

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

67

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

Session 1960-61

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Friday, 4th November, 1960

The Committee of Public Accounts was nominated of Mr. Arbuthnot, Sir George Benson, Sir Edward Boyle, Mr. Chetwynd, Colonel Crosthwaite-Eyre, Mr. John Hall, Mr. Hoy, Mr. Cledwyn Hughes, Vice-Admiral Hughes Hallett, Mr. Pentland, Mr. Stevens, Sir Samuel Storey, Sir Colin Thornton-Kemsley, Mr. Turton and Mr. Harold Wilson.

Thursday, 4th May, 1961

Ordered, That Vice-Admiral Hughes Hallett be discharged from the Committee of Public Accounts; and that Sir Gerald Wills be added.

TABLE OF CONTENTS

	PAGE
SPECIAL REPORT	iii
FIRST REPORT	xix
SECOND REPORT	xxi
THIRD REPORT	xxiii
PROCEEDINGS OF THE COMMITTEE	lx
LIST OF WITNESSES	lxxiii
MINUTES OF EVIDENCE	1
APPENDICES	346
INDEX	358

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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 24th November, 1960, on the First and Second 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 1958–59, which were furnished to Your Committee by the Treasury on 24th November, 1960, are attached as Appendix II.

24th November, 1960.

APPENDIX I**TREASURY MINUTE DATED 24th NOVEMBER, 1960, ON THE FIRST AND SECOND REPORTS FROM THE COMMITTEE OF PUBLIC ACCOUNTS, SESSION 1959-60**

My Lords read the First and Second Reports from the Committee of Public Accounts, Session 1959-60, dealing with the Appropriation and other Accounts for 1958-59, on which they make the following comments:—

FIRST REPORT

My Lords note the comments of the Committee.

SECOND REPORT**Civil Appropriation Accounts****National Health Service, England and Wales****Paragraphs 1 to 5.—Reconstruction Scheme at a Teaching Hospital**

My Lords have noted the three conclusions drawn by the Committee from the history of this scheme. As regards the first they certainly agree that the responsibility for a waste of public money should be investigated without delay as soon as the fact of such a loss has been established; and that in the present case, even though the first consideration was necessarily the safety of the building, it would have been well for the Board of Governors to have been alerted at an earlier stage to the need to consider the question of their architect's responsibility.

2. My Lords agree, secondly, that when dealing with alterations to old buildings steps should be taken to ascertain that the stability of the building will not be affected; but they accept the view of the Ministry of Health that responsibility for this is essentially part of the professional service for which the architect is employed and paid by his client, the Hospital Board. The functions of the Ministry's architects are, briefly, to ensure that the Board's architect is adequately briefed to take account of modern opinion of medical requirements, that the architectural solution is in accordance with the most modern and economical ideas and practice, and that there is no extravagance in scale or design. To attempt to supervise and check the application of the professional skills of the Board's own architect would be bound to result in duplicated effort and confused responsibility.

3. As regards the Committee's third conclusion, while My Lords would agree that to cease to employ professional advisers whose competence is in question is a course to be seriously considered by the responsible authorities, they consider that the decision must depend upon the circumstances of each case. Among the factors which they would expect to require careful assessment are the nature and seriousness of the alleged or putative fault; the contractual position and the possible damage, perhaps itself actionable, to professional reputation; and the difficulty and cost of securing alternative consultant advice, either for uncompleted work or, conceivably, for other projects. The Ministry will bring the present case to the notice of Hospital Boards as an illustration of the need for extra care in preparing plans for altering old buildings and for paying due regard to the considerations mentioned in this paragraph.

Paragraphs 6 to 8.—Capital Expenditure on Hospitals

The Ministry of Health, in consultation with the Treasury, are steadily establishing standards for hospital building, including cost targets for various types of unit. In so doing, they are making full use of the experience which has been gained on the value of building standards and standard costs elsewhere in the public service, notably in connection with school building. They are also keeping in mind developments in the field of private contract building in so far as these may be applicable to the hospital service.

2. Since January 1958 the Ministry have been circulating to Regional Hospital Boards details of the approved cost and content of hospital building projects throughout England and Wales, to assist and encourage the Boards to compare the costs of building for similar units of their own. They agree with the Committee that there is scope for Hospital Boards to make their own individual contributions towards the economical and efficient planning of new buildings and they are taking account of the achievements of individual Boards in the guidance they issue. The results of individual Boards' comparisons of cost in their own regions with those of other regions are already being incorporated in the cost targets which the Ministry are preparing from their own broader based analyses of several Boards' projects.

National Health Service, England and Wales**National Health Service, Scotland****Paragraphs 9 to 19.—Pharmaceutical Supplies: Prices of Proprietary Preparations**

My Lords have noted the Committee's comments on certain aspects of the Voluntary Price Regulation Scheme. They will be most carefully borne in mind by the Health Departments and the Treasury in the review of the Scheme now in progress. The Scheme has been temporarily extended in its existing form until December 1960 to give further time for this review. In the meantime, it is not possible to comment fully on certain points made by the Committee, but the Departments offer the following preliminary observations:—

- (a) The Committee were concerned about the high proportion by value of preparations coming within the "three years freedom" and the possibility that encouragement might thereby be given not only to genuine research but also to the introduction of unnecessary variations of existing preparations. The proportion of preparations falling within the free period at any time depends on the number, the market value, and the date of introduction of new preparations, and is continually changing. At the time the Committee took evidence the figure was exceptionally high, but it has since fallen to below 20 per cent, as some important products have emerged from the "free period" and have become subject to one or other of the tests provided. The Departments agree that there is not a strong case for a "free period" in respect of new preparations which have not called for appreciable research

and development work, but point out that during the period of the Voluntary Scheme such preparations have not represented more than a small proportion (by value) of the total within the "free period".

- (b) Notwithstanding the admitted difficulty of demonstrating that effective price competition exists in world markets, particularly for patented products, the export price criterion does at least provide an assurance that the National Health Service is not being called upon to pay more for proprietary preparations, including patented products, and in general pays rather less, than the price in export markets.
- (c) The Departments consider that the weighted average of the six largest markets is a fair indication of the price obtainable by the manufacturer for the preparation in export markets generally and affords the most reasonable test for comparison with the domestic price. Comparison with the lowest export price, as the Committee suggest, might give undue weight to relatively small exports and tend to discourage exports. As the Committee will be aware, the industry has given an undertaking not to increase prices where they are below those indicated by the export price criterion.
- (d) The Departments have asked a number of firms for further information about the factors which, in their view, ought to be taken into account in an appraisal of their published accounts, in cases where exceptionally high profits in relation to the capital employed seemed *prima facie* to have been made. These inquiries are being pursued.
- (e) The Departments hope, with the co-operation of the industry, to improve their information about the costs of advertising proprietary preparations to doctors.

Ministry of Supply

Paragraphs 20 to 24.—Investigation and Evaluation of a Navigational Aid

My Lords note the views of the Committee in paragraph 23 of their Report. They wish to point out that, while it is true that the Treasury's control of expenditure at the Ministry's research establishments is, apart from larger capital items, limited in the manner described, the Ministry itself exercises a continuous detailed control of both manpower and individual items of expenditure.

2. My Lords accept the Committee's recommendation that the system of cost accounts, which the Ministry are installing at their research and development establishments, should be developed as a matter of urgency with a view to the introduction of a system of budgetary control of research projects. The Ministry point out, however, and my Lords agree, that it will inevitably take some years to develop a system of budgetary control which is both reliable and effective.

Ministry of Supply

Ministry of Supply (Purchasing (Repayment) Services)

Paragraphs 25 to 45.—Development and Production of Guided Weapons

My Lords fully agree that in view of the nature, size, and complexity of research and development contracts for guided weapons and also for other major weapon systems, very special attention must be paid to the techniques of both technical and financial control if economy and value for money are to be secured. They accept that the financial management of guided weapon development projects was deficient in some respects during the first decade of this type of work, and they have carefully noted the many specific points to which the Committee have drawn attention.

2. They would however again stress the inherent difficulties of the task of controlling research and development expenditure, as briefly described in their comments on paragraphs 30 to 51 of the Third Report of the Committee of Session 1958–59. In the case of guided weapon development, a new industry had to be established, there was no basis of experience for making reliable forecasts of time or cost in the early stages, and the weapons in question were developed in a period of rapid technological advance. My Lords have no doubt that the experience of the past ten years will serve to improve methods of estimating and controlling expenditure. But they accept the view of the Ministry that much uncertainty will inevitably continue to attach to advanced development projects, and that it will not, as a general rule in this type of case, be possible to produce accurate initial estimates of cost. It follows that the methods of financial control of research and development expenditure must be continuously adapted to the task, and My Lords believe that the new arrangements, summarised in the Committee's Report, will lead to marked improvement.

3. My Lords note that in paragraph 44 of their Report the Committee envisage that the Treasury will approve the "all-up" cost of projects. This is not strictly correct. In seeking Treasury authority for expenditure on extramural research and development projects, the Ministry provides an estimate of "all-up" cost. But specific Treasury sanction is sought only for the extramural expenditure: that part of the expenditure incurred at the Ministry of Aviation's own establishments is subject to the arrangements described in paragraph 22 of the Committee's Report.

Ministry of Works

Establishment Costs

Paragraphs 46 to 47.—Increase in the Ratio of Establishment Costs to Work Done

The Ministry of Works are now carrying out a major reorganisation of their staff engaged on works services. The Treasury inspection will cover this reorganisation, and will therefore take some little time to complete.

Paragraphs 48 to 52.—Basis of Charge for Establishment Costs. Scope of Charge for Establishment Costs

The Treasury have considered further with the Ministry of Works the desirability of adopting a differential charge for their departmental expenses based on the separate ratios of departmental costs to load for the

main types of work referred to in paragraph 48 of the Committee's Report. My Lords take the view, and the Ministry of Works agree, that in principle a differential charge is preferable to a flat rate. So long as the underlying analysis and allocation of departmental costs is reasonably accurate, this method ensures that repayment customers pay a realistic charge for the services they receive, and stimulates both cost consciousness and financial control. But there are important qualifications in applying this policy. First, a distinction must be made between non-Exchequer customers, in respect of whom full costs must always be recovered unless the Treasury specifically authorises otherwise, and Exchequer customers, where full recovery may not, for various reasons, in practice always be desirable. Depending on the nature and magnitude of the services in question, it may sometimes be preferable to charge Exchequer customers on the basis of extra costs rather than full costs; or in certain cases to adopt a broad uniform rate which approximates to neither. As regards the actual percentages to be used for calculating those departmental charges which are intended to reflect full costs, while these should clearly be related to the ratios of departmental costs to load which are worked out from time to time, they should not necessarily be kept precisely in line. To this extent therefore My Lords would wish to qualify their acceptance of the Committee's recommendation in paragraph 50 that all departmental costs on repayment work should be recovered.

2. At present the Ministry of Works is making determined efforts, partly by the staff reorganisation referred to above, to reduce departmental costs. Separate works services divisions, with administrative officers, are responsible for the planning and execution of the main blocks of work. Two such divisions are concerned with repayment new works and maintenance respectively for the Post Office, which under the arrangements described in Cmnd. 989 will become the Ministry's main non-Exchequer customer. It is intended to recalculate the departmental costs attributable to these divisions as soon as reorganisation is complete and to apply them both to the Post Office and, (pending the working out of appropriate rates), to other non-Exchequer customers for building work. In the meantime an increased charge will be levied.

3. As regards Exchequer customers, the Treasury is discussing with the Ministry the rates to be charged for different types of work in the light *inter alia* of the probable effect of the staff reorganisation on the relevant departmental costs.

4. My Lords accept the Committee's recommendation that further consideration should be given to the dividing line between those Departments which are charged for services and those which are not. This matter is still under review.

Paragraph 53.—Comparison with Outside Professional Charges

My Lords confirm that the results of the investigation should be available in time for consideration by the Treasury during the review of the Ministry's staffing arrangements.

Public Buildings, etc., United Kingdom

Paragraphs 54 to 60.—Construction of a Research Establishment for Ministry of Supply

My Lords accept the Committee's recommendation that it should be the rule that Departments make arrangements to ensure that administrative

and financial control of commitments in cost-plus contracts is retained in their own hands. This is indeed normal practice.

Historic Buildings and Ancient Monuments

Paragraphs 61 to 66.—Grants towards the Acquisition and Maintenance of Historic Buildings, etc.

My Lords fully share the Committee's view of the importance of the original estimate of cost in Historic Buildings grant cases. The measures which have been taken by the Ministry to improve this estimating will be kept under continuing review.

2. A review of delegated authorities from the Treasury to the Ministry of Works in respect of Historic Buildings grants has been completed and new arrangements have been agreed with the Ministry and introduced. The main object of the changes has been to ensure that the Treasury is normally brought into consultation, before commitments are made, in cases where on the best initial assessment the potential grant liability seems likely to be large or to represent a high proportion of the total cost of the work involved.

3. My Lords fully accept that the standards by which historic buildings are deemed to qualify for grants must greatly influence the total amount of money sought for this purpose and must therefore be of lively concern both to the Ministry and to the Treasury. The Treasury's own influence on grant expenditure can most directly be brought to bear by an effective control, in the light of broad policy considerations and a layman's understanding of the nature of the judgments and factors involved, over the permitted total of new commitments, and the annual Estimates provision; both of which must in turn react upon the standards to be adopted in practice. My Lords intend, in consultation with the Ministry of Works, to keep this whole subject under continuing review; as the Committee will be aware, the Select Committee on Estimates has also recently reported on it.

Agricultural and Food Grants and Subsidies

Paragraphs 67 to 72.—General Fertilisers Subsidy (United Kingdom)

My Lords note the views of the Committee. Since the Monopolies Commission's Report on the chemical fertiliser industry was published last February, the Board of Trade and the Ministry of Agriculture, Fisheries and Food have been discussing with the principal fertiliser suppliers the implications of the Report for the subsidy. The discussions were initiated with a view to obtaining satisfactory assurances about the future level of profits from sales of subsidised fertilisers. They have not yet been concluded.

Agricultural and Food Grants and Subsidies

Department of Agriculture for Scotland

Paragraphs 73 to 79.—Grants for Ploughing Up Grassland

My Lords note the views of the Committee. They are assured by the Department of Agriculture for Scotland and the Ministry of Agriculture, Fisheries and Food that the steps taken or being taken to rectify the system will ensure as far as possible that overpayments of a similar kind are not made in future.

Roads, etc., England and Wales

Paragraphs 80 to 87.—Increases in the Estimated Costs of Road Construction Schemes

My Lords share the concern of the Committee about the effect of inaccurate estimating on control over the allocation and use of resources. In accordance with the Committee's recommendation, the Treasury and the Ministry of Transport have again reviewed the causes of under-estimating the cost of some of the earlier road projects and the Ministry will continue to give close attention to this question. My Lords are satisfied that the experience gained from planning and constructing major road projects has resulted in improved estimates and provides the basis for more reliable estimating in future.

2. While recognising that preliminary estimates cannot provide more than a broad indication of cost, My Lords expect that, in future, estimates based on a detailed engineering survey will approximate more closely to final cost. They appreciate, however, that the final cost of civil engineering projects may be affected by factors which cannot be foreseen or measured, such as the effect of prolonged bad weather on certain soils and variations in geological formation which could only be tested in advance at disproportionate cost.

3. My Lords expect that control over the allocation of resources will be facilitated by the five year "rolling" programme for road construction which will be reviewed by the Ministry and the Treasury annually and projected forward one year at a time. Provisional estimates for projects at the planning stage may have to be revised as they move to the contract stage. The annual review will provide an opportunity for taking account of revised estimates and for making adjustments in the programme.

Paragraphs 88 to 94.—Control over Schemes carried out by Consulting Engineers

My Lords note the views of the Committee. The Ministry of Transport hope to bring arrangements for a new reporting procedure and improved payment certificates into full operation shortly. In the meantime, a reporting procedure on similar lines has been introduced experimentally for a number of motorway schemes undertaken by local authorities.

Paragraphs 95 to 100.—Fees to Consulting Engineers

As requested by the Committee, My Lords have reviewed, in consultation with the other interested Departments, the basis on which fees are paid to consultant engineers and other professional works consultants, with special reference to the arrangements for large and costly schemes. A further statement on this subject has been submitted to the Committee.

2. As a result of this review, the general opinion of Departments, with which My Lords agree, is that the system of relating consultants' fees, in varying ways, to the cost of the project, though subject, at least in theory, to the possible disadvantages to which the Committee have referred, is preferable to any alternative system so far devised. The only feasible alternatives appear to be the payment of fees on the basis of time spent, or the negotiation in each case of a lump sum payment. The former

would be open to the objections that in all but the simplest work it would be extremely difficult to challenge apparently excessive charges, and that there would be no incentive for a consultant to economise in the use of staff. The latter would itself appear to require some consistent basis of calculation, unlikely to differ much from the present percentage of cost basis.

3. The main disadvantages which are urged against the prevailing system are, first, that it must give consultant designers an incentive to produce costly and perhaps extravagant schemes; and, second, that it may result in unreasonably high remuneration in the case of very large projects where it may appear that the value of the services required of the consultants does not, beyond a certain point, increase proportionately with the cost of the project.

4. As regards the former, the two main safeguards available to Departments, which they consistently apply, are the careful choice of consultants and the continuous contact with them which is maintained by their own skilled and experienced professional staffs. Departments can thereby not only ensure that the designs produced by the consultants develop on the right lines without miscalculation or extravagance, having due regard to the need to allow a reasonable latitude to the reputable and competent firms who alone are engaged, but they can also assess the amount and quality of the consultants' work.

5. As regards the second possible disadvantage, it is the policy of Departments to negotiate the rates of remuneration for very large schemes individually, bearing in mind the scales of fees determined by the various professional associations for the general use and guidance of their members, and any special characteristics of the particular schemes in question. As the Committee observe, the Ministry of Transport has in certain cases negotiated more favourable rates for such schemes than would result from a straightforward application of the normal scales. However, while it is impossible to generalise, it is not necessarily the case that very large projects are, from the consulting engineers' point of view, substantially less demanding or costly than smaller projects. In some cases a large project may approximate, from a design point of view, rather to a series of smaller individual projects than to the simple repetition of the basic work; the cost of supervision is normally related to the total cost of the work; and consultants' legal liability does not taper. Moreover Departments must be careful, in seeking lower fees on the grounds of repetitive work, that they do not provide a stimulus to complexity in design which will prove costly in construction.

6. As regards competition in design, the Ministry of Transport point out that there would be little opportunity for such competition in the construction of a motorway as such, since the specification is laid down by the Department after consultation with the Road Research Laboratory and the design of the road is then dependent on a very detailed survey of the route to find the most satisfactory and most economical way of meeting that specification. There is more scope for competition in the design of a major engineering structure such as an important highway bridge. Consulting Engineers or Agent Authorities have already been appointed to undertake the design of most of the important bridges to

be built in the immediate future; but the Ministry are considering whether, as an experiment, arrangements could be made for a competition for the design of a bridge to be built in the next few years.

7. My Lords do not suggest that, with accumulating experience in Departments of the execution of the largest projects, some further improvements may not be possible in the arrangements governing the employment of consulting engineers and other specialists; with reference therefore to the concluding recommendation of the Committee, in paragraph 100 of their Report, they propose to keep these arrangements under close review with the Departments concerned.

Paragraphs 101 to 105.—British Transport Commission: Contribution in respect of Overline Road Bridges and Level Crossings

My Lords have considered whether it is appropriate for the Ministry of Transport to continue to make a special contribution in relief of the British Transport Commission's liability for maintenance of their overline road bridges and level crossings now that the deficit of the Commission on revenue account is being financed by money voted by Parliament. Their view, and that of the Ministry, is that in present circumstances any Government contributions towards the revenue liabilities of the Commission should be included in one grant. It is not, therefore, intended to ask Parliament to make a separate grant in respect of the maintenance of road bridges and level crossings in the forthcoming financial year.

2. The Ministry have obtained returns from the Commission which show that actual expenditure on maintenance of bridges and level crossings is now greatly in excess of the estimate of expenditure in 1957, on which the Ministry's contribution of £2 million was based. The Ministry have asked for these returns to be certified by the Commission's auditors and will obtain similar certification in regard to expenditure in 1960 before final payment of the contribution provided for 1960-61.

3. While it was hoped and intended that this contribution, given in relief of their maintenance obligations, would assist the Commission in embarking on a programme of improvements, this was not a condition of the grant voted by Parliament. My Lords are, however, satisfied that the money paid to the Commission has been used for the purposes for which it was provided.

Revenue Departments Appropriation Accounts

Post Office

Paragraphs 106 to 108.—Control of Capital Expenditure

My Lords are assured that, in developing the future arrangements for reporting to Parliament under the conditions envisaged in "The Status of the Post Office" (Cmd. 989 of 1960), the Post Office will provide additional information about the cost of completed works.

Trading Accounts and Balance Sheets

Ministry of Supply

Paragraphs 109 to 112.—Maintenance of Reserve Capacity at Royal Ordnance Factories

My Lords note the recommendation of the Committee that early steps should be taken to formulate future Service requirements so that the possibilities of effecting economies in the capacity for explosives can

be fully explored. The War Office has been giving increasing attention to the preparation of long term programmes of requirements. In the rapidly changing situation caused by reductions in the size of the Army and new concepts of the nature and duration of operations the task is difficult and has not yet been completed. Considerable progress has been made, however, and the War Office is formulating estimates of needs for five years ahead, though some of these will have to be adjusted later. The scale of manufacturing capacity in the Royal Ordnance Factories, which has been much reduced since 1958-59, is under review against this background.

Ministry of Transport and Civil Aviation

Aerodrome Accounts

Paragraphs 113 to 116.—General

Paragraphs 117 to 119.—Operating Revenue

My Lords share the Committee's concern with the deficit disclosed in the Accounts, and attach great importance to the Ministry of Aviation's efforts to reduce it. My Lords also share the Committee's view that what the traffic will bear by way of charges needs to be tested constantly. Charges were increased in 1957 and 1959, and it is intended to increase landing fees by about one third from April, 1961.

Paragraphs 120 to 121.—Operating Expenditure

My Lords accept the Committee's recommendation that more emphasis should be placed on the possibilities of reducing the deficits at aerodromes by economies in staff and improved methods of working.

Paragraphs 122 to 124.—Expenditure for Manchester (Ringway) Airport

Paragraphs 125 to 127.—Transfer of Aerodromes to Municipalities

My Lords note the views of the Committee on the arrangements made with the Manchester Corporation and on the liability for technical services. The levying of a separate charge for technical services was considered in connection with the forthcoming increase in landing fees at State-owned aerodromes, but the circumstances were still thought not to warrant such a charge; this whole question is however to be further considered at a later stage. In the meantime, the Ministry have invited the Manchester Corporation to join in a review of the financial aspects of the agreement.

United Kingdom Atomic Energy Authority

Balance Sheet as at 31 March, 1959

Paragraphs 128 to 132.—Contract for the Purchase of a Chemical

My Lords note the Committee's view that, where the terms of a proposed contract involve payment of high rates of amortisation and profit on capital, the Authority should, in consultation with the Treasury, reconsider their practice of not advancing capital to contractors who are in a position to provide it themselves. The decision whether or not to provide capital assistance in any given case depends on a number of considerations, including whether the contractor is able and willing to provide it for the purpose himself. Financial strength in the contractor is not however in

itself a bar to the granting of capital assistance if such assistance would enable arrangements more beneficial to the Exchequer to be made; and the Authority will continue, in consultation as necessary with the Treasury, to decide individual cases on their merits.

2. The Authority accept the Committee's view, and My Lords concur, that in this particular case they should have discussed with the contractor what his terms would have been if the Authority had provided the capital. They note the Committee's remarks about the negotiation of profit rates for any supplies required after completion of the present contract.

Paragraphs 133 to 140.—The Programme of Nuclear Power

(i) Royalties on Nuclear Power Stations

My Lords accept the recommendation that the Authority, the Electricity Boards and the Departments concerned should consider the possibility of reaching a firm agreement on the basis on which the Boards should contribute to the Authority's expenditure on the development of nuclear power.

2. The agreement already made for the period up to 1965, while it will now bring in considerably less in royalties than was originally hoped for because of reductions in the programme, does establish the principle that the costs incurred by the Authority in developing commercial reactors should be recovered, in whole or in part, by some form of royalty charges. However at this early stage of the development of nuclear power it has been necessary in framing proposals for royalty agreements to have particular regard to the relative economics of nuclear and conventional stations. The absence of any agreement beyond 1965, when the first phase of nuclear power plant installation as originally planned was about due to end, does not imply any doubt about the Authority's right to claim royalties on nuclear power stations completed after that date. The Authority intend to negotiate in good time new agreements to take effect after 1965; preparatory work is in hand.

(ii) Supply of Fuel Elements and Graphite

My Lords accept the Committee's recommendation that the Authority should come to a clear understanding with the Boards on their respective financial responsibilities for capital expenditure and long-term commitments undertaken by the Authority for supplies for the nuclear power programme, and that this understanding should be incorporated in firm and binding agreements.

2. The Select Committee on Estimates, in their Fifth Report Session 1958-59 (H.C. 316-I) recommended that, when further expansion of fuel element plant is required, the Authority, the Generating Boards and the Consortia should jointly consider the possible advantages of these facilities being provided and operated by others than the Authority; this recommendation was accepted by the Authority and My Lords concur.

3. Meanwhile, My Lords are informed that after long negotiations, due to the complexity of the problems involved and the need to settle a mutually satisfactory pattern for subsequent contracts, the terms of a

contract with the Central Electricity Generating Board for the sale of fuel elements for Bradwell, the first nuclear power station to be commissioned, now await final approval. The contract will cover a period of at least ten years.

4. It is hoped that similar contracts for the station at Berkeley will be concluded within the next few weeks and with the South of Scotland Electricity Board for the station at Hunterston in the near future. The final settlement of contract details for Hinckley Point, Trawsfynydd and Dungeness will be made when the specification of fuel elements for these stations is final: meanwhile letters of intent to cover the supply of fuel elements for these stations have been received from the Central Electricity Generating Board.

5. My Lords are informed that the Authority are seeking to overcome difficulties arising from the over-provision of graphite in negotiations:

- (a) with the Central Electricity Generating Board on the financial responsibility for supplies contracted for in excess of their revised requirements, and
- (b) with the graphite manufacturers regarding the procurement contracts.

**Treasury Minute on Third Report of P.A.C., 1958-59, on Independent
Television Authority Accounts, 1957-58**

Paragraphs 141 to 143.

My Lords note the views of the Committee.

APPENDIX II

PAPER forwarded by Mr. D. O. Henley, on 24th November, 1960
1958-59

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,
24th November, 1960

COMPARISON OF AUDITED EXPENDITURE in 1958-59 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	785,888,990	11 3	785,888,990	11 3	—	—	—	—
NAVY	373,700,000	— —	371,289,673	— 5	2,410,326	19 7	—	—
ARMY	432,950,000	— —	422,285,937	15 8	10,664,062	4 4	—	—
AIR SERVICES	465,750,000	— —	464,342,420	18 4	1,407,579	1 8	—	—
MINISTRY OF DEFENCE	14,300,000	— —	14,473,457	8 2	—	—	173,457	8 2
	1,286,700,000	— —	1,272,391,489	2 7	14,481,968	5 7	173,457	8 2
CIVIL SERVICES	2,968,296,000	— —	2,956,275,879	— —	12,020,121	— —	—	—
REVENUE DEPARTMENTS	432,036,000	— —	432,111,503	17 5	—	—	75,503	17 5
TOTAL	5,472,920,990	11 3	5,446,667,862	11 3	26,502,089	5 7	248,961	5 7
					248,961	5 7		
					26,253,128	— —		

1958-59

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, 1958-59			Expenditure, 1958-59			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	446,850,000	65,250,000	381,600,000	443,188,936 4 3	71,899,263 3 10	371,289,673 - 5	10,310,326 19 7	—
Army	503,320,110	71,020,000	432,300,110	494,925,682 12 10	72,639,744 17 2	422,285,937 15 8	10,014,172 4 4	—
Air Services	552,640,100	81,840,100	470,800,000	546,094,393 17 -	81,751,972 18 8	464,342,420 18 4	6,457,579 1 8	—
Ministry of Defence	19,361,000	2,611,000	16,750,000	16,280,340 1 8	1,806,882 13 6	14,473,457 8 2	2,276,542 11 10	—
TOTAL, NAVAL, MILITARY AND AIR SERVICES AND MINISTRY OF DEFENCE ...	1,522,171,210	220,721,100	1,301,450,110	1,500,489,352 15 9	228,097,863 13 2	1,272,391,489 2 7	29,058,620 17 5	—
Civil Services:								
Class I	32,239,848	8,843,379	23,396,469	28,015,420 14 5	8,690,178 6 3	19,325,242 8 2	4,071,226 11 10	—
Class II	107,814,621	3,229,791	104,584,830	102,427,162 16 8	3,172,628 17 -	99,254,533 19 8	5,330,296 - 4	—
Class III	116,952,037	12,844,749	104,107,288	115,713,647 11 6	12,712,883 10 9	103,000,764 - 9	1,106,523 19 3	—
Class IV	560,700,775	36,456,834	524,243,941	559,332,099 16 6	36,456,826 2 -	522,875,273 14 6	1,368,667 5 6	—
Class V	953,505,057	153,840,143	799,664,914	945,312,408 10 2	152,361,723 3 1	792,950,685 7 1	6,714,228 12 11	—
Class VI	370,038,715	98,413,775	271,624,940	343,294,330 11 8	96,324,813 17 8	246,969,516 14 -	24,655,423 6 -	—
Class VII	98,953,045	17,855,025	81,098,020	96,516,947 2 6	17,698,089 7 8	78,818,857 14 10	2,279,162 5 2	—
Class VIII	383,441,927	22,186,448	361,255,479	316,255,629 5 9	19,583,325 6 1	296,672,303 19 8	64,583,175 - 4	—
Class IX	267,567,293	28,334,245	239,233,048	247,614,219 16 -	25,377,402 11 9	222,236,817 4 3	16,996,230 15 9	—
Class X	604,745,790	27,638,500	577,107,290	601,629,215 6 5	27,447,331 9 4	574,171,883 17 1	2,935,406 2 11	—
TOTAL, CIVIL SERVICES ...	3,495,959,108	409,642,889	3,086,316,219	3,356,111,081 11 7	399,835,202 11 7	2,956,275,879 - -	130,040,340 - -	—
Revenue Departments:								
Customs and Excise...	18,222,437	888,000	17,334,437	18,222,437 - -	888,000 - -	17,334,437 - -	—	—
Inland Revenue	45,038,000	218,000	44,820,000	45,038,000 - -	218,000 - -	44,820,000 - -	—	—
Post Office	441,301,000	68,710,000	372,591,000	438,301,769 17 4	68,344,702 19 11	369,957,066 17 5	2,633,933 2 7	—
TOTAL, REVENUE DEPARTMENTS	504,561,437	69,816,000	434,745,437	501,562,206 17 4	69,450,702 19 11	432,111,503 17 5	2,633,933 2 7	—
TOTAL FOR VOTED SERVICES ...	5,522,691,755	700,179,989	4,822,511,766	5,358,162,641 4 8	697,383,769 4 8	4,660,778,872 - -	161,732,894 - -	—

THE COMMITTEE OF PUBLIC ACCOUNTS

83

xvii

	Estimated Expenditure	Actual Expenditure		Less than Estimate		More than Estimate	
	£	£	s. d.	£	s. d.	£	s. d.
CONSOLIDATED FUND							
National Debt Services—Interest, etc.	695,000,000	662,676,780	8 2	32,323,219	11 10	—	—
Sinking Funds	38,000,000	38,133,819	19 —	—	—	133,819	19 —
Excess Profits Tax post-war refunds (part deducted for tax)	—	358,000	— —	—	—	358,000	— —
Payments to Northern Ireland Exchequer	73,000,000	76,498,131	8 6	—	—	3,498,131	8 6
Other Consolidated Fund Services	10,000,000	8,222,258	15 7	1,777,741	4 5	—	—
TOTAL OF CONSOLIDATED FUND SERVICES	816,000,000	785,888,990	11 3	34,100,960	16 3	3,989,951	7 6
GRAND TOTAL OF EXPENDITURE	—	5,446,667,862	11 3	—	—	—	—

The savings on Votes for the year 1958–59 amounted to £161,732,894 as shown in column 7 and where dealt with as follows:—

	In the Financial Year	
	1959–60	1960–61
Written off from the Exchequer Grant Accounts out of Ways and Means of 1958–59	£ 122,991,493	£ —
do. 1959–60	s. d. 12 7	s. d. —
Paid to H.M. Exchequer by the Paymaster-General	38,730,582	—
	1,817	—
	11 10	—
	161,732,894	—

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, 1960, expenditure in excess of the 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 III, Vote 8, Supreme Court of Judicature, &c.	3,554 8 1	3,544 8 1	10 0 0

Service Department	Deficiency of Appropriations in Aid	Less Surplus for whose application to meet the deficiency authority is to be sought	Net amount to be Voted
	£ s. d.	£ s. d.	£ s. d.
Army (Royal Ordnance Factories)	477,789 10 5	359,540 15 3	118,248 15 2

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

9th February, 1961.

SECOND REPORT

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

VIREMENT BETWEEN VOTES OF SERVICE DEPARTMENTS

Your Committee have reviewed the exercise by the Treasury of their powers under the annual Appropriation Act to sanction provisionally, subject to subsequent confirmation by Parliament, the application of surpluses on any Votes of a Service Department to meet deficits on other Votes of the same Department. They see no reason why Parliament should not sanction the virement temporarily authorised by the Treasury in their Minutes laid before the House in February, 1961.

6th June, 1961.



THIRD REPORT

TABLE OF CONTENTS

<i>Paras.</i>		<i>Page</i>
CIVIL APPROPRIATION ACCOUNTS		
COLONIAL OFFICE		
1-5	Malta Development Programme: Loans to the Company converting the Dockyard	xxv
6-9	Delay in receipt of audited accounts... ..	xxvi
10-12	Financial Assistance to British Guiana Development Programme...	xxvii
UNIVERSITIES AND COLLEGES, &C., GREAT BRITAIN		
13-23	Grants to Universities: Non-recurrent Grants	xxviii
13	(i) General	xxviii
14-18	(ii) Operation of the New Arrangements	xxviii
19-23	(iii) Standard Costs	xxix
NATIONAL HEALTH SERVICES		
24-31	Pharmaceutical Services: Prices of Proprietary Preparations ...	xxx
32-39	Chemists' Remuneration	xxxiii
32-37	(i) General	xxxiii
38-39	(ii) System of Remuneration	xxxv
SCOTTISH HOME DEPARTMENT		
40-45	Effect of unduly low rents on Exchequer Equalisation Grants ...	xxxvi
MINISTRY OF AVIATION		
46-57	Control of Expenditure on Extramural Research and Development	
46-47	(i) General	xxxvii
48-53	(ii) Design Studies	xxxvii
54-57	(iii) Technical Programmes	xxxviii
REVENUE DEPARTMENTS APPROPRIATION ACCOUNTS		
POST OFFICE		
58-63	Engineering Materials: Bulk Supply Agreements	xl
NAVY APPROPRIATION ACCOUNT		
64-67	Costs of training Students at the Royal Naval College, Dartmouth, and the Royal Naval Engineering College, Manadon	xlii
68-79	Refitting of Ships in the Royal Dockyards	xliii
68-70	(i) H.M.S. Belfast	xliii
71-73	(ii) H.M.S. St. James and H.M.S. Gravelines	xliv
74-76	(iii) H.M.S. Swiftsure	xlv
77-79	(iv) Allocation of Work to Dockyards	xlvi
ARMY (ROYAL ORDNANCE FACTORIES) ACCOUNTS		
80-85	Purchase of Production Materials by a Royal Ordnance Factory...	xlvi
AIR SERVICES APPROPRIATION ACCOUNT		
86-89	Offences connected with Air Ministry maintenance work	xlviii

TRADING ACCOUNTS AND BALANCE SHEETS		<i>Page</i>
<i>Paras.</i>		
	MINISTRY OF AVIATION	
90-104	Aerodrome Accounts	xlix
90-92	(i) General	xlix
93	(ii) Technical Services	I
94	(iii) Landing Fees	I
95-103	(iv) Other Revenue	li
96	(a) Commercial sales of fuel	li
97	(b) Passenger Service charge	li
98-101	(c) Apron Services	lii
102-103	(d) Rents at London Airport	lii
104	(v) Form of Accounts	liii
	ATOMIC ENERGY AUTHORITY BALANCE SHEET	
105-109	Accounting for, and control of, recoverable expenditure	liv
110	FORM OF ESTIMATES	lvi
111-120	FORM OF NOTES TO THE APPROPRIATION ACCOUNTS	
111-112	(i) General	lvi
113-116	(ii) Notation of Losses, &c.	lvi
117-118	(iii) Works Statements	lvii
119-120	(iv) Other proposals	lviii

THIRD REPORT

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

CIVIL APPROPRIATION ACCOUNTS

CLASS II, VOTE 8—COLONIAL SERVICES

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

MALTA DEVELOPMENT PROGRAMME: LOANS TO THE COMPANY CONVERTING THE DOCKYARD

1. In August, 1959, the Secretary of State for the Colonies approved a Development Programme for the Maltese Islands covering the period 1959–64. The Programme provides for a total expenditure of £32·25 million, towards which Her Majesty's Government has promised assistance of £29 million over a period of five years.

C. & A. G.'s
Civil Report
(Classes
I–V),
Paras. 14–18.

2. Owing to changes in defence policy it was expected that there would be a substantial reduction in naval ship-repair work at Malta after 1960. In view of the importance of the naval dockyard to the economy of the island, Her Majesty's Government decided that it should be converted to a commercial ship-repairing yard, and that the United Kingdom should contribute £6 million by way of loans towards the initial capital of a company set up in Malta to take over, convert and run the yard as a commercial concern. The company set up for this purpose was Bailey (Malta) Ltd., and a financial Agreement was made on 11th September, 1959, between the company and the Governor of Malta acting on behalf of Her Majesty's Government, setting out the terms and conditions upon which the loans to the company would be made. The purposes of the loans as provided in the Agreement include the modification and improvement of the fixed assets and services of the dockyard and the provision of additional plant to make the dockyard facilities suitable for commercial ship-repairing, and the provision of working capital and stock in trade. The loan advances totalling £1,783,978 made to the company under this Agreement in 1959–60 included an advance of £1,200,000 issued on 6th October, 1959, for working capital.

3. Your Committee were informed that, following a request by the Malta company in January, 1960, for further advances of working capital, inquiries by the Colonial Office revealed that part of the original loan of £1,200,000 had been spent on three items which did not appear to be in accordance with the financial Agreement. The principal item in question was a payment of £650,000. This sum was removed by the firm from Malta and sent to Bermuda, where a

Q. 568, 594.

- new company called Bailey Trust (Bermuda) was set up to provide a pension and gratuity scheme for workers in the dockyard. It represented the total of the contributions required, both past and future, in order to provide gratuities for all the employees and pension schemes for senior and selected works staff. It seemed to the Colonial Office to be an unusual provision to take such a large sum from working capital and that the pension scheme itself was open to criticism. The second item was a payment of £200,000 by the Malta firm to its parent company in the United Kingdom for what were called promotion and formation expenses. The third item was a loan of £200,000 to the parent company for the provision of tugs for use in the dockyard; the loan was to be free of interest and to be non-repayable in certain circumstances.
- Q. 615.
- Q. 569, 574-7.
- Q. 578.
- Q. 578, 585-6, 613 (footnote).
- Q. 568, 629.
- Q. 594.
- Q. 580, 649.
4. In view of the doubts about these expenditures, the Colonial Office, after consulting the Treasury, sought the advice of an independent accountant, who agreed that all three items were open to criticism. His recommendations had been accepted by the company and all the items are to be adjusted, without further issue of working capital from public funds. The company had also agreed to the addition to their Board of three independent directors, including the accountant adviser.
5. Your Committee are concerned that of the loan of £1,200,000 for working capital over £1 million was applied by the company to purposes which would not have been agreed by the Colonial Office had they known of them at the time of issue, and that it was only a request for a further advance that gave rise to the Colonial Office enquiries. Working capital is not specifically defined in the financial Agreement; Your Committee therefore consider the Colonial Office open to criticism in that before issuing such a large sum of Exchequer money they did not require more detailed information as to the purposes for which it was to be used. But effective action was taken once the Colonial Office discovered what had happened: and Your Committee note the steps taken to adjust the expenditure and to strengthen the management of the company, so that in future there should be effective control over the capital invested by the Government in this enterprise.

DELAY IN RECEIPT OF AUDITED ACCOUNTS

- C. & A. G.'s Civil Report (Classes I-V), Paras. 19-20.
6. Much of the expenditure charged to the Colonial Services and Development and Welfare Votes is not accounted for to the Comptroller and Auditor General in detail, but in accordance with the terms of the Estimates he is furnished by the Colonial Office with audited accounts or statements relating thereto and with any reports thereon by the Director General of the Overseas Audit Service or other appropriate audit authority. On 30th November, 1960, the Comptroller and Auditor General had not received a number of the audited accounts required to be furnished to him in support of issues from these Votes in 1958-59.

7. The delays in rendering these accounts were attributed by the Colonial Office in one case to reasons beyond the control of Her Majesty's Government, and in others to the establishment of a new federation and a re-organisation of financial and accounting machinery. Your Committee accept these reasons, but they cannot regard it as satisfactory that because of that delay the Comptroller and Auditor General was not in a position to give a clearance for expenditure falling on Votes in 1958-59 when he reported on the 1959-60 Appropriation Accounts. Q. 690. Q. 691.

8. The Comptroller and Auditor General pointed out that the arrangement of submission of accounts by 30th November in the second financial year following that to which they relate provides a period, varying with the financial year of the territory concerned, of up to 23 months for completion of the procedure. In practice, however, many accounts were submitted too close to 30th November each year to allow him enough time to clear the expenditure before his own Report was prepared. Q. 692.

9. Your Committee note that the work of the Comptroller and Auditor General would be facilitated by earlier submission of the accounts. They accordingly endorse the suggestion that the date for submission to the Comptroller and Auditor General should be advanced by one month to 31st October.

FINANCIAL ASSISTANCE TO BRITISH GUIANA DEVELOPMENT PROGRAMME

10. Financial assistance towards a development programme for British Guiana is being provided by Her Majesty's Government. Expenditure from the Colony's Development Fund in the five years to 31st December, 1958, totalled approximately £17.7 million, towards which some £6.1 million was contributed by the Colonial Office, £1.6 million as loan from the Colonial Services Vote and £4.5 million by way of grants from the Development and Welfare (Colonies, &c.) Vote. C. & A. G.'s Civil Report (Classes I-V), Paras. 21-2.

11. In his reports of 6th July, 1959, and 19th May, 1960, on expenditure in 1957 and 1958, the Director General of the Overseas Audit Service made certain observations which caused the Comptroller and Auditor General to inquire whether the Colonial Office considered that the money furnished from the Development and Welfare (Colonies, &c.) Vote had been utilised efficiently and without waste.

12. The Colonial Office informed Your Committee that all but three of the 58 audit observations raised by the Director General of Overseas Audit had since been resolved, any expenditure not properly attributable to the relevant scheme having been transferred to the Colony's own funds. Your Committee are concerned at the admitted laxity of administration and supervision on the part of the Colony as revealed by the audit of these grants, and they hope that effective action will be taken to improve control. They note that Q. 696. Q. 700.

- Q. 700-3. in so far as Development and Welfare money has been improperly spent and subsequently disallowed the expenditure is borne by the Colony and will not be recouped from other United Kingdom assistance.

CLASS IV, VOTE 12—UNIVERSITIES AND COLLEGES, &c.,
GREAT BRITAIN

GRANTS TO UNIVERSITIES : NON-RECURRENT GRANTS

(i) *General*

C. & A. G.'s
Civil Report
(Classes
I-V),
Paras. 25-46.

13. Your Committee gave further consideration to the system of controlling universities' capital expenditure, which is financed by non-recurrent grants made to them by the Treasury on the recommendation of the University Grants Committee. In 1959-60 these grants amounted to over £19,000,000. Expenditure by the universities out of the grants is not accounted for in detail to the Comptroller and Auditor General, and he has no access to the books of the universities or to the records of the University Grants Committee. But under the arrangements put into effect by the Treasury following their Minute of 31st January, 1957, he has full access to the records maintained by the Treasury for their control purposes, and the Treasury is ready to obtain from the University Grants Committee any supplementary information which might be needed in order to answer questions raised with the Treasury by the Comptroller and Auditor General.

(ii) *Operation of the New Arrangements*

14. The Committee of Public Accounts of Session 1956-57 recommended that these arrangements be given a trial over a period of three years, when the matter might be further reviewed by the Committee of the Session then current. Your Committee have now carried out this review in the light of the Report of the Comptroller and Auditor General on his experience of the trial period and the evidence given by the Treasury and the University Grants Committee.

15. On the extent of his audit the Comptroller and Auditor General reported that he had had access to the additional information provided by the University Grants Committee to the Treasury, and to the records of commitments and payments maintained by the Treasury. He had also had access to the certificates of the universities' own auditors reporting that all the grants received had been duly applied to the proper purposes. His officers were now able to relate the grants to the specific provision in Estimates and to see Treasury approval for new projects and sanctions for excesses. He was not, however, in a position to test from original records the explanations of appreciable variations between the amount of grants for major projects provided in Estimates and grants actually paid.

- Q. 274-5. 16. The Comptroller and Auditor General explained in evidence that the cases on which he kept a special watch were those where the project as a whole was overspent and a supplementary grant was required over and above the grant originally recommended by the

University Grants Committee. His officers had asked for supplementary information where necessary, and had been satisfied with the additional information and explanations given. The information to which he had access in the Treasury had not led him to suggest that any case should be further tested for evidence of defective control or weakness of system. On his experience so far the new arrangements had been a success. Q. 292.

17. Your Committee examined the Treasury and the representative of the University Grants Committee on the causes of the overspendings of grant. They were assured that all the overspendings necessitating supplementary grants had been due to additional requirements approved by the University Grants Committee and the Treasury or higher costs outside the universities' control; none had been due to faulty execution or weakness of control by the universities. If any case of wasteful or abortive expenditure of public funds occurred it would certainly be apparent in the first instance to the University Grants Committee, and if there were a question of an additional grant the information would be passed on to the Treasury and also to the Comptroller and Auditor General. But no such cases had occurred, and this was attributed by the Treasury to the system of control introduced as a result of the Reports of successive Committees of Public Accounts and the recommendations of the Gater Committee, set up by the University Grants Committee to investigate the universities' methods of contracting and of recording and controlling expenditure, whose report was published in 1956¹. The position had since been reviewed by Sir Arthur Rucker, whose report, made in September, 1960², provided independent confirmation that the Gater Report recommendations have been fully applied and have provided effective safeguards against waste, extravagance or other abuse. Q. 276-7.
Q. 285-8.
C. & A. G.'s Civil Report (Classes I-V), Para. 37, Q. 315.

18. Having regard to the assurances given by the Comptroller and Auditor General and the Treasury, Your Committee consider that the new arrangements have worked satisfactorily, and they recommend that these arrangements should remain in operation, subject to continued vigilance on the part of the Comptroller and Auditor General and to report by him at any time of developments which he thinks should be considered by future Committees of Public Accounts.

(iii) *Standard Costs*

19. Your Committee were informed that for some university buildings the University Grants Committee has applied the system of standards of accommodation and limits of cost as practised by the Ministry of Education. This enables estimates of cost to be settled at an early stage and clearly makes for economy in time and money. C. & A. G.'s Civil Report (Classes I-V), Paras. 39-46.

20. In 1957 for the first time norms were laid down for various types of accommodation which had been found adequate by a number of universities: these related to area per student in lecture rooms, laboratories and drawing offices and also to the size of rooms for

(¹) Cmnd. 9.

(²) Cmnd. 1235.

academic and clerical staff; for halls of residence a new method of cost assessment has since been devised. This is based on the "study bedroom unit", i.e., a standard cost for a study bedroom and its share of ancillary accommodation such as bathrooms, circulation and storage. All the other types of accommodation needed in a hall are calculated as multiples or fractions of this unit. Under the new procedure a basic grant is calculated, according to the study bedroom formula, and the maximum grant is this sum plus an allowance for any abnormal physical or academic circumstances not covered by the formula.

21. For scientific buildings standard costs have been laid down for the building structure, including basic services such as heating, lighting and sanitation, leaving special scientific services to be assessed in relation to the particular requirements of each building. The standards for scientific buildings are also applied, subject to suitable adjustments, to assess cost limits for arts buildings. In all, some two-thirds of the building programmes can now be dealt with under the system of advance cost limits. Investigations are taking place into the possibility of bringing libraries and students' unions under similar arrangements, but some technology buildings may prove to be too specialised for control by way of advance cost limits.

Q. 346.

Q. 354-7.

Para. 46.

22. Your Committee welcome the progress made in applying the system of standard costs to university building. The value of standard costs and economical design is well illustrated by the fact that, during a period when building costs were rising, the cost per student place in halls of residence has been reduced from about £2,000 to £1,250. They note, however, that while the information gathered by the University Grants Committee concerning the design and cost of buildings is circulated to the universities, it is not otherwise made public.

Q. 348-51.

Q. 375-7.

23. Your Committee recommend that the further development of standard costs be energetically pursued by the University Grants Committee. They also recommend, in view of the importance of the subject, that the results of the work of the University Grants Committee in this field should be published, as is done by the Ministry of Education and Ministry of Health for school buildings and hospitals.

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

CLASS V, VOTE 11—NATIONAL HEALTH SERVICE, SCOTLAND

PHARMACEUTICAL SERVICES: PRICES OF PROPRIETARY PREPARATIONS

24. In paragraphs 9-19 of their Second Report, the Public Accounts Committee of Session 1959-60 commented on the operation of the Voluntary Price Regulation Scheme for proprietary preparations which had been agreed by the Ministry of Health with the pharmaceutical industry. The scheme was put into operation in June, 1957, for a trial

P.A.C.
1959-60
2nd Report,
Paras. 9-19.

period of three years. It provided for the determination, under Part A, of a maximum price of a product by reference to the first of the following criteria that could be applied to it: (i) its export price, if 20 per cent. or more of the output was exported; (ii) the price of the exact standard equivalent if one existed; and (iii) the price determined by an empirically constructed "trade price formula" designed to reproduce as nearly as possible the current prices of reputable firms. Part B of the scheme provided for the price to be negotiated separately if Part A was inappropriate or considered unsuitable by the manufacturer. The scheme also included an undertaking by the industry that prices would not be raised, even if the scheme would otherwise permit an increase in price, unless justified by increased costs, and allowed "three years' freedom" under which manufacturers were free, apart from the "undertaking", to fix the price of a product during its first three years on the market.

25. The initial three years' freedom from price control, designed to allow the recovery of research costs, had applied to nearly 30 per cent. by value of the products covered by the scheme. The export price criterion, which had been given priority in the belief that export prices were competitive, had applied to a further 30 per cent. of products and the trade price formula to 22 per cent. by value of the field. Part B, the only part of the scheme providing for direct negotiation, had applied to 17 per cent. of the field.

26. The Committee of 1959-60 were unable, on the evidence before them, to assure Parliament that prices charged were no more than fair and reasonable, particularly as regards the three-year free period. The Ministry had little or no information about the costs and profits relating to proprietaries; the only information available about trading results was the published accounts of the firms engaged in pharmaceutical manufacturing, many of whom had substantial business not connected with the Health Service. This information, while indicating high profits, was inconclusive and the Committee recommended that the Ministry should, as a matter of urgency, obtain fuller and more reliable information. The Committee also found that the Ministry's machinery for investigating the relationship between advertising expenditure and drug prices was totally inadequate, and considered it essential that the Ministry should know how much was in fact spent on advertising, and how big an ingredient it was in the price of Health Service drugs, before considering what action was appropriate.

27. Your Committee were informed that a revised scheme had been agreed with the industry to run until June, 1964. The main changes were the provision for the direct negotiation of prices for some widely used patented drugs, an increase from 20 to 25 per cent. in the level of exports justifying the use of the export price criterion, a downward revision of the trade price formula, and the revision of the definition of new drugs to remove the three years' freedom from products owing nothing to fresh research. The Ministry estimated that the three years' freedom was in future likely to apply to about 15 to 20 per cent. by value of products within the scheme, and they now had the right to

Q. 1072.

Q. 1073.

Q. 1074-5,
1142.

- ask for a revision if at any time the proportion was materially above 20 per cent. The export price criterion was expected to apply eventually to about 20 to 25 per cent. instead of the 43 per cent. which would have been covered, if the previous scheme had continued ; this reduction was expected because of the right that the Ministry now had to negotiate prices of selected drugs which would otherwise have been covered by the export price criterion. Preparations subject to direct negotiation under Part B of the scheme, including the widely used patented drugs otherwise falling within the export price criterion, were expected to rise from about 18 per cent. to some 40 per cent. The Ministry hoped that the provision for fixing the prices of widely used patented drugs by direct negotiations would result in substantial price reductions. Recent negotiations on the prices of certain patented drugs involved National Health Service expenditure of £6-7 million a year and savings to date were estimated at roughly £1 million a year.
- Q. 1129.
- Q. 1112.
- Q. 1140.
- Q. 1083-93. 28. Your Committee were informed that the Association of the British Pharmaceutical Industry had recently furnished the Ministry with a report from a firm of accountants indicating the financial adjustments which should be made to the apparently very high profit levels shown by the published accounts of eight British subsidiaries of American companies in order to eliminate non-pharmaceutical profits and take account of research and other costs incurred by the parent companies abroad. This report showed profits on pharmaceutical business as determined from the firms' published accounts, ranging from 36.9 per cent. to 98 per cent. on capital employed (with a weighted average of 72.83 per cent.). After making notional additions to costs and capital employed to take account of the United Kingdom share of research and other activities by the parent companies in America, the profits ranged from 18.4 per cent. to 44.79 per cent. (with a weighted average of 33.67 per cent.). The profit figures derived by the accountants from the published accounts were based on information supplied by and discussed with the United Kingdom subsidiaries of American firms, but the major adjustments were based on unverified information from the parent companies. The Ministry considered, however, that the exercise had served its turn in showing that adjusted profit levels were of the order of 30 to 35 per cent. They regarded this rate as too high and had entered into negotiations which would, in fact, reduce it. They had not thought it necessary to look further at the profits shown by the published accounts of wholly British and Swiss-owned firms which on an earlier examination had appeared to be 20 and 13 per cent. respectively compared with some 70 per cent. for a group of subsidiaries of American firms.
- Q. 1170, 1187.
- Q. 1090, 1157, 1171-2, 1192.
- Q. 1165-6.
- Q. 1199-207, Appendix 1. 29. Your Committee welcome the changes made in the scheme and, in particular, the provision now included for fixing the prices of widely used patented drugs by direct negotiation. The need for such negotiations is emphasised by the savings already produced and by the evidence given to Your Committee that some hospitals had made comparatively small-scale purchases of certain of these drugs from continental sources at prices, including import duty, approximately a

third lower than those charged by suppliers in this country. While Your Committee recognise that these prices may not reflect the cost of the original research, they trust that, in agreeing prices for individual drugs, the Ministry will pay full regard to the prices at which they may be available from such alternative sources.

30. The Ministry's lack of information about costs or profits relating to proprietaries supplied to the Health Service was the subject of comment by the Public Accounts Committee of Session 1959-60. The Ministry informed Your Committee that they are now getting full details of the costs of individual manufacturers for the purpose of negotiating prices of the selected drugs. Your Committee note, too, that a start has been made in obtaining more reliable information about the trading results of certain firms whose published accounts showed apparently high rates of profit. They trust that enquiries of this kind will continue to be made as a check on the reasonableness of the prices paid by the Health Service. They consider that the field of enquiry could well be extended to cover wholly British and continental firms. By this means the Ministry would be provided with standards for comparison of profit rates, allocations for research, advertising costs, etc. In arriving at the figures of profit produced to Your Committee for the British subsidiaries of American firms, large and unverified adjustments had been made which might well be subjected to critical scrutiny in future enquiries of this kind.

Q. 1076-9,
1099, 1149,
1196-8.

Q. 1083-93.
1216-7.

31. Particular comment was made by the Public Accounts Committee of Session 1959-60 on the inadequacy of the Ministry's information about advertising costs. The Ministry informed Your Committee that the industry had now adopted a code of advertising thought to have eliminated the worst abuses, and had recently furnished some information on costs. Expenditure on advertising through the mail and on free samples whether sent through the mail or delivered personally, amounted to 4.31 per cent. of total net sales of some £50 million a year. The Ministry had, however, no information on the cost of the sales promotion activities of door to door representatives. Your Committee recommend that the Ministry should obtain this information. These preparations are not advertised to the public, but there is considerable expenditure by manufacturers on sales promotion directed to general practitioners and hospital doctors. It is admitted that doctors are influenced in their prescribing habits by persuasive representatives and elaborate literature, the cost of which must be reflected in the prices of the drugs. Your Committee therefore consider it essential that the Ministry should obtain full information on this expenditure so that it will be possible to judge whether extravagant advertising costs are inflating the prices paid by the Health Service.

Q. 1137,
1257.

Q. 1094,
1132,
Appendix 2.

Q. 1095-6.

Q. 1258,
1271-2.

CHEMISTS' REMUNERATION

(i) *General*

32. For dispensing prescriptions under the National Health Service chemists are paid the cost of ingredients with an addition of 25 per

39389

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C. & A. G.'s
Civil Report
(Classes
I-V),
Para. 61.

- cent. for oncost plus certain allowances and a dispensing fee. The dispensing fee in England and Wales was increased from 1st January, 1956, after chemists' costs in 1953-54 had been investigated and the figures brought up to date by price indices. From 1st December, 1956, the prescription charge was changed from 1s. per prescription form to 1s. per item, and the chemists asked for an inquiry into the effect of this change on their income and expenditure, and into increased costs since 1st January, 1956. In April, 1958, 1,920 chemists were asked to provide information on costs and profits for, broadly, the year 1957. Usable replies were received from less than half of the chemists approached, but the Ministry decided that, despite the possibility of some statistical bias, the results of the inquiry should be accepted as a basis of negotiation.
- Para. 62.
- Para. 63.
- Q. 1308-12. 33. Your Committee were informed that the inquiry showed an average net profit of 3·865d. per prescription in 1957, whereas the 1956 settlement had been intended to provide 2·25d. By applying various indices to the 1957 figures of expenses, the Ministry estimated the profit for 1961 at 4·75d. per prescription. Negotiations for a reduction in remuneration were in progress. The Ministry's latest proposals were designed to reduce profits by about 1·50d. per prescription leaving an estimated return of 3·25d. per prescription.
- Q. 1314, 1363-4.
- Q. 1313, 1371, 1387.
- Q. 1313-15, 1369.
- C. & A. G.'s Civil Report (Classes I-V), Para. 66.
34. In Scotland chemists' remuneration was increased from 1st September, 1956, following an investigation of their costs in 1952, the results of which were adjusted to allow for subsequent increases. As a guide to the desirability of a further full-scale inquiry a survey had been undertaken to show at six-monthly intervals any change in chemists' profits as compared with those of the year following the last settlement. The issue of questionnaires to a selected sample of chemists began in November, 1959. Only provisional results had been obtained when Your Committee took evidence. They were said to show the same trend as in England and Wales, but not to so marked a degree.
- Q. 1316-17, 1348.
35. It is evident to Your Committee that the methods followed in fixing the remuneration of chemists had serious defects. In the first place information about costs was obtained from chemists by questionnaires which were admittedly complex, with the result that the response was poor. Moreover, the time taken in issuing the questionnaires, in obtaining the answers and in assembling the information was so long that negotiations had to be based on figures for a considerably earlier period. Rates of remuneration from 1st January, 1956, were, for example, based on information about costs in 1953-54 and the negotiations now in hand will be based on costs in 1957. As a consequence the Ministry find it necessary to adjust these cost figures by price indices in order to estimate the level of costs at the date of negotiation. The Ministry stated that such indices as they could apply to the facts revealed by the 1954 inquiry had wrongly suggested to them that remuneration was not running as high as it had proved to be; and that the results of the inquiry into 1957 costs had surprised
- Q. 1305, 1340-2.
- Q. 1307.
- Q. 1377.

them. They agreed that these results showed that, in an industry whose expenses were clearly not moving in precisely the same way as national figures, the long time taken to ascertain what was happening was exceedingly undesirable. In this connection Your Committee note that in 1956 the total remuneration to chemists in England and Wales by way of dispensing fee and oncost was £22.2 million for 229 million prescriptions with a net ingredient cost of £33.2 million (an average of 2s. 11d. per prescription). In 1959 it was £24.8 million for 214 million prescriptions with an ingredient cost of £46.7 million (an average of 4s. 4½d. per prescription). Something like half of the chemists' remuneration is derived from the 25 per cent. oncost and the rapid rise in ingredient costs automatically resulted in a substantial increase in total remuneration. Your Committee doubt whether the Ministry have given sufficient weight to the probability that such increases in remuneration might outstrip the chemists' expenses.

36. Up to date information of chemists' profit levels is particularly desirable because, as Your Committee were informed, it would be very difficult to make a retrospective adjustment in remuneration. It is clear that remuneration since 1956 has been excessive. From figures given in evidence to Your Committee overpayments may have amounted to £1 million a year for at least part of that period.

37. Your Committee therefore recommend that the Ministry's arrangements be reviewed to provide for a much quicker determination of the level of chemists' expenses and therefore of their profits, in order that rates of remuneration can be reviewed not only in the light of reliable, up-to-date information but at much shorter intervals. They trust that, with this end in view, it will be found possible to devise a simpler form of enquiry, which will produce not only a quicker but a more complete response from chemists.

(ii) *System of Remuneration*

38. The Committee of Public Accounts of Session 1955-56, in paragraph 37 of their Sixth Report, recommended that consideration should be given to the introduction of a system of differential remuneration in order that remuneration considered fair and just for the smaller chemists should not be given to the larger chemists with apparently lower average costs.

39. Both in England and Wales and in Scotland, enquiries have shown that firms with a large volume of National Health Service business are making profits considerably higher than the average out of the uniform rates of remuneration. The large firms also obtain discounts on tariff prices on their drug purchases. The evidence leaves Your Committee in doubt whether the present uniform system of remuneration and of reimbursement of drug purchases is fair to both small and large firms. They accordingly recommend that the Departments should not only press for a differential system of remuneration, which the Ministry have already proposed in their current negotiations, but should consider the possibility of applying differential rates in the Drug Tariff.

Q. 1353.

C. & A. G.'s
Civil Report
(Classes
I-V),
Para. 64.Q. 1332-4,
1383-4.

Q. 1378-80.

Q. 1346.

Q. 1343-5,
1366.

Q. 1349-50.

C. & A. G.'s
Civil Report
(Classes
I-V),
Paras. 72-4.Q. 1335,
1446, 1450

Q. 1447.

Q. 1352,
1448.

CLASS V, VOTE 12—EXCHEQUER GRANTS TO LOCAL REVENUES, SCOTLAND

EFFECT OF UNDULY LOW RENTS ON EXCHEQUER EQUALISATION GRANTS

C. & A. G.'s
Civil Report
(Classes
I-V),
Paras. 80-5.

40. The aggregate amount of the Exchequer equalisation grants payable to local authorities in Scotland is determined by reference to the authorities' relevant expenditure, which includes expenditure out of general rate fund to meet deficits on their housing revenue accounts after crediting the normal housing subsidies. It follows that if rents are unduly low, the housing deficits and relevant expenditure are correspondingly greater, and a larger aggregate Exchequer equalisation grant therefore becomes payable.

41. The gross annual expenditure from housing revenue accounts, averaged over some 500,000 local authority houses in occupation during 1958-59, was £69 per house. Of this sum, Exchequer housing subsidies defrayed £23 per house while rent receipts averaged £19 6s. The balance of £26 14s. was almost wholly met from local rates together with Exchequer equalisation grant in areas where that grant was payable. The Report of the Department of Health for Scotland for 1959 indicated that, expressed as a proportion of total local authority housing costs, rental income in 1958 in Scotland was less than half that in England and Wales, and that the corresponding rate contribution was more than double. Your Committee were also informed that whereas net rents, exclusive of rates, had increased in England and Wales outside the London area, from an average of approximately 7s. 6d. per week in 1938 to 19s. 6d. in 1959, comparable rents in Scotland had only increased from 5s. to 8s. 8d. per week. Earnings in Scotland had, however, increased by more than two and a half times and were only some five to six per cent. below the level of earnings in England and Wales.

42. The Housing (Scotland) Act, 1950, requires that local authorities shall from time to time review rents and make such changes either of rents generally or of particular rents and rebates as circumstances may require. The Comptroller and Auditor General pointed out however that some 20 local authorities had not reviewed their rents in the previous five years, and one had not revised its rents since 1937. The average annual standard rent, exclusive of rates, charged by these authorities ranged from £7 7s. 4d. (2s. 10d. per week) to £27 13s. 3d. (10s. 8d. per week). The Secretary of State has been legally advised that it is not open to him to assess what would be a reasonable rent; the local authority have a discretion to fix a reasonable figure, and, unless it can be shown after public inquiry that they have exercised that discretion improperly, then intervention under the Statute is apparently not open to the Secretary of State. So far the Secretary of State has not felt justified in initiating public inquiries except as a result of local representations. Two such inquiries have been held.

43. As a result of the first inquiry a Corporation raised the average rent from 5s. 2d. to 8s. 5d. per week or about £22 per annum. The

second inquiry concerned a County Council whose average net rent of 2s. 10d. a week had resulted in a housing deficit in 1959-60 of £286,000, in respect of which Exchequer equalisation grant of about £50,000 became payable. The Report of the inquiry, published in March, 1961, concluded that the County Council had not in good faith and upon a proper exercise of their discretion carried out between 1950 and 1960 any review of rents within the meaning of the Statute. Action on the report has not been completed. Your Committee were informed that no Public Inquiry had been instituted in the case of the authority which had not revised its rents since 1937, and which in 1959-60 received some £18,000 in Exchequer equalisation grant towards its deficiency of £55,600 on housing revenue account.

Q. 516,
521-3.

Appendix 4.

Q. 507-12.

44. For 1958-59 the aggregate amount of the Exchequer equalisation grants payable to all qualifying local authorities in Scotland was provisionally assessed at £15,614,221 ; of the grants totalling £13,705,117 payable to 78 authorities some £2,364,000 was in respect of rate fund payments towards housing revenue deficits. Your Committee were informed that if the housing deficit of each local authority ranking as relevant expenditure for Exchequer equalisation grant had been restricted to one-third of its housing subsidies (i.e. the rate contribution which until 1957 was prescribed by Statute if the subsidy was to be payable), the aggregate grant payable would have been reduced by approximately £1.9 million in 1958-59 and £1.6 million in 1959-60.

