Board.

4433. In which case, may I ask this question: then is whatever sum the National Coal Board puts on without any power legally from the Ministry of Power?—No. Again, as I understand, the prices are determined in consultation with the Ministry of Power.

4434. Then I come back to my first question: if the Ministry of Power agrees with this do you know of any other case where a Government Department charges a sum of this nature to another Government Department?—But I keep coming back to the point that it is not charging another Government Department, it is agreeing a price which in this case the Coal Board will charge the Admiralty. It is not a charge which is being paid to itself.

4435. But it is done under its power and privileges?—Yes, but the Ministry lays down all the prices or agrees the prices of coal in consultation with the Coal Board.

Mr. Arbuthnot.

4436. Sir John, if the National Coal Board is resting its case on the statute which prevents it from giving undue preference to any consumer, is it not in fact violating the statute by giving preference to the consumer at home as compared with the consumer abroad?—(Sir *John Lang.*) You must ask the Permanent Secretary of the Ministry of Power that question, Sir, not me.

4437. Have you considered fighting the surcharge on that score?—No, we have not, Sir.

4438. Have you any views on that one, Sir Frank?—(Sir *Frank Tribe.*) Quite frankly, the point that occurred to me as doubtful was whether this is really an export within the meaning of the Act. Her Majesty's Dockyards in Malta are part of Her Majesty's Establishments and if the Admiralty wished to transfer some of their possessions from Portsmouth or Plymouth to Malta I was doubtful whether that was genuinely an export.

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4439. I think the Committee would be too?—I was wondering whether any legal advice had been taken on that point. (Sir John Lang.) Not by the Admiralty, anyhow.

Colonel *Crosthwaite-Eyre*.

4440. Would that apply similarly to bunkers taken in a ship going abroad?—I do not know what the National Coal Board rules are about bunkers.

4441. If one of Her Majesty's ships sails with full bunkers, do you have to pay £3 a ton export price?—We have no ships, for practical purposes, nowadays which sail with coal so the issue does not arise, but to such extent as I am entitled to have an opinion I would have believed that coal taken on board in a United Kingdom port for bunker purposes was a United Kingdom delivery.

Sir *Colin Thornton-Kemsley*.

4442. Sir John, I wanted to ask about these officers of the Ministry of Power who are called the Coal Export Officers. They are referred to in paragraph 12 of the Comptroller and Auditor General's Report. I was not quite clear whether these people who are giving these licences are acting really for the Minister of Power or for the Coal Board or in a dual capacity?—I would not know the answer to that, Sir. They are not responsible in any way to me, I am only conscious that we have to get a licence to export. We have to get it from a person who is called a Coal Export Officer and the fact that he is primarily a National Coal Board man exercising certain powers on behalf of the Ministry of Power is not something that I am competent to criticise or comment upon.

4443. So, you think he is primarily a Coal Board man and not a Ministry of Power man?—His main function is undoubtedly a Coal Board function and the work of coal exporting is a sideline, something that he does for merely part of his time.

4444. Does it not seem rather odd, and possibly contrary to the Official Secrets Act, that an agent of the Coal Board should pass information about Admiralty coal movements and Admiralty coal requirements to a non-Government Department, to what you yourself have called a trading concern?

39254

—It depends on the security value of the information, Sir, and certainly at the present time and in the context of the present problem I should have said that there is no security value attaching to that information; and therefore although it may be technically at variance with the Official Secrets Act in practice no prosecution would lie and no offence is really committed.

4445. Could you conceive circumstances, Sir John, in which there would be a security risk in informing a trading concern about Admiralty coal requirements?—I can imagine circumstances in which an Admiralty coal export authorisation would have a very high security value, yes, but I should have equally said that the Ministry of Power would reckon to have satisfied themselves that these persons belonging to the National Coal Board who have been entrusted with certain duties by the Minister of Power were safe persons from the standpoint of the Official Secrets Act, and there must be many examples both in peace and in war in which people who are not 100 per cent. Government servants are given certain duties to do on behalf of the Government and they thus, in Service parlance, wear two hats. They wear their commercial hat and they wear their Government hat; and so long as they do protect properly the information which has come to them in their Government capacity we really cannot raise objection to the fact that they are also exercising a commercial capacity.

4446. But you do not raise any objection to it from the point of view of security? You have not done in the past, have you?—Well, no, because none of the transactions to which the Comptroller and Auditor General has called attention have really got any security value at all. We do not object to the world knowing that X tons of coal or X tons of coke have been sent to Gibraltar or have been sent to Malta. If we reached a stage at which there was an important security consideration attaching to some particular consignment we should almost certainly say to the particular National Coal Board Officer who was acting in his Ministry of Power capacity: "It is important that this information should not become generally known and we rely upon you to treat it as confidential". We should really have

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[Continued.]

no qualms about the fact that he would treat it as confidential.

4447. You would not consider the alternative method of going straight to the Ministry of Power and cutting out the intermediary, would you?—I do not think we should and in fact I should even have questioned whether that would achieve the result. The Ministry of Power might well give us an export licence but you can be quite sure that the fact that the coal was being exported on a very special licence would become known. It would automatically become the object of curiosity because we had not warned the particular National Coal Board Office that this was confidential, there would be nothing to stop their curiosity, nothing to stop their gossip, and the net result is that we should be, frankly, worse off than if we had gone through the perfectly standard procedure, if we had merely said to the Coal Board Office: "Look, this particular transaction is very confidential, please make sure it is not talked about".

4448. You do not think, Sir John, that there would be any advantage in forestalling that sort of position by going always to the Ministry of Power for your licences?—Well, from the purely narrow point of view of security considerations affecting coal shipments, at some time in history there might be an advantage in doing it; but I do emphasise that we are not in a position to control the Ministry of Power in deciding whether they will run a series of licensing arrangements, particularly for the Admiralty, or particularly for Government Departments as contrasted with their own preference for doing this by using the National Coal Board Offices.

Mr. Thornton.

4449. Paragraphs 14-17, Ships ordered before the rearmament period. On paragraph 14, Sir John, are these contracts cost-plus subject to a maximum price quoted some time before the ship is completed?—The particular contracts dealt with in paragraph 14 are subject to a maximum price in this sense, that the contractor produces at a date before the ship completes an estimate of the cost he has incurred on the ship. We then argue with him whether it is right or wrong and we eventually perhaps agree that his assessment is a reasonable one. Under this particular system, but it only

applies to the ships being dealt with in paragraph 14, we then agree that we will pay a certain rate of profit on that transaction. But there is a condition attached to it that after the ship is completed the contractor will then produce to us an accountant's certificate of the eventual cost of the vessel. If the cost of that vessel as established by the cost certificate is less than the sum which has been agreed, then the contractor repays the difference. If on the other hand the cost of the vessel as eventually established is above the provisional figure, then the contractor stands the racket.

4450. Does it not mean, in effect, Sir John, that the firm can gain no advantage but in fact run some considerable risk by quoting a low maximum price?—Yes, but we are not compelled to accept their provisional price and we do argue with them whether it is a reasonable price or not. The figure to which this arrangement applies is not the firm's original idea of what it should be but whatever figure has been agreed with us in discussions should be the figure put into this, as it is called, Heads of Agreement system.

4451. The last sentence of paragraph 14 says: "They are thus at risk in the concluding stages of the work". What in practice is this risk? Have you ever, for example, paid the maximum price and left the firm to meet the balance of the cost? Has that ever happened?—Definitely, yes.

4452. Frequently?—I could not answer categorically. I would say appreciably in the sense of some tens of thousands of pounds, yes, and I would emphasise that this particular system was in operation for most of the years of the war which is the reason, really, why it has applied to these few ships which are ships which were laid down either during the war or very, very soon thereafterwards. It is a system which has been used for something upward of 400 or 500 ships, all told, both large and small; and there were in the first years a fair number of examples in which contractors did have to repay money and there were a fair number of examples in which contractors were left with an eventual loss.

4453. In paragraph 15, Sir John, the reference is to six vessels, and in these cases the maximum prices were not

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agreed until after the vessels were completed and actual prices not until two or three years after that. There does not seem to be much risk or incentive to economy in cases such as this, does there?—It is quite right that the maximum price was not agreed until after the vessels were accepted, but the quotation by the builders on which that maximum price was arranged had been quoted to us before the vessels were completed and the builders were thus at risk from that point onwards. In other words, they had not finished the vessel, they had quoted a price, and they could be quite sure that our comment on it would certainly not be to increase it.

4454. You have, of course, jointly with the shipbuilders to decide what profit to allow in this assessment of profit. Is there any element included for risk?—Yes, there is a small element.

4455. How much, could you tell us?—That risk is — per cent.

4456. Do you think that is justified?—I think, yes, it is.

Mr. Hoy.

4457. On paragraph 15, I notice that the builder of one vessel refunded £726,000 in December, 1956, and had had the use of the money for 18 months. What I am trying to find out is, if they had had 5 per cent. on that money, what would that come to, Sir Frank? What is 5 per cent. of £726,000 for 18 months?—(Sir Frank Tribe.) I should say it is about £54,000, is it not?

4458. £54,000 or £55,000. Sir John, do you ever say to these men who had to repay this £726,000: "Look here, you have had £55,000 of interest on this money, so you will pay us £726,000 plus the interest on the money which did not belong to you"?—(Sir John Lang.) We certainly did not say that to him. If we had I am quite sure we would have got a very rude answer.

4459. Why?—He would have pointed out to us that in practice we always pay in arrear and he had had to finance this ship and this particular ship was a very expensive ship, very expensive in the sense of a ship that cost a lot of money, so that he had been using a considerable sum of money which had cost him a certain amount of interest and, therefore, why should not we pay him

interest on instalments that were perhaps not paid on the due dates, because in practice instalments are very seldom paid on the due dates.

4460. Due to the slackness of the Admiralty?—No, due to the carefulness of the Admiralty to make sure that the money is really due to be paid. (Sir Frank Tribe.) I should have thought his interest was covered by the profit rate.

4461. I was about to say that to Sir John. When these builders accept these contracts they know just how the Admiralty pay. Anybody who is in business, of course, makes allowances for these sorts of things and they know when to apply for their payments on account?—(Sir John Lang.) They can only apply for them at certain stages in the transaction.

4462. Certainly, I know that. In that form of building when your tender has been accepted and the work is begun it is not unusual—it is the normal process, in fact—to be paid after you have concluded a part of the contract and to get a payment on account, so that applies to the whole of the contract; but in this case this man got £726,000 more than he ought to have got hold of during that eighteen months and collected £55,000 in interest?—No, Sir, you must not say "collected £55,000". You are assuming he could have got 5 per cent. for his money.

4463. Yes—Well, could he.

4464. Could he not?—No, Sir. The majority of the money at stake in this particular thing was at stake when the bank rate was about 2 to 3 per cent.

4465. In 1956?—No, 1956 is right at the end of the period and in 1956 it was only, I think, 3½ per cent.

4466. On the open market you would not have got more? Even 3½ per cent.; I do not care what it is, even if you have to come down to 2½ per cent. he still has got £27,000?—He will argue that he did not get £27,000, he will argue that he will get a little bit back on the swings of what he had already lost on many roundabouts. All we can really do here, Sir, is to try to make sure that the cost certificates come in as early as possible, that they are examined as quickly as possible, and we have since

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this particular set of incidents tried to establish an arrangement under which we get intermediate certificates which will enable us to get a bit closer to any recovery at an early date.

Mr. West.

4467. The contractors, Sir John, I take it, are fully aware what they are incurring up to the time that a vessel is accepted in the Service? They know what they have spent, they know the materials they have purchased, they keep proper books of account. They do that from year to year, surely?—That is true, but I am not quite sure what you are leading up to.

4468. What I am leading up to is this: they should, one would normally expect, have to keep complete records of what they are doing, so why does it take several months after the vessel has been accepted into service for provisional prices to be agreed?—The issue here, of course, is not one of provisional prices. The issue here is one of the final certificate of cost which established that the Admiralty was entitled on a previously agreed provisional price to a refund of money; and I think your point is, really, why does it take so long to produce the accountant's certificate establishing what is the real price?

4469. That is my next question. I am coming to that in a moment. What I am first of all dealing with is the provisional agreement as to cost, because it is upon that provisional agreement as to cost that you pay the money, is it not?—Yes, but I am not sure whether I have a date for provisional prices here.

4470. It is anything up to eight months?—Is it, in fact, or is that another set of ships?

4471. I am looking at paragraph 15: "Provisional prices were not agreed until one to eight months after acceptance into service and actual costs were not available until 1956, i.e., about eighteen months to three years after acceptance"?—I, frankly, am not really surprised that it should take an appreciable period of even up to eight months to agree a provisional price, particularly with a big ship, which was the example to which Sir Frank Tribe has called attention in his Report. The account is a very complicated one to start with. It has got to be examined by accountants to cover the element of

establishment charges, and that kind of thing. It has got to be examined by a considerable number of technical departments covering the hull, the engines, the electrics, the gun work, and that kind of thing; and they have all got to go into it sufficiently carefully because on the settlement of the provisional price will clearly depend the extent to which the Admiralty is going to get value for its money. Admittedly, there is a safeguard that if the ship costs less than the provisional price we shall get something back, but inevitably we must be very careful to keep that provisional price at the lowest possible figure that we can establish. Allowing for this examination, allowing for the fact that a great deal of it involves discussion with the firms, I, frankly, am not at all surprised that it takes a longish time, in terms of some months, to get provisional prices agreed.

4472. But I should have thought that that was almost the time that would be taken to get the final agreement?—No.

4473. Why does the final agreement take up to three months?—When you come to establish the final price that is dependent on discussions with the Admiralty, and it is dependent on the firm producing an auditor's certificate on what has gone into the ship, in terms of money, and clearly before the auditors of the firm will give that certificate they will go through the whole of the firm's accounts with a fine tooth comb to make sure that all the labour and all the material and all the rest of the things have been charged; and the difficulty that the auditors inevitably come up against here is the mass of subcontracts. Now, a firm will undertake to build a ship but a tremendous amount of work that goes into that ship is in fact subcontracted. The firm will quite frequently not have got accounts from these subcontractors, at least, not accounts that it is prepared to certify for the purpose of an auditor's certificate, and it is that kind of thing, particularly when queries arise on those subcontractors' accounts or, particularly, when queries arise on Admiralty supplied items, in other words, items which we give to the firm and charge to the firm, that is the explanation of the eighteen months or so which elapsed between acceptance into service and the ultimate auditor's certificate on which we in some examples collected a recovery.

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4474. I see from paragraph 16 that there were delays by the Admiralty, because the Comptroller and Auditor General says in the penultimate sentence of paragraph 16: "Delays by the Admiralty in considering provisional prices would be avoided in future", and it seems that there were delays in the past?—Yes, I think that is perfectly clear. There were delays, at any rate in some of these examples, in the Admiralty, but that was almost certainly due to pressure of work in the Department at the particular time.

4475. That pressure has now been released a bit?—It has eased off a bit, yes.

Colonel Crosthwaite-Eyre.

4476. Would it be right to say that when you placed the order and the ship starts building, I think you said, the cost to start with is certainly the responsibility of the contractor. Then you would get some sort of intermediary—I think was the word you used—cost certificate, and then eventually a progress certificate. Could you give me any idea for these ships as to what would be the total amount of money that a contractor would have to lay out before he got a payment at all from the Admiralty?—It would depend a great deal on the size of the ship. The bigger the ship almost inevitable the greater the amount of money.

4477. Either one of the Daring class destroyers or the four aircraft carriers which are mentioned in this paragraph?—The Daring class destroyers cost a figure of £2½ million to £3 million each. There would have been something like 15 or 20 instalments on the ship, therefore the average instalments would have been about £180,000 and I would have said that that really represented a range between £120,000 and about £240,000; in other words, payment was not in even instalments.

4478. When you get a certificate of this nature how long does it take, roughly, for the Admiralty to pay it?—I do not know, Sir, I would have said the minimum is a fortnight and the maximum might be two months.

Sir Colin Thornton-Kemsley

4479. Sir John, I see from paragraph 16 that you regarded the final price as bearing a reasonable relationship to the maximum prices. Do you foresee that

future overpayments will be of the same order?—We would hope that the problem will not arise again, Sir, at any rate, not in relation to any appreciable number of ships. The ships dealt with in this particular section of the report are ships that were started either during the war or immediately afterwards. There are now only five ships that would justify that label: one is the *Hermes*, the aircraft carrier at Vickers; three of them are the Tiger class cruisers; and one is an aircraft carrier on which work has been suspended for some time and which is still suspended. Ships in the later programme will not be dealt with under this procedure unless we are forced into it for other reasons, but as is described in the latter part of the Comptroller and Auditor General's Report, paragraphs 18 and onwards, we would reckon to get prices fixed for these ships on the basis of firm prices before the ships are completed.

4480. I want to ask one or two more questions about these overpayments and the period in which they remained outstanding. Is it likely that the shipbuilding firms concerned, and I suppose most of them are in a fairly large way of business, concerns with considerable resources, are aware at a fairly early stage that they owe the Admiralty a good deal of money under the contract?—I would have said No, Sir. As I explained to your colleague, in the first place, in the majority of the examples to which the Comptroller and Auditor General has called attention, the magnitude of the overpayment was not very big. The one big example, the £750,000 one, was a very big ship and the firm would not become aware that they had been overpaid and were therefore liable to repay the Admiralty until they had got their auditor's certificate which said: "The total cost of this ship is something less than you have been paid." I suppose, to be realistic, one must credit that they are in touch with their auditors sufficiently for the auditors to say to them, let us say, about two-thirds through the process: "It looks as if the figure is coming out appreciably lower than you thought". So they would become increasingly aware as time goes on that they were indebted to us. But it is that consideration which has led us to mention, as is brought out in the latter part of paragraph 16, that we are now reckoning to get, in relation to any ships which

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are subject to this procedure, an interim certificate of final cost and thus make, at any rate, part of our recovery appreciably earlier than we otherwise could.

4481. Do you think there is any possibility, Sir John, that in some cases firms are wilfully delaying settlements?—No, Sir.

Mr. Stevens.

4482. Sir John, can you tell us the name of the vessel referred to in paragraph 15 where the very large overpayment was made?—It was the ———.

4483. Can you tell us what percentage relationship there is between the overpayment of £726,000 and the actual cost?—Not with certainty. If you want the evidence for certain I shall have to find it out, but my recollection is that the cost of the ship was something like £15 million, possibly a bit more, and therefore the £750,000 is 5 per cent.

Mr. Hoy.] A substantial sum.

Mr. Stevens.

4484. Coming back to this question of the interest-free overpayment for the moment, have you considered incorporating in the appropriate contracts a clause which would take interest on these overpayments into consideration?—We have not, Sir, because I would think this is the first example in which we have had a really large overpayment.

4485. As a matter of interest, I imagine that when the accountants give their certificates of cost from time to time they would take into account interest on capital employed? I imagine that is one of the factors that goes to make up the cost?—Well, no, it would work another way, Sir. You realise that these ships are ships in which a provisional estimate of cost has been established and an agreed rate of profit is to be applied to that. Now, when the auditors produce their certificate of cost they will produce it in the form of so much for material, so much for wages, so much for overheads, and they will then apply to that total the agreed percentage of profit. There are not intermediate profits, as it were, tucked away as part of the cost.

4486. You regard interest on capital employed as profit? It may well have a profit element?—It is the only element

in fixing the final price that takes account of interest on capital.

Mr. Thornton.

4487. Paragraphs 18 and 19, Ships ordered during the rearmament period. Sir John, how did the profit rates on these frigates referred to in paragraph 18 compare with those on the earlier settlement?—They are round about the same figure; if anything, they are rather higher.

4488. Rather higher?—Yes.

4489. Have refunds, in fact, been received under these settlements?—No, Sir, because the problem does not arise. I want to modify that answer a bit. Definitely no refunds have been received at the moment. There are a certain number of these ships which are being paid for under the same system as we have just been discussing and when we get ultimate certificates of cost there may be refunds to come to us. Others of the ships, and it is an increasing number now, are being settled on the basis of an agreed all-in price which, of course, will not be subject to any refund.

4490. From paragraph 19, Sir John, it appears that you told the Comptroller and Auditor General that you had to pay higher rates to obtain reasonable priority on the work. At what stage were the rates agreed?—The rates were agreed at a point quite late in the production of the ship. The reference to this higher priority is really in the form that all these warship builders have got contracts from the Admiralty and one of the considerations that we had in mind in the bargains that we did eventually make on this series of ships, was that if we did not pay a fair price, including a fair rate of profit to the shipbuilders in respect of the ships they were finishing, we should merely get very poor service in the way of manning our ships and, therefore, a slow rate of progress with the contracts which they still had. We quite definitely do not feel that the rates of profit which have emerged from the settlements on these ships undertaken in the rearmament period are in any way excessive.

4491. No, but they are higher than the earlier ones?—They are rather higher than the earlier ones.

4492. Presumably you would give them to understand that that was to enable you to get reasonable priority. It

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does not appear that the higher profit rates have provided much incentive in completion dates?—Except, Sir, that the Comptroller and Auditor General's Report does not claim that reasonable priority is the only consideration.

4493. No, it is one of them, I agree?—It is one of them.

Colonel Crosthwaite-Eyre.

4494. Sir John, is there any pressure that you can bring to bear on contractors to give you the reasonable priority you want rather than that they should, shall we say, build for commercial undertakings, or do you just have to bargain as best you can?—Frankly we have to bargain as best we can, because we are now in the position of being a minority customer to the majority of these firms. We are far more nuisance to them merely because our ships are very complicated and they are more liable to be altered in design as the construction progresses than any commercial ship is, and the fact that we get the ships built at a reasonable rate, and very well built, and in our opinion do not pay excessive prices for them, is a testimony to the persuasive qualities of the people who have to deal with shipbuilders from the Controller down to the Technical Departments and the contracts people.

4495. But if you can only get reasonable priority and the building of any particular vessel thereby takes longer than if you had absolute priority, do you not expect to pay more by way of profit margin than if it had been completed sooner?—That is exactly what the Comptroller and Auditor General has pointed out, that we are having to pay more.

4496. Could you tell the Committee how much more? What is the rate of profit you have allowed now?—It varies, of course, on these ships. Taking the whole of the settlements which we have achieved, and since the Comptroller and Auditor General built up his material we have now made ten more settlements than are quoted in paragraph 18, the profit rate ranges from — per cent. to — per cent.

4497. How would that compare to 1944-1948, which was apparently the cheapest period since the war that you have had?—I suppose the lowest rate of profit that was operating during that period was — per cent. It then went up

to — per cent. for one if not two years and the later settlements, such as those referred to by the Comptroller and Auditor General in paragraphs 14 and 15, came up to something of the order of — per cent.

4498. One final question, Sir John: as I understand from paragraph 19, the idea now is to cut down the time of ship-building, which you think will provide economies in the overall profit if not in the rate of profit. Have you any idea what that will be?—Do you mean what the effect of cutting down will be on the overall profit and rate of profit?

4499. The overall amount of profit rather than the rate?—No, I would be completely guessing.

4500. Could I put it more generally, then: have you any idea what the saving per vessel would be, percentagewise, by cutting down the time of construction?—No, I do not think I can give you that either. All I would assert, and assert it very strongly, is that there is an optimum rate at which you build ships. If you build them more quickly than that optimum rate then you will reduce your spread of overhead charges, but you will have high costs for getting material when it is expensive, or you will have high costs for overtime, but even more so, if you build them at less than optimum rate then you get all the troubles about delays in having things ready and waiting for them, you get all the difficulties about higher overheads, because the ship is occupying a berth, and so on; and it is to eliminate that kind of thing that we are trying to press for more rapid construction. It would be appreciable in the sense of certainly tens of thousands of pounds and possibly with a big ship hundreds of thousands of pounds, but I could not be more precise than that yet.

Mr. Hoy.

4501. Sir John, do you think any firms building for you feel that it is something of an honour to provide Her Majesty's Navy with ships and do not expect an increased profit?—All the warship builders feel it is an honour to build ships for the Navy, and they would very much resent it if the Admiralty bypassed them on an order for ships merely on the ground that perhaps their last ship had been a little expensive, or something of that kind. But they are,

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after all, in this particular business in order to earn a living.

4502. Yes?—And inevitably they must point out to us when it comes to settling the price for a ship the extent to which we demand more out of them than do other shipowners.

4503. I am thinking of this case where they say: "If you want to have it built in a reasonable time our rate of profit will have to be higher". Have you any shipbuilder who did not make that demand on you, or is this a general demand?—No, I would hate you to get the impression that any shipbuilders

have said to us: "If you want us to build your ship in three months less you will have to give us a higher profit". That is not so. What we have felt is that if we do not give them fair settlements, and we believe the settlements we have achieved are fair ones in respect of ships that were building a year or two years ago and are now completed, then inevitably they will let that reaction swing over to the other ships. They will say: "Well, if we are only going to get a very low profit out of this Admiralty work, well, we cannot give it quite so many men. We must put more men on the tanker or the liner" that they are constructing.

NAVY APPROPRIATION ACCOUNT, 1956-57 (Continued).

Secret Memorandum by the Admiralty relative to New Construction, 1956-57.

Mr. Thornton.

4504. Will Members please turn to the Secret Memorandum on New Construction? Sir John, will you please turn to pages 3 and 4 of this document? I notice from the last two columns of the estimated total cost revised to date that these figures are fairly uniformly considerably higher than the estimated cost in the previous year?—Yes, Sir.

4505. Could you tell us what these increases are due to?—By and large, the change between the two columns is not all that striking, although there are one or two exceptions to that general statement. But there were, of course, in between the two dates things like a wages increase which obviously had an appreciable effect on price, and with some ships there were changes in the programme, changes in what we wanted them to do, and those were bound to affect the cost.

4506. I have not worked them out, but I should think the increases are something in the neighbourhood of 5 or 7½ per cent.?—That I think is true, but the wages increase itself was about 6 or 7 per cent. Admittedly, that only applies to the wages payment in the year; I do not pretend it increases the whole cost.

4507. Did I understand you to say that these increases had taken place entirely during the financial year, 1956-57?—No, Sir, I must not give you that

impression. The two figures you are comparing are estimates made at two different periods of what the total bill is going to come to. You cannot take the difference between the one column and the other and identify it, with exactness, with something that happened in relation to that ship in that particular year. There are frequently generalised causes, such as the increase in wages, such as the strike which happened in the shipyard industry in the year, which automatically meant that overheads were still going on but no productive work was being done. But each individual ship stands on its own feet and a difficulty that may have been met in the construction of one ship will automatically mean that the builder says: "I am sorry, but my estimate of the cost"—which he gives to us every so often when we are discussing instalment payments with him—"must go up", and equally we in the Admiralty will sometimes have said: "We want to change this particular kind of equipment and we want you to build a different kind of equipment in to the ship". That will be another factor which increases the cost of the ship. It would not be possible without a very great deal of detailed work to try to analyse the exact cost which has led to any one of these price increases. At best they are only the estimates which our people in conjunction with the builders have been able to establish as the likely cost.

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4508. I take it that all these vessels are in various stages of construction? —That is so.

4509. So, therefore, to take the increase in wages, for example, which may be the biggest single factor, that should fall very unevenly, should it not? —Oh, decidedly, yes.

4510. But there seems to be a fairly uniform pattern of increase in the one column as compared with the other. So it looks to me as though the wages cannot be the main factor? There must be something other than that. Could you let us have a note about it, Sir John?—I will try to, but I think you must recognise that these are not precise calculations, they are assessments based

on what the firms can tell us and what our people think, and although it is quite right to say that the extent of wage increases granted in the last year has got relatively little effect on a ship which is nearly finished, it will have a much greater effect on a ship that has hardly been started. It is equally right to say that wages are not by any means the only thing, and that changes such as changes in design or even things like the dockyard strike will have exactly the same effect on every ship of the class. I will let you have a note, if you want it.*

Mr. Thornton.] Perhaps you will let us have a note on them.

*Information supplied: not printed.

TUESDAY, 20TH MAY, 1958.

Members present :

Sir George Benson, in the Chair.

Mr. Arbuthnot.
Colonel Crosthwaite-Eyre.
Mr. Hoy.
Mr. Peyton.
Mr. Ramsden.

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

Sir FRANK TRIBE, K.C.B., K.B.E., and Mr. J. MACPHERSON called in and examined.

CIVIL APPROPRIATION ACCOUNTS, 1956-57 (CLASSES VI-X).

CLASS IX.

VOTE 7.

ATOMIC ENERGY.

Mr. F. C. HOW, C.B., Secretary, Atomic Energy Office ; Sir EDWIN PLOWDEN, K.C.B., K.B.E., Chairman, and Sir DONALD PERROTT, K.B.E., Member for Finance and Administration, Atomic Energy Authority, called in and examined.

Chairman.

4513. Will Members turn to the Civil Appropriation Accounts, Classes VI-X, to pages 221-225, the Account of the Atomic Energy Office? Mr. How, your position as Accounting Officer is rather an anomalous one?—(Mr. How.) Yes, Sir.

4514. How is that working out?—I think it is working very well, Sir. It is anomalous ; it depends on being worked with goodwill and common sense on both sides. I think it is working quite well.

4515. Do you agree, Sir Edwin?—(Sir Edwin Plowden.) Yes, certainly.

4516. On page 222, Sub-head C sets out Loans to the Atomic Energy Authority. Are these loans for any fixed period and at any fixed rate of interest?—(Mr. How.) Yes, Sir, both. They are mostly loans to South African mining companies for a period of ten years from the date of full production at the mine. The fixed rate of interest is 4 per cent. Interest is capitalised from the date of the advance until the date of full production and then the advance is paid off by 40 equal quarterly instalments, a sort of "building society" arrangement, at 4 per cent. interest.—(Sir Frank Tribe.) So far as Sub-head C is concerned, these are loans to the Atomic Energy Authority.—(Mr. How.) For them to lend on.

4517. They lend on, yes. These are loans to you. Do you pass on to the mines the terms on which you get the money or is there any differential rate?—No, Sir.

4518. How do you borrow?—I do not borrow. This is merely voted money which goes to the Authority for them to lend to the borrowers.

4519. This is loans to the Atomic Energy Authority, not "by"?—Yes, it is an odd piece of wording certainly.

4520. Sir Frank, can you throw any light on this?—(Sir Frank Tribe.) As I understand it, Sir, the Office of the Lord President—as it was in the year of account, it is now the Office of the Prime Minister and First Lord of the Treasury for Atomic Energy—makes these loans to the Atomic Energy Authority, as the Account says, and the Authority in turn lend this money to the other bodies of which details have been supplied in the Statement to the Committee.—(Mr. How.) I think the wording is odd. It should, I think, be perhaps "Loans by the Atomic Energy Authority."

4521. I know, but the Atomic Energy Authority has to get the money from somewhere?—They get the money from the Vote.

4522. It is voted money?—Yes, it is simply part of the Vote and then it comes

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[Continued.]

back in due course as Exchequer Extra Receipts.

4523. I see. It is not really that you borrow, then?—No.

4524. In that case then the Appropriation Account is wrong?—That wording is wrong.

4525. The wording is wrong. It certainly looks as if this was a loan to the Atomic Energy Authority for specific purposes?—Yes, it does, Sir. I think in future years we shall have to consider that wording.

4526. This money is voted money and the Atomic Energy Authority do not pay any interest on it at all?—No, Sir.

4527. Then the interest that they receive from the various borrowers is credited as receipts?—Both the capital and the interest are credited as Exchequer Extra Receipts. It comes out of my Vote and then when the money comes back it goes straight to Exchequer Extra Receipts.

4528. Mr. Macpherson, who is responsible for the wording of the Appropriation Accounts?—(Mr. Macpherson.) The Treasury, but I am not sure that I agree that the wording is wrong. It is in fact correct to say that these are loans on the Vote to the Atomic Energy Authority.

4529. Do you charge the Atomic Energy Authority interest on them?—No, because it is a straight relationship. The loans are to the Atomic Energy Authority and from the Authority to the various mining companies, but the receipts from the mining companies do not go to the Authority, they come back and are paid in as Exchequer Extra Receipts.

4530. In effect, then, it is you who lend the money to the mining companies and the Atomic Energy Authority are your agents in the matter? That is what the facts are?—In effect. The Vote provision, as it states, makes these loans to the Atomic Energy Authority from the Vote. The Atomic Energy Authority use these loans to make further loans to the uranium producing companies.—(Sir Frank Tribe.) Might I suggest that the issue would be clarified if the witness could be asked whether the Authority have to pay the fixed interest and accrued capital payments even if they, the

Authority, have failed to secure payments from those to whom they made the loans? (Mr. How.) No, Sir.

4531. They do not?—I should think not. I should think the question is academic in view of the status of the borrowers. I do not think anybody has really considered default. The sum total of this, taking out the intermediate stages, is that these are loans by the United Kingdom Government—it used to be direct loans in the Ministry of Supply days—through certain channels to the uranium producers who in due course repay and the money comes to Exchequer Extra Receipts. I am afraid no-one has considered in detail how one would deal accountswise with a default, because we have no reason to believe that there would ever be one.

4532. Yes, but on the other hand it is desirable to have the Appropriation Accounts so worded that they are not misleading as to the actual machinery of the financial transaction?—I respectfully agree, but I gather that Mr. Macpherson thinks the existing wording can be defended. I should have thought it could be improved. Could we look at it in relation to 1958?

4533. If you would; it is rather misleading?—It is. The substance of the transaction is clear enough.

4534. The substance of the transaction is now clear and, as you say, probably impeccable, but I cannot say that the wording is?—May we look at it?

4535. Perhaps you will take that up with the Treasury?—We will, yes.

4536. The Note to Appendix 1 on page 224 deals with items of capital projects costing over £100,000. What is the position there? What is the limit of your delegated authority?—On capital projects?

4537. Yes?—The arrangement is that the Authority have power to proceed without specific reference to the Treasury on projects of a technical nature costing less than £100,000 unless there are special controversial features which make it desirable that Treasury approval or Treasury concurrence should be sought.

4538. And if they are over £100,000?—If they are over £100,000, then they go for Treasury approval anyhow.

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Sir EDWIN PLOWDEN, K.C.B., K.B.E., and Sir DONALD PERROTT, K.B.E.

4539. So your Authority has about three times the authority of other Government Departments, so far as expenditure on new works is concerned? The limit is about £30,000?—(Mr. *Macpherson*.) For the Service Departments and the Ministry of Works it is £30,000 but for roads, for example, it is £250,000 on major works. It is a measure, I think, of the Treasury retaining some supervision of the sort of projects that are being carried out, depending on the Department. On roads, for example, £250,000, I understand, represents something less than a mile of highway; and the Authority's projects are in the main very large projects.

4540. You give the Comptroller and Auditor General, so far as the Services are concerned, a list of the items of over £30,000?—Under the new procedure, Sir, agreed in the Treasury Minute, the Service Departments will provide the Comptroller and Auditor General with a list of items costing more than £30,000 which is the Treasury delegation at the beginning of the financial year.

4541. What about these items of the Atomic Energy Authority? Is the Comptroller and Auditor General going to have any information about them?—Subject to security, Sir, I see no reason why the Comptroller and Auditor General should not have a list on the same basis as for the Service Departments related as in the case of the Service Department to the figure which is the Treasury delegated authority, £100,000.

4542. Sir Frank, what do you say?—(Sir *Frank Tribe*.) The point arises, of course, on the Treasury Minute on last year's Public Accounts Committee's Report when the Treasury made these arrangements as far as the Service Departments were concerned, and I gather you wondered whether similar arrangements should not be made for the Civil Departments; and I gather from what Mr. *Macpherson* says that they should. The question is, and the Committee has had it several times before them this year—should I have a means of watching and reporting, if necessary, to the Committee on works services which are put in hand during the course of the year on grounds of urgency in the public interest, but have not been included in

the Estimates for the year. The Committee have always taken an interest in that figure and by getting these details I should be able to report, if necessary, to the Committee an analysis of the figures which are summarised in the note at the foot of page 224. (Mr. *Macpherson*.) As I say, Sir, this is being done for the Service Departments and, I think I am right in saying, for the Ministry of Supply. It is not something which we have so far discussed with the Atomic Energy Office but we are very willing to do so. The only factor that may be a factor different from the others is the security one.

4543. Will the Treasury consider that with the Atomic Energy Authority and with the Comptroller and Auditor General?—Certainly. (Mr. *How*.) May I say, Sir, I do not think vis-à-vis the Comptroller and Auditor General there is any security point here at all. He has access to all this, and indeed you have before you at a later stage all these works services statements. There is really no security point on it. On the general point, it seems to me that what has been done here is broadly right by analogy with what I understand is being done by the Service Departments. It is true that with them there is a different limit, but then there is a different limit of delegation with the Atomic Energy Authority, for the very good reason, I think, that although the Atomic Energy Authority lives on voted moneys Parliament did intend it to have a greater degree of commercial discretion; and moreover these purely technical buildings are so specialised and so technical that they are not likely to be the sort of thing where the general expertise in the Treasury helps very much, because there are no analogies. If you are building an ordinary office building then it may be that it is useful to compare experience with other people who are doing it, but if you are building some highly technical scientific building there is nothing with which to compare it. Therefore, I would have thought that the £100,000 limit is perfectly reasonable, although it is higher than others.

4544. I am not cavilling at the figure, I am merely asking that the Comptroller and Auditor General should be treated in respect of these buildings as he is in respect of the Service and Civil Departments?—But he is, Sir, he has access

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[Continued.]

to everything and nobody suggests that anything should be withheld from the Comptroller and Auditor General. (Sir *Frank Tribe*.) There has been no suggestion of that at all. This is simply a suggestion of sending a formal list so that one can see what is included in the original Estimate and can see how far new works have been put in hand outside the list.

4545. You are quite prepared that the Comptroller and Auditor General should have that list?—(Mr. *How*.) Certainly, Sir. I should like the Authority just to confirm that they see no difficulty. (Sir *Donald Perrott*.) I see no difficulty about this. I think it is just providing the list which is given to the Treasury. (Mr. *How*.) It is in fact a duplicate of the list which the Treasury have at Estimates time.

Mr. *Ramsden*.

4546. On page 223, Mr. How, I see: "Other receipts (excluding credits to Subhead B.2)", £4.3 million, roughly, realised. What were they?—(Sir *Donald Perrott*.) It will include the canteen receipts, and things like that. (Mr. *How*.) I have it now, Sir. From sales of various things like graphite, uranium, fuel elements, electricity, isotopes, and so on; receipts in connection with school fees; £150,000 from miscellaneous receipts; £1 million from canteens, hostels and housing; £85,000 from the Medical Research Council for rental and services at their place at Harwell; £150,000, assisted travel; £453,000 from stores on repayment and £1 million from miscellaneous, which includes super-annuation deductions, surplus stores, and so forth.

4547. The main one is receipts from canteens and hostels?—Yes, it is the largest single item as listed here.

4548. You recover some of the cost from your employees for whom you find housing?—Oh, yes.

4549. At what sort of rate, subsidised rate or commercial rate?—In the case of hostels, you will see there is a separate statement in Appendix 3. In the case of canteens, I think they are intended as far as possible to be self-supporting. On housing the position is that when the Authority took over in 1954 they lost the protection of the Rent Acts because

they ceased to be a Government Department; or, rather, the tenants gained the protection of the Rent Restriction Acts, and now the Authority, I believe, are engaged in considering what their rental policy ought to be in the changed circumstances.

4550. So you will get more receipts, presumably?—I should think so, in future.

4551. Page 223, Note 6. What is this payment of £30,000?—This is one of the notes under the heading "The Atomic Energy Authority state that", so perhaps it would be better if I ask Sir *Donald Perrott* to deal with it. (Sir *Donald Perrott*.) At the beginning of 1955 we wanted a particular material.

* * * * *

We asked a particular company if they would increase their production and they agreed to do so. It is involved with what one might call capital assistance. We provided that capital assistance on the understanding that we took certain supplies. When this was well advanced the scientists came to the conclusion that it might be that we could get this another way, and at that point of time we agreed with the company that although we were suspending our needs the probability is that we might wish to come back. So we allowed them to complete their plant with certain conditions attached to it, including a profit or a share of the proceeds if the amount of supplies was greater than we expected, and this proceeded on this basis. As a matter of fact, it looks as if we will want to take up our option to use this particular plant and the proceeds from it.

4552. So it will not be wasted?—No.

4553. Will you get any of it back? You will, presumably?—In the sense that, as I say, the demand slid away and has come back now. This is really back on the original plan and the original concept that we need the supplies.

4554. But when you advance £30,000 to a company like that do you get it back in the form of reduced price for the product they are supplying?—Oh, yes.

4555. Now, would you turn to page 224? I do not know whether this is to you, Mr. How, or to Sir Donald.

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[Continued.]

What went wrong with the geothermal scheme?—(Mr. How.) Again, I think this is one of the things which is meant for Sir Donald. I do not mind who answers. (Sir Donald Perrott.) What really happened was that at the point of time we were considering with New Zealand using the heat from the springs in the North Island, there was a generally recognised shortage of heavy water production in the world. There were two main sources, one was the United States which appeared to have a very large programme and was not at that point of time a seller, and the other one was Norway. The Norway plant was quite small, and if the Americans were prepared to sell at all it was only on the basis that it was for civil purposes. It was desirable that we should do something about supplies and this scheme was promoted in New Zealand to use the thermal heat. It was to be a combined electricity scheme for the production of electricity and heavy water and the proportions were two-thirds New Zealand and one-third ourselves. We employed some con-

sulting engineers to prepare a scheme and we started on that but then very early on it became apparent to us that the costs as disclosed by the original scheme were going to be too high. We were contemplating that we would be able to produce at something of the order of £45,000 a ton but in actual fact the new scheme came out at a very much higher figure. Simultaneously with our dissatisfaction with the higher figure it would have come out at if we had gone on with it, the prospect of getting American supplies for civil purposes came along to a greater extent and our need for heavy water for our weapons diminished. This is another ebb and flow of the curve. So we closed it down as rapidly as we could. Our relations with New Zealand are quite good on this because they were quite prepared to use the full scheme for electricity themselves, so instead of taking two-thirds for the scheme themselves they used the whole of it. I suppose, as in all pioneering organisations, we might run into trouble on a thing like this. We certainly got out of it very quickly.

ATOMIC ENERGY AUTHORITY BALANCE SHEET AS AT
31ST MARCH, 1957.

Chairman.

4556. Would Members now turn to the Atomic Energy Balance Sheet, page 7, paragraphs 1-3 of the Comptroller and Auditor General's Report, Audit? I see that the last sentence of paragraph 1 says: "The Operating Account is withheld from publication in the interests of national security". Is there any particular reason why it should not be produced to the Public Accounts Committee?—(Mr. How.) The reason it is withheld from publication is that it would reveal what is happening in the netted Subhead. Ministers dislike this netted Subhead very much, partly because, no doubt, the Public Accounts Committee dislike it. It has been considered from time to time and Ministers have decided as a matter of policy that we shall have to continue this device of the netted Subhead. We have not previously been asked to disclose it to the Public Accounts Committee. If the Committee wish to press that I think we should probably have to ask if you will be good enough to give us an opportunity of putting it to Ministers.

4557. Do you see it, Sir Frank?—(Sir Frank Tribe.) Oh, yes, Sir. Besides being Auditor of the Appropriation Accounts I am also Auditor of the Authority and I see everything I want to, with certain exceptions, which I have mentioned in the Report. But the Operating Account is certainly open to my inspection.

4558. Would you say it is something the Public Accounts Committee could and ought to see?—That is really a difficult question to put to me, Sir, I think. The Public Accounts Committee does see very secret documents, of course, like the Exchange Equalisation Account and if the Committee thought it was appropriate that they should see it, far be it from me to say otherwise. It does, of course, involve the revelation of, broadly speaking, the expenditure by the Authority on the defence side of their work, and it is obviously very highly secret.

4559. So as you say is the Exchange Equalisation Account?—Yes, I think the Treasury would say the latter is highly secret, too.

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[Continued.]

4560. Mr. Macpherson, do you see any reason why the Public Accounts Committee should not see this Account if it so desires?—(Mr. Macpherson.) I agree with Sir Frank in saying it is a difficult question.

4561. You do not expect us to ask easy questions all the time?—This is something where, if the Committee feel they ought to see it, we should have to get a policy decision on it.

4562. Perhaps you might consult with Sir Frank. The Committee does not necessarily wish to see things; the Committee sees more than it wants to, I think, as a whole; but I do not think the Committee regards with any degree of favour the policy that there are secret accounts to which this Committee has not access?—Yes.

4563. I am not making a particularly strong point on it, I have not discussed the question, I am merely asking if this Operating Account should not be open to the Public Accounts Committee if the Comptroller and Auditor General considers it should be on any given occasion?—The Comptroller and Auditor General, as he has said, does see the whole set of accounts.

4564. At the moment, no matter what is in it, he cannot report the matter to the Public Accounts Committee?—May we look at this, Sir?

Chairman.] Yes. I am not asking for any decision at the moment. I just draw attention to the fact that this is a secret account that the Public Accounts Committee does not see.

Mr. West.

4565. Could we ask whether it is expressly directed that it is not disclosed to the Public Accounts Committee?—(Mr. How.) I am not sure, Sir, that Ministers have ever directed their minds to that precise point, but there was a great deal of discussion about the question of publication in connection with the net Subhead. I would not like to say whether Ministers were ever asked to say whether this should or should not be shown to the Public Accounts Committee. All I am saying is that if there were any suggestion that it should be, I would like respectfully to suggest that there should be an opportunity to think about it and perhaps to consult Ministers. It is not a question to which I should like to give an answer.

4566. Oh, certainly. All I am saying is, if the Comptroller and Auditor General feels that this account ought to be brought before the Public Accounts Committee at any time he should have the right to do so. That is all I am asking for, and if there were Ministerial decisions strongly adverse to that I doubt very much whether the Committee would press the point; but if not, then I think it is part and parcel of the general discipline of the whole machinery of Government that it should, if necessary, come before the Public Accounts Committee?—May we look at it?

Chairman.] Please do.

Mr. Hoy.] I do not want to press any further, but in view of what you said last I think the Public Accounts Committee would reserve its own rights in the matter even if Ministers decided the Public Accounts Committee should not be given access to a particular account.

Chairman.] We never see the Secret Service Account.

Mr. Hoy.] I do not think we should widen the list because we might go off on a tack.

Chairman.] I am not sure how far that is a self-denying ordinance or not.

Mr. Hoy.] All I am saying is that I think we should enter a caveat which would have the right either to show or withhold accounts from the Public Accounts Committee and I should think we should safeguard our own position and probably the right of Parliament because this Committee is appointed by Parliament.

Chairman.

4569. As a matter of fact, it is for Parliament ultimately to decide. It would be for Parliament if the matter were carried to a conclusion. I am merely raising the matter now. For instance, we never have asked to see the details of the Secret Service Account and we may never ask to see this, I do not know. But the Committee does not look with favour on secret accounts though it may not require to see them, as in the case of the Secret Service? (Sir Frank Tribe.) I should, of course, point out that this is not an account of a Government Department, this is the account of an authority.

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[Continued.]

Mr. Hoy.

4570. Yes, but so are *these* the accounts of the Atomic Energy Authority?—Yes, these are before Parliament.

Mr. Hoy.] And we are looking at them. However, I am not pressing for an immediate answer and I shall be quite content, and I am quite sure the Committee will be content, to take the guidance of the Comptroller and Auditor General on this matter.

Mr. Thornton.

4571. Might I just ask, did I understand you, Mr. How, to say that it was the Ministers' decision that this Operating Account should be withheld?—(Mr. How.) It was a decision of Ministers. The point was that when the Atomic Energy project was in the Ministry of Supply there were no commercial accounts; it was an ordinary Government Department and the work on weapons was concealed in the Ministry of Supply's Estimates and Appropriation Accounts in very large figures indeed. When the Authority became a separate entity that cloak disappeared, and if we had not adopted some such device as that of the net Subhead the whole thing would have been completely naked. Therefore, the device of this net Subhead was adopted. Then at a later stage when we came to the question of the Authority's commercial accounts for the first period of its operation it was realised that if you published the Operating Account of the Authority it would make nonsense of the attempt to conceal information in the Appropriation Accounts and Estimates through the net Subhead; and it was agreed by Ministers collectively that it should be withheld from publication. I am distinguishing between publication and confidential showing to the Public Accounts Committee; but there was a definite policy decision that it should be withheld from publication, and it was reviewed again about two or three years later when some of us thought it might be possible to release it. It was reviewed very carefully and the decision was that it was not possible, and as far as I know there has been no change in circumstances since. That is on publication, not on showing it to the Public Accounts Committee.

4572. It was reviewed by whom?—By Ministers collectively.

Chairman.] On paragraph 4 of the Comptroller and Auditor General's Report I have no questions.

Sir Colin Thornton-Kemsley.

4573. I suppose I ask Mr. How this question: in paragraph 4 of the Comptroller and Auditor General's Report we are told that the process of investigation and analysis is continuing. How much longer do you think it will take to complete this process?—May I refer this to Sir Donald? The question really is for him. (Sir Donald Perrott.) I have not had great experience of converting a Government Department to an authority from the point of view of producing commercial accounts. I took the view of a notable senior partner in a firm in the City before we had even started, and he said it would take five years and we would be very lucky to do it. Of course, the amounts turning out are very small in relation to the total value of the assets now. You are comparing this figure with something of the order of £150 million. What really happens more than anything else in this is that what one finds is that something that was built a very long time ago either was in or has been in twice because of the whole of the set of circumstances. We were building what you might call a plant register or capital list from scratch.

4574. Do you expect any sizeable adjustments to emerge from this investigation?—Not more than of the order of £200,000 or £300,000. There could well be a building which is being treated as part of a whole installation and was also separately in in some of the records, and these records are very difficult to find. I do not think there is anything very major about this. You are talking of establishments costing £15 million or £20 million.

4575. Yes. I wanted to ask a question which was related to those which really arose from paragraph 4 of the Foreword on the audit point. Paragraph 4 of the Foreword talks about a new procedure for maintaining inventories and I wanted to ask what the revised procedure was?—It was mentioned last year and the problem is really, first, and if you remember there are two things, contaminated items which went into a rig, and we have produced a formula on that. Then there are losses of what one might call the attractive items which are of value in that regard, by which we mean

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[Continued.]

stop watches or slide rules, or whatever it may be. If I may say so, we have devised an answer on this one and we asked Sir Frank if he thought this was the answer; and if I might ask him, we thought we had found a reasonable solution. (Sir *Frank Tribe*.) Yes, it is a difficult problem, but I thought on the whole the Authority had reached a reasonable solution. It is complicated, but if you like I can describe it.

4576. We can go into the technical details if you like, but if it is complicated I do not think the Committee need trouble with it. The point is that the Comptroller and Auditor General is satisfied you have got a solution?—(Sir *Donald Perrott*.) Yes.

4577. Paragraphs 5 and 6. Mr. How, could you explain in a little more detail the method used for calculating the interest charged up to April, 1958?—(Mr. *How*.) Again, I am afraid that is for Sir Donald.

4578. We will address the questions to the table and whoever is most suitable can answer them?—(Sir *Donald Perrott*.) Are you making a point, Sir, of the rate of interest or the problem of interest on work in progress?

4579. We come on to work in progress later. You refer in paragraph 5 to a revised method and it is a notional interest. You have revised your method of calculating interest?—The point here really was that we acquired assets during a year and on the basis of our capital assets we would charge interest in relation to the interest chargeable in that year, and that will be a sort of continuing fixed investment. I think that is probably the point you are after.

4580. What difference would it make to the £13 million if you had used the revised method last year? Would it have affected it much?—I do not think so. I do not think I could give an answer off the cuff as to the difference. (Sir *Frank Tribe*.) Very approximately, it would be £11 million.

4581. It would have been £11 million instead of £13 million?—(Sir *Donald Perrott*.) That is so.

Chairman: It is a pretty large revision then.

Mr. *West*.

4582. Who proposed the change in the method of computing the interest charge? Was it the Treasury or was it the Authority?—I think my recollec-

tion is this, that we had a whole series of accounting conventions which we had to develop of which this was one—the work in progress was another—and in developing what was the cost for our military purposes which was the main purpose of this in any particular year I think this evolved as a procedure which we would follow as the acceptable development of the convention in the years ahead. I do not think it arose from, as far as I can remember, anything specific, somebody saying: "Well, we ought to do it that way".

4583. But someone must have initiated the change?—If I may go back in explanation of this, we are producing material which has a very long production life of two years or so. We were starting a series of commercial accounts. We had to devise an accounting convention for these various activities and we have reached a stage when we have solved these accounting difficulties to the satisfaction of the Treasury and the Comptroller and Auditor General and we are implementing them from various dates. This is one of those points.