Q. 532.

Q. 541,
Appendix 5.

45. Your Committee are concerned at the extent to which housing revenue deficits resulting from low rents are met by the Exchequer under the present statutory formula for calculating equalisation grant. The formula is due to be reviewed before May, 1963, and they accordingly recommend that early consideration should be given to the exclusion from the calculation of Exchequer equalisation grant of housing deficits which are due to the charge of unreasonably low rents.

Q. 535.

CLASS VI, VOTE 10—MINISTRY OF AVIATION

CONTROL OF EXPENDITURE ON EXTRAMURAL RESEARCH AND DEVELOPMENT

(i) *General*

46. The Committee of Public Accounts of Session 1958-59, in paragraphs 30 to 51 of their Third Report, drew attention to bad estimating and defects in the system of financial control in relation to certain contracts for the development of aircraft and aero-engines. In paragraphs 25 to 45 of their Second Report the Committee of Public Accounts of Session 1959-60 reported on similar failures in contracts for the development of guided weapons ; they drew attention to the large sums spent in recent years in the development of new and experimental equipment under contracts providing for payment of a contractor's cost plus profit, and expressed the view that development contracts on the present scale, which were something new in the financial history of this country, and which must inevitably be open to abuse, clearly called for

39389

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new methods of supervision and co-ordination at the highest level. The Committee of last Session hoped that a marked improvement would follow from new arrangements for the restoration of control over expenditure of this nature, described to them by the Ministry of Aviation and outlined in paragraph 44 of their Report.

C. & A. G.'s
Civil Report
(Classes
VI-X),
Paras. 44-53.

47. The Comptroller and Auditor General this year reported further on these new arrangements, and Your Committee heard evidence from the Ministry of Aviation about their present control procedures. Your Committee recognise that it is too early to judge the extent to which these have resulted in improvements. The comments in the following paragraphs are limited therefore to two specific matters upon which they feel they ought to report.

(ii) *Design Studies*

- Q. 2158. 48. Where it is not possible to define the objective of a development contract in relation to an operational requirement or to assess the time scale and probable cost in a sufficiently accurate way, it is now the practice of the Ministry, over the whole range of their activities, to place contracts with selected contractors for design studies.
- Q. 2161-2,
2177.
- Q. 2163. 49. In selecting contractors for design studies the Ministry have regard to their technical competence, experience and resources, their potential production capacity, their financial standing and the Ministry's general policy towards the industry. Where the Ministry can get competitive studies they strive to do so, but they regard the possibility of alternative design as more important than the possibility of competition in terms of finance, and where there is competition it would more probably be in design than in price. Moreover, while the Ministry would not be committed to award the development contract to the firm producing the adopted design, that firm would clearly have an advantage, and would have certain rights in the design, for which the Ministry might have to compensate them if a different contractor were chosen.
- Q. 2164.
- Q. 2186,
2227.
- Q. 2165.
- Q. 2166.

50. Your Committee appreciate the Ministry's reasons, but doubt whether the practice is altogether satisfactory. Without competition in price there appears to be little inducement to a prospective development contractor to avoid expensive complications in design. They recommend therefore that the Ministry should look very closely at the financial implications of a design before accepting it on technical considerations only, and they trust that, where alternative design studies are obtained, the estimated cost of development appropriate to each design will be taken into consideration by the Ministry before going forward with development.

51. In paragraph 27 of their Second Report the Committee of Public Accounts of last Session stated that they were not convinced that the Government research establishments responsible for the preliminary work might not with advantage have continued to play a more direct part in the development of a certain guided weapon. Your Committee inquired whether, in particular, these establishments could perform

the function of carrying out the design contracts themselves. The Ministry stated that the design of a major weapon would be beyond the resources even of their biggest research establishments. The problem was the translation of scientific ideas which were technically feasible into the environment of modern industrial factories with large scale production, and the Ministry's establishments lacked experience in this field. Research, development and production was a continuous spectrum, but the Ministry believed that it was much easier and more sensible to relate design to production than to research, and that it was therefore more important that the design should be worked out by the firm which was going to produce it than by the research organisation. In the view of the Ministry it would be extremely difficult for anyone not associated with a large production organisation to get the kind of experience called for by design studies. Even if skilled designers were specially recruited for the work they would still have to go to the outside contractors to study the circumstances in which the problems had to be solved.

Q. 2189.

Q. 2190.

Q. 2191.

Q. 2200.

Q. 2193.

52. The Ministry are therefore at present of opinion that, so long as it remains the policy to exclude production from their establishments, design studies must necessarily be entrusted to contractors who are also in production. Your Committee welcome the assurance given by the Ministry and the Treasury that the question will be considered further during the coming year.

Q. 2208-9.

53. The Ministry further explained that the normal progress with a development project was from a feasibility study, which might be carried out either in one of the Ministry's research establishments or by a contractor, to a decision whether to undertake a design study, and thence to a development contract. They pointed out that the preliminary study completed in 1955 before the project for the medium range ballistic missile known as Blue Streak was embarked upon, although carried out by a contractor, was in fact a feasibility study and not a design study. It threw no light on the estimated costs and time scale for development. The Ministry admitted that for this project they had committed themselves to "cost plus" contracts without detailed specifications, and that after six years, although a specification was available for many of the details, there was still not a complete specification. Your Committee observe that in 1955 the Ministry were able to make only a conjectural estimate of £50 million for the cost of this project excluding expenditure in Ministry establishments and on firings, and that from October, 1957, to early in 1960 the total estimated cost of the project rose from between £160 million and £200 million to between £280 million and £310 million.

Q. 2411.

Paras. 54-8,
Q. 2401.Q. 2404,
2407.

Q. 2323.

Q. 2326.

Q. 2320.

(iii) *Technical Programmes*

54. The purpose of the design study is to produce a detailed report covering the time scale and probable development cost, and thus to enable the Ministry to set out with much greater accuracy and in much greater detail what the development contract is to cover. Whether or not a design study is carried out, a phased and costed technical programme for the development is drawn up laying down what is involved

Q. 2179.

Q. 2181.

Q. 2222.

39389

b 3

C. & A. G.'s
Civil Report
(Classes
VI-X),
Para. 45.

both in cost and time. This is agreed with the contractors. To enable the Ministry to ensure that the project is carried forward in accordance with the approved technical programme and within the financial authority, development contracts generally provide for contractors to submit periodic statements of expenditure, and these are compared with the planned expenditure and with the general progress of the work.

Q. 2223.

55. Your Committee inquired into the effectiveness in practice of the arrangements to ensure that the project went forward in accordance with the technical programme, and into the Ministry's remedies for any failure in this respect by the contractor. The Ministry explained that the phased and costed development programme formed the basis on which the development contract was entered into. This programme was not, however, written into the contract as one of its conditions, and the contract did not normally provide for any limitation of expenditure for specified periods of time or stages of the programme. For a major project the Ministry might limit the contract in the first place to certain stages only of the complete technical programme, and the limitation of liability would be written in terms of those stages, but in general their aim was to fix an overall limitation of liability in the contract, based on as good an estimate as possible at the time of the value of the work which the contractor was being asked to undertake.

Q. 2224.

Q. 2225.

Q. 2226.

56. The Ministry stated that if progress was not satisfactory their first task would be to find the reasons for any discrepancy between plan and performance. It might be due to unforeseen difficulties and involve some alteration of the time scale or cost in the development programme. If however the contractors were judged to be at fault it would be open to the Ministry to impose a penalty on them or, in the extreme case, to take the job away from them. Normally, however, the difficulties which arose and the discrepancies between plan and progress called not for changes in the contract but rather for a re-assessment of the undertaking.

57. Your Committee are not convinced on the evidence given to them that the Ministry are making full use of the opportunities for financial control presented by phased and costed technical programmes. It appears to them that control could be strengthened by writing the programme dates and figures into the terms of the contract, by making it the practice to fix separate limits to the Ministry's liability in respect of the various stages of the programme and by providing for the imposition of penalties on contractors who fail, without sufficient justification, to meet the programme dates. They recommend that the Ministry should seek to provide a closer relationship between the conditions of the development contract and the terms of the agreed technical programme.

REVENUE DEPARTMENTS APPROPRIATION ACCOUNTS

VOTE 3—POST OFFICE

ENGINEERING MATERIALS: BULK SUPPLY AGREEMENTS

58. Telephone apparatus, exchange equipment, cable and loading coils have for many years been obtained by the Post Office under a

series of bulk supply agreements periodically negotiated on a non-competitive basis with groups of manufacturers. The Post Office undertake, subject to certain reservations, to purchase all their requirements of such supplies from the contractors who are parties to the agreements and who, through committees of their own formation, generally decide how orders shall be allocated amongst themselves. The four current agreements involve thirteen manufacturers in all, five of whom are parties to more than one agreement. Orders placed in 1959-60 amounted to £28.5 million, and represented just under one half of the total contract orders placed by the Post Office, a proportion typical of other years.

59. The prices to be paid under each agreement are fixed by negotiation, following investigation by the Post Office of the costs of selected firms covering a period before the starting date of the agreement. The practice is to select for cost investigation the firms, usually two or more, judged by the Post Office as being the most efficient of those party to the agreement, and on the basis of the information so obtained to negotiate price schedules which apply to all the firms. Subject to adjustments for variations in the costs of wages and materials, the schedules run for the period of the agreement. The Post Office seek in their price negotiations to keep as closely as they can to the prices which they regard as proper to the most efficient producer. They think that on the basis of the figures at the time of costing the return on capital afforded to the most efficient firms by the agreed prices might well be somewhat below 10 per cent.; the rates of profit actually earned by the manufacturers are not known to the Post Office.

60. Provision was made by reservation clauses in the previous cable and loading coils agreements, and in all four current agreements, to permit the Post Office to obtain a certain proportion (normally 10 per cent.) of their annual requirements from contractors not party to the agreements. To this end, twenty or more firms have been invited each year from 1955-56 to tender for the supply of the simpler types of cable up to a total value in some years of over £900,000, but none have responded. Informal inquiries made by the Post Office suggest that this lack of interest was due to the fact that the firms did not manufacture, and considered it uneconomic to embark on the manufacture of, paper core telephone cable, which was the type of cable covered by the agreement. There is almost no other demand for this type and it is being progressively displaced by the polythene insulated type of telephone cable. For loading coils the Post Office did not approach firms outside the agreement, because they thought that none would be interested, until last year when five firms were invited to tender for orders to an estimated value of £27,000. Here also there was no response. For telephone apparatus and exchange equipment tenders for orders to total estimated values of some £120,000 and £490,000 respectively had been invited under the reservation clauses from a number of outside firms shortly before Your Committee took evidence. There had been some response but it was too early to say what the result would be.

C. & A. G.'s
Revenue
Report,
Paras. 22-6,

Q. 153.

Q. 138-9.

Q. 205,
Appendix 6.

C. & A. G.'s
Revenue
Report,
Para. 23.

Q. 198, 200.

Q. 203, 205.

Q. 206-7.

C. & A. G.'s
Revenue
Report
Para. 26.

Appendix 8.

Appendix 7.

Q. 209.

Appendix 8.

Q. 209.

- Q. 140. 61. The Post Office informed Your Committee that the bulk supply system has very substantial advantages. It enables the closest co-operation to be established with the manufacturers ; technical information is pooled ; and standardisation of the product is secured. It also made easier the programming of orders. Your Committee note, however, that as a result a comparatively small number of manufacturers have enjoyed a virtual monopoly in the supply of an important and substantial part of Post Office requirements for over thirty years, and they are concerned that the normal system of competitive tender should, with the acquiescence of the Post Office, have been set aside for so long. It appears to them that in the absence of competition there can be no assurance that these supplies are being obtained by the most economical methods. The introduction of the reservation clauses into the current agreements for telephone apparatus and exchange equipment is a welcome, though belated, appreciation of the merits of competition.
- Q. 143-7. 62. Your Committee accordingly recommend that the Post Office should invite tenders from firms outside the agreements up to the full limit permitted by the agreements, and thus give evidence of a determination to widen the field of supply, and foster competition. If, as Your Committee hope, there is an adequate response from the industry, they trust that the Post Office will consider the possibility of terminating the present system.
- Q. 215. 63. Although the current agreements cover periods starting in 1957 or earlier, they were not formally signed until 30th September, 1960. Similar delays occurred in the signing of the previous agreements.
- Q. 216, 214. Your Committee were assured that no harm had resulted from the delays, which were due primarily to the amount of work involved in cost investigation and settlement of prices. It is, however, most unsatisfactory that, for example, the cable agreement, covering the period of four years from September, 1957, should not have been signed until three of the four years for which it was to run had elapsed. Your Committee note that the Post Office expressed the hope that any future agreements would be signed, if possible, by their starting date, and they trust that this will be done.
- Q. 226-7.
- Q. 218.

NAVY APPROPRIATION ACCOUNT

COSTS OF TRAINING STUDENTS AT THE ROYAL NAVAL COLLEGE, DARTMOUTH, AND THE ROYAL NAVAL ENGINEERING COLLEGE, MANADON

- C. & A. G.'s
Navy
Report,
Para. 9.
64. The Britannia Royal Naval College, Dartmouth, provides academic and initial professional instruction for Cadets and Midshipmen. The Royal Naval Engineering College, Manadon, provides, for Officers of the Engineering Specialisation, courses in basic engineering leading to a degree or to membership of the Institution of Mechanical Engineers, and gives more specialised engineering courses and other training necessary for service ashore and afloat.
- Para. 11. 65. In 1959-60 the average number of students at Dartmouth was 490 and at Manadon 262. About one quarter of those at Dartmouth

and more than one third of those at Manadon came from overseas, mainly from the Commonwealth. Fees for overseas students were raised to £600 a year in 1955 and were reviewed in 1957-58, but were left unchanged. The policy, common to all the Service Departments, in assessing these fees is to recover the extra costs attributable to the presence of the overseas students. The Admiralty admitted, however, that the figure of £600 was fixed arbitrarily in 1955, but in the belief that it was ample to cover the extra costs. They were satisfied at the time of the review in 1957-58 that it did cover the extra costs.

Para. 12.

Q. 2965-8.

Q. 2982.

Q. 2987.

66. Although the main cost of both colleges falls on the Vote for Educational Services, certain expenditure is borne on other Navy Votes, and the full cost of the colleges is not, therefore, readily ascertainable from the accounts. Available information suggests that, excluding such items as capital cost of buildings, staff superannuation and certain overheads, the cost per student in 1959-60 was about £1,250 at Dartmouth and about £1,500 at Manadon. The Admiralty have recently completed a cost investigation of both colleges, and the results are under examination. In reply to Your Committee's inquiry whether the costs of the educational establishments of the three Services were compared, the Treasury stated that within the past few years they had carried out specific examinations of the Royal Military College, Sandhurst, and the Royal Air Force College, Cranwell, but they had not inspected the naval establishments for some time.

C. & A. G.'s
Navy
Report,
Para. 10.

Q. 2961-3.

Q. 3061.

Q. 3014.

67. Your Committee recommend that, from time to time, the Service Departments should be required to prepare concurrently statements of the detailed costs of their educational establishments. These statements would not only enable the Treasury to make comparisons and, if necessary, recommendations for economy, but would also provide firmer information than appears to have been available in the past for the assessment of fees for overseas students.

REFITTING OF SHIPS IN THE ROYAL DOCKYARDS

(i) *H.M.S. Belfast*

68. In March, 1955, the Admiralty approved plans for the modernisation of the cruiser H.M.S. Belfast at Devonport Dockyard. Owing largely to a shortage of draughtsmen, it was not possible to prepare the necessary drawings and an estimate of cost before the work was started in September, 1955. In January, 1956, when only preliminary work had been carried out, it was found that the design and drawing office work involved in a full modernisation was beyond the capacity of the staff available. It was therefore decided that the work should be limited to that required for an extended refit.

C. & A. G.'s
Navy
Report,
Paras. 15-18.

69. In November, 1956, the Dockyard submitted to the Admiralty a preliminary estimate of cost of £4,000,000. This estimate was recognised as being subject to important reservations, in that knowledge of defects and the alterations and additions required was incomplete, and it was assumed that the work would be completed, with limited

overtime and at current wage rates, by the end of 1958. Between November, 1957, and January, 1959, the estimate was increased by successive steps to £4,950,000, and within a few days of completion in May, 1959, the estimate was further increased to £5,426,000. The final cost was £5,553,000. Of the excess of about £1,500,000 over the original estimate, the Admiralty attributed £300,000 to wage increases plus oncosts, £315,000 to extra defects and £837,000 to the increased scope of alterations and additions.

- Q. 3076-7. 70. The Admiralty stated that when they approved plans for the modernisation of H.M.S. Belfast the dockyard did not report their inability to carry out the drawing office work, and it was therefore assumed that the staff was available. The delay in reporting the shortage of staff was due to other work crowding in on the Dockyard.
- Q. 3078. The Admiralty explained that a large part of the increased cost was due to the insertion of further alterations and additions, during the progress of the work, and to an under-estimate of the amount of work involved. These had led to heavier manning than had been expected and to increased overtime in the closing stages of the work.
- Q. 3114-16.

(ii) *H.M.S. St. James and H.M.S. Gravelines*

C. & A. G.'s
Navy
Report,
Paras. 19-21.

71. In January and February, 1958, the destroyers H.M.S. St. James and H.M.S. Gravelines were taken in hand at Devonport Dockyard for extended refits to prepare them for service in the Operational Reserve until 1964, when their useful lives would be at an end. The estimated costs, based on completion of the refits early in 1959, were £571,000 and £360,500 respectively.

72. In November, 1958, work on both ships was temporarily suspended to release labour for more urgent work, including that on H.M.S. Belfast referred to in paragraphs 68 to 70 above. In March, 1959, the Dockyard reported to the Admiralty that the condition of these ships, and of others on which work had been stopped or slowed down, was deteriorating as a result of exposure to the weather of partly completed work. A month later the Dockyard reported that, because the refitting of another ship was proving more extensive than had been expected, it would be necessary to suspend, or continue the suspension of work on certain ships for a further period. The Admiralty accordingly approved a complete stoppage of work on four ships, including H.M.S. St. James and H.M.S. Gravelines, and called for a report on these two to enable a decision to be reached on their future. This report was submitted in September, 1959, and Admiralty approval was given in July, 1960, for both ships to be scrapped. The expenditure then incurred on the refits was £228,000 on H.M.S. St. James and £208,000 on H.M.S. Gravelines.

- Q. 3131-2. 73. The Admiralty informed Your Committee that a policy decision on the size of the Fleet was taken in 1957, under which there was no operational requirement for H.M.S. St. James and H.M.S. Gravelines after 1964. When the refits were taken in hand in 1958 it was expected that they would be completed by early 1959, and that the ships would therefore have a useful life of five years. When it became apparent

that the suspension of work would involve postponement of completion until 1962, it was decided that the ships' remaining useful life of about two years did not justify the expense of completing the refits. Your Committee inquired why the question of scrapping was not considered in November, 1958, when it first became clear that the ships would not be back in service early in 1959, and why the Admiralty took from September, 1959, when they received a report on the condition of the ships, to July, 1960, to reach the decision to scrap them. They were informed that in November, 1958, it was hoped that the suspension would be only temporary. In March, 1959, the situation was again considered, and a report was called for on the condition of the ships. Owing to pressure in the dockyards it was not until September, 1959, that the Admiralty received the report and an estimate of the cost of completing the refits. The length of time taken by the Admiralty to reach a decision was said to be due to the careful deliberation given to the future of the two ships on which large sums had been spent and which still had a useful, though limited, life.

Q. 3140.

Q. 3127.

Q. 3128.

Q. 3143.

Q. 3133-40.

(iii) *H.M.S. Swiftsure*

74. In April, 1956, the Admiralty approved an extended refit of the cruiser H.M.S. Swiftsure at Chatham Dockyard. At the time when the work was started in February, 1957, the refit was expected to take three years and to cost in the region of £4,250,000. During 1957-58 and 1958-59 work proceeded only intermittently, labour being diverted from time to time to more urgent work in the Dockyard. In consequence, the estimated completion date was deferred successively to October, 1960, to June, 1961, and finally to the end of 1961.

C. & A. G.'s
Navy
Report,
Paras. 22-4.

75. In March, 1959, the Dockyard informed the Admiralty that deterioration in the condition of the ship could be avoided only if the refit were accorded a higher degree of priority than it had hitherto been given. It was then estimated that the total cost would be £4,600,000 and the completion date 1961, and it was stated that both would worsen with time. In September, 1959, the Admiralty authorised a complete suspension of work for a period of six months in order to release labour for more urgent work, and in reply to an inquiry by the Comptroller and Auditor General in December, 1960, they informed him that it had been decided to dispose of the ship. The total expenditure incurred on the refit, including all credits so far brought to account, was £1,200,000.

Q. 3158
(footnote).

76. The Admiralty informed Your Committee that when the refit was expected to be completed in February, 1960, it was thought that the effective life of the ship would end in 1965, and that when it became clear that the completion would be deferred by several years the Admiralty, after long deliberation, still came to the conclusion that it would be premature to decide to scrap the vessel. It was not until some time later that the decision was taken that the vessel should be scrapped.

Q. 3166.

Q. 3168-9

(iv) Allocation of Work to Dockyards

77. Your Committee were concerned to learn that, partly as a result of under-estimating the work involved in refitting a number of ships and over-estimating the labour force available in the dockyards, the Admiralty had found it necessary to suspend work on a number of ships and later to abandon work on some of them. This had led to wasteful expenditure of money and workmen's time, not only on ships which were later scrapped, but also in making good the deterioration during suspension of ships on which work was resumed. It had also resulted in ships spending a disproportionate part of their remaining useful lives out of commission.

78. Accordingly Your Committee inquired as to the measures taken by the Admiralty to avoid a recurrence of these happenings. The Admiralty stated that as a result of their experience the dockyards were getting a better and more realistic appreciation of the amount of work involved in these large jobs. There had also been great development in the past few years in the technique of dockyard planning and Admiralty control. The Admiralty had approved a scheme of dockyard reorganisation in 1957, which involved a considerable redistribution of the staff and an increase in the professional component. The scale of the reorganisation required a substantial amount of preparatory work, and it would be some time before it became fully operative. In August, 1959, they appointed a committee to undertake a re-appraisal of dockyard load and capacity, and the committee's report was in course of preparation. Meantime the Admiralty had introduced interim measures to deal with the problem of dockyard overloading. These included taking a number of ships out of the programme, stopping as far as possible the rundown of dockyard staff, increasing overtime, tightening control of alterations and additions, and putting the refit of a number of Royal Fleet auxiliaries out to contract. They considered that they now had a sufficiently realistic estimate of load and capacity to enable them to foresee any serious trouble that might arise and to take remedial measures.
- Q. 3119.
- Q. 3177-8.
- C. & A. G.'s
Navy
Report,
Para. 26.
- Q. 3181.
- Q. 3183.

79. Your Committee trust that the interim measures to reduce overload on the dockyards will prove effective and that the dockyard reorganisation scheme will be completed without delay. They also trust that, should it prove necessary in future to consider whether to abandon or to complete refits, decisions will be taken promptly in order to minimise the inevitable deterioration in the condition of ships on which work has been suspended.

ARMY (ROYAL ORDNANCE FACTORIES) ACCOUNTS**PURCHASE OF PRODUCTION MATERIALS BY A ROYAL ORDNANCE
FACTORY**

- C. & A. G.'s
Army
(R.O.F.)
Report,
Paras. 4-5.
80. Abnormal purchases of copper and zinc were made by a Royal Ordnance Factory, beyond what was required for the firm orders placed with the factory, when it appeared probable that a shortage

of steel would necessitate a transfer of labour from the production of shell to cartridge case production. Largely in consequence of these abnormal purchases the expenditure on materials for the factory in 1959-60 exceeded the estimate by £440,000.

81. The War Office explained to Your Committee that a Superintendent of a Royal Ordnance Factory can order material which he requires to meet the firm orders that have been placed on him, but that he requires Headquarters' authority to go beyond that. In this case the Superintendent failed to obtain Headquarters' authority for the abnormal purchases of copper and zinc, and also failed to indicate to Headquarters, in his forecasts of financial outturn, that there would be overspending as the result of the purchases.

Q. 2761.

Q. 2772.

Q. 2762-3.

82. The War Office considered that some, although not all, of the abnormal purchases could have been justified, and would have been approved, in view of the possible steel shortage and the possible difficulty of getting copper, which was the alternative material for keeping the factory in full production. The factory in fact ordered 4,000 tons of copper for delivery in the last four months of the financial year, 2,600 tons of which were ordered without authority. The War Office view was that it would have been entirely reasonable to have ordered 3,200 tons and that the over-provision was roughly 800 tons. The copper was bought when prices were high and the War Office estimated that an extra cost of between £20,000 and £30,000 had been incurred by buying the 800 tons at these prices.

Q. 2779-80.

Q. 2791.

Q. 2792-3.

83. The War Office have reviewed their financial instructions and procedures, and introduced additional safeguards. Responsibility within the factory for ensuring that financial authority is obtained for the advance ordering of materials has been defined. Any requisition for stores costing more than £50,000, even though it may be covered by firm orders placed with the factory, has now to be referred to Headquarters. The Contracts Branch, before taking action on a demand from a Royal Ordnance Factory, will insist upon a positive certificate that financial approval has been obtained.

Q. 2771.

84. Your Committee remain in some doubt, however, whether these measures will do all that is required to give effective control. It was possible in this case for orders with no proper authority to be on the books in the Contracts Branch of the War Office for six months without the absence of authority being noticed. The War Office machinery for the central issue of cash does not provide for any check of issues to a factory against the factory's approved estimate, and the Contracts Branch does not notify the Headquarters Finance Branch of contracts placed on behalf of the factories. Headquarters control appears to be limited to a comparison of the factory's periodical forecasts of expenditure with the sums allotted to the factory at the beginning of the year. This control will fail where (as happened in this case) the forecasts are inaccurate.

Q. 2808-10.

Q. 2764-7.

Q. 2776.

85. In the course of evidence the War Office expressed the view that closer Headquarters control of cash issues would not be feasible

Q. 2766.

for them. Your Committee appreciate the advantages of delegating financial responsibility. But any system for the control of expenditure is open to criticism if it does nothing to check the volume of cash issued to effect payments against the amounts authorised and the Vote provision. Your Committee consider that the War Office should look again into this question.

AIR SERVICES APPROPRIATION ACCOUNT

OFFENCES CONNECTED WITH AIR MINISTRY MAINTENANCE WORK

C. & A. G.'s
Air Report,
Para. 7.

86. Your Committee inquired into the circumstances in which three Air Ministry officials were found guilty of corruptly receiving gifts from members of a company, and a fourth official was found guilty of corruptly receiving a gift and also of obtaining money from the Ministry by false pretences for the benefit of the company. The company had over a period of 10 years carried out agricultural maintenance work to a total value of some £1.5 million at Royal Air Force stations under competitive "running" contracts, which enabled the local Works Areas of the Ministry to call upon the contractor from time to time to carry out various kinds of agricultural maintenance work at rates specified in the contracts.

Q. 2476.

Q. 2530.

Q. 2455-6.

C. & A. G.'s
Air Report,
Paras. 7-8,
Q. 2459,
2487, 2527.

87. The three officials, of whom one was employed in Air Ministry Headquarters and the others in a Works Area, between them received from the company gifts to a value of several thousands of pounds. The fourth official, a quantity surveyor at the Works Area Headquarters who was responsible for the measurement and pricing of work done by the contractors, obtained £225 for the company by falsely certifying a bill which overstated both the quantity of work done and the rates payable. He was also alleged to have knowingly certified the measurements and rates in two false claims totalling £461 for work which had been ordered but which subsequently became unnecessary and was not in fact performed. In the latter case he had invited another official to complete the certificate required by the Ministry's regulations to the effect that the work claimed for had been satisfactorily performed. This official gave the certificate as a pure formality without taking any steps to confirm that the work had been done. No action was taken against him. The Ministry admitted that he had acted in a slack and casual manner, but stated by way of extenuation that in a busy week many bills might pass through his hands. They also admitted that the failure to cancel the order for the work which had not been carried out was a piece of laxity of administration.

Q. 2488.

Q. 2496.

Q. 2491,
2496.

Q. 2533.

Q. 2503.

88. Your Committee are concerned at this evidence of laxity in administration of the system of control, and at the absence of any disciplinary action against an officer who gave a basic certificate without verifying that the work had been carried out. They note that the Ministry have tightened up their regulations on certification of bills and payments and propose to increase the small staff of inspectors making surprise checks of work carried out. Instructions

have been issued that unfulfilled works orders should be periodically scrutinised and that payments should be made only on the certificate of responsible officers given after proper investigation. Your Committee welcome these steps, but they trust that the importance of these instructions will be stressed by the imposition of penalties for irresponsible certification.

Q. 2534.

Q. 2570.

89. Your Committee also observed that it was not until after the trial of two members of the firm had ended in conviction in October, 1960, that the firm was put on a black list for the information of other Departments who might have had contracts with them. In view of the delay which must inevitably arise in such cases before convictions are obtained, Your Committee asked whether there were arrangements for warning other Departments when a firm had come under suspicion. They were informed that there were no formal arrangements but that Departments would consider any cases individually. Your Committee trust that the Treasury will bring to the notice of all Departments the desirability of an early confidential warning in such circumstances.

Q. 2520-5.

Q. 2558-61.

TRADING ACCOUNTS AND BALANCE SHEETS

MINISTRY OF AVIATION

AERODROME ACCOUNTS

(i) *General*

90. The Accounts for the year 1959-60 show that after charging £1,715,596 for depreciation, £776,019 for administration and £2,541,424 for interest on capital there was a deficiency of £5,520,106 on the 26 civil aerodromes operated by the Ministry of Aviation, compared with £6,366,247 in the previous year. The deficiency includes £204,911 in respect of Stansted aerodrome, of which only limited use is made since it is held in reserve as an auxiliary to London's airports, £903,959 at six aerodromes which the Ministry either are no longer operating or do not intend to continue operating indefinitely, and £529,440 on eight aerodromes in Scotland which are operated to meet a social need and where the Ministry see no prospect of self-sufficiency being achieved. The deficiency at the eleven aerodromes which, if retained, the Ministry aim to make ultimately self-supporting was thus some £3.9 million compared with some £4.7 million in the previous year. Separate accounts for the three international airports at London (Heathrow), Gatwick and Prestwick record deficiencies totalling £2.7 million, compared with £3.6 million in 1958-59.

C. & A. G.'s
Report on
Trading
Accounts,
Paras. 1-15.Foreword to
Trading
Accounts,
Para. 7.

Q. 762.

91. The Ministry of Aviation explained the reduction in the overall deficiency as due in general to an increase in revenue of some £1.5 million arising mainly from landing fees and partly from passenger service charges, both of which had been increased in 1959. An increase in traffic was also a contributory factor. Landing fees were being raised again as from 1st April, 1961. After making assumptions as to the volume of traffic and other related changes, the Ministry estimated

Q. 755.

Q. 757.

Q. 758, 841 (footnote). that London (Heathrow), Gatwick and Stansted aerodromes might break even during the period 1963 to 1965, Prestwick in 1965 to 1970 and the Ministry aerodromes as a whole in 1970 or 1971. Although the Ministry stressed that this forecast was a hazardous one, Your Committee are glad to note that the Ministry now find themselves able to suggest dates by which the airports should become self-supporting.

Q. 711. 92. The Public Accounts Committee of Session 1959-60 recommended that more emphasis should be placed on the possibilities of reducing the deficits at aerodromes by economies in staff and improved methods of working. The Ministry are now trying to secure a better use of staff by Organisation and Methods techniques, by improving the Headquarters organisation and by improved accounting arrangements, and Your Committee trust that these efforts will be continued energetically. They also hope that further improvement in the results may be secured by fully exploiting certain ancillary sources of revenue referred to in paragraphs 95 to 103 below.

(ii) *Technical Services*

Trading Accounts, p. 42 (footnote). Q. 738, 843. Q. 873. Q. 738, 762. 93. The Accounts include £3.1 million for the cost at Ministry operated aerodromes in 1959-60 of technical services relating to air traffic control, telecommunications and meteorological services. In addition certain technical services are provided for aircraft in flight en route. No specific charges are made for technical services. The Ministry aim to cover the cost in landing fees, which are not earmarked to any particular service but regarded as a general charge to cover a number of activities. The Ministry stated that they did not accept the claims which were strongly pressed by the International Air Transport Association, and apparently recognised by some other countries where technical services were provided at the expense of the State, that these services ought not to be paid for by airlines but that the whole cost should fall on the taxpayer on the grounds that airline business brings tourist traffic. Your Committee are in entire agreement with the Ministry that any claim that technical services should be provided free by the State should be rejected. They endorse the Ministry's view that, apart from the aerodromes operated to meet a social need, the aim should be to make airports self-supporting, and to recover the cost of technical services in the charges for the use of the airports.

(iii) *Landing Fees*

Q. 755. Q. 757. Q. 771, 870-2. 94. Landing fees, which comprise nearly half of the total revenue at all aerodromes, were increased in 1959. The increases, together with increased traffic, resulted in revenue from this source rising from £1.3 million in 1958-59 to £2 million in 1959-60 at London Airport and from £2.1 million to £3.1 million overall. The Ministry stated that a further increase in these fees by about one-third from 1st April, 1961, had produced protests from operators and from the International Air Transport Association. It appeared to be widely held that, in consequence of these increases, London Airport would

become one of the most expensive international aerodromes in the world. The Ministry of Aviation explained, however, that it was very difficult to make effective comparisons of landing fees as between different countries. There was a general recommendation by the International Civil Aviation Organisation that airport costs should be concentrated on one charge and the Ministry had followed this policy, but they knew that some other countries levied a whole range of charges, in one case under as many as eight heads. Although they could not produce complete information about charges elsewhere, their broad conclusion was that overall costs of landing at London Airport were not out of line with those at other airports of comparable size and complexity. Your Committee consider that the Ministry should ascertain and publish the comparable figures of the costs of user at representative airports in other countries.

Q. 891-4.

Q. 778.

Q. 770.

Q. 770, 893.

(iv) *Other Revenue*

95. The following paragraphs refer to certain other revenue earning activities in which it appears to Your Committee that possibilities may exist for increasing revenue and so reducing the overall deficit on aerodromes.

(a) *Commercial sales of fuel*

96. Your Committee understand that in some countries substantial revenue is derived from commercial sales of fuel either through the introduction of a levy on all such sales or by relating to turnover the rents charged to distributors. The suppliers of fuel at London Airport, however, are not required to make any payment to the Ministry for their right to supply, and they hold their land on long leases at rents that are not related to the amount of fuel supplied. Your Committee observe that the leases granted for these facilities, which were not put out to tender, run until 1991. In their view arrangements which leave the Ministry with little scope over so long a period for securing additional revenue from this source are open to serious criticism. The Ministry stated that they were looking into the question of the basis of charge in relation to the possible need for more facilities at London Airport. Your Committee consider, however, that the review of these concessions should extend as widely as possible and that the Ministry should lose no opportunity of securing terms which leave it open to them to obtain further revenue from this source should they decide as a matter of policy to do so.

Q. 874.

Q. 883.

Q. 889.

(b) *Passenger Service charge*

97. A passenger service charge is levied in respect of all passengers departing on international flights. Income from this source realised £626,894 in 1959-60 compared with £389,736 in 1958-59. No charge is made in respect of domestic flights. The Ministry explained that the charge was not made on domestic flights, which made less use of terminal facilities, because on domestic flights the proportion of average airline stage revenue taken by other aerodrome charges was appreciably higher than on international flights. The Ministry agreed,

Q. 875.

Q. 876.

Q. 878
(footnote).

however, that it was difficult to see the logic for this distinction between domestic and international flights. Your Committee trust that the Ministry will bear in mind the possibility of making some passenger service charge on domestic flights.

(c) *Apron Services*

C. & A. G.'s Report on Trading Accounts, Paras. 12-15. 98. Apron services include those provided for the loading, unloading and cleaning of aircraft, supply of ground power and starting of engines. Receipts for these services provided by the Ministry amounted to £812,419 in 1959-60. The Ministry informed Your Committee that the charges for these services were designed to cover all the direct costs and to make a contribution towards overheads; and that, so far as was known, a profit had been made on these services at all the aerodromes at which the Ministry had provided them.

Q. 901.

Q. 903.

99. Advice had been given to the Ministry that apron services should provide facilities for all users of an aerodrome and that the organisation should be vested in the Ministry. The Ministry informed Your Committee that they believed there were substantial economies to be gained by a unified service, and agreed that a larger profit could have been made by providing these services exclusively. They were reluctant, however, to use their monopoly position to coerce the airlines into the acceptance of a Government service, and the present position was that at many aerodromes apron services were provided by both the Ministry and operators. At Gatwick, which was planned on the basis of a single apron services organisation, and at London Airport some operators provided such services not only for their own aircraft but for those of other operators as well.

Q. 908.

Q. 921.

100. The Ministry stated that at London Airport there were real difficulties, arising from congestion, in running separate apron services. It had therefore been indicated to the airlines that if they could agree on a consortium the Minister would be prepared to allow their organisation to run the service. In the absence of such agreement the Ministry proposed to run the services themselves and to require all the users of the Airport to use them. In the light of experience at London Airport the Ministry proposed to look again at apron policy generally.

Q. 911.

Q. 929.

101. The Ministry stated that they had not yet decided whether, in the event of a consortium being set up at London Airport, it would be required to pay a rent for the right to operate. But since it has been established that these services should yield a profit, Your Committee can see no reason why in these circumstances the Ministry should not insist on a substantial return as a condition of granting the right to operate them.

Q. 912.

(d) *Rents at London Airport*

102. In the course of discussions in 1955 regarding the level of rents to be charged to tenants in certain buildings in the Central Terminal Area of London Airport, and on two later occasions, the

Ministry of Transport and Civil Aviation assured the Treasury that by about 1960-61 revenue from the passenger service charge and from rents and concessions in those buildings should approximately balance expenditure on buildings and administration costs, including those relating to the public enclosure. The appraisal on which these assurances were based did not however include a share of the overhead expenditure on the access tunnel or the administrative offices in the Control Building which, while themselves not productive of revenue, were essential to the functioning of revenue producing services in the Central Area. These gave rise to further charges which had to be included in the functional accounts under the headings of passenger handling and public areas and provision of accommodation. A separate analysis of the results at London Airport indicated that a deficit of £430,507 had occurred in the Central Terminal Area under these headings, but the Ministry of Aviation maintained that this deficit was largely artificial since the allocation of revenue between aircraft handling and passenger handling in the analysed Account was arbitrary.

C. & A. G.'s
Report on
Trading
Accounts,
Paras. 7-11.

103. The Ministry explained in evidence that the appraisal made in 1955 was a special analysis designed to indicate the sort of rents which would be appropriate for the buildings concerned. It neither looked nor purported to look at the whole cost, but rather at the additional cost on the one hand and the additional revenue in the form of rents on the other. The Ministry stated that, although the actual rents secured were less than those envisaged in 1955, an analysis recently prepared on the same lines did in fact show a small surplus. Your Committee are not impressed with these arguments. They are unable to understand how rents can be said to be economic unless they take into account the costs of non-productive assets on which the proper functioning of the buildings depend. These costs must be recovered if the ultimate objective of making the aerodromes self-supporting is ever to be achieved. Your Committee therefore place great importance on the fixing of true economic rents. They note that a new long-haul building is under construction at London Airport and they trust that rents here and for any other accommodation becoming available at London Airport or elsewhere will be sufficient to ensure recovery not only of direct, but also of all related indirect costs.

Q. 843-4.

(v) *Form of Accounts*

104. The Ministry of Aviation informed Your Committee that they are not satisfied with the present form of the Trading Accounts. They stated that the present Accounts did not provide the detailed analyses of costs which they desired, and did not properly relate revenue to expenditure, since, in crediting to aircraft handling in the analysed accounts for the three major airports all the revenue from landing fees, they were putting into the revenue for that particular function fees which were intended to cover also services rendered in relation to the passengers. The Ministry stated that improved accounting arrangements were being made and much more detailed cost records,

Q. 857.

Q. 857-62.

Q. 711.

Q. 858.

Q. 711,
860-1,
867-8.

designed to secure economies by closer control of costs, were proposed. Your Committee are glad to learn that measures to this end are in hand and trust that in addition to improving the accounting information available for internal control they will make the Accounts presented to Parliament more informative. They hope that it will be possible to incorporate some of these improvements in the Aerodrome Accounts for 1960-61.

UNITED KINGDOM ATOMIC ENERGY AUTHORITY

BALANCE SHEET AS AT 31ST MARCH, 1960

ACCOUNTING FOR, AND CONTROL OF, RECOVERABLE EXPENDITURE

C. & A. G.'s
Report,
Paras. 1-3.

105. The Atomic Energy Act, 1954, provides that the Atomic Energy Authority shall prepare annual statements of account in such form as the Treasury may direct, and that those statements shall be examined by the Comptroller and Auditor General and laid, together with his report thereon, before each House of Parliament. The form of account prescribed by the Treasury for presentation to Parliament consists of a Balance Sheet. The Authority also produce an Operating Account which is withheld from publication in the interests of national security.

Q. 3368.

106. The Balance Sheet sets out the assets and liabilities of the Authority under conventional headings. The balance on the Operating Account, described as the "Net Cost of Operations", is shown in the Balance Sheet as a deduction from "Capital Account" and thus reduces the liability of the Authority to the Exchequer. The Net Cost of Operations is a composite figure showing the outcome of all the Authority's activities. It includes expenditure on research and development of various kinds, grants to the National Institute for Research in Nuclear Science, contributions to international projects and the results of the Authority's commercial activities. The main commercial activities are the manufacture and sale of fuel elements, the purchase and sale of graphite, the sale of electricity produced by the Authority's reactors and the production and sale of radioisotopes.

Q. 3316-17.

107. As the Net Cost of Operations, which in 1959-60 amounted to £58.6 million, is a composite figure, including the outcome of both commercial and non-commercial activities, Your Committee examined the Authority on the possibility of publishing more informative accounts. Your Committee were informed that security considerations precluded the segregation in the published accounts of the results of commercial and non-commercial activities. The Authority explained,

Q. 3391,
3353.

however, that for the purposes of management in exercising financial control, they prepared budgets and kept memorandum accounts for individual activities, including the development of reactor systems, but had not, so far, consolidated them into comprehensive statements. The Treasury stated that up to the present the Authority had not furnished them with budgets and commercial accounts, but that they were discussing with the Authority the form in which accounts and statements

Q. 3407.
Q. 3326,
3391-3.

should be prepared to supplement the Treasury's information about the Authority's commercial activities. These would be available to the Comptroller and Auditor General.

108. Your Committee also inquired into certain aspects of the Authority's activities, mainly those relating to reactor research and development and to the manufacture and sale of fuel elements. The Authority spend large sums on research and on the development of reactor systems, and charge royalties on reactors constructed to designs based on this research and development. They explained that the extent to which they would be able to recover their expenditure on any particular reactor system depended on the success of that system, as measured by the number of reactors constructed. With Government authority, they waived royalties on the first four nuclear power stations constructed for Electricity Boards, which represented a concession of £10 million to the Electricity Boards at the expense of the Exchequer. As regards the manufacture and sale of fuel elements, the Authority stated that it was their intention to recover their costs, but that they expected to make a small deficit on the initial fuel charges for the first four power stations. It appeared to Your Committee, however, that the Authority have incurred large losses, mainly through over-provisioning of materials for the nuclear power programme, and that these losses, which include substantial writing down of stocks, have fallen, or will fall, on the Exchequer. But any such losses, however large in amount or important in their implication for the management of the Authority as a trading organisation, are not separately identified in the Authority's accounts, but are merged in the single figure for Net Cost of Operations. The Authority and the Treasury stated that they would consider the extent to which these losses can be specifically shown in the published accounts, and this is a development which Your Committee welcome.

Q. 3307.
Q. 3304.
Q. 3324.
Q. 3304.
Q. 3310,
3326.

109. Your Committee accept the assurances they were given that, at present, it is necessary on security grounds to restrict the amount of information about the Authority's transactions provided by the published accounts. They regard it as important, however, that this restriction should not result in any relaxation in the preparation of comprehensive trading and profit and loss accounts covering the whole of the Authority's commercial transactions. Such accounts appear to them to be necessary not only to enable the Authority to exercise effective control of their own affairs, but also to enable the Treasury and, through the Comptroller and Auditor General, Your Committee to apply the same critical examination to the Authority's activities as if they were examined on the basis of commercial accounts published in the normal form. They therefore welcome the assurance of the Treasury that they are discussing with the Authority the form in which information could most usefully be prepared on the outcome of the Authority's commercial activities. They trust that these discussions will be pressed forward energetically with a view to the early preparation of comprehensive accounts. They also trust that the need for security

restrictions on publication of these accounts will be kept constantly under review.

FORM OF ESTIMATES

Q. 3543-8. 110. Proposals for substantial changes in the form of the annual Estimates for the Civil and Revenue Departments were submitted by the Treasury to Your Committee and to the Estimates Committee. The observations of the Estimates Committee are contained in their Third Report, Session 1960-61¹. Your Committee, having taken evidence from the Comptroller and Auditor General on the consequences of these proposals on the Public Accounts, see no objection for their part to the proposals being put into operation beginning with the year 1962-63, on the understanding that the new system will be watched and modified if necessary in the light of practical experience of its working.

FORM OF NOTES TO THE APPROPRIATION ACCOUNTS

(i) *General*

Appendix 9. 111. The Treasury memorandum on the new form of Estimates referred to a review of the form of notes to the Appropriation Accounts then being undertaken by the Treasury in consultation with other Departments. Your Committee have received the proposals of the Treasury which resulted from this review, and have taken evidence on them from the Treasury and the Comptroller and Auditor General.

112. The principal proposals relate to the notation of losses, etc., and the form of Works Statements.

(ii) *Notation of Losses, etc.*

113. The Treasury propose to eliminate details of losses from the notes, but to summarise the totals of the main types of cash and stores losses by main categories appropriate to each Department's range of business. Notes of claims abandoned, extra-contractual payments to contractors, ex-gratia, extra-statutory and extra-regulatory payments would similarly show only the totals under those headings.

114. The Treasury stated in their memorandum that they had come to the conclusion that the present detailed noting of losses, running to several pages in some Accounts, was no longer appropriate. It was seldom possible, within any reasonable limits of space, for an adequate picture to be given in the Accounts of particular cases; and it was impracticable to single out those cases which appeared most deserving of further examination. They therefore considered that the time had come to eliminate details. They pointed out that this would in no way detract from the ability of the Comptroller and Auditor General, as he saw fit, to bring to the attention of the Public Accounts Committee on a full report any specific cases which in his view deserved further examination.

(¹) H.C. 184 (1960-61).

115. In evidence to Your Committee the Treasury explained that these proposals were intended to simplify and improve the presentation of the Accounts. In the notes to the Accounts there was an aggregation of detail which made it difficult for anyone to find his way about in them. The Treasury believed that if the Committee of Public Accounts wished to examine those cases which were most worthy of their attention, it would be better to call on the Comptroller and Auditor General to select cases for his Report than to continue notes of cases arbitrarily selected by reason of magnitude and of necessity very cursorily described. Q. 3563. Q. 3577.

116. Your Committee do not, however, feel able to accept a change which has the effect of removing particulars of individual losses, etc., from the Account. They appreciate that under the scheme proposed by the Treasury, Parliament will be given particulars of such individual losses as the Comptroller and Auditor General may think it necessary to mention in his Report; and they have noted his assurance that if the scheme were adopted he would think it his duty to report large or otherwise significant losses which he may not mention in his Report under the present system because they are included in the notes to the Account. Your Committee agree that there might be some advantage in concentrating attention on the losses, etc., selected by the Comptroller and Auditor General. On the other hand, they believe that as losses are essentially money spent without Parliament's authority, so Parliament would wish to know in full not only the extent but also the nature of such expenditure. They also consider that this is a field in which the Committee should continue to take the initiative in selecting items from the Account on which further inquiry should be made or more information elicited, and they have no doubt that the Comptroller and Auditor General can give evidence on the Account to assist them in making their selection. Q. 3562, 3569.

(iii) *Works Statements*

117. The Treasury proposed to discontinue the present notes of individual major works on which there had been appreciable variations between the amounts actually spent during the year and the Estimate for that year. They also suggested that Your Committee should consider whether they wished to continue to receive as a regular arrangement the additional Statements furnished by certain Departments showing fuller details of all major works in progress during the year of account. The Treasury pointed out that the form of the Works Statement in the Estimates was being changed with effect from 1962-63 under the proposals referred to in paragraph 110 above. They proposed to consider in the light of experience of the new form whether it could usefully be supplemented by detailed information about outturn.

118. Your Committee observed that, if these notes were omitted with effect from the Accounts for 1961-62 no information would be given of variations in the outturn of major works for that year, or for any subsequent year until such time as the Treasury had decided Q. 3585-90.

what details of outturn could be supplied under the new form of Estimate. Individual works, and the outturn of those works, are the concern of the Public Accounts Committee and it would, in the view of Your Committee, be unsatisfactory if information about them ceased to be furnished, even for a limited period. The Treasury then suggested that the requirements of the Public Accounts Committee should be met by Departments continuing to supply the detailed statement of major works, and including in them information which would enable the Committee to compare the outturn on particular projects with the provision made for them in the year. Your Committee agree that if this were done the notes now made to the Appropriation Accounts could be discontinued.

(iv) *Other proposals*

119. A number of other proposals were made by the Treasury:

Appendix 9.

- (a) Gifts by Departments would be noted individually where the value is over £100 (£1,000 for certain Departments, e.g., the Service Departments), the remainder being noted in bulk. Gifts received by Departments would not be noted if the value were less than £1,000.
- (b) Transfers of Land and Buildings to non-Exchequer bodies at less than full value would be noted. Transfers valued at £50,000 or more between Exchequer Departments would be noted individually by the transferring Department and the receiving Department named.
- (c) Outstanding loans for the recovery of which the Department is responsible would be listed. Loans falling within a well defined category would be aggregated, except that individual loans of £25,000 or more would be itemised in the year in which they were made. Loans not falling within a well defined category where £1,000 or less was outstanding would be aggregated. Remissions and other significant changes in the terms would be noted as they occurred. It was suggested that the annual statement furnished to Committees of Public Accounts, giving details of outstanding loans to commercial firms which it was considered undesirable to publish, need only be supplied in future on specific request.
- (d) Notes on the surplus or deficiency on hostels controlled by Departments might be omitted, and particularly the note on Polish hostels run by the National Assistance Board, a service which is in effect one type of assistance.
- (e) Under a Treasury Minute of 1880 the Service Departments are required to note their Appropriation Accounts with the total cost of "a war or other special military or naval service". The rule has, by periodical dispensation, been in abeyance for many years and the Treasury hoped that Your Committee would agree to its permanent and complete relaxation.

- (f) Annual statements of cumulative outturn and estimated forward commitments are furnished to the Public Accounts Committee for Purchasing (Repayment) Services Votes. Your Committee's approval to discontinue them was sought.

120. Your Committee consider that in view of the magnitude of the sums involved the notes on hostels should be retained, but they have no objection to omission of the note on the Polish hostels. To the other proposals listed above they have no objection.

13th July, 1961.

PROCEEDINGS OF THE COMMITTEE

THURSDAY, 24TH NOVEMBER, 1960.

Members present:

Mr. Arbuthnot.
Sir George Benson.
Mr. Chetwynd.
Colonel Crosthwaite-Eyre.
Mr. John Hall.
Mr. Hoy.

Vice-Admiral Hughes Hallett.
Mr. Stevens.
Sir Samuel Storey.
Sir Colin Thornton-Kemsley.
Mr. Turton.
Mr. Harold Wilson.

Mr. Harold Wilson was called to the Chair.

Resolved, 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 Officers of Accounts.

The Committee deliberated.

Draft Special 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 and 2 read and agreed to.

Appendices agreed to.

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

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

[Adjourned till Tuesday, 13th December, at Four o'clock.

TUESDAY, 13TH DECEMBER, 1960.

Members present:

Mr. Harold Wilson, in the Chair.

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

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

The Committee deliberated.

Revenue Departments Appropriation Accounts, 1959-60; Vote 2, Inland Revenue, considered.

Sir Alexander Johnston, K.B.E., C.B., Chairman, Board of Inland Revenue, examined.

Sir Edmund Compton, K.B.E., C.B., Comptroller and Auditor General, also examined.

[Adjourned till Tuesday, 31st January, 1961, at Four o'clock.

TUESDAY, 31st JANUARY, 1961.

Members present:

Mr. Harold Wilson, in the Chair.

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

Vice-Admiral Hughes Hallett.
Mr. Pentland.
Sir Colin Thornton-Kemsley.

Revenue Departments Appropriation Accounts, 1959-60; Vote 3, Post Office, and Post Office Commercial Accounts, 1959-60, considered.

Mr. K. Anderson, C.B., C.B.E., a Deputy Director General and Comptroller and Accountant General, and Sir Robert Harvey, K.B.E., C.B., a Deputy Director General, Post Office, examined.

Civil Appropriation Accounts, 1959-60; Class III, Vote 8, Supreme Court of Judicature, &c., considered.

Army (Royal Ordnance Factories) Accounts, 1959-60, considered.

Sir Edmund Compton, K.B.E., C.B., Mr. D. O. Henley, Second Treasury Officer of Accounts, and Mr. J. Gibson, an Assistant Secretary, Treasury, also examined on all the accounts considered this day.

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

TUESDAY, 7TH FEBRUARY, 1961.

Members present:

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

Vice-Admiral Hughes Hallett.
Mr. Stevens.
Sir Colin Thornton-Kemsley.

In the absence of Mr. Harold Wilson, Mr. Cledwyn Hughes was called to the Chair.

Civil Appropriation Accounts, 1959-60, Class IV, Vote 12, Universities and Colleges, &c., Great Britain, considered.

Sir Thomas Padmore, K.C.B., Second Secretary, Treasury, and Mr. E. R. Copleston, C.B., Deputy Secretary, University Grants Committee, examined.

Sir Edmund Compton, K.B.E., C.B., also examined.

[Adjourned till Thursday, at Four o'clock.

THURSDAY, 9TH FEBRUARY, 1961.

Members present:

Mr. Harold Wilson, in the Chair.

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

Vice-Admiral Hughes Hallett.
Mr. Stevens.
Sir Colin Thornton-Kemsley.

Draft First 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 and 2 read and agreed to.

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

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

Civil Appropriation Accounts, 1959-60; Class V, Vote 11, Housing, Scotland, considered.

Mr. T. D. Haddow, C.B., Secretary, Department of Health for Scotland, examined.

Civil Appropriation Accounts, 1959-60; Class V, Vote 12, Exchequer Grants to Local Revenues, Scotland, considered.

Sir John Anderson, K.B.E., C.B., Secretary, Scottish Home Department, examined.

Mr. T. D. Haddow, C.B., further examined.

Sir Edmund Compton, K.B.E., C.B., Mr. D. O. Henley, and Mr. J. P. Carswell, an Assistant Secretary, Treasury, also examined on all the Accounts considered this day.

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

TUESDAY, 14TH FEBRUARY, 1961.

Members present:

Mr. Harold Wilson, in the Chair.

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

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

Civil Appropriation Accounts, 1959-60; Class II, Vote 8, Colonial Services, and Vote 9, Development and Welfare (Colonies, &c.), considered.

Sir Hilton Poynton, K.C.M.G., Permanent Under Secretary of State, Mr. A. N. Galsworth, C.M.G., and Mr. E. Melville, C.M.G., Assistant Under Secretaries of State, Colonial Office, examined.

Sir Edmund Compton, K.B.E., C.B., Mr. D. O. Henley and Mr. C. J. Hayes, an Assistant Secretary, Treasury, also examined.

[Adjourned till Thursday, at Four o'clock.

THURSDAY, 16TH FEBRUARY, 1961.

Members present:

Mr. Harold Wilson, in the Chair.

Mr. Arbuthnot.	Mr. Pentland.
Mr. Cledwyn Hughes.	Mr. Stevens.
Vice-Admiral Hughes Hallett.	

The Committee deliberated.

Trading Accounts and Balance Sheets, 1959-60; Aerodromes, considered.

Mr. H. Hardman, C.B., Permanent Secretary, Ministry of Aviation, examined.

Sir Edmund Compton, K.B.E., C.B., and Mr. D. O. Henley also examined.

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

TUESDAY, 21ST FEBRUARY, 1961.

Members present:

Mr. Harold Wilson, in the Chair.

Mr. Arbuthnot.	Mr. Hoy.
Sir George Benson.	Vice-Admiral Hughes Hallett.
Colonel Crosthwaite-Eyre.	Mr. Stevens.
Mr. John Hall.	Sir Colin Thornton-Kemsley.

The Committee deliberated.

Trading Accounts and Balance Sheets, 1959-60; Aerodromes, further considered.

Civil Appropriation Accounts, 1959-60; Class IX, Vote 4, Civil Aviation, considered.

Mr. H. Hardman, C.B., further examined.

Sir Edmund Compton, K.B.E., C.B., Mr. D. O. Henley and Mr. S. Goldman, an Under Secretary, Treasury, also examined.

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

THURSDAY, 23RD FEBRUARY, 1961.

Members present:

Mr. Harold Wilson, in the Chair.

Mr. Arbuthnot.	Mr. Cledwyn Hughes.
Sir George Benson.	Vice-Admiral Hughes Hallett.
Mr. Chetwynd.	Mr. Pentland.
Colonel Crosthwaite-Eyre.	Mr. Stevens.
Mr. John Hall.	Sir Colin Thornton-Kemsley.

Civil Appropriation Accounts, 1959-60; Class V, Vote 5, National Health Service England and Wales, and Vote 10, National Health Service, Scotland, considered.

Mr. B. D. Fraser, C.B., Permanent Secretary, Ministry of Health, examined.

Mr. T. D. Haddow, C.B., further examined.

Mr. P. J. Curtis, C.B., C.B.E., Secretary, Exchequer and Audit Department, Mr. D. O. Henley and Mr. J. P. Carswell also examined.

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

TUESDAY, 28TH FEBRUARY, 1961.

Members present:

Mr. Harold Wilson, in the Chair.

Mr. Arbuthnot.	|	Vice-Admiral Hughes Hallett.
Sir George Benson.	|	Mr. Stevens.
Mr. Hoy.	|	Sir Colin Thornton-Kemsley.
Mr. Cledwyn Hughes.		

Civil Appropriation Accounts, 1959-60; Class V, Vote 5, National Health Service, England and Wales, and Vote 10, National Health Service, Scotland, further considered.

Mr. B. D. Fraser, C.B., and Mr. T. D. Haddow, C.B., further examined.

Sir Edmund Compton, K.B.E., C.B., Mr. D. O. Henley and Mr. J. P. Carswell also examined.

[Adjourned till Thursday, at Four o'clock.

THURSDAY, 2ND MARCH, 1961.

Members present:

Mr. Harold Wilson, in the Chair.

Mr. Arbuthnot.	|	Mr. Stevens.
Sir George Benson.	|	Sir Colin Thornton-Kemsley.

Civil Appropriation Accounts, 1959-60; Class VI, Vote 2, Board of Trade (Assistance to Industry and Trading Services), considered.

Sir Richard Powell, K.C.B., K.B.E., C.M.G., Permanent Secretary, Board of Trade, and Mr. A. G. B. Burney, formerly Director of Re-organisation under the Special Committee of the Cotton Board, examined.

Sir Edmund Compton, K.B.E., C.B., and Mr. D. O. Henley also examined.

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

TUESDAY, 7TH MARCH, 1961.

Members present:

Mr. Arbuthnot.	|	Vice-Admiral Hughes Hallett.
Sir George Benson.	|	Mr. Stevens.
Mr. John Hall.	|	Sir Colin Thornton-Kemsley.

In the absence of Mr. Harold Wilson, Mr. Stevens was called to the Chair.

Civil Appropriation Accounts, 1959-60; Class IX, Vote 2, Roads, &c., England and Wales, considered.

Sir James Dunnett, K.C.B., C.M.G., Permanent Secretary, Ministry of Transport, examined.

Sir Edmund Compton, K.B.E., C.B., Mr. D. O. Henley and Mr. S. Goldman also examined.

[Adjourned till Thursday, 16th March, at Four o'clock.

THURSDAY, 16TH MARCH, 1961.

Members present:

Mr. Harold Wilson, in the Chair.

Mr. Arbuthnot.
Mr. Hoy.

Mr. Stevens.

Five members not being present, the Chairman adjourned the Committee till Tuesday next, at Four o'clock.

TUESDAY, 21ST MARCH, 1961.

Members present:

Mr. Harold Wilson, in the Chair.

Mr. Arbuthnot.
Sir George Benson.
Mr. John Hall.

Mr. Cledwyn Hughes.
Mr. Stevens.
Sir Samuel Storey.

The Committee deliberated.

Civil Appropriation Accounts, 1959-60; Class VI, Vote 9, Ministry of Labour, considered.

Sir Laurence Helsby, K.B.E., C.B., Permanent Secretary, and Mr. G. J. Nash, C.B., Accountant General, Ministry of Labour, examined.

Sir Edmund Compton, K.B.E., C.B., Mr. D. O. Henley and Mr. J. P. Carsw 1 also examined.

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

THURSDAY, 23RD MARCH, 1961.

Members present:

Mr. Arbuthnot.
Sir George Benson.
Mr. John Hall.
Mr. Hoy.

Vice-Admiral Hughes Hallett.
Mr. Stevens.
Sir Samuel Storey.
Sir Colin Thornton-Kemsley.

In the absence of Mr. Harold Wilson, Sir Colin Thornton-Kemsley was called to the Chair.

Civil Appropriation Accounts, 1959-60; Class VIII, Vote 1, Ministry of Agriculture, Fisheries and Food, considered.

Sir John Winnifrith, K.C.B., Permanent Secretary, Ministry of Agriculture, Fisheries and Food, examined.

Civil Appropriation Accounts, 1959-60; Class VIII, Vote 3, Agricultural and Food Services, and Vote 11, Department of Agriculture for Scotland, considered.

Sir John Winnifrith further examined.

Mr. Matthew Campbell, C.B., Secretary, Department of Agriculture and Fisheries for Scotland, examined.

Sir Edmund Compton, K.B.E., C.B., Mr. D. O. Henley and Mr. . Goldman also examined on all the accounts considered this day.

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

TUESDAY, 28TH MARCH, 1961.

Members present:

Mr. Harold Wilson, in the Chair.

Mr. Arbuthnot.
Sir George Benson.
Sir Edward Boyle.
Mr. Chetwynd.
Colonel Crosthwaite-Eyre.

Mr. John Hall.
Mr. Cledwyn Hughes.
Vice-Admiral Hughes Hallett.
Sir Colin Thornton-Kemsley.

The Committee deliberated.

[Adjourned till Thursday, 20th April, at Four o'clock.

THURSDAY, 20TH APRIL, 1961.

Members present:

Mr. Harold Wilson, in the Chair.

Mr. Arbuthnot.
Sir George Benson.
Mr. Hoy.
Mr. Cledwyn Hughes.

Vice-Admiral Hughes Hallett.
Mr. Stevens.
Sir Samuel Storey.
Sir Colin Thornton-Kemsley.

Civil Appropriation Accounts, 1959-60; Class VI, Vote 10, Ministry of Aviation, and Vote 11, Ministry of Aviation (Purchasing (Repayment) Services), considered.

Mr. H. Hardman, C.B., further examined.

Mr. F. J. Doggett, an Under Secretary, Ministry of Aviation, was examined.

Sir Edmund Compton, K.B.E., C.B., Mr. D. O. Henley, and Mr. D. McKean, an Assistant Secretary, Treasury, also examined.

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

TUESDAY, 25TH APRIL, 1961.

Members present:

Mr. Harold Wilson, in the Chair.

Mr. Arbuthnot.
Sir George Benson.
Mr. Chetwynd.
Mr. John Hall.
Mr. Hoy.

Mr. Cledwyn Hughes.
Mr. Stevens.
Sir Samuel Storey.
Sir Colin Thornton-Kemsley.

Civil Appropriation Accounts, 1959-60; Class VI, Vote 10, Ministry of Aviation, and Vote 11, Ministry of Aviation (Purchasing (Repayment) Services), further considered.

Mr. H. Hardman, C.B., and Mr. F. J. Doggett further examined.

Mr. W. G. Downey, an Under-Secretary, Ministry of Aviation, examined.

Sir Edmund Compton, K.B.E., C.B., Mr. D. O. Henley, and Mr. A. D. Peck, M.B.E., an Under-Secretary, Treasury, also examined.

[Adjourned till Thursday, at Four o'clock.

THURSDAY, 27TH APRIL, 1961.

Members present:

Mr. Harold Wilson, in the Chair.

Mr. Arbuthnot.
Sir George Benson.
Mr. Hoy.

Mr. Stevens.
Sir Samuel Storey.

Air Services Appropriation Account, 1959-60, considered.

Sir Maurice Dean, K.C.B., K.C.M.G., Permanent Under-Secretary of State for Air, examined.

Sir Edmund Compton, K.B.E., C.B., Mr. D. O. Henley and Mr. A. D. Peck, M.B.E., also examined.

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

THURSDAY, 4TH MAY, 1961.

Members present:

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

Mr. Hoy.
Mr. Stevens.
Sir Samuel Storey.
Sir Colin Thornton-Kemsley.

In the absence of Mr. Harold Wilson, Sir Samuel Storey was called to the Chair.

Army Appropriation Account, 1959-60, War Office (Supply) Appropriation Account, 1959-60, War Office (Purchasing (Repayment) Services) Appropriation Account, 1959-60, considered; and Army (Royal Ordnance Factories) Accounts, 1959-60, further considered.

Sir Richard Way, K.C.B., C.B.E., J.P., Permanent Under-Secretary of State for War, examined.

Sir Edmund Compton, K.B.E., C.B., Mr. D. O. Henley and Mr. A. D. Peck, M.B.E., also examined.

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

TUESDAY, 9TH MAY, 1961.

Members present:

Mr. Harold Wilson, in the Chair.

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

Sir Samuel Storey.
Sir Colin Thornton-Kemsley.
Sir Gerald Wills.

Atomic Energy Authority Balance Sheet as at 31 March, 1960, considered.

Sir Roger Makins, G.C.B., G.C.M.G., Chairman, and Sir Alan Hitchman, K.C.B., member, Atomic Energy Authority, examined.

Sir Edmund Compton, K.B.E., C.B., Mr. D. O. Henley, and Mr. J. J. Fogarty, an Assistant Secretary, Treasury, also examined.

[Adjourned till Thursday, at Four o'clock.

THURSDAY, 11TH MAY, 1961.

Members present:

Mr. Harold Wilson, in the Chair.

Mr. Arbuthnot.
Mr. John Hall.

Sir Gerald Wills.

Five members not being present, the Chairman adjourned the Committee till Tuesday next, at Four o'clock.

TUESDAY, 16TH MAY, 1961.

Members present:

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

Mr. Cledwyn Hughes.
Sir Samuel Storey.
Sir Colin Thornton-Kemsley.
Sir Gerald Wills.

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

Navy Appropriation Accounts, 1959-60, and Navy Dockyard and Production Accounts, 1959-60, considered.

Sir Clifford Jarrett, K.B.E., C.B., Permanent Secretary, Admiralty, examined.

Sir Edmund Compton, K.B.E., C.B., Mr. D. O. Henley, Mr. A. D. Peck, M.B.E., and Mr. P. R. Baldwin, an Assistant Secretary, Treasury, also examined.

[Adjourned till Tuesday, 6th June, at Four o'clock.

TUESDAY, 6TH JUNE, 1961.

Members present:

Mr. Harold Wilson, in the Chair.

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

Mr. John Hall.
Sir Samuel Storey.
Sir Colin Thornton-Kemsley.

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

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

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

Atomic Energy Authority Balance Sheet, as at 31 March, 1960, further considered, and Civil Appropriation Accounts, 1959-60; Class IX, Vote 6A, Office of the Minister for Science, and Vote 7, Atomic Energy, considered.

Sir Roger Makins, G.C.B., G.C.M.G., and Sir Alan Hitchman, K.C.B., further examined.

Mr. F. F. Turnbull, C.B., C.I.E., Permanent Secretary, Office of the Minister for Science, examined.

Sir Edmund Compton, K.B.E., C.B., Mr. D. O. Henley and Mr. A. D. Peck, M.B.E., also examined.

[Adjourned till Thursday, at Four o'clock.

THURSDAY, 8TH JUNE, 1961.

Members present:

Mr. Harold Wilson, in the Chair.

Mr. Arbuthnot.
Sir George Benson.

Sir Colin Thornton-Kemsley.
Sir Gerald Wills.

Civil Appropriation Accounts, 1959-60; Class VII, Vote 1, Ministry of Works, Vote 3, Public Buildings, &c., United Kingdom, Vote 4, Public Buildings Overseas, and Vote 7, Historic Buildings and Ancient Monuments, considered.

Sir Edward Muir, K.C.B., Permanent Secretary, Ministry of Works, examined.

Sir Edmund Compton, K.B.E., C.B., and Mr. D. O. Henley also examined.

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

TUESDAY, 13TH JUNE, 1961.

Members present:

Mr. Harold Wilson, in the Chair.

Mr. Arbuthnot.
Sir George Benson.
Colonel Crosthwaite-Eyre.
Mr. Hoy.

Mr. Cledwyn Hughes.
Mr. Stevens.
Sir Samuel Storey.
Sir Colin Thornton-Kemsley.

Memorandum by the Treasury on Form of the Estimates; and Note by the Treasury on Form of Notes to the Appropriation Accounts, considered.

Sir Thomas Padmore, K.C.B., further examined.

Revenue Departments Appropriation Accounts, 1959-60; Vote 1, Customs and Excise; Civil Appropriation Accounts, 1959-60; 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 5A, Privy Seal Office, Vote 6, Charity Commission, Vote 7, Civil Service Commission, Vote 8, Crown Estate Office, 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, Royal Mint, Vote 15, National Debt Office, Vote 16, National Savings Committee, Vote 17, Public Record Office, Vote 18, Public Works Loan Commission, Vote 19, Royal Commissions, &c., Vote 20, Secret Service, Vote 21, Tithe Redemption Commission, Vote 22, Miscellaneous Expenses, Vote 22A, Repayments to the Civil Contingencies Fund, Vote 22B, Civil Service Remuneration, Vote 23, Scottish Home Department, Vote 24, Scottish Record Office; Class II, Vote 1, Foreign Service, Vote 2, Foreign Office Grants and Services, Vote 3, British Council, Vote 4, Commonwealth Relations Office, Vote 5, Commonwealth Services, Vote 6, Oversea Settlement, Vote 7, Colonial Office, Vote 10, Development and Welfare (Federation of Rhodesia and Nyasaland, and South African High Commission Territories), Vote 11, Commonwealth War Graves Commission; Class III, Vote 1, Home Office, Vote 2, Home Office (Civil Defence Services), Vote 3, Police, England and Wales, Vote 4, Prisons, England and Wales, Vote 5, Child Care, England and Wales, Vote 6, Fire Services, England and Wales, Vote 7, Carlisle State Management District, Vote 9, County Courts, Vote 10, Legal Aid Fund, Vote 11, Land Registry, Vote 12, Public Trustee, Vote 13, Law Charges, Vote 14, Miscellaneous Legal Expenses, Vote 15, Scottish Home Department (Civil Defence Services), Vote 16, Police, Scotland, Vote 17, Prisons, Scotland, Vote 18, Approved Schools, Scotland, Vote 19, Fire Services, Scotland, Vote 20, State Management Districts, Scotland, Vote 21, Law Charges and Courts of Law, Scotland, Vote 22, Department of the Registers of Scotland, Vote 23, Supreme Court of Judicature, &c., Northern Ireland,

39389

b 6

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 13, Broadcasting, Vote 14, Scottish Education Department, Vote 15, National Galleries, Scotland, Vote 16, National Museum of Antiquities of Scotland, Vote 17, National Library, Scotland; Class V, Vote 1, Ministry of Housing and Local Government, Vote 2, Housing, England and Wales, Vote 3, Exchequer Grants to Local Revenues, England and Wales, Vote 4, Ministry of Health, Vote 6, Medical Research Council, Vote 7, Registrar General's Office, Vote 8, War Damage Commission, Vote 9, Department of Health for Scotland, Vote 13, Registrar General's Office, Scotland; Class VI, Vote 1, Board of Trade, Vote 3, Board of Trade (Former Strategic Stocks), Vote 4, Services in Development Areas, Vote 5, Financial Assistance in Development and Other Areas, Vote 6, Export Credits, Vote 7, Export Credits (Special Guarantees), Vote 8, Registration of Restrictive Trading Agreements; Class VII, Vote 2, Houses of Parliament Buildings, Vote 5, Royal Palaces, Vote 6, Royal Parks and Pleasure Gardens, Vote 8, Rates on Government Property, Vote 9, Stationery and Printing, Vote 10, Central Office of Information; Class VIII, Vote 2, Agricultural and Food Grants and Subsidies, Vote 4, Food (Strategic Reserves), Vote 5, Fishery Grants and Services, Vote 6, Surveys of Great Britain, &c., Vote 7, Agricultural Research Council, Vote 8, Nature Conservancy, Vote 9, Development Fund, Vote 10, Forestry Commission, Vote 12, Fisheries (Scotland) and Herring Industry; Class IX, Vote 1, Ministry of Transport, Vote 3, Transport (Shipping and Special Services), Vote 5, Ministry of Power, Vote 6, Ministry of Power (Special Services), Vote 8, Department of Scientific and Industrial Research, Vote 9, Roads, &c., Scotland; Class X, Vote 1, Superannuation and Retired Allowances, Vote 2, Ministry of Pensions and National Insurance, Vote 3, War Pensions, &c., Vote 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.; Ministry of Defence Appropriation Account, 1959-60, considered.

Sir Edmund Compton, K.B.E., C.B., and Mr. D. O. Henley also examined on all the Accounts and papers considered this day.

[Adjourned till Thursday, 13th July, at Four o'clock.

THURSDAY, 13TH JULY, 1961.

Members present:

Mr. Harold Wilson, in the Chair.

Mr. Arbuthnot.
Mr. John Hall.
Mr. Stevens.

Sir Samuel Storey.
Sir Colin Thornton-Kemsley.
Sir Gerald Wills.

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 and 2 read and agreed to.

Paragraph 3 read, amended and agreed to.

Paragraph 4 read and agreed to.

Paragraph 5 read, amended and agreed to.

Paragraphs 6 to 11 agreed to.

Paragraph 12 read, amended and agreed to.

Paragraphs 13 to 16 read and agreed to.
Paragraph 17 read, amended and agreed to.
Paragraphs 18 to 27 read and agreed to.
Paragraphs 28 and 29 read, amended and agreed to.
Paragraphs 30 to 34 read and agreed to.
Paragraph 35 read, amended and agreed to.
Paragraphs 36 to 44 read and agreed to.
Paragraph 45 read, amended and agreed to.
Paragraph 46 read and agreed to.
Paragraph 47 read, amended and agreed to.
Paragraphs 48 to 51 read and agreed to.
Paragraph 52 read, amended and agreed to.
Paragraphs 53 to 58 read and agreed to.
Paragraphs 59 to 61 read, amended and agreed to.
Paragraph 62 read and agreed to.
Paragraph 63 read, amended and agreed to.
Paragraphs 64 to 72 read and agreed to.
Paragraph 73 read, amended and agreed to.
Paragraphs 74 to 77 read and agreed to.
Paragraph 78 read, amended and agreed to.
Paragraph 79 read and agreed to.
Paragraph 80 read, amended and agreed to.
Paragraphs 81 and 82 read and agreed to.
Paragraph 83, read, amended and agreed to.
Paragraphs 84 to 88 read and agreed to.
Paragraph 89 read, amended and agreed to.
Paragraphs 90 and 91 read and agreed to.
Paragraph 92 to 94 read, amended and agreed to.
Paragraphs 95 to 97 read and agreed to.
Paragraph 98 read, amended and agreed to.
Paragraphs 99 and 100 read and agreed to.
Paragraph 101 read, amended and agreed to.
Paragraph 102 read and agreed to.
Paragraph 103 read, amended and agreed to.
Paragraphs 104 to 115 read and agreed to.
Paragraph 116 read and disagreed to.
A paragraph brought up, read the first and second time, amended and inserted.
Paragraph 117 read and agreed to.
Paragraph 118 read, amended and agreed to.
Paragraphs 119 and 120 read and agreed to.

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

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

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

Memorandum from the Ministry of Health on purchase of drugs at Low Prices from the Continent;

Memorandum from the Ministry of Health on Expenditure on advertising and research in the Pharmaceutical Industry;

Memorandum from Department of Health for Scotland on Average Rents of Local Authority Houses;

Part of memorandum from Department of Health for Scotland on local Inquiry in the matter of a review of rents of Council Houses in Dunbarton;

Memorandum from the Scottish Home Department on the effect on equalisation grant of restriction of Local Authority Housing deficits;

Memorandum from the Post Office on dates at which the firms party to the bulk supply agreements were last costed;

Memorandum from the Post Office on the reasons as to the lack of response to invitations to tender for the supply of cable under the reservation clause provisions;

Summary of firms which have been invited to tender under the reservation clauses embodied in the bulk supply agreements with the Post Office;

Memorandum from the Treasury on Form of notes to the Appropriation Accounts.

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

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

LIST OF WITNESSES

	<i>Page</i>
<i>Tuesday, 13th December, 1960</i>	
Sir Alexander Johnston, K.B.E., C.B.	1
<i>Tuesday, 31st January, 1961</i>	
Mr. K. Anderson, C.B., C.B.E., and Sir Robert Harvey, K.B.E., C.B.	10
<i>Tuesday, 7th February, 1961</i>	
Sir Thomas Padmore, K.C.B., and Mr. E. R. Coplestone, C.B.... ..	25
<i>Thursday, 9th February, 1961</i>	
Mr. T. D. Haddow, C.B.	43
Sir John Anderson, K.B.E., C.B., and Mr. T. D. Haddow, C.B.... ..	50
<i>Tuesday, 14th February, 1961</i>	
Sir Hilton Poynton, K.C.M.G., Mr. A. N. Galsworthy, C.M.G., and Mr. E. Melville, C.M.G.	58
<i>Thursday, 16th February, 1961</i>	
Mr. H. Hardman, C.B.	75
<i>Tuesday, 21st February, 1961</i>	
Mr. H. Hardman, C.B.	89
<i>Thursday, 23rd February, 1961</i>	
Mr. B. D. Fraser, C.B., and Mr. T. D. Haddow, C.B.	100
<i>Tuesday, 28th February, 1961</i>	
Mr. B. D. Fraser, C.B., and Mr. T. D. Haddow, C.B.	121
<i>Thursday, 2nd March, 1961</i>	
Sir Richard Powell, K.C.B., K.B.E., C.M.G., and Mr. A. G. B. Burney... ..	140
<i>Tuesday, 7th March, 1961</i>	
Sir James Dunnett, K.C.B., C.M.G.	151
<i>Tuesday, 21st March, 1961</i>	
Sir Lawrence Helsby, K.B.E., C.B., and Mr. G. J. Nash, C.B.... ..	170
<i>Thursday, 23rd March, 1961</i>	
Sir John Winnifrith, K.C.B., and Mr. M. Campbell, C.B.	183
Sir John Winnifrith, K.C.B.	193
<i>Thursday, 20th April, 1961</i>	
Mr. H. Hardman, C.B., and Mr. F. J. Doggett	203
<i>Tuesday, 25th April, 1961</i>	
Mr. H. Hardman, C.B., Mr. F. J. Doggett and Mr. W. G. Downey	223

	<i>Page</i>
<i>Thursday, 27th April, 1961</i>	
Sir Maurice Dean, K.C.B.	239
<i>Thursday, 4th May, 1961</i>	
Sir Richard Way, K.C.B.	253
<i>Tuesday, 9th May, 1961</i>	
Sir Roger Makins, K.C.B., and Sir Alan Hitchman, K.C.B.	272
<i>Tuesday, 16th May, 1961</i>	
Sir Clifford Jarrett, K.B.E., C.B.	280
<i>Tuesday, 6th June, 1961</i>	
Sir Roger Makins, K.C.B., Sir Alan Hitchman, K.C.B. and Mr. F. F. Turnbull, C.B., C.I.E.	304
<i>Thursday, 8th May, 1961</i>	
Sir Edward Muir, K.C.B.	316
<i>Tuesday, 13th June, 1961</i>	
Sir T. Padmore, K.C.B.	327

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.

TUESDAY, 13TH DECEMBER, 1960.

Members present:

Mr. Harold Wilson, in the Chair.

Mr. Arbutnot.
Colonel Crosthwaite-Eyre.
Mr. Hoy.

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

Sir EDMUND COMPTON, K.B.E., C.B., Comptroller and Auditor General, called in and examined.

REVENUE DEPARTMENTS APPROPRIATION ACCOUNTS, 1959-60.

VOTE 2.

INLAND REVENUE.

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

Chairman.

1. Will Members please turn to the Revenue Departments Appropriation Accounts, to paragraphs 13-16 of the Comptroller and Auditor General's Report, Balance of Tax in Assessment and Arrears due for Collection, taking first paragraphs 13-15, headed "General"? Sir Alexander, in recent years the total of outstanding assessments has not varied by more than a few millions from this figure in paragraph 13 of £550 million. Are you satisfied that no really substantial reduction can be made in this figure?—(Sir Alexander Johnston.) No, I do not think we will get much below this.

2. The table shows that the total outstanding under Income tax fell steadily up till 1957 but has risen since then. Can you say why that is?—We like to divide this figure "Under appeal" into two headings, "Provisionally discharged," that is, where we think that no further money is likely to be obtained, and "Not presently collectable", which means that there are still enquiries going on or the matter is still before the Courts. On that basis the position on income tax is much better than one might think from this. For example, if you take the figure of £350 million described as under appeal, as compared with last year we have provisionally discharged a further £12 million; and the not presently collectable figure is down by £6 million. So, in other words, if you divided the very first column into the two headings, Provisionally discharged and Not presently collectable, you would get a more favourable view than you get from the printed figures.

39389

3. What periods are you taking when you say there is an improvement?—I was only dealing at the moment with 1958-59.

4. You say that "Under appeal" is divided into two headings?—Yes.

5. I thought you said there was a reduction in both of them?—I am sorry. The provisionally discharged has gone up by £12 million and the not presently collectable has gone down by £6 million.

6. Are you expecting, then, an improvement in the position here next year?—Yes. For example, if you take income tax, we now have provisional figures for the position as at September of 1960. The Comptroller and Auditor General's figure, as you realise, is September, 1959, and we are hoping that the figure will go from £228 million down to about £210 million; and it will be possible also to make a reduction in the figure due for collection of about £3 million or £4 million. So, we hope for an improvement. The difficulty in the past under this heading has been the staff in collections. We had a big turnover and we have been training staff and we have also been having more success in getting staff. That, of course, will improve the position.

7. But you do not expect much improvement in the overall position for income tax, profits tax and surtax taken together?—We will try, of course, to bring it down, but I am not thinking of really substantial improvements, I am thinking of £10 million and £20 million. If you are thinking of very large figures, it is difficult.

A

13 December, 1960.] Sir ALEXANDER JOHNSTON, K.B.E., C.B.

[Continued.]

Mr. Hoy.

8. Sir Alexander, there is a considerable drop in the amount of profits tax outstanding. How do you account for that after the steady increase there has been over the past three years?—Two reasons. One is that two years ago we were put under a limit of six years for collecting profits tax and we had to put on a considerable number of protective assessments which swelled the figure which you will see here for 1958. The other reason is, of course, that on account of capital allowances and the bringing of profits tax on to a uniform basis there has been a reduction in the charge. These are the two factors.

9. That would account for the total difference of about £11 million between these two columns?—Yes, these are the two reasons.

10. Why should about 25 per cent. of the surtax be outstanding, representing the amount due for collection, compared with income tax and profits tax where the proportion is only about 10 per cent.?—I think there are two reasons for that. In income tax a very large proportion is tax deducted at source, P.A.Y.E., and all the foreign dividends and interest on Government stock. So, you get down to a much smaller figure where a valid comparison can be made. That, of course, is very largely company tax; and by and large it is probably easier to get money out of companies than out of an individual. That is one reason. The other arises from the way we calculate these things. The accounting period for surtax ends on the 30th June. For income tax it ends at the end of September, so with moneys due on the 1st January this represents what you have been able to collect for surtax in six months and for most of income tax you have nine months.

11. I would be right, then, in assuming that this 25 per cent. is not a fair comparison?—It is not.

12. If it had been I should have thought you would be taking some special measures to expedite the collection of surtax?—No, it is not a fair comparison. I would say that, by and large, surtax is more difficult to collect than income tax when this is very largely company tax. It is a tax on individuals; it comes on people whose incomes may be rising or falling. It is a more difficult

task, but the difference in the collection is nothing like what one would think.

Colonel *Crosthwaite-Eyre*.

13. Is not this figure in paragraph 13 of £554 million a little bit misleading, in your view? From paragraph 15 it would appear that once you have taken away the provisional disregards the true sum not outstanding and due for settlement is probably only £288 million?—Yes, I would agree with that.

14. This sort of paragraph to someone who does not study it very carefully could give a very wrong impression?—Yes. For our own purposes we think of the amount provisionally discharged, which is about £149 million, and we also estimate that for the future a further £222 million will be discharged. So I agree that the figure comes down very considerably.

15. Would it not be possible to put in a further column in that table showing these disregards and probably the net amounts of outstanding tax, the tax which will be recoverable? Perhaps that ought to be addressed to Sir Edmund?—(Sir *Edmund Compton*.) I think that should be addressed to me. I will certainly consider that. I would like to point out, if I may, that this qualification to the £554 million is in fact made in paragraph 15.

16. I know, but you have to work it out as I have done—I hope I have got the figures right—and a lot of people would only look at paragraph 13, would they not, and take it overall without doing the adjustments set out in paragraph 15. I do not want to press the point, but only ask the Comptroller and Auditor General if he will consider it?—I will certainly consider it. The total figure, even though it may not be realistic because of the provisional discharges, is nonetheless an important one from my point of view to record because the legal liability which that sum represents has to be determined.

17. I am not suggesting it should be suppressed, but the qualification shows what probably in truth is outstanding once you have taken off the provisional disregards. Sir Alexander, the table in paragraph 14 gives the total of debts outstanding for more than five years, and it has gone down this year. Was a special drive made to achieve this?—(Sir *Alexander Johnston*.) Yes, we had to make a special drive. It was raised last year here.

13 December, 1960.] Sir ALEXANDER JOHNSTON, K.B.E., C.B.

[Continued.]

18. It slightly worries me that, on the other hand, the debts in the period up to three years have gone up. That is my first question. Has that £9 million reduction only been achieved by not pressing for such large payments in other categories?—No; this again, I think, is a case where, if one showed the provisional discharges, you would get a different picture. Quite a bit has been provisionally discharged. The other difficulty is that you were thinking of three years and under?

19. Yes. There is less than one year, one to two years and two to three years, and those three categories have all shown an increase over 1958?—Yes. Now, if you take the arrears for two to three years, the figure is almost entirely in income tax and of that we would say £8 million has been provisionally discharged, £4 million is under appeal and the amount due for collection is just as much as previously. Again I say, if you showed the provisional discharges you would get a rather different picture of this.

20. Perhaps I could ask the Comptroller and Auditor General to look at that table as well as the other one. Finally, though I think you have already answered this, it is noticeable that amounts outstanding for more than one year account for less than half the total under income tax and profits tax but more than half under surtax. Is that again because the dates of collection differ?—Yes, I would say so.

Mr. Arbuthnot.

21. Why do the dates of collection differ, Sir Alexander?—It is a matter of convenience for striking these accounts. You have got to take the dates that suit the different taxes. The 30th June suits for surtax and the end of September suits for the income tax.

22. Suits you, but not the chap who is paying the tax, presumably?—You see, the second instalment of Schedule D is due at 1st July. You want to get that in on the 1st July.

23. This is from your point of view and not from the point of view of the chap who is paying the tax?—This does not affect him. This is purely for accounting purposes.

24. To go back to the table in paragraph 13, what proportion of the £586 million represents protective assessments?

39389

—£149 million of that has been provisionally discharged and eventually we think that £222 million will be discharged. So, I think your figure would be £222 million.

25. Would it be correct to say that these protective assessments were put on in the last year at the point at which you thought that they might escape your net altogether?—Oh, no. The protective assessments that I referred to before, of course, were in respect of profits tax only and were very small. I am sorry; I thought you meant over the whole field.

26. I did?—Yes. Those are assessments made over a number of years, not necessarily because people are about to escape the net but because they have failed to put in accounts and you are driven to make the best figure you can.

27. Now, going to paragraph 15. How soon do you expect to collect the £66 million due for payment at the balancing dates?—Most of it, I think, will be collected fairly quickly.

28. Within six months?—Yes.

29. How do you estimate the figure of £117 million that you think will finally prove to be due for collection?—£16 million of that are the profits tax assessments in March. Profits tax, as you know, unlike the other taxes, is assessed all the year round. There are no fixed dates but payment is not due until one month after assessment. The accounting year for profits tax ends on the 31st March and you therefore cannot show as due the month's assessments that have been made in March but, of course, they are all paid in the ordinary way. So that is £16 million off the £117 million. The other is, in effect, an addition of our provisional discharges already, £149 million, future discharges, £222 million, the £66 million already due, the £16 million profits tax and that leaves £101 million. It is the £101 million plus £16 million which makes the £117 million.

30. What is the process from the paying end of provisional discharge?—The provisional discharge is entirely an office matter. It is not discussed with the taxpayer. It is where you think you are going to get to at the end of the day.

31. When does provisional become final?—Well, it may take several years.

32. That is also an office matter?—No, that may mean going to the General Commissioners but it is also remissions, of course, by the office.

A 2

13 December, 1960.] Sir ALEXANDER JOHNSTON, K.B.E., C.B. [Continued.]

33. So that a provisional discharge may be something that has not yet been to the Commissioners. Is that so?—No, I am sorry. This will have been to the Commissioners. There will be an assessment. The man may then appeal and get it reduced, but for the most part this will come out that way and through the Commissioners.

34. But are you saying yourselves that you do not expect to collect something that you subsequently take to the Commissioners?—I think the simplest case is to take the man who has failed to put in his accounts and you go and get an assessment from the Commissioners.

Mr. *Arbuthnot*.] You get an assessment from the Commissioners?

Chairman.] The General Commissioners.

Mr. *Arbuthnot*.

35. I thought you made the assessment?—No, not in those cases, the General Commissioners do. The General Commissioners make the assessment, except in P.A.Y.E. Subsequently he comes along, having been pressed for payment, produces his books and you find that in fact although you assessed him at £800 he is only due £400. Now the process by which you get that down to £400 and finally agree at £400 has got to go through the ordinary machinery, if necessary going back to the Commissioners, or you have got to agree with him. The Inspector may agree with him that obviously it should be £400 not £800, he having produced his books. That will be a provisional discharge until it is finally disposed of.

Chairman.

36. A provisional discharge is when the Revenue decide that you are beat, or think you are?—Yes.

Mr. *Arbuthnot*.

37. But do you ever take any case before the Commissioners which you have in fact provisionally discharged in your own books, in your own mind?—Oh, yes, if he appeals, you see.

38. No, what I said was, did you take, not did he take?—It could happen, but in the ordinary way, surely, you have asked the man to produce his books. He has failed to do so. You have been driven in November or December to

make an assessment on him. Then the onus is transferred to the taxpayer to show that that assessment is wrong.

Mr. *Arbuthnot*.] It is the taxpayer who is usually driven, so far as I know, rather than the Revenue.

Chairman.

39. On this question, I take it you would have some provisional discharges if there were, say, a decision of the High Court which has gone contrary to your expectations and which you then start to apply in your own minds to a number of parallel cases?—Yes.

40. That would lead to provisional discharges though not necessarily to final discharges if you thought there was some hope of proving some scintilla of difference which enabled you to win on the others?—Yes.

Mr. *Stevens*.

41. Sir Alexander, in paragraph 15 of his Report the Comptroller and Auditor General says that outstanding assessments include provisional assessments. Can you say what proportion of those assessments are provisional? Would it be a tenth, or 90 per cent., or what?—I think this was meant to refer to the £149 million which is discharged, the provisional discharges.

42. Is there any connection between the figures in the first column of the table in paragraph 13 and the £149 million?—Are you thinking of the £350 million?

43. I asked, Sir Alexander, if you could give the Committee some idea what proportion of the assessments under appeal were in respect of provisional assessments?—No, I have not got figures here of provisional assessments.

44. You cannot give the Committee any idea from your experience?—No. I had better get that figure* and give it to you.

45. You said just now, I think, that the assessments are made by the General Commissioners?—Yes.

46. Under Schedule D, at any rate. How often do General Commissioners meet for the purposes of making these assessments?—These are made, of course, by the Additional Commissioners who consider the cases as the Inspector brings them forward and they are made all before the end of the year, of course.

* Information not available.

13 December, 1960.] Sir ALEXANDER JOHNSTON, K.B.E., C.B.

[Continued.]

47. But how often do they meet for the purpose of making these assessments? —It would depend. One knows that the meetings of the Commissioners vary greatly in different parts of the country depending on the volume of their work; but by and large, of course, these assessments are made by the Additional Commissioners.

48. How often do the Additional Special Commissioners meet? —It depends.

49. Could you give the Committee some help on that? Do they meet every day or twice a year or what, on average? —They meet as required by the Inspector in order to complete his work by the end of the year.

50. Would you agree that they do not meet very often in any part of the country?—The Additional Commissioners?

51. Yes?—Yes, I would.

52. Would you agree that it might simplify matters a great deal if these assessments were made by the Inspectors of Taxes who are in attendance at their offices throughout the year instead of by the Commissioners who meet only occasionally?—Well, that was the Royal Commission's recommendation, yes.

53. Can you give the Committee some idea as to whether you think that that recommendation was a good one, whether it would tend to reduce the number of provisional assessments and whether it might not lead to more efficient and economical administration in your Department?—I do not think it would make a great deal of difference in administration. I think it would assist administration by indicating that the General Commissioners had an appellate function and making that clear beyond a peradventure.

Chairman.

54. It would require legislation?—It would require legislation.

Mr. Stevens.] So that is not a fair question?

Chairman.] I did not know. I was not sure whether he could apply it without.

Mr. Stevens.

55. It stands to reason, does it not, that a body of men who are whole-time employed are able to make an assessment on figures which are submitted

39389

more easily than a body which meets only occasionally and, therefore, on those occasions when they do meet so rarely, are required in order to protect the Inland Revenue to make provisional assessments which may have no relation whatever to the figures concerned?—They have got to bring their judgment to bear on these cases, as the Inspector has. I think one is getting into policy questions.

Mr. Turton.

56. Sir Alexander, there was one answer I was not quite clear about. You said that in September, 1959, the amount outstanding was £228 million, which was a good deal less than in the previous year. It was not clear to me to what figure you were comparing the £228 million?—This is a figure for income tax due for local collection. It does not really relate to any of these figures precisely, and I think all I would prefer to say is that on that front, the income tax front, there is likely to be an improvement. It is very difficult to relate these figures at all.

57. As you have given the figure of £228 million could you give the comparable figure in the previous year so that we can judge to what extent there has been an improvement?—I am sorry, it was £232 million. The figure is £252 million.

Mr. Turton.] So there is a £20 million improvement in the year.

Chairman.

58. Would you say, Sir Alexander, that the General Commissioners in making these provisional assessments are more tough or more easy-going on the taxpayer than the Inspectors would be if it were left to the Inspectors?—I think it very much depends on the part of the country and on the Commissioners.

59. Would you like to expand that answer and suggest in which parts of the country the General Commissioners tend to be tougher than the Inspectors?—I do not think I would, Sir. They do vary.

Chairman.] In other words, you really say you have no comment on it, you are not trying to indicate that there are such parts of the country.

Mr. Stevens.

60. Might I ask a supplementary to that: would you agree that in any case,

A 3

13 December, 1960.] Sir ALEXANDER JOHNSTON, K.B.E., C.B.

[Continued.]

however tough or otherwise the provisional assessments may be, the taxpayer has the complete answer in the notice of appeal within the stated time limit?—Yes.

Chairman.

61. Paragraph 16, Pay-as-you-earn system. Sir Alexander, how does the total charge of £1,020 million in the 1959 accounting period compare with last year? This is line 4 of paragraph 16?—The figure was £955 million.

62. Can you say how much of this relates to tax due in respect of earlier accounting periods?—£20 million of the £1,020 million is for earlier periods.

63. How does that compare with the previous year?—£24 million.

Mr. Stevens.

64. Just one very small point. I see, according to the Comptroller and Auditor General, that the amount still to be remitted from employers to collectors at the end of the period was £3.3 million. That seems to be a very small proportion of the total sum in charge?—It is very small.

65. Would my impression be a correct one that you do not have a great deal of trouble with employers in handing over the tax they deduct?—No. I think it is very creditable to the employers, really, if we get down to such a very small figure.

Sir Colin Thornton-Kemsley.

66. Sir Alexander, how long an interval does your system give the employer between the time that he collects the tax and the time he has to remit it to you?—It is 14 days after the end of the month.

67. What happens after; do you follow up after the 14 days have elapsed?—Oh, yes.

68. Now, the figure that the Comptroller and Auditor General gives in his Report of the total charged in the 1959 accounting period and which was still to be remitted is £3.3 million. What is the latest figure of the amount still to be remitted for the 1959 accounting period?—What has happened to the £3.3 million?

69. Yes. Has that been whittled down considerably? That is what I want to know?—About £1½ million has been paid and a further £.2 million remitted

by the close of account 1960. So, half has been paid within a year. The other half relates to difficult cases including bankruptcies and liquidations. We expect to get 75 per cent. of that eventually.

70. Now the accounting period for P.A.Y.E. is the end of the calendar year, is it?—No, it is September, the same as income tax.

71. So we are dealing here with the figures to September, 1959?—Yes.

72. Would you say that that £3.3 million is a fairly high proportion, bearing in mind that it has presumably been collected by the employers and the employers are holding on to it for some reason or another?—It is 19 per cent. of the charge, and if you allow for the fringe of employers where there is bankruptcy and people go away and vanish, I think it is very small.

73. You do?—Yes.

74. Can you tell the Committee how much is owing in respect of years prior to the accounting year, 1959?—£1.3 million.

75. For 1958?—And earlier years.

76. Some of that is still under dispute, is it, or would that fall to be written off, do you think?—Well, eventually something between £100,000 and £200,000 for each year will have to be written off.

77. Now, will you tell the Committee what steps you do take to secure in the first place that employers expedite their accounts and, secondly, expedite their remittances to you? You just follow them up, do you?—We follow that up.

78. At stated intervals?—Yes.

79. Supposing they do not respond to the follows-up is there anything more you can do?—Eventually, of course, one can take proceedings.

80. How long is it before you initiate prosecution in a normal case?—If he failed to make the monthly payments, which obviously is his first action, we have, of course, power—

81. Quarterly, is it not?—Monthly. If he fails we have power to demand that he makes a special return, and if he failed to do that, of course, we would then probably proceed against him for penalties. (Sir Edmund Compton.) Perhaps I might add a figure which I might have put in my Report—I am sorry I did not—which really shows the success,

in my view, of the Department's drive to reduce outstandings. It is their figure of the uncleared returns. My information is that at the 1959 balancing date, that is, September, 1959, the uncleared returns for 1958-59 and earlier years affecting local collectors totalled 9,527 which compares with a figure of 12,727 a year earlier, and is concrete evidence of success.

Sir Colin Thornton-Kemsley.] Thank you.

Mr. Arbuthnot.

82. You replied to Mr. Stevens, I think, that there was £20 million outstanding in respect of previous years. You replied to Sir Colin Thornton-Kemsley that there were 14 days in which to make the payment. Do those two correspond? Does the £20 million correspond to the 14 days?—(Sir Alexander Johnston.) No. The £20 million refers to earlier years. You see, supposing you have a man who gets a bonus which really relates to a back year that would appear although it is really related to the previous year.

Chairman.

83. Paragraphs 17-19, Remissions and Amounts Abandoned. Sir Alexander, taking the table in paragraph 17, what has been the general trend in recent years in this item? Has the total been rising or falling?—It has over the last year risen slightly.

84. That is in the Report?—Yes.

85. In the past two, three or four years is it rising or falling?—I am sorry, I have not got the figures with me. All I have got is that the total amount is still £1 million less than the 1955 account.

85. Can you say, or perhaps can you let us have, whether it has been a steady decline or whether 1955 was a single peak compared with which everything else looks good?—Yes, I could certainly get you the figures. (Sir Edmund Compton.) May I perhaps put in some figures which I have got? I think this increase is the first since 1955, and I have some figures of the numbers of items as opposed to the amounts which show that the items are showing a fairly considerable fall. The number of items in 1959 was 106,948. In 1958 it was 112,804 and in 1957 it was 115,019.

87. Sir Alexander, is this year's increase connected with any individual tax or duty in particular or is it a very slight

general increase?—(Sir Alexander Johnston.) It is mainly due to excess profits tax, which is up by over £100,000.

88. In the largest cases that make this up, how much tax was involved? Can you give us three or four of the largest cases? How much tax was involved and what particular duties were involved?—There was one large case of surtax involving £79,000. There was an excess profits tax case of £97,000 and there were several inter-connected companies which involved, again on excess profits tax, £61,000.

Mr. Hoy.

89. Sir Alexander, on paragraph 18, are there any substantial differences between the various amounts under these heads and similar heads for the previous year?—No, the only one where there is a change over the years is in composition settlements which have been tending to go up in numbers and amounts.

90. Do you mean that the Inland Revenue is going in for more composition settlements?—No, there has been no change of policy but it does happen that in recent years, somehow or other, we seem to be having more cases and larger amounts.

91. There is not a definite change of policy? You have not decided to go in for settlements?—No.

92. When you say there is a substantial difference, could you tell us what it is?—On compositions?

93. Yes?—In 1956 the total amount that was discharged in connection with composition settlements was £50,000. As you can see, last year it was £136,000, this year £206,000. So, they have increased. They are small amounts, of course.

94. But there is substantial change, is there not?—There is.

Mr. Arbuthnot.

95. Sir Alexander, you remitted £265,000 on grounds of equity. Does this mean that you made £265,000 worth of inequitable assessments?—No, these are cases in which it was clear after the matter had been gone into that the assessment was too high for one reason or another. I could give some examples. One was where a tenant had vanished and left the owner with a large Schedule A liability. Another was a case where a repayment had been due but had never been claimed, and it was discovered on

A 4

13 December, 1960.] Sir ALEXANDER JOHNSTON, K.B.E., C.B.

[Continued.]

going into the matter that the taxpayer had failed to ask for this repayment. Then there is the normal case where you find that a taxpayer has failed to put in his accounts, he is assessed to a certain amount, he then engages a qualified accountant who finds that far less should have been paid long after there is any question of an appeal being possible. These are the cases.

96. But if a repayment is due do you not feel that it is your duty to repay it without calling on the taxpayer to claim it?—Oh, yes, we would, but this is a case where we did not know that the taxpayer had this right.

97. You have an amount irrecoverable due to realisation of securities. What exactly does that mean?—The usual case on which this arises is—it used to happen with German bonds—where you may have interest paid in the form of further funding bonds. At taxpayers' choice we can take the due proportion of income tax in the form of the appropriate proportion of bonds. There is statutory authority for that. Therefore, so far as the taxpayer and we are concerned, the thing has been settled properly. There then comes the question of disposing of these bonds on which, of course, we are advised by the National Debt Office and the Government Broker, and there are occasional losses on that. On the other hand, if there are gains (as often, of course, happens) they do not appear here; they go into our revenue account. So, one only tends to see the losses here, not the gains. I think, in fact, the gains exceed the losses.

Chairman.

98. Paragraphs 20 and 21, Fraud and Evasion. Sir Alexander, reference is made here to "uncertainty, pending decision by the Courts." I take it that was the *Hinchy* case on penalties?—Yes.

99. What was the final outcome of that, just for the record?—The *Hinchy* case was resolved in our favour in the Lords.

100. To what extent did these postponements affect the conclusion of settlements during 1959 and 1960?—Oh, very substantially. One had a period from December to February when one was under great doubt. A certain number of instructions were

issued in February, but even then the position was uncertain until June when the Court of Appeal gave a decision moderately favourable to us, but not wholly favourable. Some further instructions were given then and, of course, one did not get the House of Lords decision until February.

101. February, 1960?—Yes, so the decision considerably altered that.

102. Shortly after which you were aware that legislation was pending, so that probably caused a further postponement?—I am afraid the figures for this present year, of course, will show a further difficult position because while the legislation was pending we had to hold our hands again.

103. Were there any other reasons why the results for 1959-60 did not equal those in previous years, ignoring the year when it was held up?—No.

104. This was a sufficient reason?—This was the big one, yes.

105. You have said the current year will still suffer a little because of the legislation?—Yes.

106. That is, the year up till when, to March, 1961?—Yes. We had to hold our hand, in effect, from April to August.

107. How much progress is being made now with the arrears that built up during these various periods of postponement?—We made much better progress after the Court of Appeal decision than we had hoped. We did get on quite a bit.

108. When do you hope to overtake the arrears?—I would think, within the course of this year, the present year.

109. Do you mean before March, 1961?—I hope so.

110. I thought you felt you were still going to suffer this year?—Yes, but if last year is any guide, one is able to get on much more quickly than we had feared once you get clear. We are now on the new Act trying to get on as quickly as we can.

Mr. Stevens.

111. Sir Alexander, the *Hinchy* interregnum has clouded this tabular statement a little bit, but none the less a trend seems to be evident. The number of cases of fraud and evasion has

steadily diminished in the six years shown. Is the Inland Revenue becoming less vigilant or is the taxpayer becoming more honest?—I should think, Sir, that once we get clear of all these troubles we will get to a figure of about 15,000 cases and I think we will probably stay there. We do not envisage any trend of that sort.

112. Actually, there has been quite a striking downward trend. You envisage stabilisation at 15,000 but if the trend continued one would get down considerably below that figure. You think the curve will flatten out?—If you take 1955, we were then still dealing with some of the bank return cases which had swollen the figures.

113. Yes. This table only goes back to 1955. I make no complaint of that, but would it be true that there are probably some very old cases which have not been finalised, wartime cases, or something of that sort?—We are getting through with the wartime cases.

114. You are not free of that yet?—We are not free of that yet. They still come to light but they have lessened very much.

115. Have you a note, by any chance, of how much is still outstanding from these war cases?—No, I should have to get you a note. I have not one here. I will get you one*.

Mr. Stevens.] In the cases of the later years have any novel methods of evasion come to your notice? I think Sir Alexander could sideline his answer?

Chairman.

116-7. I think he would probably want to?—I cannot think of anything. The cases that come forward seem to be the old methods continuing as before. I cannot think of anything.

Mr. Stevens.] If you hear of anything you might let me know, Sir Alexander.

Chairman.] I take it Mr. Stevens was asking about tax evasion and not tax avoidance?

Mr. Stevens.] Exactly, yes.

Mr. Arbuthnot.

118. Sir Alexander, you were in difficulty at one moment because you had not got sufficient investigators. How is that position now?—We think that we have got about the right number now. We are quite happy with the size of the staff.

119. By how many have they gone up in the last year or two? Have you got any figures for that?—If you are thinking of the enquiry branch, it has not gone up much. It has remained more or less stationary for the last two or three years.

120. But despite the fact of now having sufficient investigators you still find the figure of the number of cases is substantially below the run leading up to 1958?—Yes, but that was due to the *Hinchy* case and the Bill.

Chairman.

121. Are the investigators to whom you referred drawn in most cases from the Inspectors' offices?—Entirely.

* Information not available.

TUESDAY, 31st JANUARY, 1961.

Members present:

Mr. Harold Wilson, in the Chair.

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

Vice-Admiral Hughes Hallett.
Mr. Pentland.
Sir Colin Thornton-Kemsley.

Sir EDMUND COMPTON, K.B.E., C.B., Mr. D. O. HENLEY, Second Treasury Officer of Accounts, and Mr. J. GIBSON, an Assistant Secretary, Treasury, called in and examined.

TREASURY MINUTE ON PARAGRAPHS 106-108 OF THE SECOND REPORT OF THE COMMITTEE OF PUBLIC ACCOUNTS, 1959-60.

Mr. K. ANDERSON, C.B., C.B.E., a Deputy Director General and Comptroller and Accountant General, and Sir ROBERT HARVEY, K.B.E., C.B., a Deputy Director General, Post Office, called in and examined.

Chairman.

122. I am sure the whole Committee is sorry to hear that Sir Ronald German, who has succeeded Sir Gordon Radley as Director General, is ill and not able to appear before us this afternoon. Mr. Anderson, you have appeared before us with Sir Gordon many times in the past. Sir Robert, I do not think you have appeared before the Committee before?—(Sir Robert Harvey.) No, Sir.

123. On behalf of the Committee I should like to offer you a welcome?—Thank you, Sir.

124. Will Members please turn to the Treasury Minute dated 24th November, 1960 on the Second Report of the Committee of Public Accounts, 1959-60, on paragraphs 106-108, Control of Capital Expenditure. Mr. Henley, the Treasury Minute promises the provision of "additional information about the cost of completed works". Could you enlarge on those few words?—(Mr. Henley.) Yes, Sir. We understand that the Post Office is considering the type of information on their building programmes and on the progress of those programmes which they will give to Parliament under the new arrangements after the change of status comes into effect, assuming that the Bill now before Parliament is passed. At the moment they have not any definite proposals, I think, as to the exact form of those works statements, but in due course, in the light of the discussions which the Committee had on this subject last year, they will no doubt produce some

of the additional information which was requested by the Committee.

125. Some of it? In the Minute My Lords refer to "completed works"?—Yes.

126. But is it not the intention—I am sure it was our intention—that the statement should cover works in progress, that is, that the Post Office should provide a comparison of estimates of and actual expenditure on individual projects year by year in the period preceding the completion?—If you mean, Sir, a statement each year showing the estimate of the amount of money which was originally expected to be spent on a given work in that year and the actual expenditure in that year, we understand that the Post Office would prefer not to go as far as that for the reason that this particular comparison year by year of work which is spread over many years is not, in their view, a very useful one, either for their own purposes or for the Committee's. On that what the Treasury was proposing to do was to see the form of the statement to see if it substantially met what the Committee had in mind in their Report last year.

127. But this, Mr. Henley, suggests that we shall only get the cost of the completed work against the estimate when it is over. Surely, through the medium of the Treasury this Committee receives, if I remember rightly, on roads, for example, a statement showing how much a particular project is going to cost in total, not how much they expected

31 January, 1961.] Mr. K. ANDERSON, C.B., C.B.E., and
Sir ROBERT HARVEY, K.B.E., C.B.

[Continued.]

to spend each year on each project, but the total expected expenditure on the project and then the actual annual expenditure on that project as it goes ahead. Is there any reason why that should not be done in the case of the Post Office?—Do you mean the amount spent to date? Taking a major project of, say, £1 million, amount spent to date, £500,000, leaving another £500,000 to be spent.

128. Yes?—And, perhaps, a final total expenditure of £1,250,000.

129. Yes, we would be very interested to see if the amount was exceeded when the job was completed?—That kind of comparison would seem reasonable to us, but a comparison year by year of estimate and expenditure in the year we would not think so valuable.

130. Your Minute said “completed works”. That is why I was pressing you on something which involves a report to this Committee before the work is complete?—(Mr. Anderson.) I wonder if I might intervene at this stage, Sir, because really the question of what will be presented if the Post Office Bill passes the House—it passed its Second Reading last week—will be primarily ours and not the Treasury’s and, therefore, we shall be primarily answerable for whether we satisfy this Committee or not. The fact at the moment is that when that Bill has been passed we shall have a very big job to do in what amounts, really, to recasting the whole of our Accounts and Report into an appropriate form suitable to the new regime and reflecting, too, the abolition of estimate control by the House. We have noted this particular request of the Committee for consideration in that connection and, naturally, we shall carry out what we have assured the Treasury we will carry out, which is to give the cost of completed works. I would not like today to say exactly what we shall give. This will not arise for nearly two years, in fact, but I do think it unlikely that we shall find the giving of annual estimates comparable to those which you get from other Government Departments reconcilable with the intent of the House in freeing us from annual estimate control.

131. Mr. Anderson, I am not sure if you took the point I was putting to Mr. Henley. I do not know what other Members of the Committee may have in mind, but I was not asking for an annual

estimate of expenditure on perhaps a 3-year job and then actuals to go against the estimate. I was asking, arising out of previous Reports—a whole succession of Reports of this Committee—whether the House will have available to it a report each year on the actual expenditure compared with the original estimate for the work as a whole?—I think one of the possible solutions would be to give the House something like the statement the Coal Board give for their colliery projects, which does involve keeping a running account year by year of what you have in mind to spend and what you have spent up to date.

132. I think that is what the Committee probably had in mind?—If I might, without committal, say so, that seems probably the best solution; but I would not like to regard myself, and certainly not my Minister, as committed, because we have not really tackled this whole job yet.

133. But I take it it is envisaged that you will be publishing an annual statement of capital expenditure?—Oh, unquestionably. We have committed ourselves in the White Paper which was published last March to produce a White Paper every Spring which will deal both with our financial prospects and with our capital expenditure and the financing of it in the following year; and the Bill itself requires us to present a Report and Accounts each year, so I think the cycle that you have in mind will undoubtedly be fully provided for.

134. You cannot say at this moment what form the statement of capital expenditure will take?—I would not like to commit myself to it because, frankly, it is not the first job we have got to do.

Mr. Arbuthnot.

135. Mr. Anderson says it is not the first job he has to do. What is the first job you have to do?—To recast the published Accounts.

Mr. John Hall.

136. When these Accounts are recast will they be presented in future in a form more in accordance with commercial practice, unlike the present form of Government Accounts?—As you know, we have really got dual accounting at the moment. We shall be looking today at the Appropriation Accounts and then subsequently at the Commercial

31 January, 1961.] Mr. K. ANDERSON, C.B., C.B.E., and
Sir ROBERT HARVEY, K.B.E., C.B.

[Continued.]

Accounts. The Appropriation Accounts as such will vanish. The sole accounts of the Post Office will be something more comparable with the present Commercial Accounts, but we have distinct ideas about recasting those and, indeed, amplifying them, because I am sure you will want in this Committee, for example, more detailed statements of the make-up of some of these items. In that sense

we shall go far beyond commercial practice. The Bill requires our Accounts to conform to the best commercial practice and we shall undoubtedly see to it that they do.

Chairman.

137. The Comptroller and Auditor General will be the Auditor of the new form of Accounts?—That is so, and the Bill so provides.

REVENUE DEPARTMENTS APPROPRIATION ACCOUNTS, 1959-60.

VOTE 3.

POST OFFICE.

Chairman.

138. Will Members now turn to the Comptroller and Auditor General's Report on the Revenue Departments Appropriation Accounts, paragraphs 22-26, Subhead K—Engineering Materials—Bulk Supply Agreements? Sir Robert, from paragraph 22 we learn that orders placed under the bulk supply agreements in 1959-60 amounted to £28½ million. What proportion of your total contract orders does that represent?—(Sir Robert Harvey.) Just under half, Sir. Total orders in 1959-60 came to £65.5 million.

139. Is that proportion of just under half typical of other years?—Yes; it has varied a bit but it is, in general, in line. If you take the lowest proportion of bulk supply agreements during the last ten years, that was in 1950-51, and there the bulk supply orders came to £16.6 million out of a total of £41 million. The highest proportion was in 1956-57, when the bulk supply orders came to £42 million out of a total of £56 million.

140. Why do you adopt this non-competitive basis for such a very high proportion of your total orders?—We do feel that the bulk supply system has very substantial advantages for the Post Office. I would list three, Sir: first, that the system does enable the closest co-operation to be established between the manufacturers on the one hand and the Post Office, as the user of the product, on the other. Technical information is pooled and our problems are tackled jointly. The second point is that we are able through the bulk supply system to secure something which we regard as very desirable in a complex telecommunications system like ours, which is the pretty broad standardisa-

tion of the product; and the third one is this, Sir, that with the bulk supply system and with a system of placing orders it is very much easier to get the orders programmed in a way which enables all the various bits and pieces to be brought together at the right time. If you take, for instance, the construction of a telephone exchange, then you have got to correlate the manufacture of the equipment, which is a pretty big job in itself, with a building; and within the exchange equipment there are all sorts of bits and pieces, as you can imagine, Sir, which go to make it up. We have found that in all the agreements the advantages which they give to us with the programming of the work have been very real.

141. There are no other firms who would be capable, for example, of producing a telephone exchange for you and going and getting the bits and pieces if they had signed a contract to do it?—We have felt so far that the present firms, parties to the exchange equipment agreement, were the firms who could really do this job; but as is mentioned in the Comptroller and Auditor General's Report, we are just about to try a reservation clause by inviting other firms to tender. We still are at a pretty early stage there and I really hesitate to give an answer on what the result of that reservation clause and the outside tendering will be.

142. We shall, no doubt, have questions about that. Naturally, we understand you to say that the firms which are parties to the agreement are capable of producing a telephone exchange. You have not answered my question, however, which was whether you think any

31 January, 1961.] Mr. K. ANDERSON, C.B., C.B.E., and
Sir ROBERT HARVEY, K.B.E., C.B.

[Continued.]

firms outside who are not parties to the agreement could produce, to take your example, a telephone exchange, and get the bits and pieces together on time. Are there such firms or are there no such firms?—I do not think there are such firms, Sir really.

143. Could you say how long it is since the Post Office tried any other method than this bulk supply agreement system?—Do you mean, Sir, within the field covered by the bulk supply agreements?

144. Yes?—It must be a very long time. I could not give you a date off hand.

145. In your time in the Post Office?—I do not think so, no.

146. If it has not been tried within living memory and you must rely on information passing down since you last tried it, how can you be sure that this is the most economical method if the other has not been tried?—I think that would take us on, really, as to how we try to satisfy ourselves as to the price we pay.

147. We shall have questions about that, Sir Robert. Surely, since it is always the view of this Committee and the House and the whole system of Public Accounts that competitive methods should be used where they can, would you not feel that we should want rather more assurance of the fact that you have tried other methods than your saying: "It was tried once", perhaps in Victorian times or at some very distant, remote time which is not within your own experience?—I would like to make this point, that one of the compelling reasons in the history of this for the creation of bulk supply agreements was, in fact, to enable the Post Office to get better prices than it had been getting.

148. My last question, at this stage, at any rate, is this: you referred to the history of this and the compelling fact. Could you put an approximate date as to when this compelling fact entered into history?—I was thinking, Sir, of the start of the bulk supply agreement system.

149. When?—In the 1920s.

Mr. John Hall.

150. Sir Robert, in the course of your answers you have given three reasons which you consider justify the present

Post Office policy. Would not those three reasons apply to and justify all ring agreements?—I do not think so, Sir. I think there are certain very important features about the Post Office bulk supply agreements which, in my view at any rate, do not apply to what one thinks of when the word "ring" is actually used. Here again, I think we do get on to Post Office control of costs. I could, if you like, say something about that now or possibly, as you suggest, Sir, wait until a later stage.

Chairman.] I think this does come in paragraph 23, but we are taking paragraphs 22-26 at the moment, if you wish to pursue it.

Mr. John Hall.] I will leave that with you, Sir.

Chairman.] I think a number of Members will want to put questions about cost.

Mr. John Hall.

151. Then I will leave that one. Following on another question which was raised as to whether or not there were firms outside the present list who are capable of producing, shall we say, a telephone exchange, are there, in fact, any substantial producers of the kind of equipment you require who are not within the list of firms who cater for your bulk requirements?—Oh, yes, there are. I am trying to keep the reservation clause separately, but that question does really raise it in this way, that the tenders which we have recently issued under the reservation clause were issued to about 11 firms—I am thinking there of the exchange equipment type of stuff—and the numbers for the other agreements are broadly the same.

152. If I understand you correctly, then, the number of manufacturers in each agreement is about 11, is that right?—No, the number of people whom we have invited to tender under the reservation clause, that is, the people outside the firms, parties to the agreement, in one case is 11, in another 9 and in another 20.

153. Can you tell me how many firms are within each agreement and, indeed, all together?—Yes. Taking the last one first, there are 13 firms all told; and on the four agreements, there are five who are parties to the exchange equipment agreement. On the telephone apparatus agreement there are eight,

31 January, 1961.] Mr. K. ANDERSON, C.B., C.B.E., and
Sir ROBERT HARVEY, K.B.E., C.B.

[Continued.]

including the five parties to the first one I mentioned. For the cables there are six and for the loading coils agreement there are four.

154. In paragraph 22, lines 4 and 5, the Comptroller and Auditor General refers to "certain specified reservations and exceptions"?—Yes.

155. What exactly is meant by that? What are these special reservations and exceptions?—There are really four, Sir: first, the reservation clause itself which has been mentioned. Second, the Post Office has the right to go outside and place an order for an experimental type of equipment and to use that experimental type of equipment in the public system. Third, the Post Office may place an order outside if, in the opinion of the Postmaster General, the placing of that order would help the export trade. The last one is that the Post Office can arrange to have equipment manufactured in its own factories.

156. Apart from the last one, has your Department ever taken much advantage of these exceptions?—No.

157. So, the exceptions and reservations only exist on paper rather than in fact?—They exist on paper, but I would put it a little more than that in that they do give a potential there which the Postmaster General could use; and to that extent they are, I think, more valuable than merely being on paper.

158. But you cannot recall an instance when the Postmaster General has in fact used his powers?—There have been one or two, but they are really few. There was one under the exchange equipment agreement, when we placed an order for line connectors with a firm outside. That is only one instance. The general answer is, very little indeed.

159. Do you think that it is possible that a firm outside the listed firms who might develop something new and useful for the Post Office or for communications in general might be shut out altogether and never be able to deploy this new invention for the benefit of the Post Office?—I do not think so, Sir. I would, myself, draw a distinction between that sort of case where someone produces something new. The whole purpose of the clause enabling us to take something on an experimental basis is just to cover that. But if you are thinking of a firm going into the business in a big way, then that seems to

me to be different. If a firm were going to equip itself with factory capacity, tool up and incur all the capital expenditure that would be needed, it really would have to be, would it not, a very substantial act on the part of the firm. When you have at the present time, taking the exchange equipment group, five firms who have got very substantial resources, if I were a member of another firm I would possibly think twice before I spent all the money that would be needed.

160. So you think that the present system, in fact, discourages any other firm from developing equipment of that kind because it is not within the number of listed firms?—I do not think it discourages people from developing new ideas, but I did try to draw a distinction between that and someone who would be faced with the job of coming right into the business in a very big way.

161. So, they would be forced to sell their idea to one of the existing listed firms?—No, we could take it direct.

162. Have you ever done so?—I think the answer to that is, no.

Vice-Admiral Hughes Hallett.

163. How do you select the manufacturers in each group for cost investigations?—Through the Director of Contracts with his Chief Accountant and Principal Technical Costing Officer we come to the conclusion as to which firm is, in our view, the most efficient firm for the purpose of particular kinds of manufacture and the costing is done at the firms which, in our view, are the most efficient producers.

164. Taking the thirteen firms that are in the agreement now, can you give us the date in each case on which its actual costs were last ascertained?—I have in front of me the firms which are being costed during the current agreement. Taking the five firms, Automatic Telephone and Electric Company—this is under the exchange equipment agreement—that firm is included in the costing of the current agreement running up till 1963. Standard Telephones, the same. A.E.I., the same. G.E.C., the same. That is, four of the five firms—of course, only for certain types of equipment—are being costed under the current agreement. The other firm in the exchange equipment is being costed under the telephone apparatus agreement—that is, Ericsson's.

31 January, 1961.] Mr. K. ANDERSON, C.B., C.B.E., and
Sir ROBERT HARVEY, K.B.E., C.B.

[Continued.]

Does that answer your question, Sir, or would you like me to say something about the cable agreement, too?

Vice-Admiral *Hughes Hallett*.] I think it would be of interest perhaps to know the lot, would it not, to have it on the record.

Chairman.

165. You have not got the exact dates? You cannot say in respect of each firm in respect of each agreement?—I could not offhand, Sir.

166. Perhaps you would like to put in a statement* about that. I think it would be very valuable to the Committee?—Yes, indeed, Sir.

Vice-Admiral *Hughes Hallett*.

167. The next question I would like to ask is whether you are satisfied that the technical costs officers can accurately assess the efficiency of the firms' production methods?—Yes, Sir. I think so. Their work, and the quality of their work, is based on very long experience of this sort of thing; and they do the same sort of work, too, for other Post Office contracts outside the contracts under the bulk supply agreement. We feel, and we sometimes have this cast up at us by the contractors, that these chaps are really very good at their job.

168. Have you the right to cost any firm for any item?—Yes, any of the firms, parties to the agreements, in any part of the activities covered by the agreements.

169. In practice does the investigation cover all the firms, or a selection?—I think here, Sir, you have got to think also of the work which is done by the accounting staff, who are the first people to go and make the cost investigation. What they do is to take out basic costs and a proportion of the basic items on the basis of the value of these items as compared with the total value varies a bit among the different agreements. For exchange equipment the basic items amount in terms of value to about 50 per cent., for telephone apparatus, to about 75 per cent., and for cable and loading coils, to about 80 per cent. Then when these basic items have been dealt with, the technical costs officers undertake pricing by analogy and there, of course, the position must vary because there are some closer analogies than

others. The proportion of close analogies under the exchange equipment agreement is high because there are so many items which are built up on the basis of the same component parts.

170. Yes, I see that. Do you ask the firms that are not selected for investigation to supply you with their costs?—No. We ask them to accept those costs which are arrived at as a result of the costing of the selected firms and there are common prices which apply to all.

171. One final question arising out of the question which was put to you with regard to outside firms who may have new inventions and new types of equipment. Do you have a machinery for watching what may be being developed by foreign countries?—Yes, Sir. We are in very close touch with foreign countries. In my own case I have very many contacts with the United States, and in recent years we have sent across to European countries also a small party headed by the Director of Inland Telecommunications and including people on the engineering and financial sides to discuss all sorts of things with foreign countries. They visited France, they visited Germany, they visited Sweden; and that kind of thing is going on all the time. Of course, there is this very important point, too, that we in the Post Office do play a very large part indeed in the technical work of the International Telecommunications Union. We are members of all the study groups, or nearly all, and our Engineering Department through that means do get to know a tremendous amount about what is happening on the technical side elsewhere. So, I think I can give you a completely reassuring answer on that point.

Mr. Chetwynd.

172. I wonder if you can help clear my mind, at any rate, on the bulk supply agreements. Am I right in thinking that this £28·5 million is spent exclusively on that?—Yes.

173. And that means that another 50 per cent. is also spent in supplying the same kind of things?—Not the same kind of things, no.

174. So that £28·5 million represents 100 per cent. of the engineering materials you buy?—Oh, no, Sir. The distinction really is between the types of things which are bought through the bulk supply agreements and what we call stores.

* See Appendix 6.

31 January, 1961.] Mr. K. ANDERSON, C.B., C.B.E., and
Sir ROBERT HARVEY, K.B.E., C.B.

[Continued.]

There are a tremendous number of stores items which have to be used for all the work which the people in the telephone service have to do, ranging from telegraph poles to spindles, nuts, bolts, all that sort of thing, and they account for a very large amount indeed.

175. How do you make the distinction between those things which you prefer to buy by bulk supply and those which I presume you buy by normal competitive tendering?—Yes, we do.

176. How do you make the distinction?—I think the distinction really stems from the kind of advantages which I mentioned about the bulk supply agreements, as we see them, that the kind of things we buy from the bulk supply contractors are those things where it is really of very great importance to keep in the closest co-operation on the technical side with the manufacturers.

177. But would you not get the same results if you tried competitive tendering?—I do not think we would, Sir.

178. It works in the rest of industry in that way; I am a bit surprised. It may be you would like to put this in separately: could we have a list giving the names of the different firms in the different sections?—Certainly*.

179. Because some of them are overlapping?—Yes.

180. If we could have that it would give us the whole picture of these firms?—Yes, I can do that at once, if you like.

Mr. Arbuthnot.

181. May we add to it those which are beyond the pale†?—Would you like me to give you them now, Sir? I can.

Mr. Chetwynd.

182. I think we would prefer to have it* circulated?—Very well, Sir.

183. Could I refer now specifically to paragraph 26, dealing with the cable agreements. I gather you had no response at all from the firms outside the agreements to your invitations to tender?—That is right.

184. Did you send out a separate invitation to each firm that you knew was in business or a kind of general advertisement?—No, we sent out an individual invitation.

185. Could you say to how many firms?—15 to 20.

186. Outside the agreement?—Outside, yes.

187. And you had no reply?—That is right.

188. Why was that?—It is very difficult for me, as a Post Office person, to answer. We have naturally given a good deal of thought to this because it does seem strange, and while I can only give this as a personal view, I think it may be that these outside firms may have said to themselves: "The bulk supply agreement that we are asked to tender within covers the paper-covered type of cable. We believe that the future of the telephone cable may lie in polythene, which at the present time is not within the cable bulk supply agreement." They may have said to themselves—mind you, this is only my guess—"We think that we will concentrate on polythene cable", and in fact we have obtained a substantial supply of our polythene type of cable from the firms to whom we issued invitations to tender.

189. That can only account for a small proportion of them, I should think. Are they genuinely interested in trying to get Post Office business or do they think the whole thing is so sewn up right from the start that there is no point in tendering?—I would have said that they would have been genuinely interested. But there is this further point about the cable industry, that there is very substantial capacity available at the present time and people must know that, and have to make up their own minds about the amount of business that could be forthcoming having regard to the capacity which already exists.

190. Can you say whether the telephone systems abroad, on the Continent, for instance, use the same kind of cables that you use in the Post Office?—I would say broadly, yes.

191. Then, as a matter of interest, have you asked for any overseas tenders?—That, Sir, is a point which we are at the present time engaged in following up. Our Director of Contracts started this morning in various discussions with the French about their system of ordering and he hopes within the next few weeks to do the same with the Germans and the same with the Dutch. So, we really do not have full information on that, but we do, of course, have some.

* Information supplied: not printed.

† See Appendix 7.

31 January, 1961.] Mr. K. ANDERSON, C.B., C.B.E., and
Sir ROBERT HARVEY, K.B.E., C.B.

[Continued.]

192. Would it be known to the home makers that you are doing this?—I do not think so.

193. Do they really feel that they are in a specially protected position?—I do not think they do, Sir, no.

194. Would I not be right in thinking, then, that the cable ring itself ran no risk whatsoever in agreeing to this 10 per cent. reduction because they knew it would never be operated?—I cannot really remember whether I was directly concerned at the time of the Monopolies Commission's report, which was 1952, but from what I have heard I do not think that the cable makers said to themselves then: "Look, this would not make any difference to us". I think it really was a very considerable change in their own minds.

Mr. *Arbuthnot*.

195. Sir Robert, you have just been asked, have you asked for any overseas tenders. I take it that the frank answer to that is, no?—I think "no" is the proper answer there.

196. Would it be unfair to paraphrase another answer which you gave by suggesting that the firms within the ring had blackmailed the firms who were beyond the pale, which really is the reason that you have had no response to the invitation to tender that you have, in fact, issued to those outside firms?—I am not quite sure what you mean, Sir, but if I have got the question right, you say, do I think that the reason why outside firms in regard to cable have not tendered is because pressure has been brought to bear on them by the firms who are parties to the cable agreement. I should myself say that the answer quite definitely to that is, no.

197. Is there a fear, would you think, on the part of these firms outside that they might be blackmailed and that pressure would be brought to bear on them?—I do not think so, no.

198. May I take you to paragraph 23? Do you base your price negotiations on the cost of the cheapest producer of each item? Do you allow any additions to the cheapest producer's cost in order to temper the wind to the more expensive members of the ring?—We do our very best there to get as near as we can to the cheapest. One has to remember this, that we start by selecting the firms in any particular range whom we regard

as the cheapest producer. We cost may be two, may be more, but we select all the time those who, in our opinion, are the most efficient. We then arrive at costs and seek to negotiate prices, and we do our very best, as I say, to stick to the prices which seem to us proper to the most efficient producer.

199. So that really takes you away from the cost of the cheapest producer of each item. You do, in fact, allow for what you regard as efficiency. How would you define "efficiency", I should be interested to learn?—I do not think it does take place that way. Our starting point and the way we approach it, is to cost two and base our prices on the cost to the lowest cost producer.

200. I asked you whether you allowed any addition to the cheapest producer's cost in order to temper the wind to the dearest producer, but you did not answer that?—No, quite. I said we try to keep as close as we can to the lowest costs.

201. So you do temper the wind?—Yes.

202. Do you allow any other additions for costs?—I do not think so, no.

203. What profit margin do you allow in your price negotiations?—You are dealing there, Sir, I take it, with the result that we seek to achieve by our cost investigations and negotiations on price. That is what we aim at when these processes take place. What we do there is to apply the standard Government contract formulae taking as the basis a $7\frac{1}{2}$ per cent. return on capital, and we endeavour to keep the prices that we pay such that the return on capital is a pretty modest one. Now, it is very difficult to give a composite picture of what the return on capital overall is at the time of our costing. I can only say this, I think, Sir, that on the basis of the figures that we have the return on capital might well be somewhat below 10 per cent. That, of course, applies to the most efficient firms and if we are right, as I hope we are, in our choice of firms for the purpose of the costing then the return on capital secured by the other firms would be less.

204. Is it correct, therefore, to say that you do not have a definite profit margin in mind in your negotiations

31 January, 1961.] Mr. K. ANDERSON, C.B., C.B.E., and
Sir ROBERT HARVEY, K.B.E., C.B.

[Continued.]

beyond the rather woolly figure, if I may say so, of something below 10 per cent.?—I am sorry, I have not quite grasped the question?