4584. I still do not understand, but I will leave it?—(Sir *Edwin Plowden*.) If I may intervene, I think the point Sir Donald is making is that in the course of very long discussions with the Treasury and with the staff of the Comptroller and Auditor General we have evolved a series of methods of dealing with all these different problems which arose from turning from a Government Department into a commercial concern. I think what he means to say is that at any one moment I do not think you are able to tell, if you have very long discussions, who put forward a particular point.

4585. Can you help us, Mr. Macpherson, on that?—(Mr. *Macpherson*.) No. As Sir Edwin has said there were a number of points to be cleared up of which the Authority, the Treasury and the Comptroller and Auditor General were conscious and they were approached on that basis. On this particular one I think the proposal came from the Authority in the first instance, but I am not sure. (Sir *Donald Perrott*.) That is quite possible.

Sir *Colin Thornton-Kemsley*.

4586. Would I be right in saying that the present rate of calculating this

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[Continued.]

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notional interest is to take the average rate for the whole year in which the capital is notionally borrowed?—Yes. We take one average rate for fixed capital, one average rate for working capital. The general assumption is that our expenditure under both heads for the increase in our assets is proportional month by month.

4587. Is most of your capital regarded as being on a long-term basis?—Yes.

4588. How are you going to calculate the interest on short term money?—The working capital?

4589. Yes?—We take a different rate. I can give you the rates. We take the rate which has been given to us by the Treasury. We take the Government interest rates.

4590. At the date on which the money is borrowed or notionally borrowed?—We take the fixed capital interest rates the Treasury issue from time to time as the rates prevailing. From that we take a weighted average on the date of investment until they notify us further, and we take a weighted average on the assumption that the total expenditure is proportionately incurred over the year, and we take the same method on the working capital as well.

4591. So, the basis is the same whether it is for short term capital, working capital or for long term capital?—The interest rates are different.

Mr. West.

4592. One is 5.13 per cent. and the other 5.44 per cent.?—Yes.

Chairman.

4593. Paragraphs 7 and 8. I am afraid there is another complicated point arising here. Apparently the net cost of operation is overstated owing to the fact that you exclude interest on capital from the valuation of work in progress. To what extent is there an overstatement of the net cost of operations?—May I jump a fence with you here, Sir? This point was raised last year and we said we had these problems in consultation with the Treasury. We have discussed them and we have settled them and, if I may say so, what we have really arrived at was this conclusion, and this will mean that in subsequent accounts we will deal with work in progress to include an interest figure. What I am leading up to is, what interest figure? From the Treasury's point of view they wish to

ensure that we charge the military the full cost and our second consideration is to sell our non-military products for as much as we can get. Now we calculate the military price on the through-put method, that is, the total amount of effort we put in during the year, all of which is not delivered to the Services because there is stuff in the pipeline. That work in progress has incurred an interest liability, and in so far as it is a military liability and we are going to get that money from the Services, there is no reason why it should not be reflected in the balance sheet value of work in progress at the accounting date. Equally that is true of what we are putting through civilwise, with one reservation, that we have agreed and it has been accepted that if the market is falling we never put it in at a higher value on the civil side on the 31st March than its realisable value. If I may then follow that up, in the next accounts at the 31st March, 1957-58, there will be an addition to work in progress to include interest, and that will reflect itself in the corresponding adjustment of the opening balances.

4594. What does work in progress comprise?—It is practically wholly uranium in a place like Capenhurst or in piles or in rigs. All the uranium we have, virtually, we treat as work in progress. It is being processed, it is being irradiated, as the case may be, and at some point in time we take it out and process it further. So, this represents all the uranium in Calder Hall, and that sort of thing.

4595. And your isotopes?—Yes, that is a very small part.

4596. So, work in progress comprises practically everything you do?—Yes. (Mr. How.) It is all work and it is all in progress. (Sir Frank Tribe.) The answer to your original question, I think, is that the net cost of operations appears to be overstated in these Accounts by about £3 million as compared with what it will be in future Accounts.

4597. Do you accept that?—(Sir Donald Perrott.) Oh, yes, this will be reflecting itself in the future because we shall take this back now into an adjustment in later years.

Mr. Stevens.

4598. Did I hear aright that the interest addition, had interest been taken into account on the 31st March, would

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[Continued.]

have been about £3 million?—I should think that probably is so. That does not mean that the Ministry of Supply has been undercharged.

4599. No, but the interest component, if there was an interest component in the work in progress, would be about £3 million?—Yes, I should think so. I cannot give you a figure, but it is quite substantial.

4600. Sir Edwin, you signed this balance sheet as Chairman of the Authority and in that way you take responsibility for the approximate if not the precise accuracy of the figures. There has been a very substantial change in policy here amounting to £3 million in respect of one of the assets. Could you tell us what induced you to change your mind? What there would have been at 31st March, 1957, is now not going to appear?—(Sir Edwin Plowden.) I think all I can say, as I was really trying to explain in answer to another question, is that we are still in a process of evolution. The methods of accounting of a Government Department are very different from the methods of accounting of a commercial concern and I think it has always been recognised that it would take us a number of years to change over from one to another; and this is one of the cases where we are much nearer the end of our goal in getting over to commercial accounting.

4601. As a matter of fact, is the difference here between Government practice and commercial practice very great? The interest is, in fact, charged in the Operating Account, is it not?—Yes, but there is no operating account for a Government Department.

4602. Of course, we have not seen the Operating Account?—(Sir Donald Perrott.) I think, if I might say so, if you were thinking what made us change our mind, and putting on one side this question of the convenience, we were always a little conscious that the value of uranium was going to be downward rather than upwards, and if you like to treat it so, I think a commercial concern would have liked to have kept the work in progress low, and certainly it is not my experience in the commercial world that you would put interest on the work in progress.

4603. Even if interest was charged in the Operating Account?—But they would not charge interest in the Operating Account.

4604. But here you do, do you not?—It is imposed on us. The form of the accounts is not set by the Authority, it is set by the Treasury.

4605. The Comptroller and Auditor General refers at the end of paragraph 8 to the question of the policy of including an interest charge, "subject to such valuation of the work in progress not being in excess of realisable value". Sir Donald, could you say what is meant by that?—I think I come back to my point here, as you probably are aware, Sir, that the uranium position in the world has markedly changed since last summer and one is expecting that prices will fall. In so far as we are dealing with a military commitment here where a military Department is going to pay the cost, it is no problem. But in so far as we are selling stuff in competition with the rest of the world, we would not wish to put it in our balance sheet if there is a marked fall, and it is a protection, if you like, against future trends, if there is a marked fall in uranium, for the product we have still got in our works.

4606. I appreciate that, but surely the bulk of your supplies will be to military customers, will they not?—Well, at the moment it is very nearly wholly so, but in the years ahead—

4607. Let us take it step by step; and to that extent there could be no question of this work in progress realising less than this agreed price, surely?—Probably not in the next year or so. I would not like to predict further ahead than that.

4608. You are taking cover here against possibilities in future supplies to outside customers?—It is a reservation in principle rather than practice. (Sir Frank Tribe.) To put it in accountancy terms, I should have described this as cost or market rate, whichever is the lower.

4609. I appreciate that, Sir Frank, but it did occur to me, as Sir Donald has just agreed, that as nearly the whole of the cost is with a Government Department the question of selling price should not be lower than the cost price, and I should think he is taking cover against future possibilities?—(Mr. Macpherson.) The distinction is between military and civil. As you say, it is against military products where the interest will be loaded. The interest will be treated as cost on the military side.



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[Continued.]

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Chairman.

4610. Now, paragraphs 9-11, Protected Persons Superannuation Scheme. How many industrial Civil Servants were transferred to the Authority?—(Sir Donald Perrott.) The actual number on the 1st August, 1954, was just over 10,000.

4611. Where are they employed, mainly?—Springfields, Capenhurst, Windscale, Harwell and Aldermaston.

4612. How many of these are unestablished?—At the point of time that we took over from the Ministry of Supply I should think about 2,750 were established.

4613. Approximately three-quarters were unestablished, then?—That is right. This was the same quota that runs round the Government generally. It was the same proportion as in the Ministry of Supply, I think.

4614. Is this superannuation scheme you have got a contributory scheme?—The Protected Persons Superannuation Scheme, no. These people retain their rights and for those people who were Civil Servants we have a scheme to embrace these 2,750 and people who had a right to fill their places if a vacancy arose.

4615. There is no contributory scheme at all, then?—We are negotiating one with the people who came in after the 1st August, 1954, at this moment. That will be contributory.

4616. In paragraph 10, in the last line but one, the Comptroller and Auditor General suggests that no provision has been made in respect of the liabilities for the unestablished employees. In Note 4 to the Balance Sheet you say: "No separate provision has been made". Is there any implication in the word "separate"?—I think I am right on this, that this relates to people who were unestablished at the date they came to the Authority and they have got certain rights or obligations. It is almost impossible to assess them. We have taken the view of the Government Actuary and there were three things we could do: we could note the point as we have done, we could take a token entry of a few pounds or we could make a rather wild guess as to what the answer might be. You see, these people are not superannuable, they have got rights in the sense of gratuities, and things of that kind. (Sir Frank Tribe.) In reply to

your question, I can see no point really in the word "separate" which is in the last Note on page 6, the Note to the Balance Sheet. As far as I can ascertain, no provision has been made in the Account at all.

4617. That seems to bear out roughly what Sir Donald said?—I do not see why the word "separate" was included. (Sir Donald Perrott.) I am quite prepared to accept that.

Mr. Stevens.] Surely, it is in fact misleading, is it not, because it indicates that the omnibus provision includes established Civil Servants.

Chairman.

4618. It does imply that?—I am quite willing to say the word is unnecessary.

Mr. Hoy.

4619. On these paragraphs, this difficulty arises in assessing the liability in what you call these straightforward seven year cases. Why have you made no provision for those cases?—I am really not an actuarial expert on this, but I think the problem is this, that they are not pensionable people, they get a gratuity under certain circumstances after so many years and the liability does not arise until this number of years have elapsed. There is a good deal of movement. From our point of view it is more in the nature of a current expenditure when it arises; it is not very large. I think you could say that the Government Actuary would make a shot at it if you really pressed him to do so, but it would be very much a shot and he would wonder if it was really worth while, and that was our own reaction. We thought it was better to draw attention to it rather than make a shot at some figure. But it is the sort of thing on which there are two points of view. We felt that if we were doing the wrong thing we could easily do it the other way.

4620. Something different might be tried?—(Sir Frank Tribe.) These cases are straightforward, as is admitted by the Authority. There is no difficulty about assessing the liability in the straightforward cases, anyhow.

4621. I thought there would be no difficulty with that class of person. I should have thought you would not have had very much difficulty because you in fact

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think they are straightforward cases. One would have thought that if they were straightforward you would not have any difficulty in making the necessary provision. (Sir Donald Perrott.) You recognise that this account was drawn in March, 1957; I think we are still looking at this one. (Sir Edwin Plowden.) Perhaps we could take this away and look at it again and see if we can settle it.

4622. Perhaps you might also look at the other point while you are doing it. Why should any difficulty arise when a man has so many years service at the time of his transfer to the Authority; why should there be some difficulty about it?—(Sir Donald Perrott.) I could take a point here with you as you are getting very deep into it. We are producing a contributory pension scheme for our industrial workers. All people who came in on the 1st August who were not established could elect to come under that scheme and not under this one. That itself will be a problem. I do not know which they will elect to do.

4623. One would have thought that even for their own purposes you would have wanted some decision in the matter?—As to the amount?

4624. Yes?—Well, it is a balance sheet entry point, really.

4625. In any case, if he has got four years' service in he is bound to know what liability you are accepting, surely?—I will take this point away. As I say, this account was made up to March, 1957.

4626. I think you told the Comptroller and Auditor General that you had a claim against the Treasury for the amount of the liability. Does this imply that the Treasury do not or may not accept the liability?—I do not know that I can answer that one specifically. These people came out of the Ministry of Supply with so many years' governmental service which would rank for gratuity. I believe they carry that right with them. I am told they carry their years of service with them for pension.

4627. May I ask the Treasury about this, Mr. Macpherson?—(Mr. Macpherson.) I do not think we have reached the point where it has been discussed, as has been said. We do not know exactly what the liability will be. I think the Authority would claim in equity that, in respect of service before

the transfer with the Ministry of Supply, that was a Treasury liability, but it has not been worked out yet.

4628. So, you have not accepted it so far?—Nor have we rejected it. It is a question to be discussed and resolved.

4629. What I am trying to puzzle out is, how do you think by allowing this to lapse for a few years you will get rid of a difficulty or it will be easy to solve the question in a few years' time?—(Sir Donald Perrott.) There are two answers to this. One, the chap may come in under the Protected Persons Scheme because there is a vacancy—this is a wasting asset—and in the second case he may elect to come in under a contributory pension scheme which is another class. You are talking about some 7,500 people, I suppose, who are moving one way or the other.

4630. It does seem to me that they are pretty important points and perhaps before next year comes round, Sir Edwin, you may look at this?—(Sir Edwin Plowden.) Yes, may we take it away and look at it?—Certainly.

Mr. West.

4631. May I be quite clear as to the position of the employee there? He leaves the Ministry of Supply after certain years' service. He is entitled to a gratuity. When he comes to your Authority does he receive that gratuity from the Ministry of Supply or does he not?—I think this is an unresolved point.

4632. It is simply a question of fact. There is no difficulty about this, surely?—No, he does not.

4633. Very well. If he does not take the gratuity to which he is entitled because he continues in either Government or quasi Government work, then surely the Ministry of Supply should credit the account of the Authority with the amount of the money which they have not expended? Now, has that been done?—I think this is a point we were on a moment ago and this we will have to discuss with the Treasury as to how this should be dealt with. I think Mr. Macpherson said they have neither accepted or refused this.—(Sir Donald Perrott.) May I say the Ministry of Supply equals Treasury for this purpose, because they pay this.

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4634. That may be so, but here is a simple question of fact: X number of men are entitled to Y pounds by way of credit on termination of their employment. They go into your service and that amount of money must be accounted for to someone, and I want to know to whom it is accounted for?—May I say first of all if a man is an employee in the Ministry of Supply there is no question of a fund. If there is something paid out it is paid out of a Vote when something happens. There is no intention to give them X pounds at a given date. The Ministry of Supply keep a man up to the given date when he passes to us and we then create a superannuation scheme of our own.

4635. Yes, but with great respect, I gather the complication arose because the person on leaving the Ministry of Supply service at that date is entitled to a gratuity which he does not receive?—(Mr. Macpherson.) Not all of them, Sir. There is a qualifying period for the gratuity and many of these people would not have fulfilled the qualifying period although by continuity they may in time arrive at that situation.

4636. Very well. Is the number known, do you know, of how many have now qualified for their gratuity and how many have not?—No, but there is a further question. Even assuming they had qualified after seven years they have alternatives open to them and they may elect one of the two alternatives which Sir Donald has mentioned.

4637. But that is an alternative with regard to Sir Donald's scheme which does not affect their position with the Ministry of Supply. The Ministry of Supply are under an obligation to pay the men at the end of a certain period of service. They do not elect to receive that. Then the Ministry of Supply account to the Atomic Energy Authority for the crediting to the man of his gratuity?—This is one of the points, that is the Treasury liability, which has got to be discussed with the Atomic Energy Authority in the light of the evidence which emerges from the Government Actuary.

4638. But, with great respect, is there any real difficulty about it? Why has it not been done so far?—Because of the different types of people concerned. Some of them, I assume, came with

much shorter periods of established service, some with much longer. Some may have left the Authority altogether without having qualified. These are the factors, as I understand it, which make this calculation difficult, but I accept with Sir Donald that this is something we shall look at in the light of the evidence today.

4639. When the man comes from the Ministry of Supply into your service does he take with him the period of service and does it count for service with your Authority?—(Sir Donald Perrott.) I understand that if a man left the Ministry of Supply to join us and he had got to the seven qualifying years, he draws his gratuity when he leaves. I think that is the position. Previous service in the Ministry of Supply does count. He brings his gratuity rights with him.

Mr. Hoy.] What I was finding difficult to understand is that if you take a man, say, in the Ministry of Supply who has worked seven years, as a consequence of that service he is entitled to a gratuity. He is then transferred or elects to go over to your Authority. What I wanted to know was, did he take his seven years' gratuity with him and you then accept the responsibility or does he simply take the cash? The money does not just disappear, somebody has it somewhere?

Chairman.

4640. I think perhaps we had better have a note on this?—(Sir Edwin Plowden.) He takes the qualifying years with him and when he leaves us he will get a pension in relation to those years.

Mr. West.

4641. Does that payment come out of the funds of the Atomic Energy Authority or does it come from the Ministry of Supply?—That is what we have to discuss with the Treasury. At least, the time he was with us would come out of our funds. (Mr. How.) I am on the edge of all this, but may I say these things are not funded in any way; there is no question of somebody's money disappearing. The man's right to the money arises when it does arise with the Authority, and it is then paid, assuming that Parliament votes it, out of current funds and, consequently, nobody is in the least damnified by the fact that there is no entry in these accounts. The

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entry would be merely the liability on the one side, represented by an asset, the liability of the Treasury to ask Parliament to provide the money in the future, on the other, and the two items would balance. If the point is that somebody is in danger of losing what he is entitled to because of this omission, that is quite untrue. It is only an accounting omission. I do not want to speak disparagingly of accountancy, but it is only an accounting omission; the money does not exist. You could, if you like, put in a token figure. You could, if you like, put in a wild guess. The figure has not been put in because the Government Actuary thinks it would be rather in the nature of a wild guess. It may be it would be better to put in a figure which was a guess, knowing it was a guess, but nobody is damnified in any way.

Mr. Hoy.

4642. I want to make this perfectly clear. We are not assuming there is a fund for the money to lie in. As a matter of fact, this is not the only case. If I may say so, you talk about funds which do not exist but are met out of current expenditure, but what we have a right to do is to protect a man who has what I wrote down as and prefer to call a gratuity?—Yes.

4643. What I am anxious to see is that some scheme is devised which will be satisfactory to them from a Ministry of Supply point of view, your point of view and the Treasury?—It will, Sir.

Colonel Crosthwaite-Eyre.] I believe we are going to ask for a paper on this, because I am more fogged than ever.*

Chairman.] I think perhaps we might leave this.

Colonel Crosthwaite-Eyre.

4644. I only would ask one point, if I may: I understand all this fund is notional. For instance, what is the £91,000 referred to in Note 4, which

*Information supplied: not printed.

Secret statement of works services costing £100,000 or over.

Confidential statement of loans outstanding on 31st March, 1957.

Chairman.] Will Members now turn to the Secret Statement and the Confidential Document. I have no question on either.

Mr. West.

4650. On the Confidential Statement, may I ask how these advances appear in

actually seems to exist in the hands of the Exchequer?—(Sir Donald Perrott.) This is the notional interest on the account.

Mr. Hoy.] The notional interest on a notional sum.

Colonel Crosthwaite-Eyre.

4645. The notional interest on a notional sum, is it?—That is right.

4646. And just credited like that?—Yes.

Colonel Crosthwaite-Eyre.] I would prefer, I think, to read this at leisure.

Chairman.] Now may we go to pages 2 and 3, the Foreword and 4 and 5, the Balance Sheet. I have no questions.

Mr. Thornton.

4647. On page 4, item II, that is, the Reserve for Losses (in lieu of insurance), how do you calculate this reserve?—(Sir Donald Perrott.) We do our best to make an assessment. This is working on the theory that it was too big an investment to put out to the City of London on a sort of formula of certain chemical plant one per cent., on certain other things, half per cent. and so on and this is related to the total assets on the other side. We can give you the broad method of computation quite easily. It is £1 per cent. on fixed assets, 3s. per cent. on the common law risk and 1s. 3d. per cent. on stocks and work in progress and £5 per vehicle for traffic purposes, and so on.

4648. One point on the fixed assets. Do you expect that to drop in the long run?—Well, the only thing is that this is a sort of reserve that would meet a problem like Windscale. We should charge the reduced value of the Windscale pile at the date of the accident to this reserve, unquestionably.

4649. You think the reserve is going to be adequate to meet the costs of the Windscale accident?—Oh, yes. There is plenty in this reserve.

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[Continued.

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the accounts of the companies concerned?—(Mr. How.) I do not know, Sir. There are a number of South African companies and two Australian Governments.

4651. They are confidential here and they are confidential because you do not want to disclose the companies concerned, and I was not referring to the companies concerned, but I was wanting to know how these advances appear in the individual companies' accounts?—Is the suggestion that somebody might compile this list? Of course, you would have to look at all the accounts of companies where they might conceivably be pretty well wrapped up with other loans. I do not think we can control that.

4652. Do you take security for it? Do you have debentures on their undertaking?—No.

4653. They are unsecured loans?—Yes.

4654. I see that some of them are, so far as interest payments are concerned, running behind even with the payment of your interest, are they not?—No, Sir. I think you may find that some payments due on the 31st March were paid on the 1st April because the 31st March was a Sunday.

4655. Take item 4: "Repayments nil"?—Well, it has not begun to repay yet, that is all. It was a new loan in the year, the money was advanced in the year to March, 1957, the interest for that year was capitalised at March, 1957, the balance outstanding is an advance plus the capitalised interest, and repayments have not actually begun. It was a new case in that year.

4656. That was not a very good one. Take No. 15?—Yes.

4657. What about No. 15?—This is the one case where there was a moratorium on repayments because of flooding. The mine was flooded. You see, the basis of the loan is that payments begin after the date of full production. In this case we reached the date of full production but then the mine was flooded and as a concession, if you like, the date of full production was put back.

4658. Take item 23?—There I can only suggest that it was a latish case. Probably the advance was made late in the year before this one, the date of full production had not been reached and, therefore, repayments had not begun by March, 1957. There is this considerable

sum of £22,000 capitalised interest which is added and in due course will be repaid with interest on the interest.

4659. What were the profits declared by the company in that year?—I do not know. It does not depend on the company's profits. It is a perfectly straightforward arrangement under which we and the Americans first of all agree to make a loan, up to a certain amount to the company. The company asks for the money as it wants it. It will not ask for it earlier than it wants it because it will not want the interest to run. When it does ask for it the money is paid over. The money is then spent by the company, interest runs at 4 per cent. and is capitalised and added to the loan up to the certified date of full production. From that date the company begins to pay off in 40 equal quarterly instalments, on a "building society" arrangement, the original advances and the capitalised interest, and it has nothing to do with the company's profits. It is not paying late because of inability to pay but merely because the time for payment has not yet arrived. As to the security point, these are almost all South African gold mining companies with a very substantial gold mining asset, quite apart from these advances, and although we have no specific security, I think they can be regarded as gilt edged.

Colonel Crosthwaite-Eyre.

4660. Why do you say 4 per cent.? Why was 4 per cent. taken?—4 per cent. was fixed in the early days of this when these agreements were first negotiated, in 1950 or 1951.

4661. Why has not something been done to bring the rate of interest more into line with what commercial rates are?—Because that was the agreement made. Most of these were done at that time and there has not been a variation of rates since. You must remember that these are not purely our own, these are made by the Combined Development Agency with the United States Export-Import Bank advancing *pari passu* with ourselves and at the same rate of interest.

4662. Most of these mines, if my memory serves me correctly, are subsidiaries of one of the big groups, are they not?—Well, of more than one of the big groups, of one group or another, yes.

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[Continued.]

4664. Is the recovery chiefly from the huge heaps at the top?—No, from the actual slimes. At the end of the gold process you have got the gold slimes and then you go straight on to this process. There have been from time to time discussions of working over the old heaps but there are various difficulties about that. In the first place you would have to wet them and water is very difficult in South Africa; and secondly, although

this may sound rather silly, you would still have as big a heap left because you would only be taking out half a pound or so from each ton, and some of these are in quite urban areas and there is not any room to build up your new heap. It may be that one day it will be worth doing, but at the moment they work on the current slimes at the end of the cyanide process.

CINEMATOGRAPH FILM PRODUCTION (SPECIAL LOANS)
ACTS, 1949-1954, ACCOUNT, 1956-57.

Sir FRANK LEE, K.C.B., C.M.G., Permanent Secretary, Board of Trade, called in and further examined; Sir NUTCOMBE HUME, K.B.E., M.C., Chairman, and Mr. JOHN TERRY, Managing Director, National Film Finance Corporation, called in and examined.

Chairman.

4665. Will Members turn to the Cinematograph Film Production (Special Loans) Acts Account, to page 4? From the middle of paragraph 2 of the Comptroller and Auditor General's Report, it looks as if the borrowers from the Corporation had to take money before they needed it?—(Sir Frank Lee.) That took place in special circumstances which I would like, with your permission, to describe to the Committee. The position was that the 1954 Act, which governed the functioning of the National Film Finance Corporation and authorised it to lend moneys to film companies, was due to expire on the 8th March, 1957. A Bill had been presented to Parliament to extend and in some respects to amend the 1954 Act. That Bill was passed by the House of Lords and came up for Second Reading in the House of Commons towards the end of February—actually, I think, on the 27th February, 1957; but it was not clear when the Third Reading of that Bill would be given, if indeed Parliament gave it, and when it would become law; and when, therefore, the lending powers of the Corporation would be revived. In the meantime, however, the Corporation drew the attention of the Board of Trade to the fact that they had, in good faith, entered into commitments with film producers for the production of films involving the giving to those producers of substantial sums of money by way of

loan for the production of the films in question. The Corporation pointed out that if there were going to be a serious hiatus before the new Bill became law they would not have any authority to lend money during that period, there being *ex hypothesi* no Act authorising them to do so. There was, therefore, the risk that, during that period, producers who were relying on loan moneys from the Corporation would be unable to continue the production of films which they had begun. Therefore, the Corporation asked that it should be agreed that before the expiry of the 1954 Act on the 8th March, 1957, they should lend moneys to producers which would be required to sustain film production during what I have called the hiatus period. Part of that money was money advanced by the Board of Trade from the Consolidated Fund to the amount of about £122,000, part of the money was borrowed by the Corporation from their bankers under the authority which they had to do that; and this money was lent to producers, as I have said, in order to sustain production during that hiatus period. Now, when you are producing a film, the time at which you may need money cannot, perhaps, be exactly estimated to the day or even the week. It did happen that because this money was lent out before the 9th March—although an estimation was made by the Corporation of what moneys would be required during an assumed hiatus period which at that time was thought would be as long as six weeks or two months—money was given

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to certain producers before they needed it. As is, I think, made clear in the report of the C. and A.G., no question of any loss of public funds was involved. The Corporation paid interest to the Exchequer on the advances made to them from the Consolidated Fund in the ordinary way. This, as I say, was a quite deliberate act of policy entered into with our full concurrence in order to prevent a serious situation arising on film production in the hiatus period.

4666. Did the Corporation consult you?—Oh, certainly, yes.

4667. Before they issued this money?—Certainly.

4668. Did they tell you that the money was immediately needed? We have this statement at the bottom of paragraph 3 that the money was immediately needed for the purpose?—It was immediately needed in the sense that I have endeavoured to describe to the Committee, namely, that it had to be lent by the 8th March. Otherwise the power to lend would have expired and there would have been a null period of, perhaps, up to two months in which no money could be lent.

4669. In that case, then, why was the interest from the film producers waived, if this was done for their interest and protection?—In the ordinary course of business a film producer will only call money forward from the Corporation when he actually needs it to meet his outgoings, his disbursements. In this case because of the necessity, as I have described, for the Corporation to lend the money out by the 8th March it did so happen that individual producers received that money before they actually needed it. But as is also explained, in so far as they had no benefit from the use of that money before they needed it or in so far as they put it on deposit and received interest, those circumstances were taken into account in the waiver of the interest which they owed to the Corporation.

4670. Has the Board of Trade any means of checking these advances by the Corporation as to whether they really are advanced only when, actually needed? Do you keep an eye on it or does the matter rest entirely with the Corporation?—We appoint to the Corporation, if I may say so, in Sir Nutcombe's presence, people of proved reliability and reputation. We have a procedure worked out

with them for the advance of money from the Consolidated Fund and for the repayment to us of advances as they receive money back from producers. We have also a principle worked out with them when they use their overdraft facilities with their bankers, and the broad answer to your question is that I am fully satisfied that the Corporation do not ask us for money unless they need it.

4671. This Committee has rather strong views on the subject of advancing Government money for purposes before it is needed. It looks as if the Board of Trade were rather slack in their legislative programme?—We are not in control of the legislative programme. This Bill was brought forward, and if the House had been able to accord it a Third Reading on, shall I say, even the 1st March, this would not have happened. But there was a press of legislation at that time, and this Bill did contain some novel features; not in relation, let me hasten to add, to the extension of the Corporation's lending powers, but, if you will remember, by the creation of a statutory film levy, and this aroused great interest in the House. The proceedings in Committee were animated and prolonged and the Bill did not actually become law until the 17th April.

4672. Exactly. As I said, you failed to allow sufficient time for the necessary legislation?—Well, in so far as that failure can be laid at our door, I must accept that.

4673. Who else could introduce the Bill?—I was going to suggest, the Mother of Parliaments, but perhaps I should not.

Chairman.] The Mother of Parliaments does not introduce Bills.

Mr. Ramsden.

4674. Sir Frank, you said on this question of the waiver of interest that no loss would fall on public funds. What did the amount that was waived come to?—Could I ask Sir Nutcombe to answer that? (*Sir Nutcombe Hume.*) £500.

4675. It may be an academic point, but to pursue it for a moment, when the Corporation is ultimately wound up will its assets revert to the Board of Trade?—Yes.

4676. Will that £500 then not turn up as a charge?—(*Sir Frank Lee.*) Certainly, I agree that is a perfectly fair

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analysis on, I do not want to say, an academic basis. But at the end of the day when the assets accrue to us it can be argued that they will be £500 less than they would otherwise have been and the amount will have been borne by the Exchequer. (Sir *Nutcombe Hume*.) I wonder if I may answer that question in another way? There never has been any attempt to control the rate of interest or degree of profit-sharing which the Corporation charges to its borrowers. It would have been quite easy for us to relend that money at an equated interest at slightly less than our normal rate. Thus we would have received interest throughout, but the genesis of this is a little different from that. We were bound to assume that there would be continuity of life for the National Film Finance Corporation. This little hiatus put us in a very grave position. But for this manoeuvre we would have had to default on contracts to lend already made and this would have affected the whole *raison d'être* of the Corporation, which was to help and not to hinder the film production. We therefore had to go to our borrowers to say: "There is going to be a gap during which through a twist in the law we shall be unable to lend to you. Therefore if you really feel you want this money during the imaginary gap you must have it now, otherwise you have got to face the risk of our saying 'No' on the next date and take the consequences of the continuity of production of your film being stopped, with all the cost and confusion which that causes". So these people said "Of course we would like to take the money but it is a little unfair to make us pay interest on it before we really want it. This is a mutual arrangement so is there a bargain we can strike?", and the bargain was the one now under discussion. I am perfectly prepared to say, as a business man, that it is fair between the parties.

Colonel *Crosthwaite-Eyre*.

4677. Sir Frank, in the Foreword, paragraph 5, this sentence appears: "The Board, with Treasury approval, have directed rates of interest varying from 2 per cent. to 5 per cent." I always thought that film production was a fairly speculative form of trade, but your rates of interest seem to be most conservative?—(Sir *Frank Lee*.) This is not the rate

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that the Corporation charges the borrowers, you understand. This is the rate which we charge the Corporation.

4678. It is the rate on which they had to pay interest?—But the object of the Corporation, and of Parliament in passing the Act which set it up, is to help film production. Now if we were to ask the Corporation to pay a very onerous rate of interest that would not, I think, be furthering the broad objective for which the Corporation is established.

4679. You mean, the higher the rate of interest you charge the Corporation, the higher the rate the Corporation have to charge producers?—Yes, true, but I think I rest on my former answer, that if they really had to charge the producers very high rates indeed, because we were in turn charging them a high rate and they must charge a rate which enabled them to pay that and meet interest and pay losses, that would, I suggest to you, result in a prohibitive rate which would nullify the objective for which the Corporation is set up, namely, to assist film production in this country.

4680. Is the rate still $4\frac{1}{2}$ per cent.?
—No. it is $5\frac{1}{2}$ per cent. at the moment.

Colonel *Crosthwaite-Eyre*.] I am grateful for that.

Mr. *West*.

4681. Sir Frank, when you made the advance of £122,000 did you at that time think that the money was really needed, or did you know that it was a manoeuvre, as has now been explained?—No; we thought the money was really needed. Of course, this depended on a judgment as to how long the hiatus period might be, and the President thought that it might perhaps be of the order of two months. In point of fact it was about six weeks. We asked the Corporation what their likely commitments for money were during that period, and they gave us a figure which was substantially in excess, and, indeed, which proved to be in excess, of £122,000; because they not only utilised that £122,000 from us, but they borrowed £100,000 from their bankers, and with money that they had in their hands they lent in all something of the order of £300,000.

4682. Do I understand, then, Sir Frank, from what you say that the explanation for the need of the £122,000

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given to you at that time was not the explanation that has been given this afternoon by Sir Nutcombe?—No. I think there is no division or inconsistency between us. We paid the £122,000 when we did because we could not pay it out after the 8th March, but we did satisfy ourselves that between the 8th March and the assumed date on which the Bill might become law the Corporation would have to be able to lend the sum and more in order to keep film production going. I hope that is clear.

4683. It was so clear to me when I heard the explanation and the words used, that this manoeuvre was necessary, that I wanted to know whether you knew it was a manoeuvre at the time you advanced the money?—“Manoeuvre” is not a word that I myself used or would use to describe this. It may well be a City word.

Chairman.

4684. I think it was used by your colleague?—It was my colleague from the City who used the word “manoeuvre”, but leaving semantics aside, we knew perfectly well what we were doing and we knew we were giving the Corporation money before the 8th March because they needed it for use after the 8th March, in the interval before their borrowing powers were renewed and extended by the new Act.

Mr. West.

4685. I am sorry to press it, but it is important from the Public Accounts Committee's point of view. So, at the time you advanced the £122,000 you knew that at that time the money was not actually needed by the borrowers from the Corporation? You apprehended that it would be called upon during the time when the hiatus would appear?—Certainly. May I put it this way: I knew that on the 9th March they would not need £122,000, but I was satisfied—I was not here, but the Board of Trade was satisfied—that within the assumed period of the hiatus that £122,000 would be needed by the Corporation and would be needed by the borrowers to whom the Corporation passed on the money. That is, with respect, the really basic point. Had the borrowers not had that money in that period film production would have stopped.

4686. That may or may not be the case, but it was, at any rate, a most unusual situation?—An unusual situation because of the circumstances I have described, certainly.

4687. In those circumstances, did you have any consultations with the Treasury about it before you advanced the money?—I think not, no.

4688. Why not, as it was unusual?—Frankly, we thought it was something that we could appropriately and properly do on our own responsibility, and we accept full responsibility for it.

4689. You mentioned that the Corporation, in fact, borrowed some money from the bank as well. Did they exercise that power before the expiration of your powers or after?—Oh, they must have done. I believe the actual date on which they borrowed was the 4th March? (Sir Nutcombe Hume.) I would like to make it clear that we were prohibited by the expiration of this Act on 8th March from either borrowing or lending after that date until we got a new lease of life, and we had to anticipate that. If I may say so, it is rather like a bank being closed on a wages day and having to go the day before to draw the wages to be able to pay them.

4690. Except this, of course, that it is Parliament which really authorises the exercise of the powers and Parliament had not done so?—(Sir Frank Lee.) I would make the point that we were completely covered in what we did and in what the Corporation did by the authority of the 1954 Act. That is to say, even if between Second Reading and Third Reading or at Third Reading Parliament had rejected the new Act, nothing that we did here would have been invalidated.

4691. No, except that you would have been party to a manoeuvre to defeat the object of Parliament?—I think not, Sir. With respect, no. Parliament in the 1954 Act authorised the Board of Trade to advance moneys to the Corporation up to a total of £6 million. The 1952 Act authorised the Corporation over and above that to borrow from outside sources a sum not exceeding £2 million. In what we did here, that is, in the £122,000 which we advanced on the 4th March, that sum was within the £6 million authorised in the 1954 Act, and the £100,000 which the Corporation borrowed from their bankers was simi-

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larly within the authorisation given by the 1952 Act. Both those acts were done before the expiry of the 1954 Act.

Chairman.

4692. Sir Frank, you are quite right legally. What you have done is that you have fallen foul of this Committee, and this Committee has very strong prejudice against any money being issued by a Department before it is actually needed?—I am aware of the strong feelings of this Committee. I am sorry if I have fallen foul of them. I was dealing, I thought, with a rather different point, that I was in some way thwarting the will of Parliament. That was not in my mind or in the mind of the Board of Trade. (Sir *Nutcombe Hume*.) May I make one more point on this? The Board of Trade were the Corporation's bankers; they were really only lending to it money which the Corporation had itself paid back earlier. Except for petty cash purposes, we did not have a separate banking account. When we had a surplus and as we did at times we handed it back to the Board of Trade. It was not therefore a new borrowing, but was using money which was within, so to speak, our limits at our bank, the Board of Trade. We were, I think, entitled in honouring our obligation to our own customers, the

film industry, to draw from our bankers before they shut up for a few days, with their knowledge and consent of what we were doing and how we were using the funds thus drawn. It is not as if it was a new borrowing; it was our bank with whom we arranged this transaction.

Mr. West.

4693. We have pursued the point, I think, now sufficiently far. There is one further point I want to raise and it is with reference to the Note at the bottom of the Account, which states that £60,000 of interest was remitted during the year. The question I have to put to Sir Frank is, is this likely to be repeated year after year?—(Sir *Frank Lee*.) Yes, this is the money which the Corporation owes us as interest in respect of a loan of £3 million which was made by the Corporation to British Lion. We segregated that loan, in effect, and said in the Paper, to which reference is made in the footnote to which you have referred, that, except to the extent that the Corporation may receive dividends from its holding in the new British Lion Company, which took the place of the old company, they will be excused payment of this sum of £60,000 on what must be regarded, I think, at any rate at present, as an old dead debt.

ANNUAL REPORT AND ACCOUNTS OF THE NATIONAL FILM FINANCE CORPORATION, 1956-57.

Chairman.

4694. Now, will Members turn to the Annual Report and Statement of Accounts of the National Film Finance Corporation, to pages 1-7, the Report? On paragraph 3, Sir Frank, you show provision for losses and bad debts amounting to about £4·8 million. £3 million of that refers to the British Lion. Are there any other large amounts related to any individual firms?—(Sir *Frank Lee*.) Sir *Nutcombe* will correct me if I am wrong, but I think the provision for losses on loans to companies other than British Lion amounts to a gross total of £1·8 million. If, however, you take account of the income earned by the Corporation, that is, the difference between the interest payable to us and the interest which they get from their borrowers, less their operating expenses, the net deficiency on non-British Lion

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loans is something of the order of £930,000. This, as I understand it, is an aggregate of losses on individual films which the Corporation has supported from time to time over the whole period of its existence. There is no individual loan comparable in size or significance to the British Lion loan.

4695. There could not be, of course, because there is only £1·8 million on loan outside. What is your largest loan, have you any idea?—(Sir *Nutcombe Hume*.) The loan against which we have made the largest provision, or the largest loan in itself?

4696. The largest loan in itself, other than British Lion?—(Mr. *Terry*.) The largest loan we have made, Sir, was a loan of working capital to Ealing Films Limited of £½ million, the whole of which has been repaid.

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4697. And you have no equivalent sum outstanding at the moment?—(Sir *Frank Lee*.) No, Sir, as I say, this £930,000 is an aggregate of sums owed to the Corporation in respect of a number of individual film projects.

4698. Can you make any estimate of how much of that £900,000 odd you are going to lose?—(Sir *Nutcombe Hume*.) It is very hard to tell, Sir, because the life of a film is a very difficult thing to estimate. They sometimes unexpectedly turn in profits after a long period of time from foreign sales or re-issue. Conceivably, of course, the sales for television are going to be a source of recovery from some of these old loans. It is hard to tell when we really have to regard a debt as finally dead.

4699. That is, no doubt, true, but have you no idea at the back of your own mind of how much it will be?—Of the £900,000?

4700. Yes?—I would like to say the lot, to be on the safe side, but in the end our experience is that 50 per cent. of it comes back. I have not been there quite long enough to answer that accurately, but I should say that is a fair guess.

4701. A fair guess, neither optimistic nor pessimistic?—I think so. I am turning to Mr. Terry, who has been there longer than I. (Mr. *Terry*.) I would think it would be a higher rate of loss than that, Sir. We at the moment expect those sums to be irrecoverable and I would not like to say that the estimate is likely to prove false. (Sir *Nutcombe Hume*.) We have another system, if I might just point it out. The loans are normally tied to a film rather than to a borrower and the success of that film is the source from which the repayment comes. If we strike a bad patch we can in negotiating a loan for film No. 2, tie to it certain obligations to liquidate a bad debt in respect of film No. 1, linking the two—cross-collateralising, we call it—and thus it is very hard, as I said earlier, to say when you finally have to say good-bye to a debt. We can sometimes say to a man: “We will only lend you money this time if you give us a particularly large share of the profits for the recovery of a bad debt on a previous”—if I use the word “adventure” in this room I hope it will not be misinterpreted.

Colonel *Crosthwaite-Eyre*.

4702. I am not clear, Sir *Nutcombe*. We did discuss this some time ago in this Committee. Do you now lend front money or end money, or how does your loans tie in?—On the whole, end money. The new Act permits us to be rather more businesslike than the old Act in the sense that we may do things which are designed to make us profitable and enable us to undertake our obligation to make ends meet, taking one year with another. Therefore, when our resources permit we like to lend a certain amount of front money, because it is a much safer transaction, of course, than lending end money. Thus, in a number of instances in the comparatively recent past we have lent some front money as well as end money.

4703. It would be true to say that the majority is still end money, would it?—Yes, very much so, and by reason of our slender resources we have had to be rather careful about front money. It mops up a lot of money. Although they may be good loans, front money is a sink for money.

4704. In paragraph 24, Sir *Nutcombe*, the Report says: “For the first time in five years films costing £75,000 to £125,000 do not show a profit”. Is there any particular reason for that?—I have seen the paragraph. I do not know whether there is any particular reason or whether it happened specifically in that period. Could you help, Mr. *Terry*? (Mr. *Terry*.) I would not like to give any particular reason except that it so happened in that year that films of that kind did not seem to attract public taste. There is recently a tendency for the more expensive films and the less expensive films to attract the public taste and for the middle budget pictures, as we call them, to fall by the wayside; and this possibly was the beginning of that tendency.

4705. I think you mentioned—I cannot remember whether it was you, Sir *Frank*, or Sir *Nutcombe*—that this year was the first time you have lent money to a company for a television film?—(Sir *Frank Lee*.) That is in paragraph 28.

4706. Is it the intention of the Corporation to pursue this and to make more money available for that purpose? (Sir *Nutcombe Hume*.) Yes, judiciously,

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again within the limits of our resources. We interpret our duty primarily as helping film production for the cinema; and although financing of television films is tempting, profitable and the money comes back quickly there is a lot of attraction in doing that business, but we must exercise a limit on this because otherwise we might find ourselves short of money to lend for what we regard as our primary purpose. We wish we had more resources in order to do this because it is nice business and it is coming, whether we like it or not.

4707. I was thinking particularly of saving dollars on all these cowboy films and things like that that come in, both on I.T.A. and B.B.C., and I was wondering whether it was in your mind to help the overall balance of payments by going more into this line of business?—We would like to if Parliament in its wisdom puts more resources at our disposal. We think we can use them profitably in that way.

Mr. Hoy.

4708. Even with a little manoeuvrability?—Even with a little manoeuvrability and some adventure.

Colonel Crosthwaite-Eyre.

4709. Adventureousness?—It is more adventurous than the other.

4710. What control can you exercise over a producer when you have made a loan?—The main control, as far as we are concerned, is that there is an underwriting of the surplus cost of the film, not by us but at arm's length by firms set up to do that, notably Film Finances Limited or City Share Trust Limited. There are two or three of them, who guarantee to find any excess cost over the budget agreed with us, with the distributor and, of course, with the producer; so that our safeguard is that the film will be finished within the limit of the money which we have agreed to put up.

4711. You do not actually exercise personal control over the producer?—One of the most important functions of the National Film Finance Corporation is (a) in the budgetary control before a film is ever begun, an examination of all the costs in the most minute detail and (b) general control. We are fortunate in having got an extremely good

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man on that job. We exercise a degree of control as to whether the subject is a good one and the cast is right; but frankly we do not regard it as our business to set ourselves up as experts in that field; we rely rather more on the distributor who has really got to sell the film.

4712. May I put it this way: there is no section of your staff which has the responsibility of visiting producers to see that budgets are being maintained and schedules are being maintained?—We do. We reserve the right to have very complete supervision over what goes on.

4713. Would you in fact say you would correct any unnecessary extravagance or stupidity?—We try to but with film producers that is not very easy.

4714. Would it be true to say that the producer always accepts a very much lesser rate of risk than, say, you do yourselves in the production of the film?—The producer accepts a lesser rate of risk?

4715. He has generally accepted that front money, has he not?—The answer to that is twofold: the producer is normally costed into the budget as getting some form of salary, or reward for his work.

4716. I ought to have said, the producing firm?—Nearly all these films are in fact produced by a company which is either registered or purchased *ad hoc* for the job, so it is really identifiable with the individual. What we do is let him take in cash out of the budget what we think he absolutely needs to live on and then make him defer to our loan any kind of jam, as far as his bread and butter is concerned. So, the answer is Yes and No; to a degree, of course, he is part of the overhead expenses, but, as far as any jam on his bread and butter is concerned, that only comes after us.

4717. He cannot go for his yachting holiday in the Mediterranean until you have got your money back?—He might work it by going on location, as Mr. Terry whispers to me. We notice when the weather is fine in certain parts of the world it is extraordinary how often people come along with the argument that they must have their film made in that particular place.

Q 3

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Mr. Hoy.

4718. On paragraph 16, what are your prospects of arousing interest in British Lion?—Not much at the moment. The film industry, of course, is under a very considerable cloud. We did think a year ago that there was quite a good prospect of selling when a man who had made a lot of money out of industry wished to take a hand in the film business, but that faded away and unless somebody like that crops up again, I think the chances of a sale in the near future are nil.

4719. If you are depending on that type, I would agree with you. May I move to paragraph 17, Beaconsfield Films, Ltd.? What was the overall financial result of your association with Beaconsfield Films Ltd.?—It cost us £½ million. This is what was known originally as Group 3, intended to help the up and coming producer. It did not really cost us very much. (Sir Frank Lee.) Perhaps I could just say, because I remember this well, that this was a deliberate grouping fostered by the Corporation in the early heroic days of their endeavours, where younger and less well known producers, directors and actors were engaged to come together in a sort of group to make films, the idea being that they would pool their experience to some extent, would pool their overhead expenses and make films of special public interest. These films were distributed by A.B.F.D. and later by British Lion and the sum of £½ million—I think it is actually £226,000—to which Sir Nutcombe has referred, is the total sum which was lost on the venture, and money for the most part, but I think there was a little front money, too, which the Film Corporation lent to this Group. I would only just add one thing, if I might, that some of the most successful producers today of whom we can be, perhaps, proudest, were trained, I understand in this Group 3. I cannot estimate in money terms the value of that but it is something which can perhaps be offset against the loss to which I have referred.

4720. What about the people who purchased this company, are they making a success of it?—(Sir Nutcombe Hume.) That is Sydney Box. He is not doing the same thing with it. He is not doing this very speculative work of backing untried horses, so to speak.

4721. You are still associated with this company, are you not?—No. (Mr. Terry.) We are only associated, Sir, in two senses: one is that we lend money for the films that are now being made by this company under its new control, and we also retain the beneficial interest in the films made by Group 3 Limited, and revenues are still coming in. It may well be that they will substantially reduce the figure of loss which has been mentioned already.

4722. You are not likely to lose any more?—Certainly not—apart from any losses which may be incurred in connection with loans made to the company under its new control.

Chairman.

4723. Will Members now turn to the Accounts, pages 8 and 9? We have been talking about producers and I notice that in Appendix C the producer and director—I presume they are two persons—take 6·7 per cent., on average, of the cost of film making. They seem to do rather well out of it. In some cases the two of them have got, on an average, £12,000. That is from column 3 of Appendix C?—Those are the figures for 1956. Over the page the figure is higher, 7·6 per cent. (Sir Nutcombe Hume.) On page 12 the figure appears in respect of the latest period to March, 1957. That is, a figure of 7·6 per cent., and £8,353 is the average.

4724. How long does it take to make a film, for a producer and director to share £17,000 between them?—(Mr. Terry.) You are referring there, Sir, to the most expensive films. The actual shooting period of those films would probably be about three months, but the preparation before shooting begins would probably be another three months, and the completion period after shooting has finished would probably be a further three months. One could probably say, a year in all.

4725. So, the producer and director got on those films £8,500 a year each?—Yes. It would probably be something just less than a year.

4726. And the story and script cost 4 per cent. So that the author, producer and director take nearly 12½ per cent. of the cost of the film?—Yes. (Sir Frank Lee.) Of course, a great deal, I imagine, of the success of the film depends on their imagination, their

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experience and their skill; and I take it that these are their rewards for those qualities.

4727. They apparently get rewarded whether the film is a failure or a success. These are average costs?—Yes, this is remuneration, I accept that.

4728. I should have thought that the remuneration of these people, on whose skill depends the success or failure of the film, might have been in some way related to the success or failure of the film, not to the money that has to be found by the Film Finance Corporation?—(Sir *Nutcombe Hume*.) I would like to add one point here. You remember, I mentioned earlier the deferment, where the honourable Member asked, do the producers and directors come in ahead of the National Film Finance Corporation, and I said, the answer is Yes and No. Some of it is ahead, but quite a proportion of it is deferred and in this figure is included the deferred as well as the preferred element.

Colonel *Crosthwaite-Eyre*.

4729. On Appendix E, are you satisfied, Sir Nutcombe, with the average screen time per camera day?—It absolutely appals me that anybody who calls himself a business man can only produce two minutes of film for a day's work.

4730. It is one minute 56 seconds, in fact?—I believe it has risen to two minutes in this last year and it is one of the things against which we are inveighing the whole time; I cannot think straight over this, and every time I meet a producer I point this out.

4731. Do you know what the comparable figure at all is in Hollywood or European studios?—(Mr. *Terry*.) A smaller figure, I believe, Sir. (Sir *Nutcombe Hume*.) Yes, it is less. (Mr. *Terry*.) One can only judge this matter, with respect, I think, by seeing a film being made. It is a very complicated art.

Colonel *Crosthwaite-Eyre*.] It must be.

THURSDAY, 22ND MAY, 1958.

Members present:

Sir George Benson, in the Chair.

Mr. Collins.
Mr. Oliver.
Mr. Peyton.
Mr. Ramsden.

Mr. Thornton.
Sir Colin Thornton-Kemsley.
Mr. West.

Sir FRANK TRIBE, K.C.B., K.B.E., and Mr. J. MACPHERSON called in and examined.

CIVIL APPROPRIATION ACCOUNTS, 1956-57 (CLASSES VI-X).

CLASS VI.

VOTE 2.

BOARD OF TRADE (ASSISTANCE TO INDUSTRY AND TRADING SERVICES) (Continued).

Sir FRANK LEE, K.C.B., C.M.G., Permanent Secretary, Board of Trade, called in and further examined.

Chairman.

4732. Will Members turn to the Civil Appropriation Accounts, Classes VI-X to page x, paragraphs 19-21 of the Comptroller and Auditor General's Report? Sir Frank, to what extent does the Board of Trade control scrap metal prices of ferrous scrap?—(Sir Frank Lee.) Now, Sir, the Board, as such, exercise no control. The Ministry of Power still exercise control and there are controlled prices for scrap laid down in a Statutory Order of which the average is £11 10s. 0d. a ton.

4733. The Ministry of Power?—Yes, because the responsibility for steel was transferred to the Ministry of Power from the Board of Trade with effect from January, 1957. Therefore, this particular episode is historical, though full of interest, so far as we are concerned.

4734. Apart from ships is the export of any other form of scrap permitted?—There is no control over the export of non-ferrous scrap.

4735. I am referring to ferrous scrap?—No, the export of ferrous scrap is not permitted at all. The one exception is in the case of ships.

4736. Why is there this particular exception?—Because ships, Sir, are a capital asset and it is necessary for ship-owners to realise the maximum that they

can on the sale of that capital asset when it becomes surplus to their requirements in order to enable them to build replacements and to maintain their fleets in a state of maximum wellbeing.