205. I asked you what profit margin you allowed and you said, something below 10 per cent. on the capital. Is there nothing firmer than that that you aim at?—Why I put it the way I did was this, that the prices that are eventually included in the agreements are the results of negotiations on the basis of suggestions which the Post Office make as a consequence of its cost investigation; and in making these suggestions we seek to apply to the most efficient producer always the kind of standard Government contract arrangement which is current, and that is why I mentioned the $7\frac{1}{2}$ per cent. return on capital.

206. Do you know the actual rates of profit accruing to the manufacturers under these agreements?—No, Sir. What I have said all relates to what we ourselves seek to do by our process of cost investigations.

207. When your cost accountants investigate a firm are they able to form any idea of the actual profit earned under past agreements?—I do not think so, Sir, no.

208. Taking paragraph 26, Sir Robert, what use have you made of the reservation clause under the normal and current loading coil agreement?—None.

209. Have you made any use of the reservation clauses in the telephone apparatus and exchange equipment agreements?—We are in process of doing so now. If I could just go back to the loading coil one, we decided at the time when we invited tenders for cables that there were no firms in this country who would want to tender under the loading coil reservation clause and we did not, in fact, for that reason issue invitations to tender. We did try the market in the summer of last year and issued invitations to tender to five firms whom we thought might be interested in loading coils. We have had no response. I suppose, to that extent, the view that we took earlier has been confirmed. Turning now to your question about exchange equipment and telephone apparatus, the first invitations to tender under the reservation clause there were

made in the latter part of 1960. As I said, we did invite tenders from a number of firms and there has been a certain response. The tenders have just come in and the Committee, I am sure, would not wish me at this stage to say what the result of the adjudication on the tenders will be, but the tenders cover such things as dials, telephone instruments, and so on.

210. How do you account for the difference in response between the exchange equipment agreement and the loading coil agreement?—I suppose it may be this, that on the exchange equipment agreement we have so far at any rate, invited tenders for particular parts and items whereas in the case of cable and loading coils one is inviting tenders for the complete article. It may be that, but this is still, as I think you know, under the exchange equipment and the telephone apparatus agreements, at a pretty early stage; and one does not quite know how the tenders will in fact develop under the exchange equipment and the apparatus agreements.

211. What was the difficulty about the use of specifications and drawings for seeking competitive tenders?—It was this: a great many of the specifications and drawings are the result of joint effort by the manufacturers and the Post Office. Details are worked out in technical committee and some of the rights belong to the Post Office, some belong to individual contracting firms and some belong to both. There was a genuine doubt on our own lawyers' part as to what were the Postmaster General's rights in regard to specifications and drawings worked out on a co-operative basis. We had therefore to be quite clear on that point and to get the point put beyond any doubt at all by a provision in the agreement itself before we could actually apply it.

212. So that the manufacturer has you exactly where he wants you?—Not now. It is made abundantly clear in the agreements that we have the rights.

213. Have you now full power, subject to the tenders and restriction, to buy items from non-agreement firms?—Yes.

Mr. Pentland.

214. Sir Robert, paragraph 24 tells us that the previous agreements expired in 1957 or earlier, but the following-on

31 January, 1961.] Mr. K. ANDERSON, C.B., C.B.E., and
Sir ROBERT HARVEY, K.B.E., C.B.

[Continued.]

agreements were not signed until the 30th September last year. Can you tell the Committee what was the reason for this delay?—Yes. I think quite simply it is the pressure of work that there has been on our Contracts Department. It may be that we ourselves tried to get this thing done with too small a staff. The amount of work which goes into the completion of these agreements is very great indeed, not so much in relation to the conditions in the agreement itself, although certain problems have arisen there which have required a good deal of discussion with the lawyers, and so on, and a great many discussions with the firms. But the time-consuming part has been the settlement of the cost investigation of the prices which go in schedules to the agreements themselves. I am very sorry myself that we were not able to conclude the agreements earlier, and I can only say that we have strengthened our staff. We have perhaps gone through and settled a number of difficult questions and I should greatly hope that we should be able in point of time to do very much better than we have in the past.

215. Was there any similar delay in the signing of the previous agreements?—Yes, there was. Really, to get the full picture here you have perhaps to get back to the period immediately after the war. The agreements had been extended for the war period and for such further period as the parties thought would be needed in order to settle their future relationships. We did run into very substantial arrears which, frankly, Sir, we have not really caught up with.

216. Might I ask if these delays have caused the Post Office any embarrassment in the past?—I do not think the delays have caused us any harm, but one would always far rather have the agreements signed and sealed and everything going along in what would appear to be a perfectly orderly and proper way. But the delays have not really done us any harm.

217. Could you tell us when the current agreements expire?—Yes. The cable agreement and the loading coil agreement are due to expire at the end of September, 1961. The telephone apparatus agreement will expire at 1st April, 1962, and the exchange equipment agreement at 1st April, 1963.

218. Can we take it from your previous remarks that in the future it is your intention to finalise any future agreements before they actually come into operation?—That is our strong hope, Sir. I would not say, and I do not think it would be safe really to say, in terms: "We will manage it". I am thinking here again of the time taken for the cost investigation which can be very long; and I think I would say that we would hope that any new agreements would be signed, if we can at all, by the due date and certainly as soon as possible thereafter.

Chairman.] Mr. Hall, you had some questions on cost, I think?

Mr. John Hall.

219. I think you were going to give us some further information on costs which followed the first question I addressed to you?—I think what I had in mind was, perhaps, to supplement what I had by that time said about the cost investigation by accountants and then the substituted work by the cost investigation officers and after that the negotiations on the price; and perhaps I could put it this way, although this is, as you know far better than I do, a very technical point of a financial kind. As I understand it the accountants settle the basic elements in the cost of the basic items taking into account overheads, the volume of business expected, and so on, all the things which accountants do. Then, the technical costs officers try to arrive and do arrive at the cost for items where those costs are settled by analogy with the basic items. When all that is done the Post Office puts to representatives of the firms which have been investigated prices based on the results of their enquiries. These reference firms then discuss the Post Office idea with the other firms and come back and then the thing is settled. Of course, the price which is settled does apply to all firms, parties to the agreements. I think that is what I wanted to say, to explain how the thing worked.

220. In answer to a question addressed to you just now you said that the profit margin which you tried to fix was related to a percentage on capital?—Yes.

221. Would you mind defining what you mean by "capital" in that respect?—The capital which is employed in

31 January, 1961.] Mr. K. ANDERSON, C.B., C.B.E., and
Sir ROBERT HARVEY, K.B.E., C.B.

[Continued.]

the production of these items. We do try to identify the capital represented by plant used, and so on.

222. It has no relation to the capital structure of the company or concern?—No.

223. Are any of the cable manufacturers who declined your invitation to tender controlled directly or indirectly by any other listed firms?—No.

[Mr. John Hall.] I am not sure whether you got this request, but in publishing a list of firms which are within the agreement would you also publish a list of firms which are outside? I think you were asked, those without the pale?

Chairman.

224. If you could identify them?—Is it possible to identify them?

Mr. Chetwynd.

225. Could you not put those in whom you have asked to tender and who have not?—We certainly could do that*, yes.

Chairman.

226. Sir Robert, did I correctly understand you to say that the cable agreement was, in fact, signed in September, 1960, and expires in 1961, but has a retrospective validity to September, 1957?—That is right.

227. In other words, during the four years currency of the agreement you were only operating, shall we say, legitimately, for one year and for three years illegitimately so far as the cable agreement is concerned?—Illegitimately no, Sir, I would not accept that, because what happens is that there are quarterly exchanges of letters of a legal character between the Post Office and the individual firms covering the interim period. While it is clearly far better to have the agreement signed, there is this legal relationship binding all parties, which means that once the agreement is signed then the provisions in that agreement do apply retrospectively.

228. Yes. I was not suggesting you were operating illegally, but it is a little odd, is it not, to have an agreement whose real validity is only one year of the four years to run?—Yes.

229. With regard to these people who were asked to tender and who did not, have you any reason to think that the Cable Makers' Association or any trade

Association gave advice to them on the question of tendering?—None, Sir, no, I have no reason at all.

230. Have you any reason to think that that did not happen?—No, I do not know.

231. Is it not a fact that the trade Associations in these industries are very tight bodies and, indeed, all the restrictive practices they operate were, in fact, abrogated by order of the Restrictive Practices Court; and since some of these invitations to tender go back to 1955 would it not have been a matter worth investigating to see whether there was any pressure being put on them by the trade Association?—I would have thought, Sir, it would be awfully difficult for us to do so.

232. So you just do not know?—No.

233. After the abrogation of these restrictive agreements by the Restrictive Practices Court is it not a fact that a very intensive series of mergers took place in the cable industry with some of the bigger firms swallowing up the smaller ones, and would not the possibility of being taken over in that way have been something of a deterrent to breaking in on the ring agreement?—I should myself have been very surprised if there had been anything of that sort. I do not fully know what mergers have taken place, but I had not really connected such mergers as I have heard about with the Restrictive Trade Practices Act.

234. It was, I think, generally commented that the one followed the other. At any rate, you really have never been given a reason?—No.

[*Chairman.*] It is just a coincidence that none of the people you wrote to want your business on the conditions on which it was offered.

Mr. Chetwynd.

235. Is there any reason to think that some of these firms to whom you give orders under the agreements sublet any part of that work to firms outside the agreement?—I do not think so, no. I do not know of any.

Mr. John Hall.

236. During these five years when you have been inviting other firms to tender and have had no success in receiving

* See Appendix 7.

31 January, 1961.] Mr. K. ANDERSON, C.B., C.B.E., and
Sir ROBERT HARVEY, K.B.E., C.B.

[Continued.]

tenders, obviously it must have occurred to you as rather strange—in fact, I think you said so?—I said so, yes.

237. What inquiries did the Post Office conduct to find out why it was they were not receiving tenders?—I do not know, Sir, I am sorry.

238. Would you like, perhaps, to let us know about that*?—Yes. That would be for our Director of Contracts really, and I do not personally know. I can certainly find that out.

Chairman.

239. Suppose one of the firms in the particular ring—I think you object to the word “ring”; shall we say, “circle”—under one of these agreements made some significant advance, some new invention, some new discovery, some very striking step forward, what is the position with regard first of all to the attitude of the Post Office and, secondly, their sharing out of the benefits of this advance in contracts to other parties to the agreement?—There is complete interchange, Sir.

240. Do they interchange before they come to you or after they come to you? Do they interchange some new invention among themselves and come as a body to you, or would one, having discussed it with you, come to some sort of understanding with you and then you press it on the others?—I think both could happen, Sir. Something which the particular firm thought could be used and would be of use in the Post Office Telephone Service would be brought by the individual firm to the technical Committee which I mentioned, on which there are all the firms and the Post Office, and, insofar as that device was used for Post Office purposes it would be made available quite free by this firm both to the other firms and to the Post Office itself.

241. But not to the outside firms?—As to outside firms, it would be for the firm itself to pay the usual royalty, but I have no reason whatever to think that the technical device would not be made available, for a Post Office order which that firm might secure, by the firm that had made the invention.

242. In addition to your own purchases, you are, of course, what used to be called the production authority for this industry. Does the question of exports enter into your calculations? I

* See Appendix 8.

would like to put this particular question to you: if the whole of this trade is more or less restricted to a very small number of firms, and if it were the case, as you were suggesting, that, say, a £2 million investment, perhaps, would be necessary to set up a plant and compete with these firms, does not the restriction of the main United Kingdom home market prevent our developing new firms within this industry who might perhaps be able to make striking progress in export markets?—I think I would answer that question this way, Sir: it is a feature of the agreements that we will place an order which, in our view, would help the export trade and we would greatly like to do that. Secondly, in all that we do we are most anxious to further the export trade, and we believe that this system of bulk supply agreements has, in fact, been of help in developing the export trade in our telecommunications equipment by the pooling of knowledge, and all the rest.

243. No one doubts either your anxiety or your belief, but is it not a fact that many other countries have got into the export trade by new firms setting up, say, since the war? Is it not a fact, as you yourself suggested just now, that if you were in private business you would think twice before incurring a £2 million investment to make it possible to meet these Post Office orders unless you had reason to think you would get the orders? If that be so, would there not be a similar inhibition, deterrent or disincentive preventing you entering into this field in the export markets as well? Surely, you would not set up a new line of business if you did not think you were going to get the home market Post Office contract?—There are, of course, a number of firms outside our bulk supply firms which have a substantial export trade.

244. Could you indicate those in the list you are going to give us of the people outside the pale? Perhaps you would have a look at that and see what information* you can give us on that. Now, the Post Office, I think it is true, have got an extremely efficient Statistical Department, so we have understood. Have you at any time worked out or established a price index for Post Office supplies?—Yes.

245. Comparable, for example, to the Board of Trade Price Index for building

* Information supplied: not printed.

31 January, 1961.] Mr. K. ANDERSON, C.B., C.B.E., and
Sir ROBERT HARVEY, K.B.E., C.B.

[Continued.]

materials, steel, and so on. Could you let us have figures of how that price index has moved over the periods covered by, say, the last two agreements?—Perhaps, Sir, I could now just say this on that point, that we have naturally kept a watch on how the prices have gone, and taking the year 1946 as a starting point and taking that as 100 and then trying to assess the prices in real terms, that is, ignoring the change in the value of money, the prices have come down to the extent of 10 per cent. up to over about 50 per cent.

246. Could you let us have some of the tables* on which that is based?—Yes, Sir.

247. One last general subject. You recall last summer an outside company, Pye, succeeded in taking over one of the agreement companies?—Yes.

248. Despite very strong opposition from what I must call the ring, the parties to the agreement. What part did the firm that was taken over play in the agreements? Was it a substantial firm?—Yes, it was one of the important firms—they are all important—in the telephone apparatus agreement. That change affected only one of the agreements, namely, the telephone apparatus agreement, in which there are eight firms at present, of which this particular company, the Telephone Manufacturing Company, was one.

249. Have there been any repercussions as far as the Post Office is concerned? Have they noticed any difference since Pye took it over?—None.

250. Did not the ring's reaction to this invasion of their field appear suspicious to you? Did it not make you suspect, possibly, that it was rather a good thing to be in a closed ring and the profits were, perhaps, higher than you had thought on the basis of your cost calculations?—I hardly think I could really express an opinion as to the motives of the people who were members of the group.

251. No, we do not ask you to express an opinion on the motives, but did it not make the Post Office at any time suspect that the profits accruing from being a member of this ring were rather higher than the Post Office had thought?—No.

* Information supplied: not printed.

252. You thought it was just natural resistance to invasion such as we see in other fields? Now, the invading company, if I may call it that, claimed that it could make a telephone—I think this was stated in the House at some point?—Yes, it was.

253.—for 30s. less than the price paid by the Post Office. Has any investigation been made of that striking claim?—Yes.

254. What result have you had?—We have done this. There was quoted as well, you know, the comparison with France and Germany, and that was, you remember, Sir, the subject of a Supplementary Question in the House.

255. Yes?—To deal with that answer first, the answer given by the Postmaster General was that on the one hand the instruments used in France and Germany are really pretty different in appearance, in what they do, and so on, from ours. But leaving that point on one side, the French costs were slightly higher than ours, the German costs were slightly lower, but when you take into account installation charges, the German position and our own were the same. Now, coming to the other side nearer home, where there was a suggestion made that this invader—to use your word, Sir—could make it for £4, we have not any evidence that that is so, but the particular firm concerned is included in the list of firms which will come under our cost investigation procedure for the current year.

256. When you say “the particular company”, do you mean the subsidiary of the invader, the taking-over firm?—Yes.

257. Was not the suggestion that the principal company, Pye, could have made it for 30s. cheaper if they had been in the position to do so? Was that not the suggestion?—I am not sure what Pye's had really in mind, whether they said they would set up a factory themselves and make it for £4 or whether they could get it made for £4.

258. No doubt your investigators will press this point on them when the investigation is proceeding?—They will certainly investigate the costs of this particular company.

259. Have you under the 10 per cent. clause invited tenders from Pye Radio?—Yes.

31 January, 1961.] Mr. K. ANDERSON, C.B., C.B.E., and
Sir ROBERT HARVEY, K.B.E., C.B.

[Continued.]

260. Have they responded?—They have responded, yes, Sir.

Chairman.] I must not ask you what has happened.

Mr. John Hall.

261. Was it not said at the time of this Pye acquisition that it was the only way in which any outside firm could break into what was described, and possibly quite wrongly, as the ring for the supply of Post Office equipment?—I am sorry, I did not catch the first part of your question.

262. Was it not said that the only way to break into the Post Office ring—I am using the term described by the newspapers—was to purchase a firm which was already on the list?—That was stated, Sir, yes.

263. But you would not agree with that?—No, Sir.

264. In other words, any outside firm which has the capacity and technical re-

sources would be considered by the Post Office?—Certainly. The agreements run for a limited period of time.

265. I understand that if any of the listed firms make some discovery or new development it is shared generally amongst all the other firms who are on the list. Now, if an outside firm comes to you with a new development which you want to take up, which you think is of value, would that outside firm be required to share that?—No. Could I just go back, Sir, to your own question about Pye's and the tenders? I would like just to check the date on which the tenders for the instrument are due. I have a feeling that the date has still to be reached, that it is still a few days on, and, therefore, I think I might want to modify what I said.

Chairman.

266. We quite understand that?—Thank you very much.

POST OFFICE COMMERCIAL ACCOUNTS, 1959-60.

Chairman.

267. Will Members please turn to the Comptroller and Auditor General's Report on the Post Office Commercial Accounts, 1959-60, which is found at the back of the red volume, paragraphs 1 to 6, Form and Results of the Accounts. Mr. Anderson, I have two questions. Taking paragraph 6 of the Comptroller and Auditor General's Report, the surplus of £20.9 million was over six times as much as your original estimate of £3.1 million. Could you say why that was?—(Mr. Anderson.) Yes, Sir. If you would permit me, I would like to gloss your multiple of six times by saying it was only 2 per cent. of the £900 million which we actually had at stake. But having said that, the plain fact here was that 1959-60 was a record year in two of the most material respects. On the one hand we had a record up-rush of business and on the other hand we had a record low for pay rises. Putting those two things together, all rational prediction was defeated. If you would like just to note the Comptroller and Auditor General has quoted us in the previous paragraph as attributing £24 million to increased business. Now, the average of the previous three years was only about £5 million.

So, you will see at once that it was a fantastic proportionate rise. On the other hand, as he says here, about half the increased expenditure was due to increases in pay, which was about £6 million. The average of the previous three years was £20 million. Taking into account those two major factors, all I can say is that I just could not guess what a wonderful year it was going to be.

268. Do you expect a series of wonderful years to follow, or would you not like to commit yourself?—You will find this time next year that I was not quite so far out on the current year, but very much the same factor, the boom, and the boom has affected the posts to a remarkable extent as well as the telephones, went at full force until about the middle of this year.

269. The middle of this financial year?—Of this financial year. Posts are looking a little weaker at the moment, although they are still going up; but they are a little weaker. What does continue and what delights us is our most profitable line, which is trunk telephone traffic, which is still rushing up at 10 per cent. per annum, and has done so now for two or three years. Nothing like it has been seen before.

31 January, 1961.] Mr. K. ANDERSON, C.B., C.B.E., and
Sir ROBERT HARVEY, K.B.E., C.B.

[Continued.]

270. One last question: the telegraph service continues to show a deficit. Do you expect any improvement this year?—Very slight. Of course, there it will depend largely not so much on the inland telegram, which is fairly stable nowadays,

as on our developing services like Telex. My latest view for the current year is in fact that it will overall be a little better than last year, but that is only a margin, a very small margin.

STATEMENT OF EXCESS, 1959-60, CIVIL ESTIMATES.

CLASS III.

VOTE 8.

SUPREME COURT OF JUDICATURE, &c.

CIVIL APPROPRIATION ACCOUNTS (CLASSES I-V), 1959-60.

CLASS III.

VOTE 8.

SUPREME COURT OF JUDICATURE, &c.

STATEMENT OF EXCESS, 1959-60, ARMY (ROYAL ORDNANCE FACTORIES) ESTIMATE.

ARMY (ROYAL ORDNANCE FACTORIES) ACCOUNTS, 1959-60.

Chairman.

271. Will Members turn to the two Statements of Excess? I have no questions. Is there anything you would like to say, Sir Edmund, on the Excess Votes?—(Sir Edmund Compton.) I do not think so, Sir. I think the Excess Vote on the Supreme Court of Judicature is sufficiently explained by the Note on the

Account itself. The second, on the War Office, is really due to an incorrect adjustment when all but two of the Ordnance Factories were transferred from the Ministry of Supply to the War Office. The excess is really a deficiency in Appropriations in Aid, and although the figure is £477,790, it is, perhaps, not large in relation to an Appropriation in Aid of over £32 million.

TUESDAY, 7TH FEBRUARY, 1961.

Members present:

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

Vice-Admiral Hughes Hallett.
Mr. Stevens.
Sir Colin Thornton-Kemsley.

In the absence of Mr. Harold Wilson, Mr. Cledwyn Hughes was called to the Chair.

Sir EDMUND COMPTON, K.B.E., C.B., called in and examined.

CIVIL APPROPRIATION ACCOUNTS (CLASSES I-V), 1959-60.

CLASS IV.

VOTE 12.

UNIVERSITIES AND COLLEGES, &c., GREAT BRITAIN.

Sir THOMAS PADMORE, K.C.B., a Second Secretary, Treasury; and Mr. E. R. COPLESTON, C.B., Deputy Secretary, University Grants Committee, called in and examined.

Mr. Cledwyn Hughes.

272. Will members turn to the Civil Appropriation Accounts, Classes I-V, 1959-60, to Class IV, Vote 12, Universities and Colleges, &c., Great Britain, and to the White Paper, Methods used by Universities of Contracting and of Recording and Controlling Expenditure? Before we deal with the relevant part of the Account in detail, does the Comptroller and Auditor General wish to say anything by way of introduction?—(Sir Edmund Compton.) Yes, Sir. As this is a long Report it may assist the Committee if I make a short statement to summarise its contents. It falls into four sections. The first part, in paragraphs 25-29, is historical to show why this Report has been made. In effect, the Committee in 1957 agreed that capital grants to the Universities should continue to be made without my having access to the books of the universities or to the records of the University Grants Committee subject to two things: first, to new arrangements for adding to the information available to the Treasury and through the Treasury to me; and, secondly, to a review of those arrangements being made by the Committee after a trial period of three years.

So, my Report has been made to provide the material on which the Committee can carry out their review. In the second section, in paragraphs 30-33, I have described the new arrangements and their effect upon my scope and that of the Treasury. Thirdly, in paragraphs 34-38 I give the results of two outside inquiries both promoted by the University Grants Committee, the first by a Committee under Sir George Gater, which reported in 1956, on the universities' methods of controlling expenditure on capital projects, the second a personal inquiry in 1959 by Sir Arthur Rucker into the progress made by the universities in applying the Gater recommendations. At this point I would like to take the opportunity to clear a point in my Report which may have misled some members. In paragraph 34 I say that the Gater Report has been published, but in paragraph 38 I say that "I have been furnished with a copy of Sir Arthur Rucker's Report." From that language the reader might infer that the Rucker Report had not been published. Well, it had not been when I wrote my Report, but it has since been published in full as Cmnd. No. 1235. Then, finally, the last section, paragraphs 39 to the end

7 February, 1961.]

Sir THOMAS PADMORE, K.C.B.,
and Mr. E. R. COPLESTON, C.B.

[Continued.]

of my Report, sets out the information obtained by me from the Treasury on the progress made by the University Grants Committee in setting up a system of advance cost limits which, as so far developed, cover about two-thirds of the university building programmes.

273. Thank you, Sir Edmund. I think we might take the history as read, and I suggest that we begin by examining the extent of audit under the new arrangements as described in paragraphs 30-33 of the Comptroller and Auditor General's Report. My first question is to the Comptroller and Auditor General. Sir Edmund, to what extent do the new arrangements enable you to advise the Committee that public money is being properly spent?—To this extent, Sir: first, I have access to the certificates of the universities' own auditors reporting that all these grants have been duly applied to the proper purposes. This was a query that was raised, I think, in the earlier discussions. That is quite clear under the new arrangements. Secondly, I have access to Treasury records from which I can satisfy myself that all grants are covered by Treasury approval, that authorised commitments in any year are not exceeded, that variations have been explained to the Treasury and that Treasury sanction has been obtained for any addition to the estimate originally authorised for any project. What I cannot do, and it is implicit in the whole arrangement that I cannot do, is to test such explanations or excesses by first-hand enquiry into the facts.

274. I take it that the Treasury intended to make up for your not having access to the books when under the new arrangements—and I am quoting now—they “expressed readiness to obtain from the University Grants Committee any supplementary information which might be required in order to answer questions” which you might raise with the Treasury. That is in paragraph 28 of the Report. Can you tell us what use you have made of this facility?—Yes. There were three cases in 1959-60, that is, the year covered by this Account, and all three were small cases where additional grants had been sanctioned by the Treasury without reasons being given. My officers asked for the reasons, and we are satisfied with the explanations and with the

additional information which was given to us.

275. What conclusion do you wish the Committee to draw from your experience?—I think I can best assist the Committee by some figures on that. The cases I specially watch are those where the project as a whole is overspent and a supplementary grant is required over and above the grant originally recommended by the University Grants Committee. In this year 1959-60, the year covered by the Accounts now before the Committee, there were 47 such supplementary grants given, of which the smallest was £1,200 and the largest £29,571. About half of these cases were due to additional work being authorised, the others to increases in labour and materials costs. I think the Committee can reasonably infer that the information to which I have access in the Treasury has not led me to suggest that any case should be further tested for evidence of defective control or weakness of system.

276. Sir Thomas, can you confirm what the Comptroller and Auditor General has said? Were all the overspendings reported to you and sanctioned by you due to additional requirements or higher costs outside the universities' control? Are you satisfied that none was due to faulty execution or weakness of control?—(Sir Thomas Padmore.) I am. In general I can confirm what the Comptroller and Auditor General has said; and I might add that, although he mentioned that there were, I think he said, four or some such small number of cases in which he had made use of the arrangements made that we would get supplementary information wherever he required it where there had been something that called for enquiry, it is also the case that, of course, his officers have constant contact with the whole of our papers and records in these matters and there are a great many more supplementary enquiries that are made—informally, by telephone, and so on—and in all cases of that kind the University Grants Committee have been able to satisfy the Comptroller and Auditor General's need for further information and to satisfy him that all was well.

277. Mr. Copleston, as representing the University Grants Committee, are

7 February, 1961.]

Sir THOMAS PADMORE, K.C.B.,
and Mr. E. R. COPLESTON, C.B.

[Continued.]

you satisfied that none of these over-spendings was due to faulty execution or weakness of control?—(Mr. Copleston.) I think in general, Sir, I can confirm that on behalf of the Committee. Where the supplementary expenditure is required to meet additional costs of labour and materials under a contract which provides for those to be met, I think the issue does not arise. Where it is due to additional work or variations in the contract it is a rigid rule of my Committee that such grants are not made to meet that expenditure unless the project has been approved specifically by them and considered by them with care. So, I think in general I can certainly confirm that.

Mr. John Hall.

278. Perhaps I ought to address this question to the Treasury because I am not completely *au fait* with the previous discussions or arrangements that have gone to establish a principle which is wholly contrary to the principle which is generally gone on in this Committee. What are the considerations which lead the Treasury to say that there should not be the ordinary relations between the Public Accounts Committee and the University Grants Committee so far as supervision of the spending of public money is concerned?—(Sir Thomas Padmore.) The issue of principle to which you refer is one that, unfortunately, was the subject of a difference between the Public Accounts Committee and the Treasury which continued for a great many years up to 1957; and in their Report the Public Accounts Committee of 1956 reiterated their view that in the case of non-recurrent grants to universities some arrangements should be made more in accordance with the normal practices in relation to audit and control of capital expenditure by the universities. In particular, they suggested at that stage that the Comptroller and Auditor General should have access to the records in the possession of the University Grants Committee; and in January, 1957, the Treasury Minute on that Report from the Public Accounts Committee set out, I am afraid at very considerable length, the reasons why the Treasury had come to the conclusion that they were unable to accept the recommendations made by the Public Accounts Committee about the right of access. Perhaps I might answer the

question most briefly by just quoting a few words from that Minute. The Treasury said: "My Lords much regret that, after further careful consideration, they find themselves unable to concur in this recommendation." They went on to say: "The maintenance and expansion of the universities are a vital national need which cannot be met without a considerable subvention from the Exchequer. Yet this expenditure would not secure its objective if the independence of the universities were damaged by the imposition of Government control over academic policy or academic standards". They went on to say that it was clear, in their view, "that, if the Government and Parliament are to abstain from the sort of control which would normally follow from the grant of such considerable sums of public money, while at the same time being unwilling to make grants without any condition as to their allocation and use, there must be a devolution of some of the functions of Government to some body standing between the Government and the universities, and enjoying the confidence of both". It was on that ground that they suggested that this quite unique arrangement should be made whereby functions which normally would rest both with the Treasury and with the Comptroller and Auditor General and further with the Public Accounts Committee should, in this particular instance, continue to be vested primarily in the University Grants Committee. They went on to propose the changes to which the Comptroller and Auditor General has just referred by way of the furnishing of additional information to the Treasury under a number of heads and to the Comptroller and Auditor General. In their following Report the Public Accounts Committee accepted that the Treasury had gone, as they put it, some way to meet their point of view; and I think it is fair to say that they accepted this new arrangement subject to the desirability of looking at it again, as we are doing now, in three years' time to see how it was working. I remember that at that time or, rather, in 1958, the then Comptroller and Auditor General said that he was satisfied with the way the thing had been working up to that point and, of course, the proof of the pudding would be in the further eating, and he would prefer to wait until the end of the three-year period had arrived.

7 February, 1961.]

Sir THOMAS PADMORE, K.C.B.,
and Mr. E. R. COPLESTON, C.B.

[Continued.]

279. The Comptroller and Auditor General in his Report in paragraph 33—and, indeed, he referred to it also in his introductory remarks this afternoon—has pointed out that he is not in a position “to test from original records the explanations of appreciable variations between the amount of grants for major projects provided in Estimates and grants actually paid”. Would it interfere with academic freedom if he were in a position to point out the reason for a variation between grants and the actual amounts paid?—I think it is very arguable whether it would or would not if in that particular matter the Comptroller and Auditor General were in a position to ask for the papers and records, which would be university records and papers, the original documents, by reference to which the thing could be justified. It might be that in that particular instance no great difficulty would arise, but it would be a step beyond what the Treasury has always held is the right dividing line in this particular matter; and it is rather difficult to see, once you start access by the Comptroller and Auditor General to particular papers in the universities, where you could sensibly stop, short of his having access to the whole of their books and records. That is the issue that was, as I say, unhappily in dispute over the years prior to 1957 and it was what I think was then regarded as the point of the settlement reached at that time whereby this Committee, or its predecessor, came to the conclusion that the arrangements which we have now got operating were acceptable and satisfactory.

Vice-Admiral Hughes Hallett.

280. I am afraid I would rather like to come back to this, because the thing is summed up very briefly in paragraph 28 of the Comptroller and Auditor General's Report, in which he says: “The Treasury explained that . . . the grant of access . . . would involve the risk of interference with academic policy”, the words Mr. Hall has quoted. I still do not understand exactly why access by the public accounting organisation to the figures has anything to do with academic freedom. What would you say, as the Treasury, if the Army Council were to say that access to War Office Accounts by the Comptroller and Auditor General involved the risk

of interference with strategic policy?—What I would say to that is that, after all, the Army Council is part of the Government machine and the Army Council does not have a policy of its own. The Army Council policy is Government policy and, of course, Parliament is entitled to review and supervise the whole of Government policy by all manner of machinery, including the machinery of audit and examination of the Accounts. The universities, on the other hand, are not part of the Government machine. They are separate, independent bodies and it has hitherto been held that the maintenance of their freedom in policy was a matter of public interest, which is the reason why, as I have said, these special arrangements were instituted. You say, Sir, that you do not see that further access on the part of the Comptroller and Auditor General to the records in this matter would involve any necessary interference in academic policy. I think it is fair to say that that view has consistently been maintained by the Public Accounts Committee over at least a dozen years. On the other hand, the Treasury and the Government have, unhappily, taken a different view and have felt that there was a real danger of ultimate interference with academic freedom and academic policy if arrangements for audit and supervision went any further than those which are now in operation.

281. If we were discussing what was going to be taught at universities I could appreciate that there was some substance in the argument, but we are discussing here non-recurring grants, most of which go to building and expansion of the universities which, with great respect to the academic world, is in fact a matter of Government policy, because the Government provide the money for the overwhelming proportion of it. I must say that I am no more convinced by that sentence as it stands than I am by the sentence of the Athanasian Creed which says: “This is the Catholic faith. Whosoever believeth in it shall be saved”, which does not convince me at all!—Unhappily, over the years, as I have said, we have never been able to convince the Public Accounts Committee on this issue. Of course, it is not a question of interfering with what the universities are teaching, but it is a step in

7 February, 1961.]

Sir THOMAS PADMORE, K.C.B.,
and Mr. E. R. COPLESTON, C.B.

[Continued.]

that direction to control the kind of buildings they have, the kind of laboratory accommodation, for instance, the balance of their accommodation between the facilities for teaching the various subjects, and so on. I do not know that I can really say more than that.

282. Perhaps I might ask a question of the Comptroller and Auditor General now, because I would rather like to find out how much he is able to test under the existing arrangements. In paragraph 26 we are given the non-recurring grants in various years. In paragraph 43 of Command Paper No. 1235 we are given the non-recurring grants for building work, which I take it are a part of those figures, for two financial years, one 1954-55 and the other 1959-60. Now, there is a feature of these figures which strikes the onlooker, I think, as rather peculiar. In the 1954-55 figures the professional fees standing at £306,000 odd represented 6 per cent. of the total expenditure. In 1959-60, standing at £1,959,000 odd, they represent rather over double that proportion of the total expenditure. My question to the Comptroller and Auditor General is whether, from the amount of access he does have, he would be able to check and satisfy himself of the reason for this change in proportion of the professional fees to the total cost?—(Sir *Edmund Compton*.) My answer to that is that the information, either available to the Treasury or that could be made available to the Treasury, would enable me to answer that question.

283. May I now ask Sir Thomas, what is the explanation of the percentage of the professional fees having doubled?—(Sir *Thomas Padmore*.) I think one explanation is certainly that, if you take the figure for any particular year, it does not necessarily follow that the professional fees incurred in a particular year are those which relate solely and entirely to building payments made in the same period. There may be an overlap from year to year. Generally, we also have noticed the increase in the relative level of professional fees and so have the University Grants Committee. In the ordinary way the great bulk of their contracts are fixed price contracts and the level of professional fees is, of course, determined by the rates laid down by the profession concerned. But the University Grants Committee have on this account just taken

steps to make some special enquiry into the level of professional fees and have called upon the universities carrying out these works to provide them with explanations and justifications in all cases where the professional fees are more than or depart from the normal standard levels. The result of that enquiry—it has only recently been made—I am not yet in a position to state. I do not know whether Mr. Copleston can add to that? (Mr. *Copleston*.) I would perhaps explain, Sir, with respect to what Sir Thomas has said, that we have not launched a general enquiry. I think perhaps there was some misunderstanding there. What our Committee have asked their officers to do is to make enquiries of any particular university whose claims in respect of professional fees on any particular building exceed what would be regarded as normal. I think, perhaps, one explanation—although this is partly, I am afraid, just guessing without looking into it—of the increase in proportion would be the considerable increase in the proportion of science buildings to the total of new buildings that is now going on. There has been a very heavy weighting for science buildings, where universities have to employ not only an architect and a quantity surveyor but engineering consultants, and so forth, to a much greater extent than they would for, say, a hall of residence or an arts building. That, therefore, increases very much the proportion of professional fees.

284. I am advised, incidentally, that my mathematics are at fault and that the percentage has really risen to 14 per cent. However, be that as it may, am I correct in inferring from Sir Thomas Padmore's reply that the Treasury do view this increased percentage of money going to professional fees with some concern?—(Sir *Thomas Padmore*.) I would not go so far as to say that, Sir. We do not know whether we ought to view it with concern, but we have made enquiries about it and the University Grants Committee, as Mr. Copleston says, are making enquiries in those cases where there appears to be something abnormal.

285. If I may turn now to a different subject, may I ask, if an increased grant becomes necessary on account of some failure of control on the part of the

7 February, 1961.]

Sir THOMAS PADMORE, K.C.B.,
and Mr. E. R. COPLESTON, C.B.

[Continued.]

university, will that be evident when the supplementary grant is recommended by the University Grants Committee?— I am not sure how failure of control could arise in this respect, at any rate in the case of 90 per cent. of the contracts which are on a fixed price basis and are approved by the University Grants Committee before they are entered into. In those cases where there is provision in the contract for variation by reference to increased prices or increases in wages, which happens particularly in those cases where the building is going to take a considerable number of years to erect, that also would be provided for in the contract, and the basis on which it was to be calculated would be provided in the contract; so I do not quite see how failure of control could arise in that respect:

286. Perhaps I may give a specific example. I am sure, Sir Thomas, you will be vaguely familiar, anyhow, with one specific case this Committee investigated last Session, namely, a mistake that was made in connection with putting an extra storey on to a teaching hospital. It figured largely in the Report and a few thousand pounds were wasted before it was discovered that the building was not strong enough to stand it. If a similar thing were to occur in connection with university work necessitating a supplementary grant would that be apparent to the Treasury?—It would certainly be apparent in the first instance to the University Grants Committee and if there were a question of an additional payment the information would also be passed on to us, as it would also to the Comptroller and Auditor General.

287. In such a case involving a loss to public funds what action would the Treasury then take?—I think it would depend very much on the circumstances. I would imagine—I feel sure, in fact—that in an extreme case if such a case were to arise the University Grants Committee and the Treasury might very well refuse to make any additional payment. All the universities concerned are not entirely penniless bodies, and if they were at fault in any degree which made it appropriate it would be perfectly proper to refuse additional grants; and I have no doubt that in a serious case that would be considered and perhaps done.

288. But from what you have said earlier your view, I take it, is that, unlike other fields of public expenditure on a comparable scale, there have so far been no such cases?—I think there have not, and I think the reason for that is that as a result of the successive Reports on this subject of the Public Accounts Committee a very elaborate system of control by the University Grants Committee, and in turn by the universities, has been introduced as a result of these two Reports and, in particular, the Gater Report. So that, although the control by the Treasury is less in intensity than it is in other fields of public expenditure, the control by the University Grants Committee is, I would think, tighter than it is in most other spheres.

289. Is there any sanction if a university is regarded by the Treasury as having been negligent in the way the grant is spent?—There is always the sanction of refusing to make additional grant. I am not aware that any case of that kind has ever arisen, but the grants are approved by the University Grants Committee at a particular level and if there were a failure on the part of the University which resulted in additional expenditure it is always open to the University Grants Committee to use the sanction of refusing to pay further money. I do not know whether Mr. Copleston is aware of any specific instance? (Mr. Copleston.) Indeed, there have been a number of cases—not a large number, but a number of cases—where the University Grants Committee have refused to make a grant. These are generally cases where the university has varied a contract or carried out additional work without obtaining the prior approval of the Committee. Indeed, it is just very largely in order to avoid our Committee being put in the position of having to recommend to the Treasury grants for work which they have not been able to vet, as it were, and approve, that they do apply this rule very rigorously; and there have been a number of such cases. There are other cases where, perhaps, there have been extenuating circumstances and where the university has been asked, and asked fairly forcibly, to make a contribution.

Sir Colin Thornton-Kemsley.

290. Sir Thomas, insofar as there has been, as you have told the Committee,

7 February, 1961.]

Sir THOMAS PADMORE, K.C.B.,
and Mr. E. R. COPLESTON, C.B.

[Continued.]

a tightening up in their administration by the University Grants Committee, would you think that that is due to the representations which have been made from time to time by successive Public Accounts Committees?—(Sir *Thomas Padmore*.) Frankly, I would. It is very difficult to say what would have happened if the Public Accounts Committee had not made these various Reports, but I am quite sure that much of what has happened, including the appointing of the Gater Committee, including its Report and the extent to which the universities have been brought, as Sir Arthur Rucker says in his Report, to use the Gater Report as a Bible in all that they do, and the procedures of the University Grants Committee requiring their approval at every stage, I am sure the introduction of all those things has been materially affected by what the Public Accounts Committee did from 1947 onwards.

291. Sir Edmund, you would admit, and I think your Report makes it quite clear, and the Committee would recognise, that whatever improvements have been made in the procedure the relations between the University Grants Committee and your office still constitute an exception to the principle that the books and accounts of bodies which receive the greater part of their income from public funds should be open to your inspection so that you may, if necessary, make reports to Parliament about them?—(Sir *Edmund Compton*.) Yes.

292. The things that have been done and the improvements which have been made do not really make a breach in that exception at all. Have you any further improvements which you would like to recommend to the Committee? We have had three years' experience of the improvements which have been made which I think we all would recognise, would we not, to be improvements. Is there anything which occurs to you readily which might still be done to give you greater powers to report to this Committee and to Parliament?—On experience so far my answer is no, Sir. My experience so far is really that these new arrangements have been a success. The practical test is that on the greatly increased information which is available to me now I have seen no case which led me to think that I ought to test the case by further enquiries on my own, as I would if I had

access, for the sake of getting evidence or seeing if there was any evidence of defective control. It really seems to me to amount to this, that on my experience so far, even if I had had access, it does not look to me as though an enquiry would have produced a result in the shape of something to report to this Committee. I may be wrong, but that is the impression that so far I have. I would, therefore, think that these arrangements have been well tested by experience; and though one does not know what the future will bring, I would like to see how they would continue over a further period without change.

293. You are not suggesting to the Committee, are you, that we ought to suggest another three years and then look at the thing again? It might run on, might it not, until you drew the attention of the Committee to any irregularities which may have occurred, if any should occur?—Yes, Sir. I would not like to appear menacing. I would say, so far it has survived the scrutiny that I give it. I would like to be able to continue to exercise the power of scrutiny of Treasury records and to continue to have the facility of asking for more if I feel that I need more and to see whether the new arrangements continue to be satisfactory or not.

294. Just on one rather minor point, when you make enquiries you make them, I suppose, to Mr. Copleston, to the University Grants Committee, do you, or have you direct access to the auditors who have been appointed by the University Grants Committee?—No, Sir, I have access to the Treasury. The position under the new arrangement is that the increased information is made available to the Treasury by the University Grants Committee and I see it because it is on the Treasury files. Then, if I feel I need more, I ask the Treasury to get more; but under the dispensation which the Committee accepted, subject to further Report, I do not have access to the records of the University Grants Committee any more than I have access to the records of the universities themselves.

295. Would the information that is available to you include the audited accounts of the non-recurrent grants of the universities?—The audited accounts of the universities themselves are available to me. I see those and I see and rely on the certificates of the

7 February, 1961.]

Sir THOMAS PADMORE, K.C.B.,
and Mr. E. R. COPLESTON, C.B.

[Continued.]

universities' auditors which are expanded to cover a point that troubled this Committee in the past, namely, they do report that all these grants have been duly applied to the purposes for which they were made. In other words, that is the appropriation audit which I am enabled to make, because it is, in fact, certified for me by the universities' own auditors.

296. I suppose each university has its own firm of auditors?—Yes. In fact those accounts, I understand, are available in two places with the auditors' certificates: first of all, they are available to the Treasury and I see them on the Treasury file; and, secondly, they are also lodged, I believe, in the Library of this House.

Mr. Stevens.

297. The universities, Sir Edmund, have professional auditors. Have the University Grants Committee auditors?—I think not, seeing that the University Grants Committee act as a body which recommends grants. The actual payment of grant is done by the Treasury. (Sir Thomas Padmore.) It does not handle any money at all. The Treasury handles these grants through a deposit account from which the Treasury makes payments on the recommendation of the University Grants Committee. No money passes through the University Grants Committee, no money to make accounts about at all or audit.

298. Sir Edmund, am I right in thinking you have no access to the accounts of the regional boards of the nationalised industries?—(Sir Edmund Compton.) I have no access to those.

299. Is there, therefore, some point of resemblance between that situation and the situation here, even though no money actually passes through the University Grants Committee itself?—I do not think that the analogy is exact.

300. It seems to me that a very important point of principle arises here. Obviously, unlike any other Government spending Department, you have no right of access to the books and accounts and records; but surely that is the same, is it not, with the regional boards of the nationalised industries?—A nationalised industry is not in receipt of substantial grants of public money.

301. Is it not? I have been wasting a lot of time in the House of Commons if that is true. I thought the nationalised

boards received very substantial sums of money from Parliament?—(Sir Thomas Padmore.) They do not receive Exchequer grants, except in the case of the Transport Commission.

302. Then what do the nationalised industries receive from the House of Commons? We vote them large sums of money every year?—That is approval of their borrowing powers.

303. So, you would think that there is a difference in principle between these two situations?—I would think so, if I may say so, because the nationalised industries, even if you take the analogy as far as it will go, are spending on capital account money which admittedly they have borrowed from the Exchequer, but they have borrowed it and they are responsible for it. The universities are spending money which is given to them by way of grants, and that is not the position with the nationalised industries.

Mr. Cledwyn Hughes.

304. May we now take the remaining paragraphs together, from paragraphs 34 to 46, because they are all closely related? Sir Thomas, in his Report Sir Arthur Rucker says that "the costs of university buildings, even when intended for similar purposes, vary widely." Can you give the Committee any relevant figures in this connection?—I would ask Mr. Copleston, if I may, to give you figures in that instance.

305. If you please?—(Mr. Copleston.) I find myself in some difficulty in quoting actual figures, Sir. They have varied very considerably, partly, I think, because up to a very short time ago we were not really in a position to iron out variations and see what a reasonable basic cost would be for particular classes of buildings. The halls of residence, for example, in fact have varied extremely widely between one university and another and our control for some years was exercised in a rather broad way by setting an upper limit which was at one time £2,000 a student place and was later reduced to £1,500 a student place, but within that broad limit there were very substantial variations. It was not really until we were able to establish an Architects Division, and with the larger programmes which the Treasury were able to give us from 1957 onwards, that the material then became large enough to enable analyses to be made and a different basis to be

7 February, 1961.]

Sir THOMAS PADMORE, K.C.B.,
and Mr. E. R. COPLESTON, C.B.

[Continued.]

achieved in the case of halls of residence, as explained in the Report here, which has produced, practically speaking, I will not say a uniform cost for halls of residence—there will always be variations according to local circumstances and particular academic considerations—but a normal basis of cost. I think, Sir, probably the position has really been the same with other buildings. There were bound to be very large variations until we were able to carry out a sufficient process of analysis of the figures to arrive at something which we could regard as a reasonable norm towards which, upwards or downwards with margins, each university could be asked broadly to conform. There will always continue to be variations.

306. But you will achieve that information in due course of time?—It is already being achieved and has already shown results in the halls of residence formula, which is mentioned here, and we are starting on an approach to the costing of science buildings.

307. If a university wishes, to take, for example, the more elaborate buildings, can they augment the grant which you recommend out of their own funds?—That, Sir, as I am sure you will appreciate, is a difficult question to which to give one answer, as I think Sir Arthur Rucker recognised in his comments on the point. It would be difficult, as I think he points out, and our Committee have felt, to justify the investment of public money in a building which was, shall we say, at standards very substantially above those which our Committee would think adequate merely because the university were able to find some funds of their own to meet the difference. Where, however, to take a fairly straightforward case of the other extreme, a university says: "We would like to put in some money of our own or from a benefactor to panel the dining room in the hall of residence in a particularly nice way", there would clearly be no objection to that. Somewhere between those two extremes, I think, we have to proceed, giving the universities, as Sir Arthur Rucker says, some reasonable freedom but without reaching a point at which it would be difficult to justify the use of public moneys. It is not a very easy question to give a straight answer to.

308. Suppose the grant you recommended was £100,000 and the university

said: "We have £20,000. We would like to spend that on elaborating this building", what would be your view of that?—I think, Sir, that we would wish to discuss that further with the university on the ground that that might seem a rather large proportional addition merely to increase the standards above what our Committee would consider adequate. (Sir *Thomas Padmore*.) I think the onus ought to be and would be on the university to show why they should not have £80,000 by way of grant and finish with a £100,000 building; and that, I believe, would be where the University Grants Committee would start. On the other hand, as Mr. Copleston says, where it is a question of the addition of relatively small extra amenities, naturally the University Grants Committee or, I suppose, the Government would not want to dry up sources of private benefaction, small gifts that people might like to make, in order to add some minor elements of, perhaps, luxury to these buildings.

309. What policy do the University Grants Committee pursue in this question of universities using their own money for building? What is the policy of your Committee, Mr. Copleston?—(Mr. *Copleston*.) The Committee certainly encourages universities to raise the maximum amount of money they can from outside sources and, in fact, since the amount of money which our Committee are able to allocate to a particular university is generally substantially below what the university itself would wish to have and could make a very good case for having on general merits, I think it is always true that any money raised from outside sources can be and will be used by the universities to supplement or perhaps to speed up the building programme in a way which is useful and very beneficial indeed.

310. Do you know at any given time how much the universities have at their disposal, how much private funds they have at their disposal, and how often are you informed of those funds?—We have no systematic arrangement for collecting such information currently.

311. Do you not think it would be a desirable thing that you and the Treasury should have at your disposal, annually at least, detailed information

39389

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7 February, 1961.]

Sir THOMAS PADMORE, K.C.B.,
and Mr. E. R. COPLESTON, C.B.

[Continued.]

as to the private funds that the universities have at their disposal for the purposes we are now discussing?—I think, Sir, in fact, in practice our Committee would normally know through their contacts with the university, and their reading in the newspapers very often, that a university was launching an appeal and how much it was getting; and the university would normally inform them of what it was spending the money on.

312. Clearly that should be one of the factors your Committee should consider when you are recommending what amounts of public money should be spent in these universities?—(Sir Thomas Padmore.) I think certainly, Sir, we in the Treasury would take the same view. I think the procedure in essence is that the university comes along to the University Grants Committee with its expansion proposals for this and that kind of building, and the first question you ask them is, how much will it cost, and the second question you ask them is, how much money have you got; and I think this Committee may feel assured that the University Grants Committee does not forget the second question.

313. The only thing that occurs to me is that it would appear to be a more satisfactory and efficient procedure if this information came to the University Grants Committee as a matter of routine annually?—I believe that the extent to which universities have private funds available, as it were, for general purposes is pretty limited. They may not infrequently have funds available for some specific purpose that they have either collected or which have been given to them in a benefaction, or something of the kind, and that would be taken into account in the particular project in question. But to go further than that and put them on challenge as to what their general resources were, how much capital they had, what were the demands on it and how it would be used, would seem to be going a long way in the direction of almost managing their affairs for them, at any rate on capital account.

314. There is going to be a good deal of university building in the next few years?—There is indeed.

315. Do you anticipate a further inquiry on the lines of Gater or Rucker in the next year or so?—No, Sir. Of

course both of those inquiries were appointed by the University Grants Committee and it is, perhaps, more for Mr. Copleston to answer that than for me; but I would have supposed on the face of it that those two inquiries for the time being would suffice, in that the first was directed towards the question of what the procedures in the universities should be in this matter of capital investment and contract procedure, and the like; and the second was a further inquiry, which was contemplated at the time of the first, to see how far they had, in fact, gone in applying the new procedures which were laid down by the first inquiry. The upshot of Sir Arthur Rucker's inquiry has been really so very favourable in the sense that he found nothing wrong—he did find that the procedures laid down by the Gater Committee had been very fully applied by the universities—that I would have thought that that completed the operation for the time being.

Mr. Stevens.

316. Sir Thomas, I think I heard you say that you think it would be a bad thing if the sources of private benefaction to universities were to dry up. I think I also heard you say that in the case put where the building was to cost £100,000 and the university said: "We have £20,000 of our own money, we would like to add that," your reaction would be in that case to say: "Then you only get £80,000 towards the £100,000." Did I hear you correctly, and would that not be an excellent way of drying up future sources of benefaction if it was known that that was so, because if that were so there would be no benefit to the university?—I think that is a very valid consideration and one which the University Grants Committee must always have in mind. On the other hand, to take the plain case which I had in mind of a university which said: "We require a building which on a modest design will cost £100,000 but we have got £20,000 of our own, would you please give us £100,000 so that we may have a building which is as to 20 per cent. above the standard of what is really required," I think that the onus would necessarily be very much on the university to show that that was a sensible thing to do and to show why they should not make do with a more standard building.

317. The circumstances, of course, would vary widely from university to university?—Indeed, yes.

7 February, 1961.]

Sir THOMAS PADMORE, K.C.B.,
and Mr. E. R. COPLESTON, C.B.

[Continued.]

318. The Rucker Report deals, so far as building is concerned, only I think with new construction. Did the Committee consider, do you know, the purchase of sites on the one hand and the purchase of existing buildings on the other?—Indeed there is a policy about the purchase of sites and there is provision in the estimate for purchase of sites; it has been agreed policy for a long time now to plan ahead in the matter of sites so that where a favourable opportunity for acquisition of them arises, even well in advance of the requirement for their actual use, they should be acquired. Where they are acquired a long way ahead of the foreseen necessity for actual use they are acquired, insofar as the Exchequer is involved, on the basis of a loan. Where early use is foreseen for them they are acquired by grant under, I think it is, section IV. As to the acquisition of existing buildings, I am afraid I should have to ask Mr. Copleston to answer.

319. I am thinking rather of the question of the principle of the price to be paid. I think the Gater Committee had something to say about that: "A price not exceeding the District Valuer's valuation," I think, was what was said. I was just wondering if that was still the policy, if there were any exceptions to it?—My impression is that the question of acquisition of existing buildings arises relatively infrequently. There will not often be found buildings in other occupation that are suitable for university use. But I think North Staffordshire, for instance, acquired a certain amount of existing property. (Mr. Copleston.) I think the purchase of existing buildings to continue to be used for university purposes is infrequent. Of course, there is a lot of purchases of existing properties, houses, and so forth, in an area which is going to be acquired and used as a site for university building. If I might reply on the particular point on the District Valuer's valuation, it certainly is our Committee's rule which they have laid down in agreement with the Treasury that only in the most exceptional circumstances would a university be authorised to buy a property except at a price endorsed by the District Valuer.

320. But there would be circumstances in which a higher price might be agreed?—There might be, and there have been, perhaps, two or perhaps three

cases where the circumstances were very exceptional where the price asked and insisted on for a building or a site—I cannot remember which—was higher than the District Valuer would endorse and where our Committee were satisfied that the need of the university was very great; and we therefore approached the Treasury and in those one or two cases we received authority to go above the District Valuer's valuation.

321. Have the universities not the same rights of compulsory purchase as local authorities, for example?—They have no rights of compulsory purchase as such. I believe one university got a Private Bill passed many years ago which gave it certain rights, but normally they have no rights of their own of compulsory purchase. They rely on the local authorities.

322. So, you would have the case of an owner with an exceptionally favourably situated building holding the universities up to ransom?—(Sir Thomas Padmore.) Well, of course, there has been great difficulty in St. Andrews, as everybody knows, about the acquisition of particular property in private hands; but the owners of that property have not been able to hold the university up to ransom; they have successfully prevented the university from acquiring a site which it would have liked to have.

323. Does the University Grants Committee have the benefit of the advice of other Government Departments as well as the Treasury? There are many other Government Departments which are experienced in the purchase of land and buildings?—Originally, and until indeed fairly recently, the University Grants Committee got its advice on technical building questions partly from the Ministry of Works, from their Architects Branch, and partly from the Building Research Station; but as the Committee know, a few years ago there was established in the University Grants Committee their own Architects Branch which was staffed partly by people who were drawn from other Departments with experience in related fields, particularly the Ministry of Education, and so they are much less dependent than they used to be for outside technical advice on other Departments.

324. Mr. Copleston has just said that there have been cases where the Treasury have sanctioned a grant over and above the valuation of the District Valuer. If a

7 February, 1961.]

Sir THOMAS PADMORE, K.C.B.,
and Mr. E. R. COPLESTON, C.B.

[Continued.]

case arose where the Treasury were reluctant to do that, what would be the position if the university said "Very well, we will pay the balance out of our own moneys"?—(Mr. Copleston.) It is the policy of the Committee, in agreement with the Treasury, that the university would not be allowed to make up the difference out of its own pocket. It could, of course, make the whole of the purchase out of its free funds if that were possible to do; but the Committee would not recommend a grant up to the District Valuer's valuation and allow the university to supplement it, no.

Sir Colin Thornton-Kemsley.

325. Mr. Copleston, am I not right in saying that the Gater Committee recommended that there should be an inquiry into the desirability of having some sort of fixed prices for furnishings and furniture?—Yes, Sir.

326. Would I be right in saying that the Rucker Report made no reference to that, and that the Rucker Committee did not make any inquiry into that matter at all?—(Sir Thomas Padmore.) I think I can answer that question, Sir. It is quite true, as you say, that the Gater Report made reference to the cost of furnishings which, of course, in many of these instances is quite a substantial item. Shortly after the publication of the Gater Committee's recommendations the University Grants Committee issued to the universities a list of standard prices for the main furnishing items, representing the maximum grant for each article which they would normally be prepared to make. This has formed the basis of an effective and comprehensive system of control in the case of furnishings. But more recently the Committee have decided that an even better way of controlling furnishing expenditure, at any rate in the case of halls of residence where the issue primarily arises, was to link the standard costing for furniture with their expenditure costing for the building on a formula calculating that a certain figure, £125 I believe, was the figure which should be allowed for every standard study-bedroom unit, which is a term of art which they use for the formula by which they calculate standard costs of halls of residence. So, they have now laid down, in effect, a standard cost level as a maximum for the furnishing of halls of residence.

327. Those standard costs are based upon their own enquiries, are they, Sir Thomas?—Yes.

328. Are you satisfied with the decision that they took, whether consciously or unconsciously, not to pursue the enquiry recommended by the Gater Committee?—I am, Sir, because I think the University Grants Committee came to the conclusion, which I would respectfully think was a sensible conclusion, that by the time when they made this last change, which was quite recently, they had collected enough knowledge and information about what was reasonable in respect of furnishing in halls of residence for them to be confident that they were laying down a sensible and economic figure in this standard that they provided. It is, of course, adjustable if need be in either direction in the future if it proves to be wrong, but the Committee are satisfied that this is a reasonable and effective control, and I would see no reason to question that view.

329. I think I am right in saying, am I not, that the Gater Committee also recommended that there would be advantages in a number of universities combining together for the bulk purchase of furniture and furnishings, and so on?—That, Sir, I confess I had forgotten.

330. I think paragraph 106 of the Report is the one in which you will find that recommendation?—I should have to make enquiries to find out whether that has actually been done. I understand both from what I am told by the University Grants Committee, and indeed from what Sir Arthur Rucker says, that all of the recommendations of the Gater Report, with at the most one or two minor exceptions, have been accepted and put into effect. Whether that is regarded as a minor recommendation I am afraid without enquiry I cannot say.

Mr. Cledwyn Hughes.

331. Perhaps you will let us have a note on that?—(Mr. Copleston.) I do not think it does happen. I believe, if my memory serves me on this, universities have discussed this among themselves but have seen very great practical difficulties in co-ordinating their lists and purchases and the timing of them to get any effective benefit from this. I cannot from memory, I am afraid, say more than that, but I believe they have

7 February, 1961.]

Sir THOMAS PADMORE, K.C.B.,
and Mr. E. R. COPLESTON, C.B.

[Continued.]

discussed it among themselves. Certainly, the Committee have not taken a policy on it. (Sir Thomas Padmore.) We could let the Committee have a note*, if you like, on this.

Mr. Cledwyn Hughes.] We should be much obliged, yes.

Sir Colin Thornton-Kemsley.

332. Then, I suppose the figures which the University Grants Committee has drawn up for the maximum prices of furniture on the basis of so many hundred pounds—the figure which you gave us just now?—£125 for a so-called study-bedroom.

333. —for a study unit, and so on, would be based on ordinary retail prices and not upon any advantages which might come from buying on a very large scale?—I would suppose in most cases it would be better than ordinary retail prices. Some of these halls of residence are quite large, and I am sure that the finance officer of a university furnishing a large building like that would not pay the same prices that you or I would pay if we were buying certain items of furnishing.

334. Perhaps that is a thing which might be included in the answer?—We will look into that, too.

335. There is one other thing rather on the same lines. If you look at your Gater Report in paragraph 108, with which I have no doubt you are familiar, I think there the Committee drew attention to the fact that there was very little exchange of information between the universities on the sources of supply or desirable standards of construction, and that even if this were remedied there would still be need for general advice, rather paraphrasing that paragraph. Has anything been done about that at all?—Yes, indeed. That is one of the principal activities of the Architect's Branch, which I mentioned, in the University Grants Committee organisation. One of their main duties is to collect and disseminate information and experience in all these matters relating to building.

Mr. Arbuthnot.

336. Sir Edmund, would you have knowledge of any negotiations between a university and the University Grants Committee on how much of the university's private funds would be used on a

particular scheme?—(Sir Edmund Compton.) No, Sir.

337. Would that not be helpful to you?—I think not, Sir. I think that the stage at which the information might be relevant or helpful to me would be the stage at which the University Grants Committee had something to report to the Treasury on the subject. The information would reach me under these arrangements in the form of information which was supplied by them to the Treasury and through the Treasury to me.

338. In the case of a purchase would you know if the District Valuer's figure had been exceeded?—I do not think so, no.

339. There, again, would that not be a helpful piece of information to you?—(Sir Thomas Padmore.) I think, with respect that under the new arrangements that would be known, because the University Grants Committee, I believe I am right in saying, would not agree to go above the District Valuer's figure—they have only done it very exceptionally, anyhow—without Treasury assent. If that is right, that would give rise to a Treasury record which would be available to the Comptroller and Auditor General. (Sir Edmund Compton.) I think that is right, if I may say so. I have always to distinguish between what I know because I see it on the Treasury record and what I know as fact because I have ascertained it myself. I know it in that sense, and I accept it, of course, that there is an arrangement between the University Grants Committee and the Treasury under which they can get Treasury authority for exceeding the District Valuer's recommendation, and therefore the fact that they had so applied would be on the Treasury file.

340. Sir Thomas, you deplored the suggestion of putting a university on challenge as to how much money they have coming in and what uses they have for it. That is precisely what the Inland Revenue does to the taxpayer from whom they are extracting money. Would it not be appropriate that you should do just that to a university to whom you are proposing to make a grant?—(Sir Thomas Padmore.) What I was meaning to say was that I would think it wrong for the Government as a condition of providing funds to the assistance of

* Information supplied: not printed.

7 February, 1961.]

Sir THOMAS PADMORE, K.C.B.,
and Mr. E. R. COPLESTON, C.B.

[Continued.]

university education to seek to enquire in the fullest detail into the resources of the universities. But I did go on to say that in a particular case where a building project was in question, where the Government was being asked through the University Grants Committee to provide funds for that building, it would be perfectly right and proper and should be asked, and is indeed asked, what contribution, if any, the university is in a position to make.

341. Mr. Copleston, may I ask you a little bit about this Architect's Division with professional staff and a quantity surveyor that you have set up? Are the services of that Division available to any university?—(Mr. Copleston.) Not as architects, if you mean serving a university in a professional capacity, no, except in the one individual case of a hall of residence at Reading University, which the Committee's architects by arrangement with the university are actually designing as a development project in accordance with our formula. But apart from that quite special case they are advisory to our Committee and give the benefits of their advice as well as best they can to the universities, but they do not in any sense serve the universities professionally.

342. Suppose we take a university building of value over £50,000, what percentage would an architect charge on the cost of the building?—My impression is that the normal charge under the R.I.B.A. scales is 6 per cent. for the architect.

343. And a quantity surveyor?—I am afraid I do not know that, Sir.

344. Would you think 2 per cent. was reasonable for a quantity surveyor?—I do not really know.

345. Coming back to your 6 per cent., would you refuse to make a grant if the architect's charge was higher than that?—We should certainly put the responsibility on the university of explaining to us and convincing us, and if need be the Treasury, that a higher than normal charge was justified. Of course, if there has been a lot of change of plan unavoidably during the designing of a work, specially high charges might conceivably be justified. I can imagine a case: the university changes its plans halfway through to allow for an

additional expansion, or something of that sort.

Mr. Hoy.

346. Sir Thomas, might I ask you, were the Treasury satisfied with the progress which has been made in the application of standard costs to university buildings?—(Sir Thomas Padmore.) We are never satisfied, but we think that very good progress has been made. Admittedly, in a sense those things that have been tackled on these lines have been the more straightforward ones: the halls of residence, the teaching buildings, many but I suppose not the most specialised of the science buildings, and the arts teaching buildings. This procedure of standard costs now applies to something like two-thirds of the buildings covered, and I have no doubt that further progress will be made.

347. Look at paragraph 42 of the Report in connection with halls of residence. It is stated in that paragraph that the new formula represents, very broadly, about £1,250 per student place. Does that mean that the grant becomes payable at that rate, or does it refer to the actual cost of the building?—That is the total cost.

348. The total cost of the building, I see. How, then, is the reduction from £2,000 to £1,250 explained? It is a very substantial one?—I would like Mr. Copleston to supplement whatever I may have to say, but I think it is by reason of the work that has been done in ensuring value for money, economical design, possibly by reason of these standard unit costs reducing the number of occasions on which something abnormally large or luxurious might have been embarked on in the past. I could respectfully agree that it is a very big reduction and in a sense that is a very good thing.

349. Oh, yes, I am not quarrelling with it. I just wanted to know the reason for it?—(Mr. Copleston.) I do not think there is very much to add to that. It is, as Sir Thomas says, the result of growing experience and the ability to analyse and control; and I think also a growing awareness in the profession itself of the needs for economy. (Sir Thomas Padmore.) I think, too, if I may say so, it does reflect what I said earlier, that procedure and cost control in this area, although it is certainly done differently

7 February, 1961.]

Sir THOMAS PADMORE, K.C.B.,
and Mr. E. R. COPLESTON, C.B.

[Continued.]

from the way it is in other fields of Government expenditure, are now very tight and very effective.

350. Sir Thomas, would it be fair to deduce from this that inasmuch as prices have fallen during the past few years, whereas building costs have been rising, the original grants that were paid were for a little bit of lavishness?—I think a conclusion of that sort is inescapable.

351. You think that is true, so it shows how necessary it was to undertake this job?—I think that is a fair inference, Sir.

352. What proportion does the basic grant normally bear to the total grant for halls of residence?—The basic grant to the total cost?

353. Yes, to the total cost?—I do not know that there is a basic grant, but there are many instances, I know, in which the grant paid is as high as 90 per cent. or more of the total cost. That is, of course, what Sir George Gater said originally, that clearly where the Government is providing as much as 90 per cent., or even more, of the total expenditure, very special measures are necessary to ensure that economy is observed.

354. Mr. Copleston, do you think it will take very long before you are able to bring in libraries, students' unions, and so on, into this field?—(Mr. Copleston.) That is a very difficult one to answer, because I think that the needs and requirements of such buildings are so variable that it may never be possible to lay down anything like the halls of residence formula, which is for a comparatively uniform type of building. I think there should be already possibly sufficient experience to form a fairly good judgment of the basic cost of the building structure—in other words, much the same approach as we have made to science buildings; but, of course, a great deal of the cost is in kitchen equipment and built-in fixtures, and so forth, which is bound to vary a great deal from case to case in refectories and students' unions.