4737. What would be the effect on the price of shipping if they were not permitted to export ships for breaking? Would it be serious?—I think so, Sir, certainly in the period of account. One must distinguish, perhaps, between now and the period of account when, of course, shipping fleets were at a premium, when ships of all sorts, both cargo and other ships, particularly tankers, were in demand and when the price for a ship abroad, even an old ship, was very favourable. If at that time one had said that shipowners were not to sell a ship abroad I think the cumulative financial effect on them, given the numbers involved, would have been very serious. For instance, in the year of account 125 ships of all sizes were sold abroad, either for operation or for scrapping.

4738. The finished product of the ferrous metal industry is also controlled in price, is it not? The price of steel is controlled?—There is a maximum price, yes.

4739. So, really, if you allow ships to go out of the country to be sold for a higher price it is to the detriment of

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SIR FRANK LEE, K.C.B., C.M.G.

[Continued.]

steel manufacturers whose own product is controlled?—To the extent, not a very important extent, perhaps, that the steel industry would have had scrap from the ships had the Government refused to agree to their sale abroad. In the year of account only about 2 per cent. of the scrap accruing to British steelmakers came from ships.

4740. Not a very serious matter, then. Why are Government ships treated differently?—For the reason that I have already given, that is to say, that the Government held and hold that, because of the importance of maximising the return to the shipowners in order to enable them maintain their fleets in efficient shape and to be able to finance replacements to the greatest possible extent, shipowners should be allowed to sell ships freely abroad.

4741. When the Government sells a ship does that mean that the price that the Government gets is the value of the metal less the cost of scrapping?—If the Government sells a Government-owned ship at home to B.I.S.C. for scrapping, yes, that is so, Sir. The net amount that accrues to the Government is the amount realised for the scrap, whether it be steel scrap or non-ferrous metal scrap.

4742. So the Government has put itself in a much worse position than the private shipowner?—Than the private shipowner, yes, certainly.

4743. On the two ships mentioned in paragraph 21 you got about £366,000 less than you would have done if you had sold them abroad?—Yes, but it was clear that the offer that came from abroad was an offer from a shipbreaker. This was not an offer from a ship operator to operate the ships as ships. Therefore, if the Government had sold those ships abroad they would have gone for scrap abroad. Now, I think one must say two things about that. The first is this, that if the Government had sold those ships abroad consciously knowing that they were to be scrapped, the Government would have been behaving in a way in which it would not have behaved in respect, say, of scrap arising in a Royal Ordnance Factory. We do not sell abroad scrap arising in an ordnance factory when we stop people selling similar scrap abroad.

Chairman.] It almost looks as if the steel industry is getting its scrap at half the world price?

Mr. Collins.

4744. Less than half?—Yes. But it is, as I tried to say, a deliberate act of Government policy that in respect of any scrap arising in the United Kingdom, except as represented by privately-owned ships, the people who own that scrap should not get the world price for it. If I were an ordinary manufacturer and I had a piece of heavy plant in my factory that was redundant and I wanted to scrap it, I could not sell it abroad.

Chairman.

4745. The point is, is the controlled price of scrap approximately half or less than half the world price of scrap?—It was in the year of account, Sir. The controlled price of scrap in the year of account was about £8 10s. 0d. a ton. The world price of scrap at that time was something of the order of between £17 and £20 a ton and prices of as much as £30 a ton were being paid in Italy and Japan.

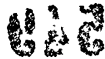
Chairman.] That is the answer I wanted.

Mr. Collins.

4746. If the Government sells a Government-owned ship for continuous use under a British flag can the new owner then sell it for scrap?—At the end of the day, certainly; that is to say, if a new foreign owner offers a price above what is called the screen price, which is the price to which the Comptroller and Auditor General refers in paragraph 20, the assumption is that the owner is going to sell it for operation. As far as I know there is no condition of sale that later on he will not sell it for scrap. You can only control, as it were, the first purchase.

4747. You said “at the end of the day”. How long is the day? Is there a time limit?—No, that is, I am afraid, the commercial judgment of the purchaser. If, of course, ships are at a premium he will probably run the ship for a long time; if not, he will scrap.

4748. Therefore, an owner can buy it for continued use and entirely at his own option sell it either for continued use or for scrap overseas?—As far as I know, yes.



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[Continued.]

4749. In this particular case mentioned in paragraph 21 there would have been nothing to prevent a private owner, other than a foreign owner, buying that ship for continued use and getting the £627,600 offered by the foreign ship breakers?—Not a private owner. A private British owner who bought these ships from the Government would still not have been able to sell them abroad without authority to do so under the Flag Transfer Regulations. If he wanted to sell them abroad at above the screen price for what was assumed to be further operation he would have been free to do so, but if not, then he could only have sold them abroad if the British Iron and Steel Corporation did not wish to offer to buy them for scrap.

4750. So that although there is, in effect, no time limit placed on this freedom of an owner to act after such purchases, the other regulations, the Flag Transfer Regulations, do in fact impose a restriction which would disable him from doing that kind of transaction?—I think perhaps from the beginning you and I have been slightly at cross-purposes, which is entirely my fault, on the question of a purchaser. There is always a limitation on a British purchaser. On a foreign purchaser there is only the limitation that he must tender above what I have called the screen price, when the presumption is that he will operate; but there is no time limit on his operation.

4751. Just one other point; I want to make sure that I understood you in answering one of the earlier questions. Am I right in thinking that scrap owners, whether they be Government or private companies, are obliged to sell their scrap under world prices and are, therefore, indirectly subsidising the iron and steel industry?—Yes.

4752. And private scrap owners are prepared to accept that position without protest?—Yes. (Mr. Macpherson.) It is a Government order.

Mr. West.

4753. I suppose they have no option?—(Sir Frank Lee.) It is a statutory order and they obey it.

4754. I take it the kind of scrap which is required in the United Kingdom for the steel industry in the course of a year adds up to a considerable amount, does it not?—Something of the order of about 12 million tons.

Mr. West.] And that means that the steel trade, nationalised and denationalised, are getting something in the region of £90 million by way of subsidy in the course of a year.

Chairman.] Or more.

Mr. West.

4755. Or more, if the world price is higher?—Well, I have not checked the arithmetic which arrives at a figure of £90 million and I must not be assumed to take that, particularly, of course, as world prices of scrap have now fallen very substantially; and, of course, a great deal of the 12 million tons of scrap arises in the course of the operations of the steel industry itself. It must not be presumed, I think, that all the scrap arisings in ordinary industry could have been sold abroad, because of its nature and its location, at these very enhanced prices. But that there was a substantial subsidy, if you care to use that word, to the British steel industry during this period when world scrap prices were very high is undoubted.

4756. It may very well be that my estimate of £90 million is a very conservative one?—It might well be so, Sir. Of course, to the extent that that happened it was taken into account in the determination of the maximum steel prices, which I think the Chairman implied.

4757. What is the proportion of the total receipts from a normal vessel which represents the sale of ferrous scrap?—I do not think I can answer that because I do not think I know what a normal vessel is. In the year of account 43 ships were broken up which yielded steel scrap to the amount of about 115,000 tons. Doing a very rapid sum on that, it becomes something of the order of 3,000 tons a ship. (Sir Frank Tribe.) In the case of the two vessels I referred to in paragraph 21, the amount realised from non-ferrous scrap was about 30 per cent. of the total. (Sir Frank Lee.) Of the two ships mentioned one yielded about 8,650 tons of ferrous scrap, the other about 17,300 tons. And the total realised of all types of scrap is given in paragraph 21 of the Comptroller and Auditor General's Report.

4758. I see from paragraph 20 that if the cost of breaking a Government ship exceeds receipts from the sale of scrap the iron and steel industry bears the loss?—Yes.

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[Continued.]

4759. How frequently does that happen, or how frequently has it happened?—The British Iron and Steel Corporation can refuse to take a ship over for scrap. That is to say, if it is in a very awkward place or is an old hulk that is going to be very difficult to handle it will say: "Thank you, we do not want it".

4760. What would you do then with the ship?—I do not own these ships and never have, thank goodness. The Ministry of Transport would no doubt get the best bargain in the public interest that they could. What they would do I could not answer. I am told there is only one case so far in which this has happened.

4761. I see. So it means that the steel industry is being subsidised to a considerable extent in the course of a year, or was being so subsidised, but if a particular vessel was a bit awkward to get at they had the option of refusing whether they would take it or not, irrespective of the metal they could recover from it?—Yes, but have only exercised that option in one case. There have been other cases—I am afraid I cannot give you the number—in which they did take the ship over and extracted the scrap from it, but where the cost of doing so exceeded the realised price and to that extent the subsidy to the steel industry was reduced.

4762. The bargain seems to be very much a one-sided one?—I think you must, with respect, bear in mind that this is part of the broad policy of the Government to which I have already referred. It was a deliberate act of policy to ensure that the steel industry got its scrap at prices substantially below the very inflated world prices; and to the extent that it got scrap at those reduced prices, the emergent cost of steel for use by the industries of this country was reduced and kept low. You will remember that for a substantial period of years our steel prices have been below those of our European and other competitors.

4763. One final question: do I take it that the export of scrap was prohibited mainly because we were net importers and export would mean that we would be involved in loss of foreign exchange or currency?—Yes, indeed. For instance, had the two ships to which reference is made in paragraph 21 of the Report, not

been kept in this country and broken up for scrap it is a reasonable presumption that we should have had to buy that scrap from abroad for certainly something like the figure of £627,000, which was the offer made for these two ships from abroad. So, leaving aside the advantage that cheaper steel gives us, it is a reasonable presumption that there was no foreign exchange loss on this particular transaction.

Mr. Collins.

4764. I see from the end of paragraph 20, and by deducting the figure of expenditure from the figure of receipts, that in the year under review you got about £1.7 million net from scrapping Government-owned ships. I think that is right, is it not?—That is so, yes.

4765. Do you know roughly how much more you would have got if you had allowed sales to foreign buyers?—I should hesitate to generalise, but at the maximum, the controlled price of scrap in the year of account was £8 10s. 0d. a ton, and the world price of scrap at that time was about £17.

Chairman.

4766. Just double?—Just double. Now, in the event, of course, much must depend on where a given ship was, what her size was, and so on. Whether it really is safe to apply a factor of 2 to this I would not know, but it might conceivably be of that order.

Mr. Collins.

4767. It looks, does it not, rather as if something like a multiplication by 2 would be justified? If you look at the figures in paragraph 21 you have got £261,000 odd compared with a total of £627,000 odd from the foreigners?—Yes, in that particular case, certainly a factor of 2 or more than 2.

4768. A little more than 2, is it not?—That would be justified, subject to the foreign exchange point that I mentioned that you would have had to buy the scrap from abroad to maintain the amount of scrap available to British steel works. In respect of a number of Government ships there is the consideration that they are battle ships and there may be other objections to selling them abroad. But I would not want on any figures that I know to dispute your proposition to apply some general factor of 2, or thereabouts.

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[Continued.]

4769. Do you know what tonnage of commercially owned ships is sold abroad for scrapping?—This is a relatively long period and these are in gross registered tons. In a four-year period from March, 1954, to April, 1958, 388 ships were sold abroad—these are privately owned—amounting to a tonnage of 289,000 tons. The corresponding number of ships sold at home, was just over 600 ships to an order of tonnage of about 796,000 tons gross registered tons.

Chairman.

4770. These are quite small ships?—Well, they are all sorts. They range from the very big ones of the sort to which reference is made in paragraph 21 here, to tugs.

Sir Colin Thornton-Kemsley.

4771. Have you got down to making an estimate, which seems possible now on the figures you have given the Committee, of the value of this concession to the shipping industry?—I have not done this because, quite frankly, even in the relatively brief time when this particular transaction was within my sphere of responsibility the maintenance of the mercantile marine was not in my sphere of responsibility, except so far as I am a citizen of this country and naturally interested in it. It is not my prime interest. Therefore, this particular calculation of this concession to the mercantile marine industry was not mine to make and I did not make it.

4772. Was it the responsibility of any accounting officer?—Yes, it is the responsibility of the Accounting Officer of the Ministry of Transport.

4773. Would you expect that the Ministry of Transport have made an estimate of the value of this concession?—Well, I have no doubt that when the concession was made, which was before the time when I had anything to do with this matter, a general case to justify this concession to the shipping industry was made out to the Treasury. To what extent that case was buttressed by a detailed calculation of the advantage to them I would not know.

4774. I wonder whether the Treasury witness can answer as to that?—(Mr. Macpherson.) I do not know, Sir.

4775. I think I would like to ask just one more question of Sir Frank: do you

yourself think it desirable that concessions of unknown value should be made to particular industries and that the Revenue should forgo income of unknown amounts in this way?—(Sir Frank Lee.) If you put it in those very general terms I must frankly say that, as a matter of general principle, I am naturally reluctant to see special concessions given to individual industries, particularly if they are unspecified or unclear in amount. On that one must, I think, face the fact that Parliament has agreed in a number of cases that special concessions should be made to shipbuilding and to ships because of their great importance in our national life and in our general economy, particularly, as I say, because ships are the capital assets of shipowners and the purchasers of new ships depend very largely on the realisation price of old ones. There is, for instance, the concession about steel imports which are required for use in shipyards which are not subject to import duty. This is a provision which has been in our law since the introduction of the tariff in 1932. I only mention that as an instance. I do think, though, it is not for me to defend or explain the concessions made to the shipping industry that this is something which is hallowed by precedent and is regarded as of importance in relation to the national economy. I will only add that, while I accept that I have not endeavoured to evaluate the benefit of this particular arrangement to the shipping industry or to the steel industry, I do not think one should exaggerate its total magnitude.

Mr. Peyton.

4776. Sir Frank, have you any idea of the methods used by other countries in the disposal of Government surplus ships?—No. I have no idea, I am afraid.

4777. You would not know what the United States practice is?—No, except that I have a very strong suspicion, having served for a number of years in the United States, that their means would be more restrictive, protectionist, than ours.

Mr. Oliver.

4778. I have listened to the questions and answers with very great interest, Sir Frank. From what I gather there is a very substantial subsidy going to the steel industry by reason of this arrangement?—I think, with respect, that if

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[Continued.]

you look at the overall figures which I mentioned, the extent of that subsidy, if that be the name one must apply to it, may really be exaggerated. As I said, in the year of account the steel industry used something of the order of 12 million tons of scrap. Well over 11 million tons of that came from ordinary arisings in this country. The total amount of scrap in that year which came from ships of all kinds was something of the order of 2 per cent. Of that 2 per cent. about half, that is, 1 per cent., came from Government-owned ships. Of course, they paid the controlled price for the 1 per cent. of scrap which they took from Government-owned ships. The extent of the subsidy is the extent to which, if they had bought that scrap in the world market, they would have had to pay a higher price for it. Now, I wish to suggest to you that, in relation to the total expenditure on 12 million tons of scrap, that is not an inordinate amount.

4779. Is the 12 million tons the whole of the scrap which is produced in this country and which is sold to the Iron and Steel Federation?—That is the whole of the scrap which was consumed by the steel industry.

4780. From all sources?—From all sources.

4781. But you did quote £11 10s. 0d. a ton for scrap at some period or other. Now, does that figure fluctuate according to world price, either up or down?—The price I quoted of £11 10s. 0d. is the current average controlled price for scrap. The controlled price in the year of account equivalent to that was £8 10s. 0d. a ton. Since the year of account there have been two increases, one of £2 a ton and one of £1 a ton, which brings the controlled price to that figure. Those increases were, no doubt, though I was not responsible for authorising them, made to reflect the general demand for scrap and the world prices obtainable.

4782. Could not the controlled price be increased to approximate more to world prices?—There is no legal impediment to increasing the controlled price. All that the Government has got to do is to issue an order authorising a new price, but as I have endeavoured to explain, this was a deliberate act of policy to ensure that the steel industry got its scrap at a price which did not endeavour to follow the world price

of scrap up to the very high levels which obtained in, say, the year of account when there was, quite frankly, an inordinate scramble for scrap in the world. It was deliberate Government policy to keep scrap prices for the steel industry low with, as I have said, a reflection of that in a low price for steel.

4783. It was really to give advantage to the steel user?—To give the advantage, I would say, to the steel user and to the national economy.

4784. You see, Sir Frank, I was naïve enough to believe that the price of steel being much less than that of other countries it was due to the marvellous mechanism of British enterprise, but I find that they get a subsidy on one of their principal raw materials and they buy the cheapest coal in Europe; so those two principal elements must make a very big contribution to the price of steel?—They make a contribution.

4785. A big contribution?—A big contribution. I would not, on the other hand, if I am allowed to express a personal view, wish to deny to the British steel industry—nor, I hope, would you, Sir—a tribute to the fact that they, having those natural advantages or, if you care to call them, unnatural advantages, also do demonstrate, as I think, great efficiency in their operation.

Mr. *Oliver*.] I have no doubt they do.

Mr. *Peyton*.

4786. I would like to get this absolutely clear before too much is said about subsidies: what is the percentage of scrap used in the year of account which was in fact at the cheaper rate?—I think one cannot put a figure on that because, as I have said, supposing there had been no controlled price of scrap it is not easy for me to say to what extent the world price of scrap, say, of £17 a ton would have been reflected in the domestic price here. Obviously, a substantial part of the 11 million tons could probably have been sold abroad and therefore its price would not have gone up to the full £17. But probably, though I could not say, the free price of scrap in this country at the time I am talking of, instead of being £8 10s. 0d. on the controlled basis, would have been something of the order of £15 a ton. That is a hypothetical figure.

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[Continued.]

Mr. West

4787. May I put one short question arising out of that answer? The controlled price today is £11 10s. 0d. a ton. What is the world market price today?—It is about £17 a ton, but sagging.

4788. As it was in the year of account?—On the whole, I think, £17 a ton in the year of account is optimistic. In the year of account, as I said earlier in reply to a question, offers were being made for good scrap at a price as high as £30 a ton from Italy and Japan.

Chairman.] Paragraphs 22-26, Disposal of Stocks. I have no questions.

Mr. Collins.

4789. Have you, Sir Frank, any occasion at all to consult the Treasury about sales that would produce less than might be realised through other methods of disposal?—Yes, not only did we consult the Treasury fully in the broad programme of disposal, but we have been at pains to consult the Treasury about the actual methods of disposal which we have adopted when we come to individual commodities where we depart from what is the standard procedure under which we endeavour to start, which is sale by competitive tender or auction.

4790. So you have informed the Treasury at all times when you have made sales other than by competitive tender?—Yes.

4791. Turning to paragraph 24, what were these four commodities which contributed these large sums?—I do not know if you would like me to indicate the amounts?

4792. I meant the type of commodity?—They were copper, softwood, aluminium and wool.

4793. Mr. Macpherson, is the Treasury satisfied that in all cases of departure from competitive tendering it was justified?—(Mr. Macpherson.) I have no doubt, Sir, as Sir Frank has said, that the general arrangements were discussed in considerable detail with the Treasury. The alternative methods that might be applied to the different types of commodities and individual cases have also in many cases come to the Treasury.

4794. You are satisfied that these very substantial disposals have been carried out in the best interests of the economy as a whole?—We think so.

Mr. Thornton.

4795. Sir Frank, in the middle of paragraph 22 the Comptroller and Auditor General says: "Holdings . . . could be run down to some extent without risk", and that the Government decided to make a start on this running down of stocks. What gave rise to this decision to run down these stocks?—(Sir Frank Lee.) This really was a change in the strategic concept, about the extent to which in any future war this country might be a great producer of munitions and a great industrial centre, as it was in the last war.

4796. That was one of the basic considerations?—Yes, accumulation of raw materials was originally planned on the assumption that we should be a great arsenal again. When the changed strategic concept was made by the Government it seemed that it was no longer appropriate to have these very large holdings, and that some run down could be accepted, therefore, without strategic risk, as the Report implies.

4797. The same sentence too, makes reference to the heavy cost of turnover?—Yes.

4798. Could you give the Committee some indication as to what the cost of turnover is?—The figures are roughly these: in 1955-56, that is, a year before the year of account, the net cost of turnover was something of the order of £860,000, leaving aside, if I may, in the year of account, the rather special case of softwood where we had actually committed ourselves to buy softwood on a turnover basis before the disposal period started. If one can neglect that, the cost of turnover fell to £135,000 in the year of account and to about £70,000 in the following year, 1957-58, and in the current financial year.

Chairman.

4799. Paragraphs 27-29, Erection of Buildings in Development Areas. Sir Frank, you appear to have changed completely the policy that has been held so far, that you would only build a standard type factory in the Development Areas. When you start building specialised

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[Continued.]

buildings for individual firms and spreading the cost over a very long period, you are surely, in effect, lending them money, are you not?—I think, with respect, we have not changed our policy. I do not dissent at all from what is said in the second sentence of paragraph 27; that is to say, in the normal case we have built factories of a broadly standard type. But we have always been prepared to build them with modifications which suit the requirements of individual tenants and, of course, we have based our rental and other charges to the tenants on the total emergent cost. Often too, we extend factories to suit the needs of individual tenants, and again hope to see that reflected in the rent; and over most of the field of our endeavours that still remains the standard practice. There have been to date—and I am now, perhaps, being somewhat more definite than I ought to be because one case is still in the last stage of negotiation—six cases in which we have departed from that general practice and have built factories—large factories for the most part—specially designed for the needs of individual tenants which might well make them unsaleable, or only doubtfully saleable subsequently, in these cases we have agreed to special amortisation arrangements. We gave a great deal of consideration to the question of propriety of doing this and we are satisfied, both on the basis of the legal advice we received and on the broad policy issue, that this was, in a number of cases, the way in which to get companies to put down these very important and valuable factories in Development Areas and that we were justified in taking the course we have, particularly, if I may add, as in two of the cases the concerns have agreed to purchase the existing factory which we are renting to them. There is also the great advantage from the standpoint of the Board of Trade that under these arrangements you do really have at least a fair guarantee that the enterprise will become deeply rooted in the area. It will have committed itself to a capital commitment of a very substantial sum of money as distinct from merely paying an annual rental. This consideration of the desirability of having an enterprise deeply rooted in a Development Area is of very great importance to us.

4800. It is true you have got your factory deeply rooted there, but as you your-

self said, it is possible that these factories might not suit any possible successor and therefore there is an element of risk which is not present in the building of a standard factory?—I think, with great respect, one must have regard on that very valid point, if I may say so, to the standing of the firms in question. I wonder if the Committee would like me just to mention what the firms are in the six cases? The first I am going to mention is a relatively small although very reputable firm in Scotland called Kincaids, in Greenock, the second, the Goodyear Tyre Company, the third, Pye's, the fourth is Michelin, the fifth is Mullard's, and the sixth is International Business Machines. Now, I suggest to you, Sir, that those are firms of very high standing and reputation who are not likely to be fly-by-night concerns who will leave after a kind of tip and run raid.

4801. Did you take into consideration in your interest rates the fact that you were building something which was highly specialised? There is theoretically a risk there?—We discussed the interest rate in each case with the Treasury.

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They are not, I suggest, unsubstantial rates.

4802. Sir Frank, have you anything to say?—(Sir Frank Tribe.) I think, with a factory which is admitted to be a specialised factory to a special design, it would have been reasonable to expect a considerably higher rate of interest than would be charged for an ordinary, straightforward factory. The only other comment I have is that it does seem to me that the whole system of the Board of Trade embarking upon large capital commitments for building factories for leasing to these big firms is virtually tantamount to giving loans of money to those firms, a function which Parliament has devolved on the Treasury, not on the Board of Trade.

4803. What do you say to that Sir Frank?—(Sir Frank Lee.) On the second point I would only say, as I did indicate in my answer to you, Sir, that we were at pains to take legal advice on this matter and we were advised that this procedure—with which, I may add, the Treasury fully concurred throughout—was fully consonant with our legal powers, particularly on the basis

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that we were building the factory on land which the Board of Trade owns. That is just the legal basis. On the interest rate, well, I frankly do not agree with the Comptroller and Auditor General. I think that the interest rates that we have achieved in these cases, which have in all cases been agreed with the Treasury, are the best that are obtainable and are not unreasonable in themselves.

Mr. Oliver.

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4808. What security have you on these factories?—In the case of the two factories that are being built in England, we have a mortgage. In the case of four of the factories which are being built in Scotland, under Scottish law the property does not pass until the final payment is made.

4809. What greater security do you have in these cases than under a lease?—You mean, if we rent a factory to a tenant the only security we have is the ordinary period of notice which he is or may be obliged to give under his lease?

4810. They are on lease?—Yes.

4811. You have no other security other than the lease?—None.

4812. Now, in answer to another question in respect of the Scottish Development Area, you gave a list of very reputable firms which are very well known to most of us, Pye's, Mullard's, and so forth, is that right?—Yes, I did.

4813. What is their position? Could they not build these factories themselves? They are all companies of very great substance?—Well, one must, I think, start from the premise that the Board of Trade, in pursuance of our obligations under the Distribution of Industry Act, are pressing these firms to put down factories in places in which probably they, if left to themselves, would not wish to establish a factory. They would prefer to put factories down, perhaps at Birmingham or London or places nearer their markets, but we are saying: "No, we want you to help us in an area like Greenock, for instance, where there is a high, continuing and disturbing rate of unemployment". Now, this is not an easy task, even given the powers we have under the Town and Country Planning Act to refuse an indus-

trial development certificate and in many cases firms are very reluctant to do as we want. The alternative then is either to persuade them to lease a factory from us, in which case we have to put up the factory at heavy capital cost and lease it to them, or to offer them an amortisation arrangement on the basis that I have indicated in these cases. We have thought that it is both good business and good politics, using that word in its very broadest sense, to induce the firms to go to these places by the offer of these amortisation facilities.

4814. For the building of a factory of this sort without this aid which is given to these firms, do they require a building certificate before they can build in these places, or not?—Every factory building of above 5,000 square feet requires an industrial development certificate from us under the Town and Country Planning Act. We should refuse that certificate in the case of a large number of areas in this country. We readily give it, of course, if the firm will go to a Development Area.

4815. If you have that power, or if that power exists, whereby you can help to determine where factories should be built and industries should be located, would that not be sufficient control to put these companies in the ordinary position and let them raise their capital in the ordinary way?—I think, with respect, not. I think that in some of these cases, quite frankly, if we had refused them an industrial development certificate to build in the place they most wanted to build they might well have delayed a decision in the hope of bringing sufficient pressure on us to make us change our minds. They would not necessarily have gone to these very desirable locations in the Development Areas. One or two of them

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might well not have set up in this country at all, but have set up in Holland or Switzerland.

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4817. In regard to the other large factories mentioned in paragraph 29, have you stated all of them?—Yes, those are included in the list of six factories which I mentioned to the Committee. I have given a total list of the factories in respect of which we have concluded, or are in process of concluding, these special arrangements.

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[Continued.]

Sir Colin Thornton-Kemsley.

4818. I only wanted to ask you this: at the time when the Comptroller and Auditor General wrote this Report, this policy of attracting industries by special concessions of this kind applied only to Development Areas, did it not?—Yes, indeed.

4819. Is it true or is it not true that the policy is now to be extended to cover areas where there is a particularly high incidence of unemployment?—That depends on what Parliament decides on the Bill which is now before it whereby loans can be given to concerns, whether industrial or commercial concerns, prepared to put up factories in areas outside the Development Areas where there is continued high unemployment.

Mr. Collins.

4820. As I understand the position, the object of the exercise is to take the factory to the worker?—Yes, we are under a statutory obligation to try to help these areas.

4821. In the cases mentioned the people who are first leasing the factories are eventually buying them?—In two of the cases of the six I mentioned the people have got existing factories which they lease from us, and we are under these arrangements providing an extension to the factory; and they will buy from us both the extension and the existing building. That is so.

4822. In other words, in those cases they are paying the total cost and also paying interest while they are doing it?—Yes.

4823. The Board of Trade, therefore, is at no loss and the purchaser at no advantage unless it is that they may be paying a lower rate of interest than might otherwise be the case?—If the interest they pay on the capital cost of the existing factory is below the rent they pay us for it, they are at that advantage, but I think, subject to correction on figures, that that does not obtain in either of the two cases I have mentioned.

4824. So, it would seem to have been accomplished by either charm or persuasion? There is no other way to account for the fact that they have gone up there, or perhaps they wanted the labour and could not have got it anywhere else?—We have all the attributes you ascribe to us, but the latter factor, of course, also applies.

4825. Just one last question: there are areas now in the country that do not fall quite within the description in the Act of Development Areas where recently in the House it was announced that new arrangements will apply. Will they have the benefit of this Act?—I would not wish to give you a categorical answer on that. What I think I would say is that arrangements similar to these would certainly not be excluded from my mind for those areas, subject to what may be in the Act.

DEVELOPMENT OF INVENTIONS ACTS, 1948-1954, ACCOUNT, 1956-57.

THE EARL OF HALSBURY (a Member of the House of Lords, attending by leave of that House) Managing Director, National Research Development Corporation, examined.

Chairman.

4826. Will Members turn to the Development of Inventions Act Accounts, 1956-57, to pages i to vi? I gather, Sir Frank, that Lord Halsbury will be sitting with you?—(Sir Frank Lee.) Yes, he is here, Sir.

4827. I believe you have been before this Committee as a witness before, Lord Halsbury, but it is some time ago?—(Lord Halsbury.) Some years back, Sir, yes.

4828. Sir Frank, with regard to the relationship between you and the Corporation, do you have any responsibilities other than providing them with money?—(Sir Frank Lee.) The President appoints the members of the Corporation. We have under the Act the power of giving them directions and there are also some specific activities of theirs for which they have to secure approval; that is to say, projects entailing the manufacture of goods or the provision of services and provision of

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financial assistance to third parties. And, of course, in practice we maintain close, friendly relationships with them in the sense that they are at pains to keep us informed of what they are doing and, perhaps still more important, what they are planning to do.

4829. Do they have to get your authority for fresh proposals?—Not formally, except in the cases to which I referred, that is, particular projects referred to in, I think it is, section 4 (2) of the Act; but in practice the Corporation do refer to us in respect of any major project although they are under no statutory obligation to do so. They come and talk to us about it and make us aware of what they propose to do.

4830. One of the duties of the Corporation as laid down by the Act is to make themselves, as it were, self-supporting; at any rate, they must regard themselves as a commercial corporation?—That is in section 3 of the Act, yes.

4831. To what extent do you keep an eye on that side of their activities to see that they are trying to make ends meet?—We do so, Sir, both in general by discussing their accounts and their financial position with them, and in particular, for instance, by having a close scrutiny of the position in conjunction with them when we prepare a new application to Parliament, as we shall be doing in about a year's time, for a further extension of the Corporation's lending powers. Also by asking them whether, in their judgment, the individual projects about which they consult us are likely to be those which in the course of time, and when the patent and other rights that they acquire have come to full fruition, will be remunerative to the Corporation.

4832. How far are they progressing towards that position? They have been going for eight years now?—The position, very broadly, is—Lord Halsbury may be able to develop this in detail—that their cash receipts are roughly of the order of 50 per cent. of their outgoings. Now, I think, with respect, that to emphasise an eight-year period is to some extent misleading, because, of course, the corporation is something of which there had been no exemplar in our national life before. It had to be started from scratch. It essentially relies

for its revenue on the exploitation of the inventions which may come to it or on the sale of machines which it may help to foster.

4833. And issues from the Consolidated Fund; I do not think we should forget that element?—I am not forgetting that. I am just trying to emphasise to the Committee, if I may, that this is essentially a great experiment. It is also essentially an experiment which cannot really be judged, I suggest, on the basis to which you, Sir, have so rightly drawn attention, that is, the basis set out in section 3 of the Act, except over a long period of years. Most patent rights in this country have 16 years of life. General experience, I think, in industry is that where you have a remunerative patent it is usually in the last five years, when it has been seen to be of value and has been widely adopted in industry, that you get returns on it. I do think that it is still premature to make any judgment on the Corporation other than the judgment which I would wish to make, which is that it has made a most promising start and that there is every hope that at the end of, say, the next eight years, although, of course, some of the patents which it will have then will not have had 16 years of life, there should be every chance that it will be in a position to pay its way and fulfil section 3 of the Act.

4834. I see you do not charge it any interest on the advances you make?—No, Sir, because, as I explained to the Committee, its cash receipts at this time are something only of the order of about 50 per cent. of its outgoings.

4835. I am only thinking of it in terms of a bookkeeping item. It might present to the Corporation a more accurate picture of its financial position?—If you look at the income and expenditure account of the Corporation on page 26 of the Report there is an item there for interest on the Board of Trade advances of over £68,000. I would urge strongly that the Corporation is fully aware, and is kept fully aware of that item. Its whole financing, as evidenced by the presence of that item (it is also, of course, on its balance sheet on page 28, "Interest payable on advances") and the fact that it writes off its development expenditure and its expenditure

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on the taking out and renewal of patents, as is instanced by the item of £142,000 on the income and expenditure account, does show that it has a pretty real sense, as I think, of financial propriety.

4836. Whose job is it to see that they do not overlap with the activities of D.S.I.R., yours or the Corporation's?—Well, I think in a broad sense it is ours. I think that in the day to day operation of the Corporation it is that of Lord Halsbury plus the people of D.S.I.R. themselves, plus bodies like the Brundt Committee, of which I think the Committee learned when they were examining the D.S.I.R. accounts.

4837. Are you satisfied that there is adequate liaison through the persons appointed by the President of the Board of Trade between the Corporation and the D.S.I.R.?—Yes. Lord Halsbury will be able to give you detailed information on that subject. But, of course, some members of the Corporation, particularly Professor Blackett and Sir Henry Hinchliffe, are themselves advisory members of the Council of D.S.I.R. There is close liaison at the working level between the staff of the Corporation and that of the D.S.I.R., and I myself and members of my staff have discussions with the director of D.S.I.R. and his staff on matters of common concern not only in this field but in many others.

4838. You are in close contact, then, with D.S.I.R., Lord Halsbury?—(Lord Halsbury) Yes. You need not worry about that, Sir, I can assure you. There is the closest contact. If you will look at page ii of the Report and look at the persons listed there, Halsbury, Managing Director, was for five years on the Advisory Council; Professor Blackett is currently a member of the Executive Council; Sir Charles Dodds was a member of the Medical Research Council and of the Advisory Council; Sir Henry Hinchliffe was also on the Advisory Council, while Sir Henry Tizard was Founder Secretary of the Advisory Council; so I think the liaison is very close.

4839. There is just one further question I would like to ask you: you do realise the entirely different functions of yourselves and D.S.I.R.? They are purely research, I take it, and your purpose is ultimately to make a profit. Can I put it as crudely as that?—Yes. We have many conversations with them on that

basis. One of the things we are always on our guard against is having our funds used for research as a substitute for funds which cannot be obtained from other directions.

Mr. Peyton.

4840. I was just wondering what the most modern construction is of these words in paragraph 2 of the Comptroller and Auditor General's Report, that "As soon as may be after their establishment the return from their activities shall be sufficient", and so on. What does "as soon as may be" now mean?—(Sir Frank Lee.) I really do not think I could improve on this or on the happy and pellucid drafting of these paragraphs by the Comptroller and Auditor General. It does mean, as soon as the income and expenditure position of the Corporation permits. (Sir Frank Tribe.) Whether "taking one year with another" means taking the first 16 years with the second 16 years is a different point.

4841. I am in no difficulty in understanding roughly what Sir Frank means, but I just want to know whether anybody has made any guess as to what it might mean in terms of a date?—(Sir Frank Lee.) I think I can only say that section 3 of the basic Act says "That as soon as may be after the establishment of the Corporation the return to them from their activities shall be sufficient to meet their outgoings on revenue account, taking one year with another". That is the statutory requirement.

4842. When do you think that happy stage will be reached?—As I have said, at the moment the gap is of the order of about 50 per cent., very roughly. Now, I would suppose that at some time between now and the sixteenth year of the Corporation's life we should reach a stage—if they have patents that are highly remunerative it may be earlier rather than later—when the cash return will be sufficient for them to meet their outgoings and to pay interest on the advances; in other words, to fulfil, or partially to fulfil, section 3 of the Act.

4843. Do you find that with the years, Lord Halsbury, more skill is being developed at the most difficult task of picking winners?—(Lord Halsbury.) I would not say that more skill has been developed in picking winners, but I think more skill has been developed in avoiding losers, if I may put it that way.

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4844. More skill in recognising the real results?—We are more skilled at recognising the amber and the red than we were to start with. On the point of making ourselves pay, you might like to look at it this way: every year we receive a bunch of patents from the universities and various public authorities such as hospitals, the Medical Research Council, and so on, and each one of those patents in the bunch is an asset with a life of 16 years. So assuming the inventiveness of the nation maintains a fairly constant level, at the end of 16 years our portfolio of the patents that has been accumulating will be full. Therefore, if we are ever going to comply with the requirement of the Act to balance our accounts taking one year with another, we must have done so by year 16, assuming ordinary statistical regularity. If we have not done it by year 16 we shall never do it at all because the old assets will be wasting away as fast as the new ones come along. It is a wasting operation.

4845. With your growing skill in avoiding losers?—We have not run into many losers. If I am asked, I would say we ought to be paying our way at

least by year 16. The fact that we are paying 50 per cent. of our way by year 8 is a reasonable prognosis for going the whole of the way by year 16. That is the most I can say on our prospects.

Mr. Oliver.

4846. In paragraph 1, Lord Halsbury, reference is made to "Inventions resulting from public research", and then it goes on, "and of any other invention which appears to them to be insufficiently developed or exploited". Where would they come from? Would they come from private sources?—They would come from private sources, yes.

4847. And if you thought they were good enough you would take them up?—Yes. They have got to qualify under the heading of the public interest as well which is, of course, one of those difficult points of pellucid drafting. We have to construe what Parliament wished by "the public interest". They have to qualify on technical merits, public interest and a reasonable chance of getting our money back.

4848. Then you would take them up?—Then we would take them up, yes.

ANNUAL REPORT AND ACCOUNTS OF THE NATIONAL RESEARCH DEVELOPMENT CORPORATION, 1956-57.

Chairman.

4849. Will Members now turn to the Report and Accounts of the Corporation? I think we have tended rather to overlap in our questions, but there is not much harm done. Do you feel rather pessimistic, Lord Halsbury, in suggesting that you will not be able to see clearly for another eight years?—(Lord Halsbury.) If I may quote from another writing on this subject, it is a good thing to employ optimists to get results and pessimists to figure them out. In making prognoses I would much sooner take a pessimistic view and avoid disappointing people rather than making promises which, frankly, would only have a basis in "guesstimating".

4850. I am afraid this Committee consists of professional pessimists?—Yes.

4851. Your Report does not give any detail of the expenditure on individual items, individual pieces of work. Is it

possible that you could in some way enlighten Parliament on that?—Subject to direction, of course, we would, Sir. We have always regarded our individual items of expenditure as corresponding to the cost accounts rather than the financial accounts of a commercial firm and therefore, just as a commercial firm does not normally publish its cost accounts, we have not given details of what we have spent on all these various different items. I have them here, if the Committee is interested.

4852. I was thinking rather, if you could do that without giving away anything that you do not want to give away, that it would indicate to some extent the relative amounts you direct towards given ends. For instance, I presume that your electronic digital computers have been a very expensive item?—They have been relative to what we have spent on anything else. The total amount of money we have spent on computers is £1,471,000.

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4853. If you want to take out figures like that I have no doubt it can be done, if you would rather not have those figures published?—Yes. Against that, of course, we have got total incomings. I would like to explain, Sir, that if we were going to supply figures of what we have spent on computers some ingenuity would be required if they were to be given in anything like a compressed form. For instance, we have spent on computers £1½ million, roughly, and we have got back on computers about £1 million. On the other hand, the money we have spent is money that has been spent and respent; I do not know if I make myself clear? We make a computer, sell it at a profit and then make another computer. It is the same sum of money spent twice over, so if we were going to give the actual financial position we would have to regard ourselves as a computer business and say how much capital we were employing in the computer business and what the balance on our income and expenditure account was. On that basis you could say that, with accrued interest, we were employing £661,000 worth of capital on computers and we had an excess of expenditure over income of £283,000.

4854. On computers?—On computers, yes.

4855. You have not even made computers pay yet?—No, but we have some very favourable licence agreements which are coming along the whole time. I think if one were going to include figures for the individual items—

4856. It would be difficult to do?—I would put it this way: we would have to publish an awful lot of figures for the figures not to be misleading.

4857. I see, yes. It seems to be a revolving fund?—It tends to be a revolving fund, yes.

4858. To what extent do your inventions tend to come from Government sources and from private sources? Are they mainly from Government sources?—Quoting from the Report before you, the accretion for the period from Government sources was 240 in the year out of a total of 631.

4859. Just over a third?—Those were the inventions submitted to us, but when you take the inventions assigned to us, the figures are somewhat different.

4860. When you say “assigned” to you, who assigns them? Do you not take them yourselves?—In the case of Government inventions we take assignments of everything offered to us, unless there is a very good case for our not doing so, but in the case of members of the public who offer us inventions we very rarely take assignments of them; only one or two a year, that sort of thing.

4861. You are using the word “assignment” as including selection?—I am using it in the technical sense, that we become the proprietors of the patent.

4862. So that, in effect, you take practically no private inventions?—Practically none.

Sir Colin Thornton-Kemsley.

4863. Lord Halsbury, I see from the inside of the front cover of the Report that “public research” is one of the statutory functions of the Corporation?—Yes.

4864. Does that include research done by the universities?—I think I should refer you to the Act there, Sir. Section 1 (2) of the Act says: “In this Act . . . the expression ‘public research’ means research carried out by a Government Department or other public body or any other research in respect of which financial assistance is provided out of public funds”. We have always interpreted that as including the universities’ inventions, since so much of the universities’ expenditure is provided by public funds.

4865. In the case of public research how do you establish contacts with the bodies concerned? Do you go to them or do they come to you?—In the first instance we go to them. We have a liaison job to do. I need hardly say that with very big public bodies with a centralised structure, like the Ministry of Supply, we have a routine machine which sees to all this. It is the outliers, like remote universities in the north or the far west, or wherever it is, which represent the difficulty; and so we have a team of people who are permanently establishing contact with these bodies with a view to finding out what the professors are up to, what they have invented, what we could obtain for them and whether any development expenditure is necessary to carry their ideas through from the laboratory to industry.

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[Continued.]

4866. Do you normally assist the research financially or does the body come to you with the result of its research and ask you to develop it commercially?—The second alternative. We expect the professor, if I may so call him, to have got a result. At this point he comes to us and says: "Here is a result. Will you patent it?" If we do, we become responsible for the cost of patenting and at the same time enter into an agreement with either the governing body of the university or the professor for splitting the proceeds, if there are any proceeds—net proceeds, of course. At this stage we become the owners of a patent and we are bound by the terms of an agreement. Our first care will then be to see if we can find a vacancy in industry for Professor X's invention. If we find one, well and good; that disposes of the matter. We may then try and find another one, or three or four. If, on the other hand, the thing seems to be stuck, then we consider whether placing a development contract with a commercial firm to carry it through the stage from the laboratory to the demonstration of the first prototype would be in the public interest, and if we think it is then we go ahead and place a contract with a firm to develop the invention in which we now own the rights.

4867. You would actually put up money for the exploitation of the invention?—May I get the question clear? Do we put up money for the exploitation of inventions?

4868. Would you, in the last resort?—This rather turns on a verbal point, if you will excuse me. We use the word "exploitation" to mean licensing, and it is a process out of which we get money. I think your question probably means development?

4869. Yes?—Yes. We put up money for the development of an invention.

4870. How many of your projects that arouse little commercial interest have eventually been commercially successful?—Quite a number. I think, for instance, you could say that computers were being commercially successful. Of course, we are investing a lot in computer development. We have launched three firms into the field now as competitors with one another. One

has to remember that the American Government has launched all the American firms in this field, which was the field of a British invention, by spending enormous sums—250 million dollars is the commonly quoted figure—of public money, because the development of computers has been linked to defence research for purely strategic reasons in America in a way in which it has not been linked in this country. So our firms who are trying to develop this British invention are under a very heavy handicap compared with the concealed subsidies the American Government has given to American firms. But we have, none the less, got very substantial sums of money out of these American firms by way of royalties, paying tribute to British inventiveness.

4871. As a non-scientist, if I may say so, I enjoyed your report very much until I got to about page 17, the second item from the top—I will not try to pronounce it. I got a little bit fogged there, and I wondered if it was not possible in a case like that to give a sort of layman's guide so that we really know what you are trying to do?—I will submit to your correction there, Sir. Pueraria is a plant which comes from Malay.

4872. Thank you very much indeed. It is a little bit involved?—Yes.

Mr. Ramsden.

4873. Lord Halsbury, you sell these computers that you make, do you?—We have sold some, yes.

4874. How do you fix the price?—So as to make a substantial profit, if we can. Actually our computer balance sheet shows a trading profit of about £70,000 on manufacture and sale of computers. We try and work, as a rough guide, to a price that gives us 20 per cent. ex-works.

4875. Do you fix the price so as to get enough to cover development expenditure?—We try to.

4876. Including development expenditure on unsuccessful lines?—May I put it this way: we seek to recover everything we can short of pricing the computer out of the market.

4877. In practice, how much do you succeed in recovering? Can you give

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me any estimate?—We have a trading profit overall on our computers of £70,000. We have an excess of expenditure over income carried to the balance sheet of £283,000, a good deal of which, of course, is a paper write-off on our computer patents. We write our patents off much faster than the 16 years represented by their life, so part of that excess of expenditure over income of £283,000 carried to computer balance sheet is a very large write-off of computer patenting expenditure. To give you some idea of how much we have spent on patenting, we have spent £101,000 on patenting computers.

Chairman.

4878. In patent fees?—In patent fees, yes.

4879. Who do you pay those to, Sir Frank?—(Sir *Frank Lee*.) They accrue into another section of the Board of Trade. (Lord *Halsbury*.) No, a great part of those, Sir, would be paid to America. On the other hand, you may be pleased to learn that the computer has a favourable dollar balance.

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Mr. Ramsden.

4881. On page 26 of the Accounts there is an item of £238,000, or thereabouts, written off in 1956?—Yes. That again was what I might describe as over-conservative bookkeeping, and we are in fact in a position to write a substantial part of that back again in next year's accounts. We thought we were going to be landed with a substantial loss on development account for computers and we managed so to arrange our affairs that the manufacturer responsible for doing development reimbursed us to a substantial extent on our costs, so some of that will come back into next year's accounts.

4882. Do you know how much?—Yes.

4883. Leaving quite a substantial amount still to be written-off?—Yes.

4884. Do you get that back?—We have got to.

4885. How?—It is up to me to get it back somehow. If we lose money on one thing I have to make it on something else, otherwise we can never make the Corporation pay. We have, of course, long-period agreements stretching ahead. This is one of the reasons why it is so difficult to give you a forecast. We have recently taken the lead in bringing into being a patent pool for computer patents. This liberalising of the patent situation secures freedom of use for all manufacturers on all patents because they equally with us pool their patents and then we as contributors to the pool draw from the flat rate of royalty paid into the pool. So, whereas in our earlier stages of transactions in computers, when the industry was small, we were drawing a relatively high rate of royalty from a relatively small number of computers, we are now going to draw a small rate of royalty from the whole of the computer manufacturers in this country; and that agreement has very many years to run. In fact, it will go on running for as long as we hold computer patents, and they are still accruing to us. That may be a very substantial asset from our point of view, but it is quite an intangible asset; I cannot tell you what it is going to be worth to us.

Mr. Peyton.

4886. Lord Halsbury, next time you come I hope you will bring some of your conjuring tricks with you, and particularly I would like you to bring the gold from cyanide liquors. You can give me the gold and give some of my colleagues the cyanide liquors! How did you get into the computer field? Was it just by chance?—By no means. We got into the computer field because the first block of important patents assigned to us came from Professor Williams who had made one of the key inventions in that field, and he at the time was in the employ of the Ministry of Supply on what was then the Telecommunications Research Establishment in Malvern in 1956. He went to Manchester University and we then did a deal with Manchester University as a result of which all his subsequent work at Manchester was assigned to us, too.

4887. On page 3, at the top, the Report refers to "Two of the principal computer manufacturers who have been assisted by the Corporation to develop computers in

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[Continued.]

the past years". Were these people lacking in confidence, or money, or both?—They were lacking in neither competence nor money.

4888. "Confidence", not "competence"?—Confidence; in the relative sense, I should say they were lacking in confidence, and in the relative sense they were lacking in money. In other words, they had limited amounts of money and many demands on it and being left to their own devices they would not have spent the money on computers.

4889. Is your establishment a form of partnership, really, a sharing of both risk and benefit, or what?—First of all they are our licensees and therefore they pay us a certain percentage of the selling price as a royalty, for all computers manufactured, whether financed by us or not. Secondly, they have very often acted for us in a twin capacity. They have acted for us as our manufacturing agents for the supply of computers to us, and having built the computer for us we have then appointed them our selling agents to go and sell the computers they have made. The difference between selling price and manufacturing price is our profit.

4890. Do you in your commercial arrangements with these people vary the amount of reward which you yourselves claim according to the element of risk you think there is?—We endeavour to.

4891. It must be, with respect, very much hit or miss at this stage of development, must it not?—It has got to be. It is like sight-reading a piece of music. You have got to get along it somehow.

4892. I just happened to notice that at the top of page 5 there is one of those remarks with which one is fairly familiar which may be all right or may count for little: "Results and experience of great

value have been obtained". This is the regenerative mechanical transmission system?—Yes.

4893. It is rather that kind of remark which one meets very often and yet in following years those results do not seem to be quite such distinguished children as they were hoped to be?—Yes, I take your point, Sir. What that means is that we have tested each individual component of the assembly separately and each one of them has been found to be up to specification and according to the requirements of the designer; and we are now in a position to put them together and try to make a system out of them.

4894. What do you do about publicising these things if you find you are on to something which you think can be developed commercially and has definite commercial possibilities? What do you do about selling it?—We have a liaison machine which is permanently in touch with industrial firms. We endeavour, of course, to sell ideas, if we can, without spending a penny on them other than on patenting. We have a whole section of staff which is concerned with doing nothing but making contact with industry. We run a bulletin which is circulated to 5,000 industrial firms, some of the biggest and some of the smallest.

4895. Do you find that industry is taking more interest in your activities as time goes on?—I should say so, yes. Increasingly I am getting the chairmen and managing directors of the bigger firms writing to me and saying: "Why do I not see a copy of your bulletin", to which I am usually in a position to reply and say: "Well, you ought to, but it has got stuck in your own machine", but from then on they get one sent personally from me with my compliments.

4896. And you try to sell them a different machine, too?—Yes.

THURSDAY, 12TH JUNE, 1958.

Members present:

Sir George Benson, in the Chair.

Mr. Arbuthnot.
Mr. Hoy.
Mr. Peyton.

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

Sir FRANK TRIBE, K.C.B., K.B.E., and Mr. J. MACPHERSON called in and examined.

CIVIL APPROPRIATION ACCOUNTS, 1956-57 (CLASSES VI-X).

CLASS IX.

VOTE 5.

MINISTRY OF POWER.

Sir JOHN MAUD, G.C.B., C.B.E., Permanent Secretary, and Mr. E. J. MEADON, Under Secretary and Accountant General, Ministry of Power, called in and examined.

Chairman.

4897. Sir John, I gather this is likely to be the last time you will appear before this Committee?—(Sir John Maud.) I think so, Sir.

4898. I am sure the Committee would wish you luck in your new job?—Thank you very much, Sir.

4899. Will Members turn to the Civil Appropriation Accounts, Classes VI-X, to paragraph 134 of the Comptroller and Auditor General's Report? What is the reason for the change of title? Is there any inwardness?—I do not know why the Government decided on it but, perhaps, the inclusion of iron and steel and the upgrading of the present Minister to a seat in the Cabinet, which the previous Minister of Fuel and Power had not had, may have been part of the reason.

4900. What exactly are your responsibilities likely to be with regard to atomic energy?—They are exactly the same as they were in respect of electricity: once the use of atomic energy has come to the point of commercial exploitation, to produce electricity. It has always been the duty of my Minister to be responsible for the programme of the Central Electricity Authority, as it was, or the Central Electricity Generating Board, as it is, but beyond that my Minister now has a general responsibility for seeing that all possibilities of exploiting nuclear power for civil use are followed up. He has no responsibility for the research and

development work of the Atomic Energy Authority, but the further exploitation of nuclear power, in fields other than electricity, it is now his responsibility to watch and foster.

4901. Is that implicit or is that something entirely new?—It was specifically stated, Sir, by the Prime Minister, I think, in the House in announcing the appointment, as something that was, at any rate, a little new; it had never been specific before.

4902. How do you come to have acquired iron and steel, which is hardly fuel and power?—I suppose the ground for the change was that to have the Government responsibility for a basic industry such as iron and steel as part of the wider responsibility for the basic industries of coal, electricity, gas, and oil might have some advantage.