355. I should have thought those examples which you have just quoted were fields in which there would not have been very wide differences?—From one place to another I think there would be considerable variations in the amounts required and the size of the provision needed.

39389

356. But you are investigating those, are you?—And the form and shape and scale of the buildings vary very much according to the individual university's requirements and views and policies; but I do think, as we have done in science buildings where, as explained here, we have been able to fix a sort of basic cost of the building, although we are still far from knowing sufficient about the costs of the scientific services which require more information, we should be able to make very much the same approach to these other buildings.

357. If we stick to unions and libraries for the moment, you are carrying out investigations into that field?—Yes, certainly.

358. How long do you estimate it is going to take you to do this job?—It would take perhaps six months, something like that.

359. I think you would feel spurred on by the results which were achieved by others, would you not?—Oh, certainly. (Sir Thomas Padmore.) Could I just say something on this, Sir?

Mr. Cledwyn Hughes.

360. Yes?—It is that, of course, we are dealing here overwhelmingly not with building new universities in green fields but expanding existing universities. If you take a hall of residence, a fairly straightforward thing, you want a hall of residence to accommodate 1,000 students, but where you are building laboratories, students' unions and so on, you are expanding existing facilities, and it is much more difficult to lay down standards. I think there, from what the University Grants Committee tell me, although they have not been able to lay down standards or a formula in that part of the field, they have nevertheless, particularly in their Architect's Branch, but not merely there, got a certain amount of experience of that kind of thing to be able to smell out any proposals which come before them that are extravagant or out of line.

Vice-Admiral Hughes Hallett.

361. Sir Thomas, would it be true to say that, looking at university expenditure as a whole, not only capital non-recurring expenditure but the whole field of it, the sources from which the money comes fall into three main categories, namely, gifts and endowments from founders and benefactors, parents of

B 4

7 February, 1961.]

Sir THOMAS PADMORE, K.C.B.,
and Mr. E. R. COPLESTON, C.B.

[Continued.]

some of the students who are paying some of their fees, and finally the State? —Yes.

362. Have the Treasury any idea at all as to the rough proportion at this moment between those three sources? —I can tell you what our proportion is. On the ordinary recurrent expenditure the Exchequer bears on the average about 70 per cent., but what is the split of the remaining 30 per cent. between fees and endowments, gifts and so on, I am afraid I could not say without an examination of the university accounts.

363. To which you have not got access? —Oh, yes.

364. That leads me on to ask this further question about the universities' own funds and the private funds of colleges. Would you agree that there is some analogy between the position here and the position, say, of the teaching hospital with the governors' discretionary fund? —Yes.

365. In the case of a hospital, when a new project is undertaken towards which the governors' discretionary fund is going to contribute, it is, as you know, a matter of long, hard bargaining, as a rule, as to how much is paid for by the governors' discretionary fund and how much is paid for by the State. Do I understand from your previous answers that no comparable procedure applies in the university field? —Are we again talking, Sir, about the recurrent grants?

366. No, I have come back to the earlier question put to you about new buildings? —Capital development?

367. Yes? —I am afraid I cannot say in detail to what extent the University Grants Committee in considering an application for a capital grant put the university on challenge and, in the way you have described it as happening in the case of the teaching hospitals, try to squeeze them up to the highest level possible for their own contribution. I would really ask Mr. Copleston, if I might, to say what happens in that case. (Mr. Copleston.) I think, if I may say, one of the points which we have had to bear in mind, a point which has already been made by the Committee here, is that industry and private benefactors do not like making contributions if they feel that the only

result of that is to save the Government money, and that has been increasingly borne in on us by the universities themselves. The second point, I think, is that with the best will in the world our allocations are inadequate to give the universities everything they would like and legitimately wish to build in connection with their expansion, ranging, of course, from the absolutely essential to the more marginal kinds of buildings. Therefore, in general, I think our Committee are tending now to the view that the best use of contributions from outside sources is to enable the university to make some buildings available more quickly than the allocations from Government moneys would otherwise enable it to do. It may be able to do its halls of residence programme a year or two more quickly than it would under the allocations we are able to make to it, and that sort of thing.

368. That, of course, is precisely what happens in the case of the hospitals. The difference is that in the hospitals, of course, the Treasury and the Ministry of Health are in on the bargaining at every stage, but I understand in the university case the Treasury are outside? —(Sir Thomas Padmore.) This work is delegated to the University Grants Committee, that is an inherent part of the system, but may I just say this: so far as it may be in your mind that there may be cases where the universities were being given rather more than they really needed on capital account and were thus able to preserve their own funds intact to a greater extent than they otherwise would, I think the basic answer to that is that throughout this period of university expansion that has been taking place since the war the universities have been kept very hard up on capital account, and they have admirable uses both for all the money that the Government has given to them and, indeed, all the money that they have got from private sources or they might have by way of endowments and the like; indeed they could make good use of quite substantial further sums if they were available. As the Chancellor of the Exchequer mentioned the other day, it is expected that the programme will expand further quite rapidly, and that is a measure of the extent to which the universities are under pressure to provide additional premises.

7 February, 1961.]

Sir THOMAS PADMORE, K.C.B.,
and Mr. E. R. COPLESTON, C.B.

[Continued.]

369. Coming back now, if I may, to gifts and again sticking to the hospital analogy, one of the things which, of course, is very easy for a hospital to do is, by accepting a gift, to run the Exchequer into some recurring expenditure as the result of the original gift. May I ask what the safeguards are against that happening in this field?—I should not think it should arise in any serious degree, except that, of course, if a very wealthy benefactor enables a university to build some new facility, gives them a library or something of that kind, which does not very often happen, but if they did, clearly there would be continuing costs placed on the university for the maintenance of that building, for its running, and that would be reflected in the ordinary recurrent grants.

370. Mr. Copleston, are the University Grants Committee on the lookout for that particular point?—(Mr. Copleston.) Yes, I think we are. As Sir Thomas has said, I do not think it would arise in the case of buildings normally; but equipment, perhaps scientific equipment, might give rise to that sort of problem. If a university got a very generous gift of capital equipment but it needed three or four technicians and a lot of money to run, we are, I think, on the lookout for that, and we should certainly discuss it with the university or warn them that there would be no guarantee that additional money would be forthcoming from the State to look after the recurrent costs.

Mr. John Hall.

371. Mr. Copleston, in paragraph 54 of the White Paper there is a recommendation that a Building Sub-Committee should be appointed. Has such a one been appointed?—No, Sir, not as yet.

372. Is it proposed that there should be a Building Sub-Committee?—Yes, the recommendation has been accepted.

373. Have its terms of reference been drafted or thought about?—Not yet, Sir, no. Consideration is at present being given both by the University Grants Committee and by the Committee of the Vice-Chancellors and Principals of Universities to names and the sort of set-up of such a Committee.

374. Can you give any idea as to when the final decision will be made and when this Committee will be appointed?—I

find it rather difficult to judge that, Sir. It will be as quickly as these discussions can be brought to a conclusion.

375. May we turn to paragraph 38 (iii) of the Comptroller and Auditor General's Report? He points out that the University Grants Committee receives and studies much valuable information as to design, costs, and so on. Is this information circulated to other universities? I believe that Sir Arthur Rucker recommends that, does he not?—Yes, Sir, that is a further recommendation of Sir Arthur Rucker's which has been accepted. At present there has been no systematic circulation of information, although, of course, the information is used day by day by the Committee's architects in their regular discussions with the universities' architects, but it is now proposed as a result of Sir Arthur Rucker's recommendations to put this on a more systematic basis, which I think links up with your previous question about the Building Sub-Committee, which would presumably keep a general eye on the sort of information which would be useful to send out.

376. So that is a recommendation which is likely to be implemented in the fairly near future?—Yes.

377. Do the University Grants Committee publish in the form of technical papers or in any other form their standards of accommodation, what they consider should be the limit of costs for the standards which they lay down? Do they publish them in the form of papers which would be a guide to universities in general?—They are circularised to the universities themselves. They are not otherwise made public, but they are circularised to the universities.

378. In what form, memoranda?—In circular letters and memoranda.

Mr. Cledwyn Hughes.] Will Members now turn to the Accounts on pages 237 to 251? I have no questions.

Sir Colin Thornton-Kemsley.

379. Sir Thomas, I am looking at page 239 of the Civil Appropriation Accounts and I want to be clear why it is that whereas loans for housing to university colleges and universities are repayable over twenty to forty-five year periods, certain loans amounting at the moment to about £1 million outstanding are made free of interest. Who makes those loans free of interest and for what purpose?

7 February, 1961.]

Sir THOMAS PADMORE, K.C.B.,
and Mr. E. R. COPLESTON, C.B.

[Continued.]

—(Sir Thomas Padmore.) We do, Sir. These are the loans to which I referred, —and I am afraid that at the moment when I referred to them I forgot to say they are free of interest—which are made for the purchase of sites. As I explained earlier on, where a use is foreseen in the next few years for a site purchase is by way of grant. Where the expected use is further off an interest-free loan is made. That is on the basis, I believe, that in those cases it is desirable that the university should still, as it were, not have acquired the land, not have been given it but should still have a liability in respect of it. After all, if the use of it is some way off it might subsequently come to be sold again, it might be decided that the plan might be changed, in which case the loan would be repayable. In the case where an interest-free loan is made, at the time when the land comes to be developed for university use the interest-free loan is converted into a grant; so that the only difference really between grant and interest-free loan is that in this case where early use of the land is not foreseen we, as it were, keep tabs on it by financing it on an interest-free loan basis so that it does not pass entirely free into the possession of the university.

380. In these current accounts apparently about £35,000 was repaid. Does that mean that the land was given up? £30,000 was repaid at Leicester University and £5,000 at Oxford?—I should have to enquire to be sure of that, but I imagine that that was land which was disposed of. (Mr. Copleston.) No, this came into use.

381. If it came into use it would be converted into a grant?—(Sir Thomas Padmore.) I am sorry. It was converted into a grant, and then, I suppose, repaid out of the grant. (Mr. Copleston.) Yes, a grant of £30,000 was made to repay the loan, in fact.

382. Is that shown in these Accounts? Taking Leicester University, it is shown as a repayment of £30,000 during the year. Would it be in the figure of capital grants of £599,000 odd given on page 238?—(Sir Thomas Padmore.) It would also be on page 251, Section IV, Purchase of Sites and Properties.

383. May I ask one question not strictly on the Accounts, but it is very relevant to the Committee's reconsideration of the whole of these matters, and to which I ought to know the answer. Who appoints the University Grants Committee?—The Chancellor of the Exchequer.

THURSDAY, 9TH FEBRUARY, 1961.

Members present:

Mr. Harold Wilson, in the Chair.

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

Vice-Admiral Hughes Hallett.
Mr. Stevens.
Sir Colin Thornton-Kemsley.

Sir EDMUND COMPTON, K.B.E., C.B., Mr. D. O. HENLEY and Mr. J. P. CARSWELL,
an Assistant Secretary, Treasury, called in and examined.

CIVIL APPROPRIATION ACCOUNTS (CLASSES I-V), 1959-60.

CLASS V.

VOTE 11.

HOUSING, SCOTLAND.

Mr. T. D. HADDOW, C.B., Secretary, Department of Health for Scotland, called in
and examined.

Chairman.

384. Will Members please turn to the Comptroller and Auditor General's Report on the Civil Appropriation Accounts, Classes I-V? I think we can take paragraphs 75 to 79 on the Scottish Special Housing Association together. Mr. Haddow, can you tell us why the estimated deficits mentioned in paragraph 77 are getting bigger every year?—(Mr. Haddow.) Because, Sir, as more houses are coming into the Association's account carrying deficits on each house the total increases. I think it is as simple as that.

385. When you doubled the rents in 1958 did you not expect then that the deficits were going to be reduced?—The immediate effect, of course, was masked at the time because we were moving from the stage in which the Association's accounts did not show the full current deficit, because certain interest charges were deferred and capitalised. It was difficult to distinguish the two effects at that time.

386. Now, the deficits on the revenue account of the Special Housing Association are a direct charge on the Exchequer. What inducement has the Association as such to be efficient?—I think

the Association has no direct financial inducement to be efficient. It is, however, an agent of the Secretary of State in many ways. It is answerable to the Secretary of State under a formal agreement and we have no difficulty in securing that they do apply themselves meticulously to building the houses they are authorised to build as cheaply as they can.

387. In order to reduce the deficit which is shown in paragraph 78 to the equivalent of the former statutory rate contribution, what rent would the Association have had to charge in 1959-60?—On the basis of the little balance sheet in the Comptroller and Auditor General's Report, Sir, the average Exchequer housing subsidy being £32, the rate contribution on the old basis would have been approximately one-third of that, a little over £10, leaving a deficit of a little over £10. In other words, they would have had to get, on average, a little more than £10 a house, as I see it, to balance the account at the present stage.

388. Do you feel that the present rent of £35 per annum, mentioned in paragraph 79, is reasonable in the light of present-day costs and earnings?—That, I think, Sir, is very much a matter for

9 February, 1961.]

Mr. T. D. HADDOW, C.B.

[Continued.]

Ministers. It is no secret that, in the view of the Secretary of State, there is undoubtedly still room for a further increase.

389. Over and above the £35?—Yes.

390. For these Scottish Special Housing Association houses?—Yes.

391. I was going to ask you if you had any further increases in mind. Do you regard that as having been answered by your previous answer?—Essentially, yes. The immediate factor which complicates moving at the moment is the process of revaluation in Scotland. It is extremely difficult—in fact, it is impossible—to tell at this point of time what effect revaluation will have on the rate burden carried by the tenant which, of course, affects the atmosphere in which rent increases may or may not be practicable.

392. Mr. Henley, are the Treasury satisfied with the present level of rents?—(Mr. Henley.) I think I must endorse what Mr. Haddow has said on that, Sir. The decision to increase these rents—roughly, I think, to double them—a year or two ago was, of course, a decision in which Treasury Ministers concurred; but, again, I do not think from our point of view it would be disclosing any secret to say that a rent of this sort which fell so far below what one might regard as reasonable on other comparisons would not be our final objective.

393. What is the Treasury view on this question of the Exchequer automatically bearing the whole of the Association's deficit each year, quite apart from the level of the deficit and the measures which might be taken in relation to the rent? Are the Treasury satisfied with this arrangement under which the deficit is met each year by the Exchequer?—I do not think I can really add to my previous answer on that, Sir. The fact is, of course, that this is a direct charge on the Exchequer. The deficit is met as to 100 per cent., whatever it may be, under the arrangements which we have agreed and this gives us, possibly, a rather more direct incentive to do what we can to ensure that reasonable rents are charged than in the somewhat more complicated arrangements which affect local authority houses.

394. I understand that, but as a matter of machinery are the Treasury satisfied? I do not think you usually have this

arrangement in other directions. Are the Treasury satisfied with an arrangement whereby, whatever the level of rent, so long as it does not balance the account, the Treasury should bear 100 per cent. of the deficit? Are you satisfied with that as a piece of machinery?—I think the answer to that, Sir, is that we have accepted from its inception that there was a reasonable job to be done by the Scottish Special Housing Association, and up to the present time we have not so far as I know suggested to the Scottish Departments that this job could be regarded as complete and that we should, as it were, take steps to wind up the Association or, indeed, to modify the arrangements under which these deficits are met as to 100 per cent. by the Exchequer.

Mr. John Hall.

395. Mr. Haddow, I understand from paragraph 79 that the rents were doubled in October, 1958, or approximately doubled. Why were the rents fixed at such a low figure as, roughly, £17 10s. prior to October, 1958? Presumably, at that stage it was still well below the lowest average rent charged by other local authorities for local authority houses?—(Mr. Haddow.) Not below, Sir.

396. I am quoting the figures from paragraph 79, which show that the average for local authority houses in 1958 was £19 12s. 2d. That is the lower of the two figures quoted here?—That was in 1958.

397. Now, these rents were raised, or practically doubled, in 1958?—The Scottish Special Housing Association rents?

398. Yes?—Yes.

399. In which case, one would assume that the rents charged prior to October, 1958, were below the average charged by the local authorities?—I do not think that is so, Sir. There is a figure here for the average rents of local authority houses in 1958. The average figure of those rents is rising—slowly, but it is rising. The Scottish Special Housing Association rent before the 1958 increase was, of course, the 1956 rent. That itself was an artificial rent in this sense, that before 1956 the rents of the Scottish Special Housing Association houses, like all other Scottish rents, were on the basis that the owner paid, as we know, a share

9 February, 1961.]

Mr. T. D. HADDOW, C.B.

[Continued.]

of the local rate. The Valuation and Rating Act of that year changed all that and in future put the whole rate burden on the tenant, as has always been the case in England. As a corollary, the pre-1956 rents of all their houses were adjusted automatically by the exclusion of the element in the rent which represented owners' rates at the time. For example, the all-in rent, that is to say, the rent including owners' rates, charged for Scottish Special Association houses up to that time varied according to the area for the Scottish Special Housing Association, but it averaged over £30. That was the gross rent before the owners' rates were taken out, and that figure of £30 compared I think, quite well with the average of local authorities at the time. In 1956 the average inclusive rent of permanent local authority houses in Scotland was 10s. 3d. a week, that is to say, about £26 a year at the time when the Association average was over £30.

400. I see. Now was the Association's rent originally fixed by relation to the local authority rents then ruling without any regard, really, to the economics of the operation?—The rent I have quoted was fixed in 1946 basically, I think, on a rough comparison with what was charged for other houses in the area. But it is going back into history rather further than I can go.

401. I see. Then, I can go on to another question: does a local authority contribute anything towards the loss incurred by the Association when they build houses and maintain houses in that local authority area?—No contribution at all.

402. Do you think it should, in view of the fact that the local authority by and large is responsible for housing in its area?—Parliament has decreed in the housing statutes that the local authority does not contribute. One must remember that one of the purposes of the Special Housing Association is to help authorities whose housing burden is very heavy and who could not meet all their own needs without, in the words of the Statute, either charging unreasonably high rents or imposing an unreasonably heavy rate burden upon the ratepayers in the area.

403. So, although the local authority is, in a sense, relieved of any obligations so far as these particular houses are concerned, it nevertheless, presumably, keeps

all the rateable income it gets from these houses?—It does.

404. Can the Association sell its houses?—I should think it has power to sell them if it could find a purchaser. (Sir Edmund Compton.) My information is that it is within the legal powers of the Association to sell with the approval of the Secretary of State.

405. Would there be any restriction on the price at which it sells?—(Mr. Haddow.) There is no formal restriction.

406. It could sell at the market value, in fact, subject to the consent, do you say, of the Secretary of State?—The Secretary of State, yes. Frankly, it is not a question we have had to consider.

407. Do you not think it might be a very good thing if it did sell the houses at the market value and got rid of this mounting deficit?—If it sold houses at the market value I am afraid the market value would be much less than the original cost and there would still be a considerable deficit.

408. You are sure of that, are you, in view of mounting property values? It is an unusual state of affairs?—I should expect so, for a house of this type.

409. You are really saying, then, that this authority has built houses at a cost it will not be able to recover, unlike most property developers who are able to get a profit out of what they build?—There is no prospect of the Association getting a profit, either capital or revenue, on these houses, Sir.

Vice-Admiral *Hughes Hallett*.

410. You said that the reason for the Association is to help local authorities whose commitments are very heavy?—Whose housing problem is very heavy and whose resources are inadequate.

411. I notice from paragraph 78 that the total number of houses which have been built in Scotland, which I take it means the total Association plus local authority houses, comes to 387,906?—Yes.

412. The population of Scotland is about one-tenth of that of England and Wales, which indicates that the number of these houses that has been built is very considerably greater than the corresponding number in proportion per head of population in England and Wales. What is the explanation of that?—The explanation is, I think, Sir, that the

9 February, 1961.]

Mr. T. D. HADDOW, C.B.

[Continued.]

number of houses built by private enterprise in Scotland is very much smaller than one would expect from taking, shall we say, a tenth of the number of private enterprise houses built in England. Private enterprise is a much more active force in meeting the housing need in England than it is in Scotland, for reasons connected with the past, largely with our rating system.

413. You do not think that the reason for that is sufficiently explained by the very heavily subsidised rents which really put the private builder at a hopeless disadvantage financially compared with the public builder?—I think, Sir, that is a factor which tends to perpetuate the situation that private enterprise is not making as full a contribution as in England. I do not think it was the origin of that situation.

414. When you consider these low rents—I have no doubt they must have been some concern to you—is the average income of the Scottish people very much lower than that of the English?—Not very much, Sir. To some extent, probably, but by no means as much lower in proportion as the rents are.

415. Have you any idea what proportion of the revenue comes from Scotland as opposed to England?—The revenue?

416. As far as I know, Scotland still pays its taxes into the Exchequer, there is not a separate Scottish Exchequer. Is it one-tenth or is it more than one-tenth of the total? That is really my question. Has anybody ever gone into this?—This has been gone into, yes. Papers have given this from time to time. I am afraid I cannot quote the figure off hand. My impression is that Scotland contributes less than the population ratio.

417. I wonder if the Comptroller and Auditor General has any information?—(Sir Edmund Compton.) Only, I am afraid, Sir, on account of my previous existence in the Treasury. There was an inquiry into all this, as I recollect, by the Catto Committee, but broadly, the conclusion reached was that it is really impossible to identify revenue drawn from Scotland separately from that drawn from England. What can be identified is what you might call the personal income levels in Scotland. I think I am right in saying that when this was looked at by the

Department in 1956 it was established that the average rate of earnings in Scotland was about 5 to 6 per cent. less than it was in England. (Mr. Haddow.) That appears still to be a valid figure, according to my latest information.

Vice-Admiral Hughes Hallett.] The reason I ask that question now is because later on I want to probe a little bit where the money in the Exchequer Equalisation Account that makes good this deficit really came from; but perhaps I could leave that until later.

Mr. Hoy.

418. I do not know how far we are going here, and I hope I shall be corrected if I am going too far out of it, but we are getting on to earnings, and so on. Mr. Haddow, is not one of the reasons why we have had so many municipal houses in Scotland is that we have had far more than our share of single and two apartment houses than they have ever had in the rest of Great Britain? In other words, the housing conditions are very much worse than they are in the South?—There is no doubt that housing conditions have been for many years far worse than they have been in the South, which is one of the reasons why an instrument like the Scottish Special Housing Association had to be put in to help local authorities to cope with it.

419. Would it not also be true to say that unemployment in Scotland has always had an effect on this, because our unemployment rate has always been more than double that of the rest of the country?—It has been consistently higher. I am not sure myself that "more than double" is right.

420. You can take it from me that it is double, and that is one of the things I think that has got to be taken into consideration?—Yes.

Mr. Arbuthnot.

421. Mr. Haddow, what would be the economic rent of one of these houses for which you are charging £35 per annum?—I wonder, Sir, if I could ask exactly what is meant by "economic rent"?

422. May I ask you, then, for two figures: first of all the rent that would give a reasonable rate of return on the cost of building the house, the historical

9 February, 1961.]

Mr. T. D. HADDOW, C.B.

[Continued.]

cost, and, secondly, the rent that would give a reasonable return on the cost of building a similar house today?—I think, Sir, perhaps the first question can best be answered on the average by looking again at the little balance sheet in paragraph 78 of the Report. If the Association were going to balance its accounts, and that is allowing for loan charges which include a proper element of interest, if it were going to balance its accounts over all its existing stock of houses without any Exchequer housing subsidy of any kind, either the ordinary kind or the special payment, I suppose it would mean an £85 average rent. As of today the total cost of building a new average house by the Association is something approaching £1,900, which at present loan charges means, with allowance for maintenance and management, that each new house costs the Association £128 a year.

Mr. Hoy.

423. What is the interest content?—Of that, £116 is loan charges at 6 per cent.

Mr. Arbuthnot.

424. What is very peculiar about these tenants that makes it necessary that they should have this very high percentage subsidy as compared with their compatriots who are living in houses of a similar type in the near neighbourhood?—"In the near neighbourhood" means, in non-publicly owned houses?

425. Yes?—I do not know the answer to that.

Sir Colin Thornton-Kemsley.

426. Mr. Haddow, would it be true to say that one of the objects of the setting up of the Scottish Special Housing Association was that it should act as a kind of commando force to go into areas where the local authority could not cope with the enormous need for housing and build houses there?—Yes.

427. Has that need been met to a large extent now, would you say?—It is by no means completely met. It is not so pressing as it was. In fact, the situation is reflected in the fact that the Association's annual programme is now of the order of 2,000 houses, whereas some years ago it was building as many as 5,000 a year.

428. Supposing this Special Housing Association did not now exist would it be true to say that, probably, the men who are doing the building would all be working in the building trade building houses for local authorities?—If the local authorities were prepared to accept the extra burden on their local rates that would be involved, I suppose the answer is yes, but it is a big "if".

429. Is it your Department that decides where this force is to go?—Ultimately, yes.

430. You are directing it towards local authority areas where local authorities themselves are not prepared to build, although there is a need for building?—I do not think, Sir, we should allow the Association to relieve a local authority of carrying out its responsibility. To assist, yes, to relieve, no. Shall I say this, that at the moment most of the new houses that the Association are undertaking are houses for overspill purposes, for the reception of Glasgow overspill. The Association builds for the reception of Glasgow overspill in a particular area only as many houses as the local authority would build for Glasgow overspill in the same area. The Association assists local authorities but does not take over their job.

431. Do you consider that there is a strong case to be made out for the retention of this organisation in being?—It has considerable strategic value to us. We can use it as a pump-priming organisation for operations like the overspill operation. It is a great encouragement to a local authority to build for overspill if it knows it will get the Association doing likewise.

432. It is a fairly expensive organisation, is it not?—I am not sure that I could agree, Sir. The average capital cost of a Scottish Special Housing Association house is over £100 less than the average cost of a house built by a local authority.

433. How would you explain that?—I do not know that there is a complete explanation. I believe that the Association are, shall we say, more careful in marginal items which they do not regard as essential. From the other point of view, one might say that their houses are not quite so well finished.

434. It would not be anything to do with the proportion of the cost of house-building of an ordinary contractor's

9 February, 1961.]

Mr. T. D. HADDOW, C.B.

[Continued.]

house which goes in profits would it? Is there an element of profits in the Scottish Special Housing Association's houses, and if so, who gets the profits?—Not in this assessment of capital cost, no. This is the actual cost.

435. Is that not perhaps the answer, that the difference between the two—?—I am sorry, Sir, I am misleading you. The figure I am quoting at the moment is the cost to the Association when it builds houses by contract. When it builds houses by its own direct labour organisation the cost is, if anything, but only if anything, a little lower. The difference is not very significant—I doubt if it is significant.

436. Can you give the Committee any idea as to the proportion of houses which the Scottish Special Housing Association is building by contract and the proportion which it is building by direct labour?—The proportion by direct labour is between one-third and one-half. It is rather less than a half. In addition, though it may not be strictly relevant, the direct labour organisation carries out nearly all the site servicing work where a major site preparation is involved before the main contractor comes in.

437. Does that tend to tie them down to locations? Presumably they have got this direct labour organisation built up, maybe in Cumbernauld or somewhere like that, where they are building for Glasgow overspill?—Yes.

438. Would it make them less able to go up to Angus or anywhere else to build?—I do not think so, Sir.

439. They take their direct labour with them, do they?—The organisation can work anywhere. No doubt it recruits most of the actual labour on the spot.

440. The last rent increase which is referred to in the Comptroller and Auditor General's Report was in October, 1958?—Yes.

441. There has not been any increase in the level of rent since then, has there?—Not since then. We are only now, in the last few months, clear of the last few legal actions which sought to test the validity of that.

Mr. Cledwyn Hughes.

442. When you speak of the average cost of one of the Association's houses are you working that over the whole

period from 1945 onwards?—No, I was working it, actually, over the last year.

443. Would the same thing be true if you took the whole period into account?—I cannot say, Sir.

444. Could you tell us a little more about the arrangements which exist between the Association and local authorities on rents? I see in the Comptroller and Auditor General's remarks in paragraph 79: "in areas where individual local authorities charge rents in excess of the Association's standard levels, the authorities' rents are adopted", which seems to be a very important point?—There are very few such areas.

445. Could you give some indication of the number of areas in which that operates?—I understand there are at the moment only seven or eight housing areas in Scotland where that operates.

446. In the whole of Scotland?—In the whole of Scotland, yes.

447. Could you give us some idea how the Association's activities are directed? Do you decide where the Association shall operate, where there is a need for the special sort of service that the Association can give?—Yes.

448. Because there are these difficulties of unemployment and depression that my colleague has mentioned?—And adequacy of local resources. We decide that, in consultation, of course, with the Association.

449. You are satisfied that there are still circumstances in Scotland which make the continued activity of the Association desirable? Is that the position?—What I said was that we find the Association a very helpful agent to have in our attack on the Scottish housing problem.

450. Is it the case that you need the Association because local authorities are refusing for various reasons to build local authority houses?—No, I do not think so. If an authority refused to build houses, refused to discharge its duty altogether, we would not put the Association in to build and let the authority off scot-free, so to speak.

451. Notwithstanding that there was a need for housing there?—The situation has never arisen. I think what happens is that we can encourage the authority by saying: "Well, look, we are

9 February, 1961.]

Mr. T. D. HADDOW, C.B.

[Continued.]

all agreed that there is a known need here. We are all agreed you are an area with very limited resources. We will come in to the extent of, whatever it may be, provided you play your part". That approach has never to my knowledge failed.

452. What do you mean precisely by "play your part"?—Build whatever may be regarded as an appropriate share of the houses needed. In the overspill context we would never have the Association build more than half of the total programme.

453. Has the Association built houses for general need as well as for slum clearance, or both?—The Association's houses are available for any purpose for which the local authority wish to nominate tenants.

454. In which of these two spheres, general need or slum clearance, does the Association work most actively?—I do not think, in terms of re-housing tenants, we draw any formal distinction. The Association draw their tenants for their houses from the waiting list maintained by the authorities in the area in which the houses are to be provided. Those tenants may be tenants whose re-housing is needed for slum clearance. They may be tenants in the category which we sometimes describe as "general needs", young people who have not a house, or whatever it may be.

455. May I put an important question to you: you know as well as we do that many depressed areas in Scotland are now scheduled under the Local Employment Act?—Yes.

456. Will this lead to an increase in the work of the Association if, as a result of the Act, industries are established in new areas in Scotland where there is unemployment? Would that be one of the reasons why you would direct the Association to do specific work in a commando sense, as was suggested in an earlier question?—I would not have thought that that would have arisen in an area where the new industry was catering for unemployment in the area. The new industry is not increasing the housing need of the area. I would have thought there might be a case for the Housing Association to go in where in a local authority area a new industry was being established and the workers for that industry were coming

in from other areas. There is at the moment a specially favourable subsidy to the local authority for that purpose.

457. But could the Association take advantage of that special subsidy?—If the Association built for that purpose it would get that particular subsidy.

458. So it would appear, therefore, to be an argument in favour of continuing the activity of the Association for this specific purpose, is that the case?—If this were a kind of need that local authorities were finding it particularly difficult to meet.

459. Do you think that that will be a need that the local authorities will find it particularly difficult to meet?—It is not impossible, but it is unlikely.

Mr. Hoy.

460. Mr. Haddow, in fairness to the Scottish Special Housing Association is it not true to say that on quite a number of occasions, especially in the northern part of our country, no houses would have been provided at all if it had not been for the Scottish Special Housing Association, even at the time when we had to buy and erect Swedish timber houses?—I could not answer that question of my own knowledge today, Sir. One must remember that the remote area authorities have had a particularly favourable Exchequer grant hitherto.

Mr. John Hall.

461. In your view, do you think the local authorities in Scotland could now meet any present or foreseeable demand for public housing?—There is a distinction between "could" and "would" is there not, Sir?

462. I accept the distinction, but shall we say, could they?—Well, they could if they thought it reasonable to increase their rate burden to the necessary level.

463. Then they could, for example, as easily as any local authority in England or Wales?—That is bound up with the question of the rent policy they feel able to adopt.

464. Do you think there is a need for the continuation in existence of the Scottish Special Housing Association?—I think it would have been much more difficult, for example, to get an overspill programme going as well as we have done had we not had this instrument in our hands whereby to encourage the local authorities to come in to

9 February, 1961.]

Mr. T. D. HADDOW, C.B.

[Continued.]

achieve quick expansion of that programme.

465. Accepting that it has done very valuable work up to now, do you think it is still needed to go on doing work of the same character?—I do not think one can set up an objective criterion of that sort.

Vice-Admiral Hughes Hallett.

466. I am still a little muddled about this. As I understand it, in the whole of England and Wales, without question, any difficulty that exists between the central Government and the local authority arises from the fact that the local authority want to build more houses than the Government are prepared to approve the necessary loan sanction for. It seems from what you have said that the situation in Scotland is the reverse, is that so?—There never has been any need to hold Scottish local authorities back; certainly not of recent years.

467. In other words, you have the problem which, indeed, is the justification for the existence of this Special Housing Association, that without it the local authorities would not put forward adequate programmes?—I will put it

this way, that if the Association were not there I am quite clear that the total output of publicly provided houses in Scotland would fall.

468. Now, I would like to ask a legal question: supposing the Association were not available, what powers has the Secretary of State got, if necessary, to provide houses to meet a need which the local authority is failing to meet?—There are various unsatisfactory default powers in the Housing Acts. For example, there is a general default power in the 1950 Housing Act which provides that where complaint has been made that an authority has failed to exercise its powers or the Secretary of State is of the opinion that an investigation should be made to that effect, he may cause a local inquiry to be held and if, after an inquiry has been held, he is satisfied that there has been failure on the part of the authority to do their job, he may make an order rendering exercisable by himself the appropriate powers. In other words, there is a theoretical power enabling the Secretary of State to step in and do the work. Those default powers are in practice very difficult and unsatisfactory, but in theory they are there.

VOTE 12.

EXCHEQUER GRANTS TO LOCAL REVENUES, SCOTLAND.

Sir JOHN ANDERSON, K.B.E., C.B., Secretary, Scottish Home Department, called in and examined; and Mr. T. D. HADDOW, C.B., Secretary, Department of Health for Scotland, further examined.

Chairman.

469. May we now turn in the Civil Appropriation Accounts, Classes I-V, to Vote 12, Exchequer Grants to Local Revenues, Scotland, to paragraphs 80-85 of the Comptroller and Auditor General's Report. Mr. Haddow, paragraph 82 refers to some half a million local authority houses. Can you say how many of them have been built since the war, approximately?—(Mr. Haddow.) Local authority houses since the war—more than half.

470. Does your Department feel that the rent of £39, mentioned in paragraph 83, would be a reasonable, average rent in Scotland at the present time?—The Secretary of State is on record as suggesting that a rent of £39 would not be an unreasonable rent. I should perhaps explain that he did not pluck

that figure out of the air, it was a figure arrived at on an arithmetical calculation of the sum that would be needed to balance the housing accounts, given rate contribution of one-third of the Exchequer subsidy.

471. So, while you will not go so far as to say it is reasonable, the view of the Department was that it was not unreasonable?—That was the view expressed a few years ago.

472. The actual average is £22 9s. a year, whereas we have just been told that the Special Housing Association are charging £35. Is that right?—That is so, Sir.

473. Can you say what was the average local authority rent in 1938?—7s. 3d. a week.

9 February, 1961.] Sir JOHN ANDERSON, K.B.E., C.B.
and Mr. T. D. HADDOW, C.B.

[Continued.]

474. About £16?—Something like that, inclusive at that stage of owners' rates.

475. And today, £22 9s.?—Exclusive of owners' rates. There are now no owners' rates, that is now a proper rent.

476. How much would you put on to make the two comparable?—(Sir Edmund Compton.) I think, Sir, you take it off. On my calculation the 1938 figure, if you exclude the rate element, would be something like £14 4s. 9d.

477. I was going to add it on to the present figure, but you are taking it the other way?—It is only that the figures in my Report are on the exclusive basis.

478. That is about a 50 per cent. increase on the comparable basis?—(Mr. Haddow.) It is something of that order. I have hard figures for 1956 here: the inclusive average rent was 10s. 3d., the exclusive average rent was 5s. 9d. That was the point at which the owners' rates were taken out; in other words, the average amount of owners' rates taken out was 4s. 6d. or about £12 a year.

479. You said 10s. 3d. inclusive?—It was 10s. 3d. inclusive and became 5s. 9d. exclusive.

480. And it is, on a comparable basis, 10s. 3d. against 7s. 3d. pre-war?—Yes.

481. Have you any comparable figures for England and Wales?—I am afraid I have not, Sir. I understand they are rather difficult to come by.

482. Could you make some enquiries and see if you can get them and let us have them, because obviously one wants to make the comparison between 1938 and the present time on both bases. Perhaps Sir Edmund has something?—(Sir Edmund Compton.) I cannot produce a 1938 figure, Sir, but I have attempted to work out the average rate for England and Wales in 1959, and it works out at 19s. 6d. a week, or £50 a year.

483. That is an absolute comparison. I think the Committee might want to know how much the increase has been, compared with pre-war, in England and Wales and Scotland?—Yes. I have not the figure for that.

484. Is that an obtainable figure?—Either I or the Accounting Officer can obtain it from the English Department.

485. I presume the Accounting Officer would want to do this for his own purpose, so perhaps when he has obtained it he could let us have it*?—(Mr. Haddow.) Certainly, Sir.

486. Since 1938, during which period you suggested that exclusive rents were increased by about 50 per cent., and the inclusive rents by rather less than that, I think, by how much have average Scottish earnings increased?—The best figures I have are that between 1938 and 1959 earnings increased by about 267 per cent.; that is, two and a half times. The exclusive rent, in effect, increased by about 73 per cent., attempting to compare like with like so far as rent is concerned.

487. Taking present earnings, I think you told us that earnings in Scotland are five or six per cent. less than in England and Wales?—Yes.

488. But the rents are rather less than half?—Less than half.

489. Have you any comments to make on this disparity in rents between the two countries, relative to earnings?—There are two comments. One, we have never found it profitable to expostulate to Scottish authorities on the basis of what is done in the South. The second is that, I think, a great deal of the cause of this must go back to the old Scottish rating system when landlords were inhibited from increasing their rents because so much of the increase flew off in owners' rates.

Mr. Cledwyn Hughes.

490. There have been Public Inquiries at Glasgow and Dunbarton into the alleged failure of local authorities to review rents, Mr. Haddow. Were these two Inquiries initiated as a result of local representation?—They were, Sir.

491. What do you do to induce local authorities to review their rents?—We issued a circular in 1956 which set out the principles which the Secretary of State then formulated which should govern rents. The two principles were stated as follows: "That subsidies ought not to be given to those that do not need them and that no one in genuine need of a house should be asked to pay more rent than he can reasonably afford". We have not issued other circulars. Ministers from time to time make speeches in Supply Committee and elsewhere making clear their view that

* See Appendix 3.

9 February, 1961.] Sir JOHN ANDERSON, K.B.E., C.B.
and Mr. T. D. HADDOW, C.B.

[Continued.]

the present level of local authority rents is a disservice to Scotland.

492. Do you consider that the action that you have taken has been effective?—One can say that Scottish local authority rents are increasing slowly. Whether that is on account of the action which we have taken or not I find it hard to say, except that one would say that the increase in the Glasgow rents was undoubtedly the direct result of the Glasgow Inquiry.

493. Has the Secretary of State any powers to force local authorities to carry out their statutory obligations to review and fix rents?—The power is this machinery of a public inquiry into the question whether they have carried out their duty. If in the light of the inquiry the Secretary of State considers that they have failed to carry out their duty he can instruct them to proceed and carry out their duty.

494. Have you considered initiating public inquiries without waiting for representations from the locality?—That has been considered. So far the Secretary of State has not felt justified in moving on that basis.

495. Have you ever considered withholding housing subsidies or Exchequer Equalisation Grant from those authorities who are apparently not discharging their statutory functions in a satisfactory manner?—So far as housing subsidies are concerned that would have to be preceded by very much the same procedure of inquiry and investigation. When the Glasgow Inquiry was instituted, naturally Ministers considered very carefully whether they should seek to proceed under the procedure that would have enabled the subsidies to be reduced or under the procedure that would have enabled instructions to comply with the law to be given. The Ministers considered that the second was the preferable form of action, partly because there is no guarantee that a reduction of subsidy will, in fact, induce the authority to raise its rents and may indeed, by increasing their net total expenditure, result in an increase in Equalisation Grant.

496. Have you ever made an analysis of local authorities who have failed to raise their rents to what would be considered a reasonable level with a view to finding out what are the main reasons for the failure?—We have an annual return by each local authority of the

rents they are charging and we ask them to say when they last reviewed them. I am not sure how we could investigate the reasons why they have not in fact done so. The declared reasons might be very different from the real reasons.

497. Well, your national perspicacity, which I hope we share. Have you ever been able to consider that you had found the real reasons and could you tell the Committee what they are?—I find it very difficult to answer.

Mr. Cledwyn Hughes.] Very well, I will not press that.

Mr. Stevens.

498. Mr. Henley, the deficit incurred by the local authorities in respect of these low rents ranks for Exchequer Equalisation Grant. Are you satisfied that the Exchequer is not being penalised by the failure or unwillingness of the local authorities to raise these rents and thus reduce the deficits?—(Mr. Henley.) There is no doubt at all, Sir, that the fact that many Scottish local authorities charge what would appear to be unreasonably low rents does, under the formula which works at the moment, increase the amount of Exchequer Equalisation Grant which is paid. There is not a direct 100 per cent. relationship, of course; that is to say, you do not automatically get the same absolute increase in the Grant when the housing deficit goes up and, in fact, the average proportion is, I think, of the order of something under 20 per cent.; but it is perfectly true that this is a matter of concern to us.

499. Has the Treasury ever considered as a matter of policy whether it is right and proper that the whole of these deficits should rank for calculating Exchequer Equalisation Grant or whether, perhaps, there should be some limit to the amount of deficit which should rank in that way?—Well, I think the position at the moment is that the calculation of the total amount of the Grant is determined by the formula which was embodied in the 1956 Act, and which we, of course, accepted at the time. That formula itself does not in any way imply that rents of houses should be at a particular level in Scotland; and for our part we are naturally anxious to see the levels in certain cases go up substantially, and the Scottish Departments are in no doubt about this view which has been expressed over a

9 February, 1961.] Sir JOHN ANDERSON, K.B.E, C.B.
and Mr. T. D. HADDOW, C.B.

[Continued.]

considerable period. The other part of my answer to the question is that if it appears that the working of the present arrangement and the failure of attempts to get Scottish authorities to increase their rents needs further consideration, either in the way in which the formula has worked out or in some such way as you suggest, we would want to give that consideration at the appropriate time.

500. The existence of a large number of houses in respect of which these low rents are charged must, it seems to me, have some effect upon the market price, the rental position generally. Would you think that that affects the rents obtainable for Government-owned properties?—(Mr. Haddow.) For Government-owned properties?

501. As distinct from local authority-owned houses?—By this do you mean the Scottish Special houses?

502. Yes?—I think there must be some sort of relationship between the two. I do not think that there is necessarily any very direct relationship as, in fact, is evidenced by the fact that the average level of the Scottish Special Housing Association houses is at the moment, as the Committee knows, very substantially higher than the local authority average; but clearly where the houses are in the same areas there must be some relationship.

503. The low rents for the local authority houses would depress the market generally?—I think we would hope it would work the other way round, the fact that the rents of the Special Association's houses were substantially higher might show that this was not an unreasonable target to which the others might approach. There is, I understand, no shortage of demand for the houses at the substantially higher rents put up by the Scottish Special Housing Association.

504. So this policy would go wider than the local authorities only? It would go quite wide?—Yes, it would have some effect. (Sir Edmund Compton.) There is an additional point on that, which is one that I have been looking at though I do not mention it in this Report, about the rents that Government Departments are able to charge for houses for their employees and also

the rents that are charged, also for their employees, by the National Health Service. On my information there is evidence that those rents are at a lower level than they should be because of the comparison that has to be maintained between them and the rents payable by tenants of local authority houses.

Sir Colin Thornton-Kemsley.

505. Mr. Haddow, you were asked about the increase in average wages in Scotland over a period as compared with the increase in local authority housing rents, and it seemed to me you gave a very striking answer. I am sure it was my fault, but I did not myself catch the period to which your figures referred. The increase which you mention was, in wages, 267 per cent., and over the same period, if I understood you aright, the increase in rents of local authority houses was 73 per cent. What were those years to which you were referring?—(Mr. Haddow.) 1938-39, on the one hand, and 1959 on the other, a 20-year period.

506. I see from the Comptroller and Auditor General's Report that about 20 authorities have not even reviewed their rents in the last 5 years, although costs, of course, have been rising during those years, and one local authority has not increased its rents for over 23 years. How can that be reconciled with the statutory responsibility for reviewing rents which is placed on local authorities by the housing legislation?—I have great difficulty in seeing how it can be reconciled in circumstances of that kind. It is considerations of that kind which led us to institute those Inquiries which we have done in Glasgow and Dunbarton.

507. Which is the authority which has done nothing since 1937?—The burgh of Saltcoats.

508. What was the deficit on the Saltcoats local authority's housing account?—In the year 1959-60 Saltcoats had to put in from the rates £55,600 in order to balance the housing account over a total of 2,100 odd houses. In other words, they were putting in something like £26 or £27 per house in rate contribution to the account.

509. How much Exchequer Equalisation Grant did Saltcoats receive in respect of that deficit?—(Sir John

9 February, 1961.] Sir JOHN ANDERSON, K.B.E., C.B.
and Mr. T. D. HADDOW, C.B.

[Continued.]

Anderson.) In round figures, Sir, about £18,000.

510. What have you done about Salt-coats?—*Qua* Equalisation Grant, Sir?

511. No, what have you done about bringing to their notice the statutory requirement, in view of this extraordinary and deplorable position?—(Mr. Haddow.) I do not think they are in any doubt about statutory requirements. If I may quote from a well-known author, we have them on our list for other action.

512. The action that has been taken of that character has been in Glasgow and the Dunbarton area, has it not?—In Glasgow and Dunbarton, so far.

513. Let us look at that. What has been the outcome of the action which was taken in Glasgow and Dunbarton?—In Glasgow the outcome of the action was that the Corporation raised their average rents from 5s. 2d., something just over £13, to 8s. 5d. As regards Dunbarton, the report of the Inquiry has not yet been received*.

514. And so their rents still remain at what?—2s. 10d. per week.

515. They are the authority mentioned in paragraph 84 of the Report?—Yes.

516. 2s. 10d. a week. So, they are sitting tight until they get the Report of the Inquiry?—They are, Sir.

517. How do the Glasgow increased rents compare with the Secretary of State's figure of £39 a year? They have gone up to 8s. 5d. a week, that is, about £22 a year, is it?—Yes, it is about £22 a year.

518. So, in spite of this action they are still away below a rent which the Secretary of State considers does not seem unreasonable in all the circumstances?—Yes, that is so.

519. Has it been brought to their notice that they are not really doing the job properly in raising the rents to that extent only?—The learned counsel who conducted the Glasgow Inquiry made it very clear in his Report that in his opinion it was not open to the Secretary of State himself to assess what would be a reasonable figure. The local authority have a discretion to fix a reasonable figure, and unless it can be shown that they have exercised that discretion improperly, as in the Glasgow case the Report found that they had, then

intervention under the Statute is apparently not open to the Secretary of State.

520. Is that view supported by the Lord Advocate in Scotland?—The Lord Advocate has not in terms been invited to support the view. The learned counsel who conducted the Inquiry is now one of the judges of the Court of Session.

521. Going back now to Dunbarton, with its rent of 2s. 10d. a week on the average, when did Dunbarton last review its rents?—That is a matter of some dispute, Sir. They claim that they reviewed their rents quite recently and decided not to alter them.

522. What do you claim, that they have not reviewed them at all?—In our opinion, they may not have discharged the other leg of their duty, which is to fix such reasonable rents as they may determine.

523. What was the deficit on Dunbarton's housing account and the amount of the Equalisation Grant payable to them in respect of it?—Their rate contribution to balance the account in 1959-60 was £286,000. (Sir John Anderson.) May I add a tailpiece to that, Sir, that the Equalisation Grant to them, again in round figures, was about £50,000.

524. Mr. Haddow, you told the Committee that what had been done so far, leaving out Glasgow and Dunbarton, was that you had issued a circular in 1956 and that since then the offending local authorities were made well aware of the position by speeches of Ministers in Committees of Supply, and so on, but that, apart from the action that has been taken in the case of Glasgow and Dunbarton, there was really, I gather, nothing else that has been done or could be done. Would that be a fair summary of what you told the Committee?—(Mr. Haddow.) I could not say that is unfair, Sir. While various court actions relating to the Scottish Special Housing Association increases were going on, naturally Ministers felt somewhat inhibited from other operations which might be thought to be getting involved with that kind of court challenge.

525. I took some comfort from the two words you used, "so far", when you answered a question about the action which had been taken?—Yes.

526. We may, perhaps, infer that some further action of the kind taken in

* See Appendix 4.

9 February, 1961.] Sir JOHN ANDERSON, K.B.E., C.B.
and Mr. T. D. HADDOW, C.B.

[Continued.]

Glasgow and Dunbarton may be pending?—We trust that the action in Dunbarton may have a satisfactory outcome, if not more so than Glasgow, and that it may serve in other ways as an example to others.

Sir Colin Thornton-Kemsley.] I hope so, too.

Vice-Admiral Hughes Hallett.

527. Just following on the last set of questions, these very big subventions from the Rate Fund in some of the burghs must have the effect, surely, of making the cost of living in a privately owned house prohibitive, must they not?—They certainly add to the cost.

528. Do you find people leaving the privately owned houses as a result, or not?—No. Put it this way, privately owned houses for rent are still very hard to come by.

529. How many local housing authorities are there in Scotland?—Every county and every large and small burgh is an independent housing authority. That makes, altogether, 227.

530. And of those are there any which charge rents which the Secretary of State would regard as not unreasonable?—Yes. There is an annual print of the rents, and simply opening it by chance my eye falls on the burgh of Girvan which charges an average rent of £44 1s. 7d. The burgh of Kirkwall, an average rent of £30—that is a little lower.

531. In burghs which are charging reasonable rents and really conforming with the intention of the Act is there anything to distinguish their circumstances from the others which would make it easier for them, compared to the others, or is it just a matter of the goodwill of the councils?—I cannot identify a specific circumstance other than the good sense of the council.

532. In paragraph 83 it is stated that an average rent of £39 per annum would have balanced the average local authority housing account in 1958-59, assuming a rate contribution of one-third of the normal housing subsidy. My question is, do you think that one-third is a reasonable contribution?—The figure of one-third was chosen because until 1957 that was the rate contribution prescribed by Statute as required to match a given Exchequer subsidy.

533. But apart from that Statute would you say it was reasonable, or if you had it in your power would you propose some other proportion?—I think that is a very difficult judgment, and I would not like to pass it at all.

534. What would have been the effect on the aggregate Equalisation Grant in 1959-60 if the housing deficit of each authority ranking for the relevant expenditure had been restricted to one-third of its housing subsidies?—(Sir John Anderson.) I do not think it is possible to answer that off the cuff, Sir. It would be a very complicated calculation. We can go into it and let you know*.

535. May I ask, then, when is the present system of calculating the Equalisation Grant due to be reviewed?—The present system is due to be reviewed before May, 1963, when the present statutory formula comes to an end. In fact, we already have a working party sitting which is giving some preliminary thought to this in connection also with the problems of revaluation.

536. Earlier you said, and I made a note of the words, that you found it unwise "to expostulate to Scottish authorities on the basis of what is done in the South", but can you assure us that the money that they get by virtue of the operation of the Equalisation Grant does not in fact come from the South; in other words, are we satisfied that this deficit is not partly being met by the inhabitants of England assisted by those of Wales? That is a question to the Treasury, perhaps?—(Mr. Henley.) It may be, Sir, but I am afraid it is a very difficult one to answer, I think partly for the reason that the Comptroller and Auditor General gave earlier on, that it is very difficult to attribute the sources of the Exchequer's revenue between the two countries. I certainly could not answer it or attempt to do so offhand.

537. But surely, unless Scotland pays more than its proportionate share of the revenue, it must follow that this deficit is being made up, in fact, from the other part of the country, must it not?—I think that follows arithmetically, Sir.

538. I take it there is no reason to suppose that Scotland is contributing a bigger proportion of the revenue than

* See Appendix 5.

9 February, 1961.] Sir JOHN ANDERSON, K.B.E, C.B.
and Mr. T. D. HADDOW, C.B.

[Continued.]

England as a percentage of the population?—There I really would not like to commit myself.

Sir Colin Thornton-Kemsley.

539. Does not the Goschen formula still apply to that, the 11/80ths?—That, I think, has been superseded. (Sir John Anderson.) It has a limited effect. It underwrites, as it were, the Exchequer Equalisation Grant and it does emerge in other contexts, but it is no longer of general application. If I might add a footnote to what Mr. Henley was saying, there was, as I think Sir Edmund said earlier, a very full review by a Committee under Lord Catto, I think about twelve years ago, which went into the whole problem of trying to analyse the contribution by Scotland to the national revenue and the expenditure from the national revenue in Scotland. They ran into extreme difficulties, naturally enough, in arriving at any firm figures, and I certainly have none of the figures in my head, but they did show separately the Exchequer payments in Scotland on what they called local services, that is to say, services for the benefit of Scotland, and a separate figure of, I think they called them, imperial services or something like that. We could easily show you the return, but I am afraid I have none of the figures available today.

Vice-Admiral Hughes Hallett.

540. But I would put it to you, Mr. Haddow, that there is at least, you would say, a suspicion that part of this deficit is being made up from over the Border?—(Mr. Haddow.) I think that is for Sir John Anderson, Sir.

541. That leads me on to ask this question with regard to your action: do you take any steps to ensure that there is a full public realisation of the facts brought out in the Comptroller and Auditor General's Report, and does that not produce, anyhow, a certain sense of shame, shall we say, that the average tenants of these houses are not in any way paying their whack?—I see no prospect of producing any sense of shame whatsoever, Sir. (Sir Edmund Compton.) Could I, Sir, attempt to give a provisional answer to one earlier question? It is on the question of what the saving might be on the Exchequer Equalisation Grant. On my calculations for 1958-59 the saving, that is, if the housing deficit ranking were restricted to one-third, might

be something like £1,900,000; but I put that in subject, of course, to verification and correction by the Accounting Officer.

Chairman.

542. Sir John, on the question* that you were asked about the calculation, and you said it is a very difficult one, of the total effect on the Exchequer Equalisation Grant of the sum payable to those who are below the reasonable rent, you will let us have that in due course, will you?—(Sir John Anderson.) Yes, we will do what we can, Sir.

Mr. John Hall.

543. Mr. Haddow, I hope you will forgive me if I say, as a mere Englishman, that this story seems to me quite incredible. So that I may make sure I have it right, summing it up as I understand it, although the average wages are only about 6 per cent. less in Scotland than they are in England, rents are, approximately, a little more than 50 per cent. less. Is that correct?—(Mr. Haddow.) A little less than 50 per cent.

544. They pay a little less than 50 per cent. less in rental. There are no other special cases or conditions existing in Scotland which would justify a special consideration on rents as opposed to the conditions existing in England or Wales?—The only factor which might contribute, though I have not done the analysis as I have not got the English details, is whether on the average the Scottish house is smaller or has fewer rooms than the English house. I suspect it is. I do not suggest for a moment that is a complete answer.

545. As I understand the previous answers, the Secretary of State has little power to direct local authorities to bring their rents more into line with a realistic rent except for the procedure which is now being followed of calling for a Public Inquiry by various local property owners?—Yes.

546. Even so, you still cannot insist that the rents should be what he, the Secretary of State, thinks they should be?—That is correct.

547. Do you think the Secretary of State ought to have more powers?—I do not think I could answer that question, Sir.

* See Q. 534.

9 February, 1961.] Sir JOHN ANDERSON, K.B.E, C.B.
and Mr. T. D. HADDOW, C.B.

[Continued.]

548. Do you think that the present situation is justifiable in any way at all?—As between England and Scotland?

549. As between England and Scotland?—When one looks back into history one can see how it arose. It is a little difficult to say yes. I think it is difficult to say it is entirely defensible.

550. That is the question I asked you. I can understand the historical reasons for this, possibly. What I want to know is whether you think it is justifiable today?—I do not think that is for me to say. After all, my job is to administer the Scottish system to the best of my ability.

TUESDAY, 14TH FEBRUARY, 1961.

Members present:

Mr. Harold Wilson, in the Chair.

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

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

Sir EDMUND COMPTON, K.B.E., C.B., Mr. D. O. HENLEY and Mr. C. J. HAYES,
an Assistant Secretary, Treasury, called in and examined.

CIVIL APPROPRIATION ACCOUNTS (CLASSES I-V), 1959-60.

CLASS II.

VOTE 8.

COLONIAL SERVICES.

VOTE 9.

DEVELOPMENT AND WELFARE (COLONIES, &c.).

Sir HILTON POYNTON, K.C.M.G., Permanent Under Secretary of State, and Mr. A. N. GALSWORTHY, C.M.G., and Mr. E. MELVILLE, C.M.G., Assistant Under Secretaries of State, Colonial Office, called in and examined.

Chairman.

551. Sir Hilton, I think this is the first time you have appeared before this Committee?—(Sir Hilton Poynton.) Yes, Sir.

Chairman.] I should like to welcome you on behalf of the Committee. Will Members please turn to the Comptroller and Auditor General's Report on the Civil Appropriation Accounts, Classes I-V, to paragraph 14, Financial Assistance under the Colonial Development and Welfare Acts, 1940 to 1959? I have no questions.

Mr. Arbuthnot.

552. I should like to ask for a short résumé of the working of the Colonial Development and Welfare funds and how they fit in with other moneys made available?—With other public funds?

553. Yes?—There is a variety of public funds. There are, as you say, the Colonial Development and Welfare funds which, though in law they may be

grantable loan money, in practice almost always apply as a grant and which are used for what I may call basic development purposes, whether in the economic field or in the social field, in the Government sector. The sort of things one would do with Colonial Development and Welfare funds in the Colonies would be roads, transport, harbours, power, education and the cost in the capital sense, not the recurrent subsidies of budgets, of many of the universities, university colleges, schools, and so on. A lot has been set aside for scientific research which is controlled, in a sense, from the centre by the Colonial Office on the advice of a network of professional scientific advisory committees. A lot is spent on training schemes in this country, training scholarships or training, for people in the Colonial Service who have come over here to be trained. That, I think, is the main broad description of the Colonial Development and Welfare Act. The emphasis, I think, is on development. In its welfare capacity it is

14 February, 1961.] Sir HILTON POYNTON, K.C.M.G., [Continued.
Mr. A. N. GALSWORTHY, C.M.G., and Mr. E. MELVILLE, C.M.G.

not on the analogy of subsidising a welfare state; it is really the capital expenditure on the social side as distinct from capital expenditure on the economic side. I think that is a legacy from the original Colonial Development Act of 1929 which was much more limited in its scope to economic development and, in particular, did not include education. When the original Colonial Development and Welfare Act was passed in 1940 they wanted to mark that it was much wider than that, and they chose the title Development and Welfare. If I were starting again I think I would have called it Economic and Social Development, which is much more what it is. The next one I would take, I think, is the system of Exchequer loans, which is a part of the 1959 Colonial Development and Welfare Act, but is a much more recent philosophy, if I might say so. In the old days the arrangement was that when a Colonial Government wanted to raise loan money for its Government development programme it came to the City of London and floated stock; and in earlier days there was usually a very good market for Colonial stock. They were not guaranteed technically, or not normally. There was a Palestine and East African Loans Act for a short period, but by and large they were not guaranteed. So long as the City felt that the United Kingdom Government was indirectly in full control, so to speak, that operated as a guarantee. It appealed to the investor. But in recent years there has, I think, been a large question mark in the City of London as to whether self-government in some of these newer territories is really credit-worthy. The brokers have advised us that the chances of floating Government stock in the market, except for a very few territories, is almost non-existent. On the other hand, they still need a great deal of loan capital for their Government programmes and therefore power was taken in the last Colonial Development and Welfare Act to include what you might almost call Chapter 2, authorising Exchequer loans to the colonies up to a total of £100 million spread over 5 years, the period of the Act, with certain ceilings year by year. The third source or purpose of Government assistance—I think we had better take the direct things that come on Votes first—is that there may be from time to time emergencies, either what I might call

man-made emergencies like riots or civil commotions, or natural emergencies, hurricanes, and so on, where we have to contribute to the repair of the damage, as it were. Those on the whole are fairly easy to deal with because one works out in consultation with the Government concerned what amount will be required, it may be loan or it may be grant, but inasmuch as the countries which are or seem to be most exposed to natural disasters like hurricanes, the West Indies, Mauritius, and so on, are usually the poorer colonies, it tends to be grant aid. Then there is the ordinary grant in aid of the budget where you get a country which simply cannot make ends meet on any respectable standard of administration and where we have to rally round with a grant in aid computed in consultation with the local Government and with the Treasury to try to cover the gap between the estimated revenue and the estimated expenditure. I think that is about all the direct Government assistance. There is the Colonial Development Corporation which is not on Votes. I do not know whether the Committee are interested in that. There is a difference in function, and that is more the commercial type of enterprise rather than the Governmental type of enterprise.

554. Does the Colonial Development and Welfare Fund cover trust territories such as the Cameroons?—Yes.

555. Will it come to an immediate end if the Southern Cameroons decide to join the Republic?—It will come to an end on independence, although we may offer to make arrangements for carry-over; but the Colonial Development and Welfare Act only applies to those territories which are still dependent territories. Even Nigeria itself ceased to be eligible for Colonial Development and Welfare assistance at the moment of independence, with a carry-over.

Mr. Chetwynd.

556. Not the West Indies?—The West Indies are not yet independent.

Chairman.

557. Will Members now turn to paragraph 15, Malta Development Programme? Sir Hilton, I think you have

14 February, 1961.] Sir HILTON POYNTON, K.C.M.G., [Continued.
Mr. A. N. GALSWORTHY, C.M.G., and Mr. E. MELVILLE, C.M.G.

explained very clearly, if I may say so, the various types of assistance. Does the £3·6 million from the Colonial Services Vote, which is referred to in the second from last line of paragraph 15, count in any way against the limits for assistance under the Colonial Development and Welfare Act mentioned in paragraph 14, or is this an entirely separate item?—It is an entirely separate item. We had to consider what, in bulk, was the scale of assistance that Malta appeared to need. Some of it was appropriate for Colonial Development and Welfare funds; some of it was for purposes which you could not really get under that Act and was made by direct grant or loan on the Colonial Services Vote.

558. And some you were able to claw out of the remainder of war damage grant?—Yes.

559. How much of the £29 million is earmarked for assistance towards the establishment of industry in Malta?—It is about £1½ million.

560. You mean, £1½ million is already committed for that purpose?—Is earmarked, yes.

561. Is earmarked out of the £29 million?—Yes.

562. Could you say what provision there is for repayment to the Exchequer if the assisted industries pay their way and become profitable concerns?—Some is grant and some of it loan, and the loan is done by way of loan to the Malta Government on the ordinary Treasury terms.

563. With regard to the relations between the Malta Government and the individual firms, where it is a loan they themselves have provision for repayment of the loan in accordance with the usual practice, do they?—Yes.

564. But not grants; for grants there is no provision?—Grants are grants.

565. There is no purchase of equity there or anything like that, no provision for any return?—No.

Mr. Chetwynd.

566. What is the £3·6 million on the Colonial Services Vote to cover?—(Mr. Galsworthy.) If I might answer that, Sir, this is for various types of capital expenditure, a miscellany of things which were begun during the Government of Mr.

Mintoff. Services were started which do not come properly within the ambit of the Colonial Development and Welfare Vote or the Exchequer loans provision. This is the estimate required to complete those services in that period. I think perhaps one of my colleagues would know more exactly.

567. It seems a little difficult to find what sort of schemes there could be which did not come under the ambit of Colonial Development and Welfare, that is all?—It was partly reconstruction or rebuilding of schools. The philosophy is that when you have a capital work which entails no development element it does not come within the ambit, we hold, of the Colonial Development and Welfare Act. If it is purely reconstruction then it has to be financed, if external finance is required, from some source other than the Colonial Development and Welfare Vote. If there is the element of development or expansion involved then it would properly be a charge against the Colonial Development and Welfare Act. That is the broad distinction.

Chairman.

568. Paragraphs 16-18, Loans to the Company converting the Dockyard. Sir Hilton, the first question is about the loan of £1,200,000. In paragraph 18 the Comptroller and Auditor General states that you "doubted whether certain expenditures were compatible with the terms of the financial Agreement". Would you like to tell the Committee what the "certain expenditures" were?—(Sir Hilton Poynton.) Yes. There are really three items. We issued this money shortly after the financial agreement had been settled. Round about January of the following year the company came along and asked for another £550,000 and it then became necessary, before we issued more money, to investigate rather closely what it had done with the £1·2 million. Most of it, we thought, or a large part of it, had been properly spent; but there were three items which did raise our doubts. The principal one was a payment of £650,000 to a new company called Bailey Trust (Bermuda) for setting up a pension and gratuity scheme for their workers. It represented the total of the contributions required, both past and future, in order to provide a gratuity scheme for all the employees, a pension scheme for senior staff and a pension scheme for about 800 selected

14 February, 1961.] Sir HILTON POYNTON, K.C.M.G., [Continued.
Mr. A. N. GALSWORTHY, C.M.G., and Mr. E. MELVILLE, C.M.G.

works staff. I can go into that in fuller detail if you wish. It did seem to us to be, to say the least of it, an unusual provision that you should take a large capital sum of that kind out of your working capital, take it out of Malta and put it in Bermuda. I felt that I could not agree to the issue of any further public funds from the taxpayers' money until we had found out about that. I will come in a moment to what we did about that. The second item was a payment of £200,000 by the Malta firm, the subsidiary of the parent company, back to the parent company, C. H. Bailey, Ltd., in Newport, Monmouthshire, for what they called "promotion and formation expenses"; and the third item was in respect of certain tugs for the Malta company. It was an interest-free loan by the subsidiary company back again to the parent company for tugs, and there again we felt that it was very doubtful whether it was a right use of the money to transfer it, as it were, back from Malta into the parent company.

Mr. John Hall.

569. I did not catch the amount?—Of the tugs? I am not sure that I said it. It was £200,000. That is, £650,000 for the pension scheme, £200,000 for the formation expenses and £200,000 for the tugs. One of the points that we could not help having in mind—

Mr. Hoy.

570. Before you go any further, Sir Hilton, was it agreed, did you say, in the case of this third loan also that it should be interest-free?—An interest-free loan that is right, and in certain circumstances it is non-repayable.

571. The second one was non-repayable?—No, the third one was non-repayable in certain circumstances. The second one was not a loan, it was a direct payment.

Mr. Hoy.] It was a direct payment, yes.

Mr. John Hall.