4903. It does not seem to be a very intimate connection?—There is a very close relation, of course, between the coke oven work, for example, of the iron and steel industry and the coke ovens of the Coal Board.

Mr. Hoy.

4904. Following up what you have just been asked, Sir John, what do your responsibilities for iron and steel amount to?—They are exactly the same as the responsibilities the President of the Board of Trade had and the Minister of Supply before that, and in practice it means that the Iron and Steel Board act as the chosen instrument of my Minister, as

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previously of the President of the Board of Trade, and my colleagues and myself seek to be in the same sort of touch with the Iron and Steel Board and through them with the industry as we are with the National Coal Board, shall we say, or other nationalised Boards.

4905. If that be the case why does the heading to your Account mention only expenses "in connection with the recovery of scrap metal," if you have all these other responsibilities?—I think it is an imperfect description of our responsibilities. But it is an accurate description of the accounting; there is provision, as you know, in our account for the expenses of the work that the Iron and Steel Board carry out on our behalf in respect of scrap, and I think that is the reason why it is specifically mentioned in the rubric.

4906. Are any expenses of the Iron and Steel Board included in your account?—No, Sir, they are all paid out of the industry.

Sir Colin Thornton-Kemsley.

4907. Sir John, what is the division of responsibility for atomic energy between your Ministry and the Office of the Prime Minister?—The Office of the Prime Minister has the whole responsibility in respect of the Atomic Energy Authority, that is to say, for research and development, both for military and for civil purposes. We have no responsibility whatever in the military field, but we have responsibility for electricity and in due course if there are developments of the civil use of nuclear power other than electricity, my Minister would feel that he was responsible at any rate for knowing about it and fostering it.

4908. How do you go about the business of extending the use of atomic energy as a source of industrial power?—Well, propulsion of ships is perhaps a good example of a field in which work of an exploratory and development kind is going on and is thought promising and there we keep in touch with the work of the various Departments interested which, of course, include the Admiralty, and so far as my own experience goes there is no other non-electrical development that has yet occupied us. Of course, we are in very close touch with the Atomic Energy Authority in their relations with the Central Electricity Generating Board, as it is now

called. We are concerned jointly with them and my Minister does in fact receive information about all sorts of research and development that they are occupied in, in order that he may know what may be coming next into the area of commercial exploitation.

4909. Do your responsibilities in that field extend to Scotland or purely to England and Wales?—In the field of electricity they do not extend to Scotland because the Secretary of State corresponds to my Minister in relation to the Atomic Energy Authority and the Prime Minister's Office. But in respect to the general development of nuclear power as a source of energy, my Minister has a remit which is not geographically confined.

Chairman.

4910. Paragraphs 136-139, Research and Development. Sir John, I presume that the object of this gas turbine research is the better use of existing low grade fuels, is that correct?—Yes, Sir. Going back to 1949 when the whole programme was devised, the thought was that the conventional machines were less likely to show substantial improvement in fuel use through research and development work than were new types of machines such as the gas turbine, particularly in the light of the developments of jet aircraft during the war; and that therefore it would be worth while seeing whether indigenous fuels, and in particular poor qualities of coal and slurries and also peat and methane from mine upcast, could be effectively used in a gas turbine. I think that was the basic thought behind the programme when it was devised in 1949 or 1950.

4911. What progress are you making?—I think it is fair to say that my predecessors have been proved right in having set themselves to this task because the need to make use of the poor quality fuel, the small coal and so on, has become more rather than less obvious today than it was six or seven years ago. On the other hand, a good deal of the work has proved negative in its result, particularly in the types of gas turbine which work on the open cycle principle, that is, where the hot gases are in direct contact with the blades of the turbine and therefore the products of combustion also come into contact with those

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blades; that has proved too stubborn a problem, the problem of blade fouling and gas cleansing. And so, very broadly speaking, the conclusion now is that we should concentrate less on that than on the closed cycle type and in many cases regard the experiments as complete. After this year, 1958-59, we shall have more or less completed the programme conceived six or seven years ago, using some dozen firms for these various sorts of gas turbines, and we shall not be expecting to spend more Government money on those. We shall expect some of the work to be carried on by the firms concerned and by various industries; for instance, the Coal Board have ordered recently a 3,000 kilowatt plant based on our research for making electricity at one of their pits and the North of Scotland Hydro-Electric Board similarly are developing a peat burning closed cycle electricity generating plant in that part of Scotland.

4912. So that your work has not been nugatory?—I would say that our work certainly had not been nugatory and that there were good results, but to be quite frank I must also say that many of the particular lines which have been explored have proved a cul-de-sac, or at any rate have not seemed to justify further expenditure by the Government.

4913. Assuming that you make further progress on the lines you are now pursuing, who will be the main beneficiaries of your research?—The manufacturers of electricity, that is to say, the electricity supply authorities, such as the North of Scotland Board and the Generating Board and industry concerned with the small plant, say, the 2, 3 or 4 megawatt plant for their own standby use.

4914. So, what you are doing, then, is research which may be useful to national organisations but will also be useful for small private firms, is that correct?—I think that is true. If I could give an example of an indirect development which I personally think is satisfactory, though one cannot claim any direct credit for it, the firm who have the contract for this peat burning development have, I think, been able to accelerate the development of an oil burning gas turbine by several years compared with what they would have been able to do if they had not had our

development contract. I happen to know that some £3 million worth of export orders have come to this country and I do not think firms would have gone ahead with their gas turbine work, at any rate as fast as they have, if it had not been for this, which is only very indirect result.

4915. Are they and similar concerns making any contribution to the basic research?—They certainly have, Sir, in the particular development contracts that they have had from us.

4916. I meant financial contribution. They are obviously going to benefit considerably by the research the Government has paid for. Have they or are they making any contribution?—Not in a financial sense except in so far as the final terms on which the contract is negotiated are concerned, because, as the report says, in eight out of twelve of these cases we have left over the determination of the profit until the research was finished, and in the negotiation of that figure we do try and take account of the advantage, if any, which the firm itself has derived from having had the contract.

4917. Obviously a firm that has developed something entirely new from what you were expecting to develop and which has commercial value is reaping a reward which presumably will be taken into consideration?—It is taken into consideration as far as possible, but it is extraordinarily difficult to assess what allowance should be made and how far the work that we have paid for has contributed to what they are then going on to make profit from.

4918. "They", I suppose, presumes other firms?—Yes, there are about a dozen firms which we have been specially concerned with over this gas turbine programme.

4919. What about the nationalised corporations? They have an interest in all this. Have they been doing anything or has it all been falling on the Exchequer?—No, they have been contributing quite substantially. If I might mention the British Transport Commission which is not my responsibility, they have been paying 40 per cent. throughout to the research into the gas turbine locomotive; and the Central Electricity Authority have contributed

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quite substantially to the various experiments in gas turbines for the manufacture of electricity and the Coal Board also, both in the underground gasification project and in some of these gas turbines.

4920. Are you satisfied that you have collected all the available information from foreign sources?—I would not like to claim that, Sir, but again, if I might mention one that comes to mind as being very recent, the National Coal Board have acquired a lot of very useful information from the Russians in connection with the underground gasification project.

4921. Has that been readily given?—And they are actually modifying at this stage their work in the pilot project at Newman Spinney in the light of what they have learned from the Russians.

Mr. Stevens.

4922. In paragraph 139 of the Report reference is made to expenditure amounting to £114,000 in respect of which the contractor is now asked to pay rent of £250 a year. It just struck me that £250 seemed a very small rental for such expensive equipment?—The estimated value of that particular machine is £35,000 on which the rental of £250 is being paid.

4923. Even then it is very low, is it not?—Frankly, Sir, we were very pleased that they thought sufficiently well of this particular machine to want to rent it. We think it is a sign of hope that there will be improvement in the existing design and that the capital invested in it will prove fruitful. We did not regard £250 a year as low, particularly as they are responsible for maintenance and keeping it in repair and especially as it is in a highly experimental stage and, in fact, I think, only 250 hours' work was got out of it in the first year for which they paid rent.

Mr. Hoy.

4924. What is it, Sir John?—It is a gas turbine air heater that was developed on our initiative using pulverised fuel—coal.

Mr. Thornton.

4925. On the question of the information that has been gained from the Russians, Sir John, have you any

facilities for the translation of scientific and technical documents from the Russians?—In this particular case, of course, it was the National Coal Board and not ourselves, and they solved the problem. One of the things that held them up was the difficulty of understanding Russian.

4926. I have taken some interest in this problem and I think it is well known that the Russians have probably the best service in the world for translating and collating from technical journals from all over the world, and I wondered if your Department was thinking at all of taking advantage of appropriate Russian scientific literature that is available now, I understand?—I do not think we have ever been held up for lack of someone to translate a document we wanted and I do not think the Coal Board have either, and it is more the Coal Board than we who have benefited in this particular respect.

4927. You have facilities for getting documents translated if you think they are likely to be of interest to you?—We can.

4928. That brings me to the next point: what arrangements have you for having your attention called to scientific publications in Russia that may be of interest to your Department?—It is really through my scientific colleagues, the Chief Scientist and his colleagues who, in the way that scientists do, read the scientific journals; and I would rely on them to be sure that they got on to interesting material that was coming from abroad and the same, of course, goes still more for the research and development workers in the nationalised industries.

4929. The point I am pressing this for is that it is apparent that the Russians are taking the fullest possible advantage of the scientific and technical work that is done in this country. They are having practically all the documents translated. I know, probably, we cannot do that, but I did hope that perhaps there was some definite plan for having your appropriate scientific officers' attention called to publications which would be of direct interest to your Ministry. One further question, Sir John. I am not just clear why the industries concerned did not undertake this research and development

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themselves. Why did they not undertake it themselves?—We in the Ministry have regarded ourselves as only concerned to move into research and development where someone else was not going to do it; in other words, primarily we were there to fill the gaps and to do work which did not fall to anyone, either the nationalised industries or others. I think gas turbine work is rather a good example of that when—again I am speaking of the period immediately after the war—I do not think the electricity industry or the coal industry or the gas industry would have felt that it was up to them to experiment in this field where at that moment very little was known and it was therefore more for a central body.

4930. Just one further point: have you a system of approving expenditure at each stage of development of the research so that you can at the earliest point stop the expenditure when you think the fullest advantage has been taken of that kind of research?—Yes, indeed. These contracts vary in detail, but, broadly speaking, all of them provide for a limited amount of expenditure beyond which the firm cannot go without our approval; and similarly the Treasury, of course, work very closely with us on this and we cannot move without their approval. And as far as it is humanly possible we do supervise the firm to the extent of knowing how the research is going and, of course, relying to a large extent on the firm itself—as we have relied, not in vain—to tell us when they think the research is not going well; and the times when we have decided to pack it up, as in the cases mentioned here, were partly as a result of the firm themselves saying: “You will need to spend another £½ million if you are to carry this one stage further”, and we will then decide it is not worth spending £½ million and close it down.

4931. One question to the Treasury. Mr. Macpherson, are you satisfied that there has been adequate control exercised over this expenditure?—(Mr. Macpherson.) I have no reason to doubt it, Sir. As the witness has said, Treasury authority has been required for the individual expenditures and they have come at the appropriate times for any increases that were necessary for a particular project.

Sir Colin Thornton-Kemsley.

4932. Sir John, apparently you spent about £1.7 million up to the end of March, 1957, on turbine research. What is the present estimate of the amount that you will ultimately spend on this?—(Sir John Maud.) In fact we have at the end of March this year spent £1,860,000, and I think £140,000 is the total further expenditure which we mean to put in over the whole field of the gas turbine; in other words, it is practically complete. There are retention moneys which we have not paid out yet, for obvious reasons, but the new work which we shall be doing from now on is really negligible. It is all finishing off and making the best use of what has been found and of the machinery and the ironmongery that exists.

4933. Something under £2 million?—It will be, I should say, just about £2 million.

4934. Are those gross figures or net figures?—Those are gross figures.

4935. Going to the next paragraph of the Report, paragraph 138, why have you abandoned work on the peat-burning gas turbine?—I think really for the reason that I was indicating before, the blade fouling that results from the combustion of the peat passing over the blades of the turbine. We had a big conference with all the people that had been concerned in this in May, 1957, and we decided that it was not worth putting in the extra money that would be required if we were to carry it any further; and therefore we have decided to concentrate on peat drying which is one of the by-products of this research and which is definitely valuable, for example, from the point of view of manufacturing briquettes both for domestic use and for burning under boilers. That is going forward. The North of Scotland Hydro-Electric Authority have ordered a 2,000 kilowatt plant based on the closed cycle type of peat burning turbine. But it was, frankly, the sort of question that one has to ask from time to time: has research justified further expenditure or has one got to say that one will make the best of the results to date and not spend more on it? That was the decision taken on the peat project.

4936. Would it be true that there is an increasing use of liquid gas of the

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type of the commercial Calor gas that is used so much nowadays? Is the use of that liquid gas increasing, do you think?—Butane and propane?

4937. Yes?—I would not really like to hazard a guess. (Mr. Meadon.) I should not think it is in that particular kind of use. I should think that the total volume of trade done by these proprietary gases is fairly static. What is happening is that similar gases are being taken by the gas industry and blended in with their town's gas on an increasing scale, so it is going into the domestic market from the petrol refineries in that form rather than in bottled form. There are certain areas of the country where developments are taking place in bottled gases—Wales, for instance, is one which comes to mind—but I should not think there is any very large extension in the bottled gas trade as such.

4938. That field is really being left to private enterprise, is it, or is your Ministry experimenting at all with that type of gas?—(Sir John Maud.) It is perhaps fair to mention the experiments the Gas Council are undertaking with our approval of importing gas in liquid form.

4939. I really meant under your aegis. The Gas Council are experimenting, are they?—Yes.

4940. But broadly that field is being left to private enterprise largely, is it not?—(Mr. Meadon.) And the Gas Council. (Sir John Maud.) Yes, I think the Gas Council.

4941. They are doing quite a lot, are they?—Yes.

4942. Experimental work?—Well, I am not quite sure that I appreciate which bit of the field you have got in mind, but the Gas Council are mainly concentrating their experiments on ways of using small coal and non-carbonising coals in the manufacture of gas.

4943. I had in mind the bottled gas which is used to quite a considerable extent in rural areas and for caravanning, and that kind of thing?—Yes.

4944. Which is produced, I suppose, largely or entirely by private enterprise, is it not?—(Mr. Meadon.) It is marketed by private enterprise. It is made mainly from refinery gases.

Mr. Arbuthnot.

4945. Sir John, the National Coal Board, I imagine it must have been, sent round a circular the other day to people who are buying coal saying that the cost of coal for space heating is about half that of gas. Is any of your research concentrated on trying to reduce the cost of gas for space heating?—(Sir John Maud.) Again, Sir, it is more the Gas Council than we in the Ministry in the direct sense, but they are experimenting in every sort of way to bring the price of gas down. What I mentioned earlier, this experiment in importing liquid methane where there is an experimental cargo coming shortly, is really based on the hope that you may be able to produce gas out of the holder very much more cheaply than by present methods; and all their other experiments with the slagging gasifier and in the use of tail gas from oil refineries, and so on, are similarly directed to the end of being able to market the gas at a lower price, because the conventional method of producing gas relying on carbonizing coals which are going up in price is obviously going to mean that the price of gas is going up; but the gas industry have made very substantial progress in recent years in developing new methods.

4946. What was the project, the cost of which was £300,000 which you started in 1956-57, referred to in paragraph 136?—It was a cooled gas turbine and, in fact, practically no money was spent on it because it was found after the first design study which was ordered that a very expensive compressor would have to be designed if it was to be economic. It was an ambitious project to use very much higher temperatures in the turbine than had previously been found feasible. It was abandoned on, I think, the very sensible ground that it was found even at that early stage of the design study to be a more ambitious project than we could authorise.

4947. But you do not think that £300,000 is practically no money, do you?—No, Sir, but £300,000 was not spent.

4948. The Comptroller and Auditor General says that of the increase of £900,000 in the estimate one-third, that is to say, £300,000, related to a project

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started in 1956-57?—Yes, but that is in the estimate. The estimate went up by £300,000, but in fact the expenditure—I cannot remember the figure—was £1,200, or something of that sort, and that is one of the reasons why the figure of £2·4 million that is mentioned in paragraph 136—“the estimate of total cost had risen to £2·4 million”—is too high. As I think I said earlier, our present estimate is a little less than £2 million for the whole programme. (Sir Frank Tribe.) The expenditure on that up to 31st March last was only £6,000.

4949. What use is the contractor making of the £35,000 gas turbine air heater, the cost of the development of which was £114,000, which is referred to in paragraph 139?—(Sir John Maud.) He is making no use of it in the sense of money out of it at the moment, but he is continuing to experiment. It is a machine which produces both process heat and electricity and that is what interests him and that is what he is continuing to experiment with, but as I said, unfortunately in the first year for which he paid this rent, owing to a fault in the turbine and not in the air heater, they only got about 250 hours work out of it.

4950. Is this the sort of generator of electricity that will operate a factory or is it the sort of generator that he hopes to sell to the Electricity Board, or what sort of machine is it?—It is the former. It is definitely a small producer, not a major power station at all, but something which you might hope to instal in your works and get both process heat out of it and electricity for the works.

4951. What is the sort of output of it in electricity?—I think less than three megawatts, but may I correct that if it is wrong? It is somewhere in that area.

Mr. Hoy.

4952. Just one question to Mr. Macpherson. When this rent was fixed of £250 for this £114,000 project were you consulted?—(Mr. Macpherson.) I do not know that we were. I doubt whether the Ministry would consider they ought to come to us. There are well established rules that they get either an economic rent or the market rent, whichever is the better.

4953. And even if something cost £114,000 and was being let for £250, would they not draw that to your attention?—I do not think it was.

4954. The cost was £114,000?—No, the witness pointed out that the cost of this machine was £35,000. The cost of the research on the project was £114,000. (Mr. Meadon.) The present estimated value of the machine is of the order of £35,000.

4955. The estimated value, though £114,000 was spent in producing it, is that right?—And other associated work, yes.

4956. Even then one would have thought that this was an exceptionally small rent. However, if the Treasury does not show any more interest in that I can well understand why the Department does not either?—(Mr. Macpherson.) I do not know that that is quite fair, with respect. (Sir John Maud.) We think it is sad to find criticism of the Treasury on this account because this is one of the plums we have been able to rent for £250.

4957. Why do you describe it as a plum?—One of the plums.

Mr. Hoy.] Of very doubtful quality.

Chairman.

4958. Paragraphs 140-142, Contracts for Research and Development. How do you select your contractors for this work, Sir John?—What we try to do is to interest several in the idea that we have and see which of them is most likely to feel that it is a matter that fits in with their own plans and which they will really go to with enthusiasm, because one of the points which we have learned from experience is that it is no good expecting that you will get the best work out of a development contract unless the firm concerned is not only conscientiously concerned with the contract but realises that it is of interest to the rest of its work. That means that very often there are not more than one or two firms which would be available at a given time for the development of a particular idea and therefore in almost all cases it really is a matter of selecting one of them and interesting him and seeing what are the best terms you can get out of him and what the best chances are that he will do the sort of work you want.

4959. How do you approach the problem of getting the best terms out

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of him?—Our Chief Scientist when this started was Sir Harold Roxbee Cox, who had been head of Power Jets before he came to us from the Ministry of Supply, and he was very well acquainted with the big and small firms and personalities in the gas turbine world, so I do not think there was any difficulty in deciding who to consider. The persons we did go to were firms like English Electric, John Brown of Clydebank, Napier's, Ruston and Hornsby, Lucas and Incandescent Heat.

4960. Do you attempt to fix up some general principle as to the rate of profit they shall expect on their activities?—We keep in touch with other Departments that are specially concerned. Here again the Ministry of Supply have had much more experience than we had and we had the advantage that the present Chief Scientist also comes from the Ministry of Supply. From the information the Contracts Department circulate among us we know pretty well what other Departments consider reasonable and at the moment a profit of something like $7\frac{1}{2}$ per cent. on capital involved is the sort of figure that we try and get with, perhaps, an additional 2 per cent. for efficiency; and that when worked out in terms of the ratio of turnover to capital means that if they have £10,000 invested and they spend £20,000 in the year, that is two to one and you would try and pay only half of $7\frac{1}{2}$ per cent., $3\frac{3}{4}$ per cent., on their actual cost in the year.

4961. In paragraphs 141 and 142 the Comptroller and Auditor General indicates that sometimes you seem to fix the rate of profit before the work starts and sometimes after it has been completed. What guides you in deciding whether you are going to do it before or afterwards?—In practice, I think all the four contracts that were fixed in advance, which are mentioned in paragraph 142, were because we wanted the particular firm concerned and we could not have got that firm on that particular job unless we had fixed the rate in advance. In other words, I think our preference has been to accept the disadvantage of not knowing in advance because of the advantage of flexibility and of not having to arrange in ignorance of what the real expenditure is going to be and finding ourselves with estimates that have been put in overloaded against

contingencies. On the whole, we prefer to settle the proper rate after rather than before.

4962. Do you try to take any account of the know-how that they have acquired?—Well, it is extremely difficult in any circumstances to take account of that, as I said, but it is at least possible to try to do that if you are settling the thing after the event and quite impossible to do it if you are settling before.

Chairman.] Oh, obviously. There may be none.

Sir Colin Thornton-Kemsley.

4963. Sir John, what incentives to economy has a contractor in carrying out this work?—If I might mention a concrete case, perhaps it is a good example, one firm have been doing this locomotive gas turbine and there we did have a fixed rate for the job and in fact they have been spending their own money since they reached the fixed figure. In other words, because they wanted to complete the job and go on with it, they have been doing work which we would have had to pay for if we had had a different sort of contract. Now, there they had a very strong incentive to keep within a figure because they knew they were not going to be paid more than so much. In other cases where you have not got a fixed figure in advance, not having fixed in advance the profit or the efficiency percentage, you hope that they will feel it worth their while to earn it by their efficiency, speed and working to schedule; and meanwhile, of course, through my technical colleagues I do, as far as possible, keep in touch with them all the time and approve for payment only costs which have been thought right by our technical people and by our accountancy people. There is a double check on all the actual costs and therefore if they are being inefficient we should be able to jump in and say: "We will discontinue this".

4964. What means have you of seeing that the job is being done as quickly as possible and is not merely used by the contractors as a sort of stop gap, something that they can work on when they have got nothing else to do?—I do not think there is any general answer to that, Sir. It really depends on how effectively integrated my colleagues are

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[Continued.]

with the particular firm and work. Having let a development contract you do not wait and see what the result will be in a year's time, but you keep in touch with them. One thing we are going forward on now is oil synthesis work and there one is day by day in touch with what the constructors are doing.

4965. Your technical officers, in other words, are on the job frequently keeping in touch with the contractors and interesting themselves in the progress of the work? They are not merely relying on progress reports from time to time by the contractor?—No, that is exactly the position and the only chance of having effective supervision and seeing that the work does go in the right way is, first to have the right sort of contractor who is really interested in the thing and, secondly, to have people who are keeping him in touch with the Ministry and with related work that is being done by other contractors.

4966. Have you found that contractors are anxious to close down jobs because they saw no prospect of success?—I think they have been, if I may say so as a layman, very honest in not encouraging us to go on when they thought it was not worth while and in giving us a fair estimate, even if it has been a big figure, of what we have got to face in future if we should go on with it.

4967. You have found that as a general rule?—I have found that. I have not found many cases where looking back, one would wish one had realised that the thing was not going well and had closed it down earlier.

4968. You have not found that in many cases?—I think it has been our fault collectively rather than the fault of a particular contractor, and I think this cooled turbine was a good example of a case where there was really quite a big job envisaged which as a result of the design study we could both agree to forget.

Mr. Thornton.

4969. The last sentence of paragraph 142 relates to provision for Government participation in benefits arising from patents and design rights. Have any of your projects yet resulted in marketable patent and design rights?—Yes, we

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have handed on to the National Research Development Corporation and to Power Jets various patents, but I do not think we have got big money out of it yet.

4970. What provision is there for your getting money from it? Have you any provision?—It entirely depends how successfully the project sells and therefore how many licences are requested by people who want to manufacture it.

4971. But your interests are adequately safeguarded?—Our interests would be protected in that way, that the Government should have a share in the licence moneys.

Mr. Peyton.

4972. Sir John, you said at one stage that you tried to interest other firms at the same time in your ideas. Where do you get your ideas from at the start? That is what I always wonder?—I think from individual members of the staff of the Ministry.

4973. Scientific people?—Whether from Sir F. Old Roxbee Cox or some other of his scientific colleagues at the Ministry but, of course, by no means only from there. In this gas turbine work, there was a distinguished Committee under Stanier which was the body we were putting all ideas to and collecting ideas from; this was a collection of people who had distinguished themselves in the field of gas turbines for various purposes.

4974. Paragraph 140 contains this phrase: "Extended from time to time as work proceeds". That refers to the limits in the contract. That must lead to some interesting arguments, must it not?—This is quite straightforward. To give a concrete example, when dealing with a contractor, you say: "You cannot spend more than this and we hope that you will have finished that by the end of June." They may go slower than that and therefore it may not be until July that you have to consider it, but in the light of the progress then you decide to extend it to December and at what sort of figure. It is that kind of extension in time with, of course, corresponding increased expenditure in terms of money.

4975. Have the contracts referred to in paragraph 141 been settled yet as to the rates of profit?—No, I do not think any of them have.

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[Continued.]

4976. Do you find on the whole that firms are willing to take on projects without an assured minimum of profit?—We in this particular case have been successful in two-thirds of the cases.

4977. In getting them?—In getting them.

4978. It does not mean, I hope, that you have got a reputation for excessive kindness or generosity?—I do not think we have. Of course, we are in this context always involved with our Treasury colleagues. We might be very soft but we should not earn that reputation unless they were soft, too.

4979. Do you ever find anybody who after the work has been done finds that your terms are so strict as to be impossible for them to accept?—(Mr. Meadon.) I do not know of a case where it has really got to that point. I would not say that when you come to settle a rate of profit after the event one inevitably registers agreement in the first day's discussions, but I cannot call to mind a case where there has been a very serious difference of opinion.

4890. Is there any provision for arbitration or even the possibility of much argument in such things?—I could not say offhand whether that is specifically provided in the contract or not. It could not very well be, could it, if there were no rate of profit in the contract.

4981. Do your contracts provide the right of access to records?—Yes.

4982. Or firms' records in detail?—Yes, there is no difficulty about that.

4983. I suppose it is inevitable that the whole of this business must be conducted rather on the principle of taking up pot luck?—(Sir John Maud.) I think one accumulates experience, which means that it is not quite so pot, and our experience, although we only began this in 1949, emerged really out of the Ministry of Supply experience.

4984. Would you not put that the other way, that it would be better to have more pot than luck?—But it does involve a great deal of personal negotiation between the leading members of the firms and my senior colleagues.

4985. Yes, I understand that?—I think, frankly, the best hope that one has of sensible collaboration from the

other side comes from the fact that most of these firms would like to go on in collaboration with the Government and they would not wish to fall out and have a reputation with us which would, of course, be known to other Government Departments; and when you are dealing with the sort of firms that we do deal with I think one can accept that they will act fairly.

4986. I am very interested to see this reference in that paragraph to "An addition, where earned, for efficiency". Is that an attempt on the part of the Ministry to get away from the odium of cost-plus?—In a sense it is. It is part of the plan that you aim at a figure (which at the moment is only 7½ per cent) as the profit on capital. Assuming that there is an addition, and normally there is, you have a certain percentage in your mind as something which might be added, in a sense, as a good performance payment.

4987. I presume you have discussed this kind of arrangement with other Departments?—Yes.

4988. It does seem to me that one of the great difficulties you come up against again and again is this inability sufficiently to modify a cost-plus arrangement and therefore seek to limit rewards for inefficiency?—Yes.

4989. I was wondering how you find this arrangement worked out. You find it does work?—It is very difficult to know its cause and effect, but I think the fact has been that during the period we are considering all of these firms have had very big and full order books and it really has not paid them to hang round and do the thing less efficiently than we would like it. The difficulty, of course, is to be sure that they continue to be as interested in the development contract as they were when they took it on (because their interest may develop in other directions). (Mr. Macpherson.) This is a formula which dates back to the beginning of the war when, in a period when it was expected that prices would rise, and so on, there would be a big demand on available sources. This formula was worked out and given to firms as a guide to the sort of increase they ought to have in their minds when negotiating a cost-plus contract. There have been criticisms of it from various sources and it is recognised that it is

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[Continued.]

not a perfect formula, but no-one has been able to produce anything better and it is still used by Government Departments generally as their base in cost-plus contracts.

4990. On paragraph 142, do you now find that the clauses in the contracts which aim to give the Government some benefits are effective?—(Sir *John Maud*.) I think so.

4991. It is comparatively easy in practice, is it, to provide for benefits to accrue to the Government?—I have not known any case where there was a difficulty and, frankly, I feel that a great deal of the benefit that comes out of research and development work like this accrues to the nation if in fact a successful project can be marketed as a result of the work and go into production, whether in the service of a nationalised industry or a private concern. I would hope that the contractor would get his money back on this sort of expenditure, and that the nation would benefit more from an increased efficiency in our national use of fuel, and in particular from our increased ability to use the indigenous fuels that lie around and would otherwise have no use, than from £ s. d. which can be pointed to in an account showing a licence for the particular patent right. I do not mean, of course, that one should not get all one thinks right, but I should not measure the benefit to the taxpayer at all by reference to that.

4992. Mr. Macpherson, on the question of Treasury control here, Sir John Maud comes to you and says he wants to have a special turbine developed. He has got a very good idea and it is going to cost you, the taxpayer, £¼ million and you say you have never heard of such a thing and you do not really want to have that turbine. So, he goes away and brings an army of highly competent experts and a great deal of people from some well qualified firm or other to say that nobody could possibly afford to be without this turbine. Who have you got in the Treasury then to take on that formidable array?—(Mr. *Macpherson*.) No one, but these particular projects do not come without a good deal of sifting of them having been done already. There is a Scientific Advisory Committee which will sift many of the projects and there will be not just one scientist's opinion backing particular projects but an agreement that out of available

resources so many projects, they think, can be authorised and the record of the priority that should be given to particular projects. So they come with a pretty formidable case to the Treasury when they come. The Treasury can exercise its judgment and you can take it that we shall refuse to allow certain projects which we do not think are justified. It does happen that particular projects do get driven up higher in the Ministry and even to Ministerial level, but this is a burden which the Treasury always have; and, on top of that, Treasury approval may well be sought for a project estimated to cost £½ million or £300,000, which will be approved on the basis, as Sir John suggested, that you set a smaller limit. The contractor will be given a smaller limit and that affords an opportunity of reviewing the project. It is a method of control. You do not start off by saying: "This is going to cost £100,000 and no more". The Treasury expect to know what the best estimate of cost is early in the life of the project. But if there is a doubt about the possibility and the likely outcome of the work there is provision for interim examination, as Sir John said. We may well have erred in that we might have stepped in earlier, of course, the Ministry and ourselves, and said: "Well, really the benefit we see in this does not justify any continuation of the expenditure".

4993. I am not casting any doubt on the omniscience of the Treasury, which is already well established, particularly in this Committee, but what I want to know is whether in this increasingly technical age it is really humanly possible for the Treasury to exercise control over matters which are purely technical? I take it from your answer that you are able?—I think there are weapons other than technical knowledge. There is usually a limit of resources available both in manpower and in money for the work to be done in a particular field and that in itself puts one above. It produces useful activity and it is a handicap in that the Ministry are not going to put forward irresponsible projects which are of low priority.

4994. No, I am not suggesting that they are. All I am saying is that when Sir John Maud comes forward with his turbine and says: "We must have this", and he produces a formidable array of talent to support his claims, it must be

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[Continued.]

almost impossible for the Treasury to turn it down except on the argument that there are not resources to meet it?—That is one thing, and from my own previous experience with the Ministry of Supply there have been occasions when we have said: “Well, we really do not think that this project is worth while for the money you intended to spend on it”, and cases, as I say, have been forced up and taken individually by Ministers where Ministers have got to decide whether they are worth while.

Chairman.

4995. Paragraphs 143-145, Underground gasification of coal. What are the relative spheres of your Ministry and the Coal Board in experimental work, Sir John, on gasification of coal?—(Sir John Maud.) As I said earlier on the general point, in this particular we would not regard anything within the domain of coal as something that we should do unless there was some special reason for thinking it would not be done by the Coal Board. In regard to gasification, I think that was a highly experimental matter and the Coal Board six or seven years ago when this thing started had so much on their plate already that there was very little likelihood that it would be looked into at all unless we looked into it. That was really the only excuse for our going for it and our idea was to get it to a stage as soon as possible when we could hand it over to somebody else, either the Coal Board, the Electricity Authority, the Gas Industry, or some company. That was why from the start we sought and got collaboration from the Coal Board both in money and in services, and I think we got about 27 per cent. in all. The figure is given at the end of paragraph 145.

4996. Roughly a quarter, at any rate?—Roughly a quarter.

4997. That is all the contribution they made?—Up to the time when my Minister asked if they agreed to take over complete responsibility and we were able to wipe our hands of it entirely.

4998. If and when it proves successful do they propose to refund to you the initial money that you provided?—No, Sir. We have not asked them for it, and the time of the transfer, I think, would have been the time at which we ought to have said so if we were going to ask them to recover it, and we decided not to.

Mr. Stevens.

4999. Sir John, in 1956, I think it was, the transfer took place of the experimental work and the direct responsibility to the National Coal Board. That is so, is it not?—Yes.

5000. But thereby your Ministry did not divorce itself of all responsibility for the further experiments, did it?—Well, anything that the Coal Board and the Electricity Authority are doing is a matter of concern to my Minister and he did not therefore in any way contract out of interest in it, but in the sense of direct responsibility I think we deliberately did and I think we made rather a point of saying that from this day onwards this was going to be the responsibility of the Coal Board and the Electricity Authority, and only if they got into trouble as between themselves or somebody else would we expect to come into it; and, of course, we have kept in constant touch with them.

5001. You have required progress reports?—I cannot remember a written progress report, but very frequent oral reports.

5002. Is this not potentially an important source of power?—I think it is very important, but I think the sort of contact that we have is adequate. The member of the Coal Board who is particularly responsible for this was head of the Safety in Mines Research Establishment and a colleague of mine, and he is still in day to day contact with my colleagues.

5003. Can you tell us what progress has been made under the National Coal Board?—Yes. The visit to Russia, to which I referred earlier, has been one of the ways whereby new knowledge has come in, since we handed it over to them. They have had a lot of difficulty since the 1st July, 1956, in the next stage, which was to set up the pilot project. Meanwhile the Central Electricity Authority has been building a small pilot station which will be ready either at the end of this year or, I should say, more likely the beginning of 1959, by which time the gas will be ready to come out to be fed into the turbine to make the electricity; and I think the view that you must go through a pilot project before you could go on to the commercial scale were entirely justified. There have been a lot of difficulties and the Board will improve on the techniques that we handed over to them.

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[Continued.]

5004. I was much interested in what you said about Russian developments in another context. How do the Russian developments, so far as gasification of underground coal goes, compare with our own developments in that same respect?—They are actually doing it and have been for some time. They are at this moment making electricity by igniting coal underground and bringing the gas up and turning a turbine with it.

5005. They are much ahead of us, are they?—They are definitely ahead of us.

5006. In the last two years under the direct responsibility of the National Coal Board we have not made much progress?—No, I would not like to say we have not made progress because in no circumstances would the pilot project stage have been completed by now. The difficulties that have been encountered, I think, are inherent in the process. I do not think there is any question of it being the fault of the Coal Board or their contractors. They have used the firm of Humphreys and Glasgow as their contractors and they have had Alexander Gibb as their consultant and another firm, too, and I do not think, from what I know of what has been going on, that there was any holding back, but there have been considerable difficulties and we are not out of the wood yet. I would not wish to be optimistic about the speed with which the pilot project could be started or how soon after that it would be right to say we could go into commercial production. Could I add one other thing which is rather important? During this period an alternative to the manufacture of electricity from underground gasification has become of great interest and the Coal Board are following it up. That is to produce towns gas instead of electricity. From many points of view that would be an advantage in view both of the nuclear power programme in the distance and the surplus of small coals for power stations in the present. If you could use underground gasification, not for electricity as had been originally planned but for towns gas, by the injection of oxygen, there would be considerable advantage from the national point of view, but they are not abandoning their present plan until they have gone further both with this plan and with the exploration of the oxygen process.

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5007. Are you quite satisfied that this transfer of responsibility from your Ministry has not resulted in any slackening of effort or lessening of drive?—I am, Sir, in so far as my knowledge goes, and I think that it is also true to say that if we had kept it as our own concern the Treasury might have found it very difficult during the last two years to allow us to find from the taxpayer the money to carry through this pilot project.

5008. Where has the Coal Board got the money from—but perhaps I should not ask you that?—From the consumers of coal.

Sir Colin Thornton-Kemsley.

5009. How does the cost of gas produced from underground gasification compare with the cost of coal for generating electricity, or how is it thought that it will compare?—I do not think anybody could answer that question, because this oxygen process has not yet been carried to the point where you could even make an estimate of the cost of the towns gas produced. The hope is that it would definitely be economic, that is to say, competitive with and cheaper than gas produced by normal carbonisation. (Mr. Meadon.) I think the only thing I could add to that, if I may, is that one of the Gas Boards are showing an interest in this particular proposition quite independently of what the National Coal Board are doing. (Sir John Maud.) That is the Southern Western. (Mr. Meadon.) The South Western, where there is a completely separate coalfield where the Coal Board are not at the moment operating underground gasification. That Gas Board is interested in underground gasification independent of the Coal Board, so it looks as if it could be an attractive proposition.

5010. It would appear from paragraph 145 of the Report that research into underground gasification cost your Ministry about £600,000, I think. Who owns the patent rights in the result of this work?—My recollection is that there are, in fact, very few patent rights associated with this. My recollection is, and I speak subject to correction, that the main basis of this technique has in fact been published to such an extent as to make it not patentable. So, to

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the extent that patent may arise I should imagine that they would be in respect

of small details and not in respect of the major design.

FINANCE ACT, 1956. ADVANCES TO NATIONALISED INDUSTRIES AND UNDERTAKINGS (MINISTER OF POWER) ACCOUNT, 1956-57.

Chairman.

5011. Will Members now turn to the White Paper, Advances to Nationalised Industries, to page 6, the Report of the Comptroller and Auditor General? From paragraph 3, Sir John, I see that advances are made to the Central Electricity Authority and the Gas Council at monthly intervals. We have had evidence from the Treasury and the Ministry of Transport and Civil Aviation that they make their advances fortnightly?—(Sir John Maud.) We do now, Sir. April 17th was the last time we made a monthly advance. We now do it twice a month.

5012. With regard to these advances is it the Treasury who determine the terms of repayment?—Yes, Sir.

5013. Mr. Macpherson, the last sentence of the Report in paragraph 7 refers to the special position of the National Coal Board, and, through the Public Works Loan Board, local authorities with regard to charging of expenses. What is this special position?—(Mr. Macpherson.) The National Coal Board, Sir, were, I think, prior to the 1956 provision the only nationalised industry getting their money by advances from the Treasury. By arrangement there had been a payment made in respect of issue and management expenses. We have been reviewing the position of the National Coal Board and we have reached the conclusion that there is not really any justification for the continuation of this arrangement. We are considering a proposal that as from now, or April of this year, this arrangement should cease and the National Coal Board then will come into line with the other nationalised industries covered by the Finance Act, 1956.

5014. I see the Treasury stated that the cost of managing advances—this is the beginning of the second half of paragraph 7—was taken into account in determining the rate of interest. That is for the Electricity Authority and Gas Council, whereas in the case of the Coal Board they charge a specific sum of £100

per £1 million and £50 per £1 million advanced, which works out at 1/100th of 1 per cent. But do you take that into account in fixing the rate of interest for the other two bodies?—We have to admit that we never refine the rates of these advances narrower than, say, about a quarter per cent. Really, Sir, we had a situation where we had this arrangement prior to the 1956 Act for the National Coal Board and we have reviewed it and we think there is not justification for its continuation.

5015. It is not so much justification, I do not see how they could possibly take 1/100th of 1 per cent. into consideration at all?—There are other factors, Sir.

5016. At any rate, you are now charging the same rate of interest to all the bodies, are you?—Yes, they are on the same basis.

5017. You regard the rate of interest now as covering such expenses as you have in raising money?—In determining the rate we have regard to this, among other factors.

Mr. Stevens.

5018. Do the Authority and the Council submit what used to be a monthly budget and is now a fortnightly budget to you when they indent for these sums of money?—(Sir John Maud.) Actually, they have a quarterly budget and each month they show us two months ahead what they expect to need.

5019. You have no means of checking that, have you?—Well, we have, of course, the annual investment programme within which the monthly payments have got to fit and it is quite true that when they come along for the next month it would be too late or it would be very difficult to check that and to tell them that they ought not to have it. But what you can do is to follow the trend and to see if in fact it looks as if they were going on this basis to exceed their six monthly or their quarterly or their annual figure, and at

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[Continued.]

that point you would ask very serious questions and if necessary have consultations at a high level.

5020. That is over a long period, is it not? You say six months or a year. They must produce quarterly income and expenditure accounts for their own purposes, must they not, so could they not let you have quarterly income and expenditure accounts?—They do.

5021. Surely those could be reconciled with the fortnightly allowances, could they not?—They are.

5022. I understood you to say you reconciled them with the yearly investment programme?—The quarterly reports themselves have to fit within the annual investment programme. If I may take a moment on this, you have the long-term investment programme which is what from time to time is put before Parliament when Parliament is asked to raise the limit of total expenditure, and that may be a 10-year or 15-year programme. Then you have an annual programme which my Minister in consultation with the Treasury approves with, in fact, an estimate of what will be likely in the following year and probable in the following four years. Within the year's figure you will have monthly requests for advances and quarterly reports.

5023. The quarterly reports are in fact in what I call income and expenditure form? They do show what has in fact been expended in the last quarter?—The cash position.

5024. So that can be reconciled with the fortnightly indents?—Yes, certainly. All I meant was that you cannot check on their request for next month.

5025. Oh, no, other than, as you say, by watching the trends in the budgets?—Yes.

5026. For very short-term needs they borrow from the banks on overdraft. Now that they are having fortnightly indents the needs must be very short-term indeed for the overdraft facilities?—That is the cushion. I would say the overdraft, which is limited to £50 million at the moment in the case of electricity, and £15 million in the case of gas, and the Accountant General will correct me if I am wrong, they have anyhow and they only ask for advances which they think will be required beyond that. (Mr. Meadon.) It is perfectly true

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that the size of the overdraft at any point during the month will be affected by the frequency of advances.

5027. It is, in fact, allocated, as you might say?—(Sir John Maud.) It must be so, yes.

5028. From the point of view of interest and management expenses which is it better for them to do, to use the bank overdraft facilities up to the hilt or to indent from you?—It depends on the relevant rates of interest.

5029. I know it does. I am asking you which is the better proposition from their point of view?—I am quite sure so far they have not addressed their minds to this and they have not calculated their request for advances to us by reference to the interest rate. Of course, the interest rate for the short-term is higher at the moment than for the long-term.

5030. The amounts are substantial, so a small difference in the rate of interest would make quite a large difference in the aggregate, would it not?—(Mr. Meadon.) Yes.

5031. They have not bothered about it?—Yes, but it also depends on the nature of the working capital fluctuations, which may be quite a material swing from one day to another. It is a much easier thing to be handled by a bank overdraft than by fortnightly Government advances.

Mr. Peyton.

5032. Sir John, on paragraph 5, are not the costs of issuing the stock a bit high?—(Sir John Maud.) I do not think so. Of course, they do not happen now.

5033. Nearly £1 million for £200 million?—I must confess I have never thought they were too high.

5034. Do you have any views, Mr. Macpherson?—(Mr. Macpherson.) This is a point that occurred to me. I myself thought that they were high and the question that I then asked was, were they exactly comparable or was there more here than strictly management expenses.

5035. But these are not the management expenses, this is the cost of issue?—The cost of issue. I think the figure of £784,000 was taken from the report of the Authorities. (Sir Frank Tribe.)

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[Continued.]

I am not sure whether there is any underwriting in this cost of issue. (Mr. Macpherson.) That is what I do not know. We would really need to have this figure examined and see if it is strictly the cost of issue. It may be more than that.

5036. What do the management expenses comprise? Do they include underwriting?—(Sir Frank Tribe.) I imagine that management expenses cover primarily keeping a record of the daily fluctuations of the holders of the stock and the payment of the half yearly dividends, but my point is that under the Finance Act, 1956, these Councils have been saved all this expense and in the future apparently the Coal Board as well as the other two are to have these issues made to them from the Exchequer without paying the Exchequer anything to correspond to the cost which they are saved.

5037. I was just going to ask, has any thought been given to the possibility of how to make them all pay for their advances on the same basis? They would have to meet the same costs as they would have done had they issued their own stock?—(Mr. Macpherson.) The Treasury have considered this, Sir, and the conclusion we have come to is that this pattern is the right one, that there should not be charges but the interest rate should have regard to this among other things.

5038. It would not be unfair, do you think, looking at paragraphs 5 and 6, to say that it appears to me that these bodies are sitting plumb in the middle of an extraordinarily large, well-fed pig's back. Is that so?—One of the factors is that by issue of stock arrangements you have a marketable security, whereas under this arrangement with the Treasury there is not a marketable security, and the interest rate which the Treasury are charging does in fact reflect that.

5039. But does it?—That is one of the factors, and as the Chairman pointed out the amount is small and can be ignored in the calculation of the rate.

5040. But does the rate charged by the Treasury allow for the recovery of, shall we say, £408,990, being the issue costs, and management expenses of £93,857. In your rate fixed by the Treasury are you allowing yourselves to recover those sorts of issuing costs and management expenses?—Not those sorts of issuing costs. I am not sure that we are comparing like with like.

5041. I see; that may be so, but would it not be reasonable to look into the idea of making these people pay the market price even though they are not going to the market literally for what they want?—We think we have done that in determining the interest rate for Exchequer advances.

TUESDAY, 17TH JUNE, 1958.

Members present:

Sir George Benson, in the Chair.

Colonel Crosthwaite-Eyre.
Mr. Hoy.
Mr. Ramsden.

Sir Colin Thornton-Kemsley.
Mr. West.

Sir FRANK TRIBE, K.C.B., K.B.E., Mr. J. MACPHERSON and Mr. J. J. S. SHAW, an Assistant Secretary, the Treasury, called in and examined.

CIVIL APPROPRIATION ACCOUNTS, 1956-57 (CLASSES VI-X).

CLASS VI.

VOTE 9.

MINISTRY OF SUPPLY (continued).

VOTE 10.

MINISTRY OF SUPPLY (PURCHASING (REPAYMENT) SERVICES)
(continued).

Sir CYRIL MUSGRAVE, K.C.B., Permanent Secretary, Ministry of Supply, called in and further examined.

Chairman.

5042. Will Members turn to the Civil Appropriation Accounts, Classes VI-X, to pages xviii and xix, paragraphs 56-59 of the Comptroller and Auditor General's Report, the purchase of the Britannias? Have you yet received a requisition from any customer for these Britannia aircraft?—(Sir Cyril Musgrave.) Not yet, Sir. The Air Ministry have asked for tenders from various potential operators of these aircraft and the tenders are not due to be returned until the end of this month.

5043. Why were you in such a hurry to buy these?—We ordered them on Ministers' instructions as an act of policy, there being in fact no other way of getting Britannias made in readiness for this operation.

5044. Which operation was this?—The trooping operations.

5045. Had you any particular operations in view?—The carrying of troops about the world.

5046. How far were you pressed by the Air Ministry into this purchase?—The Air Ministry were one of the parties. So were the Minister of Transport and Civil Aviation, the Minister of Supply and the Chancellor of the Exchequer. They were the Ministers mainly concerned.

5047. The Chancellor of the Exchequer. To what extent was the employment situation in Northern Ireland an important factor in the purchase?—It was certainly a factor. The ordering of these three aircraft did provide a pump-priming operation because the Bristol Company said that if these three were ordered they would be prepared to set up a second line of Britannia production in Northern Ireland.

5048. Is it any function of the Ministry to do jobs of that kind?—It is our function to place orders for aircraft required for Government operations, yes.

5049. Yes, but to place orders for the purpose of dealing with unemployment?—But that was only a subsidiary reason. It was not the primary reason.

5050. Are these planes flying yet?—No, they are not due to be completed until the last few months of this year.

5051. Have you any idea what chance you have of selling them?—I have every hope and every expectation that they will be sold.

5052. Without loss?—Without loss, yes.

5053. You have probable customers in view?—Yes. The Air Ministry, who are responsible for trooping, have asked civilian operators, some eight in

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number, I think, to tender on various alternative bases for the operation of these aircraft to carry troops about the world for them, and there is no reason to believe at this point in time that they will not get a satisfactory offer, but the tenders are not due to be returned until the end of this month.

(Mr. Ramsden.)

5054. Sir Cyril, the Comptroller and Auditor General refers in the last sentence of paragraph 59 to "a contingent liability on the main Ministry of Supply Vote". Can you explain in what circumstances that Vote empowers the purchase of aircraft for the use of a Ministry other than your own?—They are being bought on the Vote to which is charged the cost of buying stores, including aircraft, for other people. In the unlikely event of our being left with these aircraft on our hands we should have to transfer them to the main Ministry of Supply Vote, but I believe that is a very unlikely contingency.

5055. You are likely to have found a purchaser by the time this matures?—Yes, but it is not so much a question of our finding a purchaser. These are purchased with a definite requirement in view as a deliberate act of policy, the policy being to go over more and more to the transport of troops by air instead of by sea, but the construction of these aircraft would have taken something like three years and unless somebody stepped in and purchased them we would never have got the planes. It would have been extremely inadvisable, I think, for anybody to have committed themselves three years in advance to the scale and nature of trooping contracts.

5056. If you were left with that charge on your Vote it would be, to say the least of it, untidy accounting from the point of view of Parliament, would it not?—Yes, but this is highly hypothetical and we do not think it will arise. If it does arise, if we were left with these aircraft, we should either have to sell them for what we could get for them or we should conceivably—and I say "conceivably" because I do not think this will arise—find some use for them in regard to our development and research. If that should happen, and I do not say it will, it would be proper that we should transfer these to our main Vote and not leave them to the Purchasing (Repayment) Services Vote.

5057. Mr. Macpherson, in your Minute of 1st January, 1957, you refer to various circumstances in which the use of the Purchasing (Repayment) Vote is, in your opinion, legitimate for the purchase of stores in advance of firm orders. On what grounds do you consider that the purchase of these Britannias was a legitimate use of the Repayment Vote?—(Mr. Macpherson.) First of all, there was a decision by Ministers that there was a requirement for these Britannias for trooping. How exactly they would be used could not be foreseen at that time. They could be operated either by the civil operators or even possibly by the Air Ministry themselves as owners. The Ministry of Supply with its Repayment Vote is the appropriate medium to employ in these circumstances because they are the Department responsible for the construction of the aircraft to meet the requirement. It would have been, I think, impossible, or at least possible only on terms highly disadvantageous to Her Majesty's Government, to have found an operator to carry this out at the time.

5058. You also say in your Minute that if the expected need does not materialise within a reasonable period the expenditure should be charged to the main Ministry of Supply Vote. What do you regard as being a reasonable period in that context?—First we must await the tenders from the airline operators on the various alternative bases; after that stage we would have to consider what possible alternatives there were on the lines that Sir Cyril has suggested, and if in the event we came to the conclusion that the Ministry of Supply Establishment was the best possible way to put these to use, no other uses being found for them, then it would become a charge on the main Ministry of Supply Vote.

5059. At the moment it is on the Repayment Vote?—As, in fact, all production is up to the point in time when the customer pays for it.

5060. But when you talk about a reasonable time in your Minute you must have some idea in your minds as to what you would regard as being a reasonable time?—I do not think we had a fixed time in mind. I suppose it could happen that various possibilities would occur for their use if in the end the aircraft are not required for trooping.

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[Continued.]

In that unlikely event I do not think we should object to transfer to the main Ministry of Supply Vote.

5061. Sir Cyril, have you any views on what might be a reasonable period in this case?—(Sir Cyril Musgrave.) I do not think it is possible to answer you directly because, as Mr. Macpherson has said, assuming that there was no obvious purchaser for these aeroplanes, then various ways of using these aircraft would be considered and if of those various ways it was decided that the best thing was for the Ministry of Supply to take them into their fleet; and then it would be at that point of time when the decision was reached that the transfer to the other Vote would take place. How long it would take to examine all possible sources before we reached the final conclusion that the Ministry of Supply should take these planes, would depend on a lot of factors. However, on your point as to what would we regard as a reasonable time I said to the Committee recently in an entirely different context, that we would regard about three years as the right time.

Sir Colin Thornton-Kemsley.

5062. You told Mr. Ramsden just now that these Britannia aircraft were bought with a definite requirement in view. Am I right in assuming that it was to replace to some extent trooping by sea by trooping by air that was the long-term requirement?—Yes.

5063. When you purchased them you purchased them in the hope that some air transport company would acquire them from you, did you?—We purchased them in the expectation that the Air Ministry would find an operator who would be willing to take these over, backed by a trooping contract.

5064. It is still intended, is it not, that the Britannias should be used for trooping?—Yes.

5065. Do you know if R.A.F. Transport Command is buying any Britannias, apart from these three aircraft?—We are buying Britannias for Transport Command which are quite separate from these three.

5066. Do they differ in any material way from the ones we are discussing?—Yes, the Britannia aircraft for Transport Command are for general Transport Command purposes a strengthened floor being one of the

differences. Those aircraft have a strengthened floor for only part of their length.

5067. "Those aircraft" being the three we are speaking about here?—Yes.

5068. That brings me to a point on the timing. The contract was placed in December, 1955. By November, 1956, construction had reached such a stage that these aircraft would have to be completed to a standard which would make them unacceptable to Transport Command. What was that standard, in the light of what you have just been telling the Committee?—They are not unacceptable to Transport Command. They would be, if they eventually found their way into Transport Command, non-standard aircraft which could not do all the things which the standard Britannia aircraft in Transport Command can do, for the reason that the latter can take heavy freight, but they are perfectly suitable for trooping, whether the trooping were carried out by Transport Command or an airline operator. We were faced, as you quite rightly say, at the end of 1956 and the beginning of 1957 with the situation that we had to tell the constructors exactly how to complete these aircraft. The original idea was, and the present idea is, that they shall be operated by commercial airlines and, therefore, the first consideration was that they should be suitable for commercial operation while at the same time being suitable for the carriage of troops. Now, if we had completed them with the strengthened and heavier floor throughout the length of the fuselage we should have made the aircraft uneconomical for commercial operations, so we decided that they should be completed in a way which would enable them to be used commercially, but at the same time suitable for the original intention, which remains the present intention, of being used for trooping.

5069. If the requirement for trooping falls through the aircraft then could be converted to meet the other requirements of Transport Command?—They could be, yes, but to meet Transport Command's purpose, which would include the carrying of very heavy freight, that would require strengthening of the floor throughout.

5070. Could the Comet IIs which have been completed be used for their trooping instead of these Britannias?—The Comet IIs, did you say?

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[Continued.]

5071. Yes?—They are being used, I think, for various Transport Command purposes but precisely what purposes I do not know. I think they are being used for trooping, but that is a matter on which the Air Ministry could give you a more authoritative answer than I.

5072. Yes, but when you were considering in conjunction with the other Ministries the placing of the orders for the other three Britannias you must have had some discussion, must you not, about the possible use of Comet IIs to meet this kind of requirement?—The Department was represented on a working group which represented all sections of the Departments concerned and the conclusion was reached that the Britannia would be the most suitable aircraft for trooping purposes because of its very great range and other characteristics.

5073. And the Comet IIs were not suitable?—No, not suitable in the context of the requirement that was then being considered.

5074. Just one final point on the time it takes for the construction of these planes. The order was placed in December, 1955. By November, 1956, construction had advanced to such a stage that you could not really alter the basic form of construction, and yet you are not going to take delivery until the end of 1958. Is that not a very long time?—It is three months short of three years, and that is rather a long time, but you cannot expect an aeroplane of this size, and after all they cost over £1 million each, to be completed in less than two years; and one must not forget that these are the first off a new production line which was being set up for Britannias generally, so one would expect the first off a new line to take rather longer than those coming off at a later stage in the production programme.

5075. What was the original target date for completion?—The middle of this year, and they have slipped a few months.

Colonel Crosthwaite-Eyre.

5076. How many Britannias are on order for Transport Command now?—20.

5077. When were the orders subsequent to these placed? These three we are discussing were the first order placed, is that correct?—The three we are discussing were ordered in December, 1955.

5078. When were the remaining 17 placed?—No, the 20 are additional to the three we are talking about.

5079. When were the orders for the additional 20 placed?—The orders have been spread out. I would like to check this. I think the first order was placed some twelve months after these.*

5080. Would it have really made a tremendous difference if the order for these three had been held up until you could place firm orders on behalf of Transport Command?—The policy behind this is not that they should be used by Transport Command but by commercial operators. Part of the reason for this order is to take a first step towards creating a merchant fleet of the air backed by trooping contracts.

5081. I am not quite clear how you can justify using this particular account of the Ministry of Supply for the placing of orders for aircraft for which there is no firm customer. I know that you can act on behalf of a customer when you know it, but what actual powers have you to act for an unknown customer?—There may not be a firm customer, but there is a firm requirement. There is no doubt about that. There is a requirement for military purposes.

5082. May I just confine myself, because you have covered this ground and I do not want to go over it again, to your actual legal authority for buying on behalf of an unknown customer?—We have statutory powers to obtain stores required for the defence of any part of Her Majesty's Dominions or any territory under Her Majesty's protection or in which she has jurisdiction.

5083. I understood this was not for the defence of Her Majesty's Dominions but for a mercantile air fleet?—No, its primary purpose is to carry troops about the world, which is part of the defence of Her Majesty's Dominions.

5084. May I just press this, because I do not think that is what you said in answer to some questions a few moments ago. You said the main thing was to produce aircraft which would form a basis of operation by civilian operators as a mercantile fleet of the air?—There were many considerations which gave rise to this decision of policy to

Note by witness: The effective time interval was in fact seven months.

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[Continued.]

order these aircraft. The first reason was that the aircraft are necessary for economical trooping. The second reason is that it would help towards the creation of a merchant air fleet. The third reason which I mentioned, I think, was that this order would enable a second line of Britannia production to be started. There are three separate reasons and of the three the trooping requirement is the predominant reason. In reply to a question which was, I think, why did we not order these for Transport Command, my answer was that the provision to operators of these aircraft would be a step towards a mercantile air fleet. That is the reason why the Government decided that they would not take them into Transport Command except possibly in the last resort. The reason why the aircraft were ordered at all was in order to provide aircraft for trooping. (Mr. Macpherson.) May I try to make one point here? There is a distinction to be drawn between the use of aircraft for trooping and in Transport Command. Trooping in this sense means, as I understand it, the conveyance of troops on leave and their families, and so on. Different work from that normally done by Transport Command, which is a much more operational type of work. Air trooping is to a large extent done by contract with civil air line operators and the aircraft are essentially different in character. They are not interchangeable because the Transport Command requirements are for a much more operational type. They are concerned primarily with the carrying of troops on active service. (Sir Cyril Musgrave.) And other things besides troops, of course, Army stores and military stores generally, some of great weight. There is a lot of trooping done by air at the moment and as Mr. Macpherson says, it is done for the Air Ministry by civil operators who are using Hermes and York and other out-of-date aircraft for the purpose.

5085. What percentage of the trooping Mr. Macpherson is talking about would be covered by these three aircraft? Would it be a significant contribution?—I am afraid I cannot give you the percentage, but these three aircraft will carry nearly 20,000 passengers to the Far East and back each year.

5086. Do you mean will or can?—Well, will, when they are in operation, or put in another way, three Britannias can carry rather more than seven troop-

ships a year to the Far East and, of course, in the process save a lot of the troops' time because they will do it so much more quickly.

5087. If you want to go to the Far East?—Well, that is where we have garrisons. I am merely using that as an illustration. If you take a nearer destination the figures will be greater.

5088. Supposing the aircraft are only hired to a civilian contractor, who will actually own the aircraft?—The Air Ministry.

5089. You would pass them to the Air Ministry?—The Air Ministry would buy them from us in those circumstances.

5090. They have undertaken to do that?—At the moment they are awaiting tenders from contractors on various bases, some of which involve the outright purchase by the contractors of these aeroplanes and others the taking of the aircraft on hire.

5091. What I do not understand is, if the Air Ministry, supposing that an operator takes them over, will buy them from you why did they not buy them from you to start with?—Because they hope the operator will buy them. I think that is what they would prefer most of all.

5092. Is there any chance of an operator actually buying them?—Oh, yes, a very good chance.

5093. You still think so?—Yes.

5094. Even though you have had to compile the aircraft, or whatever the phrase is, to a sort of bastard specification between civilian and Transport Command requirements?—No, because we have been careful to have them completed to a standard which will make them attractive to commercial operators. That is the reason why we made that decision. They will be far more attractive to a commercial operator than a standard Transport Command Britannia would be.

5095. You are willing to sell them to any buyer who may come along, is that correct?—It is the Air Ministry who place these contracts for trooping, and subject to the operator being a satisfactory operator I imagine they will place their contracts with the one who makes the best offer from the point of view of terms.

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[Continued.]

Mr. West.

5096. Sir Cyril, do I understand that the policy underlying this transaction was that in addition to the resources of Transport Command you were desirous of building up a commercial reserve so that in the case of an emergency you would have extended capacity for the carrying of troops?—Yes, with this slight slant on what you have said that the carrying of troops by air is primarily done by civilian operators under contract from the Air Ministry.

5097. The next point I was going to ask following that, is this: do the civil operators who now carry out the trooping buy their own aircraft or are they bought by the Ministry of Supply and then chartered to them?—No, they own their own aircraft.

5098. What was the reason, then, for the change in the policy where civil airlines provided the aircraft and obtained the advantage of trooping to this case where you decide to buy the aircraft and then chance your arm whether you can persuade them to buy them or not?—No operator would in 1955 have committed himself to buying three aircraft costing several millions without a firm trooping contract. The Air Ministry could have placed contracts in 1955 to be operated from the date on which the aircraft were delivered, but that, I suggest, would have been a most foolhardy thing on their part because they would then have been guessing in 1955 at the level of trooping requirements in the years 1959 onwards. It was much more advisable from their point of view not to place those contracts until nearer the event and I think events have shown their wisdom in that the size of the Forces has in the meantime run down. They are not now committed to the scale of trooping they might have been committed to had they pledged themselves in 1955.

5099. Did Transport Command have a representative on the working party?—The Air Ministry did. In fact it took the Chair.

5100. They were familiar with the requirements of Transport Command?—Yes.

5101. After you placed the order Transport Command then started placing orders for Britannias?—We placed them for the Air Ministry.

5102. Twelve months* after you placed your order the Air Ministry also gave an order in respect of Britannias. Judging by the progress that has taken place with these particular Britannias, it would have been quite easy at that time, would it not, to have made such modifications as were necessary to meet the requirements of Transport Command?—I am not quite sure that I follow that question.

5103. What I am suggesting to you is that as the future requirements were so vague and uncertain when Transport Command were putting orders for Britannias, why could not the three Britannias you had ordered without any specific authority from any purchasing department be transferred to Transport Command so that Transport Command at the time would have had the opportunity of having such modifications done as may be necessary?—Because it is the policy that trooping shall be done by commercial operators.

5104. I thought the object of the exercise was to safeguard the Queen's Dominions and not the commercial activity. If Transport Command required Britannia aircraft and you had already placed an order for Britannia aircraft, surely it was possible that those aircraft could have been allocated to Transport Command which would not have been in the control of commercial airlines but would have been under the control of the Air Ministry?—Yes.

5105. Is that not preferable?—That is a question of Air Ministry policy which I could not, I am afraid, answer. It would have been perfectly possible to have provided Transport Command with 23 Britannias instead of the 20 they are being provided with, but it was Government policy that trooping should be done by commercial operators and these three aircraft were ordered accordingly. It would have been perfectly possible by a change of policy at the time when the 20 Britannias were being ordered, or the first instalment of them, for the Government to have said: "We will reverse our policy. In future trooping shall be done by Transport Command and the three that are on order shall be made available to Transport Command". That would have been possible, I agree.

5106. Is this the first time that aircraft have been purchased on the chance that

**Note by witness:* The effective time interval was in fact seven months.

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[Continued.]

civil airlines will take them over?—No, there have been other cases.

Mr. Hoy.

5107. Sir Cyril, you said that you could not get a contract from any private operator because the scale and nature of trooping contracts was so hypothetical, is that right?—In 1955, yes. In 1955 the Air Ministry could not have stated the scale and nature of the trooping contracts they wanted from 1959 onwards.

5108. What you did say a little later was that it was not quite so hypothetical because in fact you had planned to troop by air instead of by sea, is that right?—That is right.

5109. So, this was a planned move, it was not just hypothetical?—Yes.

5110. In any case, bearing that in mind, even if there were a rundown in troops, at least you had decided to make the vast alteration of transporting them by air instead of by sea, so that would not have had such a great effect?—It is not such a great alteration because trooping has been going on by air for many years.

5111. You were going to explain how you were going to get rid of a great deal of sea trooping and shift it to air?—Partly that, and partly that this was the means by which the air trooping operators could get modern aeroplanes instead of the old aeroplanes they had been operating since the war.

5112. That may be a better reason. In other words, you were prepared to accept the responsibility? There have been put a whole conglomeration of reasons for which you have got to accept the responsibility?—Yes.

5113. Mr. Macpherson, over all this why was your Department pressing for this to be done?—(Mr. Macpherson.) I do not think it is exactly true to say that we were pressing for this to be done. Sir Cyril said that the decision was taken by Ministers, of whom the Chancellor was one, but I do not think the Chancellor was in the van in pressing for this. There were three other Ministers, the Minister of Supply, the Minister of Transport and Civil Aviation and the Secretary of State for Air. They were the customer departments, as it were. The Chancellor was concerned to see that they substantiated their case.

5114. I must say they were customers who did not intend paying for the goods?—(Sir Cyril Musgrave.) Oh, no.

5115. At that stage, Sir Cyril, because you do not know yet, you may have to carry it on your Vote?—I think that is highly improbable.

5116. You have no assurance; these folk who were giving the orders were not accepting the responsibility for the payment, that is one certain thing, or else we should not have this now?—(Mr. Macpherson.) I was trying first to dissociate the Chancellor from being with the sponsor departments in this. He was, as a Minister, party to this decision and accepted that this was the way to do it. I did point out that it would have been very difficult in 1955 to have given sufficient precision to future trooping requirements because the rundown in the numbers of troops and their dispositions have all contributed to making the probable chartering requirement today rather different from what it might have been if calculated in 1955 and no operator, except, as I say, on terms highly disadvantageous to Her Majesty's Government would have come forward with a firm enough proposal to do the trooping.

5117. Would it be true to say that the Treasury were guided by unemployment and they decided that this was their contribution, and in any case they would get an aeroplane at the end?—No, Sir.

5118. I was asking, were the Treasury guided by unemployment and did the Chancellor regard this as a contribution towards relieving the situation?—I was not in the Chancellor's mind on this, but I am quite sure that the primary consideration he had in mind was the acceptance of the view that there was this trooping requirement lying ahead. As Sir Cyril has said, it was a recognition that it was highly improbable that any operator would be able to invest the sort of money that was required to buy these aircraft without some very firm order which could not be given except on a disadvantageous basis and I think, too, a recognition that the aircraft then being used for trooping would have to be, by the very nature of things, phased out; many of them had been in operation for some time. Those were the main factors which influenced the Chancellor in his decision.

5119. But the aircraft which were being used were not the property of Transport Command, they were in fact the property of private air lines?—That is true.

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[Continued.]

5120. If they wanted to phase out old aircraft then obviously it was their responsibility to have the new aircraft to replace the old ones that they were going to discard, is that not right?—The difference there, Sir, is that this required several millions capital investment, leaving aside spares, against a much more modest investment that they had to enter into in order to provide the types of aircraft which they were then, and some of them now are, using.

5121. This was not one firm. One firm was not being held responsible for this expenditure, this was an order that was going to be shared among at least three separate carrier companies who would have bought one each, is that right?—That was a possibility.

5122. That was a possibility, so that they in fact could have, perhaps, replaced two or three of their old aircraft that you are talking about by having one up-to-date one and entering into a commitment to have that, is that right?—That at that time could have been a possibility, but no-one was prepared to do it.

5123. At the same time they are going to take it over from you, are they not? That is the expectation, that they will give you £1 million, or whatever they cost each?—On the basis of a contract. (Sir Cyril Musgrave.) On this occasion, if I may butt in, against a firm trooping contract for a definite period ahead. In 1955 they would have been buying them, if they had been willing to do so, purely on speculation.

5124. I am not going to dissent from that, Sir Cyril. What it does seem to prove is that the companies concerned were going to take no risks at all. All that they are willing to do is to take them when they have an assured profit out of Transport Command?—Perhaps I should make clear, if I may, something which I did not make clear when I was speaking earlier, that the expectation is that these aircraft shall be used only part-time on trooping. It is not the expectation that the operators will use them on trooping exclusively.

5125. No, I understand that, Sir Cyril. If I might say perfectly clearly what I am saying to you, it is that, as far as they are concerned, they are going to

be no use unless they have a considerable trooping order from you?—That is true.

5126. That is the basis on which they are going to be ordered and flown?—Yes.

Chairman.

5127. Just one point, Sir Cyril. It is quite clear that you can use this Purchasing (Repayment) Services Vote to buy for the purpose of selling to Government Departments. Have you any right to use it to buy for the purpose of selling to private individuals?—I think so, provided that it comes within the definition of our statutory powers that I mentioned earlier.

5128. But does it?—That is a question, I should imagine, Sir, for the lawyers to answer.

5129. So you do not even know whether you are breaking the law or not?—We sought legal advice on this very point, and we were assured that we were within our powers before we placed the order for these three aircraft.

5130. Are you satisfied, Sir Frank?—(Sir Frank Tribe.) I find the point a very difficult one, Sir. I have not seen the actual legal advice given, but I think the Committee have rather taken the view in the past that the use of this Vote should be restricted to the purchase by the Ministry of Supply of articles which they know to be definitely required by a Government Department. If some private contractor is to carry out the duties of defending Her Majesty's Dominions, then possibly the Act might be held to cover the purchase for private contractors, but this is a new use of the Vote, as far as I am aware, and that is why I brought it to the notice of the Committee.

Chairman.

5131. Thank you. I do not think we can press that point?—(Sir Cyril Musgrave.) We did seek legal advice and we were assured that it fell within the powers that I quoted.

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Sir JOHN LANG, G.C.B.

[Continued.]

NAVY APPROPRIATION ACCOUNT, 1956-57 (continued).

Sir JOHN LANG, G.C.B., Permanent Secretary, Admiralty, called in and further examined.

Chairman.

5132. Will Members turn to the Navy Appropriation Account, to paragraphs 20-22, of the Comptroller and Auditor General's Report, Hurstmonceux? Sir John, this is a not unusual tale. Your original estimate was £225,000, then you appointed a consulting architect. Who prepared the original estimate of £225,000?—(Sir John Lang.) It was undoubtedly prepared in the Department. It never pretended to be anything more than a very provisional figure. It was not a calculated figure in the sense that one had a specification of the magnitude of the change and it could not be regarded as anything better than an order of cost.

5133. Yes, but even that ought to bear some relationship to reality?—I think it bore relationship to reality as the problem was seen at the time, but as the Comptroller and Auditor General has explained in his report, there were many factors, quite apart from the much higher level of costs, that ruled when the greater part of the work was carried out, all of which have led to extra expense and none of which could really be foreseen at the time.

5134. It was on the basis of this £225,000 that you put the matter to the Treasury and got Treasury consent?—That, I think, is true, yes.

5135. Was it explained to the Treasury that it was highly provisional?—I cannot categorically say Yes, but I am practically sure that our statement to the Treasury was: "Our provisional estimate of what is involved in this is £225,000."

5136. The quadrupling of the figure is due to various factors, I gather. Could you outline the major ones and give us some indication of what each factor was responsible for?—The first point, and it perhaps is convenient to take them in the order in which the Comptroller and Auditor General mentions them in paragraph 31 of his Report, is, of course, the general rise in building costs. The calculation which has been made *ex post facto* of what £225,000 would amount to on the basis of 1956 prices is £466,000; in other words that is rather

more than double. You notice that I said, 1956 prices. We chose that because 1956, to our mind, is about a mean date. Some of the work was undoubtedly done before 1956 and therefore cost rather less. A good deal has been done after 1956 and, if anything, cost rather more. But we regard 1956 as a fair date on which to make a comparison between price levels. The Comptroller and Auditor General then mentions "additions, changes and elaborations . . . in the 1945 scheme to meet revised technical requirements".

5137. On that point, how far were those revised technical requirements due to the fact that you started off with an inadequately thought-out plan?—Some part of them probably were. In other words, if we had had an opportunity away back in 1945 to sit down and say: "Well, it is not merely a question of transferring what used to be at Greenwich into this place at Hurstmonceux," I think we should probably have seen some of the writing on the wall which ultimately made its appearance in the way of new developments. But quite a number of them were not so, and perhaps the best example to quote to you there is that in the 1945 proposals we had reckoned to put the Nautical Almanac Office, which is a section of the Astronomers responsibility, in the second floor of the Castle. When we came to study this in detail we discovered there were two difficulties: one was that the second floor of the Castle which had been earmarked for that purpose suffered from inadequate lighting, and for this fine-figure calculation, and so on, you want good natural lighting; but the more important one, and this was one which really could not have been foreseen in 1945, was that the development of punched card and calculating machinery from 1945 onwards was going ahead at a great pace and we had come to the conclusion that the Nautical Almanac Office ought to be mechanised. The moment that conclusion happened then it was quite impossible to put this relatively heavy machinery on the second floor of the Castle. We had just got to do something else about it and transfer it to a new building outside.

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Admittedly, we have used the second floor of the Castle for another purpose which itself would have wanted expenditure if we had not had it available, but the net extra effect of that particular change is calculated at some £77,000. I merely quoted that as, as it were, the best example of a change in requirement which could not be foreseen before, but there have been a fair number of others where when you came to size up the problem of the post-war observatory it was clear that you wanted better facilities, a certain amount of better machinery and equipment than you had before; and the original idea of housing this in such and such a part of the Castle and its grounds proved impossible so that you had to go in for other developments. That would apply to the Nautical Almanac Office which I have already mentioned, the housing of the Time Department which adds up to £53,000, and the development of a main workshop and stores, which is another £53,000. Those are the biggest examples. Then there are a number of smaller ones.

5138. How much have you got for architectural refinements and higher aesthetic standards?—It is impossible to give any exact figure for that, Sir. There is not the slightest doubt that the decision to observe the requirements of the Fine Arts Commission and to have an architect chosen because of his aesthetic capabilities has added to the cost, but that was inevitable once there was public pressure, which was reflected in the House of Commons, that the Admiralty should not do what it had originally intended to do, which was to take over the Castle and transfer the Observatory there under more or less austerity conditions. Once that decision was reversed we had got to take note of the fact that Hurstmonceux was an ancient monument and therefore any buildings, and so on, put up in the grounds and any adaptation of Hurstmonceux Castle itself both externally and internally must be governed by these aesthetic considerations. As I said, I do not think we can give you any exact figure or even, perhaps, approximate figure which would show the effect of that, but it is fair that I should quote to you, as perhaps the outstanding example, the Equatorial Group. Now, the Equatorial Group has cost something like £75,000 more than we expected. Originally we had reckoned to house the various telescopes included in this Group

as separate units, but we were pressed strongly by the architect and the Royal Fine Arts Commission to integrate them into a single unit of appropriate appearance and capacity. Admittedly, in doing so we took advantage of that to embody within that unit a good deal of extra laboratory space and a certain amount of space for things like aluminising plant for the maintenance of the mirrors. So, it is not fair to say that the whole of that £75,000 is due to aesthetic considerations, but it is equally clear that quite a substantial proportion of it is due to them. On the other hand, it is fair that you should know that a sub-committee of the Select Committee on Estimates visited the Observatory about 12 or 15 months ago, saw the way in which the place was developing, asked a fair number of questions whilst they were down as to the reason for this and the reason for that, but were clearly satisfied, by the absence of any comment in their Report, that what we had done there was quite reasonable.

5139. Mr. Macpherson, have the Admiralty obtained your approval for all additional expenditure?—(Mr. Macpherson.) The Admiralty, Sir, have kept us fully in touch with developments throughout the period since they first got authority in 1945.

5140. Are you satisfied that there has been no laxity of control?—I know of no reason to doubt that, Sir. The Admiralty have done this by their normal efficient method.

Mr. Hoy.

5141. Sir John, with regard to the architectural refinements and higher aesthetic standards which were introduced by the consulting architect, did he advise you on this or did he have a free hand in the matter?—(Sir John Lang.) No, he advised us on it. The decision to go ahead with these various aesthetic considerations is undoubtedly an Admiralty one.

5142. While it is true that the Admiralty were advised in 1949, according to this Report little progress was made on the work at all until 1954, is that right?—In the sense of bricks and mortar and that kind of thing, yes.

5143. That is what I meant. So you had plenty of time to think it over as to whether his advice was going to prove costly or not, remembering that most of the country was undergoing difficult

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times at this period. Did you not think it over again?—The reason, of course, why comparatively little was done until 1954 was a combination of financial stringency and, in particular, the shortage of resources in the works and buildings field—the Government plan clearly, and properly too, had been to concentrate on housing—plus the fact that, having engaged an architect and said to him: “You had better look at this particular problem and tell us what you think about it,” we had obviously got to give him a certain amount of time in which to produce his reports. A certain amount of the work had been done before he started, but by far the greater part, as the Comptroller and Auditor General’s Report says, came afterwards. It is quite true that as he produced his plans they were examined in the Admiralty; it was evident to us that the job was going to cost a good deal more than we had previously thought and we did in fact go to the Treasury at appropriate stages for authority still to go ahead with the plan. But, having undertaken in Parliament to make use of the services of a specially chosen architect and to work in harmony with the Fine Arts Commission, except to such extent as we could persuade him, and I think we did in some examples, that perhaps this could be done in a different way without too much prejudice to the aesthetic considerations, we really had very little alternative but in fact to carry out the building in accordance with his designs.

5144. On paragraph 21, may I ask you why it was necessary to revise the whole technical requirements? Could not a large number of these have been foreseen before the scheme started at all?—We are talking now of what the Comptroller and Auditor General calls “additions, changes, and elaborations . . . to meet revised technical requirements”?

5145. Yes?—I gave examples of those when I was explaining previously. I do not think you could have seen many of those things before. We had not built an Observatory, for instance, for years and years and years. We were going to transfer some equipment from Greenwich to Hurstmonceux, we were going to build a whole series of new domes in which to accommodate these various observing instruments, and quite apart from examples like the Nautical Almanac Office that I have mentioned, I do not think one could be expected to

foresee all the changes that were going to happen.

5146. No. What I wondered was, were there not any other observatories from which you could have obtained information or experience or know-how, or were you entirely dependent on your old one?—I know of no other observatories which have been built in this country in anything like recent times.

5147. You do not always confine your knowledge to what has happened in this country, you take account of what has happened abroad, surely? Has not anything been done abroad which might have been of guidance to you?—Not of guidance I think at that early stage, when we were saying in 1945: “We have got to transfer the Observatory”; but of guidance, undoubtedly in the later stages, when we got down to the detailed planning of the move.

5148. Was it then these revised technical requirements or the architectural refinements that led to this extra-contractual payment which is mentioned in paragraph 22?—Partly one and partly the other. The greater part of that extra-contractual payment arises on the main contract and is primarily in connection with difficulties experienced over the domes which house the telescopes. It was that I had in mind when I said to you that we were faced with a very complicated task; and when we and the contractor put our heads together over the problem of these domes with the consulting architect who was also brought in, it was evident that we were going to have quite a lot of trouble in getting a decent design for them—that was why the drawings, and so on, were pretty late—and the contractor said: “Well, you have got me down on to this site. I was ready to start quite a long time ago but now we have found that you could not start on quite the same basis and we must do a good deal of redesign work” which, of course, meant going back to the consulting architect.

5149. You have paid him £70,000 on account. What is the amount of the contractor’s claim?—The amount of the contractor’s claim is £—. We are not accepting that the whole of that will be due, but it is likely that when we come to finalise the accounts with the contractors we may well have to make some extra payment over and above the £70,000.

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5150. May I just ask you one more question? I notice that one of the reasons for the large increase is "Professional fees that were not originally contemplated". What do these fees amount to?—Provisionally, £50,000.

5151. Is that to this aesthetic architect or to others?—Mostly to him.

Colonel *Crosthwaite-Eyre*.

5152. Sir John, if you had known originally that this was going to cost £1 million would you have still gone ahead with it?—We had got no alternative whatever but to go ahead with it or to close down the Royal Observatory. The Royal Observatory could not go on doing its task in Greenwich with the combination of what was then at least a smoke-laden atmosphere around London plus the tremendous disturbance of electricians around London.

5153. Those are the factors to which you refer when you say Greenwich was unsuitable?—Yes.

5154. Was it unsuitable for the whole of your work? Would it not have been possible to leave some of it there and not do so much at the Castle?—It would have been possible, clearly, to leave a bit like the Nautical Almanac Office at Greenwich. It would have been possible, I think, to leave the Chronometer Department at Greenwich because they are not so closely associated with the observing side of the establishment. On the other hand we must recognise that Greenwich as an observatory had not been altogether satisfactory in the way of accommodation for some years before the war, and during the war a great number of departments, notably the two that I have mentioned, were in fact taken away from Greenwich and put in temporary accommodation elsewhere. We had got to put them somewhere; they could not stay in the temporary accommodation for ever. They were, we thought, intrinsically part of the Observatory; additionally they were something which the Astronomer Royal was responsible for and it was very much better to have the whole of the Observatory in one place rather than face him with the necessity of having the greater part of his Observatory at Hurstmonceux, and, say, 15 or 20 per cent. of it in another place.

5155. You would not have got in real difficulty if you had done it that way, apart from inconvenience?—I cannot answer that question because it would

depend where you had chosen to put those two or three establishments when you moved them out of their temporary wartime accommodation.

5156. Mr. Macpherson, if you had known it was going to cost £1 million when you started, would you have approved it?—(Mr. *Macpherson*.) I think we realised at the time, in fact, we were forewarned by the Admiralty, that £225,000 was not a final figure but I do not know if we had any idea how much more than £225,000 was going to be involved.

5157. Four times that amount?—Not exactly four times because you have to have regard to the difference in cost between 1945 and 1956 prices. Measured in those terms it is not as much as the difference between £225,000 and £1 million.

5158. I am asking you, if you had known it would have cost £1 million would you still have approved it?—It is difficult to answer a hypothetical question. I think we should have had to have regard to Sir John's arguments that it was a choice between moving or not having the main aspects of the Observatory's work carried on.

Sir Colin Thornton-Kemsley.

5159. Sir John, had you started with a fresh site and erected all these buildings to your own requirements, do you think it would have cost anything like £1 million?—(Sir *John Lang*.) I would have said it would have cost quite £1 million, yes, because quite a fair number of the developments at Hurstmonceux have been new buildings in the Castle grounds.

5160. New buildings which were very considerably more expensive than the ones you would have put up because they had to harmonise with the character and the surrounding of an ancient monument?—That is true enough. If we had gone to a site in the North of Scotland that was free from interferences, and that kind of thing, a virgin site, we might have saved quite an appreciable figure in respect of the aesthetic considerations; but we should not have started with a certain amount of ready-made building, we should have had to do the whole thing; and the later it took place, and because it was an entirely new project the chances are it would have happened after 1954, the more likely we would have been to attract some very

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heavy expenditures. I personally think we should not have saved money had we started entirely afresh.

5161. What are you going to set off against this expenditure? You will presumably release a great deal of accommodation at Greenwich and the other accommodation in wartime sites which you have told us about just now. Are you going to be able to sell any of that or have you any other requirement for it?—There is no question of selling the old Observatory. It is in the Royal Park at Greenwich and it has merely reverted to the Minister of Works as the representative of the Crown who looks after Royal Parks. Actually, I believe that a part of the building is now being used by the National Maritime Museum who are setting up the Museum of Ancient Navigating Instruments in the old Observatory. The wartime premises which we held at places like Abinger, Bath, and so on, have been surrendered with the transfer of the activities previously down there to Hurstmonceux. I am afraid I could not give you any information about the cost of those places and how they have been disposed of. My impression is that they were either hired or requisitioned places and we have given up the hiring or the requisitioned premises have been handed back.

5162. So it does not look as if you will have very much to set off against this enormous expenditure of £1 million?—Except that we do set off what would otherwise have been the continuation of the rent or requisition charge with the possibility that we would have to buy these places when requisitioning came to an end if we had not got out of them.

5163. Sir John, you appreciate, I think, that the Select Committee on Estimates is able to go and see places? They have the advantage of going to see Hurstmonceux and places like that, whereas this Committee, the Public Accounts Committee, does not by custom go round to these various places, and therefore it is a little difficult for us to visualise the kind of building which you have told the Committee cost an additional £77,000 because you could not place the Nautical Almanac Department, as you had intended, on the second floor of Hurstmonceux Castle mainly because that floor was found to be not sufficiently strong to carry the weight of the additional computing machine, or whatever it was. With the means that are available nowadays of strengthening

floors it would seem to be an enormous cost, an additional £77,000 estimated, you told the Committee?—Yes.

5164. Presumably for some new building in the Park, which again had to harmonise with the character of the Castle. It cost £77,000, did it, for the new building?—That is so, yes, Sir.

5165. How many people are employed in the Nautical Almanac Office, roughly?—I do not know, Sir. When I knew the Nautical Almanac Office, in about 1934 or 1935, it had a staff of about 15 to 20. I think you will now find it is appreciably higher than that.

5166. Can you suggest to the Committee at all why it should cost anything like an additional £77,000 to house one department?—Does it not depend entirely, Sir, on how big the Nautical Almanac Office is? If it has a staff of some 30 persons, for instance, I am not sure that £2,500 of capital expenditure per person for an office in which they are going to work—bearing in mind that it will need some fairly expensive fitting out, and to provide electric leads for these calculating machines—is all that out of scale.

5167. But when you are looking for accommodation for naval purposes you do not think in terms of capital expenditure of £2,500 per person, do you?—I do not think we think in terms of any particular figure per person. I was merely using that as a yardstick to imply that you do not get an awfully big or impressive building for £77,000. (Sir *Frank Tribe*.) 26 was the number of staff in the Almanac Office in the 1956-57 Navy Estimates. (Sir *John Lang*.) I said about 30. I think that is about right.

5168. £77,000 is a lot of money for housing about 30 persons, is it not, in an office?—It is housing them plus their machinery and their records, and that kind of thing.

5169. Do these figures you have given the Committee include the machines?—No, Sir, quite definitely not.

5170. Just the bricks and mortar for offices for 30 people?—And the fittings to take the machines, of course, and although you are perfectly entitled to comment on the size of the bill, if you think that that is a large bill to accommodate some 26 to 30 people, it is a fair point to make that by going in for this calculating machinery, punch cards and so on, we were able to reduce the staff

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of the Nautical Almanac Office ; in other words, the work is now being done chiefly mechanically or electrically with a saving in staff, so we are getting a continual benefit in that direction.

5171. And you say that is being done. It is not at the moment being done, is it, because you have not yet moved in, have you?—Oh, yes, the Nautical Almanac Office is installed. In fact, the majority of the Observatory is down at Hurstmonceux now.

5172. Then you spoke about the housing of the Time Department at a cost of £53,000. What is the size of that department?—I do not know and I doubt whether it would be possible to say to-day. The Time Department is not brought out specially in the Estimates, it is merely part of the total Observatory staff which adds up, when you subtract the Nautical Almanac Office, to about 160 persons.

5173. The total Observatory staff is 160 persons, is it?—Excluding the Nautical Almanac Office. I exclude that because you have identified those with the £77,000 bill.

5174. So, it is costing about £1 million to house under 200 persons?—Well, no, Sir, that really is not fair. The main cost of the Observatory is undoubtedly the buildings and the equipment associated with them to house telescopes and all the other observing machinery, which is the main function of the place. If it were merely a matter of housing 160 persons with nothing more elaborate in the way of machinery than desk calculators, or something of that kind, then the bill would not be anything like this.

5175. To take another item, £53,000 for the main workshop and stores. Presumably a workshop and stores is a workshop and stores whether it is at Hurstmonceux or anywhere else. It does not contain expensive telescopes or anything like that. That sounds rather a large amount, does it not?—I do not think it was. Some element of it is admittedly to fit the aesthetic considerations because this particular workshop and stores was comprised in the West Building Group which is one of those affected by the employment of the consulting architect. But the greater part of the cost there was undoubtedly the provision of the workshop, and workshops for the Observatory are really quite elaborate workshops, as

they are bound to be, seeing that they have to maintain all the observing equipment and, incidentally, repair the equipment used in the chronometer section, and so on.

5176. Again, we are not talking about the contents of the workshops, are we, we are talking about the four walls and the roof over it which contain the workshop?—Yes. You are talking about the four walls and the roof which contain the workshop in the literal sense that it is the building, but I would have thought it is rather more than merely four walls and a roof. In other words, there will be various divisions, there will be a certain amount of racking, there will be a certain number of foundations for machinery which will have to be worked on, there will be lifting appliances—I must be careful, not the cost of the lifting appliances but the various ganttries, and so on, on which the lifting appliances have to be run—and all that comes in the workshop.

5177. Have you had any analysis made of the cost per cubic foot of any of this new construction?—Not at this particular place, no.

5178. It is all left in the hands of a consulting architect?—No, Sir, the consulting architect is the man who makes the design and makes the recommendations for the way in which the building should be constructed and the standard to which it should be finished, but the definition of the requirements is clearly an Admiralty responsibility which starts with the Astronomer Royal who outlines what he reckons he needs for his purpose. It is examined in the Admiralty both by the Hydrographer who is responsible for advising the Board on all matters connected with the observatory and by the Civil Engineer-in-Chief, who is the Board's representative in this particular field. It is not left to the architect.

5179. Have you found that the employment of a consulting architect has made it more difficult to exercise financial control?—I would have said No, it has made it more expensive to do the job merely because he quite fairly says: "If you are going to observe the principles of the Fine Arts Commission, and that kind of thing, at Hurstmonceux then you must not build the thing in this form, you must build

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it in another form and you must have doors of a certain shape and size, you must have windows of a certain shape and size", and we take account of his recommendations and in general have in fact agreed to them. But the responsibility for what is done is an Admiralty one, none the less.

5180. Does his fee rise automatically with the cost of the work?—Pretty well, yes, Sir. His fee is a percentage on the cost of accepted tenders with an adjustment when there are substantial variations or alterations in plan after the contract has been let. On the other hand, he does not get an increase in his fee merely because cost levels go up. His fee is, of course, in accordance with the R.I.B.A. scale of remuneration for architects.

5181. Yes, but as consulting architect he has not to do the work that retained architects would do in obtaining tenders, checking the prices, specifications, quantities, checking the work, and all that sort of thing. His advice is largely confined, is it not, to the aesthetic aspect of the thing?—No, I think you will find that the R.I.B.A. scale is higher than 4 per cent. if the architect does those additional duties of getting tenders, and so on.

5182. Yes, it is, it is higher than 4 per cent. This is a 4 per cent. scale, is it?—We are told that the R.I.B.A. scale for the amount of work that Mr. O'Rourke is doing for us is 4 per cent. and we are in fact paying him 4 per cent. Before we pass from this item could I just make one comment for the benefit of the Committee? That is that however much you may feel that the concept of this scheme developed very considerably after we had embarked on the transfer to Hurstmonceux I am going to claim that at March, 1954, which was the point at which we put in a revised estimate of £886,000, we were pretty close then to what it is turning out to be. When we put up £1 million in 1956 we were even closer, because the expenditure is coming out at a fraction more than £1 million. In other words, we have, once we could size up the real magnitude of the job, got some good close figures and have kept as well within them as you ever can when prices are moving against you as they have over the last three or four years.

Mr. Hoy.

5183. Of course, when you get to 1956 you were getting fairly well on with the job, and surely it was not terribly difficult then to come very near the figure, was it?—I am merely claiming credit for saying £886,000 in 1954 when we had not got very near to the job.

5184. It was a big leap from £225,000 to £886,000?—I accept that completely. I have tried to explain to the Committee that there were many considerations by 1954 which were just not present in 1947, and once we had really sized up to that job so we got the realistic figure and have kept to it.

5185. And you think it is just likely to exceed £1 million?—Yes, Sir.

Chairman.

5186. Paragraphs 23-26, Lease of a factory. I do not think aesthetic considerations enter into this, Sir John. I gather from paragraph 23 that you entered into a lease as an insurance against wartime demands. Were you expecting a war?—It was not only wartime demands. The wartime demand was perhaps the most compelling argument why we could not continue to be satisfied with the capacity at Portsmouth. We were not positively expecting a war, but in as much as should war have happened, and we were not all that much beyond Korea when this plan for a paint factory was started, we had got to do something in the way of providing ourselves with alternative capacity and had there not been other circumstances which changed the situation we should have only been too glad to see this new factory get into production and to have eased off a great deal on the production at Portsmouth.

5187. In June, 1954, you increased the length of the lease. Why was that?—June, 1954, was technically six months or so before the lease was completed; in other words, we were still negotiating with the owner on the basis of taking his factory and we put to him certain additional requirements in the way of finishing the building which were designed to reduce the fire risk attendant on this paint manufacture. These additional building requirements were going to increase the capital cost to the owner quite appreciably, and he said: "Well, if you expect me to put down that extra money then I shall want a longer lease

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and I shall want an increased rent". We thought that was perfectly reasonable and went to the Treasury and got authority for the lease of 50 years with a higher rent.

5188. You apparently required this factory in order to double-coat your ships' hulls?—No, Sir, that was one of the considerations. We required the factory in order to provide for wartime requirements for this paint, this composition, and we also had it in mind to double-coat ships; because the advice we were getting out of a number of experiments which had been going on for some time was that that would both reduce the wear on the ships and also reduce the number of times in any period of years when we had to take them in hand for docking.

5189. How was it you came to drop the idea so rapidly?—I do not know that we dropped it rapidly. The policy was to do it from something like 1952 to the latter part of 1955. The reason we dropped it in 1955 was that the tests which we had been carrying out, which at first had implied that it was a very satisfactory thing to do to double-coat, began to show rather negative results and the technical opinion began to veer away from the merits of double-coating.

5190. Meanwhile you had landed yourselves with this building?—Yes, that is true.

Mr. Hoy.

5191. May I just get these dates right, if I can? Sir John said he did not come to this quite suddenly, it had gone on between 1952 and 1955. Was that what you said?—In 1952 the view of the Admiralty technical departments was that we should go in for double-coating. In 1953 we went to the Treasury and said: "We want to take a lease of this factory in Lancashire." In 1954 we went back to them and said: "We want to take a longer lease at an increased rental because we are asking for the factory to be finished in a very special way" and at the end of 1954 we signed the lease.

Mr. West.

5192. At the beginning of 1955 you wanted to get out of it?—Not the beginning of 1955, Sir, 1956.

Chairman.

5193. In January, 1955, you signed the lease, and within a year you completely

reversed your policy and decided you were not going to double-coat and you had no use for the factory?—I do not know that we can say we had decided we were not going to double-coat. We had become much less enthusiastic about double-coating and to that extent had said: "All right, we will not go on with it", but the real consideration which led us to say we had better not go on with this factory, and we did at least cut our losses before we had fitted it up with machinery inside it, was the complete change in the strategical situation. Government policy on production of things like bottom-coating composition in this country in war had changed. We were further faced with a considerably reduced active fleet and with quite appreciable reductions in the reserve fleet, and therefore the number of ships for which we would need bottom-coating composition was very considerably reduced. The net result was that we could not justify going on with that factory and that is why at the end of 1955 we came forward and said: "Look here, tragic as it must be, we must cut our losses".

5194. You were also considering sale to the Commonwealth?—We have always been willing to sell bottom-coating composition to the Commonwealth as and when we have got an adequate supply of it. Unfortunately, the Commonwealth countries never came forward with much enthusiasm to buy it.

5195. I still do not understand why you apparently went ahead with this idea of double-coating and then completely dropped it?—Because technical opinion changed in the meantime as to the effects that we would achieve by it. The initial experiments were quite favourable and everybody was pretty sure that by double-coating you would achieve marked benefits in the way of keeping ships at sea for longer periods, and for quite a time these experiments looked favourable. But it was some time in 1955 that we just had a complete setback with it and we then got to the stage, because of the change in the strategical situation, of having to say: "Well, shall we keep that factory alive purely on the basis of double-coating", and the answer was you could not justify keeping it purely on the basis of double-coating because double-coating was getting more and more suspect as to its real benefits.

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5196. How often were you proposing to double-coat?—It would vary according to the ships but it would be an average of about once every twelve months.

5197. You seem to have decided very quickly, first of all that this double-coating was an ideal thing and then equally quickly that it was apparently useless. Was your technical advice bad?—I do not know that I would really agree that we decided very quickly to do it. As I say, the experiments which were carried out on three, four or five ships were at first very promising and we should have been perfectly fairly criticised if on those results we had just done nothing about it. It is fair to say that we abandoned double-coating rather quickly, but we were faced with the awkward situation that the main purpose of the new factory had in fact disappeared—that is, the wartime requirement purpose—and could we in fact justify going on setting up and establishing a new factory purely for double-coating which by now had become rather less favourably regarded than before and I think we were forced to face the question, is it worth the cost of setting up an entirely new factory for double-coating, and we came to the conclusion it was not.

Mr. West.

5198. But you would not have gone on with double-coating, Sir John, would you, when the technical advice was definitely against it?—No, Sir, but I think the technical advice was not, as it were, against it in the sense of saying it is no good or, still worse, saying it is the wrong thing to do. The technical advice was that the benefits that we had hoped to achieve by this double-coating were not fully being achieved. It is still worth doing it if you have lots of time and effort to spare, but when the point was put, is it worth setting up this new factory and employing staff and getting started against some uncertain benefit and against the fact that the main requirement had disappeared entirely, the view was, well, perhaps it is not.

Chairman.

5199. Mr. Macpherson, when the Admiralty approached the Treasury for consent and the Treasury gave it, were the Treasury influenced by the idea that this was to meet wartime needs?—

(Mr. Macpherson.) It was one of the factors, Sir. As I understand the position, the production of the Portsmouth factory amounted to about 70,000 gallons annually on a single shift basis and the then current annual consumption was about that figure. It was reckoned that the adoption of double-coating plus supply to Dominion Navies would boost the annual requirement to about 155,000 gallons, with the expectation that there would be a decrease in that level on the assumption that double-coating would last rather longer than single-coating. On top of that it was estimated that on a double-coating basis the wartime requirement might be as much as 400,000 gallons annually.

5200. Another point, Sir John: does this apply only to warships or does it apply to Merchant Navy ships? What do they do?—(Sir John Lang.) Your question is, does it only apply to warships or does it apply to merchant ships?

5201. Yes?—Merchant ships are in fact coated but they are not coated with the very special composition that we use in the Navy.

5202. Mr. Macpherson, when the Treasury gave authority for this were they under the impression that there would be considerable sales to the Commonwealth?—(Mr. Macpherson.) We asked the question, "What would the effect on consumption rate be if Dominion Navies were supplied" and the answer was: "Probably about 15,000 gallons annually".

Mr. Hoy.

5203. Did you ask them if they were likely to place orders, not what would they amount to? Did you ask them: "Have the Commonwealth shown any interest in buying this?"—In agreeing we did discount to a certain extent the 15,000 gallon figure. We did not wholly discount it but we did not accept it as 15,000 gallons.

5204. So, in other words, you wrote off the Commonwealth and you were dependent entirely on what was going to happen for the Navy's purpose?—A combination of the effect of double-coating and the wartime requirement a requirement, on the then strategic concept, which was a reasonable one. (Sir Frank Tribe.) May I say that in November, 1953, before the decision

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[Continued.]

was given the Treasury stated in a letter to the Admiralty that, in their view, there had been no justification for installing plant solely to be left idle as war production reserve. Then when a further approach was made to them in 1954 the Treasury ascertained that the decision to double-coat Her Majesty's ships had now been taken, that it had been decided to supply Commonwealth countries with the product, possibly also N.A.T.O. countries, and that there would be sales to the United States also. In the event, therefore, the Treasury came to the conclusion that the proposal had been justified and they gave their approval. (Mr. Macpherson.) There were two approaches, Sir. The figures I quoted were given in the first instance in November, 1953, when the initial project was under consideration. The reply to which Sir Frank refers was at a time when the Admiralty came back to us and said, because of their increased requirements at the factory and because, I think, the estimated cost of the factory had gone up from £56,000 to £80,000, and we then gave our concurrence on the basis Sir Frank has stated. (Sir John Lang.) And that basis must, I think, have been that the Admiralty were willing and indeed anxious to supply the Commonwealth, N.A.T.O. and other countries. It could not have been on the basis that we had got anything like a firm communication of orders.

Chairman.

5205. That was your impression on what the Admiralty put forward, Mr. Macpherson?—(Mr. Macpherson.) This is a letter recording a telephone conversation.

Colonel Crosthwaite-Eyre.

5206. Recording or confirming?—I quote "You told me that the decision to double-coat H.M. ships has now been taken, that it has been decided to supply Commonwealth countries with the product (and possibly N.A.T.O. countries also, although a decision has not yet been taken on this) and that there will be sales to the United States also".

Chairman.

5207. That was one of the elements which led to your agreement to the leasing of this factory?—Clearly, yes. (Sir John Lang.) That was the extension of

the lease, not the original lease. (Mr. Macpherson.) We had asked in November, 1953, by how much the requirement went up if double-coating were accepted and that is when we were told it would be practically double on the 70,000 figure of annual consumption which then matched the single shift production at Portsmouth.

5208. How long have you been experimenting with this subject?—(Sir John Lang.) Well, we are always experimenting.

5209. No, this particular subject, this particular material that you had to manufacture?—I must get this clear. How long have we been experimenting with this particular material, in other words, pocoptic?

5210. I do not know what it was, the material you proposed to set up another factory to manufacture?—This particular material is, in fact, an American Navy product. The American Navy discovered it. They gave us the formula for it and we came to the conclusion it was a good composition and we introduced it for our own Navy. In that sense there was no particular experimental period for this composition as a composition, but there was an experimental period for using double-coating as an improved way of looking after ships' bottoms and there we started somewhere about 1951 with the experiments.

5211. It took you some considerable time to find out that the double-coating was of not much value?—Yes. It is a subject which you cannot do experimenting on very quickly. Your only practical method is in fact to coat steel plates and then sink them in sea water or water of various characteristics for substantial periods and equally to coat the bottoms of particular ships which then go about their ordinary duties for the normal period between dockings, and when you bring them into dock you study carefully what results you have got and inevitably to get finality over a conclusion on what is good and what is bad is a matter of years.—(Sir Frank Tribe.) The point I was trying to make, as I mention in paragraph 26, was that this decision of the Treasury in 1954 to approve the lease was based upon what seems to me to have been false information, that the Treasury thought then the decision had been taken to double-coat Her Majesty's ships whereas, apparently,

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[Continued.]

it had not been. They decided it on the ground that it had been decided to supply Commonwealth countries whereas it had only been proposed to supply it to them, and on the basis that there would be sales to the United States which never materialised. That is why I brought it to the notice of the Committee because it seems to me that the Treasury had been led to approve this scheme on the basis of information which has proved to be false.

5212. Including the fact that the Admiralty had not adequately tested it?—(Sir John Lang.) That is part and parcel of the so-called decision to double-coat. It was not a decision in the sense of a rigid intention. I am not in a position to accept or reject the telephone conversation which is recorded in that document except in the sense that it forms a passage in a letter which was sent to the Admiralty and on which the Admiralty acted when we signed the lease at the end of the year. In retrospect, I really find it very puzzling indeed on what basis we imagined we were going to sell to the United States. The composition was a United States product and it is quite new to me that there was ever any real prospect of selling to the United States in quantity. We sell to them by all means when they have got a ship in this country which they want to coat, but to sell to them in any quantity, I never believe that it was ever on. Equally, Mr. Macpherson has told the Committee that the Treasury were inclined to discount the extent to which sales to other people, whether NATO or Commonwealth or anybody else, were really much of a factor in this. But it was never, to face the thing, a factor to the tune of much more than 15,000 gallons a year and the Treasury was inclined to agree to regard that figure as an awfully extreme one.

Mr. West.] What do you think, then Sir John, was the factor which operated on the minds of the Treasury in granting permission?

Chairman.] I hardly think you can ask Sir John that. The mind of the Treasury is a thing which only the Treasury can understand.

Mr. West.

5213. With great respect, Sir John is now giving an explanation of certain factors which the Treasury did not take

into account. All I am asking him, therefore, is what the Treasury did take into account?—It is perfectly fair to say—I am quoting what Mr. Macpherson told the Committee a few minutes ago—that I think the Treasury were most influenced over this by the view that we were going to double-coat and we would therefore want twice the quantity of composition. We could not get it at the Portsmouth factory, therefore we must have another factory in order to get it.