572. This is almost the entire amount of £1,200,000. It is £150,000 short?—Yes.

Colonel Crosthwaite-Eyre.

573. Could I get this quite straight? The second item, you say, was a direct repayment?—Not so much a repayment as a payment.

574. The third one was for the purchase of tugs?—The third was this interest-free loan to the parent company to provide tugs for use in the converted dockyard in Malta.

575. An interest-free loan?—An interest-free loan.

576. Just like that?—Just like that, and in certain circumstances it was to be non-repayable.

577. Could I know what the circumstances were?—The reason for the inclusion of the provision was to safeguard them against a loss in the event of the tugs, or of the company, being later on expropriated. * * *

Chairman.

578. Could I now, Sir Hilton, follow this? What has been the outcome of the examination that is mentioned at the end of paragraph 18 and your withholding further funds as a result of these three items?—Then, not being particularly expert on commercial practice myself, I thought it as well to have a talk first with the Treasury, with Sir Frank Lee, who has experience of these matters, and in the end we decided to enlist the advice of an experienced independent commercial accountant, Sir Richard Yeabsley, who is the Board of Trade Accountant Adviser. We got him on to this. In short, he agreed with us that all these three items were open to criticism, and he made certain recommendations which I can go into in detail which, after some months' negotiations the company have accepted. They are all being adjusted without further issue from public funds. We have issued no further working capital since the £1.2 million. We have now been able to reach agreement with the company on the adjustment of these items and we have also agreed with them to a strengthening of the Board of the company by the inclusion of Sir Richard Yeabsley himself, Mr. Hanning Philipps and Mr. Lawrence Robson. I hope that from now onwards we are in for a period of rather closer and better collaboration with the company.

579. To what extent did you know when the £1.2 million was issued the purposes for which it was likely to be used and whether, in fact, all that

14 February, 1961.] Sir HILTON POYNTON, K.C.M.G., [Continued.
Mr. A. N. GALSWORTHY, C.M.G., and Mr. E. MELVILLE, C.M.G.

amount was required at once?—In the broadest sense, of course, it was required against a total provision in the financial agreement of £1.85 million for working capital for the Dockyard, and we really relied very largely on the advice of the Admiralty Accountant on this. It was not possible to make a very firm estimation, but we thought it was reasonable. The Principal Accountant in the Admiralty thought the figure was a reasonable one, working somewhat on these reasons, that the total turnover of the Yard was estimated at £5 million, which represented then about 85 per cent. Admiralty work and about 15 per cent. commercial work. On the Admiralty work we allowed a credit of two to three months and on commercial work six months. Working on those figures, the Accountant produced a total requirement of working capital for debtors and for work in progress of around £1½ million, and there was an additional requirement of about £400,000 for stock in trade but we had to set off Bailey's own contribution of £750,000; and I think if you do that sum, £1½ million plus the £400,000, £1.9 million, set off the £¾ million, it comes out in round figures at £1.2 million and that was the figure that we settled, relying on the Admiralty Accountant as our adviser because, after all, this as a conversion of an Admiralty Dockyard and they were probably in a better position to judge than anybody else was.

580. Do the terms of the financial agreement with Bailey's require the company to inform you of the purposes to which they intend to put the money?—In very general terms, but working capital is not really defined. The rough effect is that the company are their own judge of commercial practice as to what is reasonable as working capital.

581. Perhaps you could let us have that information?—As I say, broadly speaking, on the working capital it is a matter for the commercial judgment of the company and we just have to check as best we can whether what they have spent the money on is reasonable commercial judgment or reasonable commercial practice or not.

582. On the Bermuda pension fund transaction, what reason did the company give for this action? Was this also an offsetting again in case of expropriation?—Their first reason, of

course, on the purpose of the scheme was that it was normal commercial practice to set up a pensions fund of this kind.

Colonel *Crosthwaite-Eyre*.

583. In Bermuda?—Well, may I come on to that? I think we ought to take this in two parts because the first question really, surely, is whether this is a proper charge on working capital. While I think you can contend that a pensions fund as such is a proper charge, we were advised by Sir Richard Yeabsley and others confirming our own view that it was not a reasonable charge on working capital to put the whole of the money in in a sum of £650,000 in one great lump. Coming now to the second, why Bermuda, I think there is no doubt at all that the company were inspired in this, as in the other items, to get the money out of Malta to provide against the possibility * * * that there might be expropriations.

Mr. *John Hall*.

584. If I could follow that up, Sir Hilton, you did say, I think, that following negotiations with the company these matters have been adjusted to some extent?—Yes.

585. How far have they been adjusted and are you satisfied with the adjustments?—Yes, I think we are. We have worked very closely on the advice of Sir Richard Yeabsley. If I may take the first item, the pensions, he advised us that it was most unusual to transfer a sum of this kind. He recommended that the parent company, that is, C. H. Bailey, Ltd., in Newport, should guarantee an overdraft of the local subsidiary company in Malta up to about £½ million before any further sum was paid by the United Kingdom Government as working capital. That overdraft figure was defined as being the difference between the amount paid into the pensions scheme, which was £650,000, and the figure which would, on the advice of actuaries, be an appropriate annual charge; and his advice was that the proper annual charge would be about £105,000. The company have agreed to that. They, that is, the parent company, have undertaken to guarantee the overdraft up to a maximum of £440,000, which is the difference between the actual payment of £650,000 and two annual payments so far of £105,000. They have not yet decided the exact way in which the

14 February, 1961.] Sir HILTON POYNTON, K.C.M.G., [Continued.
Mr. A. N. GALSWORTHY, C.M.G., and Mr. E. MELVILLE, C.M.G.

interest on the overdrafts will be borne by the parent company, but they have accepted the principle.

586. Have you had any adjustment to the figure of £200,000 that was paid to the parent company for what is described as, I think, "promotion and formation expenses"?—The promotion and formation expenses, yes. Sir Richard Yeabsley recommended that this sum should be refunded in cash forthwith, alternatively that the parent company should take up at par payable forthwith in cash 200,000 shares at £1 each in the Malta company. In either event it was to be agreed by the parent company that no further sum would become payable by the local company, the Malta company, under the original agreement.

587. Which of the two alternatives did they decide to accept?—In the event they accepted the idea of the shares.

588. I somehow thought they would. I am a little puzzled about the capital structure of this converted Dockyard. What was the initial capital of the company that was set up?—The initial capital was to be £750,000 of their own private capital, which came from the parent company, and loans from the Government up to a total of £6 million spread over the period of conversion. I do not know whether you would like that £6 million broken down? I can give you the analysis.

589. I think it will be of interest?—For fixed assets and services, for which they had a schedule, £2.76 million. A down payment towards the purchase of Admiralty plant and machinery that was already on the site, £230,000. For new plant and machinery, £860,000. For ancillary industries, £300,000; and for working capital and stores, the balance, which comes to £1.850 million.

590. This was by way of loan from the United Kingdom Government which would in time require to be repaid by the promoting company?—That is so, yes.

591. Was it intended as a matter of general policy to put this company at risk to that extent? There was a very considerable sum of money involved, was there not?—To the extent of the £750,000, yes, it was indeed, and we felt that it was one of the original purposes—and, indeed, conditions—of getting this firm in that they should be at risk to

that extent, £750,000 in a potential capital of £6,750,000.

592. But the £6 million is by way of loan, as I understand it?—Loan, yes.

593. Are they still at risk to that extent?—Yes, as a result of the acceptance of the Yeabsley Report they are back at risk to that extent.

Mr. Chetwynd.

594. Have they asked for more than this £1,200,000?—They asked for the further £550,000 in January, 1960, which is what gave rise to all this enquiry and the subsequent Yeabsley investigation.

595. The point is that now that they have agreed to these other conditions they are in actual fact going to receive less than the £1,200,000, is that not so?—No, they can go on drawing up to the £6 million in all, the £1,850,000 being for working capital.

596. But they have got to make some arrangements, so that they will not have received that much. As a result of those arrangements have they come forward and asked for the difference, as it were?—Not yet, no.

597. Does your financial agreement give you the right to enquire into the financial affairs of Bailey (Malta), Ltd.?—Yes.

598. Have you made enquiries?—Perhaps I could just read the actual provision that relates to this. "Until the whole of the loan, whether secured or unsecured, has been repaid with interest, if at any time the Secretary of State gives to the company notice in writing that he has reason to believe that, in accordance with another clause of the agreement, the whole of the loans will or may become payable immediately, he may require the company to allow any person or persons appointed by him to investigate the affairs of the company and the company shall comply with such a request". We have never had to go so far as to make a formal financial investigation under that clause because the appointment of Sir Richard Yeabsley to enquire into these particular payments was done in collaboration and in consultation with the company. It was done as a matter of agreement without having recourse to the power, but the power is there.

599. The reserve power is there? If they had not agreed to this you could

14 February, 1961.] Sir HILTON POYNTON, K.C.M.G., [Continued.
Mr. A. N. GALSWORTHY, C.M.G., and Mr. E. MELVILLE, C.M.G.

have insisted?—We could have forced it on to them, yes.

600. As a matter of practice do you get the Company's accounts and the auditors' report?—Yes.

601. Have you seen the audited accounts for 1959-60 yet, or is it too early?—1959-60, the first year, yes.

Mr. Hoy.

602. Sir Hilton, what are the "certain documents and certificates" relating to the loan of £281,000, which are mentioned in paragraphs 17 and 18 of the Comptroller and Auditor General's Report?—Perhaps it might help you if I first of all read out the list of the documents which were required in all to be produced. The agreement does provide that "Any issues of loan for plant and equipment shall be made in advance of expenditure". As and when disbursements are made from the loans, the company render copies of the following documents, and there are six categories of these documents: first, there is the statement of cost for the provision of each item of plant and equipment; secondly, there is a certificate from the company that the sum was due in accordance with the terms of the contract, and where the company's certificate relates to the final payment under the contract a certificate of an authorised Admiralty representative to that effect. Thirdly, we want a detailed statement of net cost expended by the company's direct labour force in connection with the installation of such plant and machinery. Fourthly, a certificate from the Admiralty Principal Accountant's representative in Malta that the cost has been verified. Fifthly, a certificate from an authorised Admiralty representative in Malta that the work has been satisfactorily carried out; and finally a statement from the company that the provision and installation of the plant and equipment included in the claim is within the purposes of the agreement. Now, in regard to this loan of £281,000, the loan was issued shortly after the financial agreement was signed in September, 1959, but quite a lot of the orders had been placed before the financial agreement came into force. It was a gradual taking over from the Admiralty for the conversion of the Dockyard. The original authority, so to speak, for anything of this kind goes back

to an exchange of letters, letters of understanding, in the middle of the summer of 1958. The company signed the lease in March, 1959. The financial agreement was in course of negotiation all that summer and was finally signed on the 11th September. Of those six categories of documents which I have read out, we have got them all now from the company except those which I read out as items 4 and 5, which we have to get from the Admiralty representative in Malta. No. 4 is the certificate from the Admiralty Principal Accountant's representative in Malta for the verification of the costs, and No. 5 is the certificate from the authorised Admiralty representative in Malta that the work has been satisfactorily carried out. The Admiralty has been asked to supply them as soon as they can and they had hoped that they would be with us by today; the 14th February was, in fact, the date that they had hoped to supply them. They have not come in but I think we should have them in about a week's time.

603. I find it a little difficult to understand. You have got all the certificates now except the certificates due from the Admiralty, and it is from the Admiralty that you are taking this over, is it not?—The company are taking over from the Admiralty to convert it into a civil dockyard, yes.

604. And it is the Admiralty who have got to do the verification and certify that these were proper costs, is that right, that the money was properly paid?—Yes, they are called in to do this, as advisers to the Colonial Office to enable me to account. It is not a direct Admiralty responsibility as such.

605. What reason has the Admiralty given you for being unable to produce these documents?—There are a number of procedural difficulties about this over the contract procedure. Because of the delay in concluding the financial agreement the company did order these items before the agreement was signed. Just before the agreement was signed the Colonial Office wrote to the company to tell them that, insofar as they had already entered into commitments for plant and equipment, we could waive all this rather detailed contract procedure for such plant and equipment. Now, we have never succeeded in discovering precisely what the commitments were that the company had entered into before

14 February, 1961.] Sir HILTON POYNTON, K.C.M.G., [Continued.
Mr. A. N. GALSWORTHY, C.M.G., and Mr. E. MELVILLE, C.M.G.

signing the agreement. They have claimed that all their expenditure comes into that category, but the evidence they have produced so far covers only about £130,000 out of the £281,000; and it is for the details of this remaining £151,000 that we are waiting. Now, the claim was that most of this was committed by the parent company on their behalf before the signing of the agreement and that the commitments were taken over by the local company after the signature; and we are going into that. Now, if it proves true that that is the case I think it would be reasonable to include those in this waiver procedure as well.

606. There will be time enough to decide that, I think you will agree, when you have got proof that the money is spent?—When we have proof, yes.

607. But it would be true to say that without these documents you are quite unable to say whether this £281,000 was correctly spent or not?—(Mr. Galsworthy.) Could I just add a point here by way of clarification? The draft procedure to which Sir Hilton has referred is this, that under the agreement we can only advance loans for plant and equipment provided that the contract is awarded on the basis of open competitive tendering. Now, this requirement, the waiver of which Sir Hilton mentioned just now, we agreed to waive in the case of certain orders that the company placed before the financial agreement was signed. What we are trying to ascertain now is whether the whole of this £281,000 represents prior commitments, that is to say, commitments entered into before the full contract procedure had to come into play. So far, we are satisfied that £130,000 of the £281,000 represented prior commitments and, therefore, the full contract procedure did not need to come in. We are now investigating and awaiting further details of this £150,000. If there is evidence that the £150,000 represented prior commitments then it would be reasonable, I think, to bring it within the £281,000.

608. When did you first ask for these certificates?—(Sir Hilton Poynton.) On 12th October, 1959, that is, within a month of the signature of the agreement.

609. October, 1959; it is now February, 1961. These were not really two different companies: it is true one is

39389

the parent company and the other is Bailey (Malta) Limited, but what good reason is there for these two companies, one being the company and the other a subsidiary, being unable to produce these certificates? Have you any satisfactory explanation?—No, that is part of the difficulty, we have not had any satisfactory explanation. We have been pressing away at them over this the whole time.

610. Is it true to say that this company has asked you for a further loan?—For development, as distinct from the working capital.

611. For development?—Yes, they have.

612. What is the decision about that?—Up till now we have refused to agree to that until we have got all this tangle, the whole financial position, sorted out as a result of Sir Richard Yeabsley's investigation. They pressed us very strongly to consent, as part of that investigation, to agree to increase the loan for the conversion of the dockyard from the £6 million up to about £8 million. All we have said to them is that once they have got the Board strengthened and all these difficulties of the past have been tidied up, we are willing to discuss with them the possibility of expanding the thing, but we have not committed ourselves to doing that yet.

613. If they cannot account for £150,000 surely you would not feel justified in advancing further cash until that was cleared up, would you?—But we have not advanced it.*

614. But you are thinking of it? You are willing to discuss it?—Yes, we are willing to discuss it because there is, I think, a perfectly genuine *prima facie* argument that to make a really successful job of the conversion you do want to do it on the bigger scale. But, obviously, if there was any question of some of the money issued not having been properly accounted for, you take that into account when deciding how much more to issue. Once we have adjusted all that we shall decide whether to issue any more.

* *Note by witness:* Issues amounting to £163,375 for modification and improvement of fixed assets have been made since 1.4.60. These issues are within the total of £6m.

C

14 February, 1961.] Sir HILTON POYNTON, K.C.M.G., [Continued.
Mr. A. N. GALSWORTHY, C.M.G., and Mr. E. MELVILLE, C.M.G.

615. May I just ask one further question about the £650,000 for the superannuation fund, Bermuda. I would be interested to see what the superannuation fund consisted of. It is a very large sum out of the original £1,200,000. It is extraordinary that half of it should be immediately turned over to a superannuation fund, half of the sum that was in fact given to them for development. Might I know the terms of the superannuation fund, would that be possible? If not just now, perhaps you could find out and let us know?—We have got it in general terms. Part of it, I think, I have already given you, but it was to provide a gratuity scheme for all these employees, a pension scheme for the senior staff and a pension scheme for about 800 selected workers or staff; but it did seem to us when we looked into it that the company appeared to retain a complete and probably arbitrary control over the scheme. They retained the right to remove members without reason and to terminate the scheme *in toto* and we felt, quite apart from the financial justification of doing it in this way, that the scheme was open to a good deal of criticism as a pension scheme. But that also was caught up in the Yeabsley investigation and is being put right.

Colonel *Crosthwaite-Eyre*.

616. Sir Hilton, probably like many people, I think this is one of the most deplorable stories I have heard for a long time. Did you do your original negotiations with Bailey's or Bailey's of Malta?—The parent firm, C. H. Bailey, Ltd., yes.

617. I understand from paragraph 16 that you agreed that you would go into contract with Bailey (Malta), Ltd. Is that right?—Yes, it was part of the understanding that the parent firm would set up a subsidiary firm in Malta to undertake this job.

618. What I am getting at is that you made your agreement with the subsidiary and not the main firm?—That is correct, yes.

619. Why did you do that?—Because it was the subsidiary firm which was doing the actual operation in Malta.

620. Yes, but the whole of the story, as I understand it, seems to show that

you were dealing with a subsidiary which was controlled by somebody outside your own partnership agreement?—I think it was probably the only way that the company itself could limit its liability in Malta to £750,000.

621. Am I right in saying that Bailey (Malta) is a wholly owned subsidiary of Bailey's of this country?—Yes.

622. And the Board of Bailey (Malta) has no rights except what Bailey's in this country may care to afford them?—I am not so sure about that.

623. What I am getting at is this: when you made this agreement did you look at the Articles and Memorandum of Association of Bailey (Malta) to see what their position was vis-à-vis Bailey's in this country?—The subsidiary firm only came into existence after we had selected this firm in its parent capacity to do the job.

624. I am sorry, let us get this issue clear. As I understand it, you made the agreement with Bailey (Malta)?—Yes.

625. Therefore, the Articles of Association bind the company with which you made the agreement. Did you look at those Articles to see what the powers of Bailey's in this country were vis-à-vis Bailey (Malta), Ltd.?—I cannot myself answer that question offhand. It came before my time. I wonder if I could ask Mr. Melville, who was in these negotiations right from the beginning? (Mr. *Melville*.) Part of the understanding with C. H. Bailey, Ltd., of Newport, was that they would set up in Malta a separate organisation we know as Bailey (Malta), Ltd., the Articles of Association of which we insisted on being put through before we signed the financial agreement.

626. Did you agree those Articles?—No.

627. Did you see them?—We saw them, yes.

628. And you accepted them?—We did not specifically accept them.

629. What worries me, Sir Hilton, is, how it was possible for the Colonial Office to agree to these terms which left a company apparently able to take out over £1 million under three headings which certainly would not have been agreed by you if you had known of

14 February, 1961.] Sir HILTON POYNTON, K.C.M.G., [Continued.
Mr. A. N. GALSWORTHY, C.M.G., and Mr. E. MELVILLE, C.M.G.

it at the time, which, apparently, is within the terms of the Articles of Association which you accepted?—(Sir *Hilton Poynton*.) I think, quite frankly, the only real answer to that is that it was a matter of very great political importance to get someone in on this conversion of the Dockyard because when the Admiralty withdrew that really disrupted the whole economy of Malta; and that these were about the only terms upon which you could get anyone to do it. * * *

630. Sir Hilton, you would not tell this Committee, would you, that if you advanced £1½ million for working capital, you would expect over £1 million of that £1½ million to disappear in this rapid way? Supposing one were a commercial undertaking, you would find it rather hard to justify that, would you not, to shareholders?—I quite agree, and it was precisely because of these difficulties that when they came along to us for a further issue—

631. I am not talking about stables and horses that have bolted. The fact is that, surely, over £1 million out of the working capital has been extracted by Bailey (Malta) under their Articles of Association, which you saw, and used for purposes which obviously neither you nor this Committee agree with. Is that not fair?—Yes. (Mr. *Galsworthy*.) I wonder if I could add a thought on that? At the time when the financial agreement was being negotiated we had no reason to believe that it would be necessary to insert provisions in the Memorandum of Association which would prevent these things happening which we never thought would happen.

632. I am sorry, but if one is a prudent business man whether you are, like myself in private industry, or like yourselves responsible for public money, surely it is necessary to see before you put money into any undertaking that there are safeguards to prevent that money being used against what you think is the right way of using it?—There is a general safeguard, you see. Clause 8 requires the company to do various things. Clause 8 (a) is “To carry on and conduct the business in a proper and efficient manner”. There is a general safeguard there, and there are various actions that can flow under the agreement if it can be shown that the company are not complying with, amongst others, this provision.

39389

633. I do not want to press this too far because I probably know Articles and Memoranda of Association fairly well, but do you really believe it right that you should have signed up under Articles which allow without your prior knowledge, as I understand it, over £200,000 to be taken from the subsidiary back to the main company for promotion expenses?—We certainly did not think it was a right thing when we saw—

634. May we stick to the very narrow issue? Do you think it is right that you should have signed Articles and a Memorandum of Association and contracts which allow somebody to do that sort of thing, to take £200,000 out of a subsidiary for promotion expenses?—If I may say so, we did not sign the Articles of Association. No signature from the Colonial Office or Her Majesty's Government was required.

635. You saw those Articles?—Yes, we saw them.

636. I asked particularly whether you commented on them, and you said, “No, we did not”, and I suppose by silence you accepted them?—But we certainly did not foresee when we saw them that it would be necessary to include in them a prohibition against a payment of £200,000 for formation expenses.

637. Apparently, then, in the set up, either under the Articles or under your agreement and contract you had no day-to-day control over the affairs of this company until Sir Richard Yeabsley was added to the Board, is that correct?—We do not have day-to-day control over the affairs of the company now, Sir.

638. That is what I am coming on to ask you. You say the Board has been strengthened?—Yes.

639. What powers has that Board got? You say it is a fully owned subsidiary of Bailey's in England. What powers has this Board which you have strengthened actually got?—(Mr. *Melville*.) May I answer in general terms? It is a wholly-owned subsidiary in the financial sense, though that is not quite true now because only 75 per cent. of the equity is held by C. H. Bailey, but in the commercial sense it is an independent company, the control of which is not resident in the United Kingdom. It therefore has a Board of Directors of its own including, of course, persons who are members of the Board

C 2

14 February, 1961.] Sir HILTON POYNTON, K.C.M.G., [Continued.
Mr. A. N. GALSWORTHY, C.M.G., and Mr. E. MELVILLE, C.M.G.

of C. H. Bailey of Newport plus the independent Directors whose names Sir Hilton Poynton has given. It is responsible, as any commercial company is, for the running of its own business under its own Articles of Association which, incidentally, have been amended in some particulars at the request of the new Directors who have gone on to the Board. It was set up, Sir, by us as a commercial company and our relations with them are governed not by Articles of Association but by the financial agreement under which Government loans are advanced to them.

640. I think you would agree, Sir Hilton, that if a company is owned as to 75 per cent. by a particular shareholder for practical purposes that is a company he can control?—(Sir Hilton Poynton.) Yes.

641. All I am saying is, when you strengthened the Board you may have put a watchdog on but he cannot bark and still less bite?—If they do not get certain majorities on the Board I think what would happen is that a man of the standing of Sir Richard Yeabsley or Mr. Hanning Philipps would probably decide that they had got to resign their association with the Board. * * *

Chairman.

642. Is not the point here that having these three Directors on the Board means that they can bark in your ear?—Oh, yes.

643. And the bite lies in the financial agreement which enables you to prevent any action being taken which you would regard as incompatible with your position as custodians of public money? Is that not the position?—That is really it. (Mr. Galsworthy.) And also, Sir, if I may add one thought there, the Articles of Association are being altered to require certain decisions to be taken only by the unanimous agreement of the Board.

Colonel Crosthwaite-Eyre.

644. That is coming back somewhat to my previous questions. Is it not the case that the Articles and Memorandum were not correct in the first instance?—I wonder if I could add just one thing on this? I do not want to appear tiresome, but surely it would not be unreasonable for some formation expenses to be charged to working

capital, for example, for the parent company to be reimbursed the fees, various legal and accountancy fees, connected with the institution of the subsidiary. What one did not imagine would happen was that in addition to the reimbursement of that sort of thing there would be a payment of £200,000 in consideration of various things.

645. Obviously, certain legal fees; but I do not think it would be suggested by Sir Hilton that £200,000 was a reasonable sum for those?—(Sir Hilton Poynton.) Exactly, and we did not.

Chairman.] I thought Sir Hilton said they queried that as soon as they heard about it.

Colonel Crosthwaite-Eyre.

646. Now, about this pension fund in Bermuda, you have given certain details and you have given figures about the number of people involved. What is the maximum pension a person can receive under this, relative to the salary he was earning?—I think I should have to put a note* in on that. I do not know off-hand. I think it is half salary. (Mr. Melville.) Might I add a general comment on that? There is a background of experience on pension funds in the Admiralty's own arrangements at the Dockyard in Malta. Bailey (Malta) Ltd., took over from the Admiralty the major part of the Admiralty staff already in the Dockyard. Broadly, their pension scheme was not in fact as favourable in general as the Admiralty scheme which would have been available to workers who stayed on in Admiralty employment. That is where the yardstick of the detailed pension scheme came from.

* * * * *

Mr. Arbuthnot.

649. You told the Committee, I think, Sir Hilton, that the money was used for purposes other than those for which it was made available?—(Sir Hilton Poynton.) Part of the difficulty here, of course, is that the term "working capital" is not specifically defined and one has got to judge all those payments

* *Note by witness:* The maximum benefits under the Bailey's (Malta) Pensions Scheme are for the works and staff employees one third of average basic wage, and for the senior staff and executives one quarter of average basic remuneration.

14 February, 1961.] Sir HILTON POYNTON, K.C.M.G., [Continued.
Mr. A. N. GALSWORTHY, C.M.G., and Mr. E. MELVILLE, C.M.G.

as to whether they are, under normal commercial practice, a legitimate use of working capital or not; and it was really to establish that that we got the expert advice from Sir Richard Yeabsley, who came to the conclusion on all these three specific items I have mentioned that it was not a proper use of working capital in this context.

650. You have given the Committee the names of the three gentlemen who have been put on to the Board of the company in order to give it stability. Would you now give the Committee the names of the gentlemen who were on it previously?—The Chairman is Group Captain George Bailey, who is the Chairman of the parent company. The Managing Director is his son, Christopher Bailey. I do not know that I have the names of the others. (Mr. Melville.) There is a second son John, a Mr. Dalgleish, there is a financial director, Mr. Munson, and a gentleman who is largely concerned with the ancillary industries side of the business, General Durnford.

651. What investigation did you make into the *bona fides* of these gentlemen before you made arrangements to put this money at their disposal?—(Sir Hilton Poynton.) There were only the two firms interested in it, Vickers Armstrong and Smith's Dock, and C. H. Bailey, Ltd. We got an independent examination of Bailey's ability to undertake the task by a ship repairer and a chartered accountant. Their report pointed out that there were larger and more suitable firms in Great Britain for handling this task. They did, on the other hand, advise us that the management of this company was a responsible management and that there were good prospects of their being able to carry through the operation and run it successfully. * * *

652. Is this a public or a private company?—A public company.

653. And the authorised capital is what?—(Mr. Melville.) Of the Malta company, £1½ million.

654. And the English company?—(Sir Hilton Poynton.) I am not quite sure what the parent company capital is.

Chairman.

655. Perhaps you can let us have that?—Certainly, Sir. (Mr. Melville.) I think it was £1 million, Sir.

Colonel Crosthwaite-Eyre.

656. That is, the English company?—Of the English company, yes.

Mr. Arbuthnot.

657. Have you any idea of the normal formation expenses of a British company with an authorised capital of £1,500,000?—(Sir Hilton Poynton.) No, I cannot say I have. It is the sort of thing one would get advice on at the time.

658. Would you accept from me that it is under £5,000?—I think it might well be.

659. And yet we have £200,000 here which has been charged for formation expenses?—That is, if I may say so, exactly one of the things which caused us such uneasiness when we came to look at this.

* * * * *

661. What are the terms and interest rates of these two loans that have been made?—2½ per cent. for the first two years, 5 per cent. thereafter.

662. What security has Her Majesty's Government?—They are secured on all the plant in the Dockyard and the general assets of the company.

663. Does the rate of repayment depend on the company's profits?—It is a fixed-interest loan.

664. No, the rate of repayment of the loan?—Yes.

665. You are not thinking of it as a gift, are you?—(Mr. Melville.) The loan is divided into two parts, Sir, £2 million secured loan and £4 million unsecured loan. The loan of £2 million is secured by a hypothec on the total business of the Malta company, including all assets. That secured loan is repayable on the terms which Sir Hilton has mentioned at the reduced rate of interest for the first three years when no dividend distribution can be made by the company under the terms of the financial agreement, and thereafter at a rate of 5 per cent. simple interest per annum. There are provisions for the repayment of the unsecured loan which are linked with the profitability of the company, so that Her Majesty's Government has a direct interest all the way through in the profitability of the company, and if the company is more profitable then Her Majesty's Government will secure a better return on its whole loan investment.

14 February, 1961.] Sir HILTON POYNTON, K.C.M.G., [Continued.
Mr. A. N. GALSWORTHY, C.M.G., and Mr. E. MELVILLE, C.M.G.

Chairman.

666. This linking of the profits has been done in advance in accordance with the formula, it is not left for settlement each year?—Yes.

667. There is a formula in advance governing the repayment?—Yes.

668. Both for the secured and the unsecured?—Yes. It varies according to whether or not the profits are distributed or put to reserve, and slightly more repayment is required if profits are distributed than if profits are put to reserve.

Mr. Arbuthnot.

669. Sir Hilton, are you confident that you will get your money back?—(Sir *Hilton Poynton.*) I should think we should, given political stability in Malta itself so that the company can get on with the job. I would have thought we would.

670. Who owns the Dockyard area?—The Admiralty still own the Dockyard area, leased for 99 years under this lease of the end of March, 1959.

671. Are the company paying the Admiralty a reasonable rent?—They are paying rent.

672. How much is it?—£30,000 a year.

Sir Colin Thornton-Kemsley.

673. Sir Hilton, * * * would you say that this company tried to get away with something but they were prevented from doing so by the vigilance of the Permanent Under Secretary of State of the Colonial Office?—Well, that is a very kind way of putting it, Sir. It is certainly true that when I saw these transactions I was suspicious. I will be perfectly frank about it, it is very difficult for a civil servant dealing with a commercial firm when they try and play commercial practice against you. My suspicions were at once aroused. I said to myself: "I am going to get some professional advice on that". I think that is all one can do in a situation like that.

674. What is your present assessment of the chances of the profitability of this company, given reasonably stable political conditions in Malta?—That is a frightfully difficult if not an impossible thing to say. I would, I think, say this, that now we have, I hope, got over these teething troubles, as the company begin to take more and more commercial work

they should, I believe, be able to make do and make a profit on it, growing fairly steadily. But it is commercial guesswork, and in the long run it is their commercial judgment as to what they can do.

Mr. Cledwyn Hughes.

675. You were under great pressure when you eventually let this matter to C. H. Bailey. You were under great political pressure, that is the position?—Yes.

676. Would you have acted similarly had you had plenty of time on your hands to look round for another potential tenant for the shipyard?—Well, we did look around for other tenants, but we could not get anyone who would go into it accepting any risk. They would only really have gone in as wholly underwritten agents of Government, which I do not think would have been a right thing to do. The pressure really was partly political * * * but I think the more important factor here was that the Dockyard in Malta in the Admiralty days was really the only big source of employment in Malta. If that was coming to an end one had to convert it as quickly as one could in order to maintain employment, otherwise you would have had a very big and very serious unemployment problem leading to political difficulties * * * That is, in fact, one of the Bailey Company's problems in Malta, and a lot of the questions asked this afternoon have inevitably, I think, cast a certain amount of doubt on the whole operation; but the one thing that they undoubtedly are very good at is their handling of labour and their public relations work in Malta. From that point of view they are a very good firm. But because of this over-riding necessity of doing their best to avoid a serious unemployment problem they have, in fact, had to keep on a much larger payroll than they would have had to do if they were operating within the strictest limits of commercial efficiency without any political pressures behind them. I think undoubtedly they would claim that if there were not that cloud of unemployment and politics hanging over them they could cut down their employment force and, therefore, their costs quite considerably.

Chairman.

677. Sir Hilton, to round off, you answered Mr. Arbuthnot when he asked

14 February, 1961.] Sir HILTON POYNTON, K.C.M.G., [Continued.
Mr. A. N. GALSWORTHY, C.M.G., and Mr. E. MELVILLE, C.M.G.

you if you were confident that you were going to get your money back with your qualification about political stability, and your answer to Mr. Cledwyn Hughes has just been very much in similar terms. Is not, in fact, the political stability the key to the whole problem, and after the tribute Sir Colin paid in interrogatory form to the vigilance of the Permanent Under Secretary, is it not a fact that the reason given to you by Bailey's for this extraordinary transaction was their fear of political action in the way of expropriation?—Yes, I think I said so in reply to an earlier question.

Colonel *Crosthwaite-Eyre*.

678. With great respect, £200,000 for formation charges cannot possibly be put down to fear of expropriation, nor can the hire of tugs?—Is not the point here that under the original capital structure they had £750,000 at risk in Malta and they were taking these various steps, the pension fund, the formation expenses, and others, in an attempt, I think, to provide against possible expropriation. It is not political in the sense of political disorders, breakdown of law and order, it is the fear of expropriation, without adequate compensation.

Chairman.

679. My other question also relates to this political stability question—I think you have largely answered it already: do I interpret your answer rightly in thinking that you would feel that this Dockyard is, on the whole, uneconomic by British standards in the sense that it is carrying a very heavy load of workers, and that any firm taking it over acting on, shall we say, a purely capitalist sense, would feel it had to be cut down by a considerable proportion?—In the labour force?

680. In the labour force?—I think that is undoubtedly true, yes.

681. And it is carrying the load, partly on social grounds, or as a continuation of Admiralty practice?—Yes.

682. If they were to do this, which for many reasons one would want them to do, what view would the Colonial Office take if they were to dismiss 1,000 or 2,000 workers in order to make the thing more economic?—I think we should have to use our influence with them to try to persuade them not to do so. But parallel to this, of course, are the efforts which are being made on another front with the Industrialisation Commission to

39389

try and build up alternative industries in Malta to absorb the population, and it is not very easy going. It is an island, as you know, without much natural resources.

683. And a rapidly growing population?—Yes.

684. You referred to the additional loan the company has asked for as being for the expansion or modernisation of the Dockyard. Without asking you to pronounce on whether you feel that is right or not, this is for taking larger tankers than they can at present take?—Yes.

685. In the hope of making it more economic?—Yes.

686. So that the risk to public money will be lessened?—Without being an expert on this, I think there is *prima facie* quite a good argument that you could make a much better Dockyard of it by spending the extra money, but whether the margin of the extra value and the extra money match each other, I would not like to say without expert advice.

Colonel *Crosthwaite-Eyre*.

687. I would just like to get this question of workers correct. It has just been put to you, Sir Hilton, that undoubtedly the Dockyard is employing more people because of social necessity than possibly is economically warranted, but has there been any increase in the numbers since the control was passed from the Admiralty to Bailey's? In other words, Bailey's probably took on a known commitment in the sense that because of social requirement this number of workers had to be employed?—That is correct, it has not been expanded.

688. There has been no change?—Not any substantial change. (Mr. *Melville*.) Broadly speaking, there were 12,000 workers employed when Bailey's took over. Of those, half went to the Admiralty base which still continues to operate in Malta, the balance remained with the Dockyard operation. Apart from reduction of that labour force of 6,000 by normal wastage, deaths, retirements, and so on, which has brought it down to about 5,500 or 5,750, Bailey's have maintained the force.

Chairman.

689. May we now take paragraphs 19 to 22 together? Paragraphs 19 and

C 4

14 February, 1961.] Sir HILTON POYNTON, K.C.M.G., [Continued.
Mr. A. N. GALSWORTHY, C.M.G., and Mr. E. MELVILLE, C.M.G.

20 deal with Delay in receipt of Audited Accounts, and paragraphs 21 to 22 with Financial Assistance to British Guiana Development Programme. Sir Hilton, have these outstanding accounts referred to in paragraphs 19 and 20 now been received in the Colonial Office?—(Sir Hilton Poynton.) Yes, we have got them all now. May I say, I am extremely sorry that some of these have been submitted late. There is a chapter of accidents in some of them.

690. What are the reasons for the delay?—If one may take them in turn, perhaps I might start with the Falkland Islands one. That I do quite literally mean was a chapter of accidents. The auditor in the Falkland Islands is under our Director General of Overseas Audit, and he had great difficulty in filling that post. It is not a very attractive post. It became vacant in March, 1957, and we could not get a replacement for over a year, until about September, 1958. The new man chucked his hand in and resigned after six months, and we could not get another man, a second one, until November, 1959; so virtually the Falkland Islands was without an auditor for two years. I hope that will not occur again, because now under the new White Paper that was published in the autumn about the Overseas Civil Service we may be able to produce more attractive terms of service for the Falkland Islands. Having said that, what I think does also deserve to be said on the other side is that the second new auditor, when he did get there, got down to this job very quickly and did a really rather remarkable job, and he would have got it in to us in time except for the Post Office in Montevideo. He forwarded it by air mail to Montevideo—that is the only way—and the Post Office in Montevideo sat on it and sent it home by sea mail, and that is why it is late. I think this is a non-recurrent series of accidents and should not happen again. That is the Falkland Islands. The Aden one, I think, is largely due to the fact that all over this last year we have been in the middle of building up this new Aden Protectorate Federation, and the staff that were involved in that, frankly, got a bit behindhand with the account on this and a little bit behindhand in collecting some of the receipts for it.

There, again, we have tightened the system up, and I would hope that we have got over the difficulty there and that this will not occur again. Jamaica; again, there is a rather different reason. Jamaica, which is getting on towards independence, have been doing a complete overhaul of their whole financial and accounting machinery in the Island to bring it much more into line with the system we have here, with Permanent Secretaries as Accounting Officers, and so on. I think, in their enthusiasm for getting this new system into operation they perhaps again put this work on one side, despite repeated reminders. I have been in communication not only with the Governor but with the Permanent Secretary to the Treasury, a Jamaican named Mr. Richardson, whom I know very well and who has served the Colonial Office. I think they are now thoroughly alive to this, and we will try and keep it there at least. British Guiana, again different. I am afraid the answer there is simply that in that country the standard of local efficiency is lower. * * *

691. Sir Hilton, whatever the reasons have been, and the unfortunate accidents, I take it you do not regard it as satisfactory that on the accounts mentioned in these paragraphs, paragraph 20 particularly, the Comptroller and Auditor General was not able to give this Committee a clearance for expenditure falling on United Kingdom Votes in 1958-59 when he reported on the 1959-60 Accounts?—No. I am very sorry that at my first appearance I should be faced with a delay of this sort.

692. Perhaps you will have three years to report next year. Sir Edmund, have you anything to say about getting the accounts by the 30th November? Does this give you enough time to clear this expenditure before your Report is published?—(Sir Edmund Compton.) Frankly, no, Sir. This arrangement should provide a period, varying with the financial year of the Colony concerned, of up to 23 months for the process to be gone through, the process being preparation of the accounts by the Colony, the local audit and the consideration of the accounts and audit reports by the Colonial Office and the Director General of Overseas Audit. My trouble, I think, is that there are too many accounts which

14 February, 1961.] Sir HILTON POYNTON, K.C.M.G., [Continued.
Mr. A. N. GALSWORTHY, C.M.G., and Mr. E. MELVILLE, C.M.G.

are presented very close to the present 30th November deadline. I see from my records that in November, 1960, we got 21 out of the 56 accounts relating to Vote 8 and nearly 900 out of the 2,000 or so statements relating to Vote 9; in other words, quite a high proportion of the accounts do not arrive until the very last moment.

693. If you got them by the 31st October would that give you plenty of time, or enough time?—That would be a great relief to me.

694. Sir Edmund, what were the "certain observations" of the Overseas Audit Service mentioned in paragraph 22 which raised doubts in your mind about the proper utilisation of United Kingdom moneys?—The observations that were particularly in my mind were those that were made by the Director General of Overseas Audit on the rural and urban housing programme, which spoke of such matters—I am afraid that there are rather a number of them, but to make a selection from the 1957 Report there were "serious irregularities in connection with the purchase of building materials", in one case. In a number of cases wages paid to employees "appeared to be substantially higher than those authorised in the Colony's general orders". In another case, regarding overpayments on contracts referred to in his previous Report, the auditor said that the "position was obscure, due to the decease of one partner, the other partner having already absconded". Then in the 1958 Report he mentioned free issues of furniture without proper authority, and there were further observations about what amounted, as it seemed to me, to not exactly failure but certainly reluctance on the part of the Colony to follow up what he had previously said either in the matter of prosecutions or in attempts to recover overpayments.

695. Sir Hilton, have you yet completed your consideration of the Governor's reply of 1960 relating to 1957 expenditure?—(Sir Hilton Poynton.) Yes. The particular points which Sir Edmund is dealing with are all on the British Guiana Account.

696. Yes, all on British Guiana?—The latest position there is that I have had a further Report from the Governor in January this year, 1961, in reply to a letter I wrote him about the delay in handling these things, which I think, on

the whole, is satisfactory there. The Comptroller and Auditor General refers in his Report to 58 audit queries that were outstanding, I think—30 plus 28. Of those there are only 3 which are still unresolved, and in each case any expenditure which is not properly attributable to the scheme has been transferred to local funds. The most important of those queries concerns this apparently unwarranted expenditure of nearly £14,000 on the housing scheme. They did institute departmental charges against two of the officers concerned. I do not know yet the outcome—I think the proceedings are still going on—but there again the expenditure on this at least arguable or doubtful item is going to be charged to local funds, and the cost of the free issues of furniture under the same scheme is similarly treated. The three outstanding ones are the Rural Self-Help Scheme—

Mr. Hoy.

697. That certainly describes it?—Self-help, yes. Going back a bit, the auditor, when commenting on the 1958 accounts, said that, owing to inadequate supervision, they had abandoned eight sub-schemes, as they call them, of this scheme with a gross expenditure of £464. They have been able to sell some of the stocks of burnt earth and they have got that loss down to under £300, and he is going to address us further on that. On the housing scheme, which is the one that the Comptroller and Auditor General had in mind, I think, when he referred to overpayment of wages, there is not a great deal I can report further on that. It has not been recovered because most of the employees concerned were being retrenched.

Chairman.

698. So you have, in effect, cleared the 1957 accounts?—Yes.

699. And practically all the 1958 accounts, apart from the three which are pending?—Yes.

Sir Colin Thornton-Kemsley.

700. I infer from what you have told the Committee that any expenditure disallowed from the Development and Welfare grants falls on what you call the local funds. I suppose you mean the Colony's own funds?—Yes.

14 February, 1961.] Sir HILTON POYNTON, K.C.M.G., [Continued.
Mr. A. N. GALSWORTHY, C.M.G., and Mr. E. MELVILLE, C.M.G.

701. That is so, is it?—Yes.

702. How do you ensure that the Colony does not then subsequently recoup itself from other United Kingdom assistance, such, for example, as the loans from the Colonial Services Vote?—I do not think they could. These moneys are voted for particular schemes, and the same audit process that had pulled them up on the one would pull them up on the other.

Chairman.

703. I think, perhaps, the point, which we have had in another part of the United Kingdom in the last week, is this: is there anything in the nature of a sort of Colonial Office block grant which makes up deficiencies when they are found?—No. If you had a general grant-in-aid deficit between expenditure and revenue that would be worked out on a very close examination of the accounts, the expenditure and the revenue, and I am pretty certain that my people and the Treasury between them would pick up anything of that kind when they were looking at the analysis of the figures.

Mr. Arbuthnot.

704. Sir Hilton, what did you spend £½ million on in the Falkland Islands?—The Antarctic Surveys for the bases.

705. What are we getting for that, if anything?—It is mainly of scientific value. * * * But there has been a lot of this work going on, particularly

during the International Geophysical Year, on the scientific side which we have contributed to through means like these surveys.

Colonel Crosthwaite-Eyre.

706. Who got the free furniture in British Guiana?—The staff working on the scheme, I think.

707. It was a self-help scheme again, was it?—It was, yes.

Mr. Hoy.

708. In connection not only with furniture but, apparently, on the materials with which the houses were built, somebody was charging too much. Other people were getting wages who were not working, and the contractors were receiving overpayments. Who in fact was supervising, if anybody was, all this building work?—* * * I think the new Financial Secretary there will pull it together again. Unfortunately, one of the most senior officers in the British Guiana service on that side retired during the time and another one died. * * *

709. It is lack of honesty rather than lack of efficiency?—Lack of honesty in the people who did this, but also lack of efficiency in the supervision. (Mr. Galsworthy.) * * * In Jamaica now, despite the very unfortunate delay in the submission of the accounts to which Sir Edmund drew attention, there is no doubt whatsoever that the standard of financial administration is high. It is now entirely localised. It really is very good. * * *

THURSDAY, 16TH FEBRUARY, 1961.

Members present:

Mr. Harold Wilson, in the Chair.

Mr. Arbuthnot.

Mr. Cledwyn Hughes.

Vice-Admiral Hughes Hallett.

Mr. Pentland.

Mr. Stevens.

Sir EDMUND COMPTON, K.B.E., C.B., and Mr. D. O. HENLEY called in and examined.

TREASURY MINUTE ON PARAGRAPHS 113 TO 127 OF THE SECOND
REPORT OF THE COMMITTEE OF PUBLIC ACCOUNTS, 1959-60.

Mr. H. HARDMAN, C.B., Permanent Secretary, Ministry of Aviation, called in and examined.

Chairman.

710. Mr. Hardman, I think this is the first time you have appeared before this Committee?—(Mr. *Hardman.*) It is, Sir.

711. I would like to offer you a welcome on behalf of the Committee. It is, of course, understood that many of the questions which will be put to you relate to a period when you were not yourself Accounting Officer. Will Members turn to the Treasury Minute on paragraphs 113 to 127 of the Second Report of the Committee of 1959-60, Aerodrome Accounts? Perhaps we might take together paragraphs 113-116, the general section, and paragraphs 117-119, Operating Revenue. On these I have no questions, but the question of charges which is raised here will in any case arise on paragraphs 1-6 of the Comptroller and Auditor General's Report on the Accounts for 1959-60, and I think it might be convenient for the Committee to consider this question of charges when we come to that Report rather than on the Treasury Minute. Paragraphs 120 to 121, Operating Expenditure. Mr. Hardman, have you managed to make any staff economies over the past year?—I cannot say that we have been able to make economies in terms of reduction of staff numbers, because we are faced with a situation where the demand for resources in airports is extending. But we have been able to take steps towards better use of staff, towards economies in the sense of making staff achieve more, as it were, in the way of results. We have a number of relatively crude tests. We compare,

for example, the number of staff to numbers of passengers carried; over the year 1959-60, the year under review, the increase in the proportion of passengers dealt with per head of staff is 18 per cent., from an average of 1,250 in 1958-59 to 1,482 in 1959-60. I think that is evidence of the progress which was made in this particular year. The steps that we have taken towards the better use of staff are steps in part on lines previously followed which we have been following with greater vigour. We have, for example, made greater use of our O. & M. organisation in our airports. Investigations have been planned or have recently taken place in relation to the maintenance programme and the allocation of responsibility at headquarters and locally. Both are examples of the way we think improvements can be obtained by the use of O. & M. techniques. Secondly, we have been at pains to improve our organisation at Headquarters. We have appointed an Under Secretary to deal with the question of airport management alone. The previous post, concerned with both planning and management has been sub-divided. Two Under Secretaries are now employed where one was, with management as a special stress for the second. Thirdly, we are taking steps to improve our accounting arrangements. We believe that by the development of an improved system of accounting it should be possible to secure further economies in our airports. We are, therefore, as from the 1st April next year appointing with supporting staff four Chief Accountants, one who will look after the London airports and the

16 February, 1961.]

Mr. H. HARDMAN, C.B.

[Continued.]

others after the three divisions. We are decentralising our records and hoping to get within each airport division or within the London group of airports a much more effective costing system.

712. So, when the Treasury agreed that more emphasis should be placed on economies in staff and improved methods of working, the reaction of the Department was to increase the Headquarters staff, not to cut the staff at the airports, but to put all your emphasis on economies in working which you hope will produce the reduction in deficits on which the Committee commented last year. Is that fair?—Yes.

713. On what basis do you determine the staff required at airports? Is this an O. & M. job or Establishments job, or what?—First of all we would rely on that part of our Establishments Division which is concerned with complementing to look at airport staffing if there be any change in emphasis, a new airport or a change in an airport. We would regard their activities as being supplemented by the O. & M. activities of which I have spoken. We also use a special operations research branch for such problems as the mathematical analysis of passenger movements through an airport. It is primarily, however, the concern of the Establishment Division to deal with questions relating to complementing and numbers of staff required.

714. Apart from that kind of work, the special work of O. & M., have you any special plans for staff reviews in 1961?—Not solely staff reviews. Our chief hope is pinned on the costing facilities that we are setting up which we believe will show, not only in relation to staff, but also to other costs, both by comparison between revenue and expenditure and also by comparison of costs through place and time, where costs are going up and where economies are possible.

715. Mr. Henley, have the Treasury made any investigations into the staffing and organisation at aerodromes, and if you have, with what result?—(Mr. Henley.) This, Sir, is a duty which we share more or less continuously with the Ministry. I think I am right in saying that the Ministry has a programme of inspections at their different aerodromes; we see this programme and we discuss it with them and on occasions send Treasury inspectors to take part in particular aspects of the examination. Of

course, on the other types of reviews and examinations to which Mr. Hardman has referred we are also in general touch with them, and although the Ministry of Aviation is one of those Departments with its own strong O. & M. division, if the Treasury O. & M. division were asked to advise they would, of course, do so; and we would also be associated with any alteration in the form of accounts with a view to bringing home to local airport managers their own responsibilities and what they can do to affect the out-turn of their accounts.

Vice-Admiral *Hughes Hallett*.

716. I really just want to follow up one thing Mr. Hardman said. Do we understand that there is a section of the Ministry of Aviation O. & M. Branch which concentrates entirely on the running of aerodromes?—(Mr. Hardman.) Within the O. & M. Branch there is no such special section. About the equivalent of two senior officers are continually engaged on airport problems, but it may not always be the same persons. Our O. & M. organisation is more expert in O. & M. than in airports. But we have tended to turn attention to airports in drawing up the programmes of O. & M. assignments.

717. It is true, then, that the O. & M. Branch is larger than it would have to be if you had not got this aerodrome responsibility?—Larger than it would have to be if we had no responsibility?

718. For aerodromes?—Indeed, yes.

719. I think you also said there was one Under Secretary exclusively charged with responsibility of looking into?—There is an Under Secretary concerned solely with questions of management for all our aerodromes, yes.

720. So there is, in fact, within the Ministry's Vote a further sum which, in effect, arises from these aerodromes, in paying salaries and maintaining these small sections?—Yes.*

721. Is it clearly understood that when the O. & M. people get to work in an aerodrome, where appropriate, their work will result in a reduction in the establishment as opposed merely to more efficient work for the sake of

* *Note by witness:* The Trading Accounts include an estimated amount for the Headquarters expenditure incurred on work relating to aerodromes.

16 February, 1961.]

Mr. H. HARDMAN, C.B.

[Continued.]

more efficient work?—The test which is used in relation to measurement of changes tends with airports to be costs as a whole rather than staff. But it may in particular cases be staff. Certainly, however, the aim of the O. & M. approach is to get the same work done with less staff or, if work is growing, to enable the existing numbers of staff to cope with it.

722. Are you satisfied that the O. & M. representatives, when they visit an aerodrome, receive wholehearted co-operation from all concerned in the aerodrome in their work?—Entirely satisfied, Sir.

Mr. *Arbuthnot*.

723. The Treasury accepts the Committee's recommendation for economies in staff. How much is the increase in staff represented by the four accountants with their supporting personnel, which seems to be the bazooka reaction of the Department, going to entail?—I cannot say for the total staff; I could put in a note. There are to be four Chief Accountants with a Senior Accountant and some clerical staff. I would think, perhaps, an increase of the order of 20 staff in all.

724. Each with their little empires?—We hope that this will be the means of making reductions elsewhere, that increased staff will enable us to lower costs.

Chairman.

725. But you will put in a note* in detail?—As to the total number of staff that we propose to employ, if that would be appropriate, Sir.

726. Paragraphs 122 to 124, Expenditure for Manchester (Ringway) Airport and paragraphs 125 to 127, the Transfer of Aerodromes to Municipalities. Mr. Hardman, taking first Manchester, what were the reasons for not making a

* *Note by witness*: So far as can be estimated at present, the staff directly supporting the four Chief Accountants in the running of the costing systems at the airports will number about 16, predominantly clerical officers. The whole of this additional staff should be offset by reductions in the headquarters' staff over the next twelve months. The decentralisation of the cash accounting functions will probably entail other additional staff totalling about 20 at the London Group and the three Divisions, but such additional staff should also be offset ultimately by corresponding reductions at headquarters.

separate charge for technical services at Manchester?—The agreement which was signed with the Manchester Corporation, negotiations for which began, I think, in 1955, provided that there could be a separate charge. The view, however, which was taken by the Department was that discrimination against Manchester on the strength of that particular section of the agreement would be difficult to justify. Only if we were introducing charges for technical services generally would it be reasonable and proper to make a charge in respect of Manchester. The case against discrimination is the essence of the answer which I must offer, Sir.

727. Does not Manchester always claim to lead the world? Is it not said that what Manchester does today the rest of the country does tomorrow?—It was said so in the 19th Century, Sir. I do not know whether it is appropriate to the 20th Century as well.

728. You would regard it as discrimination to pursue it in the 20th Century? The question was to be further considered, according to the Treasury Minute. Have you changed your minds about this or is it still to be further considered?—On the question of a general charge for technical services, we are still considering the issues involved. What arises there, among other things, is general policy. We have in relation to charges thought in terms of stages in the recovery of the costs involved in running airports. The first stage is recovery of the costs of operating the airports proper; that is a stage which we have not yet reached. The second stage is recovery of the technical costs associated with the ground services at airports (the control tower, the navigation services, etc.); and the final stage is recovery of the costs incurred in what are spoken of as "en-route" services, for which there is no provision in the accounts. Our basic approach so far has been first to recover by means of landing fees the charges associated with the operation of the airports. * * *

729. The Manchester landing fees, I take it, are being increased in line with the increases in state-owned aerodromes?—Yes.

730. Who actually fixes the fees at Manchester?—The Corporation of Manchester.

16 February, 1961.]

Mr. H. HARDMAN, C.B.

[Continued.]

731. In consultation with you?— They tell us what they are doing. It was open to them, if they had wished, not to increase the charges.

732. Do you have to approve what they are doing or is it that a question which will come up in the next review of the agreement?—I am not sure that the question of approval of landing charges is one which is to be raised*.

733. Have you power to charge separately for the technical services at Manchester? * * * †

Vice-Admiral *Hughes Hallett*.

735. Can you say how much the technical services you provided at Manchester actually cost in the year 1959-60?—I cannot, I am afraid, give a precise answer. I think it would be of the order of £200,000. But perhaps I could put in a specific note.

736. Could you also let us have a note of the cost of these same services provided at the other municipal aerodromes?—Yes, certainly—Liverpool and Birmingham.‡

737. Now, would you agree that the cost of these services is likely to increase rather than to diminish in the years ahead?—I think that is probable, Sir, because of the increasing complexity of air traffic control.

738. Would you agree that this fact really makes it all the more necessary to recover the costs if possible?—We have always regarded our ultimate objective as being to recover, as I said earlier, these costs for technical services, alike as regards the airport ground services and the en-route services. The landing fees have, however, so far been regarded as the main form of revenue, to be set against the cost of technical services when the costs of the airport have been re-

* *Note by witness:* The Minister has powers to prescribe charges for landing fees but there has not so far been occasion to use them.

† *Note by witness:* The agreement with Manchester provides that the Minister may levy charges against the users of technical services and retain such charges; and that the Corporation will give all reasonable collaboration in their collection.

‡ *Note by witness:* The cost, including interest on capital and depreciation, of providing technical services at Liverpool and Birmingham was £82,905 and £129,390 respectively. The cost of providing the same services at Manchester is estimated to have been £276,000.

covered. The landing fee is not, as it were, earmarked for any particular service. We regard it as a general form of revenue, the form of revenue which was, in fact, recommended by ICAO, the International Civil Aviation Organisation.

739. That last answer leads me to ask another question because I see there is a point I had not quite understood about this. As representing the Government, are you not in a position to charge the Corporation for the service without regard to whether they choose to recover it by landing fees or charges on the rates or anything else?—The terms of our agreement were that technical services would be provided by the Government over the period of 21 years for which the agreement with Manchester runs, if that is what you are speaking of.

740. I was, yes. It means that, so far as the existing services are concerned, to some extent your hands are tied until the termination of the agreement?—Indeed, Sir, yes.

741. Could you make the provision of more complex and more up to date services as technical developments are made conditional on changing the agreement? Are you under any obligation, in other words, to go on modernising and developing these services?—That is the sort of suggestion which we could make in the review of the agreement which we have invited the Corporation of Manchester to take part in with us. They have said that they are willing to talk with us about the issues which were raised in the Report of last year's Committee.

Mr. *Arbuthnot*.

742. You said, Mr. Hardman, that specifically in your agreement with Manchester you were obliged to provide services until the agreement came to an end after 21 years. What about the agreements with other corporations?—The agreements with the three authorities, Manchester, Liverpool and Birmingham all include provision for the supply of technical services. The duration of our agreement with Liverpool is 7 years and that with Birmingham 21 years. The accommodation is provided by the Corporation, the services provided by the Ministry.

743. I see that Manchester Corporation have been invited to join in a review of the financial aspects of the

16 February, 1961.]

Mr. H. HARDMAN, C.B.

[Continued.]

agreement. If you feel that you cannot alter these matters, what is the point of having a review?—I hope I did not say that the terms could not be altered. Whether they will be altered, since we are bound by the agreement, depends upon whether alteration can be agreed. Our purpose in talking with Manchester is to consider how far there are possibilities of agreed alteration.

744. How is that consultation going? —We received in the early part of this month, I think the 3rd February, a reply to an invitation we sent to the Corporation of Manchester last November. They have agreed to meet. We have not done more than begin our preparations or, rather, continue with greater vigour the preparations that we were making.

745. It has taken them three months to say "yes" to that invitation?—Yes.

746. How long do you expect it to be before the review is complete?—That I find very difficult to answer. We shall press on as strongly as we can.

Chairman.

747. Before you come before the Committee next year?—Indeed, I hope so, Sir.

Mr. Cledwyn Hughes.

748. If a charge were made for technical services that would have to be paid by the aircraft companies using the airfield at Manchester. That is the position, is it not?—Yes.

749. That is what you mean when you say that if such a charge were levied it would be discriminatory against Manchester airfield. Is that the reason you say it would be discriminatory, because it would put the Manchester airfield in a different position from that of other airfields?—What I meant, Sir, was that so far our policy as regards revenue is to put all the weight on a landing fee. The difficulty with which we have been confronted at Manchester is that the landing fees accrue to the Corporation. As, therefore, landing fees are increased generally and Manchester follows suit, the revenue from landing fees going to Manchester is increased. Our agreement with Manchester does reserve to the Minister any charges for technical services, and provides for the Corporation collaboration in their collection. We consider however that it would be unfair to

think in terms of a charge for technical services which was applicable only to Manchester and introduced solely in order to allow us to get a revenue from Manchester. We have thought, and still do, that the issue should be considered as one of general policy. It was in that sense that I said I thought it wrong to levy a technical service charge at Manchester Airport only.

750. Because you consider that that would be unfair to the Corporation?—Yes, it would be a discriminatory charge not levied elsewhere.

751. But would you not agree that, in fact, the agreement that you have with Manchester is more favourable at present than the agreement with the other Corporations of Birmingham and Liverpool and Cardiff?—So far we have no agreement with Cardiff. The agreement with Liverpool is different in form from those concluded with Birmingham and Manchester. The Liverpool agreement is for a shorter period and makes no provision other than for free technical services over the seven years which it runs. As regards Manchester and Birmingham, I would have thought that possibly Birmingham's agreement was less favourable to the Corporation than Manchester's. Perhaps it is, but only marginally so. In the case of Birmingham the Corporation was required to share its profits with the Ministry and that is not the case with Manchester. That is the big difference. The explanation in part is that Manchester made the first agreement. We were rather feeling our way in the arrangements that we agreed.

752. That is what I had in mind, that does make the agreement, with Birmingham much more favourable, does it not? There is a possibility here that the Ministry may be sharing the profit with Birmingham?—In time to come, if there be profits.

753. Do you hope there will be profits? —Yes, I do hope so, in line with the improvement of airport revenues generally and in the long run.

754. Would you like to think you had an agreement which enabled you to share the profits of Manchester?—That is one of the issues that we shall want to talk over with the Manchester Corporation.

16 February, 1961.]

Mr. H. HARDMAN, C.B.

[Continued.]

TRADING ACCOUNTS AND BALANCE SHEETS, 1959-60.

Chairman.

755. Will Members now turn to the Comptroller and Auditor General's Report on the Trading Accounts and Balance Sheets, 1959-60, to paragraphs 1 to 15, taking first paragraph 1, General, and paragraphs 2 and 3, Outcome of the Account? Mr. Hardman, to what do you attribute the reduction in the deficiency from nearly £6½ million in 1958-59 to about £5½ million in 1959-60, which is described in paragraph 2?—(Mr. Hardman.) I think that in general measure the reduction is due to increased revenue. There was an increase in revenue of the order of £1½ million, mainly from landing fees, but partly from passenger service charges. Both those charges were increased in 1959. There was also, as a contributory factor, an increase in traffic, the higher charges and greater traffic making for the increase in revenue. The increase in revenue was offset to some extent by the increase in staff costs, the main element in that being pay increases, some of them having retrospective effect.

756. Can you say roughly how much of the improvement on the revenue side is due to increase in unit charges, that is to say, raising of the passenger service charge or to the landing fees, and how much to the simple increase in the traffic?—Giving a rough figure, Sir, I should say that about £1 million is due to increases in charges and about £200,000 to extra traffic.

757. Since a lot of this increase is due to the raising of service charges and landing fees do you expect the reduction in the deficiency to continue this year and in future years?—Oh, yes, indeed. We are, of course, increasing charges again as from the 1st April, 1961, as you realise.

758. What are the prospects of any aerodromes showing a profit in the foreseeable future?—So far as the London group of airports is concerned, I would have thought that, including technical service costs, within the period 1963 to 1965 there should be a surplus. This is obviously a highly hazardous forecast. It depends on assumptions about the volume of traffic and on a good many other related changes. But it does seem to us, taking Heathrow and Gatwick and also Stansted, that 1963 to 1965 will be the period in which the airport will break even. As regards the whole of the airport

system, leaving out Blackpool and Southampton, airports which we are proposing to close, I would have thought, stressing again that the forecast is a hazardous one, that 1970 or 1971 would be about the period, taking all the charges together, on technical services as well as the running of the airports, when we should break even. If we were to exclude the Scottish airports, which are run to serve isolated communities, we should see breaking-even point perhaps a year earlier. This forecast is painted with a very broad brush, but gives some information, I hope.

759. But you are now on the record for the Public Accounts Committees of 1970, 1971 and 1972?—I realise that, Sir.

Mr. Pentland.

760. I want to refer to paragraph 3, Mr. Hardman. You will see there the Comptroller and Auditor General refers to "11 aerodromes which, if retained, the Ministry aim to make ultimately self-supporting". What considerations are likely to determine whether you retain them or not?—These include, first of all, the three big international airports, Heathrow, Gatwick and Prestwick. They include also the airports in Scotland of Aberdeen and Renfrew, the Belfast airport and then the Isles of Scilly, Bournemouth in England and Cardiff in Wales.

Chairman.

761. And Land's End?—And Land's End. These are airports which, so far as we can see, are likely in virtue of the services which they can render, to be retained.

Mr. Pentland.

762. What about the ones that are unlikely to be retained? Can you identify them?—As I mentioned a moment or two ago, we are looking upon Southampton and Blackpool as aerodromes to be closed. In a separate category there are the Scottish airports serving small and isolated communities. There are 8 of those airports where there is no prospect whatever of self-sufficiency being achieved.

763. In Scotland?—The small airports in Scotland.

764. If you do not continue to operate them will they be closed or will you hand them over to other authorities?—So far as the small Scottish ones are concerned, about which I have just spoken,

16 February, 1961.]

Mr. H. HARDMAN, C.B.

[Continued.]

I think there is no possibility of their being operated save under subvention. The Ministry at the moment is considering the body that is appropriate to run them. Their purpose is to provide an essential link from the outside world with these places. As regards the airports in the group of 11, the Ministry is so far maintaining these airports but there are possibilities of extension of the policy of municipalisation, which we have applied with Manchester, Birmingham and Liverpool, in relation to some of them.

765. So there is the possibility of handing them over to other authorities, then, in the long run?—Oh, indeed. There is certainly the possibility of further municipalisation. As the airports come nearer to self-sufficiency, if we are to regard them as separate airports rather than as a group, the possibility of other arrangements becomes closer. While airports are financially dependent on the State, the kind of organisation which exists now is probably the proper one. Where there is the chance of their not being so dependent, other possibilities emerge. But these are issues of policy on which Ministers have not come to a final conclusion.

766. Do you keep capital expenditure to a minimum at aerodromes where, for any reason, you are not likely to operate them indefinitely?—We try to keep capital expenditure everywhere to a minimum, period, as the Americans say. If in a particular instance an airport was going to close, naturally that would be a very powerful argument against any expenditure at all.

Mr. Cledwyn Hughes.

767. So, all the airfields in Scotland, apart from Prestwick, are operated to meet a social need?—Not all, Sir, but the 8 of which I spoke.

768. There are others apart from the 8 and Prestwick?—In addition there are Aberdeen, Glasgow, Edinburgh and Inverness. The smaller ones which I spoke of as serving small communities are, if I may give the list, Benbecula, Islay, Kirkwall, Machrihanish, Stornoway, Sumburgh, Tiree and Wick. Their numbers of passengers are small. The costs which are incurred in the transport of passengers are very high indeed because the usage is so small. Whereas the loss at other airports generally per passenger is in 1959-60 £0.8, the loss on the Scottish group which I have just

listed is £3.6 per passenger, and the range goes up to as high as £15.9 at Tiree. They are quite different in character from the other airports.

769. Do you operate any airports in Wales to meet a social need?—The Cardiff airport incurs a substantial deficit on its operations.

Mr. Stevens.