Sir Colin Thornton-Kemsley.

5214. Where was this factory which you took?—At a place called Ince in Lancashire, near Wigan, apparently.

5215. Did you in fact receive any firm orders from abroad?—Most certainly no, Sir.

5216. You have heard the words that the Comptroller and Auditor General has just used, "false information" which had been supplied in a telephone conversation to the Treasury. Have you taken any steps to trace the source of that information?—I would have deprecated the use of "false" if that were intended to imply—

5217. Could you tell the Committee in respect of which it was not false? Mr. Macpherson has read out the information they received from the Admiralty?—I would deprecate the use of "false" if by "false" it was intended to imply that it was deliberately misleading. It may have been false in the sense that it was inaccurate or was afterwards found to be inaccurate, but I can deny completely that the individual who was dealing with this subject said things to the Treasury which were untrue in order to get a certain result. I do know the individual who had the telephone conversation with the Treasury that is referred to in the letter. I have said to him: "What did you say?". He says: "I cannot honestly tell you now what I said. I doubt whether I went so far as to tell them we might supply to the United States". When I retorted: "Yet when the letter came why did you not in fact raise objection to the terms in which it was written", he said: "I cannot really tell you why I did not. It looked as though it was in general in line with what I must have told them, and the Treasury being what it is, I let it go".

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[Continued.]

5218. Did you accept that as a satisfactory explanation?—I cannot help but accept it as the explanation. I am not all that satisfied with it.

5219. Did you take any disciplinary action of any kind?—In the sense that I told the individual concerned that I took a very dim view of the answer, and although perhaps I could not do anything about it on this occasion I did not think any the more of him for what he had done. I do want to make it clear that I am not necessarily accepting that he said what is recorded in the Treasury letter. There is room for misunderstanding between two people at the end of a telephone as to what was said. My real criticism of him is that when he got the letter from the Treasury which purported to put into words what he had said on the telephone he should have satisfied himself that it was what was said and if there was an element of doubt as to whether it was accurate or not he should either have got the letter adjusted or written back to give his own particular version of the facts.

5220. Certainly. One final question: have you disposed of the lease of the factory now?—We have entered into an understanding with a firm who will take the premises for the balance of the Admiralty lease at a rent of £2,000 a year. That rent is to be reviewed at seven yearly periods at the request of either side and there is provision for resort to arbitration if there is disagreement on what the rent should be in any of those succeeding periods.

5221. So, for seven years you are going to lose £2,800 a year and thereafter for the balance of a lease of 50 years you may stand to lose even more than that?—We may stand to lose even less, too, Sir. It was we, in fact, who pressed for the provision that there should be a review of rent. At the time when we entered into the lease of this factory all the indications were that factory space was at a premium and there should be no difficulty in re-letting it if for some reason the anticipated requirements fell through. It was not until some time later, over a year later, when we wanted to get rid of the factory that we discovered that in the meantime the atmosphere had very considerably changed. All our advice, both from inside the Department and from outside it, is that factory sites in that part of the world are now at a

very low level for price, and so on, and we probably would not get a better offer by waiting, and on that the Treasury have agreed with our own view, because of the difficulties we have had in getting any tenant at all; but nevertheless we would hope that during the next seven years or so industrial life in that part of the world will look up, and if the people taking over the factory are reasonably prosperous they could not reasonably object to an increase in rent.

5222. Was it the same gentleman who incurred your displeasure over the matter of not replying to the Treasury Minute who gave the Treasury to understand that there should be no difficulty in sub-letting the factory?—It was, because he happened to be the channel of communication on that point. On the other hand, he was not expressing his own opinion, he was expressing the opinion of a professional officer within the Admiralty on this subject, an opinion which was supported by the Board of Trade and was supported by the facts of life, that there was quite a lot of competition when we went ahead to get that factory

Colonel *Crosthwaite-Eyre*.

5223. Do you know what the cost of this factory was?—No, I do not think I do. I have a figure that the lessor was to convert the building to Admiralty specification as a factory at a cost of £56,000, which looks as if the final cost was £56,000, and when we altered the way in which the building was fitted out the cost went up to £80,000. I think on the whole that is right, that the cost of the factory was £80,000.

5224. Why did you prefer to enter into an arrangement to lease the factory rather than to build it yourselves?—Almost certainly because it was there, a place which was partially built.

5225. It was partially built before you entered into negotiations?—Yes, definitely.

5226. 50 years is a very long time to have a lease of a factory for a project which we now know was not finally decided and which was subject to these varying fluctuations of policy?—Looking at it in retrospect it was certainly a long time to have it, but looking at it from the angle that we wanted to minimise paint production in Portsmouth Dockyard and would therefore much

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prefer to develop it in a place a long way away from a dockyard, and looking at it from the angle that factories were in short supply and on the face of things we should be able to dispose of it if we wanted to, it does not seem too bad a bargain to have contemplated a lease of 25 years, or 50 years when we were asking the owner to complete in a much more expensive fashion.

5227. We have heard a lot about competition in 1953. What actual evidence did you have that there was competition for this factory?—When we decided we wanted a factory we said to a man called our Chief Surveyor of Lands, who is the man who looks after our requirements: "Go and find a factory of a certain capacity" and he came back months afterwards saying: "This is going to be very difficult. I cannot find you anything", but he did eventually come across this one. We said to the Board of Trade at the time: "Is this reasonable or not".

5228. In paragraph 24 the Comptroller and Auditor General states that there was competition for this factory, and I wondered what evidence there was for that?—I cannot tell the Committee offhand. If you attach importance to it I will let you know, but it was almost certainly that when our Chief Surveyor of Lands discovered this particular factory he said: "Well, look, it is the only one I have been able to find. The man is already in touch with one, two or whatever it is, potential purchasers. If you really want it you had better make up your mind quickly."

5229. The rent you are paying is roughly 6 or 7 per cent., is it not?—£4,800 on a charge of £80,000 is 6 per cent.

5230. Did you not think that that was rather an onerous rate?—No, Sir, not at all an onerous rate.

5231. Not for 50 years?—No, Sir.

5232. And no break clause either in the lease?—All my experience has been that over longish periods the rents of modern industrial premises tend to go up and not to go down, but I should not have regarded 6 per cent. as anything like an outrageous price to pay for a factory built in 1954.

5233. You would not have expected to get it at between 4 and 5 per cent.?—No.

Mr. West.

5234. Sir John, at the time the Admiralty became interested in this site it was a partly built factory, so you told us?—Yes.

5235. What was the purpose of the building of the factory there and what was it to be used for?—I do not know. I imagine the owner was putting it up on the basis that there was a requirement for factory space.

5236. For his own purposes or merely to let?—No, he was putting it up as a speculation.

5237. Mr. Macpherson, there is one question that I really want to put to you about the difference of opinion between you and Sir John as to the telephone conversation. Is it right that the Treasury really grant approval for applications of this sort as the result of a telephone conversation?—(Mr. Macpherson.) No, Sir, there are two points. While I accept what Sir John has said, that there was no intention to mislead, I think I must say in fairness to the officer in the Treasury that the letter setting out the facts about these changed circumstances was dated 22nd June, 1954, and the record of the telephone conversation is dated 23rd June. I say that because it indicates that there must have been a very short interval of time between the telephone conversation and the record, and although the letter approving this was not written until 28th June, the conversation was recorded on the 23rd. The second point is that this was not a new approval, this was a changed circumstance on an approval already given and on which there had been an exchange of correspondence before the Treasury finally agreed to the proposal. We were concerned at this stage with the difference in the estimated building cost because of the Admiralty's requirements and therefore with the change in the rental and the Treasury were rather reassured with the indications given in the telephone conversation that the point requirement now seemed to be even firmer than it had been six months earlier when they approved the original scheme.

5238. Let me see if I understand you quite clearly, Mr. Macpherson. Originally when the Admiralty sought approval for having this factory in the first place they submitted to you in writing the reasons for their wanting to have it?—They submitted a letter which did not

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set out fully the reasons, at least, not fully enough for our consideration. There was then a telephone conversation between the Treasury and the Admiralty as a result of which the Admiralty wrote answering the questions which had been raised by the Treasury and it was on the basis of the first letter, and then the second letter, that the Treasury gave their approval. Subsequently, six months later, in June, 1954, the Admiralty wrote saying there had been changes in building construction to which Sir John has referred and another telephone conversation took place. The Treasury approval recording the conversation was given in a letter dated 28th June.

5239. Apart from your confirmatory letter which you addressed to the Admiralty, have you any document whatsoever from the Admiralty which sets out the grounds upon which they are seeking approval?—(Sir John Lang.) Quite definitely, yes. (Mr. Macpherson.) There are two letters: there is first the letter of 6th November, 1953, which asks for authority; there is another letter of the 11th November, 1953, which answers some ten questions which had been raised on the telephone primarily concerned with the expected consumption both of the Admiralty and Dominion Navies and wartime requirements.

5240. As a matter of interest can you give us the information which the Admiralty gave you as to the estimated Commonwealth consumption of the double-coating composition?—As I said, Sir, the Admiralty put it at probably about 15,000 gallons annually.

5241. To the Commonwealth?—To the Commonwealth.

5242. Sir John, what evidence had you to base that estimate upon?—(Sir John Lang.) I do not know, Sir. I can only assume that our people in fact, talking to the technical departments, said: "Well, this is a jolly good composition. We are pretty certain Commonwealth countries will want to have it so soon as they can get it. What would their requirements be likely to be", and the technical departments considering the size of the Australian Navy, the New Zealand Navy, and so on, would have said: "Oh, of the order of 15,000 gallons". That was a provisional sale and certainly not, I think, described to the Treasury in the form of a certain sale.

5243. You said in answer to an earlier question that one of the matters that you had in mind in deciding to take this factory, apart from wartime necessity and the necessity for double-coating and the Commonwealth requirements and so on, was that if in fact the Admiralty requirements fell through you would have no difficulty in reletting. Now did you really anticipate at that time that there might be a possibility of the Admiralty not requiring this factory at all?—No, Sir. I suspect that that arose because the Treasury probably said to us: "Well, what happens if you take a 25 year lease of this and then for some reason the requirement disappears. Will you be able to get rid of the factory?"

Mr. Hoy.

5244. Sir John, you say that this factory was partly built and that was one of the reasons why you were induced to go into this factory?—Yes.

5245. What does the Comptroller and Auditor General mean, then, when he says in paragraph 23: "The Treasury authorised the Admiralty to enter into the lease of a factory to be constructed by the owners to Admiralty requirements"?—That meant, in fact, to be finished to Admiralty requirements.

5246. Finished; and "constructed" is, I think, misleading. I just wanted to be sure what that meant. You say it meant finished to the Admiralty requirements?—My evidence is that it was to finish the thing to Admiralty requirements.—(Mr. Macpherson.) We were told that this was a half-finished factory which the owners would be prepared to finish to Admiralty specification.—(Sir John Lang.) That is my information.

5247. This factory rather stands on its own, Sir John, does it not, if my information is correct?—It stands on its own in the sense that it is not next door to anything else.

5248. And far from being next door, is that right?—I cannot answer that. It is far from being next door in the sense that I do not think you could throw a stone from the factory wall or the factory fence and hit the next factory, but I am not trying to imply that it is three miles each way.

5249. I am told it is in a fairly isolated spot. Is it not true to say that, having started, this man could not get rid of it?—No, Sir.

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5250. I say this quite seriously because I am told that this factory is a source of amusement to the people in the area?—It may be now.

5251. The whole thing has been. In fact, I am told that locally, if we can describe a paint shop as a white elephant, that is how they describe it and then he gets rid of it to the Admiralty and it has caused very much amusement to the area?—My evidence is completely contrary to that, that we had quite a difficulty in getting the factory and that at the time when we went there people outside the Admiralty, like the Board of Trade, were quite satisfied that if we wanted to get out of it we should have no difficulty in getting our rent for it.

5252. And it has not proved to be that?—No, Sir, but the situation is quite different now.

5253. What is it used for now? For a considerable period it was not used at all. I am told that the only people who used the factory were the watchmen, night and day?—It has never been used by us. In other words, we never fitted it out with machinery. It has not in fact been occupied other than by watchmen, perhaps, and it still is not occupied but we have reached an agreement with a new firm to take it over and presumably so soon as their lease is signed they will do so.

5254. At a cost to you of £2,800 a year?—Yes.—(Sir Frank Tribe.) The Admiralty Surveyor made a report on it to the Admiralty in June, 1953. Then he said that vehicular access was had from an unmade road, metalled with slag and open to the public and that railway access was not available although the provision of a private siding appeared to be practicable.

5255. That is my opinion, Sir John, and I live a considerable way from Ince, and after all that which you have just heard in that report what in fact induced your people, some so-called expert in your Department, to go ahead with this?—Probably because he could not get a factory anywhere else.

5256. I am bound to say it leaves grave doubt in my mind. What were your total commitments for this coating in a year?—Potentially 130,000 gallons.

5257. Are you suggesting to me that the recognised manufacturers of similar

materials in this country could not have coped with that?—At the time there was no question whatever of putting it out to the trade. It was an American product which the Americans were not prepared to let anybody but us make.

5258. You could make it even although you had no proof whether it was useful or not?—No, Sir, the composition was a first class composition. It had been used by the American Navy very successfully for a long time and it had been used by us for quite a long time on American supplies and supplies from Portsmouth. The composition as a composition was proved up to the hilt. What was not proved and what has now been abandoned is double-coating.

5259. Quite. What length of time were you saving? You said double-coating would only require to be done once in twelve months, is that right?—On an average, once in twelve months, yes.

5260. How long did your single coat last? What interval was there in between coats?—Periods which would average about nine months. We were going to get a rather longer period of immunity from coating and we were going to get much less deterioration in ships' plates as a result of this double coating.

5261. Would it not be true to say that the normal period is twelve months for painting Admiralty ships?—No, Sir, nearer nine.

5262. Does that apply to all the Admiralty ships on the Forth?—I said, the average period is nine.

5263. As I hear these replies I am bound to say, and I say this regretfully, that when I think of what the local people are saying, what we have heard this afternoon more than bears out that the local people are correct, and I am sorry to say I think your officers wrong?—All right, Sir. I think the local people are in fact jobbing backwards, in other words, they are making their comments on what has happened.

5264. But the report of 1953 that your Surveyor made on the factory does not bear it out, and that is five years ago?—The Report he made on the factory—

5265. And on its site?——does not in fact deny that there was competition for the factory.

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[Continued.]

5266. It seemed to have dwindled when they found out what the strata was like, anyhow?—No, it dwindled afterwards when the industrial atmosphere in that part of the world dropped the price of factory premises very generally.

Chairman.] Now may we go to paragraph 27? I have no questions.

Sir Colin Thornton-Kemsley.

5267. Sir John, this is on the rent of Admiralty houses let to civilian tenants. Who are the civilian tenants other than employees of the Admiralty?—Basically they are all Admiralty employees, but there is a not very big class of person who was given possession of a house when an Admiralty employee who may have ceased to be employed by the Admiralty since, or alternatively he may have died and the widow may continue in possession. But it is only that relatively small class of people who are not Admiralty employees.

5268. And the houses would almost all of them have been rent controlled, would they not?—The vast majority, yes.

5269. By February, 1957, apparently, the Admiralty had made a plan to re-assess the rents and then it heard about this Treasury establishment circular which was in course of preparation and it deferred its introduction of rent revisions. Mr. Macpherson, can you tell the Committee, did the Treasury know that the Admiralty decided to hold up this plan for rent revision pending the issue of the Treasury plan under the establishment circular?—May I say something before the Treasury answer?

5270. Thank you, Sir John, if you will?—Because we are in this as much as anybody else, and this is really another example of the problem I dealt with on the last occasion when I appeared before the Committee over the problem of revising sick leave regulations, when I made the point that in modern relations with staff it just was not done to alter the conditions without proper consultation with staff interests. Now, what was happening here was that we started examining our problem and we started on the basis that we would do the thing by ourselves. We knew other Government Departments were involved but we nevertheless said: "Well

we will have a shot at it with our staff side first". We went to our staff side, people like that, and it very soon became evident that there were going to be discussions at National Council level because other Government Departments were involved. The moment that became evident we recognised that it was a matter for the Treasury and we were bound then to be in their hands as they went on with their discussions with the National Staff Side.

5271. Thank you for that background, Sir John. Perhaps I could put my question to the Treasury representative in this way: were you aware that the Admiralty had held up its own plans because of the pending issue of your circular?—(Mr. Macpherson.) May I ask Mr. Shaw to deal with this?

5272. Certainly, yes?—(Mr. Shaw.) Yes, we were so well aware that we asked the Admiralty to defer because we were already engaged in discussions with the National Staff Side which is representative, of course, of all Departments, and it was necessary to have a policy which would be common to all Government Departments.

5273. When did the Treasury produce that policy?—One has got to explain that we asked the Admiralty to defer, not only because we had to have a policy which would be common to all Government Departments, but also because, just at that time the Government had announced its intention of introducing fresh legislation which took the form of the Rent Act, 1957, which went on the Statute Book in June, 1957. We had already put proposals to the National Staff Side on lines which were broadly the same as the Admiralty's, but had completely to rethink what we should do.

5274. Have you rethought?—We have rethought and we have put forward proposals to cover the very numerous and very widely different Government tenancies to the National Staff Side about two months ago. I hope we can come to a conclusion soon, but the discussions are still going on.

5275. You are aware, are you not, that local authorities are being pressed to revise the rents of subsidised houses? Is not a Ministry like the Admiralty setting a bad example by deferring rent revision for so long?—I would suggest, Sir, that we are not deferring it for a long

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time. The Government in this respect is perhaps not unique, but certainly in relation to the scale, the number of residential properties, and the very widely different character of the tenancies which range from properties which by tradition have been rent free for centuries, to properties which have been rented on much the same basis as the private landlord would have. We have got a very difficult task indeed in devising different arrangements.

5276. Do you feel that you are quite close to getting a plan?—I think so.

5277. Ready to put into operation by about what sort of date, would you think?—I hesitate to give a date because discussions with the National Staff

Side are always regarded by both sides as confidential but I should hope before this Committee's Report is published that we will be home on this one. I do not know for a certainty.

Mr. Hoy.

5278. Did you not say you had a plan; all you wanted is its acceptance, is that right?—We have got a plan. We made proposals two months ago. We have discussed them with the National Staff Side. The discussions are not complete.

Chairman.

5279. They are within measurable distance of being complete, I take it?—Yes.

THURSDAY, 19TH JUNE, 1958.

Members present:

Sir George Benson, in the Chair.

Mr. Arbuthnot.
Mr. Collins.
Mr. Hoy.

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

Sir FRANK TRIBE, K.C.B., K.B.E., called in and examined.

TREASURY MINUTE ON PARAGRAPHS 7-13 AND 106-109 OF THE
THIRD REPORT OF THE COMMITTEE OF PUBLIC ACCOUNTS, 1956-57.

Sir THOMAS PADMORE, K.C.B., a Second Secretary, and Mr. K. E. COUZENS, a Principal, the Treasury, called in and examined.

Chairman.

5280. This is your first appearance, before the Public Accounts Committee, is it not, Sir Thomas?—(Sir *Thomas Padmore.*) It is, Sir. It is the first time I have attended before the Public Accounts Committee or even been at a meeting.

5281. I hope our relations will be as happy with you as they were with your predecessor?—I hope so, Sir, thank you.

Chairman.] Will Members turn to the Treasury Minute on paragraphs 7-13 of the Third Report. Grants to Universities? I have no questions.

Mr. Hoy.

5282. I suppose the witness has nothing further to add to this? It is working, or about to work?—It is already working. It has been working, in fact, for the last twelve months; and it is working, I think, entirely as we expected it to work. We are getting the information that we arranged to get and we are passing it, under the arrangements made a year ago, to the Comptroller and Auditor General; and there is no reason to think that the scheme will not work out entirely as everybody hoped it would.

NATIONAL LAND FUND ACCOUNT, 1956-57.

Chairman.

5287. Will Members now turn to the Report of the Comptroller and Auditor General on the National Land Fund Account, paragraphs 1 and 2? Sir Thomas, you still adhere to the principle of not using the National Land Fund,

5283. Sir Frank, what do you think of this?—(Sir *Frank Tribe.*) I can confirm what Sir Thomas has said. Of course, it is rather early days yet, but I have found no difficulty in getting any information which I felt I should have.

Chairman.

5284. May we now move on to the Minute on paragraphs 106-109, National Land Fund—Disposal of Properties? Sir Thomas, can you assure the Committee that you are not again going to hand over land to a Government Department without being paid for it?—(Sir *Thomas Padmore.*) In this connection I think I can, Sir. Of course, the question of the acquisition of works of art under the 1956 provision is a different matter.

5285. That is a different matter?—That, I think arises, on a later paragraph.

5286. This is purely a question of land?—This kind of case I do not think will ever arise again, because I think it is quite clear that we shall not in the future accept any land for the National Land Fund which we are proposing to hand over to another Government Department without having got everything, as far as payment is concerned, settled in advance.

in effect, to supplement provision made by Parliament by Votes?—We do, Sir.

5288. Works of art appear to be an exception to that, is that correct?—Only one category of works of art, that is to say, those works of art which are acquired under the 1956 provision, not

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[Continued.]

those works of art which are acquired under the 1953 provision enabling us to take chattels in houses where the question of handing over to a Government Department does not arise anyhow; but in the case of the 1956 provision which was, you remember, a provision enabling the Land Fund to take pre-eminent works of art, it was the intention from the outset, and indeed it was explained by Ministers at the time when the provision was passed in the Finance Act of 1956, to take works coming within this very narrow category for the National Land Fund and to hand them over in the ordinary way to the appropriate museum or gallery. In a sense, that might be regarded as supplementing the galleries in so far as the galleries are financed by or assisted out of Votes. It was, however, as I say, explained to be at the time an intentional exception, and, if I may say so, I do not think it is supplementation in the ordinary way. This is a provision which enables these works to be acquired for the galleries on a scale in relation to the cost of the particular works which is quite out of proportion to their own resources and their grants provided out of Votes. There was in this particular account only one instance of the use of this power, which was the "Pieta", which cost £80,000, and which was handed over to the National Gallery, the annual purchase grant of which is only £12,500, so that it is not quite supplementation in the ordinary sense; it is a different channel, as it were.

5289. Yes, but it does offend against the principle. Are you proposing to note it in the Appropriation Account?—Oh, certainly, we shall note the Appropriation Account wherever these are handed over to a Vote-financed institution.

5290. So, whenever that happens the presentation, or whatever you call it, will be noted in the Account?—Will be noted in the Appropriation Account.

5291. In view of the fact that you are taking these works of art now and some of them are items of considerable value, do you propose to alter the title of the National Land Fund?—I do not know that that has ever been suggested. Of course, the National Land Fund ever since 1953 has been acquiring things other than land in that in 1953 power was given to acquire pictures and other

works of art, chattels in the historic houses that were taken over by the Fund. This is a further extension. I would think that in all probability the title will remain not wholly inappropriate because one would expect that the bulk of the money spent from the National Land Fund will still be spent on land, if one includes buildings in the word "land", as one normally does. It is not expected that the use of the 1956 provision will be at all extensive. The provision itself refers to pre-eminent works of art and it is our intention, and this again was explained by Ministers when the provision was enacted, to use it only for works of art of outstanding importance which are not likely to be available except at quite infrequent intervals. It is true that in the last year—in the year following the year to which this Account refers—under that provision we have spent slightly over £1 million, but that was on the Chatsworth chattels.

Mr. Stevens.

5292. Just one point arising out of one of your answers, Sir Thomas. You said that the Fund would still be used pre-eminently for the purchase of land, and yet in fact last year well over £700,000 was spent on chattels at Petworth House and Ickworth House and the "Pieta". £713,000 is quite a substantial sum, even in a total of £59 million. I think there is some force in what has just been said, the nature and character of the Fund is changing quite substantially, is it not?—I think that is true. Whether it is changing enough to make it imperative to alter the name of the Fund, I should venture still to doubt.

Mr. Arbuthnot.

5293. Sir Thomas, you say that when these pictures and other things are handed over to grant-aided bodies you make a note of it in the Accounts. Do you ever reduce the grant aid against the thing that you have handed over?—The question has not arisen really because in the only cases which have arisen so far we handed over the "Pieta", as I say, to an institution of which the grant was only £12,500 a year and in the case of the Chatsworth chattels, which cost over £1 million, they were handed over to the British Museum, the National Gallery and, I think, the

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[Continued.]

Victoria and Albert, and their combined purchase grants are only about £100,000, so that if one were to make any sort of adjustment it would almost mean wiping out the purchase grant.

5294. So the answer, really, is "No."?
—Is "No".

Mr. Hoy.

5295. Sir Thomas, how was the figure of £80,000 for this picture "Pieta" arrived at?—By negotiation. There is a substantial difficulty in arriving at the price for things of this kind because *ex hypothesi* they are of pre-eminent value, they come on to the market, whether by way of offers for sale or offers of surrender in lieu of death duties, relatively rarely and it is a matter of great difficulty to discover what a reasonable price is. I think it is fair to say that in the case of the "Pieta", partly through the public spirit of the owner, we made a good bargain in the sense that there was every reason to believe that if the picture had been put up to public sale, and particularly if overseas bidders had been given an opportunity of bidding for it, the sale price might have been a great deal more, or a good deal more, anyhow, than we paid for it.

5296. But you can discount the overseas bidders, Sir Thomas, because the Treasury retains the right to prohibit the export of these works of art, does it not?—It does, but under the arrangements made after the Waverley Committee sat on this subject, I think I am right in saying that if the Reviewing Committee recommend against the export of a work of art, on its public acquisition there is an obligation to acquire it at the price which was offered for it from abroad, subject only to a deduction, if it is relevant, in respect of the value of the exemption from estate duty.

5297. All I am saying is, you reserve the right within the Treasury to prohibit the export of these works of art. I wanted to know what the understanding is. So, what you would have to face up to is what the price would have been in a competitive market in this country. That I am willing to accept. What I would now like to know is, who advises you on the purchase of these?—In the ordinary way, both with these acquisitions and with the chattel acquisitions under the earlier provision, our prime

advisers are the museums and galleries who are expert in that particular field.

5298. Who are the legal owners of the chattels at Ickworth House and Petworth House mentioned in paragraph 5 of this Report?—The legal owners, in the main, are the Crown because those chattels are not handed over to the National Trust, they are lent, except for those of relatively small value.

5299. How do you make sure that these works are in existence and are properly preserved?—I imagine—

5300. No, I do not want you to imagine, Sir Thomas?—There would be a loan agreement, and they are lent to the National Trust subject to certain stipulations in the loan agreement covering custody, access to the public, and the like.

5301. Inasmuch as you have accepted these in lieu of payment, is there a Department in your Office which is responsible for this? Supposing we said to you, are you sure that these are in existence, what assurance could be given?—I think if they ceased to be in existence we should very speedily hear about it.

5302. Would you?—We do not in fact maintain an inspectorate, but the National Trust is a responsible body and if it started playing ducks and drakes with things we had lent to it under formal agreements I think we should hear about it, and we should be able under the agreement to take steps about it.

5303. I think it is a point worth looking at to make sure that what you have taken in exchange for moneys does actually exist?—At the time of acquisition, of course.

5304. Oh, yes, I would hope so. You would not buy a painting without seeing it on the wall—not even the Treasury would do that—but what follows from that I think is important. We should like to be assured that some Department looks after it. Do you know, Sir Frank?—(Sir Frank Tribe.) I understand the agreement which is drawn up between the Treasury Solicitor and the body concerned does provide for insurance in the name of the Treasury Solicitor, for inspection, by the Treasury and annual certificates by the National Trust that they hold the objects.

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[Continued.]

5305. Now, Sir Thomas, do you have this annual inspection?—(Sir *Thomas Padmore*.) So far, I doubt whether we do.

5306. So you are not conforming to the rules?—The agreement says we may inspect them, but we do not have to. (Sir *Frank Tribe*.) The agreement provides for an annual certificate. I did not say an annual inspection.

5307. Perhaps you will look into it and see that they are all there?—(Sir *Thomas Padmore*.) We will, but if there is any reason to doubt it we shall be on to it.

Mr. *Hoy*.] This will be my last word to you: we frequently find in the course of our investigations that things which ought to be there are not there (and I shall not mention the gallery concerned), strange as it may seem.

Mr. *Collins*.

5308. Would you be aware that we have also found when items were on stock lists in certain parts they were not even there?—I think that might well arise.

5309. Do you have a stock list from the National Trust?—Of the chattels that they have taken from us?

5310. Yes?—We have a loan agreement which lists them, and of course these chattels being on loan to the National Trust they are not in a position to dispose of them in any way, and as Sir *Frank* says, we require an annual certificate from them. No doubt if we found it desirable we could in fact carry out an inspection. These things are all fairly recent, and it may be from time to time we should carry out such an inspection. We have not done so, as far as I am aware, so far.

5311. Petworth House is open on various occasions to the public, is it not?—All of them are.

5312. Have the National Trust reported to you any enterprising souvenir hunters who have removed objets d'art, or parts thereof?—No.

5313. Who maintains these things in good condition? At whose cost are they maintained in good condition?—That is the National Trust's responsibility.

5314. They do maintain them. In the years that they have been exhibited to the public there, has anything been lost,

stolen or strayed?—I have no reason to believe that anything has.

5315. Perhaps you will have a look at that?—I should be very much surprised.

5316. You did say the chattels are loaned to the National Trust and the "Pieta" has been given to the National Gallery?—Yes.

5317. Why the difference? Why on loan to the National Trust and given to the National Gallery?—These chattels taken, as you were saying, in payment of estate duty, are Crown property and it would, therefore, seem appropriate, at any rate in the case of those of substantial value, that they should not be alienated by being given to what is, after all, a non-Crown body, the National Trust. The National Gallery is a publicly owned institution.

5318. Supposing a provincial art gallery wanted to have a special exhibition of this artist's work, could they arrange, either through you or through the National Gallery, to exhibit the "Pieta" if they took responsibility for transport and insurance costs?—The National Gallery do make arrangements, and I rather think their statutory powers in this respect were brought up to date not long ago, for lending pictures in their possession to other galleries. Whether they would be willing to lend that particular one I do not know.

5319. Now, these chattels, more than £½ million worth at Petworth, obviously look best in that setting, but again supposing the provincial gallery or museum was exhibiting objects of a given period, or by a special craftsman, would you be able to let them have the loan of those articles, or some of them?—I honestly do not know, Sir, whether the loan agreement, which I am afraid I have not got by me, enables the National Trust to make further loans. I do not know whether Mr. *Couzens*, who is here, could answer that? (Mr. *Couzens*.) Yes, Sir, the National Trust could make such loans and in fact they have from time to time, but it is at their option.

5320. In other words, the application would have to be by the provincial gallery or museum to the National Trust?—(Sir *Thomas Padmore*.) To the National Trust, who are in possession of these objects.

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[Continued.]

5321. Do you think it would be a good thing to encourage the National Trust to make those loans or to organise provincial exhibitions of property which has been acquired by State funds?—Oh, I would have thought so, certainly, subject to the considerations which arise so often with these things which are often fragile, particularly the pictures, but if a responsible gallery was in a position properly to look after such an object during the period of loan I should have thought it was a very good thing.

5322. In other words, the Treasury does feel that this money, so far as possible, should be used so that people in the Provinces as well as in Scotland should from time to time be able to enjoy the sight of these objects?—Certainly.

Mr. *Arbuthnot*.

5323. Sir Thomas, I just want to get one thing completely clear. I think it is, but I would like to ask you about it. Mr. Hoy suggested to you that you were able artificially to depress the price of pictures that might come up for auction by prohibiting their export and thus excluding the foreign buyer. You said that you did not do that, it was not in fact what you would do and that you had a duty to pay the full market value, foreign buyers, home buyers and everybody else included. I do just want to get it absolutely clear because immediately afterwards Mr. Hoy came back with exactly the same suggestion and you did not correct him the second time. I do want to get the position clear?—If I may say so, I stuck to my point and I still stick to it. The position, of course, governs not merely works of art which may be offered for surrender in payment of death duties, but works of art which come on to the market generally. If I remember correctly the position following the Report of the Waverley Committee, it was this, that the recommendation which was accepted was that there should be a reviewing committee which should have the duty of saying, in the case of a work of art which it had been proposed to export and for which *ex hypothesi* there was a foreign buyer or a dealer who wished to export it, whether or not it was in the public interest that it should be retained in this country; and if it was to be retained in this country there was an obligation placed by the recommendations of the Waverley Committee on the

State in one way or another to pay the price which had been offered by the buyer whether abroad or at home, subject only, as I said, to the fact that in many of these cases there arises a question of the exemption from death duties which only accrues if the picture, or whatever it may be, is acquired by one of the national institutions. The recommendation that was made by the Waverley Committee in that respect was that the national institutions, buying a picture which in their hands was exempt but in the hands of another buyer would not be exempt, by lowering their price would get the major part of the benefit of death duties exemption, but some part of it, some small proportion, should be left in the hands of the owners. That was modified in a sense, I think about a year ago, when the Chancellor of the Exchequer announced that for the future the aim would be to leave one quarter of the difference in value with the seller and for three-quarters of that difference to accrue, in effect, to the public buyer, the gallery or the Land Fund.

Chairman.

5324. Sir Thomas, as a Derbyshire Member I was very considerably harried by a very large number of people when you removed all the art treasures from Chatsworth, which is just inside my constituency, to London. I should like to know what percentage of the pictures owned by the National Gallery are displayed by the National Gallery at any time?—May I just say, first of all, as a neighbour of Chatsworth, that I was born and bred in Sheffield, nearly as close to it as you are there, so I feel very much the same as you do about it.

5325. It was not my feelings I was concerned about, it was my constituents'?—Well, I have no constituents.

5326. I would like to know that, and I want to know why these art treasures are not circulated more than they are. I suspect that a very large number of them are in the cellars of the National Gallery and not on display. Why should they not be circulated to reputable art galleries like Manchester, Sheffield, Bristol and Nottingham?—As far as I know, Sir, the National Gallery and the Tate do make very considerable and fairly frequent loans for exhibitions elsewhere. As to your question as to what

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[Continued.]

proportion of the pictures in the possession of those galleries are actually on the walls and what proportion in the cellars, I do not know what it is currently. I do know both galleries following the war have had very considerable problems, galleries having been damaged and the like, and in both cases they are now displaying a substantially higher proportion of the total of the treasures that they hold; and they hope no doubt as a result of further expenditure on building to be able to go further still in that direction. I have not, I am half ashamed to say, had time to go and see the "Pieta", but I am sure that is on show and I should be very much surprised if the National Gallery for any material length of time were to put works

of that importance and quality into their cellars.

5327. I am quite sure in their cellars there must be works of art of far greater value than a large amount of stuff which is shown in the provincial galleries?—I would not dispute that.

5328. I should like to know what proportion of the important works of art are in the cellars of the National Gallery and what proportion are displayed in local art galleries. Could you let us have a memorandum on that?—I shall have to find that out and let you know.

5329. You will let us have a memorandum on that?—Certainly.*

* Information supplied: not printed.

CIVIL APPROPRIATION ACCOUNTS, 1956-57 (CLASSES I-V).

Chairman.] Will Members now turn to the Civil Appropriation Accounts, Classes I-V, paragraphs 1-14 of the Comptroller and Auditor General's Report? I have no questions.

Mr. Collins.

5330. I have some questions on paragraphs 12-14, Advertising and Other Publicity. Sir Thomas, when we considered this matter at an earlier meeting of the Committee this year we were then informed that the Treasury had been unable to do anything with the Newspaper Proprietors Association about the 2½ per cent. discount that had formerly been enjoyed by the Government on Government advertising. Have you yet been able to do anything about that?—Yes, we have, Sir. We have in the last couple of months taken this question up, as I think had originally been suggested by the Comptroller and Auditor General, with the newspaper proprietors in their various bodies and covering the London Press, the Provincial Press and the Scottish Press; and we have put it to them that we had a concession on Government advertising during the war, as they perfectly well know, that that was withdrawn at the end of the war and that when it was withdrawn we notified them that if the situation should change when newsprint became more readily available and the position as between buyer and seller of advertising space should change we should take up with them again the question of whether we should not have

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some kind of discount reinstated. We shall press our case but we have not yet had a response.

5331. In other words, you have put the case to them. Is this both in writing and by meeting the N.P.A.?—We have put it in writing to them.

5332. You have not met them, so you have not yet in fact negotiated?—No.

* * * * *

5340. Can you tell me what different circumstances obtain now which should give the newspaper proprietors a case for not reviving the discount?—The pre-war discount, which I think was given only to the National Savings Committee, but I may not be right about that—I am not certain—was not given by the newspaper proprietors, it was given by one firm of agents who handled the whole of the National Savings Committee's account. As we understand now, the agents almost wholly are members of an association which precludes them from giving discount out of their own commission to anybody.

* * * * *

5342. The National Savings movement have four agents now. Would it not be advisable since they get a discount from one and he is efficient to have one agent and get the discount?—I do not think there is any reason to believe that they could get the discount back again by doing that. What happened was that, as long ago as, I think, 1933, the newspaper proprietors effectively stopped the giving

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[Continued.]

of discounts by agents, but they said as a special case they would allow that single instance to go on. That itself was brought to an end when the discount from the newspapers themselves was substituted for the agent's discount at the beginning of the war.

5343. Do you regard the value of any particular newspaper advertising medium as based on its A.B.C. circulation figures?—I do not know. I would not really claim to be an expert in the value of newspaper advertising.

5344. I am not talking about the value as between one newspaper and another. What is the basis of your decision as to the newspapers you should advertise in and the prices you should pay for space? Is it not circulation?—I imagine so. I imagine circulation, and unless one is wanting to address oneself to a particular kind of reader, a particular market, I imagine it is circulation alone, but I should perhaps say I do not place these contracts, nor have I any direct responsibility for it. They are placed by the National Savings Committee and the Central Office of Information, and I would hate to be thought to be claiming to be in any way expert on how to place advertising contracts with newspapers.

* * * * *

5346. Will you also have regard to the fact in the negotiations that there is no other buyer with the same prestige as Her Majesty's Government?—That is true. How far we will be able to translate that into cash I do not know.

5347. Perhaps you will try?—We will.

Mr. Stevens.

5348. Is any discount obtained in respect of the payments made to the programme contractors of the I.T.A.—Not so far as I am aware.

5349. Has any attempt been made to secure a discount or advantageous terms? The National Savings movement, as I understand it, expends quite substantial sums of money on advertising on television?—I did not think it was a very large sum.

Mr. Collins.

5350. £50,000?—£50,000 in relation to the total amount of advertising income of the programme companies must be, I should have thought, relatively insignificant.

Mr. Stevens.

5351. I could not agree more, but on the other hand I understand that that form of advertising has proved exceptionally favourable and successful, and if that is so then the payments are likely to increase substantially in future, in which case the possibility of obtaining a discount, I think, should be borne in mind?—We certainly will bear that in mind, too.

Mr. Arbutnot.

5352. Sir Thomas, you have told us that the agents are members of an association which precludes them from giving discount out of their own commission to anyone. Will they have to register that under the restrictive practices legislation?—I do not know, Sir.

5353. But is it not rather important? If that has been registered, and, surely, if it has not it would appear to be a breach of the law, it then becomes open to you to refer that to the appropriate body to investigate?—Yes.

5354. Whether it is a restrictive practice and whether in fact you as one of the purchasers are getting as good a service as you might, or whether competition might not improve it?—Yes, though I think it is very unlikely that an arrangement of that kind does come within the damage of the Restrictive Practices Act because, as I understand it, this obligation not to pass on any part of their commission is an obligation which is forced on them by the newspapers. It is a kind of retail price maintenance mechanism which, after all, in its ordinary forms does not come within the damage of the Restrictive Practices Act. I should be very much surprised if this one did, but it is a point I will certainly look at.

5355. I wonder if you will let us have a note about that?—Certainly.*

Mr. Collins.

5356. Whilst Sir Thomas is preparing that note, will he look into his statement that this restriction is imposed by the newspapers, and while he is looking into it will he also examine the fact that the advertising agents refuse to permit any of their newspaper customers to transfer to other agents. It is not merely a completely closed shop, but there is absolutely no movement whatsoever of customers or anything else?—I will, Sir.

* Information supplied: not printed.

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[Continued.]

DEVELOPMENT FUND ACCOUNTS, 1956-57.

Mr. F. S. O. BROUGHTON, Secretary, Development Commission, called in and examined.

Chairman.

5357. Will Members now turn to the Development Fund Accounts, 1956-57, to page 14, the Comptroller and Auditor General's Report? Sir Thomas, is it still the Treasury policy that grants made from the Development Fund should not normally be made for services for which Departments have power to make grants?—(Sir Thomas Padmore.) Yes, Sir.

5358. In that case, what about these grants shown on page 5 to the Admiralty, £50,000, the Ministry of Agriculture, £2,000, and the Scottish Home Department £500?—What I understood you to ask me, Sir, was whether it was still the policy that the Development Fund would not make grants for purposes for which Government Departments themselves could make grants. But this is a survival of an arrangement which existed on a much bigger scale in the early days of the Development Fund whereby the Development Fund made grants to the Departments themselves.

5359. Yes, that seems extremely odd?—This particular grant to the Admiralty is a grant that is made for oceanographical research, which has two purposes: it has ordinary Admiralty purposes, currents and underwater conditions, and the like, of interest from the Admiralty point of view and it also has the purpose of carrying out fundamental research for fishery purposes; and this £50,000 is a contribution of, I believe, half the cost of that general programme of research which is carried by the Development Commission as part of their expenditure on fishery research. It is carried by them, I think, because it is not an activity which the Admiralty exist for or could not appropriately carry out themselves, so far as it concerns fisheries. I wonder if I might ask Mr. Broughton to confirm whether what I have said is correct?—(Mr. Broughton.) That is correct, Sir, yes.

5360. But apparently the Admiralty are doing it?—As I understand the arrangement, Sir, it is that the Admiralty

provide a certain amount of money for the National Institute of Oceanography which is a purely independent institution set up by Royal Charter, and the Admiralty would not be prepared to pay the whole of the expenditure of the National Institute because they do not believe that the whole of the expenditure is attributable to the Admiralty needs; and there is a very large element of fisheries research in the expenditure by the National Institute which is found from the Development Fund. At the present time the grant is actually made to the Admiralty who have, as I understand it, the task of collecting, for the purposes of convenience, in one place the grants which are made for the National Institute of Oceanography.

5361. What about the Scottish Home Department, £500?—(Sir Thomas Padmore.) Those two are the same; the £2,000 for the Ministry of Agriculture and the £500 for the Scottish Home Department are the same thing. Those are for a small number of scholarships—post-graduate studentships—for training in fishery research, and the reason for that is that this is a desirable activity in connection with fisheries research. Obviously one has to provide training for a certain number of people to do the work and the Department have not got powers to give these half-dozen or dozen, or whatever it is, scholarships. It is a small number of scholarships.

5362. They have not got the powers?—No. (Sir Frank Tribe.) May I say, I find this rather difficult because in so far as these Departments receive grants as Appropriations in Aid from the Development Fund and then pay those grants out to another body, they incur the duty of making the grant themselves on a Vote which apparently, from what has been said, has no power to make such a grant. In other words, they are paying out money which is outside the ambit of their Vote.

5363. In that case, then, why does not the Development Fund make the grant direct? I gather also that the Admiralty are paying one-half?—(Sir Thomas Padmore.) Yes.

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[Continued.]

5364. Am I to understand, then, that they have not even power to pay one-half?—Oh, yes, certainly. They have, but the half to which this £50,000 relates is for fisheries research. The Admiralty certainly have power to disburse the other half which is related to and is spent for purposes with which they are concerned, but may I say this, Sir, about the whole of this fishery development aspect of the Commission's work: it is a thing, I believe, about which this Committee has asked before and I think the Committee was told on a fairly recent occasion that the whole question of the organisation and financing of fishery research and development (which covers, of course, as you will see from this Account, more than the entries which you have just referred to, it covers the block at the bottom of the same page) has been under review by an Advisory Committee on Fisheries Development and Research—which is an appendage of the Commission itself—jointly with the two Departments who also, of course, engage in and finance a certain amount of fisheries research; and the three of them have been reviewing it together to see whether in fact this organisation ought not to be reformed and revised in certain respects. I have not had time to read it because it is only a matter of days ago, but we have just received the report of that Committee and we shall now study the whole of this set-up in the light of that report; and we shall see how far it has proved practicable to rationalise it and modernise it.

5365. And make it rather less cumbersome?—I hope so.

5366. In the last sentence of paragraph 3 of the Report the Comptroller and Auditor General says: "They consider that it would be inappropriate to try to deal with small local areas of unemployment by scheduling them as Development Areas". How far is this problem going to be dealt with by the recent Bill, the Distribution of Industries (Industrial Finance) Bill?—I do not know that I can yet say exactly because the Bill is not yet on the Statute Book, still less have we started to work it. But it certainly will have—is bound to have—a considerable impact on this problem. The new powers, of course, are not quite the same as the powers which have been used by the Development Commission. Under the new Bill the Treasury will certainly have powers to function in most of

the areas in which the Development Commission have been functioning in this way. But we shall not be empowered to do quite the same thing because the Development Commission has been erecting factories in some cases—probably a majority of the cases—to rent. We have no power to do that. If the new Bill is passed in the form in which it stands it gives power to make loans to industrial enterprises. But I would hope that nevertheless it should be possible for the bulk of this activity to be taken over by an ordinary Government Department, in this case the Treasury, and thus to relieve the Development Commission of, at any rate, most of this. It may be that in a few cases, for instance if extensions to existing Development Commission factories were to arise, it would probably be impracticable to do those in any other way than by a continuance of these arrangements. We may run into other difficulties, but, as I say, I very much hope that at least most of this kind of activity by the Development Commission will be substantially reduced. It may virtually disappear.

5367. Section 3 is headed: "Loans for the erection of factory buildings"?—Yes. I was speaking, perhaps, a little loosely when I said the Development Commission can erect factories. They do not do it themselves, but they lend to one of the estate companies, mainly the estate companies established by the Board of Trade under the Development Areas legislation, and the companies erect factories and rent them to the actual enterprise which is occupying them.

Mr. West.

5368. And who remains the owner of the factory?—The estate company.

5369. You own none at all yourselves, as the Development Commission?—No.

Chairman.

5370. Moving on to paragraph 4, what are the difficulties in the way of new legislation to which the Comptroller and Auditor General refers?—I imagine that it was felt that there was considerable difficulty in promoting new legislation, to give exactly the same sort of powers to the Treasury or some other Government Department as those which were being exercised by the Development Commission, I think primarily because

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the Development Commission, after all, are really wholly directed towards rural activities and this in this particular form is a rural activity. But I think that although we said in 1955 that there were too many difficulties in the way of new legislation, nevertheless it has proved possible in 1958 to promote a Bill which is now going through the House which will in fact to the necessary extent provide new powers which will enable the Treasury to do exactly this.

5371. When the Bill is through, then, the Fund will not need to make any more loans for this specific purpose?—The Development Commission?

5372. Yes, the Development Commission?—As I said, Sir, I hope that it will be possible greatly to diminish and possibly to abolish this particular activity by the Development Commission, except that there may well arise such cases as extensions of the factories on which they have already embarked which it would really only be practicable for them to continue.

5373. So they will continue to be responsible for their existing loans?—Oh, certainly.

Mr. Collins.

5374. Sir Thomas, in the list of special rural activities in the account I notice the figure of £134,741 for the Rural Industries Bureau. Is that figure about the average or is that much larger than usual?—I think it is about the normal figure, but perhaps Mr. Broughton will confirm that?—(Mr. Broughton.) Yes, it is about the normal figure for recent years.

5375. Have you any idea of the approximate value of the rural industries they are able to stimulate and assist?—(Sir Thomas Padmore.) The total capital value or number employed?

5376. Or the numbers employed, yes?—No, I could not answer that. I shall have to find out.

5377. I was hoping to get some idea of the volume of business or work done. I know it is an extremely worthy cause, but it seems such a very large sum of money for what, to my knowledge, is a rather small business?—(Mr. Broughton.) Yes. I could only give you, Sir, an estimate and that would be an estimate formed not by ourselves but by the Rural Industries Bureau themselves,

and I think the reservation I would have to make would be that it is a figure relating to all the businesses they could help and not necessarily the ones they have helped—the ones, in other words, that would be eligible for help—and the estimate they have given us is £35 million, in terms of turnover.

5378. That includes the businesses that they could help but do not?—Yes.

5379. My question was directed to the volume of business or the value of business, or the numbers employed in industries that they do help?—That we have not got. When I say it is industries that they could help but do not, they are industries which are eligible for help which they might help. I am only qualifying the figure because they could not say: "We have helped a certain number of businesses and the total of our contribution adds up to £35 million". What they do say is: "Of all the businesses which we reckon to exist and which are rural enough and small enough and of the right kind for help from the Bureau, we estimate their turnover at £35 million."

5380. So really, then, you have no reliable information as to the actual assistance that this sum of money does give to rural industry?—It is very difficult indeed to get, Sir, I think, in money terms. A survey has been under way for some time now, designed, I think, not quite to answer that question, but to get much more accurate figures about the value of the product of rural industries in general, including the export value, which is not entirely negligible.

5381. Sir Thomas, these factory loans were merely loans to the Development Area Corporations who would repay them to the Treasury and make their own arrangements with the firms who are going to use that money, and as far as you are concerned the factories could be let or could be sold against repayment?—(Sir Thomas Padmore.) They could be sold against repayment. As a general rule they have in fact been let.

5382. Does the Development Corporation or the company erecting the factories pay interest on the loans to the Treasury?—Yes, it pays interest and amortisation.

5383. Interest and amortisation, and therefore it must be covering those sums

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either by way of sale or by rents?—No, I do not think one can say that because it has all along been the practice (and this applies not merely in these cases but to the loans for factories erected by the Board of Trade in Development Areas) that they are normally let by reference to the annual value as laid down by the District Valuer; and, of course, the letting terms in some cases quite deliberately involve an element of inducement to industrialists to go to these places and, therefore, they are not as a rule economic rents, in the sense that they are rents sufficient to enable the company to meet its loan charges.

5384. It would not be for me to say that what you have said in reference to the Board of Trade is not correct, but certainly Sir Frank Lee, answering similar questions quite recently definitely assured us that the factories now being built and sold are being sold against a repayment figure which covers the cost, including interest?—Those that have been sold, Sir; I am afraid I was talking about renting.

5385. Then, what inducement is there for these firms to go, and the only possible inducement, a financial one, is that in fact the rates of interest on the money might be lower than they might otherwise have been? There is no other inducement. What I am trying to get at is, what is the difference in the end between this paragraph 5 loan and the kind of transaction which the Board of Trade is now carrying out in what appear to be rather similar areas, Stockton, for example?—You refer to the Development Areas, not to the new powers?

5386. Where the powers are now being exercised already by the Board of Trade?—I do not think there is any. There is no real difference and, indeed, this was a way of doing the same thing in the places which were not Development Areas as was being done by the Board of Trade in the Development Areas without in fact declaring those areas to be Development Areas.

5387. These two factories that are mentioned of over £100,000 would be fairly substantial industrial factories? They are not small rural light industry factories?—Oh, no, these are not rural industries in the sense in which “rural

industries” was defined in the original Act.

5388. Then, for what purpose does the Treasury agree that there should be financial inducements, in other words, that the factories might be let at under recoupment costs?—I am not sure that I quite follow, for what purpose?

5389. Yes?—For the purpose, in fact of relieving unemployment in the areas concerned, for the purpose of inducing industrialists to provide employment there.

Mr. West.

5390. Sir Thomas, with regard to the loans for factory building were you lenders of last resort to industrialists in the same way that under the Development Areas Treasury Assistance Scheme they could only get advances from D.A.T.A.C. where they were unable to obtain it elsewhere?—I do not think we were lenders of last resort in this case, in providing factories. What we were doing, as far as the industrialist was concerned, was not in the ordinary case offering him a loan, but offering him something which he could not get in these places from any other source, which was a factory for rental. We were not lending him money.

5391. You are providing him with a factory?—We are providing him with a factory.

5392. I see. Now, in regard to the Report which you referred to, of course, not having considered its recommendations you cannot help us very much?—This is on fisheries?

5393. I see, not on the general powers and responsibilities of the Development Fund Commissioners. I was going to ask whether you anticipated that the general responsibility of the Commissioners would in some way be affected by the recommendations of that Report, or not?—I think it is very difficult for me to say because I have not read it yet. It has, as I say, literally only just arrived. It certainly was our hope that it would prove practicable to modify the existing arrangements for fishery research because we felt that the present arrangements, with responsibility and activity and finance shared between the Departments and the Commission, was sufficiently untidy to merit having a good look at it. How far the Report will enable us to do anything about it I really cannot yet say.

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5394. I was referring to the last sentence in paragraph 1, and I was going to ask what advantage is there in leaving to the Development Commissioners responsibility for considering assistance in new development and for experimental schemes?—I would have thought that the advantage was that where you get a new development or something highly experimental generally, whether it be in fisheries or agriculture, that is of interest to the Commission. The advantage of leaving the question of Government assistance to the Commission is simply that in the ordinary way powers do not exist for any other Government Department to take a hand in it and one would not want in the case of something that is purely experimental—it may prove to be a dud—to ask Parliament to give powers for continuing assistance. The Development Commission has broad powers to give assistance under the Act of 1909 and those powers enable it in fact to inject certain limited Government assistance into these experimental things which may prove to be quite transitory.

5395. Does the Government Department make recommendations to you about it or to the Commissioners? Are they brought into it at all?—Oh, yes, the Departments are asked for their views as to the good sense or otherwise of any proposition that may come along.

5396. Is there any particular advantage, then, in not leaving it to the Government Department concerned?—I think it is primarily a question of powers. (Sir Frank Tribe.) It is rather difficult to say that some of these schemes are not within the powers, say, of the Agricultural Research Council. If you look at page 10, a grant "For the propagation of virus-tested horticultural stocks, particularly strawberries," or the provision of a seed testing station, those are very similar to activities undertaken by the Agricultural Research Council? (Sir Thomas Padmore.) They are.

5397. How do you ensure, Sir Thomas, that there is no overlapping between the Development Fund and the Government Departments concerned?—Simply by keeping in constant touch with the Departments, telling them what we are doing and, indeed, asking them whether they recommend that we should do it or not. One can be quite sure that if the Development Commission undertake anything of this kind, either in agricul-

ture or in fisheries, it is with the assent and almost at the wish of the Department concerned.

5398. Even though some of the activities which you undertake are activities which might very well have been undertaken by the Department itself? You relieve them, as it were, of the responsibility of doing it?—I believe that as a general rule the Departments do not in fact ask the Development Commission or anybody else to do things that they could perfectly well do themselves.

5399. The administrative expenses, I see, are nearly £30,000. Do you not think it would be much more economical if it were left to Government Departments?—I would not have thought so, Sir. After all, the particular kinds of things to which Sir Frank drew attention are really only a very small part of the whole. Mr. Broughton knows better than I do the details of what the staff are engaged on, but I would have thought that the expenditure of the £400,000 which is expended a year on special rural activities, the expenditure on the factory loans, and that kind of thing, would account for the great bulk of the administrative expenses of the Commission.

5400. I see that there is an audit fee of £500 with regard to your accounts. Could you say who audits the accounts of the grant-aided bodies?—(Mr. Broughton.) We do require the grant-aided bodies to submit audited accounts as a condition of grant aid. They are not, of course, audited by the Comptroller and Auditor General, but they are audited by reputable auditors; and we do insist that we do have audited accounts annually from grant-aided bodies.

5401. You do not nominate the auditors?—No, we do not nominate them.

Mr. Arbuthnot.

5402. Sir Thomas, I see from paragraph 5 that at the end of 1957 the loans totalled about £765,000 for the building of factories. Those had been authorised from the Fund. What is the present total of the loans authorised?—(Sir Thomas Padmore.) Something just over £800,000. I think I am right in saying it is £880,000?—(Mr. Broughton.) Yes, that is right.

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5403. Do those loans not represent a marked departure from the Fund's primary purpose of developing agriculture and rural industries?—(Sir Thomas Padmore.) Yes, I think they do.

5404. Are you satisfied that you have got adequate statutory authority for making the loans from the Development Fund?—Yes, we have looked into that on more than one occasion and we have not felt any doubt about the powers, literally interpreted. I am bound to say that I personally think there is, on the other hand, very little doubt that this kind of thing was not really within the intention of those who framed the original statute, and that is one of the reasons why I am rather glad that we see this opportunity with the new statute coming along of very much modifying this activity and perhaps largely bringing it to an end.

5405. So, feeling that it was against the intention, you none the less have been advancing them money because it is within the letter, is that it?—I say it was outside the intention because quite clearly in 1909 nobody contemplated this sort of thing at all. When I say it was outside the intention, I do not think it was outside the spirit; I think it was within the spirit as well as within the letter because the whole intention of the Development Commission was to assist the economic life of these rural areas. So I do not think there is any doubt that the thing was not only within the letter but within the spirit too.

5406. Can you say how many people are expected to be given employment through the schemes as a whole, and what is the cost per employee?—(Mr. Broughton.) I can give some answer to that. There have been, I think, 14 schemes in the last ten years financed from the Development Fund, and at the time of application the provision made for employment in each scheme, if added together, would come to about 2,000 overall. I do not think we could guarantee that all those people are employed at this moment because the firm may have done better or worse since going into the factory, but in terms of justification for doing the thing at the time it was done the figures add up broadly to 2,000 for ten years.

5407. And the cost per employee?—(Sir Thomas Padmore.) It is £882,000. Divided by 2,000, that is £440.

5408. £440 per employee. It is fairly expensive, is it not?—Well, I was rather surprised, I thought it was rather cheap. This is only loan money and having had something to do with these special areas problems before the war I would have been glad to think that one could find employment at that sort of rate per man.

5409. Have you got a yardstick in terms of cost per employee when you are contemplating one of these new schemes?—I do not know that we have a yardstick.—(Mr. Broughton.) The Board of Trade, Sir, I think, have figures which they use as some sort of guide as to whether the cost of a scheme is extravagant or not, and we do, of course, always get a report from the Board of Trade on each and every case and more often than not they do advise the Commission about that sort of point, about whether the cost per job and the cost per square foot of erection, and so on, conform to standards which they would regard as acceptable.

5410. Now, if you take the counties—this is page 7—Kent, for example, had £3,213; Somerset, on the other hand, had £5,000. Why such a marked difference?—By and large the larger counties tend to get more. I must confess, quite frankly, at once, I do not know why Somerset has quite so much here. I could give it to you later on if you like, but as to the discrepancy between some of the others it is usually the larger county which gets more, especially if there is more than one administrative county. For example, Yorkshire and Suffolk are counties in which an allowance is made for there being more than one administrative unit in the county.

5411. What is your process of application?—By the Rural Community Councils.

5412. So that one may feel that part of the difference between the sums granted is due to the fact of some of the councils being asleep?—No, Sir, I would not think so. If we are dealing with individual grants to the individual rural councils there is a maximum laid down by the Commission for each county, extended a little, as I have explained, in the case of a county with more than one administrative unit. Some counties may not apply for the maximum, but that is sometimes because they happen to be doing particularly well

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with private subscriptions or they have got a balance and do not feel justified in asking for the maximum. Most of them naturally do apply for the maximum.

5413. Is the maximum known?—Yes, indeed it is. The maximum in the year under consideration for general community work, for example, was, I think I am right in saying, £1,400 as a basic grant and they also got grants for a rather different activity, and that is the local rural industries work which they do; so they do, in fact, get two grants, one for one purpose and one for the other.

5414. Could you let us have a list for the last year of the maxima and the amounts granted, if you can prepare such a list quite easily?—Indeed, Sir, yes.*

Sir Colin Thornton-Kemsley.

5415. Who are the Development Commissioners?—(Sir Thomas Padmore.) Who are they personally?

5416. Personally, yes?—I have a list here, Sir. Lady Albemarle is the Chairman. Lieutenant-Colonel The Hon. R. E. Beaumont, Mr. L. K. Elmhirst, Professor Sir James Gray, Mr. J. L. Longland, Mr. John Sullivan, Mr. W. J. Wright and Mr. C. I. C. Bosanquet.

5417. How often do they meet together?—(Mr. Broughton.) Normally every two months as a full Commission meeting, although the chairman is in the office in between times and two or three Commissioners may be called together at a meeting on a specific question probably two or three times.

5418. Are the offices in London?—Yes.

5419. Have you any offices outside London?—None at all.

5420. Who on that list of Development Commissioners represents particularly Scottish interests?—Mr. John Sullivan, whose home is in Glasgow.

5421. Just that one?—Yes, but he is not the only Commissioner resident in Scotland, if I may explain.

5422. Can you give the names of others resident in Scotland?—Mr. W. J. Wright is resident in Scotland, he lives in North Berwick. Mr. John Sullivan also lives in Scotland and was appointed originally for his knowledge of and interest in Scottish affairs. Those,

I think, are the only two Commissioners resident in Scotland.

5423. Who makes the appointment?—(Sir Thomas Padmore.) The Crown. (Mr. Broughton.) By Royal Warrant, on the recommendation of the Prime Minister.

5424. For how long a period?—The period is normally seven years now, Sir. There is a Commissioner due to retire each year and arrangements have been made in the past about the dates in such a way that I think now it is normally a seven-year appointment.

5425. Turning to the Accounts, I see on page 5 that certain grants have been made for agricultural development. What kind of agricultural development is the North of Scotland Hydro-Electric Board doing that it should have received £69,000 odd?—This is a scheme for the use of peat, of which there is an abundance in Scotland, and the method employed is to try by experimental means, and I think it is now established that it is possible and they are going on to the development stage, to use peat as fuel for gas turbines in order to generate electricity. I think the interest of the Commission in that thing is partly because peat is a rural product, so to speak, a raw material which is found in rural places, and partly because one of the original objects of the scheme was to find out whether when you have removed the peat the ground that is left is good for agriculture, and I think there is some evidence that it may be. (Sir Thomas Padmore.) This is a shared scheme, I believe, shared with the Ministry of Power.

5426. I was going to say that last week we had here Sir John Maud, who told us something about this from the point of view of his Ministry. Is the whole cost of Government grant towards this peat investigation covered by this figure of £69,000 odd in your Accounts?—No, Sir.

5427. Can you tell the Committee what other amounts are granted, or were granted in the year under review, for this purpose and by whom?—(Mr. Broughton.) I do not think I can, Sir. We would not, I think, be officially concerned with the amount of money provided, for example, on the Vote of the Ministry of Power for this purpose. That is not to say that the Commission

* Information supplied: not printed.

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would not be interested in the work being done by the Ministry of Power. The Commission, every time it considers an application by the Hydro Board for its peat purposes, does receive a report from the Scottish Peat Committee, which has the oversight of all the experimental work on peat which is being done, so the Commission is enabled to judge from this report where the Hydro Board's programme fits into the operations as a whole and to make sure that they are not making a grant for something which is being done by somebody else, for example; but in terms of money, if I may now speak for the Treasury, the Treasury would have no responsibility through the Development Fund except for anything which was on the Development Fund. (Sir Thomas Padmore.) My understanding of this particular scheme is that the Development Fund and the Hydro-Electric Board have shared in the proportion 90 per cent. on the Commissioners and 10 per cent. on the Hydro-Electric Board of the capital cost of the plant and equipment required for this experimental scheme.

5428. And do you know the proportion that is being put up by the Ministry of Power?—I do not, Sir. My understanding is that the Ministry of Power are not concerned in the capital cost of the development. I think they share in the cost of the experimental work carried out at this place in Scotland.

5429. Are you satisfied that there is not any overlapping, that the Development Commissioners are not contributing funds for purposes towards which contributions are already made by some other Government Department?—I do not think so, Sir. This is the sort of scheme which has got to be virtually wholly financed at this stage by the Government in one way or another, or it just will not happen. The Hydro-Electric Board would clearly have a very marginal interest in the possibility of using peat to produce electricity, and that marginal interest has been represented by the fact that they have shared in the capital cost to the extent of 10 per cent. As far as running the thing is concerned, the Government Departments, if I may call the Commission for a moment a Department, at any rate, the two Exchequer purses represented by the Commission and the

Ministry of Power, have shared in the rest of the cost because they are both interested in the thing from different aspects. But there is no reason to think that because they have shared it there is any overlapping in the sense that somebody is paying for anything twice.

5430. I think we were told by Sir John Maud that the Ministry of Power had abandoned this work on the peat-burning gas turbine and I think I asked him why and he said something about blade fouling as a result of the combustion of the peat passing over the blades of the turbine, which meant that the whole thing was unsatisfactory?—(Mr. Broughton.) There are, if I may answer that, two different kinds of peat turbine which have been developed, one by the Ministry of Power and the other one by the North of Scotland Hydro-Electric Board. I am not myself very familiar with the technical details of the difference between them, but this can be said, I think, that they are different machines, that the Hydro Board's one is known as the closed cycle peat turbine and the Ministry of Power's is the open cycle peat turbine. They are two different processes, or processes in which the technicians could recognise a difference, and we have been advised that although the Ministry of Power have decided for reasons which seem good to them that their open cycle turbine was not a satisfactory engine, no such decision has been made by the North of Scotland Hydro Board; nor indeed, would the Scottish Departments, particularly the Scottish Home Department, who have a close interest in these schemes and keep them under review, advise us that this should be abandoned. There is nothing unsatisfactory about this turbine as far as is known at the present.

Chairman.

5430.* It is suggested that we might have a paper on this. I will not suggest there is any overlapping, but I think it would be to the advantage of the Committee if we knew exactly what the Hydro-Electric Board were doing, and why they thought they were being successful, as compared with the non-success of the Ministry of Power. (Sir Thomas Padmore.) We will give you a note on the financing and the functioning of the scheme.*

* Information supplied: not printed.

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Mr. Collins.

5431. Could I also ask Mr. Broughton, when he is producing the figures that have been asked for if he could give us an indication, say, in the case of Somerset where they have a very active Rural Community Council with a lot of crafts which I think we have found is the reason for the higher figure—I am not very familiar with it—and, of course, the Rural Industries Bureau is not very active in that area?—(Mr. Broughton.) Yes.

Sir Colin Thornton-Kemsley.

5432. Still looking at page 5 of the Accounts, I wanted to ask what agricultural development was being done by the Scottish Tourist Board that you have assisted to the extent of £1,300?—This is an indirect assistance to the rural economy in general, Sir. The activity which is being assisted here is some research work and trials into means of disposing of midges.

5433. I think you have told me quite enough; I support that wholeheartedly. Then, looking a little bit further, grants towards fishery development to the National Institute for Research in Dairying?—(Sir Thomas Padmore.) I opened my eyes at that, too, Sir. This body is doing some biochemical research which is of concern, rather oddly, from the fishery point of view and the Commission felt it was of sufficient importance and interest to justify them in making this grant to them. There is some question, I understand, of possibly transferring this work to some other body which at any rate might have a more appropriate title.

5434. Now, the North of Scotland Hydro-Electric Board has been fortunate again, and it has got £19,000 for fishery development?—That is salmon research, partly into the ways and means of limiting the damage which the other operations of the Hydro-Electric Board may do to salmon fishing.

5435. Is it easy to draw the line between what ought properly to be paid for and what ought not by a public corporation which is charged by Parliament with a duty of making a profit from year to year, a body like the North of Scotland Hydro-Electric Board which is required to preserve fishery and preserve amenities, and things like that, under its Charter? Have they swung something on you that they ought not to have

done?—No, I do not think it is easy. I think all the same it may be necessary. (Mr. Broughton.) May I say this, Sir, if I may: the objects go, perhaps, a little further. It is hoped, by two schemes of research in which the Hydro Board is engaged with assistance from the Development Fund, to improve certain fisheries. It is not only a question of preventing damage being done to the salmon, there are two schemes, both of which if successful would provide means of substantially bettering the salmon fisheries; and it is also true to say of one of them, at any rate, that it is a scheme which might have been undertaken by the Scottish Home Department at one time had they been able to find just the right facilities and been able to afford it. The Hydro Board do offer facilities on waters with which they are concerned and the doing of this research scheme with grant from the Development Fund to the Hydro Board has enabled, we think, a very economic job to be done because all the facilities of the Hydro Board could be made available and the grant can therefore be limited to what is needed largely for maintenance and local capital expenditure.

5436. Sir Thomas, this question you may think comes strangely from one who lives in Scotland, and who is occasionally addicted to salmon fishing. Bearing in mind the very large rents which are obtainable for salmon fisheries in Scotland do you think it is part of the duty of the Development Commissioners to spend public funds to the extent of £19,000 in one year by way of grant to the Hydro-Electric Board to improve salmon fishings on what are presumably privately owned waters?—(Sir Thomas Padmore.) I would not have supposed that this expenditure was being undertaken with any thought that it would be primarily or solely of benefit to those who may happen to own the fishing rights in the areas concerned. I would have thought it was fair to say that the health of salmon fishing as an industry in Scotland was something with which the Government could rightly through a body like the Development Commission concern itself, and it was by no means a bad thing that they should incur, if necessary, certain limited expenditure on research designed to improve what is, after all, a not unimportant economic activity in that part of the country.

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[Continued.]

5437. I want to ask one or two other questions on the Accounts. On page 11 I see that from the statement of outstanding loans in the two Welsh cases repayments of two loans for the erection of factory buildings are in arrear. Why is that?—Is this Ffestioniog, Group 5?

5438. Yes?—(Mr. Broughton.) They were in arrear at this time, Sir; I am not sure that they are still in arrear. I think it is largely a matter of making the necessary arrangements. These are both loans which have been made under the factory building operations which were the subject of questions a little while ago, and I do not think there is any question of the two local authorities having defaulted on their repayments. There are some rather complicated arrangements by which the deficit, if there is a deficit, is met from the Development Fund and that was part and parcel of the whole policy at that time of enabling local authorities to undertake the building of these factories, and an undertaking was given that they would not be expected to find money from the rates for these purposes.

5439. You are expecting to get the money back quite soon, are you?—I do not think it will come back. I think the instalments that are due to be paid either have been paid or will be paid.

5440. They will be paid?—But they may need some assistance in paying them.

5441. Now, on the next pages, 12 and 13, why are repayments of two of the loans to Scottish Industrial Estates Limited still under discussion?—That is really for very similar reasons. Some question arose on the interpretation of the agreement between Scottish Industrial Estates and the Treasury, the question being one which concerned the method of repayment, and that has taken, I am afraid, rather a long time to settle. It has just recently been settled, but there is no discussion about the question whether there should be repayment, it is only just the question of which would be the most appropriate and convenient way to the Treasury for the repayment to be made.

5442. But if you allow occupation before the repayment terms are agreed in all their details, are you not putting yourselves in rather a weak bargaining position?—(Sir Thomas Padmore.) No, Sir, with respect, this is the issue,

if I may explain, which I mentioned earlier on, that there is normally in these cases, or very frequently in these cases, a gap between what the tenant is paying and what is required to service the loan. In the case of loans made to local authorities it has been agreed that the loss, the difference between the service of the loan and the rent derived from the factory, should not fall on the local authority. Equally, it cannot fall on these estate companies which are Government-owned companies which have not any resources from which to bear it, anyhow, and the question which has taken some time to resolve was not the question between the company and its tenant, but the question between the Commission and the Treasury on the one hand and the company, as to whether we should bear that loss by giving them the money to pay the interest to service the loan or to make the loan to some extent interest-free or taking an abated payment.

5443. Do you ever erect factories before occupiers for them have been found?—(Mr. Broughton.) Not now, Sir.

5444. Are these loans only made to non-profit-making concerns?—(Sir Thomas Padmore.) Yes.

5445. Is the local authority or the Industrial Estate Company required to repay the loan even if the tenant of the factory defaults?—Well, no, Sir. As I was saying a moment ago both the estate companies and the local authorities are under these arrangements protected from loss and, therefore, if a tenant defaults we should have either to put the local authority or the estate company in funds to pay the service of the loan, which would be giving them money to pay back to us, or we should have to give them some kind of moratorium or excuse interest. (Sir Frank Tribe.) So it may in fact be a subsidy to private enterprise.

5446. It could be, yes?—(Sir Thomas Padmore.) In what sense? (Sir Frank Tribe.) In the sense that if the tenant fails to pay the rent it is found for him. (Sir Thomas Padmore.) No, I was not talking about finding the rent for the tenant. If the tenant defaults presumably he is ejected. What I had in mind was the estate company or the local authority.

19 June, 1958.]

[Continued.]

REVENUE DEPARTMENTS APPROPRIATION ACCOUNTS, 1956-57.

VOTE 1.

CUSTOMS AND EXCISE.

On this Account no questions were asked.

CIVIL APPROPRIATION ACCOUNTS, 1956-57 (CLASSES I-V).

CLASS I.

VOTE 1.

HOUSE OF LORDS.

VOTE 2.

HOUSE OF COMMONS.

VOTE 3.

REGISTRATION OF ELECTORS.

VOTE 4.

TREASURY AND SUBORDINATE DEPARTMENTS.

VOTE 5.

PRIVY COUNCIL OFFICE.

VOTE 6.

PRIVY SEAL OFFICE.

VOTE 7.

CHARITY COMMISSION.

VOTE 8.

CIVIL SERVICE COMMISSION.

VOTE 9.

EXCHEQUER AND AUDIT DEPARTMENT.

VOTE 10.

FRIENDLY SOCIETIES REGISTRY.

VOTE 11.

GOVERNMENT ACTUARY.

VOTE 12.

GOVERNMENT CHEMIST.

VOTE 13.

GOVERNMENT HOSPITALITY.

VOTE 14.

THE ROYAL MINT.

19 June, 1958.][Continued.

VOTE 15.

NATIONAL DEBT OFFICE.

VOTE 17.

PUBLIC RECORD OFFICE.

VOTE 18.

PUBLIC WORKS LOAN COMMISSION.

VOTE 19.

ROYAL COMMISSIONS, &c.

VOTE 20.

SECRET SERVICE.

VOTE 21.

SILVER.

VOTE 22.

TITHE REDEMPTION COMMISSION.

VOTE 23.

MISCELLANEOUS EXPENSES.

VOTE 23A.

REPAYMENTS TO THE CIVIL CONTINGENCIES FUND.

VOTE 23B.

FOREIGN COMPENSATION (CZECHOSLOVAKIA).

VOTE 24.

SCOTTISH HOME DEPARTMENT.

VOTE 25.

SCOTTISH RECORD OFFICE.

CLASS II. 12

VOTE 1.

FOREIGN SERVICE.

VOTE 2.

FOREIGN OFFICE GRANTS AND SERVICES.

VOTE 3.

BRITISH COUNCIL.

VOTE 4.

UNITED NATIONS.

VOTE 5.

COMMONWEALTH RELATIONS OFFICE.

19 June, 1958.]

[Continued.]

VOTE 6.

COMMONWEALTH SERVICES.

VOTE 7.

OVERSEA SETTLEMENT.

VOTE 8.

COLONIAL OFFICE.

VOTE 10.

DEVELOPMENT AND WELFARE (COLONIES, &c.).

VOTE 11.

DEVELOPMENT AND WELFARE (FEDERATION OF RHODESIA AND
NYASALAND, AND SOUTH AFRICAN HIGH COMMISSION TERRITORIES).

VOTE 12.

IMPERIAL WAR GRAVES COMMISSION.

CLASS III.

VOTE 2.

HOME OFFICE (CIVIL DEFENCE SERVICES).

VOTE 3.

POLICE, ENGLAND AND WALES.

VOTE 4.

PRISONS, ENGLAND AND WALES.

VOTE 5.

CHILD CARE, ENGLAND AND WALES.

VOTE 6.

FIRE SERVICES, ENGLAND AND WALES.

VOTE 7.

CARLISLE STATE MANAGEMENT DISTRICT.

VOTE 8.

SUPREME COURT OF JUDICATURE, &c.

VOTE 10.

LEGAL AID FUND.

VOTE 11.

LAND REGISTRY.

VOTE 12.

PUBLIC TRUSTEE.



19 June, 1958.]

[Continued.]

VOTE 13.

LAW CHARGES.

VOTE 14.

MISCELLANEOUS LEGAL EXPENSES.

VOTE 15.

SCOTTISH HOME DEPARTMENT (CIVIL DEFENCE SERVICES).

VOTE 16.

POLICE, SCOTLAND.

VOTE 17.

PRISONS, SCOTLAND.

VOTE 18.

APPROVED SCHOOLS, SCOTLAND.

VOTE 19.

FIRE SERVICES, SCOTLAND.

VOTE 20.

STATE MANAGEMENT DISTRICTS, SCOTLAND.

VOTE 21.

LAW CHARGES AND COURTS OF LAW, SCOTLAND.

VOTE 22.

DEPARTMENT OF THE REGISTERS OF SCOTLAND.

VOTE 23.

SUPREME COURT OF JUDICATURE, &c., NORTHERN IRELAND.

VOTE 24.

IRISH LAND PURCHASE SERVICES.

CLASS IV.

VOTE 1.

MINISTRY OF EDUCATION.

VOTE 2.

BRITISH MUSEUM.

VOTE 3.

BRITISH MUSEUM (NATURAL HISTORY).

VOTE 4.

IMPERIAL WAR MUSEUM.

19 June, 1958.]

[Continued.]

VOTE 5.

LONDON MUSEUM.

VOTE 6.

NATIONAL GALLERY.

VOTE 7.

TATE GALLERY.

VOTE 8.

NATIONAL MARITIME MUSEUM.

VOTE 9.

NATIONAL PORTRAIT GALLERY.

VOTE 10.

WALLACE COLLECTION.

VOTE 11.

GRANTS FOR SCIENCE AND THE ARTS.

VOTE 12.

UNIVERSITIES AND COLLEGES, &c., GREAT BRITAIN.

VOTE 13.

BROADCASTING.

VOTE 14.

PUBLIC EDUCATION, SCOTLAND.

VOTE 15.

NATIONAL GALLERIES, SCOTLAND.

VOTE 16.

NATIONAL MUSEUM OF ANTIQUITIES OF SCOTLAND.

VOTE 17.

NATIONAL LIBRARY, SCOTLAND.

CLASS V.

VOTE 4.

MINISTRY OF HEALTH.

VOTE 6.

MEDICAL RESEARCH COUNCIL.

VOTE 7.

REGISTRAR GENERAL'S OFFICE.

19 June, 1958.]

[Continued.]

VOTE 8.

CENTRAL LAND BOARD.

VOTE 9.

WAR DAMAGE COMMISSION.

VOTE 10.

DEPARTMENT OF HEALTH FOR SCOTLAND.

VOTE 12.

HOUSING, SCOTLAND.

VOTE 14.

REGISTRAR GENERAL'S OFFICE, SCOTLAND.

On these Accounts no questions were asked.

CIVIL APPROPRIATION ACCOUNTS, 1956-57 (CLASSES VI-X).

CLASS VI.

VOTE 5.

FINANCIAL ASSISTANCE IN DEVELOPMENT AREAS.

VOTE 6.

EXPORT CREDITS.

VOTE 7.

EXPORT CREDITS (SPECIAL GUARANTEES).

VOTE 8.

MINISTRY OF LABOUR AND NATIONAL SERVICE.

VOTE 11.

ROYAL ORDNANCE FACTORIES.

VOTE 12.

REGISTRATION OF RESTRICTIVE TRADING AGREEMENTS.

CLASS VII.

VOTE 1.

MINISTRY OF WORKS.

VOTE 2.

HOUSES OF PARLIAMENT BUILDINGS.

VOTE 3.

PUBLIC BUILDINGS, &c., UNITED KINGDOM.

19 June, 1958.]

[Continued.]

VOTE 4.

PUBLIC BUILDINGS OVERSEAS.

VOTE 5.

ROYAL PALACES.

VOTE 6.

ROYAL PARKS AND PLEASURE GARDENS.

VOTE 7.

HISTORIC BUILDINGS AND ANCIENT MONUMENTS.

VOTE 8.

RATES ON GOVERNMENT PROPERTY.

VOTE 9.

STATIONERY AND PRINTING.

VOTE 10.

CENTRAL OFFICE OF INFORMATION.

VOTE 11.

PETERHEAD HARBOUR.

CLASS VIII.

VOTE 1.

MINISTRY OF AGRICULTURE, FISHERIES AND FOOD.

VOTE 5.

FISHERY GRANTS AND SERVICES.

VOTE 6.

SURVEYS OF GREAT BRITAIN, &c.

VOTE 7.

OFFICE OF CROWN ESTATE COMMISSIONERS.

VOTE 8.

AGRICULTURAL RESEARCH COUNCIL.

VOTE 9.

NATURE CONSERVANCY.

VOTE 10.

DEVELOPMENT FUND.

VOTE 11.

FORESTRY COMMISSION.

19 June, 1958.]

[Continued.]

VOTE 12.

DEPARTMENT OF AGRICULTURE FOR SCOTLAND.

VOTE 13.

FISHERIES (SCOTLAND) AND HERRING INDUSTRY.

CLASS IX.

VOTE 1.

MINISTRY OF TRANSPORT AND CIVIL AVIATION.

VOTE 3.

TRANSPORT (SHIPPING AND SPECIAL SERVICES).

VOTE 6.

MINISTRY OF POWER (SPECIAL SERVICES).

VOTE 9.

ROADS, &c., SCOTLAND.

CLASS X.

VOTE 1.

SUPERANNUATION AND RETIRED ALLOWANCES.

VOTE 2.

MINISTRY OF PENSIONS AND NATIONAL SERVICE.

VOTE 3.

WAR PENSIONS, &c.

VOTE 4.

NATIONAL INSURANCE AND FAMILY ALLOWANCES.

VOTE 5.

NATIONAL ASSISTANCE BOARD.

VOTE 6.

PENSIONS, &c. (INDIA, PAKISTAN AND BURMA).

VOTE 7.

ROYAL IRISH CONSTABULARY PENSIONS, &c.

On these Accounts no questions were asked.

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APPENDIX 1

PAPER forwarded by *Sir John Hawton, K.C.B.*, on 27th March, 1958

DEVELOPMENT AT THE RADCLIFFE INFIRMARY, OXFORD

1. This development has two objects: to improve hospital facilities, partly by increasing beds, but more particularly by providing ancillary accommodation such as theatres and laboratories in order to improve the quality of the work; and to provide additional facilities for clinical teaching and research.

2. Two unusual features have complicated the work: building has had to take place on an unusually congested site, and there was great urgency to provide accommodation to meet the needs of four clinical professors (two of whom were newly appointed and without departments in which to work), who were without adequate facilities for teaching or research or to exercise fully their special skills. (These professors are employed not only by the University to teach and to undertake research, but also by the Board of Governors of the United Oxford Hospitals as clinicians with care of patients.)

3. The work which it was decided to put in hand was the first stage of a "Master Plan" prepared by a consultant architect in June, 1953 and comprised departments:

- (i) for the Nuffield Professor of Medicine, in three sections;
- (ii) for the Nuffield Professor of Surgery;
- (iii) for the Regius Professor of Medicine;
- (iv) for Pathology and Biochemistry Departments;
- (v) for the Nuffield Professor of Anaesthetics; laboratories for the Nuffield Professor of Surgery; and canteen;
- (vi) X-ray extensions.

The remaining stages of the "Master Plan" are not of significance in the present context since no commitment has been entered into to undertake them.

4. Although planning is proceeding, work has not yet begun on items (iv) and (v); the X-ray extensions and one section of the Department of Medicine are in progress; the rest of the work mentioned above, with some additional work, is virtually completed. The work which has not begun is considered separately from the rest in the paragraphs which follow.

Cost of the scheme

5. The Board of Governors have power to undertake building and civil engineering works, but the National Health Service (Functions of Regional Hospital Boards, etc.) Regulations, 1948 (S.I. 1948 No. 60) required that they should not do so without the consent of the Minister if the estimated cost exceeded £10,000. The consent of the Minister (the Ministry having in turn obtained the approval of the Treasury) was given in January and May, 1955 in the following sums which are exclusive of professional fees and the cost of equipment, for which the Minister's consent is not specifically required:—

	£
Department of Medicine	155,540
Department of Surgery	62,000
Department of Regius Professor	38,850
X-ray Department	30,000
	£286,390

(The figure of £434,390 previously quoted to the Committee includes items (iv) and (v) of paragraph 3 which are dealt with below.)

6. In the later part of 1955 the Department became aware that expenditure much in excess of the estimate was being incurred. Inquiries were then made, in consultation with the Board of Governors, into the reasons for and amount of the increased cost of the several parts of the scheme; in August, 1956 a revised estimate was submitted to the Treasury, and, with Treasury authority, approval was given to the Board to incur the following expenditure (which compares with the £286,390 mentioned above):—

	£	£
Department of Medicine	195,000	} 462,000
Department of Surgery	149,000	
Department for Regius Professor	53,000	
Alterations to Leopold Wards	23,000	
X-ray Department	42,000	

A further approval, of £36,306 for various services, was given in November, 1957, making a total of £498,306.

7. The present estimated cost of this work is about £510,000. The total cost cannot be determined until final measurements have been made but, with estimated variations for price increases, it is expected to be about £550,000. In order to present a full picture of the work being undertaken at the hospital there should be added £20,209, the cost of boiler plant conversions, modification to boiler house equipment and conversions to huts which were originally considered to be apart from the main scheme. This makes a total of about £570,000 against the original estimate of £286,390, but for more work than originally proposed (see paragraph 18).

8. The cost of equipment for these buildings is now estimated at about £150,000. The Board are not required to seek the Minister's authority specifically for the purchase of equipment, but a very provisional figure of £25,000 appeared in their 1955-56 estimates. Professional fees are approximately £66,000 and the estimated amount for overtime and imported labour, £20,000 (see paragraphs 19 and 32 below), making approximately £800,000 in all.

9. The causes of increases in the estimated expenditure and the failure of the Board of Governors to obtain authority for all the work undertaken are set out below; but it is necessary first to explain the unusual tendering arrangements which were adopted for this work.

Unusual tendering arrangements

10. It is the practice of Boards of Governors, in accordance with guidance given by the Department, to undertake building only after the receipt of competitive tenders for all the work based on working drawings and bills of quantities. An exceptional arrangement was entered into for this work. In the special circumstances, the Treasury agreed to the course adopted. Tenders were invited for the work in the Department of Medicine (three sections) and the lowest for £155,540 was accepted. The contract was based on priced schedules for the first section, originally estimated at £76,000, with provisional sums for the remaining two sections, but the work in each section was sufficiently similar for the prices in the first section to be used for pricing the remainder. All contractors were informed of the possibility of this contract being extended beyond the Department of Medicine; and the Department agreed in December, 1954 that the work of the Department of Surgery should be treated as an extension of the Department of Medicine. The contract provided for its own extension by including unit rates for pricing additional work not precisely similar to work in the contract and providing for extra discounts—up to 1 per cent—on such work.

11. These unusual arrangements were agreed by the Department following representations by the University of Oxford and the University Grants Committee about the urgency of the need to provide accommodation to allow newly appointed professors to begin work in 1956. Approval was given to this unusual form of contract since, because of the congested nature of the site, it would have been impracticable to have two contractors working on it at the same time; and there

would have been considerable delay if plans for the whole of the work had had to be completed before one section was started or if one section had had to be completed before another was started. The Board of Governors extended the original contract to cover more work than the Department had authorised, e.g., the Department of the Regius Professor, but this extension was in fact within the Department's own authority from the Treasury. In fact, the contract was extended to cover in all work estimated to cost £256,390 the latest estimate of which is £475,000 (compared with £463,000 already given to the Committee). The Department are satisfied that this method has not resulted in any loss to the Exchequer.

12. In the light of the development of the scheme the Department accept that this was not the best way of dealing with a complex building and engineering job and that its unusual nature may well have contributed to the difficulties of the Board in administering the scheme. The alternative would, however, have involved considerable delay.

Failure of Board of Governors to secure approval for work undertaken

13. The Board of Governors have on a number of occasions acted other than in accordance with the normal building procedure notified to them by the Ministry. They invited tenders for the Department of Medicine before submitting bills of quantities and working drawings to the Department for approval and subsequently, began work on the department of the Regius Professor, and on some consequential major alterations to the Leopold Wards. In doing so, they were in breach of the Functions of Regional Hospital Boards, etc. Regulations which require them to obtain the Minister's prior authority.

14. When authority was given to the Board in August, 1956 to complete building and engineering work estimated to cost £286,390, they were told that all further work should be subject to fresh tenders and that modifications to the proposals or expenditure in excess of the approved limits was not to be undertaken without the Department's authority. The Board had, however, already placed certain orders in relation to mains services without authority and they later notified the Department that the cost of the Departments of Medicine and Surgery might exceed the approved estimates.

15. The Minister's concern had already been expressed to the Board in December, 1955 and August, 1956 about rising costs and about work being undertaken without authority. In February, 1957 the Board were told that their normal capital allocation would be reduced by £25,000 to compensate for the increased charge on the centrally financed programme. They were told to meet the cost of £4,000 for mains services—for which orders had been placed without authority—from their normal capital allocation and were asked to consider disciplinary action against those responsible for the failure to seek the Minister's authority.

16. The Board set up a committee, consisting of the chairman, vice-chairman and one member, to investigate the failure to carry out the instructions of the Finance Committee that the approval of the Minister should be obtained before making a payment in respect of the mains services. The Department were not represented on the committee since disciplinary action against staff is a domestic matter for the Board. (The procedure whereby the Department's regional officers may attend certain disciplinary inquiries as assessors does not apply in this type of case.)

17. The conclusions of the committee were that disregard of the Department's instructions had arisen through genuine misunderstanding and that disciplinary action against the officer responsible was not appropriate, but that there were certain defects in the general administrative arrangements of the hospital and that these should be improved. A report on administrative reorganisation was subsequently made, and adopted by the Board, and is being put into effect as practicable. The matters covered include the responsibility of and relationship between the officers and the Board, the preparation and handling of papers, and the control of correspondence.

Increased cost of the scheme

18. The increases in cost over the original estimates are due in the main to:

- (i) the Board of Governors not having adequate information of what was required when the first estimates were submitted, e.g., the extent of the mains services which would be required;
- (ii) various additions being made, frequently at the instance of those who would be in charge of departments (in both their teaching and clinical capacities) as the work progressed, e.g., air conditioning. The Board's position was undoubtedly made more difficult by the fact that much of the work to be undertaken is pioneer work of great importance, but without precedent on which to evaluate its requirements;
- (iii) elements in the scheme which had been overlooked before the work began, e.g., additional electrical work and the reconstruction of the Leopold Wards.

19. The additional cost attributable to the working of overtime and importing labour is estimated at about £20,000. None of this will fall on Exchequer funds. The Department were asked to agree to the working of overtime and extra expenditure on importing labour, but declined to do so. The Board of Governors were told, however, that they might accept an offer of the Oxford and District Hospitals Improvement and Development Fund to pay the extra cost of overtime and imported labour provided that there was no charge on Exchequer funds.

20. The failure to think out adequately the detail of the scheme may be explained in part by the extreme complexity of an operation in which every development had consequences in the rest of the hospital, which had to be maintained at all times in full working order; but this, and their failure to secure Ministerial authority before undertaking various parts of the work, reveal a lack of control by the Board of the building scheme.

21. None the less, while the method of proceeding cannot be defended, the Department are satisfied that the work done represents value for money and is work which would have been authorised by the Department before it was undertaken had authority been sought at the proper time. This conclusion is based on a critical assessment (including frequent visits to the hospital during the progress of the work) of the needs of the various departments by the Department's medical advisers on the basis of explanations offered by the Board of Governors, on examination of the plans of the buildings by the Department's architects, engineers and quantity surveyors, and on the study of priced estimates based on approximate quantities for all the work.

22. The Board of Governors have taken measures to strengthen the staff engaged on the building scheme. They have engaged an extra administrative assistant in order to permit the existing staff to devote more time to the building scheme, and, following the report of the committee, engaged, on a part-time basis, a qualified surveyor with more than thirty years' experience of supervising building at a large London teaching hospital.

23. This scheme provides a great improvement of essential services to the hospital, including new laboratories and X-ray department as well as a net increase of 93 additional beds.

Work not yet started

24. The approval given by the Department to the Board of Governors in May, 1955, in agreement with the Treasury, included a further £148,000 for building and civil engineering work (making £434,390 in all) made up as follows:

- (i) Block for the Nuffield Professor of Anaesthetics; laboratories for the Nuffield Professor of Surgery; and canteen—£70,000 (known as the A.S.C. block).
- (ii) Pathology and Biochemistry Department—£78,000.

The Board of Governors have been told by the Department that these projects must follow the normal planning and tendering procedure. Planning is proceeding, but work has not commenced and has indeed not yet been authorised.

25. The position on these schemes and other proposed developments is as follows:—

- (i) A.S.C. block—sketch plans and proposed use of the building are considered satisfactory both by the Ministry and the U.G.C. and Treasury consent has been sought to expenditure of £191,700. Some staff accommodation not originally provided for is to be included in this building with the Department's consent.
- (ii) Boiler plant extensions and adaptations to mains which are essential if the A.S.C. block is to be built and probably necessary even to utilise fully existing buildings are estimated to cost £50,000 and Treasury authority has been sought for this expenditure.
- (iii) Working drawings for a Pathology and Biochemistry Department are under examination and a revised estimate of cost is awaited. (A figure of the order of £150,000 is probable).
- (iv) The Board of Governors have advised the Minister that a fourth stage of the Department of Medicine at an estimated cost of £28,000 and further electrical mains will be needed eventually at a cost of about £4,500, but these are matters which are not essential to work already approved and no decision has been taken on them.

If all this work were proceeded with, the total cost of the whole scheme would be slightly more than £1 million, exclusive of professional fees and equipment. Reliable estimates of the cost of equipment for these later departments cannot yet be given, but it is likely to be of the order of £130,000, making a total cost of equipment for the whole scheme of approximately £280,000 and a total expenditure, including fees, of about £1,400,000.

26. The work mentioned in the previous paragraph will be subject to approval by the Department at all stages of planning and if approval is given will be put to competitive tender in the normal way. It is possible that a very small amount in connection with the removal of boilers may not, on technical grounds, lend itself to preparation of bills of quantities, but any departure from normal procedure will be kept to a minimum and will be agreed with the Treasury before authority is given.

Contribution to Cost

27. The Board of Governors of a teaching hospital is required by Section 12 (3) of the National Health Service Act, 1946 to provide for the university with which the hospital is associated such facilities as appear to the Minister to be required for clinical teaching and research. The interpretation of this requirement has presented some difficulty, and the Department has therefore recently agreed with the Treasury and the University Grants Committee a formula to be used in defining the respective responsibilities of the Minister and a University in connection with expenditure on a hospital building scheme. This formula is appended. It has been agreed with the Treasury and the U.G.C. that when a contribution is due from a University under this formula that contribution shall be in the form of a payment towards the capital cost.

28. When this scheme was proposed that formula had not been drawn up, and the view taken by the Treasury and the University Grants Committee and agreed by the Department, was that a University should not make capital grants towards hospital buildings which would vest in the Minister, but should pay rent for such accommodation as they required. None the less, the University of Oxford offered to make a contribution towards the capital cost of this scheme and in March, 1955 the sum offered, which was to come from various private sources, was £176,000 (of which £11,500 was for equipment). The University had also been discussing with the University Grants Committee the possibility of a grant of £34,000 towards the cost of the building, but the Department accepted the view of the Treasury and the University Grants Committee that any capital contribution from Exchequer sources should be made by the Department, and consequently no grant from the University Grants Committee was made.

29. The University have since promised a further contribution. The total was earmarked for certain buildings and amounts to £138,500 for building and civil engineering work and £11,500 for equipment in those buildings which are completed, or virtually completed; and £32,000 for building and civil engineering work and £20,000 for equipment for the A.S.C. block on which work has not begun; or £202,000 in all. The amount so far paid to the Board of Governors is £50,414.

30. An assessment of what would be the University's contribution to the cost if the formula referred to above were applied would require detailed examination of the scheme with the University, but very approximately it appears that their contribution to the building and civil engineering work already authorised is not less than the formula would require, though much less than would be required towards the cost of the equipment. A reliable assessment cannot be made in the case of the A.S.C. block and the Department of Pathology and Biochemistry for which plans have not been finished, but it seems probable that the figure of £32,000 is much less than the likely cost under the formula. It should be emphasized, however, that much of the work to be done in these buildings is of a pioneer character, of value both to teaching and to the care of patients and that there is room for argument where the division of responsibility for cost lies.

31. It is understood that the University are unable to find further money for this work from private sources. In view of this and of the fact that the University were told at the beginning of the scheme that the whole of the Exchequer contribution would come from the Ministry, the Department have decided, after consultation with the Treasury and the U.G.C., not to seek a further contribution.

32. The only other promised contribution to the scheme is up to £20,000 from the Oxford and District Hospitals Improvement and Development Fund as the cost of overtime and imported labour, mentioned in paragraph 19 above.

33. Inquiries have been made by the Committee as to the extent of the funds available to the Board of Governors other than from Exchequer sources. The total value of all endowment and other funds held by the Board of Governors, including freehold and leasehold land, is a little over £150,000 of which about half relates to the Radcliffe Infirmary. This is held by the Board of Governors as trustees and "may be used for such purposes relating to hospital services or the functions of the Board . . . with respect to research, as the Board thinks fit", subject, however, as regards the objects on which the money may be spent, to the provisions of Section 7, 59 and 60 of the 1946 Act. The Board's use of this money is not subject to control by the Minister.

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34. So far as the work which is completed or proceeding is concerned the Department accept that much in the procedure was defective, but they are satisfied that it was the procedure and not the result which is open to criticism and that value has been obtained for money spent. The method of tendering has led to difficulties, but it is a method which the Department do not accept elsewhere. The work which has not yet started will be subject at all stages of planning to the approval of the Department and a close watch will be kept on its progress. The normal tendering procedure will be followed, and the Department are confident that the control they can exercise will prevent unauthorised work being undertaken.

ANNEX

Formula referred to in paragraph 27

In this formula the words "to provide" mean "to finance" and not merely "to put up a building".

(a) *Teaching.* The Board of Governors should provide facilities for teaching done in connection with the medical school staff's duties under their hospital contracts and arising out of their hospital work, e.g., ward rounds, operations, outpatients, laboratory work. These facilities might well include accommodation for clinical demonstrations, seminars, etc., and enough laboratory space for pathology students. The university should provide facilities for professorial and academic duties and teaching, and for formal lecture theatres.

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(b) *Research.* The Board of Governors should provide facilities for research on patients actually under treatment or investigation. The university should provide for all other research, including work with normal subjects and academic work, though the Board of Governors would give access to necessary hospital material. Thus, clinical laboratory space would be proper to the Board of Governors but the extensive animal houses and laboratory accommodation required for physiological, pharmacological and biochemical research would be provided by the university.

APPENDIX 2

PAPER forwarded by *Mr. J. Anderson, C.B.*, on 24th June, 1958

SCOTTISH DRUG PRACTICES ENQUIRY

CHEMISTS' PROFITS ON PROPRIETARIES COMPARED WITH OTHER DRUGS

1. At their meeting on 1st April, 1958, the Public Accounts Committee asked for information on whether the Enquiry into the drug buying practices of Scottish chemists showed that their overpayments on proprietaries were higher than on other drugs.

2. In the first round of the Enquiry a questionnaire was sent to 50 chemist contractors in Scotland who were representative, on the basis of the numbers of prescriptions dispensed, of all sizes of chemist contractors businesses in the Pharmaceutical Service in Scotland. It asked for the quantity and pack size of the last normal purchase of 15 standard drugs and 15 proprietary drugs, and also the prices paid and any discounts received. Questionnaires were returned by 39 chemist contractors and of these 32 were usable.

3. An analysis made in the Department indicates that the total payments that would be made to the chemists under the Drug Tariff in respect of the quantities of the standard drugs purchased (£360) are about 19 per cent. (approx. £70) in excess of the net cost to the chemists as shown on the questionnaires, and that the maximum payments that could be made for the proprietary drugs (£620) are about 10 per cent. (approx. £60) in excess. The chemists' representatives have, however, questioned the reliability of some of the information returned on the questionnaires and subsequent investigation may show that some revision of the figures is required. Even so, the Department have no reason to doubt that for this sample of drugs the percentage of overpayment on the proprietaries is considerably smaller than on the standard drugs.

4. Further investigation into the statistics is being made, but with the chemists' agreement the Department have decided that the buying quantities on which payments under the Drug Tariff are at present based should be increased for 23 of the 30 drugs in the Enquiry in order to correspond with the actual practice as indicated by the Enquiry. This should eliminate the overpayment resulting from the Tariff being calculated by reference to quantities which are smaller, and hence attract a higher price rate, than those in which the average chemist makes his purchases.

5. The 30 drugs covered by this first round of the Enquiry were chosen because they were thought to be those on which overpayment was most likely. The results of the first round are not necessarily indicative of the general position.

APPENDIX 3

PAPER forwarded by *Sir Frank Lee, K.C.B., C.M.G.*, on 9th May, 1958

INVESTMENT OF SURPLUS BANKRUPTCY AND COMPANIES (WINDING-UP) FUNDS (Qs. 1501-95)

1. Under the Bankruptcy Act, 1914, and the Companies Act, 1948, trustees in bankruptcy and liquidators of companies must pay certain moneys coming into their hands into Accounts which the Board of Trade are required by the Acts to keep with the Bank of England, viz.: the Bankruptcy Estates Account and the Companies Liquidation Account.

2. Under the same Acts the Board of Trade must, out of these Accounts, answer demands in respect of bankrupts' and companies' estates, to the extent of the moneys paid in.

3. The moneys paid in by trustees and liquidators are, therefore, not at risk and the responsibilities of the Board of Trade to the depositors are not those of a Trustee.

4. Under the Acts the Board of Trade must notify to and pay to the Treasury, as they may require, cash balances on the Accounts in excess of the amounts which in the opinion of the Board are required to meet the likely demands of the estates.

5. The Acts provide that the Treasury (a) may invest these surplus moneys in Government securities; (b) must repay to the Board sums required to meet the needs of estates; and (c) may, for this purpose, sell such securities as may be necessary.

6. In deciding in which Government securities to invest and which to hold the Treasury have regard, *inter alia*, to the provisions of these Acts and of Part V of the Economy (Miscellaneous Provisions) Act, 1926, namely that dividends from the investments and revenue from fees collected in respect of bankruptcy and companies estates are to be used to offset, as far as possible, the salaries and expenses of the insolvency services.

7. The need, in the light of these provisions, to increase the dividend income has for many years been recognised by the Comptroller and Auditor General and by the Public Accounts Committee (see proceedings for 1934-35—1936-37 and 1952-53).

8. It will thus be seen that receipts from dividends and losses or profits on the sale of investments by the Treasury are matters which do not affect bankrupts' or companies' estates in any way.

9. With the object of remedying the inadequacy of the *income* from dividends and fees to meet the costs of the insolvency services the Treasury, in consultation with the Board of Trade, switched part of the holdings in respect of companies' estates from Treasury Bills to dated stocks in 1951 and in 1953 so as to reduce the former to a level of about £4 million at the later stage.

10. The degree of liquidity represented by this holding of Treasury Bills was considered by the Board of Trade to be adequate in 1953.

11. Following these changes and increases in total investments the dividend income derived from the investments increased from £116,000 in 1950-51 to £780,000 in 1955-56, and the Exchequer benefited accordingly.

12. However, exceptionally large withdrawals not foreseen in 1953 took place in 1955-56, 1956-57 and 1957-58 and these withdrawals, as well as an increase in the rate of interest which the Board in certain circumstances are required by section 362 (4) of the Companies Act, 1948, to pay to liquidators, have led to a substantial fall in *net* revenue from dividends (i.e. after payment of the section 362 (4) interest) from £506,000 in 1955-56 to £293,000 in 1957-58. Moreover, the sale of dated stocks made necessary by these withdrawals has been at prices yielding £1,033,199 less than was paid for them.

13. The Treasury consider that while book losses have been incurred on the sale of individual parcels of securities it cannot yet be seen whether there will be any final deficit on the investment portfolio as a whole.

14. The Board and the Treasury consider that these arrangements (particularly in so far as they envisage that the income from investments and fees should meet the costs of the insolvency services) are unsatisfactory and they are considering legislation to establish them on a realistic basis.

To sum up, the Board of Trade deal only in cash (except under the instructions of liquidators who wish their funds to be invested on their behalf) and are obliged under the Acts to pay out what they receive; they are, therefore, not Trustees for the estates concerned but merely an agency for receiving money and repaying it and a channel through which moneys, not for the time being required, may be invested by the Treasury. The policy of the Treasury is dependent upon a number of considerations but these do not affect the estates concerned in any way.

APPENDIX 4

PAPER forwarded by *Sir Alan Hitchman, K.C.B.*, on 27th May, 1958

AGRICULTURAL LIME SUBSIDY

This note contains further information on various points for which I was asked in the course of my evidence on 1st May.

Spread of Approved Prices. (Question 3676)

The following table gives the number of producers for the south-west region in the various price ranges for the burnt grades of lime.