770. Mr. Hardman, do you know how the landing fees at London Airport compare with the landing fees at other comparable airports in different parts of the world, in Europe and the United States?—We find it very difficult, Sir, to make effective comparisons. Our broad conclusion is that they are not far out of line with other airports of comparable size and complexity but it is by no means easy to produce detailed substantiation. One of the difficulties is that, whereas we use the landing fee as the chief form of revenue, other countries have a whole range of charges. At Idlewild, as was mentioned I think in the House this week, no less than eight different charges are made. Moreover it is not very easy to decide in certain instances whether or not there be an element of charge in the provision of a service, for example, of petrol and oil. I can only say that by and large we believe that we are not out of line. But clearly U.K. charges, with big international airports, are high by comparison with countries having smaller, less congested aerodromes.

771. Yet when the public announcement was made that landing fees at London Airport were to be increased as from 1st April, I think, this year, there were reported in the papers very strong protests by foreign users of London Airport that that would bring the landing fees considerably above those of other comparable aerodromes. Is that not true?—There were certainly very substantial protests. One of the difficulties is that the pattern in a number of countries is of extensive subsidies; consequently landing fees or similar charges are low in relation to those charged here. In the United States, for example, the Federal Aviation Agency bears the whole cost of technical services and 50 per cent. of the capital cost of constructing airports. Inevitably, where there is a policy of subsidy, charges are the lower and the contrast with charges here tends to be marked. In any event, I think the airlines

16 February, 1961.]

Mr. H. HARDMAN, C.B.

[Continued.]

would want to object in principle to the burden of any increase because they argue it is restricting their chance of extending traffic and cutting into their small margin of profit.

772. I fully accept that comparison is difficult, but would you accept as a principle that if landing fees at London Airport are generally believed to be higher than at other comparable aerodromes, that would tend to drive traffic away from London Airport?—I think it is very difficult to believe that. After all the landing fee is a very small part for the individual of the total cost of travel, even on domestic flights. The present airport charges are of the order of 7½ per cent. of the stage revenue, the whole of the revenue. With long distance flights such as trans-Atlantic flights, the proportion is a good deal less. Though there would be some impact if fees were increased, I cannot believe that people would decide for so small a part of the total cost of travel that they would not go to London but would go to Dublin or Paris instead.

773. Yet, am I not right in thinking that the traffic movements at London Airport are small in number compared with a very large number of similar airports in Europe?—I would not have thought they are small in relation to airports in Europe. They are small, of course, in relation to America, but London Airport is high in the table in terms of use save by comparison with big airports in the United States.

774. —Is high in the table compared with the United States?—No, except for the United States. You spoke of European airports.

775. Are not Brussels, Amsterdam, Schipol and Paris, Orly, all above London Airport in traffic movements?—I think below. But I could perhaps put in a note giving precise figures.

776. I thought my recollection was correct, but perhaps you would put in a note*?—May I? Thank you, Sir.

777. Can you say what operating results are achieved by other comparable airports in other parts of the world? Is that an unfair question, perhaps?—We have no data which are reasonably satisfactory, I am afraid, though this is an issue about which we are much concerned and which we are pursuing.

* Information supplied: not printed.

We do try to collect on a confidential basis material on this. One of the difficulties is that there is no common form for airport accounting; and there is no marked enthusiasm to reveal subsidies in the case of most authorities. But we are looking into the question of relative costs and striving to get data. I fear the conclusions so far are not awfully illuminating—simply that we must do more work in this field of comparative costing.

778. If other airports have about eight charges, whereas you rely on the landing charge for your total revenue and the result of that is that the public image of London Airport is that it is expensive, does that not mean that your public relations are falling down rather badly?—This is an issue, obviously, of concern to us and about which we have been reflecting, without coming to any conclusions. I think that the major consideration which has guided us so far has been the general ICAO recommendation that there should be a concentration on one charge. That recommendation is clearly not respected in some places. A series of separate charges cannot be regarded as making for any improvement in the efficiency of operations. The process of moving on to an aircraft, travelling and moving off is a continuous one. We have, therefore, so far regarded our policy of concentration on the landing fees, despite the public relations handicap, as the right one.

779. The Comptroller and Auditor General refers in line 7 of paragraph 3 to "two other aerodromes which the Ministry have indicated they do not intend to operate indefinitely". Are those Blackpool and Southampton to which he is there referring?—Liverpool and Southampton, Sir, I think, in lines 7 and 8. At Liverpool there was a deficiency of £203,000 last year; in Southampton a deficiency of £86,000.

780. Have you considered selling those to other operators rather than closing them down?—At Liverpool the airport has been handed over to the Corporation of Liverpool.

781. What about Southampton?—At Southampton we are transferring the traffic from the old Southampton Eastleigh Airport to one not very far away, the Hurn Airport at Bournemouth. The goodwill, therefore, in the use, as it were, is being preserved.

16 February, 1961.]

Mr. H. HARDMAN, C.B.

[Continued.]

782. I see that Croydon, Blackbushe and Birmingham are either now closed or operated by other authorities. Birmingham, I take it, is operated by the Birmingham Corporation. What about the other two?—Croydon and Blackbushe have been closed.

783. If you are succeeding in getting other operating authorities to take over some of these loss-making airports, can you not accelerate the process with quite a number of loss-making airports with which you are still left?—We fear not. At the beginning of our policy of municipalisation we have transferred airports where there was a prospect in the not too distant future of breaking even or making some profit. The ones left tend to be the ones with the bigger deficiencies.

784. What efforts do you make to this end?—Over the recent past we have been rather reviewing policy and considering whether the approaching breaking even of some airports has implications in terms of our general accounting for airports. Up to the present we have looked at airports as a group and thought in terms of aiming to cover all the costs in time. But there is growing up some criticism, for example, from the airlines of the implications of this policy which is making us reflect. The big airlines concerned with international traffic are urging that it is wrong since airports like London, Prestwick and Gatwick show signs of covering their costs. Why, they say, should they help to provide for smaller airports in remote areas, Land's End or Scotland? It is against this background that we have been reconsidering the whole question of municipalisation.

785. When I asked what efforts you are making to dispose of the uneconomic airports and you replied that you are reviewing the policy, it rather leads one to feel, does it not, that the efforts are not very dynamic?—We have not been pursuing the issue of disposing of airports to municipalities in the last few months.

Vice-Admiral *Hughes Hallett*.

786. There have been great developments in helicopters in the last few years. What effect do you consider that could have on the need to maintain these small social need airfields?—One of the difficulties in the operation of helicopters so

far is that they are very expensive. That checks the use of them in relation to these remote Scottish areas. But, clearly, if helicopter use could be made more economic, there would be an opportunity of reducing what small facilities are now provided on those airports.

787. But, surely, if the small airfield was closed, people who wanted to fly would have either to go by helicopter or not go at all?—There would need to be a heliport, a small facility.

788. That is the point I wanted to come to. As you probably know, in the fighting Services if one is fortunate enough to have a helicopter for one's personal use a good deal of skill is necessary to outwit the various controls, otherwise you find yourself confined to aerodromes just the same. Can you assure us that there is not the same artificial impediment put in the way of helicopters for ordinary transportation purposes?—I do not think we have yet reached the point where any big use of helicopters can be envisaged for civil purposes. This is a problem therefore to which we have addressed ourselves in the most general terms. We have thought of helicopters for London but not so far for these remote areas.

789. I still want to press this point. Are you satisfied that it is not the Ministry's own regulations which make it difficult for, say, a private operator to run a helicopter service, say, between the Western Isles where no particular port is necessary at all but only a filling station?—I do not think so, Sir.

790. In other words, you do not insist that there is a fire service and ambulance in case it crashes at each end, and that sort of thing?—Not so far as I am aware. I am not thoroughly informed on this issue, and I would, if I may, like to check and notify you if I am not correct, but my understanding is, no.*

* *Note by witness:* The Ministry's regulations on such matters as fire and first-aid equipment do not present any difficulties to the introduction of a helicopter service. As regards fire-fighting equipment, for example, all that is required for helicopters up to 12,000 lbs. weight is a 15 lbs. extinguisher. The obstacles to the use of helicopters are the fact that at present there is no suitable twin-engined helicopter which can fly safely over mountains and seas after an engine has failed; and the high operating costs, at present, of helicopters as compared with fixed wing aircraft of comparable passenger capacity.

16 February, 1961.]

Mr. H. HARDMAN, C.B.

[Continued.]

791. You gave your forecast of the slow movement towards profitability of the big airports. Is that liable to be endangered by giving way to public demands for new and better buildings to speed up the movements of arrivals and departures, or not?—I do not think so, because we have plans for development work and have allowed for them in the estimates we have made of expenditure as well as revenue in coming to the dates which I quoted.

792. Arising from that, one of the biggest factors in the time it takes the passengers to clear an airport is the time taken by the Customs. Do your O. and M. people have access to that side of it? Are they asked by the Customs people to advise on quicker methods of handling the control?—There is close collaboration with the Customs at each airport, and, in studying questions of flow of passengers, the Customs staff would be brought in if need be. If changes were to be suggested at a number of airports, inter-departmental talks at headquarters would take place. There is certainly no doubt in our minds that we must look at the whole flow of traffic, and in that sort of question Customs facilities are an important item in the total burden that has to be carried.

793. Are we to understand that the most expert O. and M. people have been looking at the methods used by the Customs?—"The methods used" refers to the examination of baggage?

794. Yes?—I am thinking rather of the flow of traffic from the aircraft through the Customs shed.

795. Has it ever been suggested that O. and M. or time and motion study people might give a little advice on this?—I think this is a general question for Customs and Excise, and one that is not peculiar to airports. If I understand it aright, this raises a question of the technique of inspection by Customs officers, which fall outside our province.

796. Although it has such an important effect in the management of aerodromes, none the less it is a law unto itself?—The operation of Customs staff is for decision by H.M. Customs and Excise.

797. They do not co-operate by asking for your people's advice?—Not in terms of the inspection of baggage

and their other functions, though they do in relation to the flow of traffic and those issues which are germane to the operation of an airport.

Chairman.

798. I was going to raise the same question as has just been raised about helicopters. One hears from time to time in the case, for example, of the Land's End—Isles of Scilly route, which I use a lot, rumours, and quite firm stories, that helicopters are going to come on next year in place of the Rapides. It that happens—I just want to follow up the point—is that not going to lead to a saving so far as aerodrome expenditure is concerned?—It should enable us to close the airports.

799. To close the airport in both cases?—Yes.

800. I am not quite clear what sort of liaison there is between your Ministry and B.E.A. in a case like this (and presumably it applies also to the Scottish Islands). Nor am I clear whether the fear that Admiral Hughes Hallett expressed is a substantial one that B.E.A. are not pressing on with that yet because they fear you are still going to charge them quite a lot. Are you regularly meeting B.E.A. to look at this whole problem, as some money might be saved?—We are certainly looking at the problem. The difficulty is that, as against the saving in the closing of the airports that would be possible, there is, if the service is to be operated by B.E.A., need for a substantial subvention. This is an issue on which we hope a decision will shortly be announced.

801. Your decision would require two-engined helicopters if they go over the sea, I take it?—I speak subject to correction, but I think the type of helicopter is a single-engined one*.

802. Even over the sea?—It is practicable to use it over the sea. There is, however, the possibility of tests being arranged first over land at Gatwick, with later opportunities to extend to the Land's End—Scillies route.

803. And Scotland?—Trials have not so far been suggested in Scotland. What would be involved would be the testing of the helicopters. A subvention would be needed for the testing, some benefit being secured to offset that by the closing of the airports.

* See answer to Q. 804.

16 February, 1961.]

Mr. H. HARDMAN, C.B.

[Continued.]

804. You are going to look more closely into this and let us have a statement?—Yes.* Could I correct something I just said? A two-engined helicopter is to be tested; you were quite right.

805. Paragraphs 4 to 6, London, Prestwick and Gatwick. These are your three major airports for international traffic. When do you expect to see them self-supporting?—I can speak about London and Gatwick. They are covered by what I said about breaking even in the period from 1963 to 1965. The equation of revenue and expenditure at Prestwick is rather further off and I would find it very hard to give a precise date.

806. So, we are only three or four years away, yet expenditure, according to paragraph 4, was higher in 1959-60 than in the previous year?—The revenue also has been increasing substantially.

807. You are counting on an increase in revenue to offset any further increase in expenditure?—And more, yes.

808. Are you approaching the problems of expenditure rather on the assumption that it is going to go on increasing, or are you hoping to reduce it by improving methods of working?—Quite what the result will be we do not know. But certainly we believe there are real possibilities of cutting costs and reducing expenditure from our improved methods of working. On the other hand, the expectation also is of increasing traffic and therefore of total expenditure going up even if expenditure per passenger is coming down.

809. Will the increases in landing fees recently announced enable you to break even at any of these aerodromes immediately?—Not in 1961-62, I think, except possibly at Heathrow.

810. Are you taking any other steps to bridge the gap between expenditure and revenue, apart from the landing fees, and what you are trying to do to reduce expenditure?—In terms of revenue we are, of course, constantly attempting to exploit concessions and the like. We hope that we are using all the ways open to us there. But it is in all the various forms of cutting costs plus increasing landing fees or other charges for carriage that we see the main opportunities for breaking even.

* See footnote to Q. 790.

Mr. Arbuthnot.

811. Mr. Hardman, to what extent does the deficiency at Gatwick derive from the small use made of the airport?—Certainly, that is a substantial factor.

812. What steps are you taking to increase the traffic here?—So far Gatwick has been used and will remain as an alternate airport to London available as diversion airport. An appreciable number of services associated with organised tours have however been running from Gatwick, and we are now taking steps to move scheduled services for the short-haul part of the airline business. B.E.A. and Air France have been invited to transfer about half of their services from London to Paris to Gatwick as from next April, and we have notified other airlines that, particularly in the case of services from Western Europe, we will later on look for further transfers.

813. So, in effect, your increase at Gatwick is merely going to reduce traffic elsewhere and there will not be new traffic. Is that correct?—Save that there has been a substantial increase year by year in traffic. Over the last eight years there has been a 300 per cent. increase. Though there may be fluctuations about the trend there is no sign of that trend not being maintained.

814. Do operators like using Gatwick?—There has been on the part of Air France a good deal of perturbation about the request we have made to them to move some of their services, partly because there is some ignorance, maybe, of the possibilities of Gatwick. B.E.A. however, have been content to arrange for the moving of about half of their London-Paris service. If there be difficulties other than those which have arisen through ignorance, they spring perhaps from the complexity of arrangements necessary to ensure that the aircraft using the airport can also be maintained at the existing maintenance bases.

815. So that the ignorance or prejudice against Gatwick is really, again, a failure in public relations, is it not?—Some comment from Air France rather suggests ignorance, but I believe that as a result of our discussions with them we are managing to dissipate it.

816. What are you doing to improve matters so far as the maintenance bases are concerned so as to popularise the

16 February, 1961.]

Mr. H. HARDMAN, C.B.

[Continued.]

airport?—This is an issue for the airlines, and they are making their arrangements. In the case of B.E.A., they can by arrangement of their flights ensure that aircraft finish near the existing maintenance bases.

817. So you think it is so far unnecessary for you to do anything to popularise Gatwick?—No, on the contrary, we have been planning to move services such as some of the London-Paris services as part of the process of securing greater use to lessen the pressure on Heathrow Airport.

818. You may have been planning to move services, but that does not make the airport more popular, does it?—I think that the transfer of services to Gatwick will help in the dissipation of ignorance about the airport.

Mr. Stevens.

819. I gather from an answer you gave to a recent question that Gatwick is not yet fully utilised?—Gatwick was intended to serve, first of all, as an all-weather alternate to Heathrow. It was, as it were, a complement to Heathrow. It was also planned as an overflow for the short-haul traffic at the peak of the season. Inevitably, therefore, fulfilling this subsidiary role, it is only with the increasing use of Heathrow that there is greater use of Gatwick. Gatwick remains, save against the future, under-utilised.

820. Did I not hear you say that B.E.A. were moving some of their London-Paris services to Gatwick?—As from the 1st April they have agreed to do so.

821. Are there similar moves contemplated by other airlines? I am not thinking of emergency landings. I am thinking of Jersey Airlines, for example, which I think normally operate from Gatwick and have done for a long time?—Jersey Airlines and most of the Channel services run by B.E.A. have operated for a long time from Gatwick. The move of the London-Paris scheduled services is the first of a series of moves. But we want to examine the impact of the London-Paris service change before making detailed plans. We have done no more, therefore, than warn some other operators from Western Europe, such as Alitalia and Iberia, of the possibility of some transfer of services after the autumn of next year.

822. Am I not right in saying, then, that at present, in February, 1961, Gatwick is not yet fully utilised?—Oh, yes, Sir. I began by saying it was always planned to look after future development.

823. So there will be more utilisation in the not too distant future?—Indeed, yes.

824. Yet the Comptroller and Auditor General, in the last two lines of paragraph 6, says: "Only a small proportion of the space available for letting was vacant in 1959-60". If there is going to be some further utilisation of Gatwick, will not more space be required for letting?—I think one must distinguish here between shorter and longer terms. As far as the shorter term is concerned, we believe that it will be possible to use more of the resources at Gatwick without increasing the lettable space. I think there will in the longer term be need for development at Gatwick; and we are considering what has been spoken of as Stage 2 in the plans for Gatwick against that possibility. It is a matter of some years in the future.

825. So, there are no short-term proposals for new construction of buildings?—No.*

826. At the same time, is it not the policy of the Ministry to charge economic rents, a phrase that comes to me from the past?—Oh, indeed, yes.

827. You would agree?—Certainly.

828. What do you mean by an "economic rent"?—A rent that will, after all the necessary deductions have been made for the expenses incurred in providing the facilities, offer an appropriate return on the capital which is invested, be it in a building or anything else.

829. There should at least be a break even compared with the expenses and the interest on capital. An economic rent should at least enable you to break even?—That would be our aim, certainly.

830. In those circumstances why does one see reports of deficiencies in the last few lines of paragraph 6 of £38,540 at Gatwick and £77,772 at Prestwick, where the same conditions, apparently, obtained, namely, that nearly all the

* *Correction by witness:* It will be necessary to build some suitable accommodation to meet the demands of increasing traffic.

16 February, 1961.]

Mr. H. HARDMAN, C.B.

[Continued.]

space available was let? If the space available was let at an economic rent at both aerodromes, how do we have these substantial deficiencies?—I think, so far as Gatwick is concerned, that the account which has been furnished and which we have been examining since the accounts were prepared and submitted, is at some points in error; that is to say, in the allocation of expenses there has not been a proper allocation that would permit of a comparison one year with another. In the case of 1959-60 a substantial sum in terms of maintenance expenses was disbursed in respect of two years. The adjusted figure, therefore, for Gatwick should be not £38,000 but £15,000. Of the £38,000, therefore, £22,000 is accounted for by the inclusion in one year of two years' expenditure on maintenance*. That is a mistake which we have realised since the accounts were prepared. The other reasons for this real deficiency are associated partly with some unlet accommodation, but it is very small and partly with losses on the provision of heating. The boiler plant which was installed at Gatwick was a boiler plant with a capacity for the whole building and operates at an uneconomic rate when not fully used. We are in rapid process of getting over that difficulty because we are using the whole of the available space. Last but not least, there is at Gatwick a substantial amount of unlettable accommodation. Part of the capital equipment in the Gatwick area is in the form of the old terminal buildings in the former airport, which is on the other side of the Brighton Road; about 30 per cent. of the permanent and 45 per cent. of the temporary accommodation there is accommodation which we have not been able to use. We have not been able to use it partly because of difficulties of securing planning permission for the use of the area and partly because we are planning for demolition in order to accommodate a telecommunications engineering establishment. The total, therefore, in the accounts of expenditure includes expenditure on resources which have not been lettable,

* *Correction by witness:* Two years' expenditure on maintenance was not in fact included in the 1959-60 Accounts. Information which came to light after the 1959-60 Accounts had been prepared showed that the basis of allocation of maintenance expenditure to the Provision of Accommodation Account was incorrect and that the Account had, as a result, been overcharged by some £22,000.

and I think that explains the situation under the main headings.

831. Would you agree, Sir Edmund, that these two figures are more apparent than real, that they are an accountant's illusion?—(Sir Edmund Compton.) Well, these are the figures of the losses which are shown by the accounts. It is possible that the accounts need adjustment, as the Accounting Officer has suggested. The question whether there is a loss and the extent of that loss will, of course, depend to some extent on the allocation of overheads to these particular services; but I think that, in so far as the Trading Account is to be relied on at all, these figures are reliable.

832. Does your examination, then, not go as far as checking allocations between one head and another?—Yes, it does.

833. Then, you would agree that these figures are an accountant's illusion to a large extent, that expenditure has been wrongly allocated?—I do not think so. Shall I say, in the present state of our knowledge in the preparation of these Trading Accounts, and it will not be forgotten that this is only their second year, we believe that this represents a reasonable allocation. The point that the Accounting Officer has just made, which I confess is new to me, namely, that two years' expenditure has been charged in one account, does, of course, reduce the deficit, but it still remains the case that there has been a loss on this particular service.

834. But not in that year?—I think that the Accounting Officer has said that the loss at Gatwick after his adjustment is of the order of £15,000. (Mr. Hardman.) Indeed, Sir, yes.

Mr. Cledwyn Hughes.

835. You said that it is going to take you rather longer to break even at Prestwick than it will be either London or Gatwick?—That is what we expect.

836. Why is that?—It is associated with the greater use of the Heathrow and Gatwick Airports than of Prestwick.

837. Do you anticipate any time in the foreseeable future when you will be breaking even at Prestwick in the light of what we are saying now?—As I said earlier, I have not at my fingertips a precise extrapolation of revenue and expenditure trends for Prestwick. I could

16 February, 1961.]

Mr. H. HARDMAN, C.B.

[Continued.]

attempt one and put in a Note*. I do not know, that is to say, in what year Prestwick could be expected, on the same sort of considerations as I applied in the case of London, to break even.

838. Does Prestwick justify itself as an international airport?—A great deal depends on what is accepted as justification. In terms of transport facilities, no doubt, yes. But, on the other hand, it shows a loss, as, indeed, do all other airports.

839. You have just mentioned the number of passengers, but you said the reason it is sustaining greater losses and it will take a longer time to break even is because not sufficient passengers are using it. How do you reconcile those two statements?—The equipment of an airport is clearly likely to be affected if it is envisaged that there will be a substantial expansion of its use. In the earlier years there will be less possibility of breaking even than in later years. At Prestwick there has been provision for the expansion of facilities. The more the resources are used the closer comes the possibility of breaking even.

840. Do you anticipate in the foreseeable future that a greater number of air-

craft will use Prestwick so as to make it an economic proposition?—I find it very hard to give detailed information about Prestwick alone. I think the right course is for me to try to put in a Note. Separating Prestwick from other airports will be, of course, in some measure an arbitrary exercise. It is more difficult to make assumptions about a particular airport than it is about the whole group of airports or the London airports.

841. I appreciate very deeply that it has a special Scottish significance, but apart from that, do you consider that, on the information you have got, it will ever be an economic proposition? Are you able to say that today?—Our expectation now is that Prestwick should break even over the span 1965 to 1967, as against 1963 to 1965 for the London group; but that is a highly speculative figure, I need hardly emphasise.*

842. I observe you have got no international airport in Wales. It seems to me that you are making a loss everywhere except in Wales?—I fear we are making a loss in Cardiff, too, Sir, of £139,316.

* *Note by witness:* Depending on the assumptions used, Prestwick might break even by about 1965 to 1970 or not before 1970. Both figures are inevitably highly speculative.

* See footnote to Q. 841.

TUESDAY, 21ST FEBRUARY, 1961.

Members present:

Mr. Harold Wilson, in the Chair.

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

Mr. Hoy.
Vice-Admiral Hughes Hallett.
Mr. Stevens.
Sir Colin Thornton-Kemsley.

Sir EDMUND COMPTON, K.B.E., C.B., Mr. D. O. HENLEY and Mr. S. GOLDMAN, an Under Secretary, Treasury, called in and examined.

TRADING ACCOUNTS AND BALANCE SHEETS, 1959-60 (Continued).

Mr. H. HARDMAN, C.B., Permanent Secretary, Ministry of Aviation, called in and further examined.

Chairman.

843. Will Members please turn to the Comptroller and Auditor General's Report on the Trading Accounts and Balance Sheets, to paragraphs 1-15, Aerodrome Accounts, resuming with paragraphs 7-11, London Airport Central Terminal Area? Mr. Hardman, it seems that when your predecessors gave the Treasury an appraisal of the costs of and revenue expected to arise from these two buildings they did not include essential overhead charges. Can you say why these charges were omitted?—(Mr. Hardman.) I think, if I may, Sir, I could best answer your question by making a number of points about the statement which is the subject of the comment in the Report from the Comptroller and Auditor General. My first point is that the statement was a special analysis designed to indicate the sort of rents which would be appropriate for the buildings now known as the South-East Face and Queen's Buildings, the decision to put the buildings up having been taken some years previously. The statement represented, in other words, an *ad hoc* examination of expenditure and revenue in the future designed to indicate levels of rents. In fact, the negotiations over rents which had led to the preparation of the statement continued for some time. After the statement had been submitted, the rents decided upon were some 20 per cent. lower than those allowed for in the statement, agreement having been reached with the occupants—B.E.A., in fact—only at that level. I think that it is perhaps unfortunate that the Comptroller and Auditor General was not, in response to his enquiries in 1957 and 1958, reminded with greater emphasis of this special purpose for which the statement had been prepared. My second point is that the statement, while admittedly it included

an allowance for passenger service charge which was an arbitrary figure, a proportion of what it was expected would be secured, was an attempt to assess the differences, both in terms of expenditure and revenue, consequent upon the availability of these new buildings. In other words, it neither looked nor purported to look at the whole cost but rather at the additional cost on the one hand in terms of the buildings and then the additional revenue on the other in the form of rents. I am well aware that for a number of costing purposes it is important to look at total costs, overhead costs and direct costs; but for other purposes there do seem to me to be advantages in looking at, as it were, marginal costs and marginal revenue. The statement was cast broadly in that form. My third point is that the material which was included in the costs, though whether it is adequate is perhaps a moot point, provided for ground rents which assumed an accessible site. The figure for ground rent in the table was not simply based on costs but assumed the commercial level for market rents. Beyond those three points I can only say that the allocation of revenues in relation to any particular buildings at the Airport is, and is bound, I think, to be, in some measure an arbitrary operation. In a sense we regard landing fees, and also the passenger service charge as general charges. It is very difficult to allocate them to particular services just as, if I may take an example, in the case of a railway journey it is impossible to allocate that part of the fare which allows you to go on the departure platform, that part which is related to the actual journey and so on through all the different stages to exit from the arrival station. We regard our landing fee essentially in that way. I think we do that to

21 February, 1961.]

Mr. H. HARDMAN, C.B.

[Continued.]

a greater extent now than was the case in 1955 because recent decisions, the decision particularly to raise landing fees on the 1st April, 1961, have been taken on the basis that the landing fee is the principal means of raising revenue. I should add that we have had prepared and submitted to the Comptroller and Auditor General since his Report appeared a statement based on lines comparable to those adopted in 1955, and it does show that on the basis adopted we should in 1960-61, in fact, get a return on the investment in the buildings, the South-East Face and the Queen's Buildings, just about equal to the expenditure involved. On the basis, that is to say, of the analysis which was prepared in 1955, we have compiled a similar statement which shows a small surplus. We can, if need be, put that statement in.

844. That is not difficult, is it, if in the original statement you missed out some of the essential overheads for the purpose of striking a balance? Would you now agree that the omission in the statement of 1955 was wrong, and do you now normally include these overheads in assessing rents of particular properties?—I would say, Sir, that it still might be appropriate to prepare a statement on lines similar to those adopted in 1955; if the statement purported to be a statement of all costs it certainly would not be appropriate; but if there were an attempt to look in respect of a part of the airport at the return for additional investment as against the cost of that investment, it would be an alternative approach, and it is possible to read that approach in the document we submitted in 1955.

845. If you were starting all over again and with your responsibility for safeguarding public money you would think it wrong on a future occasion to base it on the 1955 basis?—It would turn on the circumstances of the particular exercise on which we were embarked. I think, for example, in relation to some additional premises at an existing airport where there are facilities now, there would be grounds for saying: "Let us look at what additional costs will be incurred, the extra and marginal costs of providing new buildings. Let us, on the other hand, look at the revenue to be secured from them in so far as it can be isolated. If there be a substantial contribution towards overheads, the expenditure may be justified." But I

would agree, Sir, that if there is any suggestion that this statement was intended to cover the whole of the overheads, certainly it did not. The difficulty arose from not making clear what particular part of the airport was under examination.

846. In answering a question last week about deficiencies on rents at Gatwick you referred to unlettable accommodation there. Do you include the cost of unlettable accommodation as an overhead when you are assessing rents for the lettable accommodation?—If we were making a forecast as to whether it were worthwhile putting up new premises and what sort of rents should be charged, then it would not be appropriate to allow for unlettable accommodation.

847. Do you mean you are doing that because you assume there will not be any building?—Certainly.

848. In the light of your experience are you not now finding that there is bound to be some unlettable accommodation?—Only normally where there are substantial changes in an airport, where there are new plans prepared, involving new assessments of whether investment is justified.

849. Surely your rents cannot be called economic if allowances are made for the unlettable accommodation? Would you agree with that?—Yes.

850. Mr. Henley, did the Treasury know in 1955 that these overheads were being left out?—(Mr. Henley.) The basis on which the 1955 assessment was made was quite clear to us at the time, Sir; and I think it has to be remembered that the practical purpose of making the assessment was not simply to give a forecast of how the whole of the revenue attributable to these particular parts of the airport might turn out over the years, but to determine a rent to be charged, I think to B.E.A., amongst others. Therefore what we wanted was some figure on which to start those negotiations, and that, I think, is one of the purposes for which we were anxious to have these figures from the Ministry. In the event, in the rents negotiation I think we had to accept a rather lower figure after a good deal of bargaining.

851. Was it not a wrong basis to start negotiations from, if you did not make allowance for these overheads in the calculation?—Quite clearly, from the Treasury's point of view we would hope that all the different sources of revenue

21 February, 1961.]

Mr. H. HARDMAN, C.B.

[Continued.]

at the airport would in fact cover the overheads. Exactly how you go about getting your overheads covered when it is not easy to get them attributed to different parts of the airport is a different question; but if it is quite clear that certain parts of the overheads ought to be attributed to this particular building, then, as a starting figure, one ought to include an allowance for them.

Mr. John Hall.

852. I understood you to say, Mr. Hardman, that in this year, 1961, the expenditure on and revenue from the buildings, excluding the overheads, would about balance. Did I understand you correctly?—(Mr. Hardman.) On the basis of the statement prepared in 1955, yes.

853. Do you anticipate that they are going to make a contribution to overheads, in addition to just balancing out?—The statement we have recently prepared shows a small surplus of no more than £5,000 after allowance for interest and redemption. We would expect that that would tend to go up in the future.

854. Was it thought at the time you made this calculation in 1955 that the revenue from these buildings would, in fact, make a contribution to overheads?—I think that was behind the statement that an economic return would be secured, yes.

855. So, in fact, you did not secure an economic return in allowing yourselves to be beaten down by B.E.A.?—I am sorry, I have misunderstood. In the statement which was prepared in 1955, there was, in fact, after interest and redemption, a small loss shown but within the margin of error. The table which was prepared, in other words, showed the equation, virtually, of the expenditure including interest and redemption. There would have been, therefore, in that sense no contribution.

856. So, even before allowing for overheads on the 1955 calculation there would have been a small loss?—Yes, after providing for interest and redemption.

857. In paragraph 11 the Comptroller and Auditor General says that you are not satisfied with the present form of the Trading Accounts. What are your objections to the present Accounts?—I think primarily, Sir, that they do not give us, in terms of the analysis of cost in particular, the details that we would

like. Secondly that they relate revenue to expenditure in a way that implies a link when no link exists. For example, there are headings in our Trading Account for the three major airports, aircraft handling being one and passenger handling another, separating out revenue and expenditure. We are forced however to work quite arbitrarily in the allocation of revenue. If we put into aircraft handling all the revenue from landing fees we are, in fact, putting into the revenue for that particular function fees which are intended to cover also services rendered in relation to the passengers. In other words, I think the Accounts include now something more and something less than we would regard as desirable in the way of headings for analysis.

858. Of course, this is a problem, is it not, which confronts any organisation which is providing a number of services or manufacturing a number of goods from the same factory or centre so the problem is no different from that. What form of accounts are you proposing to present in future?—As I said in my evidence on Thursday, Sir, we are proposing to attempt more detailed cost records. We are to attempt income and cost comparisons where they are appropriate, the aim being to look in relation to particular services, such as concessions at revenue against costs. With other services the aim will be to look both comparatively as between airports and through time at the movement of costs. A further aim will be to notice the progress of costs through the year as against the budget in order quickly to put our finger on areas where the costs are going up.

859. In this new form of accounts do you think you will be able to compare accurately expenditure and revenue related to a particular activity or service?—It will be only in a relatively small field, but, for example, where we are granting concessions, although we shall have to make arbitrary assumptions about allowances for space for rent purposes, there will be the possibility of segregating revenue and relating it to expenditure in a way that is not open to us to the same degree when we are thinking of landing fees, for example.

860. You think you will be able to spread overheads and allocate them with reasonable accuracy to the various expenditures?—There will be inevitably

21 February, 1961.]

Mr. H. HARDMAN, C.B.

[Continued.]

some arbitrary allocation. The allocation of overheads can be based on so many different, and justifiable, data that it is clearly in some measure the sort of exercise where different people will come to different conclusions, all of which are defensible. But we think there are advantages to be secured from approaching it in this way.

861. Are you taking any outside advice on the analysis or preparation of these future accounts?—In the combined Ministry of Aviation we have a substantial accountancy staff which was, until the merger of the separate Departments, employed within the Ministry of Supply. It is headed by a Director of Accountancy Services, who is a chartered accountant and who has under him a substantial number of qualified professional accountants. We have, in working out the new arrangements for costing at our airports, called for the advice of this body of expertise within the Department; and it is under the professional guidance of the Director of Accountancy Services that we are appointing four Chief Accountants with subordinate staff, decentralising records to the airports and preparing for this new kind of costing record.

862. Mr. Henley, has the Treasury been consulted at all about the preparation of these accounts?—(Mr. Henley.) Yes, Sir, we are engaged with the Ministry of Aviation on this problem, which is recognised to be a very difficult one.

Mr. Hoy.

863. Mr. Hardman, I do not know whether I can ask this question under this paragraph or not, but I should think a substantial revenue at any airport comes from car parking facilities. Is that so?—(Mr. Hardman.) Certainly, Sir.

864. How is it organised at London Airport or at a particular airport? Is it organised by you or by B.E.A. or some other authority, and does it come under the control of the Ministry?—The responsibility for car parking is primarily a responsibility of the Ministry, the delegated official in charge at London Airport being the General Manager.

865. It is income for the Ministry, is it, and not for B.E.A. or B.O.A.C.?—It is income for the Ministry, income arising from car parking being part of the whole concession revenue.

866. I just wondered, because quite recently, and you might find this out for me, at Turnhouse Airport a car park has been established and for the past year we have had to pay. I am told that agreement has been reached whereby the man who is operating it in fact takes 75 per cent. of the revenue and turns over 25 per cent. to either the concessionaire or the Ministry. I thought it was a very lax way of doing business and I just wanted to be sure that this was not happening in London?—I should say that at London we are experimenting with different techniques and we do on occasion arrange for concessions, the concessions being put out to tender. So far as London is concerned, we are at the moment occupied over the problem of congestion in the centre and we are proposing to increase car parking fees in order to reduce some of the congestion. As a corollary to that, and because most of the cars which are parked are parked for several days, which implies that there is no need for them to be in the centre, we have been working out proposals to offer a concession to anyone who can use a remote part of the airport and provide a service ferrying cars to these remote areas for the several days that they would not be required. That is a case where we can work out the terms and conditions in a tender, possibly for a short term. No doubt, in the case of Turnhouse, the concession represented the best terms that we could secure. I would like, if I may, to put in a note* after having made enquiries.

Mr. Hoy.] I would be obliged if you would.

Sir Colin Thornton-Kemsley.

867. You answered some questions about the improved costing and accounting systems referred to in paragraph 11. Will this improved system enable you to exercise closer control over airport costs?—We hope so, Sir. We feel that there are real possibilities through the more detailed analysis of costs and, not least, of current costs, of finding out where costs are going up and getting out of control, and where there are therefore opportunities for economy. But this is very much a system on which we have been working, as I said, with professional advice and which has not yet come into effect. It will not be instituted until 1st April.

* Information supplied: not printed.

21 February, 1961.]

Mr. H. HARDMAN, C.B.

[Continued.]

868. That is in relation to London Airport only on the 1st April, or is it in relation to other airports as well? —It is in relation to all airports. We have appointed Chief Accountants at London and at the divisions into which the country is divided, Scottish, Northern and Southern; in addition, another accountant is to work at Gatwick under the Chief Accountant for London.

869. And they will all operate from the 1st April next?—Yes.

Mr. Stevens.

870. Mr. Hardman, at the last meeting of this Committee I asked you if you had seen reports in the newspapers of protests by certain airlines about the proposal to increase landing fees from the 1st April. You said, I think, that you had seen them in the newspapers?—Yes.

871. Did the Ministry receive any official protest from any airline at all? —Oh, yes, we had representations from the National Corporations in this country, B.E.A. and B.O.A.C., and from the Foreign Airlines—

872. From the foreign airlines?—There is a body in the U.K. which calls itself the Foreign Airlines Association which made representations. They came, too, from I.A.T.A., the international body which brings together the airlines. Sir William Hildred came to see the Minister in a desire to express in detail the objections of I.A.T.A.

873. I think you said last week that it was very difficult to compare total landing charges in this country with landing charges in other countries in the world because in other countries they had other forms of charge beyond landing fees. — If official protests were received on so wide a scale surely there must be an impression that to land at London Airport or in this country generally is more expensive than in other countries?—I think the reaction of the airlines is the perhaps not surprising reaction of anyone who has been receiving a service the charge for which suddenly goes up. But it is clear from the comments many airlines have made that the assumptions on which we work are assumptions the airlines would prefer to see Ministers not adopting. In particular, if I may take an important example, the I.A.T.A. believe that technical services ought not to be paid for by airlines but that the whole cost should fall on the taxpayer. The grounds are

that airline business brings tourist traffic, it has all kinds of advantage to the community and that therefore technical services ought to be a general burden. Perhaps I do less than justice to the case. It is a case which I do not accept, but it is one which is urged very strongly by I.A.T.A. and has been expressed, for example, in the correspondence columns of "The Economist" and elsewhere for a substantial period. The reason why it is urged so strongly is that in most countries technical services are provided by the State, at the expense of the State. In the U.S.A., as I said last week, the F.A.A. pays the whole of the cost of the technical services as well as contributing to the cost for the capital development of airports.

874. That may be, but in the United States, I think I am right in saying, and in some other countries—is this not so—there is a fuel levy?—I think one must distinguish here between a formal fuel levy, which does not exist in very many countries and a concession which enables charges to be made for petrol rather higher, perhaps, than the basic charges. This is a field in which it is extremely difficult to get any very satisfactory data because the price for petrol is not very easy to determine. But our impression certainly is that, in consequence of returns which are secured from the sale of petrol, and which are not secured for example at London, in fact higher charges than might at first sight appear are made. It is not, in other words, possible in very many cases properly to compare the level of charges which, as we see it, though this is a matter of judgment, may be affected for charges for the provision of petrol.

875. There was another possibility, was there not, the passenger service charge which it was decided to leave unaltered for the sorts of reasons which I think you have already put forward; but with regard to that passenger service charge, is it made to all aircraft?—It is made in respect of passengers on international flights. Not from London to Edinburgh, that is to say, but from London to Paris, to take examples.

876. Not on domestic flights?—Not on domestic flights.

877. Why not?—Broadly speaking we have tried to concentrate on a single charge. We have, in the passenger service charge for overseas flights departed from that; but otherwise the

21 February, 1961.]

Mr. H. HARDMAN, C.B.

[Continued.]

recommendation, as I called it last week, laid down by I.C.A.O. has been one that has been followed.

878. Is there not almost as much work involved for passenger service for a domestic flight, certainly a flight to Paris, as there is for a trans-Atlantic flight? I do not quite see the logic for charging for that?—I confess it is difficult to see the logic. The ruling springs from the continuous process of travelling and because it is very hard to allocate a charge for any particular part. In the case of charges made for airports the original approach, going back a good many years now, was to think in terms of a proportion of stage revenue, about 5 per cent., to allocate that on a basis determined by the all-up weight of aircraft, and to have an additional surcharge for inter-continental flights, where heavier aircraft involving bigger expenditure are employed. On that basis the tables which now exist, which will have gone up, with the increase in April, to nearer 10 per cent. of stage revenue in the case of domestic flights, have been developed.*

Sir George Benson.

879. What exactly is included in technical services to the aeroplane?—So far as the accounts are concerned, it is those services associated with the landing of the aircraft, with navigation and with all those activities associated with the air control tower.

880. Navigational aids, and so on?—Yes.

Chairman.

881. Mr. Hardman, you were asked about this fuel levy in other countries. Do you make a charge for the concession which the big oil companies get for supplying petrol and other fuel to the aircraft?—We lease land to them, the return to the Ministry, to the Government, being in the form of the annual rental.

882. So they pay a rent based on the premises they occupy?—Yes.

883. They do not pay anything for the franchise, for the right to supply?—No.

* *Note by witness:* Passenger service charges are charged on the numbers embarking for flights to, for example, Paris, as they are for flights to New York. They are not charged on domestic flights which make less use of terminal facilities, because on domestic flights the proportion of average airline stage revenue taken in aerodrome charges is appreciably higher than in international flights.

884. Yet this supplying of petrol is a very profitable business, is it not, and not all oil companies, I take it, enjoy this franchise?—No, only a certain number enjoy it. It is, of course, as with other leases the sort of opportunity which is put out to tender as between companies. There is the possibility of tendering when new facilities are being erected but the leases are granted for a number of years.

885. Do the rents or any other payments you receive vary with the amount of fuel they supply to the aircraft?—Not, I think, with the amount of fuel that is supplied. This was a point which was determined some years ago at the time the leases were granted. The issues which were considered at the time were the alternative possibilities of a charge specifically related to the actual quantity sold, and a charge of a more general kind in the form of an annual rental. The issues which were regarded as relevant were questions associated with the value of the capital equipment which at the end of the period of the lease would revert to the Ministry. I am sorry, I have slipped up in that I said that the leases were put to tender. They were not, in fact, put to tender.

886. You fixed a rent?—We fixed a rental.

887. And that rent is not related to the oil sales?—Not to the actual throughput.

888. Are you familiar with the sort of formula local authorities use in relation to public houses for payment of rates, connected with the barrellage, or something, that they supply?—Not precisely, but I believe it is related to the amount of beer and other liquor which is sold.

889. You had not thought of applying such a formula for the charge you make for the franchise which these oil companies enjoy?—We have been looking into this question in relation to the possible need for yet more facilities at London Airport and we are considering whether there may not be possibilities, if not of relating precisely to gallonage, at any rate of making some provision for the amount of petrol which is sold. I am afraid we have not yet come to any final conclusions but this is a point on which we do feel there are some opportunities of securing additional revenue.

890. When you look at this you will not forget the need to obtain the maximum revenue in aid of the taxpayer?—Certainly not.

21 February, 1961.]

Mr. H. HARDMAN, C.B.

[Continued.]

Mr. John Hall.

891. I want to follow the point on comparative charges. When I raised this question before on the Floor of the House and here, I never quite understood why it is not possible to give a direct comparison between the charges at various airports. Presumably the companies, the operators who use these airports, are able to make a comparison between the charges at one airport and another?—The charges are related to the individual aircraft, normally to the weight of the aircraft. Yes, for particular aircraft they would have data.

892. I find it a little difficult to understand why the Ministry itself cannot collate the necessary information?—We have in one or two cases tried to secure information from our airlines. We have also * * * attempted to get data relating to charges and also to costs. There are some figures therefore available but they have been secured on a confidential basis and that somewhat restricts us in the chance of making comparisons.

893. Having had a chance of looking at some of this information would you agree with the charge that has been made quite freely here that London Airport, for example, is the highest cost airport in the world?—I do not think it is possible to say it is the highest. I think it is one of the high cost airports, that being in a large measure a consequence of the scale of operations there; but I would add that it is not, as far as I can tell, out of line with the charges at similar airports elsewhere, for example, Orly Airport which is perhaps its nearest. But this is the sort of statement which it is very difficult to substantiate with precise figures. This is my impression from a study of all the detailed figures we have been able to secure.

894. When you say the figures are given to you on a confidential basis, does that mean you would prefer not to put in a memorandum to this Committee?—May I see whether we can in fact make a memorandum available? If I could, I would like to put in a memorandum on it*.

Chairman.

895. We can always consider, of course, the question of publication?—Yes, thank you, Sir.

* Information supplied: not printed.

Mr. Hoy.

896. May I ask one question about fuel concessions? Did I understand you to say you in fact selected the tenants or operators for fuel supply?—This goes back some years. They are working on leases which did make possible the installation of expensive equipment. To the best of my knowledge firms were selected, but I cannot be absolutely certain and I had better put in a note.

897. Perhaps you will, because my understanding was that these leases in the first place were secured by tender, and this Committee, as a matter of fact, gave considerable thought to this because they thought that the best rentals had not been obtained and they wondered in fact when they would go out to tender again so that the Minister would in fact be able to recoup some of the money he had spent. That was my recollection of the position?—Perhaps I may put in a note*. This goes back quite a few years.

898. It goes back quite a considerable time?—Yes. (Sir Edmund Compton.) I do not want to anticipate that note, but from my information the concessions to oil companies held at London are on leases expiring in 1991.

899. This I think fortifies me in my belief, and this Committee expressed considerable concern, that the tenders having been issued at such an early date, such leases as were given bound the Ministry so that they were quite unable to recoup any of their expenditure because of these very leases, which is not what Mr. Hardman said?—(Mr. Hardman.) I said they had gone out to tender and then corrected myself.

900. I think we might have a note* on it, Mr. Hardman?—Yes, Sir.

Chairman.

901. Paragraphs 12-15, Apron Services. Mr. Hardman, on what basis do you fix your charges for apron services?—We construct *ad hoc* cost accounts, the charges being designed to cover all the direct costs and to make a contribution towards overheads.

* * * * *

903. Did you make a profit on these services at all the aerodromes at which you provided them?—So far as I know, Sir, yes. This is a service which we strive to run covering direct cost and making an overhead contribution.

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21 February, 1961.]

Mr. H. HARDMAN, C.B.

[Continued.]

908. Could you have made a larger profit by providing these services exclusively instead of letting certain operators provide them as well?—That is possible, Sir. We believe that there are substantial economies to be gained by a unified service and it may be that costs would be lower if we were able to run the services for all airlines.

909. But if you have got to maintain the overheads of running a service which is only rather sporadically used because it is not used by, perhaps, the major users, this is bound to be more costly to you, is it not?—It is, indeed, Sir. That is the case in particular at, I think, the Scottish Airports of Turnhouse and, Renfrew. Charges to users, of course, have therefore to be raised.

910. It is your policy to make profits where you can to set against losses incurred in running the aerodromes?—Indeed, yes, Sir.

911. Paragraph 15 of the Report refers to a review. Have you completed this review?—This is a review which we have undertaken first in relation to London Airport. At London Airport the situation is more complex than that at other airports because there are real difficulties arising from congestion on the apron about the running of a number of separate apron services. We have therefore told all the users of London Airport, the long-haul and the short-haul operators, that we will regard a single unified service, either one separate one for the short-haul and one separate one for the long-haul operators or a single unified service, as essential. Who is to run the service we are prepared to consider. If all the airlines can come together and agree on a consortium, we have indicated to them that then the Minister will be prepared to allow their organisation to run the service. If there cannot be agreement, the Minister proposes to run the services and to require all the users of the Airport to use them.

912. And if there is a consortium it will pay you a rent for the right to operate, I presume?—That is a question which we have not yet decided. * * * This is an issue of charging policy that we shall want to turn our minds to.

913. You are making a profit on these apron services now?—We are making something towards the overheads.

914. If you give it up to some consortium?—There will be some case for saying we ought to have some

return. In the case of the long-haul services at London Airport the issue is of some urgency because there is in the latter part of this year to be a transfer from the temporary buildings and we want the new arrangements to be agreed before that time. We have therefore told the airlines that we shall want a decision before the 1st April, 1961. In the case of the short-haul services we have given them rather longer. They can discuss it in the course of this coming financial year.

915. Mr. Henley, have you been consulted about these charges?—(Mr. Henley.) This is another aspect of the organisation and financial management of these aerodromes on which we are continuously in touch with the Department and we shall certainly take note of the various points which Mr. Hardman has mentioned now.

916. Are the Treasury satisfied with the position?—I do not think we are satisfied with the position. You mean, particularly on the apron services and the charges?

917. I mean the apron services?—I do not want to give the impression that there are specific points on which we take direct issue with the Ministry at the moment. It is rather that we feel there are several alternative ways of making charges or organising these services which we want to be satisfied about.

Sir George Benson.

918. Do you know whether the airline operators who provide their own services are moved by motives of economy or do they find that their own service is more efficient than yours?—(Mr. Hardman.) In some cases it is possible to link the provision of apron services with other services at the airport. At Gatwick Airport, for example, where an operator known as Transair does services for a number of operators and where there has been no problem of congestion, it has been found possible to link the business of unloading, the business of putting steps for passengers, with the cleaning of cabins, with work associated with the engines, and the like; there have been economies because it has been possible to use a rather smaller staff. I think the airlines would also say that such a service is probably efficient. There are certainly chances at a number of airports where there may not be a great amount of traffic for use of the

21 February, 1961.]

Mr. H. HARDMAN, C.B.

[Continued.]

same staff for apron and other services, economies thus being permitted.

919. I see one operator provides services for a separate group of operators?—Transair at Gatwick is one example.

920. In effect, you are allowing him to compete with you, are you not, in providing services?—We are indeed, Sir.

921. Is there any particular reason for that?—I think this flows, in part at any rate, from a reluctance to use a monopoly position to coerce the airlines into the acceptance of a Government service.

922. I can understand that you would say to an airline service: "If you wish to do your own servicing, well and good", but surely it is rather a different matter, is it not, to have one operator operating in competition with you, and that is what it seems to be from what the Comptroller and Auditor General says?—We would regard it as the provision of a service by two separate groups in competition where there can be economic working for both, although obviously a good deal turns on the scale of the services in relation to the demand.

923. Take this one operator. What percentage of the total business at Gatwick does he do?—About half, I think.

924. Who does the other half, you?—The Ministry does the other half.

925. How do his prices compare with yours?—They are about the same.

926. How does he manage to cut in on you, then?—I think partly that he can in some instances offer a much wider range of services than the Ministry can. We can offer the apron service. He has general engineering facilities governing engine maintenance and a range of other activities as well which it is convenient for some operators to take wholly from Transair.

927. Are your relations with him friendly?—Indeed.

928. And co-operative?—So far as I know.

929. You are quite satisfied on this?—We feel there are difficulties both about coercion and about collaboration. One of the difficulties is that, if there is a substantial part of the service not operated by the Ministry, the Ministry having to deal with the balance may find that the charges have to be high to cover costs. That is why we want,

39389

in the light of our experience at London (and this attempt to get a single body operating, either the airlines or ourselves) to look again at the apron policy generally.

930. In other words, you do not want him to skim the cream?—We would not like it if he were to skim the cream. That is one of the objections of which we are very conscious.

931. How far is he doing it at the moment do you think?—There is a fifty-fifty sharing and we are covering our costs.

932. You have no idea whether he is doing more than covering his costs?—We have not, no, Sir.

Mr. Hoy.

933. Mr. Henley, you said in reply to a question that you were not altogether agreed with the Ministry but you have no specific points of difference. It is a little difficult to understand really what you meant. Were you really suggesting that the Treasury thought they ought to produce more revenue?—(Mr. Henley.) I think the Treasury usually thinks they ought to produce more revenue in some way or another, Sir.

934. Is that what you meant?—What I meant was that there was not at this moment an issue between us and the Ministry in the sense that whereas, for example, we felt such a charge ought to be made for the concession of the apron services as quite distinct from covering costs they did not, or something of that sort. I do not exclude that we might come to that view because the whole of this basis of charge is under review at the moment, bound up with the whole question of the accounts and what you are trying to cover by what charge; and there are certain types of charge which are being discussed this afternoon on which I would not exclude that in due course we might come to a somewhat different view from the Ministry, but as I say we have not at this moment got more than certain points in mind.

935. What you meant was that your demands have not been specific?—No, because the whole of this charging system is under review with us at the moment.

936. Mr. Hardman, it is quite obvious from paragraph 13 that the Ministry do not provide comprehensive services. Is that correct?—(Mr. Hardman.) In

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21 February, 1961.]

Mr. H. HARDMAN, C.B.

[Continued.]

terms, that is to say, of engine and similar maintenance, certainly.

937. Does that mean that the independent airline operators in fact provide these comprehensive services?—The particular airport about which I was speaking was Gatwick, where Transair do this. In terms of these services at Turnhouse and Renfrew, B.E.A. provide a service which does include, for their own aircraft and by arrangement for other airlines, a service extending beyond apron services in the sense simply of loading and putting stairways for the passengers to descend.

938. But Gatwick was planned on the principle of a single apron service, was it not?—Not a single apron service, I think.

939. Was it not?—I am sorry, I was wrong. Yes, it was, as the Comptroller and Auditor General says.

940. That is what I thought he said. That is why I wanted to ask you what were the special features of this which distinguish Gatwick from all other places?—At Gatwick Transair have been providing a service. They have their own loaders and they argued that they could provide the service more economically than the Ministry. There was at the time no special difficulty about congestion and it was decided that at Gatwick the operation of coercion would not be justified. We have always been reluctant to say to airlines: "You will take this" unless it is really essential.

941. I had a little difficulty in following the division of responsibility at Gatwick. It is fifty per cent. and fifty per cent. Is it a fact that you do the apron services and the airline operator does the other services? Is that what you mean?—When I said fifty per cent. I was thinking of fifty per cent. of apron services, that is to say, the handling of the steps, loading, and so on. Transair as the independent operator will also be concerned in other services relating, for example, to engines over and above the fifty per cent. of apron services.

942. Do you feel that because there is not one single organisation doing all this it affects the efficiency of the aerodrome?—I think, insofar as London is concerned where there is a problem of congestion, there is a risk to efficiency. That is why we have taken this line

with all the airlines and said there must be one service. At other airports we have not felt there was the same risk. It is a question, therefore, at other airports of different groups of staff being linked to provide an adequate service over a wider range than apron services in some cases.

943. When you were considering this I suppose you took into consideration the practice at aerodromes abroad, did you not?—We had some regard to that because it had relation to a number of issues including that of coercion.

944. What is the practice?—At most overseas airports the airline has a choice. It can run its own services if it wishes. There are one or two exceptions. At Milan Airport the service is provided by the airport authority. It is exceptional; normally there is a choice. We have been told when we have contemplated coercion that one of the consequences will be that there will be coercion elsewhere and to the disadvantage of British airlines; that is a situation we thought we ought to take into account.

Vice-Admiral *Hughes Hallett*.

945. In the case of Renfrew and Edinburgh who is the major user?—B.E.A.

946. How much traffic is there from the other operators' proportion?—A relatively small part; off hand, I cannot be sure. I would say 90 per cent. is B.E.A.'s service.

947. Do you still make a profit providing services for the other operators?—We have been putting up charges because we were concerned that we have not been covering costs and we may have to put up charges further. This is in line with the policy of increasing the charges, seeing these are services which we cannot provide at a loss. When you provide rump services, they do tend to be costly and charges have to be high.

948. Would B.E.A. be willing to provide a unified service for all the operators, and if so could you charge them a concession fee?—I think on the first question it is possible, though it is not an issue we have raised. On the second question * * * it is an issue we want to look at. We feel, though, that we must first look at it at London Airport and in the light of a decision taken by the airlines on the alternatives put to them either we run the service, in which case

21 February, 1961.]

Mr. H. HARDMAN, C.B.

[Continued.]

no question of a charge would arise in that form, or they would do it, in which case a charge would be an issue to be considered.

949. Would it not be within the power of the Minister in the case of the E.E.A. to give a general direction that they were to provide the service for the other operators?—I cannot say whether formally it would be in his power—I suspect it might. But this is one of the issues where the Minister has taken, in general, the line that it is for B.E.A. to operate as an independent Corporation, and he would not, I think, want to use powers for a purpose of this kind.

950. Yes, but coming back to what you were saying earlier about comprehensive services, which, as I understand, very wisely the Ministry do not provide at present, do you not agree there would be very great risk to the public accounts if you do provide such services because, in fact, you would subsidise to some extent every private line which chose to change its engines and required a new kind of technique to look after them, and so on?—Unless we succeeded in recovering all our costs. But we would certainly regard the maintenance of engines and the like as an issue for airlines and not our business.

951. In fact, if you can get people to take it on, would it not be better to be shot of the whole business of these services and make somebody pay you a rent, instead of providing them yourselves?—I think we are forced in the case of London Airport to have regard to the congestion if the situation arises where a large number of airlines have their own services. The space at London does not permit that. If they can agree, as we have said in our approaches, to run a single service through a consortium, we may be content. If, however, they find they cannot, we may find it essential for the efficient operation of the airport that we ourselves take on the operation of the service. We hope that will result in a benefit to the Exchequer rather than the reverse and that we shall be able to recover our costs, including overheads, in the charges we make. There

will obviously be economies to be secured by the operation of a single service.

952. What was in my mind was that you have never considered, I suppose, letting the services to a single concessionaire, possibly to one of the oil companies who have rights to supply the fuel, making it a condition of their leases that they should take on the other job as well?—We have not thought so far, I think, of handing this over to a concessionaire, chiefly because of the difficulty of finding one who can work in with the general organisation of the airport. I think, as far as the oil companies are concerned, the leases which we signed some years ago are leases still operating and not leases to which we could attach additional conditions.

953. Save by legislation?—Except by legislation, yes.

Mr. John Hall.

954. Mr. Hardman, if you took the advice of the independent consultants whom you employed in 1956 and vested in the Ministry the power to provide services would you be able to provide those services to the operators as cheaply as or cheaper than they can provide them themselves?—This is an issue where the operators have said they can provide them more cheaply, though when we have come to debate about terms it has been very difficult to prove that. It is obviously extremely hard to say what level of costs we could secure, but we believe we could run an efficient service if it were a question of running a service, for example, at London. That is implicit in our approach to the airlines, saying we are prepared to run a single service.

955. If that is right, your costs would be no greater; it would mean, would it not, that the consumer of air travel would not be charged any more and that you would get a greater revenue into the airport accounts? Would that not be right?—In the sense that we should secure over and above the direct costs contributions towards overheads, yes. Then we would benefit.

CIVIL APPROPRIATION ACCOUNTS (CLASSES VI–X), 1959–60.

CLASS IX.

VOTE 4.

CIVIL AVIATION.

On this Account no questions were asked.

39389

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THURSDAY, 23RD FEBRUARY, 1961.

Members present:

Mr. Harold Wilson, in the Chair.

Mr. Arbuthnot.
Sir George Benson.
Mr. Chetwynd.
Colonel Crosthwaite-Eyre.
Mr. John Hall.

Mr. Cledwyn Hughes.
Vice-Admiral Hughes Hallett.
Mr. Pentland.
Mr. Stevens.
Sir Colin Thornton-Kemsley.

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

TREASURY MINUTE ON PARAGRAPHS 1-5 OF THE SECOND REPORT OF THE COMMITTEE OF PUBLIC ACCOUNTS, 1959-60.

Mr. B. D. FRASER, C.B., Permanent Secretary, Ministry of Health, called in and examined; and Mr. T. D. HADDOW, C.B., Secretary, Department of Health for Scotland, called in and further examined.

Chairman.

956. Will Members please turn to the Treasury Minute on the Second Report of the Public Accounts Committee, 1959-60, to paragraphs 1-5, Reconstruction Scheme at a Teaching Hospital, The Brompton Hospital? Mr. Fraser, has any conclusion been reached as to the responsibility of the Board's architect for this waste of public money?—(Mr. Fraser.) Proceedings have been commenced, Sir, in that the Board of Governors have taken out a writ against the architectural firm.

957. They have now taken out a writ?—Yes.

958. When was this, can you say?—At the beginning of this month.

959. Turning to paragraph 3 of the Minute, the last sentence, have you yet brought this case to the notice of Hospital Boards?—Yes.

960. And you have drawn the attention of all Hospital Boards to the need for early consideration of the architect's responsibility in a case like this?—Yes.

961. Mr. Haddow, have you issued any advice to the Scottish Hospital Boards on the lesson to be learned from this case?—(Mr. Haddow.) Not in terms, I think, at this stage, Sir. We have so far avoided an unfortunate experience of this kind and we have thought it is unlikely to arise, but we will certainly consider when we have occasion to issue further general guidance, mentioning this point.

962. The Treasury say the Ministry of Health are bringing it to the attention of Hospital Boards, so there seems no reason why it should not be brought to the attention of Scottish Hospital Boards?—It will be, Sir, on a suitable occasion.

Vice-Admiral Hughes Hallett.

963. Is the building quite safe now?—(Mr. Fraser.) Yes.

964. What did it cost to make it safe?—The abortive work cost £41,000, essential structural strengthening, £30,000.

965. Has anything been done to re-provide the facilities which were to have been included in the original project?—The scheme has been reconsidered. It has been decided by the Board and the Ministry that the right thing to do is to put up a new building on an adjacent site which will include not only what would have gone on top of the other block, that is, operating theatres, but also a Cardiological Department, a Radiological Department and X-ray unit and some stores. That scheme has been considered and approved as between the Board of Governors and the Ministry and is now with the Treasury for approval.

966. In the meantime are the Board involved in any continuing expenditure as a result of abandoning the original project?—No, Sir, the necessary works to seal off the abortive work and to put in the structural strengthening have been completed.

23 February, 1961.]

Mr. B. D. FRASER, C.B., and
Mr. T. D. HADDOW, C.B.

[Continued.]

967. That was comprehended in the figure you gave me?—£41,000 in the first case and £30,000 in the second, yes.

Colonel *Crosthwaite-Eyre*.

968. Mr. Fraser, how does one alert a Hospital Board?—I am not quite certain that I understand what you mean, Sir.

969. In paragraph 1 of the Treasury Minute my Lords say: the Board of Governors ought "to have been alerted at an earlier stage". I agree, it is the Treasury Minute, but how would your Ministry alert a Board of Governors?—According to the urgency of the case we should either write to them or ring them up or ask them to come round to see us.

970. What had the Treasury got in mind in this matter of alerting a Board?—(Mr. *Henley*.) I think precisely that, Sir.

971. If it is the responsibility of the Hospital Board, Mr. Fraser, to have a suitable architect and this sort of thing could happen, why is it that you had no say in the appointment of that architect?—(Mr. *Fraser*.) I was questioned on this last year, Sir.

972. Yes, I know?—I begged to be excused from making much of an answer since I had been in the Ministry only two or three weeks, and you were indulgent enough to accept that answer. I do not ask for the the same indulgence now. The Board has the responsibility in the first instance to equip itself with the necessary professional advice to carry out its functions either by employing architects on its own staff or by employing outside architects. That is a function of management of the hospital authority. I was asked whether the Minister had any powers to tell them not to employ such and such an architect or to employ some other architect. I suppose, in the last resort, as a purely technical answer, we have the right to issue directions, but I am quite satisfied that it is our proper duty, if we have any reason to think that the Boards are adopting a wrong policy about the sort of professional advice they employ, employing, shall we say, too small a firm for too big a scheme, it is our right and our duty to bring our persuasive powers to bear upon them to employ better advice.

39389

973. Is the same true for Scotland, Mr. Haddow?—(Mr. *Haddow*.) Yes, it is, Sir.

Mr. *Arbutnot*.

974. Mr. Henley, does the Treasury really think that there should be no check on the professional skill of the Board's architect?—(Mr. *Henley*.) No, Sir, not beyond what Mr. Fraser has just described as being a possibility when the Ministry has cause to feel that the Board is not properly discharging its own responsibility in, say, the choice of its architect; but we do definitely agree with the Ministry that it is most important not to have any clash of professional responsibility in these matters.

975. So, the architect usually remains unchecked and unsupervised?—Yes.

976. Mr. Fraser, you told the Committee that a writ had been issued. What is being claimed under the writ?—(Mr. *Fraser*.) The writ—I have not got it here—is to the effect that the Board consider that they have a case against the architect for negligence which has caused the Board damage by abortive expenditure and that they seek to establish that case, if need be, in a court of law.

977. Is £41,000 being claimed?—You will appreciate, Sir, that the writ has been issued but not served. The precise pleadings, therefore, have not been settled.

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Sir *Colin Thornton-Kemsley*.

986. Looking back now, with the benefit of hindsight, would you think that if a case like this were to occur again this would be just such a case where you would intervene and say to the Board of Governors: "We do not think, really, this is a big enough firm for this kind of work"?—I think that is, perhaps, a slightly separate point, Sir, but as I said, we have issued guidance to all Boards, Regional Hospital Boards and Boards of Governors, using this as a cautionary tale and saying, in effect, two things: "Please be careful if you are doing a substantial reconstruction or adaptation to an old building", of which, unfortunately, there are still too many in the hospital service, and secondly: "Get at once on to the possibility, never let it leave your minds, that where abortive expenditure is incurred there may be blame to be attached to your professional advisers and take all proper

D 3

23 February, 1961.]

Mr. B. D. FRASER, C.B., and
Mr. T. D. HADDOW, C.B.

[Continued.]

steps, therefore, to recover any abortive loss that there may be and not to put public funds at risk in the same way again”.

Chairman.

987. Mr. Fraser, on this question of timing, you will recall that last year's Public Accounts Committee in their Second Report said: “The impossibility of carrying out the scheme as originally planned became apparent over three years ago, and they would have expected that the question whether anyone should be held responsible for the abortive expenditure would have received immediate attention”. I think from your answers you have suggested that the Board of Governors were very slow in considering the possibility that they might have a claim against their professional advisers, but is it not true that the

Ministry of Health were equally slow in not pressing them to do so?—I think there is no denying that, Sir.

988. Just to get it right on the record, when you used the phrase that the Ministry got on to this “with the assistance of the Comptroller and Auditor General”, would it not be more accurate to say that they were prodded by the Comptroller and Auditor General into it?—If I may be quite accurate on this, Sir, the question whether there was negligence was, in fact, noted on the Ministry papers as a point to be taken up before the Comptroller and Auditor General got on to it; but action on that perfectly correct note had not, in fact, been taken by the time the Comptroller and Auditor General's note arrived.

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TREASURY MINUTE ON PARAGRAPHS 6-8 OF THE SECOND REPORT
OF THE COMMITTEE OF PUBLIC ACCOUNTS, 1959-60.

CIVIL APPROPRIATION ACCOUNTS (CLASSES I-V), 1959-60.

CLASS V.

VOTE 5.

NATIONAL HEALTH SERVICE, ENGLAND AND WALES.

VOTE 10.