Approved maximum price per ton (<i>ex Works</i>)				Number of approved producers	Calcium Oxide content per cent.
over 30s. not exceeding 40s.	...	...	...	1	75
40s. " " 50s.	...	...	...	1	85
50s. " " 60s.	...	...	...	2	90
60s. " " 70s.	...	...	...	5	80-85
70s. " " 80s.	...	...	...	5	90-95

For producers of ground limestone the corresponding table is:—

Approved maximum price per ton (<i>unbagged</i>)				Number of Producers	Range of Calcium Oxide content for individual producers per cent.
over 17s. not exceeding 18s.	...	...	...	1	54
18s. " " 19s.	...	...	...	3	52-54
19s. " " 20s.	...	...	...	4	47·5-53
20s. " " 21s.	...	...	...	5	50-54·7
21s. " " 22s.	...	...	...	2	50-50·4
22s. " " 23s.	...	...	...	4	50-55·7
23s. " " 24s.	...	...	...	6	50-54
24s. " " 25s.	...	...	...	1	53

The figure of 38s. per ton which I mentioned in my evidence was for a bagged grade which is not comparable with the above.

Proportion of lime output supplied to Agriculture. (Question 3737)

The total output and disposal of limestone and chalk in Great Britain for 1957, including that used for roads and railways and by the building and cement industries, is estimated to be of the order of 45½ million tons. The proportion of the total product supplied to agriculture is thus of the order of 14 per cent.

Firms refusing to continue Supplies. (Question 3760)

Over a period of years a number of producers (mainly of burnt grades and in a relatively small way of business) have surrendered their approval to produce under the scheme because they have found the business insufficiently remunerative at the prices approved. A number of the larger producers not solely concerned with the supply of lime for agriculture have from time to time expressed their dissatisfaction with the prices approved and have elected not to continue with the sales of particular grades to agriculture.

APPENDIX 5

PAPER forwarded by *Sir Gilmour Jenkins, K.C.B., K.B.E., M.C.*, on 7th May, 1958
BLACKPOOL (SQUIRES GATE) AERODROME

This memorandum is submitted in response to the request made at the meeting of the Public Accounts Committee on 25th March, 1958, for information, supplementary to that contained in paragraphs 120–122 of the Report of the Comptroller and Auditor General on the Civil Appropriation Accounts (Classes VI—X for 1956–57) on a number of matters relating to the purchase by the Ministry of Transport and Civil Aviation of the Blackpool (Squires Gate) Aerodrome.

2. The land was requisitioned during the war by the Air Ministry, who continued to hold the requisition at the time of the decision to acquire the aerodrome. The requisition rent was £2,694 per annum. Part VI of the Requisitioned Land and War Works Act, 1945 (s. 28) gives any Minister power to retain land on which war works have been constructed and to authorise its use and the war works on it for the purpose of the public service. Statutory authority to acquire land for civil aviation purposes is contained in Section 23 of the Civil Aviation Act, 1949, and this is not affected by the purpose for which the land may have been requisitioned, because, technically, the land is derequisitioned simultaneously with the Ministry's acquisition.

3. Legally and practically, the Ministry could have continued to hold the aerodrome on requisition, but this would have been contrary to Government policy of terminating requisitions as soon as possible whilst taking account of the need to preserve State assets or to dispose of them to the greatest advantage. Moreover, emergency powers under which land was held on requisition were originally due to expire in 1946 but were extended by the Supplies and Services (Transitional Powers) Act, 1945, until 1950, and thereafter from year to year. The annual uncertainty about the date when these powers would lapse increased the importance of terminating the requisition.

4. It was agreed between the Ministry of Civil Aviation, the Ministry of Supply and the Treasury that the acquisition of the aerodrome by the State would be in the public interest for the following reasons:—

- (a) to ensure continued availability of the airport for existing and potential civil traffic;
- (b) to enable the Ministry of Supply to provide accommodation with suitable flying facilities for an important contractor for aircraft production, and at the same time to further their policy of dispersal of the aircraft industry;
- (c) to safeguard State assets at the airport in which the Government had already invested £500,000 in runway and building work;
- (d) If the aerodrome had been derequisitioned, the Department was advised that (under the legislation then current) compensation of the order of £150,000–£200,000 might well have been payable.

5. Since the use of the aerodrome was, and would be likely to remain, predominantly civil, it was decided on balance that the land should be acquired and the aerodrome should continue to be operated by the Ministry of Civil Aviation.

6. The aerodrome—situated some two miles from Blackpool Tower towards St. Annes, and about 1,000 yards from the sea front—contains 421 acres which the Ministry purchased for £201,142. Of this, 310 acres were bought from the Blackpool Corporation for £153,000, i.e. approximately £497 per acre, and 111 acres were bought from the Clifton Estates for £47,784, i.e., approximately £435 per acre. The Ministry of Housing and Local Government decided that this was land to which Section 82 of the Town and Country Planning Act, 1947, applied, and the price had therefore to be assessed at “prevailing use” value. The Central Land Board determined that the prevailing use was “residential” which is probably the highest value that could be put on the land. Following these decisions, the price of the land was freely negotiated between the Blackpool Corporation and the Air Ministry Lands Branch as agents for the Ministry of Civil Aviation. The District Valuer did not act for the Corporation.

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7. The £47,784 paid to Clifton Estates comprised £13,725 or approximately £125 per acre at existing use value, plus £34,059 for loss of development value which was determined by the Inland Revenue in response to a Part VI claim by the freeholders.

8. The average price per acre for the whole aerodrome, situated on land which was largely ripe for development, was £478. The purchase price having been determined as the value for residential purposes (see para. 6 above) was necessarily unrelated to any number of years' purchase at the annual requisition rent.

9. The only buildings included in the price were a grandstand and a golf clubhouse, both of which were acquired from the Blackpool Corporation. In accordance with the usual practice no separate value was placed on the buildings. At the time of purchase there existed the following assets:—

- (a) 3 runways of 4,274; 3,522 and 3,299 ft. and associated taxiways;
- (b) 6 hangars with total floor area of 125,580 sq. ft. (3 with brick annexes of 6,600 sq. ft. total floor area);
- (c) 2 large buildings of timber construction totalling 28,554 sq. ft.;
- (d) about 15 buildings of brick construction and over 50 of timber construction totalling respectively approximately 30,000 sq. ft. and 52,000 sq. ft. These include offices, passenger buildings, garages, fire station, and control tower;
- (e) 3 petrol installations of total capacity 160,000 gallons and fuel compound of 14,000 gallons capacity;
- (f) various technical installations and services.

These assets had been created with State funds—roughly at a cost of £½ million, but no amount was, of course, included in the purchase price in respect of them. The new 6,000 ft. runway was constructed by the Ministry of Supply in 1953. Approximately half of it is on the land owned by the Ministry of Transport and Civil Aviation—the remainder being on the 110 acres of land acquired by the Ministry of Supply.

10. It is normal policy—dictated by common prudence—not to construct substantial assets on land to which there is no permanent security of tenure. The Ministry's experience was that had it sought a lease instead of purchasing, the lessor would have imposed restrictions on the Minister's freedom to let the hangars, workshops, aerodrome installations, etc., for civil aviation purposes. Moreover, a leasehold interest would have fettered the Minister's freedom to develop and improve the aerodrome. In addition, it is probable that the lessor would have insisted on the lease including reinstatement conditions at least as onerous as those that would have fallen on the Department if the land had been de-requisitioned, i.e. upwards of £150,000.

APPENDIX 6

LETTER TO THE COMPTROLLER AND AUDITOR GENERAL FROM PYE TELECOMMUNICATIONS LTD. ON PARAGRAPHS 129 TO 133 OF HIS REPORT ON THE CIVIL APPROPRIATION ACCOUNTS, 1956-57 (CLAUSES VI TO X)

DEAR SIR,

I am writing to you to make the strongest protest regarding the statements made in Civil Appropriation Accounts, 1956-57, Paragraphs 129 to 133.

I trust it was not the intention of the report to damage British technical and commercial prestige, but this is precisely what the paragraphs referred to have done.

The paragraphs set out to justify public expenditure on two matters—first, the writing down of the original faulty Instrument Landing System, and second, the expenditure of £281,750 on a contested American instrument landing system. The paragraphs are so written and interwoven as to give a clear impression that the second action is a consequence of and is justified by the first. That this is the impression created by it, is confirmed by the subsequent reporting in the "Daily Telegraph", a copy of which we enclose, together with our reply for publication.

The position is very different from that presented by the report. We are at a loss to know why the report does not reveal all the relevant facts, and we can only assume these were not put to you. We do so now.

1. The original I.L.S. Glide Path failed for the reason that the Glide Path equipment was found to employ an unreliable valve for which no alternative type was then available. This was regrettably clear to all concerned in 1950-51.
2. At this juncture, the Ministry of Supply asked our Company to proceed in conjunction with the Royal Aircraft Establishment with a complete re-design of the I.L.S. system. This re-design was to do three things:
 - first, to eliminate the faulty Glide Path valve for which a replacement had subsequently become available;
 - second, it was to bring the system up to the new I.C.A.O. standard;
 - third, it was generally to improve the system in the light of the experience gained in designing the first system.
3. This re-designed system received design approval by R.A.E. after rigorous testing in 1953.
4. The Ministry of Supply subsequently took delivery of 44 systems, many of which are now installed and working very satisfactorily for the R.A.F.
5. As we pointed out in our letter to "The Daily Telegraph" all subsequent field experience has shown that the new British equipment is highly reliable and gives an excellent performance, and that it is much less expensive than the American equipment.

We take a most serious view of the misconstruction published on the report. In addition to damage to prestige, it may, if uncorrected, close a potential export market to our Companies of more than £2,000,000 a market which before the report was issued, we were completely confident in winning for the country.

We are writing to ask you to take official action to counteract the unfortunate impression the report has created, and to take steps to ensure that Government spending on I.L.S. is carried out in the best interests of the British public.

If there is any further information you require on the British I.L.S. system, we shall be pleased to furnish it.

Yours faithfully,

PYE TELECOMMUNICATIONS LTD.

(Sgd.) J. R. BRINKLEY,

Managing Director.

COPY OF LETTER TO THE EDITOR, "THE DAILY TELEGRAPH,"
DATED 6TH MARCH, 1958

SIR,

The remarks of the Comptroller and Auditor-General, summarised in your issue of the 5th inst., are misleading and bewildering. He states that the Ministry of Civil Aviation has decided to buy American Instrument Landing system equipment, because of the failure of British equipment.

The present British equipment, which supersedes a type not manufactured since 1951, has been an outstanding success. It was fully approved by the Royal Aircraft Establishment at Farnborough and by the Ministry of Supply three years ago. It is installed on many R.A.F. airfields, on the de Havilland airfield at Hatfield and was preferred by the Swiss for the Geneva International Airport.

Many other overseas airports are now putting it in. My company has been informed that, subject to one very simple modification, the Ministry of Transport and Civil Aviation propose to give it a substantial order this year.

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In short, the 1951 equipment has been most successfully re-designed at Government expense, and as re-designed has been beyond criticism, let alone failure. The puzzle is not why the Government spent money on it, but why so large an order for American equipment has been placed for delivery in 1959 while British equipment is available on the shelf.

Yours faithfully,

PYE TELECOMMUNICATIONS LTD.

(Sgd.) J. R. BRINKLEY,

Managing Director.

EXTRACT FROM "THE DAILY TELEGRAPH"
WEDNESDAY, 5TH MARCH, 1958

Headed: *Gatwick Cost Rose to £7m.*

Sub-Heading: "*Landing Aids—British Sets Failed*"

"American instrument landing system equipment is to be bought by the Ministry of Civil Aviation at an estimated cost of £281,000. This follows the failure of a British venture on which the Government spent about £500,000.

Sir Frank reports: 'The first two sets were brought into operational use at London Airport in 1951 and appear to have developed numerous faults. Of the three major components, localisator transmitter, marker beacons and glide-path transmitter, only the first two were retained in use.'

APPENDIX 7

LETTER to the Clerk from *Sir Harry Melville, Secretary of D.S.I.R.*, relating to the Jodrell Bank Radio Telescope.

Department of Scientific and
Industrial Research,

5-11 Regent Street, S.W.1.

28th February, 1958.

DEAR SIR,

I refer to the evidence which I gave before the Public Accounts Committee on 21st March, 1957 with regard to the Jodrell Bank radio telescope and, in particular, to my answer to Question 1850 when I said that, as far as we knew, Professor Lovell was not consulted as to the alteration in the design, which was the subject of the immediately preceding questions and answers.

It was my understanding at the time of giving evidence that Professor Lovell was not consulted by Messrs. Husband and Company on the major changes of design although, as stated in the Treasury Minute dated 21st January, 1958, I did not intend to imply that no discussions on the scientific aspects of the design took place. I attach a memorandum submitted to me by Messrs. Husband and Company. After discussing the matter with the University of Manchester I am now satisfied that there was extensive consultation between Messrs. Husband and Company and Professor Lovell on questions of design. The University of Manchester have authorised me to say that they associate themselves with this conclusion.

So far as my previous evidence may have been misleading, I wish to offer the fullest apology to the Committee.

Yours faithfully,

(signed) H. W. MELVILLE.

H. R. M. FARMER, ESQ.,

Clerk to the Committee of Public Accounts.

JODRELL BANK RADIO TELESCOPE

Memorandum to Sir Harry Melville, F.R.S., by Messrs. Husband and Company, the Consulting Engineers, with reference to the Third Report from the Committee of Public Accounts in the 1956-57 Session of Parliament "That the design had been changed without Consultation".

1. In their consideration of Class IX, Vote 8, of the Civil Appropriation Accounts the Committee of Public Accounts, at paragraphs 59 to 65 of their Third Report in the Session of 1956-57, reported upon grants made by the Department of Scientific and Industrial Research towards the construction of a Radio Telescope at Jodrell Bank.

2. Paragraphs 62 and 64 of this Report are as follows:

62. It was stated in evidence that the engineering consultant changed the design without the concurrence of the University; new structural features were introduced into the instrument and the complexity and cost were thereby materially increased. Although the University Professor, who was primarily responsible for the outline design, lived on the spot, he was not consulted so far as the Department were aware.

64. . . . (Your Committee) were particularly surprised to be told that the Consulting Engineers, before introducing substantial modifications in a novel and costly scientific instrument, had not followed the common-sense course of discussing their plans with the eminent scientist who was in charge of the project. Your Committee regard as highly unsatisfactory a state of affairs in which it was possible for the project to be altered substantially at greatly increased cost without the consent and approval of the Department or of the University or even of discussion with the scientist in charge.

3. These paragraphs in the Report of the Committee have received wide publicity and have done great harm to the reputation and to the business of the Consulting Engineers. Messrs. Husband and Company are consulting engineers of the highest repute, operating in the United States and Ceylon as well as in the United Kingdom, and this adverse criticism of them in a Parliamentary Paper is a matter of deep concern to them and to the professional association of engineers. Since they are frequently employed by departments of the British Government this criticism is peculiarly harmful to their practice. Inasmuch as Messrs. Husband and Company had no opportunity of submitting evidence to the Committee, this memorandum has been prepared to accompany the letter which it is understood that you are addressing to the Chairman of the Committee.

4. Matters relating to the cost of the telescope and the successive estimates could be dealt with on some other occasion if necessary; but the issue of lack of consultation is clearcut and can be presented within the scope of a memorandum.

5. The project was indeed altered substantially and the cost increased, but this was certainly not done without full consultation and discussion with Professor A. C. B. Lovell, F.R.S., of Manchester University, the eminent scientist who was primarily responsible for the outline design and was in charge of the project. Professor Lovell amply confirmed this, when, after the publication of the Committee's Report, he was approached by the London "Daily Telegraph", which referred to him a statement by Mr. H. C. Husband that there had been "the closest collaboration between himself and the University, of which he could provide ample written evidence". According to the "Daily Telegraph": "Professor Lovell, confirming this, said that for five years he had been in almost daily contact with Mr. Husband. No major changes had been introduced without consultation". The relevant excerpt from the "Daily Telegraph" of the 14th August, 1957, is annexed to this memorandum*.

6. In addition to the many personal or telephone conversations which took place, there is in Messrs. Husband and Company's possession a file of about one thousand letters exchanged between them and Professor Lovell over a period of about five

* Available in Committee Office.

years, averaging, therefore, more than four a week and a similar file of about another one thousand letters and documents exchanged with the Bursar and the Vice Chancellor of Manchester University. These cover not only the scientific developments in design but also the Engineering and financial implications.

7. An instrument of the size of the Jodrell Bank Telescope—with a bowl 250 feet in diameter—had never previously been envisaged as a practical proposition. It was a pioneering development and could not be considered on the basis of firm cost in the ordinary way. It will be appreciated that to produce an apparatus of the height of St. Paul's Cathedral, which could be moved smoothly and controlled in all directions by instruments on a panel, was a designing problem of the highest magnitude, especially when nothing similar had been previously created.

8. In July, 1950, the specification of the telescope was drawn up on the assumption that it would not be required to work on wave lengths of less than one metre. This meant that the paraboloid reflector bowl could have an error relative to the true shape of up to 8 in. in either direction.

9. The degree to which the scientist in charge was kept informed, and was indeed in control, of all changes and developments from this time forward can be shortly illustrated by a few extracts, mainly from letters written by Professor Lovell to the Consulting Engineers, and covering the most important changes of design. These are set out hereunder.

10. On the 7th March, 1953, Professor Lovell wrote to Mr. H. C. Husband:

“Although I am naturally very grateful for Mr. Rainford's” (the Bursar) “help in the present financial difficulty, I must nevertheless be extremely careful that any independent approaches he makes to the D.S.I.R. are not likely to interfere with our requirements on the Radio Telescope.”

11. On the 18th January, 1954, Professor Lovell wrote:—

“I want to confirm our added interest in any improvement in accuracy which you can give us over our original specification. Since we originally planned this instrument there have been many new developments in radio-astronomy and a whole new field of work has been opened up on wave lengths below one metre, which was previously the minimum wave length on which we planned to use the radio telescope.”

On the 27th January, 1954, he wrote as follows:—

“Dear Mr. Husband,

I regret to say that during your absence a very serious financial crisis has arisen on the radio telescope. As you will probably guess, the difficulty arises because of the 100 per cent discrepancy between the amount which we have allowed for the driving system and the new Metropolitan Vickers quotation. The result of our negotiations with the Directors of the firm has effectively been blank. They have gone into their price with great care and have satisfied themselves that it is a fair and reasonable price and are not prepared to reduce it in any way. They are sorry that their first estimate was so badly out, and there, for the moment, the position stands.”

12. On the 27th January, 1954, Professor Lovell wrote to Mr. Husband:—

“I have just written you a letter about the crisis which has arisen on the radio telescope, of which the financial difficulties on the driving system are the immediate cause. I am sure that there is no need for me to tell you that there are now many people who would be only too glad of an excuse to cancel the entire radio telescope. Particularly because of these difficulties my anxiety to see the work of erection begun has been redoubled. It is, therefore, most unfortunate that at the meeting held here on the 26th January . . . the United Steel representative announced that they could not hope to deliver any steel until June. This is at least two months behind the time scheduled . . . You will appreciate that I am much more concerned with the tactical situation of having some massive structure on the site than a two months' delay in completion.”

13. At a meeting on the 1st March, 1954, Mr. Husband was asked by Professor Lovell whether it would be possible to make a very great improvement to the accuracy of the reflector so that this would remain within $\pm\frac{1}{2}$ in. of the true plane of the paraboloid. In addition, to take advantage of such an accurate reflector, it would be necessary to give a corresponding increase to the directional accuracy of the instrument. The degree of accuracy so required was appreciably greater than that normally associated with steel structures of such a magnitude, and the Consulting Engineers were reluctant to promise that the necessary stiffening up of the original design could be achieved. The inevitable results of these new requirements were the addition of a considerable weight of steel to the structure.

14. This problem of the extra steel work was discussed by the Consulting Engineers with the United Steel Structural Company at their office on the 3rd May, 1954, and the Minutes of that Meeting, recorded by the United Steel Structural Company (which are appended to this memorandum) contain the following:—

“ Mr. Husband said that until he knew the attitude of Professor Lovell he thought it would be better to stop work. The Chairman suggested that Mr. Husband should ring up the Research Station after lunch to see if a decision could be obtained.

Later in the day Mr. Husband had a telephone conversation with Professor Lovell and subsequently told Mr. Patterson that it would quite definitely be necessary to achieve a high degree of rigidity in the bowl. This would involve some extras but Mr. Husband hoped that they would be kept down to a minimum.”

15. On the 21st July, 1954, Mr. H. C. Husband wrote to Professor Lovell:—

“ I only wish we could have thought of a practical way of producing a light bowl and mounting this so that it could be controlled, because I would willingly, even at this late date, scrap our bowl design if I could think of anything really more suitable, as the additional weight to comply with the closer deflection limits is becoming a very great worry to me.”

On the 30th July, 1954, dealing with the additional cost of stiffening, Professor Lovell wrote to Mr. Husband:—

“ Thank you for your letter of the 28th July enclosing the copies of correspondence with United Steel. We must at all cost avoid being forced into any formal revision of the contract at this stage. These issues on money will be far easier to face when the structure is nearer completion next year. If any major financial issue were raised at the moment, I know that it would have a disastrous effect and might well cause a serious hindrance in the progress of the work.”

On the 13th August, 1954, Mr. Husband writing upon the same subject to Professor Lovell said:—

“ After several checks I have been forced to the conclusion that the original design, while quite economical for the greater deflections which we started off with, becomes unreasonably heavy under the new conditions.”

Again upon the same subject, Professor Lovell wrote to Mr. Husband on the 16th August, 1954, saying:—

“ Of the savings which I have suggested above there are items which could fairly easily be added to the telescope at a later date and I am sure that a manoeuvre of this kind would be preferable to a retrogression to the old design. This would merely provide us with an imperfect telescope which could not be modified in the future except at vast expense and for which, in any case, we only have enough money to provide about half of the driving system. If the estimated excess expenditure is sufficient to demand action of this kind, then I feel confident that I could present a very convincing case to the Bursar and the D.S.I.R. and thus come out into the open on this matter.”

16. The next new question to arise which had a major effect upon the cost of the project was that of substituting a solid metal reflector for one of mesh; and this arose in the following letter written by Professor Lovell to Mr. Husband on the 17th September, 1954:—

“ We have given thought to the suggestion that the mesh of the telescope might be replaced by a solid reflector. This has so many advantages from an operational point of view that we are very anxious that you should explore the possibilities of doing this . . . There is only one point of which causes us concern and that is the problem of achieving a sufficiently good electrical conductivity between the separate aluminium sheets.”

Investigations into this possibility were, therefore, carried out by the Consulting Engineers and at Jodrell Bank, and on the 6th May, 1955, Mr. Husband wrote to Professor Lovell:—

“ One reason why we are having a further sample made at the works is because we were dissatisfied with the sample of welding done at Jodrell Bank and I am anxious that the makers should have every opportunity of producing the best possible example of what they can do.”

17. On the 6th May, 1955, Professor Lovell wrote to Mr. Husband:—

“ I am very greatly encouraged by your letter. We shall be very interested in your considered opinion of the probable distortions which the bowl is likely to suffer. As I explained to you in our talk, we are now putting considerable efforts into the design and construction of the electronic apparatus and a good deal of this will be largely determined by the lower wave length on which we are likely to be able to use the telescope.”

18. It will be apparent from the foregoing extracts of correspondence that the Consulting Engineers were in close consultation with the scientist in charge, from whom the major amendments in the design of the telescope emanated. A Building Sub-Committee was eventually appointed for this project in consequence of the Treasury decision in August, 1956, to make the payment of further grants dependent upon the appointment by Manchester University of such a Committee. The anomalous nature of their position had, however, been commented upon frequently before this by the Consulting Engineers, as the following extracts taken from letters written by the Consulting Engineers to the Bursar of the University indicate:—

28th March, 1955

“ I have come to the conclusion that for reasons concerned with the control of expenditure it is extremely desirable that I should attend all future meetings to discuss engineering requirements and estimates with the D.S.I.R. or other Government Departments who may now or in the future have an interest in the construction or performance of the telescope.”

31st March, 1955

“ My great concern at the moment is because I have never attended any meetings with the D.S.I.R. and just do not know how far the re-design of the telescope has been reported to them.”

“ As far as the University is concerned the only technical man I deal with is Professor Lovell . . .”

“ Whilst I appreciate the disadvantage of committees, I have felt all along that for a job of this magnitude which is being paid for out of more or less public money it would be better for me to have been able to discuss technicalities with a small technical or semi-technical committee representing the promoters rather than Professor Lovell alone, whose sole interests, quite properly, are the use of the telescope, and the earliest possible date at which it can be completed.”

15th July, 1955

“ I fully appreciate that our own agreement is with the University, but in view of the possible damage to our own reputation with the D.S.I.R. (who presumably are responsible for paying us) may we attend all technical discussions which take place with the Department?”

20th July, 1955

“ When the job started it was the first really big radio telescope to be constructed; it is still the biggest, and in addition we are now trying to make it the most accurate, apart from one or two much smaller and very costly instruments which have been built in America. There seems to be a major matter of policy involved which may require clearing with the D.S.I.R. It would be entirely wrong to present the latest estimates and tenders on any other basis than a major change of design.”

19. It is, therefore, submitted that the Consulting Engineers maintained the fullest consultation throughout with the Professor of Manchester University who was in charge of this scientific project and that far from there being any introduction of major modifications without his knowledge or approval, the initiative for such changes came from the scientist in charge, who was also kept fully informed of any engineering, and possible financial, consequences. Professor Lovell, of course, quite frankly accepted this as true in his statement to the “Daily Telegraph.” Experience has since proved that the calculations upon which Professor Lovell and the Consulting Engineers acted were, in fact, correct, and the telescope is now in successful operation over the range of wave lengths desired by Professor Lovell. On the night of the 17th–18th October, 1957, when the wind was gusting at 50 miles per hour, the telescope was in full use, tracking the Russian satellite at speeds much greater than those at which the original design was intended to operate. Without the strengthenings and alterations which took place—primarily for the use of the lower wave length—such operations could not have been attempted at all in the weather then prevailing.

20. Messrs Husband and Company hope that the Committee of Public Accounts will think that, in the light of the representations which have been set out herein, the statements contained in paragraphs 62 and 64 of their Report, and which have been so damaging to Messrs Husband and Company, do not represent a true view of the actual sequence of events at Jodrell Bank nor of the conduct of the Consulting Engineers.

(signed) H. C. HUSBAND

H. C. Husband, B.Eng., M.I.C.E., M.I.Mech.E.

for Husband & Co.

10th February, 1958.

APPENDIX 8

PAPER forwarded by *Sir Richard Powell*, K.B.E., C.B., C.M.G.,
on 7th May, 1958

ANALYSIS OF INCREASE IN COST OF CONVERSION OF HERTFORD BRITISH HOSPITAL, PARIS

This memorandum sets out the reasons why the estimated final cost of the work on the Hertford British Hospital, Paris (£261,000) exceeds an earlier estimate of £170,000. The increase falls to be explained under two heads:—

- (a) The increase in the estimate from £170,000 to £228,000.
- (b) The difference between the estimate of £228,000 and the estimated final cost of £261,000.

2. The estimate of £170,000 was based on a plan produced by a Consultant Architect engaged by the War Office, as the Agents of the Ministry of Defence, for the conversion of the Hospital. This plan, based on a schedule of requirements drawn up by the War Office, consisted of line drawings with estimates of cost. The costs at this stage were calculated on a cube rate basis, i.e. no Bills of Quantities were drawn up nor were detailed plans of the works produced. The French associates of the British

Consultant Architect costed the alterations on the basis of unit rates current at the time. The estimate under main headings was as follows:—

New Hospital Wing... ..	£68,000
Kitchen and Operating Block	£24,000
Work to Existing Hospital, Alterations and Reconditioning	£32,000
Pavings, site work and ancillary buildings	£6,000
<i>Basic cost of work</i>	<u>£130,000</u>
Allowance for Variation of Prices (5 per cent.)	£6,500
Allowance for Engineer Contingencies (10 per cent.)	£13,000
	<u>£149,500</u>
War Department Agency Fee (15 per cent.)	£22,425
<i>Total Cost</i>	<u>£171,925</u> (rounded to £170,000)

3. No more detailed breakdown of the estimate was prepared at this stage. It does not, therefore, offer a precise comparison with the detailed figures available at the tender stage before contracts were let.

4. *The Increase from £170,000 to £228,000*

Treasury authority was received for the project at £170,000 in July, 1954. It became evident subsequently that the figure was an under-estimate for the following reasons:—

- (a) The Architect's costing, based on a War Office schedule of accommodation, was compiled, so far as hospital fittings were concerned, on French standards. These were lower than British standards and omitted a number of fittings which had to be added later. Some of these extra fittings were provided from War Department resources. It is impossible to state precisely what fittings were omitted because of the broad basis on which the estimate of £170,000 was drawn up. The Consultant Architect, however, estimated the extra cost at £10,000, to which must be added £2,300 as the value of items of War Department provision included within the figure of £228,000. The kind of items involved were sterilizers, a standby generator, certain operating theatre equipment and radio-diffusion.
- (b) It was decided at a later stage that the maternity ward and operating suite, planned to accommodate fittings at a lower scale, would not provide sufficient circulating space if the larger fittings provided under British scales were installed. Additional space for both these departments and for the maternity outpatients department had to be added. At the same time, the position of the sluice room was altered and a cloakroom and toilet had to be added for the military staff following the earlier decision to omit staff quarters from the hospital. These items totalled £8,500.
- (c) The extra equipment and fittings mentioned in (a) and (b) above necessitated the provision of extra services, i.e. a greater demand for current and certain extra plumbing at a cost of £5,000.
- (d) Prices had increased between July, 1954 and May, 1955 when the tenders for the project were received and this accounts for an increase of £4,000.

5. The revised estimate, taking account of the additions described in Para. 4 (a)–(d) was thus:—

Basic cost of the work	£130,000
Additional fittings, etc. (including provision from War Department resources)—4 (a)	£12,300
Additional building work—4 (b)	£8,500
Additional services—4 (c)	£5,000
Increased prices—4 (d)	£4,000
	<u>£159,800</u>

The total basic cost of the work on the basis of the tenders received was £172,350 which represented the minimum for which the contractors were prepared to carry out the work envisaged. The difference of £12,550 (i.e. £172,350 less £159,800) is by no means an abnormal variation between estimate and tender price.

6. The revised total estimate of £228,000 approved by the Treasury in May, 1955 was made up as follows:—

	£
Basic estimate of cost	172,350
Allowance for Variation of Prices (5 per cent.) ...	8,617
Engineer Contingencies (10 per cent.)	17,235
	<u>198,202</u>
War Department Agency Fees (15 per cent.)	29,730
	<u>£227,932 (rounded to</u>
TOTAL	<u>£228,000)</u>

7. *The increase from £228,000 to £261,000*

The estimated final cost of £261,000 is still provisional as a settlement has not yet been reached with some of the French contractors. It may be analysed as follows:—

	£
Basic cost within Treasury authority of £228,000 ...	172,350
Payments due in respect of Variation of Prices clause in contracts	20,037
Engineering contingencies	23,973
Additional works and stores	10,600
War Department Agency Fee (15 per cent.)	34,040
	<u>£261,000</u>

8. The increase on the estimate of £227,932 is thus £33,068 made up as follows:—

	£
Additional payments for Variation of Price	11,420
Increase engineering contingencies	6,738
Additional works and stores	10,600
Increase in War Department Agency Fee	4,310
	<u>£33,068</u>

These increases are explained below.

9. *Variation of Prices*

In view of the impossibility of forecasting the extent of any variation in prices, a standard figure of 5 per cent. was allowed in War Department estimates at the time. In this particular case, the increase in French prices was considerably more than the standard percentage allowed and additional amounts totalling £11,420 were payable under the terms of the French contracts on this account.

10. *Engineering Contingencies*

This term covers any additional expenditure (other than that due to increased prices) which is found to be necessary during the course of the work for reasons which do not involve an increase in the original scope of the project as approved. This also had to be allowed for by a standard percentage, as by its nature the extent of such additional expenditure cannot be foreseen. In the event, the allowance of 10 per cent. included in the estimate for the Hertford Hospital proved insufficient to the extent of £6,738.

The total of £23,973 actually spent under this head, related to a large extent to engineering difficulties arising from structural defect, etc. encountered during the course of construction of a kind which cannot be foreseen but are always likely to arise in the adaptation of an old building. Additional expenditure had also to be incurred on fire precautions to comply with French regulations and on the substitution of certain items of English pattern for those of French design included within the contracts. In particular, it was decided that certain specialist sanitary fittings of English manufacture were preferable to the corresponding French articles. This and certain other English equipment was unfamiliar to the French workmen and extra costs were incurred on its installation. Further details of the composition of the figure of £23,973 are given in Annex "A".

11. *Additional Works and Stores*

After the contracts had been placed, certain additional works and stores totalling £10,600 not covered by the tenders were found to be essential to complete the hospital and to ensure its efficient functioning. Details are given in Annex "B".

12. *War Department Agency Fee*

The agency fee payable increased automatically with the increase of the other items listed above as it is calculated as a fixed percentage (15 per cent.) of the total cost of the works.

ANNEX "A"

ENGINEER CONTINGENCIES

1. *Work on Old Building*

The Hertford Hospital was a nineteenth-century building which had stood empty for three years at the time work was begun in June, 1955. Expenditure was found to be necessary in order to remedy a large number of unforeseen defects. The following are typical examples:—

- (a) A large underground septic tank was discovered. This involved extra removal and foundation costs.
- (b) The drainage system was poor and needed complete renewal in parts of the basement.
- (c) There were unsuspected weaknesses in the floors and piers of the second floor.
- (d) A chimney stack was found to be dangerous and had to be removed.
- (e) Floors and ceilings needed renewing.
- (f) The plumbing, especially on the roofs, gutters and downpipes, needed extensive overhaul.
- (g) Repairs were necessary to the wooden framework of the windows.
- (h) Structural reinforcing steelwork had to be introduced in various places.
- (i) A ventilation duct had to be provided in the boilerhouse.

The cost of these and other items in the old building totalled about £8,000.

2. <i>Installation of English sanitary fittings, sterilizers and metal windows</i> ...	£2,130
French workmen were unfamiliar with the patterns and this involved extra installation costs.	
3. <i>Fire Precautions</i>	£1,825
The intention was to provide fire-extinguishers. The French authorities insisted on the provision of full fire-fighting equipment on every floor of the building. This also involved the laying of a high-pressure water main.	
4. <i>Connection to Public Utilities</i>	£1,075
It had been assumed that the cost of connecting the electrical and plumbing systems within the hospital to the public mains had been covered by the original contracts. It was subsequently found that in France these costs have to be paid by the client direct to the public authorities and are not the contractor's liability.	
5. <i>Increased cost of Stores</i>	£2,850
Includes substitution of certain English type equipment for French type and increased cost of English type stores.	
6. <i>Miscellaneous Contingent Works</i>	£8,093
Includes:—	
Miscellaneous Painting work	
Electrical Work	
Rehabilitation of Entrance Gates	
External Aluminium Cladding	
Earthing of Anti-Static Mesh in operating theatre	
TOTAL	£23,973

ANNEX " B "

ADDITIONAL WORKS AND STORES

	£
1. <i>Lay-out of Gardens, etc.</i>	1,880
Includes preparation of surface and gravel covering for entrance court.	
2. <i>Work on steel huts to provide civilian outpatients facilities and Committee Offices</i>	1,350
3. <i>French Industrial civilian staff accommodation</i>	1,200
Provision of lavatories and locker room.	
4. <i>Buildings for Disinfector and Ether Store</i>	1,100
5. <i>Provision of larger telephone exchange and increased number of extensions</i>	700
6. <i>Electrical Work</i>	600
7. <i>Autopsy Room</i>	500
8. <i>Baggage Room</i>	70
9. <i>Miscellaneous Works</i>	210
10. <i>Additional Stores Items</i>	2,990
Includes:—	
Glass-fronted cupboards } Kitchen tables } Food Service Trolleys Floor Cleaners Refrigerators Post-Mortem Table	
	£10,600

APPENDIX 9

PAPER forwarded by Sir Richard Powell, K.B.E., C.B., C.M.G., on 8th May, 1958
 ANNUAL COST OF THE BRITISH MILITARY HOSPITAL, PARIS: THE AVERAGE NUMBER
 OF PATIENTS TREATED AND THE AVERAGE NUMBER OF BEDS OCCUPIED

The annual cost

1. The British Military Hospital, Paris was opened in May, 1957. It is not yet possible to assess the cost of its operation for a full year. On the basis of the costs of the first six months' working (1st May–31st October, 1957), the annual gross cost to public funds is estimated at £121,412. Details are at Appendix A. This figure includes the sum of £15,278, to cover interest (at 5 per cent.) on the capital represented by the following:—

- (i) The reconstruction of the hospital buildings (including the purchase and conversion of the staff quarters).
- (ii) Medical equipment and accommodation stores.
- (iii) Vehicles.

2. In addition to providing the land (valued at £189,000) on which the hospital is situated, the original buildings and a contribution of £30,000 towards the cost of reconstruction, the Civilian Committee of Management pays a daily standard recovery charge for each "non-entitled" civilian patient admitted to the hospital (27s. 6d. a day to 2nd May, 1958; 55s. a day thereafter). The total receipts on this account from the Committee of Management for the twelve months under review is estimated at £4,517. The Committee also has full financial responsibility for the treatment of "non-entitled" civilian out-patients.

3. If the interest charges (£15,278) at 1 and the recovery charges at 2 (£4,517) are deducted from the gross annual cost (£121,412), the annual net running cost chargeable to public funds is £101,617.

4. The running costs of the staff quarters are included with those of the hospital at Annex "A"—mainly in paragraph 2 (Hospital Upkeep).

The average number of patients treated and the average number of beds occupied

5. The hospital has sixty beds (35 for military personnel and their dependants; and 25 for "non-entitled" civilian patients). The weekly average number of patients to 31st March, 1958, treated at the hospital is 74, made up of 25 military personnel and their dependants and 49 British civilians sponsored by the Committee of Management. 25 of the 74 are in-patients.

6. The average number of beds occupied is 15, of which 6 are occupied by military personnel and their dependants and 9 by British civilians.

ANNEX "A"

STATEMENT OF ESTIMATED ANNUAL RUNNING COSTS OF BRITISH MILITARY HOSPITAL,
 PARIS, BASED ON COSTS FOR THE PERIOD 1ST MAY, 1957 TO 31ST OCTOBER, 1957

	£	£
1. <i>Military Personnel</i>		
Officers—R.A.M.C. (5)	13,440	
Q.A.R.A.N.C. (Queen Alexandra's Royal Army Nursing Corps) (8)	7,008	
Other Ranks (49)	28,796	
<i>Civilians</i> (38)	24,810	
	74,054	

	£	£
2. <i>Hospital Upkeep</i>		
(a) Repairs and Maintenance of Equipment	654	
(b) Carriage	236	
(c) Contractors' Services*	11,396	
(d) Fuel (Oil and Anthracite)	3,080	
(e) Laundry	654	
(f) Depreciation—Buildings and Equipment	8,348	
(g) Sundries	758	
	25,126	
3. <i>Vehicles</i>		
(a) Repairs and Maintenance	146	
(b) Petrol, Oil, Lubricants	172	
(c) Depreciation	628	
	946	
4. <i>Rates and Taxes</i>		60
5. <i>Insurance</i>		150
6. <i>Interest on Capital</i>		15,278
7. <i>Patients' Costs</i>		
(a) Food	1,990	
(b) Laundry	62	
(c) Drugs and Medical Supplies	3,214	
(d) Payments for Medical Services	428	
(e) Consultants' and Surgeons' Fees for Military Patients	172	
	5,866	
		121,480
8. <i>Less</i>		
(a) Income from X-rays for civilian out-patients ...	58	
(b) Income from consultations for civilian out-patients	10	
	68	
		£121,412

* *Contractors' Services*

These cover the normal maintenance of the Hospital Buildings; the services of boilermen, maintenance engineers, electricians etc., and the provision and cost of water, electricity and gas. The services are provided by DIRECTION DES TRAVAUX DU GENIE DE PARIS-NORD, and apply to the Hospital and the adjoining staff quarters.

APPENDIX 10

PAPER forwarded by *Sir Edward Playfair*, K.C.B., on 5th May, 1958

WELBECK ABBEY

In connection with the size of the non-teaching staff of Welbeck Abbey, the Committee enquired (Question 3009) to what extent normal domestic tasks were carried out by the boys themselves. The position is as follows. The boys at Welbeck are required to perform the same domestic tasks as they would at any normal boarding school. They make their own beds, clean their shoes and wait on themselves at table

in the dining hall. In addition, they are responsible for sweeping out the rooms in which they live, namely, the studies and the common rooms and also the corridors where they have their lockers. All apparatus, tools, etc., in the laboratories and workshops are cleared up by the boys after use. The boys are also responsible for other unskilled jobs such as rolling tennis courts, unloading lorries which deliver equipment and moving furniture.

It may be of interest to the Committee to know that apart from domestic tasks, a very considerable degree of self-help exists at the school. For example, of the seven sailing dinghies six were built by the boys themselves in the school workshops and the boys are responsible for all the annual maintenance. They have also made two first-class hard courts out of some derelict ones for the expenditure of less than £20, and turned an old lawn into two additional grass courts.

APPENDIX 11

PAPER forwarded by *Sir Edward Playfair, K.C.B.*, on 22nd May, 1958
TERRITORIAL ARMY

At their meeting on 31st March, 1958, the Committee asked for figures (Q. 3131) showing the loss incurred by Associations in selling investments.

2. Territorial and Auxiliary Forces Associations, when refunding excess general reserves at the time when evidence was taken, had sold securities with an original total cost of £134,569 at less than cost price. Of these, £26,805 were dated securities and realized £22,366 and £107,764 were undated and realized £79,689. There was thus a difference between cost price and the amount realized of £4,439 and £28,075 respectively, making a total of £32,514.

3. It is confirmed that a note on losses on sale of securities can be put in the annual financial statement for T.A.As. and this will be done.

4. In connection with Q. 3156, the grants handled annually by Associations on behalf of the Territorial Army (excluding those for land and buildings, surpluses on which do not accrue to general reserve funds) total nearly £m5; the actual figure for 1957-58 was £4,870,000.

5. The Committee also enquired (Q. 3227) what number of volunteers a T.A. Centre was required to have in order to qualify for permanent staff. Scales of permanent staff are authorised on a unit basis, and not for individual Territorial Army Centres. These units are normally of battalion or company size and frequently occupy a number of Territorial Army Centres, although there are smaller independent units which have permanent staff. The number of permanent staff is still in course of adjustment to the needs of an all-volunteer and growing T.A., and the scale is now being revised. A small detachment may have an instructor allotted exclusively to it, under local arrangements, where distances are too great to allow sharing, but this is exceptional.

APPENDIX 12

PAPER forwarded by *Sir John Macpherson, G.C.M.G.*,
on 14th February, 1958

RETENTION OF TRADE UNION OFFICES BY ELECTED MINISTERS
IN CERTAIN WEST INDIAN COLONIES

1. Attached at Annex A is a table showing (a) the amounts of grants and loans made to W.I. islands from the Colonial Service Vote, and (b) the populations of each Colony.

2. In developing parliamentary government in Colonial territories, H.M.G. have for many years followed a policy of encouraging the local Legislatures to follow not only the outward forms, but also the rules and conventions embodying the general

spirit of parliamentary government, to the extent that local conditions permit. In particular where local constitutions developed to the stage of having elected Ministers, those Ministers were encouraged to follow the rules and conventions which U.K. Ministers are required to follow.

3. In recent years this practice has been put on a more formal basis. When elected Ministers were introduced into the constitution of Trinidad in 1950, a despatch was addressed to the Governor requesting that the attention of all those engaged in public life should be drawn to U.K. customs and to the desirability of elected Ministers divesting themselves of interests which might conflict with their public responsibilities, whether these were, for example, directorships of companies or the holding of office in trade unions. Since then, it has been customary, as and when a Ministerial form of Government has been established in a Colonial territory, to address a similar despatch to its Governor. In addition to bringing this code of conduct to the notice of local Ministers, Governors have discretion, which they normally exercise, to publish the despatch for the information of the general public.

4. The decision to put matters on a more formal basis in the way described above was taken partly as a result of general developments arising from the position in Jamaica when Mr. (now Sir Alexander) Bustamante, who is both President of the Bustamante Industrial Trade Union and Leader of the Jamaica Labour Party, held office as an elected Minister from 1945 until 1955. The development of parliamentary institutions including a Ministerial form of Government, has throughout, been on a basis of encouragement and persuasion, and as a matter of policy it has only been in extreme cases that the Governor, or the U.K. Government, have felt it right to use constitutional powers to force through a particular issue. Both in the case of Sir Alexander Bustamante, and in the cases described later in this memorandum, it has, for example, been judged right not to enforce by constitutional powers a rule that Ministers should not hold trade union office concurrently with their Ministerial posts, but to continue with a policy of persuasion and public education. It should be noted that when the People's National Party in Jamaica won the general election of 1955, persons holding trade union office who were appointed Ministers resigned their trade union posts immediately on assuming Ministerial office. The same practice was followed by the members of the Labour Party in Barbados when Ministerial Government was introduced in that Colony.

5. This issue in Jamaica has not in any case affected the Turks and Caicos Islands. The dependency became grant-aided in 1956-57. The constitutional change made in Jamaica in 1944 gave the elected majority there a majority in Executive Council, and required the Governor in exercising most of his responsibilities (from which the Turks and Caicos Islands were not expressly excluded) normally to consult the Executive Council and to act on their advice. In practice, however, the Dependency's affairs in Jamaica have normally been dealt with by the Governor himself and the Colonial (now Chief) Secretary, and not by the Governor in Executive Council (now replaced by the Council of Ministers). By section 19 of the Jamaica (Constitution) Order-in-Council, 1957, the Governor is not obliged to assign to any Minister responsibility for any business relating to the Turks and Caicos Islands. When the Order-in-Council to be made in the Cayman and the Turks and Caicos Islands Bill (at present before Parliament) comes into effect, the affairs of the dependency will no longer be constitutionally the concern of the Jamaica Council of Ministers. The Colonial Office knows in any case of no evidence that the attitude of Jamaican Ministers to the Turks and Caicos Islands has not throughout been completely proper. There are no elected Ministers in the dependency.

6. In many of the West Indian Islands, including particularly those of the Windward and Leeward groups, political parties have come into being as political offsprings of trade unions—a development which is, indeed far from being unknown in other parts of the world. In these small islands where political leaders are inevitably few in number, it is more than usually difficult to keep distinct the parliamentary and the trade union activities of such a group of people. The contention of the leaders is that if they were to divest themselves of trade union office immediately upon being elected as Ministers, their unions would often perish. It must be admitted that the issue is a difficult one for them in the local circumstances.

7. After the introduction of the ministerial system in the four colonies in the Windward Islands and in Antigua and St. Kitts-Nevis-Anguilla in the Leeward Islands in 1956, a despatch was addressed to the two Governors in accordance with the practice described in paragraph 2 above setting out the general principles of conduct which should be observed by Ministers in regard to any activities in which they may take part outside their work as Ministers. Special mention was made in the despatch of the difficulty confronting Ministers who retained official positions in trade unions and the hope was expressed that Ministers would take steps to dissociate themselves from active participation in trade union affairs as soon as possible. Since then no opportunity has been lost by the Governors or senior official of impressing upon Ministers who hold executive positions in trade unions that they should relinquish those positions and the despatches on the subject have been published in the Official Gazettes and in one instance given prominence in a local newspaper. During a recent visit to the United Kingdom of Ministers from St. Lucia, Colonial Office officials and the Parliamentary Under-Secretary of State took the opportunity of expressing their concern that the Ministers have continued to retain their positions as executive officials in trade unions and impressing upon them the desirability of dissociating themselves from trade union activity as soon as possible.

8. Since ministerial systems were introduced into the Windward Islands and Leeward Islands in 1956 there has to date been one strike in which Ministers intervened in their capacity as trade union leaders or officials. This occurred in St. Lucia, where a strike of sugar workers took place in March and April, 1957. Three of the elected Ministers who were members of the Executive Council took an active part in the strike. Their conduct in doing so is to be deplored but it must also be added that as Ministers they concurred in measures designed to bring the strike to an end and keep the peace, and also in steps taken to meet its cost.

9. It is not easy to assess the loss of revenue and additional expenditure due to strikes, but in the case of the St. Lucia strike referred to in the preceding paragraph the cost to the Government was estimated to be W.I. \$104,000. The Executive Council of St. Lucia, which included the three Ministers who had previously supported the strikers, decided that the cost of the strike should be found by placing a special additional Customs Duty on tobacco and cigarettes during the period up to the 31st December, 1957, which yielded \$45,000, and by savings and reservations on items in the Colony's Expenditure Estimates sufficient to cover the rest. By taking these measures the Executive Council thus avoided any possibility of having to seek additional grant in aid from Her Majesty's Government.

10. The preceding paragraph relates to the specific cost of the strike itself. More generally, the criticism has been made that the present Ministers have been responsible in their trade union capacity for stirring up labour troubles which have seriously affected the economic life of the Island, have therefore impaired its revenue and increased its need for grant-in-aid and that the same persons then seek in their capacity as Ministers the increased grant-in-aid which their other activities have made necessary. The position is in fact not so simple. There is a history of difficult industrial relations in St. Lucia, and as usual it is impossible to ascribe the faults specifically and solely to the one side only in the disputes. Indeed, the difficulties go far beyond personalities in any case. As political life has developed in the manner described in paragraph 6 of this memorandum, political leaders have inevitably played a part in industrial disputes and it is true that those industrial disputes have led to the withdrawal of private capital from one sugar factory, and to the prospective closing down of another. It would be difficult to estimate to what extent these industrial difficulties have as yet affected the revenues of the Colonial government but their continuation certainly would do so. It has been impressed upon the Ministers that a particular responsibility rests upon them for an improvement in industrial relations and therefore in the economic development of the Colony. It is hoped that both sides in industry will in future co-operate better to this end.

ANNEX A

GRANTS AND LOANS TO WEST INDIAN ISLANDS FROM THE COLONIAL SERVICES VOTE

Colony	Population (end of 1955)	Estimated Expenditure 1957-58	Purpose of grant or loan
		£*	
Jamaica	1,541,700	35,337	Grant towards hurricane relief.
Turks and Caicos Islands	6,600	31,853	Grant in aid of expenses of administration.
<i>Leewards Group</i>			
Antigua	52,454	334,450	” ” ”
Montserrat	14,436	87,737	” ” ”
Virgin Islands	7,760	54,600	” ” ”
<i>Windwards Group</i>			
Dominica	63,000	288,500	” ” ”
Grenada	88,215	195,503	Grant towards hurricane relief.
Grenada	88,215	617,331	Loan towards hurricane relief.
St. Lucia	88,150	72,600	Grant in aid of expenses of administration.
St. Lucia	88,150	30,000	Loan towards reconstruction of Soufriere following fire and hurricane damage.
St. Vincent	76,778	270,200	Grant in aid of expenses of administration.
		2,018,111	

* Includes 1957-58 Supplementary Estimate.

APPENDIX 13

LETTER to Clerk from Sir John Lang, G.C.B., relating to the export of coal to Malta

Admiralty,
Whitehall, S.W.1.
30th June, 1958.

DEAR FARMER,

I take this opportunity to refer to a slip in my evidence on 15th May. I said, in reply to Q.4423, that the Ministry of Power will not give licences to export unless we agree to pay the export price. This is not so. The true position regarding responsibility for issuing licences was explained by C. & A.G. in his answer to Q.4426. They are issued by Coal Export Officers who are appointed by the Minister of Power. As a measure of economy and administrative convenience National Coal Board officials perform these functions but in so doing they are responsible to the Minister and the issue of an export licence by the Ministry of Power is not conditional on payment of the surcharge. I regret the mistake in the facts given in the first part of my reply to Q.4423 but I maintain the argument in the remainder of that reply. Given that coal consigned to H.M. Establishments overseas is an export and that different prices obtain for coal for inland use and that for export, the Admiralty has considered it logical to pay the surcharge.

I understand that Macpherson has checked the provisional answer he gave to Q.4428 and he finds that the Ministry of Power do not lay down the price at which coal is exported. The consequent assumption in his replies to Q.4431 and Q.4433-35 that the Ministry has a hand in the fixing of export prices is also incorrect but his point remains good that a "fine" was not being paid. The surcharge claimed by the N.C.B. brought the price of the coal which was being exported by the Admiralty up to the price that the N.C.B. had fixed for export coal.

Yours sincerely,
(Sgd.) J. G. LANG.

H. R. M. FARMER, Esq.,
Clerk to the Committee of Public Accounts.

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