NATIONAL HEALTH SERVICE, SCOTLAND.

Chairman.

990. Will Members now turn to the Treasury Minute on paragraphs 6-8, Capital Expenditure on Hospitals. I think it will be convenient to take paragraphs 47-53 of the Comptroller and Auditor General's Report on the Civil Appropriation Accounts at the same time as the Treasury Minute on paragraphs 6-8 of the Second Report, as they deal with the same subject. Mr. Fraser, the Treasury Minute refers to the use being made of the experience which has been gained elsewhere in the public service or in private industry. You are drawing on schools building experience. Can you say what you are getting from other sources?—(Mr. Fraser.) We get some help in a general way from the system which I think I described last time of a get-together of all Government architects representing all the Departments who do or are responsible for building.

We also get a good deal of assistance out of the Building Research Station of the Department of Scientific and Industrial Research who are undertaking quite a considerable programme for us.

991. The Treasury Minute says that since January, 1958, you have been circulating details of approved projects to the Regional Boards. Has this proved useful?—It was useful as a temporary and stop gap measure, yes, Sir, but the new system we are introducing and the new procedures we are following make it no longer necessary. We can get the same objective much better in other ways.

992. So you have dropped that, have you?—Yes.

993. Have you had no useful contributions from the Hospital Boards in this matter of planning?—As you know, Sir, we are giving a great deal of general

23 February, 1961.]

Mr. B. D. FRASER, C.B., and
Mr. T. D. HADDOW, C.B.

[Continued.]

guidance on building to hospital authorities in the shape of building notes and building bulletins. They are issued by the Ministry but are, of course, the subject of consultations at various stages with people in the Hospital Service who can help us with their general expertise and their particular experience.

994. Mr. Haddow, are you following the same principles in Scotland?—(Mr. Haddow.) In general, yes. We share in the work of composing certain of the Ministry's material, not all of it, and we also study certain aspects of the thing ourselves. On top of all that, for the major schemes we have the machinery of a joint planning committee. The joint planning committee is set up for the planning of each scheme, and on that committee the Department is directly represented and is able to contribute, and not only contribute but also to guide, if one puts it that way, as the planning progresses. We are, of course, able to do that because of our much more limited commitments. We have found it a much more useful method not only of contributing but also of learning.

Mr. Stevens.

995. Mr. Fraser, paragraph 50 of the Comptroller and Auditor General's Report refers to the proposal of the Ministry to build two demonstration buildings. Where are they going to be built?—(Mr. Fraser.) One, Sir, is at Walton, near Liverpool, and the other at Kingston-on-Thames.

996. Are they going to be built to the approved cost and standards of hospital building laid down by the Ministry?—Certainly, yes.

997. Can you tell the Committee what the total cost of each building is estimated to be?—I have not that figure in my mind, Sir.

998. Have tenders been received?—Oh, no, we are not ready to go to tender yet.

999. They will be built by the Ministry?—Yes, we expect to go to tender in 1962.

1000. But, surely, you must have some idea what they are going to cost?—I am sure I ought to, but I am afraid I have not got the figure with me.

39389

1001. I think we might have that as a note.* Are you going to build any more of these demonstration buildings?—We have no specific plans for doing so at the moment, but I would not, of course, rule out the possibility that they may come along.

1002. Mr. Haddow, are you doing anything of that sort in Scotland?—(Mr. Haddow.) We have in contemplation one very small item of demonstration building, if I may mention it, although it has not yet passed the stage of Treasury approval. It will be quite limited, but it will be directed to a specific end. We hope it will not only demonstrate but will involve also a little bit of experimental design. It will be on a ward unit.

1003. You will wait and see what happens south of the border first, will you?—No, Sir, I am not quite sure what the English demonstrations are. Ours will be the planning of a ward unit, taking the work of the Nuffield Trust a little further.

Sir Colin Thornton-Kemsley.

1004. Mr. Haddow, can you tell the Committee where this experimental unit is planned to go?—This unit will be at one of the Edinburgh hospitals, the City Hospital, Edinburgh.

1005. I am not quite clear about this. I understand that the bulletins referred to in paragraphs 49 to 51 of the Comptroller and Auditor General's Report are issued jointly by the Ministry and by your Department whereas you have in Scotland a separate series of planning notes. Is that so?—That is so, Sir. There are the bulletins which are a joint production and which go into quite fundamental questions and look to the long term aspects of the case. Then, England have themselves prepared the building notes which we do not join in but which we use, and we ourselves are concentrating on certain fields not covered by either of those productions where we produce what are referred to in the Comptroller and Auditor General's Report as the complementary series of planning notes.

1006. But you work to the same standard of accommodation as the

* *Note by witness:* The cost of the out-patient department at Walton, excluding loose equipment, is provisionally estimated at £350,000, and that of the kitchen at Kingston, excluding loose equipment, at £200,000.

D 4

23 February, 1961.]

Mr. B. D. FRASER, C.B., and
Mr. T. D. HADDOW, C.B.

[Continued.]

Ministry does, do you not?—One of the important points here is to determine what is the correct standard of accommodation, what area is needed for a nurses' home, how many cubicles one needs in a consulting department where a given number of consultants work, and so on. We in Scotland are rather planning from that standpoint, the standpoint of efficient running.

1007. So, the short answer would be "no", would it not? I asked whether you used the same standards of accommodation as does the Ministry?—Insofar as we have established standards, I am sure we take account of the English ones, but we are not always satisfied that the established standard is the last word.

1008. Are you using cost targets?—We take notice of the English cost targets. We have not attempted to put cost targets in the planning notes we ourselves are working out, frankly, Sir, because our Scottish experience on costs is rather too limited, we think, safely to fix costs on the basis of our own work at present. As I said, where there are English cost limits we take note of them but one cannot automatically assume that an English cost limit can be operated in Scotland where, for various reasons, building always seems to be a little more expensive.

1009. Mr. Fraser, do your officers not participate in the joint planning committees in the same way as is done in Scotland?—(Mr. Fraser.) Not in the same way, no, Sir. To some extent, of course, our system of cost limits does some of the functions which might be done by such a system. I would myself very much welcome the possibility of Ministry officers joining all over the place in planning committees with hospitals, and in many ways I envy Mr. Haddow for being able to arrange it in his smaller parish, if that is not offensive. But there is so much doing, there is such a vast field to cover in England and Wales, that with a Ministry of manageable size it just is not on, and it may well be that the holding together, the co-ordination and consistency which one would have to try to inject into such a system, would be almost impossible to do with so wide a spread. That does not rule out, of course, our officers being consulted or asking to be consulted in, at any rate, the early stage of an ambitious plan so as to ensure, so far as

possible, that the plan when it does emerge is along lines which we are going to approve. That is a little different from Mr. Haddow's system.

Mr. Arbuthnot.

1010. Mr. Fraser, you have so far issued one bulletin on operating theatres?—Yes.

1011. When was this?—In 1958.

1012. Does it contain information on cost standards?—No, that was not the idea of building bulletins at all.* These building bulletins, as Mr. Haddow has explained, are fairly elaborate and intensely technical documents and it would take a very long time to produce such a bulletin for every department of a hospital, though it would be a good thing to do eventually. We have two others in preparation but, frankly, they have been put a little bit back by, as we see it, the greater urgency of the work necessary to launch the new system of which you are aware. What we are issuing now are building notes which are a much less elaborate examination of the necessary content of each sort of hospital department, some building notes of more general application and a system of cost limits which is related to those building notes. That is to say, each department of a hospital will be covered by a building note and an associated cost limit within which the standards laid down by the building note ought to be built.

1013. Have you been able to work to the cost standards in the theatres built since the bulletin was issued?—This system of cost limits is only now being launched.

1014. So, the answer is no?—The answer is no, there was not a cost limit system when that bulletin was produced.

1015. Three more bulletins are in preparation. When will they come out?—They are, as I say, rather put back. I am hoping that they will be out by the end of the year.

1016. Does it not look as though the building programme will be well under way before the bulletins are ready?—Yes, indeed.

1017. Are the building notes progressing?—Yes, at full speed.

* Correction by witness: The bulletin does in fact deal with cost standards, but less comprehensively than the building notes.

23 February, 1961.]

Mr. B. D. FRASER, C.B., and
Mr. T. D. HADDOW, C.B.

[Continued.]

1018. The notes, as I understand it, differ from the bulletin in that the notes are less elaborate. Is that right?—Yes, Sir. The building note is less elaborate than the bulletin.

1019. Are the cost targets published yet?—No, Sir.

1020. Mr. Haddow, how can you take note of the cost targets if they are not published?—(Mr. Haddow.) We shall take note of them when they are published. We have in fact seen them before publication. (Mr. Fraser.) They are contained in a building note which will be published in a week or two. These notes are coming out every week or so now.

1021. I thought you told the Committee, Mr. Haddow, that you were taking note of the cost targets for England. Were you not chancing your arm a little bit there?—(Mr. Haddow.) We do know of them though they are not yet published. Consultation between the Departments is very close. Each of us knows what is ahead without waiting for publication.

1022. You know what the cost targets are, yet you are keeping them under your hat, is that it, Mr. Fraser?—(Mr. Fraser.) By no means. We have worked out our cost targets. We put the draft note to the Treasury and get their agreement to it. It would have been certainly with the printers or even published by now but for the unfortunate fact that there have been considerable increases in building rates just recently and we have had to have another think in the sense of giving a general rise right across the board on cost limits, but that particular bulletin on cost limits will certainly be out in a matter of a week or two.

1023. But what use are the building notes without the cost targets?—The building notes are not, of course, in the end any use without the cost targets but they are to begin with, in that the building notes are a guide to the hospital authority in drawing up its schedule of accommodation, which, of course, it has to put to us for approval. The related cost limit, of course, has to be brought in then to price the schedule of accommodation and to arrive at the first estimate of cost.

1024. Mr. Henley, are these bulletins and building notes and planning notes approved by the Treasury and do you vet the standard of accommodation set

out?—(Mr. Henley.) Yes, we do, Sir, as far as we can.

Sir Colin Thornton-Kemsley.] I notice that the witnesses have got some examples of these building notes in front of them. Would it be possible to have some circulated as we are talking for Members to have just a glance at them?

Chairman.

1025. Would that be possible, Mr. Fraser? You have notes and the bulletin there?—(Mr. Fraser.) I have the bulletin, yes.

1026. And a specimen of the notes?—Of some. We have, in fact, issued two more today. We have got eight building notes out and we shall have seven more by the end of April. Two went out today, one yesterday, so this set is not complete. (*Documents handed to the Committee.*)

Colonel Crosthwaite-Eyre.

1027. Mr. Fraser, I am still not quite clear on these demonstration buildings that are due to be completed in 1963?—1962, Sir?

1028. According to paragraph 50 it is reported that construction will begin in 1962 and they will be completed in 1963?—I am sorry, I must have misheard you, Sir.

1029. Surely that is going to be very late to be of any real use in view of the fact that the hospital building programme will then be reaching its climax, and probably past it?—I wish it were true, Sir, that it was going to reach its climax or even be past it by 1962—

1030. 1963?—1963—but I am afraid it is not.

1031. I understand that there is a main building programme now starting, a five-year building programme, is there not?—It is much more than 5 years.

1032. The first main one?—I cannot divide the programme into particular periods, but certainly the amount of capital which is going to go into the building programme is being steeply stepped up over the next five years. What will happen after that I do not know.

1033. What is the magic in having a demonstration kitchen and dining unit? Is there anything very peculiar to a hospital kitchen which marks it off from any other sort of standard well-equipped and advanced modern cooking unit?—I think that one reason for choosing this

23 February, 1961.]

Mr. B. D. FRASER, C.B., and
Mr. T. D. HADDOW, C.B.

[Continued.]

particular subject for demonstration building is that this is something which is common to virtually every hospital and, therefore, is of the widest possible use if it is of any use at all. Of course, a hospital dining room and kitchen has many features in common with dining rooms and kitchens in other large institutional buildings or factories, but it does have peculiarities of its own. A hospital has special diets and the problem of feeding both patients and staff, which requires quite different standards and different arrangements of various kinds. There is something special about a hospital dining room and kitchen which you would not necessarily get right if you had experience only of other sorts of dining rooms and kitchens.

1034. Is the same true of an out-patients department? You mentioned the number of cubicles per visiting specialist, but surely there must be enough experience by this time to know the answer, or roughly the answer, to that ratio?—This again, Sir, is, of course, a unit which is common to virtually all the hospitals, all general hospitals anyhow, and it is a thing on which standards do vary enormously.

1035. But why build a demonstration one, that is what puzzles me. What is the particular practice that you wish to learn?—I think it is true to say, Sir, that there is very much to be got out of building a demonstration anything in the sense that one can show how the cost limits we have set are, in fact, to be met with thoroughly efficient and worthwhile building. This also is part of a general development of that hospital at which the Ministry is building one unit. There is also, therefore, some demonstration and also some learning on the Ministry's part about the fitting in of one particular bit of a development with the whole.

Mr. Chetwynd.

1036. Are we not in danger of having much more paper than building, Mr. Fraser, at the rate all this is going on?—I do not think you will get the buildings, Sir, unless you have this sort of paper. It certainly is going to lead to enormous improvements in efficiency and returns in time.

1037. Is not each Regional Board getting on now with its plans for building without these?—Do you mean its long term plans?

1038. No, its immediate plans?—Yes, of course it is, but the great change in system which is being introduced on the basis of this sort of central advice is that much less of their planning will have to come to the Ministry for approval. This is all part of the increase of delegated limits. Having been told in general terms what in the normal case ought to happen, then they can prepare their plans on that basis and if they have to come to us at all because it is outside their delegated limits it will not be necessary for the Ministry to examine these plans, as it were, from the ground up, but only to examine the respects in which the Boards say that their plan, rightly, differs from the normal.

1039. But can you say what autonomy a Regional Board has now to plan its own hospital?—I am in some confusion about the word "plan". Do you mean actually produce the plans for a building?

1040. As far as I understand it a Regional Board employs its own architects. They get permission to go ahead with an expenditure costing so much and they can either use their own architects or put it out to a private architect. Then there are about three or four years of coming and going between them and the Ministry before they can go ahead. Now, exactly how much freedom have they got to go ahead?—Under the system which is being superseded they came to us for approval on the principle. Having got that they went away and produced a schedule of accommodation and came to us for approval of that. They then produced sketch plans and came to us for approval of them, which does take a considerable time. They then went to working drawings. They came up to us again and then they went to tender. They came to us on schemes costing more than £30,000. Under the new system to begin with they do not come to us for schemes costing less than £60,000. Working on the building notes they will prepare a schedule of accommodation which on the face of it is likely to be acceptable to us. We do not have to examine it in the same detail as we did. Having got our approval to the schedule of accommodation which, I repeat, should be a much quicker and easier process, they then produce sketch plans which will have to come to us.

23 February, 1961.]

Mr. B. D. FRASER, C.B., and
Mr. T. D. HADDOW, C.B.

[Continued.]

Here, too, I hope that through this means and others we shall not devote very much time to detail but much more to merely the generality of the planning process. By this time a cost has been attached to it as a result of the schedule of accommodation and a firmer cost as a result of the sketch plan. From then on if all goes well they need never come to us again. They have got a cost limit within which they are allowed to go ahead. If they have a starting date attached to the scheme by the Ministry to which they will work we will not need to see working drawings and we will not need to approve the date of starting in the terms of going to tender.

1041. But is there not a danger of considerable duplication of effort in all this? Each Regional Board, as far as I know, is going ahead producing precisely the same thing that you are producing, and, in fact, at the present time there is an exhibition of very much this kind of thing, I should have thought. How can you improve on that?—I think I could fairly claim that the whole object of the scheme is to avoid duplication. One does not, of course, want to suppress what I might call the private enterprise of the Boards in doing their own thinking. This is how things grow. But what is necessary, as I see it, as the Ministry's function, is to do its own thinking, to collect the thinking of the Boards, to sift out what is best and give the results to everybody so that everybody is working at any given time on the most up-to-date thinking. There is no reason why there should be duplication; on the contrary, it should remove a great deal of it.

1042. What kind of emulation or competition, whatever word you use, is there between each Regional Board on this? Can you say any particular Regional Board is good and others are less good?—Yes, one is bound to form a judgment of them, Sir, in day to day dealings with them.

1043. You cannot order a Regional Board to do anything, can you?—Oh, yes.

1044. You can?—There is a statutory power of direction.

Vice-Admiral *Hughes Hallett*.

1045. I was rather struck by your saying, in answer to an earlier question, that

you had to delay the issue of your target costs owing to a rise in building costs because they had to be revised upwards?—Yes.

1046. Are you quite satisfied that this is a correct policy? Surely that is an invitation for the costs to rise still further if you respond to a rise merely by saying: "All right, we will have the same but will pay more"?—I quite agree, Sir, that is a point one has to take very carefully into consideration. One has to be very careful that these costs are not food for further inflation, but the truth is that the cost targets when first worked out were related, or, rather, the background work for them was related, to costs as they were before January, 1960, and have been projected up to that time. One works to some extent on the Ministry of Education experience here, because they certainly have worked this cost target system very satisfactorily and with great benefit to public funds; and during this past year, particularly the latter part of it, there have been very marked rises in building wages which led the Ministry of Education to feel that they must put up the targets which they had set last April, I think, by the sort of figures which we feel we should follow to raise the targets which we had fixed on the basis of January, 1960. It is important, I think, to fix the targets realistically, particularly in the first instance, because, of course, if the schemes as they come in are, on the basis of lowest tender on the best that can be done, consistently above the targets we have set, then this new system to which we pin great hopes will fall into disrepute from the start. We have not, of course, the slightest intention of automatically raising our cost limits every time there is a movement in the cost of either labour or materials.

1047. Is Treasury approval required to change the cost target?—Whether required or not, it is certainly sought and obtained.

1048. Is the Treasury quite happy about the variations to the target that go on?—(Mr. *Henley*.) You mean, Sir, variations due to these increases in building costs, for example?

1049. Yes?—I think we should certainly want to look at any increase in cost limits in relation to the reasons which were put up by the Ministry for them, and I think that more broadly we

23 February, 1961.]

Mr. B. D. FRASER, C.B., and
Mr. T. D. HADDOW, C.B.

[Continued.]

should certainly want to consider any possible impact of the total hospital building programme, which is a rapidly rising programme, and, indeed, every other Government building programme, on the capacity of the industry. I do not know what the position of the building industry is at this moment, but one would hope, if there is a rapidly rising programme over the whole field, that the building industry would expand, if expansion be necessary, in order to make sure that that at least was not a reason for the rising cost; but this is, of course, a big question and an intricate one.

1050. Now, turning to paragraph 53 of the Comptroller and Auditor General's Report, I wanted to ask you, Mr. Henley, two questions about these limits. First of all, there is the £250,000 limit before the Department goes to the Treasury. What comparable limits exist for other Departments? Is £250,000 not an unusually high limit?—It would have been an unusually high limit, Sir, a short time ago. It is certainly higher than for some other types of Government building at the moment. For example, I am sure it is higher than for the Ministry of Works, but it is not higher, for example, than the most recently increased limits for the Service Departments.* Offhand I cannot at the moment remember about universities, but certainly this general trend towards higher delegated limits, allied with other measures of keeping costs under control, is one of which we are strongly in favour.

1051. Turning now to the £60,000 limits on the Regional Boards, not counting the universities, which we know are a law unto themselves, is there any other body not under direct Government control which is allowed to spend money approaching that sort of sum on their own?—I am not quite sure whether it is right to say they are not under direct Government control. As Mr. Fraser has explained, there is in the last resort, and I think it is accepted as a last resort measure, a power to direct the Boards which the Minister has; but, of course, there are other ways of ensuring that the Regional Hospital Boards and Boards of Management are exercising their powers appropriately, and I am quite

* *Note by witness:* It is comparable with the limits at present under consideration with the Service Departments.

sure that the Ministry would agree that they must take the necessary steps to ensure that they are satisfied that their limits are in accordance with the capacity of the Boards and the way they exercise their delegated powers. (Mr. Fraser.) Would you allow me to add to that, Sir? The Ministry do, of course, exercise a control over the building work done by Boards under delegated authority in two ways: first, they have complete control of the total of money sought to be spent Board by Board through the allocation system. Secondly, we control, and will increasingly do so in the future, by laying down general standards which we expect the Boards to comply with, including the building notes and the cost target system.

1052. The thing which I must say still leaves me a little uneasy is this, that I believe there are Regional Boards who take as their object spending as much money as they can instead of as little as they can out of public funds. They like to go up to the limit every time. Surely, if you have these big delegations a condition of that should be that there are fixed limits on what they can spend, and if by chance prices rise—and this is the connection between my first question and the second—they must do like every other individual in this country does, which is to have less. Would you not agree with that?—I would in general, Sir, yes, and, of course, the cost limits should have that effect. They are not cost minima. They have no right to spend up to the cost limit, they just must not spend more. If on a particular scheme when it comes to tender the lowest tender turns out to be more than the cost limit the Ministry have fixed to the scheme, they have got to find the money somehow by pruning down the scheme.

1053. You can assure us that this will be strictly enforced?—This is part of the drill we are introducing.

1054. It will be strictly enforced?—Oh, naturally, Sir. There may be special cases, of course.

Mr. John Hall.

1055. Mr. Fraser, you did say, I think, that the issue of your target costs had been delayed because of the rise in building costs?—Yes.

1056. The Ministry of Education have been suffering from the same kind of disability, I imagine. It is interesting to

23 February, 1961.]

Mr. B. D. FRASER, C.B., and
Mr. T. D. HADDOW, C.B.

[Continued.]

know, is it not, that the cost per school place has gone down steadily despite the rise in building costs? Is not that true?—The cost limit per school place?

1057. No, the actual cost?—Yes, it is true of both. They did set their limits at a level to start with which did enable them to bring those limits down. I think I am right in saying, however, that as I mentioned before, the cost limits currently in use by the Ministry of Education are proposed to be put up as a result of the movements of wages by the same amount as we are proposing to the Treasury. We have not yet had their authority.

1058. They have accepted a considerable number of increases in building costs without increasing their targets?—They have secured by this means what we hope to secure also, though there may not be quite as big scope for this in hospitals as there was in schools in the immediate post-war years. They secured by this a sort of balancing economy in building methods and in economical design, so that they are building something which is as good functionally but different structurally for the same money.

1059. I think that was a good example of what can be achieved?—I think so, yes.

1060. Have you arrived at an average figure per bed in, say, a new hospital on the one hand and in a new wing to an existing hospital on the other?—The cost limits take this a little bit more scientifically. They cost out the particular units of a department of a hospital by reference to unit costs. In a ward it would be so much per bed, in a kitchen it would be so much per main meal served, and so on. The overall figure per bed of a general hospital with all its ancillary departments other than ward units, its radiological, its out-patients, and all the rest of it, is a figure which is of some use as a very general guide but could easily be misleading if one put too much weight on it.

1061. Can you tell me what it is?—For a new hospital of an acute kind as distinct from a mental hospital or a chronic hospital, we would nowadays think probably in terms of £5,000 to £6,000.

1062. £5,000 to £6,000 per bed?—Yes.

1063. Have those costs been rising or falling?—Our experience to date is not vast on the building of large new hospitals. It is much more on extensions and adaptations, and I think it is difficult to give you a quantified answer to that. The tendency, so far as building costs are concerned, of course, has been upwards.

1064. Can you compare the building of, say, a wing or an additional ward to an existing hospital, which you have done to a certain extent over the last few years?—Yes, indeed. We have used that experience to devise our first cost limits.

1065. Have the average costs per bed under those circumstances tended to rise?—Over a substantial period of years, yes.

1066. What do you call a substantial period of years?—I was thinking of not one year or two years, but since we started doing anything on this, and it is little enough, four or five years.

1067. Over a period of four or five years?—The tendency seems to be upwards.

Mr. John Hall.] Our definition of “substantial” seems to be different.

Mr. Cledwyn Hughes.

1068. On this point of establishing standards for hospital buildings, the proposed new teaching hospital at Cardiff is a departure from the usual practice, is it not, in the sense that for the first time you have put it out for competition by architects?—It is not quite unique, but it is almost unique. We do not often launch an architectural competition for a hospital. This, if I may say so, Sir, is not quite the same point, because the competing architects are first briefed as to what they are to produce, and much of what I have been speaking about bites on what goes into that brief.

1069. Do you think you can apply the experience that you have gained which you have just mentioned in a reply to a hospital that is designed in this way?—I think the experience will come from what happens when it is complete, when it goes to tender. That is where the experience of cost will come in.

23 February, 1961.]

Mr. B. D. FRASER, C.B., and
Mr. T. D. HADDOW, C.B.

[Continued.]

1070. Have you any idea how much per bed this new hospital is going to cost?—It is more than the figure I gave a moment ago, of course, because it is a teaching hospital. I have the figure in my mind of £8,000 to £10,000.

1071. Do you think the experiment of putting it out to competition in that way is a good thing from an economic point of view?—I think the practice of putting schemes out to architectural com-

petition is not one which should be resorted to too freely. I think it is valuable to do it every now and again because great dividends may be achieved. You may find as a result of the challenge posed to the architectural profession by a great, big worthwhile scheme of this kind a surge forward of new ideas, if you like, a break through in the way the architectural profession approaches hospital building, and it is well worth on occasions trying to reap those dividends.

TREASURY MINUTE ON PARAGRAPHS 9-19 OF THE SECOND REPORT OF THE COMMITTEE OF PUBLIC ACCOUNTS, 1959-60.

Chairman.

1072. Will Members now turn to the Treasury Minute on paragraphs 9-19 of the Second Report of this Committee, 1959-60, Pharmaceutical Supplies: Prices of Proprietary Preparations. Mr. Fraser, since this Minute was prepared the House of Commons has been informed that an agreement has been reached on a modified form of the Voluntary Price Regulation Scheme to run until June, 1964. Is that correct?—(Mr. Fraser.) Yes.

1073. I think the changes announced were, first, provision for prices of certain widely-used patented drugs to be negotiated directly; secondly, an increase of 20 to 25 per cent. in the level of exports justifying the use of the export price criterion; thirdly, a downward revision of the trade price formula; and, fourthly the revision of the definition of new drugs so as to remove the three years' freedom from products owing nothing to fresh research. Is that a fair summary?—Yes.

1074. Can you say now what proportion of proprietaries fall within each of the categories in the new scheme?—When you examined this before, Sir, the percentage by value of drugs covered by this scheme which fell into the three years period was 30 per cent., export price criterion, 30 per cent., the standard equivalent criterion, 1 per cent., the trade price formula criterion, 22 per cent., and direct negotiations under Part B of the scheme as it was then, 17 per cent. These percentages are fairly variable from year to year, naturally enough. Drugs are coming out of one category and into another. It depends particularly on the flow of new

drugs. There has been a considerable shift since you last examined this in that the three years' freedom period applies now only to 17 per cent. by value—this is before the impact of the new scheme is considered—and the export price criterion has gone up to 43 per cent. There have been minor changes in the others but nothing of great importance. That is the latest estimate we have of how the different paragraphs in the scheme applied before the effect of the amendments is taken into account.

1075. Have you any estimate about what the new scheme will mean in terms of the figures you have just given?—Yes, I have. Some of this is a hope rather than an estimate. We think that in future the three years' freedom period for the newest drugs is likely to vary between about 15 and 20 per cent. It seems to us that 30 per cent. is a very high percentage, and in the new scheme we have inserted the right of the Ministry of Health to ask for a revision if at any time that proportion is materially above 20 per cent. We therefore expect to run between 15 and 20 per cent. on that criterion. The export price criterion, of course, let in far too many under the old scheme, and the most important feature of the new scheme is the right which it gives to the Ministry to select drugs which have a large user in the National Health Service which would otherwise get the benefit of the export price criterion, and subject them to detailed negotiation in the light of costs and prices under Part B. We have, as you may know, Sir, already acted on that in quite a big way, and we expect to press that further, and we would expect that the present amount of drugs by value covered by the export price

23 February, 1961.] Mr. B. D. FRASER, C.B., and
Mr. T. D. HADDOW, C.B.

[Continued.]

criterion would be about halved in that way. I would put it at about 20 to 25 per cent. in place of 43. There is no reason to expect any great difference in A2 or A3, but, of course, the proportion dealt with by the direct negotiation under Part B will substantially increase from the present about 18 per cent. to something of the order of 40 per cent.

1076. Have you made the application of the modified Voluntary Price Regulation Scheme conditional on the firms concerned supplying you with information on costs and profits?—The Ministry's right to insist on direct negotiation in particular cases is, of course, valueless without such information.

1077. Are you getting the costs?—Yes.

1078. In full?—Yes.

1079. Are you getting full details now of the costs of individual manufacturers?—Yes.

1080. Including advertising costs?—You will appreciate, Sir, that the negotiations under the new right which we have inserted in this scheme started only last month and are bound to take a considerable time, though certain interim results can be and are produced. We have not as yet found any difficulty in getting out of these firms the information for which we have asked them.

1081. Last year's Committee was told that your Department had had the advice of Board of Trade accountants who, I seem to remember, had particularly full experience of costing for price control purposes?—Yes.

1082. Would you say you are now getting all the information that they consider necessary to inform you whether the prices are reasonable or not?—We rely on the Board of Trade accountants to help us in this actual work.

1083. Have you had replies from the firms from whom you were seeking further information to justify apparently exceptionally high profits?—These are the American subsidiaries, Sir?

1084. Yes?—Yes.

1085. They have replied to you direct this time, not sent you an impertinent letter through the trade association, I take it?—They have replied through the trade association, but we have got the figures.

1086. They have given you the information on this occasion?—Yes.

1087. Have you yet had an opportunity of examining that information?—It has not been with us for long, but, of course, this is the sort of thing that one turns one's eyes to very quickly after it is received.

1088. What deductions have you drawn from it?—I can give you the figures, Sir; perhaps that would be the simplest way.

1089. Yes, please?—This comes in the form of a report from the accountants, Messrs. Cooper's, to whom the firms gave particulars, and who sent a report to us through the trade association. The first form in which we have got this was of these eight firms as a group, which is quite useful but not all we wanted, and we have, therefore, asked for and have received so far seven out of eight returns in respect of the individual firms. Would you like me to give you the group figures, Sir?

1090. If you would, please?—The basis of these figures, the accountants told us in their report, is a weighted average of the profits of these eight firms as a percentage of capital employed limited, so far as practicable, to pharmaceuticals. That is not the same thing as saying limited to National Health Service business because it includes over the counter sales which are not much in this field, private prescriptions and exports; but so far as possible it excludes veterinary and agricultural uses. The weighted average percentage profit on capital employed as revealed from the published accounts, before making any of the adjustments which the firms claimed it was only fair to make, comes to 72.83 per cent. That is reduced by various adjustments which the accountants, of course, have regarded it as fair to make, by making a notional addition to costs and capital employed to take account of the United Kingdom share of research and other activities by the parent company in the United States, and various other minor adjustments. The weighted average comes down to 33.67 per cent. I should add that the figure would, of course, be somewhat lower—the firms have asked that this point be made—had price reductions which were introduced during the course of the year of account been operative throughout the year. I am not sure that that is a very powerful point. Secondly, they have done this on the basis of the United Kingdom share of the total world

23 February, 1961.]

Mr. B. D. FRASER, C.B., and
Mr. T. D. HADDOW, C.B.

[Continued.]

sales of the product. Since United Kingdom prices are, on the whole, lower, particularly than the home sales of the United States company, it is suggested that another adjustment can fairly be made which would have the effect of reducing this again slightly. I do not, myself, think that one deceives oneself if one thinks of this weighted average as being 30 to 35 per cent.

1091. Was the accountant who did this investigation employed by the Ministry or by the pharmaceutical industry?—Employed by the pharmaceutical industry.

1092. You have also separate figures for the individual firms?—All but one, which has not yet come in.

Mr. *Chetwynd*.] Does each one follow the pattern?

Chairman.

1093. Are there any very striking exceptions or any very big figures?—If I take the two percentages that I gave, 72.83 per cent., the spread there was from 36.9 for the lowest to 98 for the highest. The group figure of 33.67 as the adjusted profit covers a spread of 18.4 as the lowest and 44.79 as the highest. There is one firm missing, as I said, Sir, and this is, of course, a weighted average.

1094. I did refer earlier to advertising. What steps have you taken to find out how much is spent in advertising and how big an ingredient this is in drug prices?—We have obtained some information, Sir, from the trade association which shows that the cost of advertising through the mail and free samples is 4.31 per cent. of total net sales.

1095. Does that include door to door sales promotion?—It does not include the sales promotion activities of the door to door representatives.

1096. Have you any figures including that?—No, Sir.

1097. Can you say how the expenditure on advertising compares with the expenditure on research in this country?—I do not think I have with me an actual figure for the amount of research done in this country, whether expressed absolutely or as a percentage on sales. The figure in my mind is £6 million, but I would not like to rely on the accuracy of that.

1098. Would you like to look into that and let us have some information on it?—Certainly*, Sir.

1099. You are getting full information on all cases where you are negotiating prices for certain widely used proprietary drugs, are you?—The ones I spoke of earlier, Sir, yes.

Vice-Admiral Hughes Hallett.

1100. I would like to ask a question about the modified scheme. Does it cover a wider field of proprietary drugs or is it still limited to category S of the main group?—It is limited to category S.

1101. How much money do you think is spent on the proprietary drugs outside the scheme?—About £2 million.

1102. Did you try to get the scheme extended to cover these drugs as well?—No.

1103. Are you really satisfied with the agreement which leaves these preparations free from all control?—They are subject to this control, that in two of the categories doctors are recommended not to use them at all. To say that one is satisfied with the new scheme would be over bold at this stage; results will show whether it meets all our expectations. Nevertheless, to have a voluntary scheme extending to £38 million out of £40 million of the drugs one is dealing with seems to me to be a reasonable proposition. I think I gave a wrong answer a moment ago. I think that earlier in our negotiations we did suggest to the trade that the scheme should be extended to the other categories.

1104. Did they give any reason for refusing?—It is not within my own knowledge what that reason was.

1105. I would now like to ask some further questions about these American subsidiaries. Have you been able to study the pattern of the exports that they do of their products?—We have had occasion to do that once or twice, yes.

1106. Can you say whether they do any considerable business with the National Health Services as opposed to private practice in Australia and New Zealand?—I cannot give you any figures on that.

1107. Have you access to them? Would it be possible to get anything?—I am honestly not sure. May I look into it?

* See Appendix 2.

23 February, 1961.]

Mr. B. D. FRASER, C.B., and
Mr. T. D. HADDOW, C.B.

[Continued.]

1108. Could we, perhaps, have a note* on it?—Yes.

Mr. *Chetwynd*.

1109. You are preparing to enter into direct negotiations on prices for certain widely used patented preparations?—We have already done so.

1110. Could you say what they are and what proportions of patented drugs they represent on the National Health Service?—Yes. They are the tetracycline group of antibiotics and chloramphenicol.

1111. Can you tell me what they are used for? It would mean more to me if I knew what treatment they are used in?—These are all antibiotics.

1112. Could you say what proportion they represent of the total National Health Service drugs, in value?—They represent about £6 million to £7 million in value.

1113. What sort of a percentage is that?—That is out of a total for category S of some £40 million. That is on our latest estimates of user.

1114. If you are unable to negotiate a satisfactory price, have you any powers under the Patent Acts which you can call to your help?—By authorising some other firm to manufacture these drugs?

1115. Yes?—A sort of compulsory patent breach?

1116. Yes?—Yes, those powers do exist.

1117. Have they been used at all?—They have never been used. It has always been thought very difficult to use them, and I am much more optimistic about getting effective results by this scheme.

1118. Without having to resort to this?—Yes.

1119. There have been reports, and they were mentioned in the papers to which the Chairman referred, that certain hospitals are buying drugs from Continental sources at favourable prices. What information have you on this?—This is done by one or two sections of the hospital world on, of course, a very small scale.

1120. Does the Ministry discourage it or does it take any attitude on it at all?—This is a difficult point which is

now up for consideration. The people who have most interest in discouraging it, of course, are the patent holders in this country who are prepared to put up a case that it is contrary to the law.

1121. Does not the fact that these drugs can be bought cheaply in this way, even when you consider the import duty, suggest that the prices you are paying at home are too high, and is that not a very powerful weapon in your armoury?—Yes, indeed.

1122. Should you not at least be encouraging them to go ahead with this?—Yes, there is a case to be made for doing so, undoubtedly, Sir, but the question is much more complicated, if I may say so, than that, and this is under Ministers' consideration.

1123. You told the Committee a little earlier that you have not had to consider using any powers you have under the Patent Acts?—For the compulsory licence in this country, which is a different point.

1124. Yes?—No, that has never been used.

1125. Mr. Haddow, have the Scottish hospitals had recourse to this Continental system of purchase?—(Mr. *Haddow*.) No, Sir.

1126. They have not even got round to that one?—No.

1127. Perhaps they consider buying in England a Continental purchase, anyway. Mr. Henley, has the Treasury been consulted at all as to the possible use of the Patent Acts?—(Mr. *Henley*.) We are aware of it.

1128. At the moment you have no views on it?—I suspect we are awaiting the outcome of these considerations. (Mr. *Fraser*.) This is at present a matter of inter-departmental consideration.

1129. You are hopeful you can get the prices you think are reasonable without having to impose other powers?—I would be very slow to say what price is reasonable. I am very optimistic of getting substantial reductions.

1130. On these advertising expenses, do they all count for income tax relief?—(Mr. *Henley*.) I imagine they would, Sir, yes.

1131. So, in other words, the Treasury is financing in a large measure the extra charges which are being put on the

* Information supplied: not printed.

23 February, 1961.]

Mr. B. D. FRASER, C.B., and
Mr. T. D. HADDOW, C.B.

[Continued.]

Health Service by means of this concession?—There would, of course, be no discrimination in favour of or against the proprietary drug manufacturers in regard to what would rank for tax relief whether by advertising or anything else.

1132. Mr. Fraser, you mentioned that it only represented those that go through the mail and excluded door to door salesmen. Have you any knowledge of what proportion that is? I gather that the day to day carrying round of stuff is very high?—(Mr. Fraser.) The figure I gave included the cost of free samples, whether sent through the mail or carried in the bags of the itinerant sellers.

1133. The big thing would be the wages of the men?—Yes.

1134. Which would probably double, would it, the figure you gave?—It might, Sir; I do not know.

Chairman.

1135. Just to intervene for a moment, is the cost of the free samples in this valuation equivalent to the cost that the Ministry are charged for the same drugs, or are they set off at a rather cheaper rate?—I should assume that from their own book-keeping point of view it is the cost to them rather than the cost to the chemist, which is, of course, what we pay.

1136. You do not know whether those are the same amounts or not?—They would not be the same amount, because there would always be the manufacturer's and the wholesaler's margins.

Mr. Chetwynd.

1137. I have seen at a hospital only this morning two examples of this which are not samples of drugs. One was a gramophone record supplied by an American company on how to treat diabetes and the other was an instrument for looking down your throat which was quite expensive, it cost about £5, and is being given round to doctors in a hospital. Have you any control over activities of that kind which, although you are not including any drugs, must nevertheless be put on to the charge?—The figures I have are the factory cost of samples distributed. I guess that that would include the surgical instrument which you mentioned. As for our control over this sort of thing, the honest answer is that it at best

can be very tenuous except in so far as one can bring indirect pressure to bear by having a good go at the prices. The trade have got a code of conduct on advertising which they police themselves and which certainly has stamped out the worst abuses.

Chairman.

1138. Including golf balls?—Including golf balls.

Chairman.] I noticed that.

Mr. Arbuthnot.

1139. Mr. Fraser, I think you know that I have a constituency interest so far as this is concerned?—Yes, Sir.

1140. You told the Committee that you were receiving all the information that you required from those whom you have approached. What do you reckon the saving is going to be as a result?—I should be very rash to put a figure on that. I can, of course, put a figure on the results achieved to date, which is roughly £1 million.

1141. Would it be fair to say that you would not expect more than £3 million as a maximum saving?—On which group of drugs, Sir, on the particular three?

1142. On those on which you have asked for particular negotiations I think you told the Committee that you had in fact by the new agreement reduced the export criterion from 43 per cent. to 20 to 25 and increased the direct negotiation from 17 to 40 per cent.?—Forgive me, Sir, I do not think I quite said that. I said that was the position we expected to reach. This came into force on the 1st January. We sent out letters to the three firms which we thought were the right ones to go for first on the 2nd January, and we are in process of doing that. That is not all that we shall do, and I expect that in the end we shall find ourselves coping under Part B with about half of what at present gets the benefit of the export price criterion. I did not, I think, Sir, say that we had got there yet.

1143. I was wondering what saving you expected to result when you have got to where you are trying to get?—I would not say, Sir.

1144. Do you know the value of the export trade in these drugs?—Have

23 February, 1961.]

Mr. B. D. FRASER, C.B., and
Mr. T. D. HADDOW, C.B.

[Continued.]

we information in the Ministry, as distinct from in my head at this moment?

1145. Yes?—The answer is, yes.

1146. What figure would you put on it, £45 million a year?—That would be the total for all exports, not the exports only of these drugs.

1147. No, the total exports?—Of the whole of the industry, the export of pharmaceuticals?

1148. Yes?—Yes, I believe that is so.

1149. By taking drugs out of the export criterion and putting them into a direct negotiation field are you not taking away an incentive to the industry to export?—I do not think so, Sir. The adjustment to the export criterion itself should be a stimulus to more exports, though admittedly only to the drugs which come under the criterion. We have put it up from 20 to 25 per cent. in general. The rationale for our action in seeking to take out of the export criterion into direct negotiations these very largely used drugs is this: the export criterion proceeds on the assumption that where there is a large amount of export trade the export prices are competitive. That assumption is rebutted in the case of a single particular drug protected by worldwide patents and in considerable use. I am not saying it is wholly rebutted, but it seemed to us, at any rate, to provide a valid argument for saying that one could not rely solely on the export criterion for arriving at a fair and reasonable home price for those drugs; and we, therefore, thought that the home price should be negotiated by directly looking at the costs, and so on, of the firm concerned, and that the industry accepted.

1150. "Protected by worldwide patents". Have you thought about making it a condition of coming under the export criterion that any firm which does so in respect of any drug should be compelled to allow other manufacturers to manufacture for, shall we say, a 3 per cent. royalty without any strings attached?—No, Sir, I do not think we have thought of that.

1151. It is correct, is it not, that some firms do so?—It may well be that this is a device which ought to be thought about, but rightly or wrongly we have

signed an agreement which is valid to 1964 on the present basis.

1152. Now, coming to the weighted average, you said that the average was 33·67 per cent. when adjustments had been made. Was there a qualification in Cooper Bros.' report that the amount allocated to research as done overseas may be weighted against the British firms because of the fact that they have picked out the eyes, so to speak, for manufacture here?—There is nothing that uses that phrase, Sir, no. There is, as I said, the indication that this might come further down had one taken account of the wide difference in selling prices between the United Kingdom and the United States. There is a further gloss in that some of these firms do get know-how supplied without charge by the American parent company and no adjustment has been made by putting a notional charge on that.

1153. Do they not all?—The accountants say "some".

1154. How does this figure of 33·67 per cent. compare with the average profit made in industry? I have a figure in my mind of something like 16 per cent.?—That is the figure in my mind, too, Sir.

1155. Would you think there was a greater risk in this particular industry because of the chanciness of the product continuing to be in demand for a long time?—Yes.

1156. So, you would think a fair profit in this industry would be certainly a higher one than the 16 per cent., but possibly lower than the 33·67 per cent.?—One might reach such a judgment. I cannot pretend that I have attempted to do so.

1157. Would you create greater confidence in the industry, do you think, if you reached a figure which you thought was a fair one and made it known?—I think, Sir, that that would be a mistake on the whole. I think it would be very difficult to satisfy oneself that one had taken proper account of all the factors which might point to a fair level of profit in this industry differing from a fair level of profit in other types of industry. I think that the value of these figures as we now have them, to my mind personally, is simply that no one can say that this is an exceptionally low rate of profit. If anything,

23 February, 1961.]

Mr. B. D. FRASER, C.B., and
Mr. T. D. HADDOW, C.B.

[Continued.]

it is an exceptionally high rate of profit and to my mind it fully justifies the other actions that we are taking.

Mr. *Cledwyn Hughes*.

1158. Does the new agreement retain the standard equivalent criterion?—Yes.

1159. Last year's Committee were told that it was a good criterion and that you wanted to give it precedence?—Yes.

1160. Does the new agreement give it precedence over the export criterion?—No, Sir.

1161. Why did you not insist on the standard equivalent criterion having priority?—This was, of course, a point in negotiation which we put pretty firmly. The negotiators on the other side of the table resisted it equally firmly. That is, perhaps, something which made us the more determined because, clearly, they attached some importance to it. Just why they attach so much importance, I am not quite certain in my own mind. In going into it, it appeared to us not a sticking point in the negotiations—this was, after all, a voluntary agreement—because the application of this criterion is so very small. On the best estimates we made at the time it would have saved about £150,000. The main purpose in our negotiations, of course, was to limit the amount of protection which was being given by the export criterion. To have got this criterion ahead of the export criterion would have had that effect, but to only a very small degree. It seemed to us more important to go for the bigger point, which is the one I have just been discussing.

1162. The trade price formula has been revised now?—Yes.

1163. Does the revision affect the Exchequer in any way?—Yes, certainly. The revised formula, of course, we shall have to apply over the whole range of drugs. We are getting on with that. The results to date tot up to something at the rate of £150,000 per annum. There is more to come, though how much more I do not yet know, and, of course, it will not be nearly such a major factor as the direct negotiations.

1164. The figures that you gave at the start of this inquiry, that is, the figures that you obtained from the trade association, related to the United States sub-

sidaries. Have you got comparable or similar figures in respect of European subsidiaries in this country?—No, Sir.

1165. Have you thought it appropriate to try to obtain such figures?—This particular inquiry, the results of which I have been describing, arose, of course, because the apparent percentage profit in the case of these American subsidiaries on the basis of their published accounts was so enormous, and one had to find out how genuine that apparent enormity was. There was not the same motive for doing it for, at any rate, most of the European subsidiaries because they did not show that immense apparent profit in the first instance. This is particularly true of the Swiss firms, which show, on the basis of their published accounts, profits which are, if anything, lower than the wholly United Kingdom firms.

1166. So, it would not help you in any way for the purposes of comparison to obtain similar figures in respect of these European subsidiaries?—No doubt it is always a good thing to add to one's knowledge, but I am not quite certain that that particular addition to our knowledge would lead us on to any particularly dramatic or worthwhile action.

1167. You mentioned the United Kingdom share of research in the United States. Could you tell us what percentage that represents of the figure of 72·83 per cent. that you gave us? Is that possible? If it is not possible, perhaps we could have a note on it?—I am not quite sure what the question is.

1168. You mentioned at the start the United Kingdom share of research in the United States?—Yes, I see. It is a question of allocating to the activities of the United Kingdom subsidiary the amount of capital employed in the United States on research. I have it now, Sir.

1169. Could you tell us what that is?—The initial figure of 72·83 per cent. can be reduced to 38·92 by charging a notional charge for research and development and central administration and marketing from the United States of America. I have not got it further broken down than that. I am quoting from the accountants' report, but this adjustment, of course, was much the biggest of the adjustments the accountants made.

1170. Exactly. Of course, the figures have come from the trade association, from accountants employed by the

23 February, 1961.]

Mr. B. D. FRASER, C.B., and
Mr. T. D. HADDOW, C.B.

[Continued.]

pharmaceutical industry. Are you satisfied with the figures?—It is evident that the accountants employed are a firm of the first reputation. They were working on figures supplied to them by the United Kingdom subsidiaries and from the United States parent companies. The accountants point out in their report that they did not, of course, send their ferrets into the United States parent companies to satisfy themselves that the full truth had been told. I cannot go behind the accountants' report.

1171. Is there any further information that you feel you would like to have that is not now available to you as a result of the accounts that were submitted to you? As a result of these figures that were in fact submitted to you by the accountants do you feel that you need any further information?—No, I do not think so. I think the exercise has served its turn. It has produced, as I say, what appears to be a realistic figure of actual profit in relation to capital employed on a fair basis of something of the order of 30 per cent., and that seems to me a figure from which one should draw lessons as to how one ought to be acting in other respects.

1172. How do you regard that profit of 30 to 35 per cent.? Do you regard that as fair?—I regard it as too high, and that is why we have gone in for negotiations which will, in fact, reduce it.

1173. By how much do you think it should be reduced in order to render it fair?—I think, Sir, that is a question which I did not quite answer when it was put to me before. I really think I should be very foolish to try to form and justify an opinion in terms of precise figures as to what is a fair profit figure for this difficult industry. There are, obviously, limits beyond which the thing could not be regarded as fair, and as I have said, we do not feel in any way inhibited from attempting to secure price reductions as a result of these figures we have just got.

Mr. Pentland.

1174. Mr. Fraser, you have limited the scheme, so that the three years' freedom will not apply to drugs owing nothing to fresh research. How is this done and who decides it?—It is the duty of the Ministry to go through all the drugs and to fix prices in accordance with the scheme as it now is. We have, of course, already prepared a list which, to our

minds, comprises the drugs which ought to fall within the mischief of this provision. As we get through the list we proceed to tell the manufacturers that, in our view, this does not qualify for the protection of the free period, and the price, therefore, falls to be determined by the next applicable clause in the scheme. They can, of course, object, but the onus rests on them to say why the Ministry is wrong.

1175. Could you give an estimate of the value of preparations which will be removed from the three years scheme under this new provision?—It should be quite small by bulk but quite a lot by number, because they are small drugs. We have never thought that we would get enormous economies to the National Health Service as a result of this change, but even so it was obviously a change worth doing because in its previous form the thing was a little bit of a scandal. It is something like 4 to 5 per cent. by value of the drugs covered by the free period which are likely, in our view, to fall outside it. That is about 1 per cent. of the total.

1176. Is it quite impossible to refuse to recognise for National Health Service purposes new products which are simply, shall we term them, elegant variations of drugs which are available already in simple form?—This, of course, is a matter which one cannot deal with by forbidding the manufacturer to make them or to market them. This point has to be dealt with by way of influencing the prescribing habits and practices of doctors and giving them advice as to the potentialities of particular drugs.

1177. Does the modified scheme still allow three years' freedom for all new drugs irrespective of the proportion they represent of drugs covered by the scheme?—No. As I said before, I think, we have the right under the scheme to raise our voices and ask for a change if at any time the proportion is materially above 20 per cent.

1178. Have you any evidence to show that three years is the right period to allow in all cases for recoupment of research costs?—This is a matter for judgment, of course. My own feeling is that it works out fairly enough, but, of course, if new drugs follow so hot on the heels of one another that this category gets overloaded with new drugs, then one might have to think again.

23 February, 1961.]

Mr. B. D. FRASER, C.B., and
Mr. T. D. HADDOW, C.B.

[Continued.]

Sir George Benson.

1179. With regard to this three years' freedom which is allowed primarily to cover the cost of research and development, when it is up what is the percentage of drop on average in the price?—This is a difficult question to answer, Sir, because quite often there is a drop in price for marketing reasons during the currency of the three year period. So, it is quite likely that when the drug comes out of the three year period the price is already, if I may phrase it this way, respectable by reference to the other criteria; but, nevertheless, it does, of course, happen in many cases that when the drug comes out of the three year period then a price reduction is due under whichever of the other clauses of the scheme applies to it.

1180. Roughly, what kind of a drop do you get, have you any idea?—I do not think I ought to give you an off the cuff answer, Sir.

1181. Is it a substantial drop?—I think it is quite often quite a marked drop.

1182. It varies from drug to drug, of course?—It varies a good deal, of course. It varies right down to nothing.

1183. You have increased the export quota from 20 to 25 per cent.?—Yes.

1184. Has that made any difference in the amount of drugs qualifying for the export price ruling?—It is a bit early to say.

1185. Did I understand you to say that something like 43 per cent. are now controlled by the export price criterion?—Before the introduction of the new scheme.

1186. I see. What is going to be the effect of the new scheme?—As I say, I hope that when we have marshalled all our teeth on this it will reduce it by about half.

Chairman.

1187. Mr. Fraser, when you were asked about the profits of the American subsidiaries you said, I think, that you had to accept the accountants' figure of the loading for the American proportion of the research and that the accountants in turn had to accept the figures they were given by the American company without being able to check the accuracy of those figures. Have I got that right?—I do not know what they did in

order to check it, but they certainly did not do a visitation on the spot.

1188. You are, of course, aware of the investigation carried out by the Senate Committee of Investigation over there?—The Kefauver Inquiry, yes.

1189. Which felt that even without taking away from the American costs any allowances for Britain, their profits were fantastically excessive. Have you correlated at all the Kefauver results with your own results?—The Kefauver investigation, Sir, has not yet produced any Reports.

1190. But is it not a fact that, as I say, the figures quoted there are on the basis of assuming that the American companies themselves bear the whole of the cost of research?—I think that is so, Sir, but this so far is a matter of charge and countercharge, as I understand it, before the Kefauver Committee.

1191. Do not the charges and countercharges so far leave you in any anxiety about this position?—I should be a fool if I did not feel anxious about the position for any reason, obviously, Sir.

1192. Let me come to another point, then. After this loading, assuming these figures are correct, you get a figure of between 30 and 35 per cent. on capital employed which you said you feel is too high, but how much too high you cannot yet say until you have had a chance of further negotiation. But is it not a fact that the reason the Ministry looked at the American subsidiaries only was that on the figures produced for last year, for what they were worth, it was 70 per cent. on the American figures, 20 per cent. on the British manufacturers, and only 13 per cent. for the Swiss-owned companies in this country? Does it not seem to you that 30 to 35 per cent. still is very high in relation to the 20 and the 13? Do you know any reason why it should be still as high, even after correction, as 30 to 35 per cent., when the Swiss manage on 13?—As I said before, I still regard it as too high.

1193. I think you said you were not going to pursue the matter by getting comparable figures for the Swiss because, *prima facie*, the Swiss did not seem unreasonable. Would it not be better to get the Swiss figures in order to get some standard to see how unreasonable the American figures are?—I think the point of what I was saying was this, that there is nothing one can do to influence

23 February, 1961.]

Mr. B. D. FRASER, C.B., and
Mr. T. D. HADDOW, C.B.

[Continued.]

these figures directly. What one has to do, if one feels there is a case for it, is to get the prices of drugs reduced. If these figures showed that all these gentlemen were working almost for nothing one might call that off. The value of getting these figures shows that one should be very far from calling it off. This, to my mind, supports the action we are taking under the different clauses of the modified Voluntary Price Regulation Scheme, and to the extent that we are successful these profits will drop.

1194. Yes, but since it is clear that very little was done until this year, until the last investigation by the Public Accounts Committee, are you satisfied that the vigour with which you are now pursuing it is going to bring down these prices really to the bare bones and not merely shave something off for the sake of appearance?—We were not able to do this until the previous Voluntary Price Regulation Scheme had run out, because we had no right to do it, and one of the things that one felt was that that scheme had proved in operation to contain not nearly sharp enough teeth. We have inserted what we think are rather sharper teeth in it, and we are proceeding to champ away with them to the best of our ability. We could only do this by negotiating a new scheme in default, of course, of compulsory powers.

1195. How often can you alter the prices under the scheme?—The ones that we are concerned with, as often as the case for it emerges.

1196. So, this means you can get frequent figures of these costs to check against the figures you have got?—Yes, certainly.

1197. And of profits?—Yes.

1198. You can follow up the profits?—No doubt, if we think the particular case is worth pursuing.

1199. On the question about purchasing from abroad by one or two hospitals, the figures quoted in the Press suggest that on what is, presumably, a typical case of a particular antibiotic tablet, the rate paid in this country is £64 7s. 0d. per 1,000, whereas the purchases made abroad, including import duty, cost £40 11s. 2d. Are you satisfied that these figures are correct?—To the best of my knowledge, they are, yes.

1200. Are you satisfied that they are all, for practical purposes, the same product?—Yes.

1201. Are you satisfied that the imported product is not likely to have deleterious effects on the patient as compared with the home-produced product?—I have no reason for thinking that.

1202. This has been investigated by the Ministry, I take it, and what you are now telling us is the result of your investigation?—I do not think it has been investigated.

1203. Is that not rather surprising, since this appeared in "The Times" on the 2nd December, that there has not been any investigation?—Investigation of the therapeutic qualities of drugs is not done by the Ministry.

1204. But you have investigated the costs? You have no reason to think that these figures give an inaccurate picture?—Not as regards costs at all.

1205. I understand that the defence put up these charges is that imports of this kind are poisoning British patients, or something of that kind. You have not gone into that question?—It is not a defence I have been putting up, no.

1206. Is this not a very large difference? What is the import duty on these products?—I cannot say offhand, but certainly, the first part of your question is right, it is a very large difference.

1207. Would it be possible to let us have a note on this question so that we can see, roughly speaking, what are the prices being paid for the home-produced product and the imported product, allowing for import duty?—Yes, I will gladly put in a note*, if I may.

Mr. *Cledwyn Hughes*.

1208. Who investigates the therapeutic qualities if your Ministry does not?—In the case of hospitals it would be the hospital authority.

1209. Have you had any reports from them that the quality of the drug is of the first order?—I understand so, yes.

Vice-Admiral *Hughes Hallett*.

1210. Having listened to all the answers, Mr. Fraser, it does seem to me that whatever the efficiency of this

* See Appendix 1.

23 February, 1961.]

Mr. B. D. FRASER, C.B., and
Mr. T. D. HADDOW, C.B.

[Continued.]

scheme may be it is unavoidably exceedingly complicated. Would you agree?—Yes.

1211. And it stems basically from the fact that the doctors are able to prescribe any drug, whatever it may be, that they think is necessary for the health of the patient?—I am not sure if the complication stems from that, but that is an important factor in the situation, yes.

1212. No, the difficulty. I understand that that in turn stems from 1912, from Mr. Lloyd George's pledge to the B.M.A., and that that is written into the Health Act. Are we bound by legislation to protect this complete freedom?—It is not, I think, written into the Health Service Act of 1946, but it is certainly implicit, if not explicit, in the medical practitioner's terms of service which have the force of law by virtue of regulations.

1213. Since 1946 a number of other countries abroad have started National Health Services. Can you name a single one which allows this complete freedom?

—I cannot be certain without looking this up, but it certainly is my impression that our doctors are given a greater freedom and responsibility than most doctors in most other schemes.

1214. Did the Ministry consider at any time, instead of producing this modified scheme, producing the approved list which is in existence, I understand, in all foreign countries with National Health Services?—This takes us on to the question of what we do about doctors' prescribing.

Chairman.

1215. Which is still to come up, I think, on a later part of the Report?—Whether now or later, I am in your hands, Sir.

Chairman.] This is raised, I think, in later paragraphs of the Comptroller and Auditor General's Report.

Vice-Admiral Hughes Hallett.] It can be raised on another part of the Report, certainly.

TUESDAY, 28TH FEBRUARY, 1961.

Members present:

Mr. Harold Wilson, in the Chair.

Mr. Arbuthnot.
 Sir George Benson.
 Mr. Hoy.
 Mr. Oledwyn Hughes.

Vice-Admiral Hughes Hallett.
 Mr. Stevens.
 Sir Collin Thornton-Kemsley.

Sir EDMUND COMPTON, K.B.E., C.B., Mr. D. O. HENLEY and
 Mr. J. P. CARSWELL called in and examined.

CIVIL APPROPRIATION ACCOUNTS (CLASSES I-V), 1959-60.

CLASS V.

VOTE 5.

NATIONAL HEALTH SERVICE, ENGLAND AND WALES (continued).

VOTE 10.

NATIONAL HEALTH SERVICE, SCOTLAND (continued).

Mr. B. D. FRASER, C.B., Permanent Secretary, Ministry of Health; and Mr. T. D. HADDOW, C.B., Secretary, Department of Health for Scotland, called in and further examined.

Chairman.

1216. Mr. Fraser, before we start with today's examination I would like to return for a moment to the evidence you gave last Thursday. I think, on consideration, the Committee would like to see the accountants' Report you received through the trade association, together with the seven returns you received from the individual firms and the eighth return when it comes in. Would you let us have those?—(Mr. Fraser.) Yes, Sir.

Mr. Arbuthnot.] Are they, by any chance, available now?

Chairman.

1217. They are not by chance available now, are they?—I have them with me, Sir, yes. (*Documents handed in.**)

1218. Perhaps they could be circulated. Will Members please turn to the Comptroller and Auditor General's Report on the Civil Appropriation Accounts, Classes I-V, paragraphs 54-60, resuming at paragraphs 56-60, Investigation of Costs of Prescribing? Mr. Fraser, these variations in average area cost appear rather startling. Can you give us any other reasons for the variation, apart from those quoted in paragraph 59?—There are variations in cost according to differences in the make-up of the population,

* Not printed.

old and young, the climate, the topography, the degree of industrialisation and to some extent, I think, local prescribing habits.

1219. Can you give us the range of average costs after allowing for the special factor that is quoted in paragraph 59?—Allowing for that factor, there is a range in county boroughs from 320d. to 560d.* and in counties from 280d. to 620d.

1220. Can you tell us a few of the areas on the top of the list and a few at the bottom?—I have not got them with me, Sir.

1221. Could we have those supplied?—Yes, Sir.†

1222. Can you say what the expert standing committee referred to in this paragraph aims to do?—Yes. It is a committee appointed by the Central Health Services Council, under the Chairmanship of Lord Cohen of Birkenhead, which is investigating the topics on which operational research should be carried out in order to improve our statistical knowledge about prescribing and to try, if we can, to identify the reasons why prescribing varies so much from area to area; and

* Note by witness: 560d. is the figure for a joint county borough/county area. The highest figure for county boroughs alone is 550d.

† Information supplied: not printed.

28 February, 1961.]

Mr. B. D. FRASER, C.B., and
Mr. T. D. HADDOW, C.B.

[Continued.]

to discover whether there are any other or better methods by which one could measure whether any particular doctor's prescribing is excessive or not.

1223. Have you been aware of these wide variations for very long?—We have in general terms, Sir, but the thing has come out much more clearly since May of last year when we introduced 100 per cent. pricing of doctors' prescriptions in the pricing bureaux, which has yielded a very considerable extra field for investigation.

1224. Mr. Haddow, is the position in Scotland very similar to that in England and Wales?—(Mr. Haddow.) It is very similar. The spread is not quite so large but not significantly less, I should say.

1225. Are there any factors peculiar to Scotland to cause these wide variations or are they caused by the same factors as in England and Wales?—I should expect them to be similar, but we are now investigating in detail to discover the factors.

1226. Can you tell us which are the areas at the top of the league, if I may use that expression?—The area at the top of the league is Orkney, which is caused by one particular doctor whom we are now going after. If we exclude that area the largest figure, instead of 560d. comes down to 475d. In my recollection that is Glasgow. The odd thing is that Dundee, an industrial city, not, one would have thought, basically different, is almost at the foot of the league. We are now analysing that kind of thing to try to discover why, but whether we shall discover why I doubt. We may discover the factors.

Mr. Hoy.

1227. Mr. Haddow, could you just repeat that? I did not catch the figures. What did you say the figure would be if you excluded this man in the Orkneys who is responsible for such a lot?—The highest figure we have quoted here for Scotland in 1959 is 560d.; that is Orkney. If we took this one particular area, Orkney, out of the calculation and left it out then the highest figure becomes 475d. which is, I think, Glasgow. I am not suggesting, and I am not certain, that if you take the one Orkney doctor out it would bring the Orkney average down below 475d., but, frankly, I think it does because this is one doctor out of five, or something like that.

Vice-Admiral Hughes Hallett.

1228. Mr. Fraser, do your Regional Medical Officers visit all the doctors whose average costs are found to be excessive?—(Mr. Fraser.) Yes, Sir.

1229. How many cases have been referred to Local Medical Committees in recent years and what sort of penalties have been imposed?—The first step, Sir, as you say, is for the Regional Medical Officers to visit, and they visit doctors whose prescribing is in excess of the area average by only about 25 per cent. and have a talk, as a result of which habits generally improve. The reference to the Local Medical Committee is, of course, a last resort. We gave figures last year for the number that have been referred in that way in 1958 and 1959. In 1960 there were, I think it was, 10 or a dozen new cases referred.

1230. Have the penalties borne any relation at all to the actual excess cost of the prescribing?—Yes, as a rule that is so. The job of the Local Medical Committee is to ascertain the degree of over-prescribing in financial terms and report that factually, so to speak, to the Executive Council who then make a recommendation to the Minister as to the degree of withholding of remuneration that they suggest the case warrants, which might be all or might be some of that figure of excessive prescribing; and the Minister then takes his decision, either endorsing or varying the Executive Council's recommendation.

1231. Now, turning to the last sentence of paragraph 57, has the British Medical Association yet agreed to implement the prescribing methods recommendation?—That is a reference to the more than 50 per cent. instead of more than 100 per cent.?

1232. Yes?—Yes; that is now in operation.

1233. Mr. Haddow, do you also make use of Regional Medical Officers to investigate the *prima facie* cases of excessive prescribing?—(Mr. Haddow.) No, Sir, that is not our standard practice. It has always been the habit in Scotland to provide the Local Medical Committees with statistics from the centre and the primary duty of investigating excessive prescribing rests with the Local Committees, with the doctors' colleagues, that is to say.

28 February, 1961.]

Mr. B. D. FRASER, C.B., and
Mr. T. D. HADDOW, C.B.

[Continued.]

1234. Have you ever had to intervene with a Local Medical Committee which failed in its duty?—We are about to do so in one case, the case of the Orkney doctor which I referred to earlier, the facts I may say being rather special in that the Executive Council more or less asked us to come in. It is all very embarrassing because most of them are on the doctor's list; they are the doctor's patients.

1235. I see. Mr. Fraser, may I return now to the point I started to ask you about when I was quite rightly stopped by the Chairman last week because it is on this part of the Report, namely the alternative possibility of controlling this drug expenditure by having an approved list of products kept up to date by some form of statutory medical committee which, as I understand, is the practice in the countries that have started comprehensive national health services since Britain has. I would like to ask you, if that were done would it not, to begin with, be anyway a radical solution to the question of high pressure advertising to individual doctors?—(Mr. Fraser.) I think it would have an effect on it, Sir. A sort of white list of drugs, if I may put it that way, is what you are suggesting? It would be, of course, a very radical change from the point of view of the medical profession. It would involve, I think, a complete re-negotiation with the profession of the terms and conditions under which doctors under the National Health Service at present make themselves available.

1236. I fully appreciate that; and, indeed, I think I am right in saying that the present position all stems from an undertaking given by Mr. Lloyd George in 1912, who possibly did not foresee the drug bill reaching £100 million a year?—No, I was not there to advise him at the time.

1237. I think that is the case, actually. Also, if you did this would it not enable the Ministry to stamp out what is described in paragraph 60 of the Comptroller and Auditor General's Report as "unnecessarily elaborate preparations, elegant variations of drugs available in simple form and those for which there has been no substantiation of advertised claims"?—On those, Sir, doctors are already advised not to prescribe such things.

1238. Not altogether with success, I understand?—They fall in categories O and H of the drug classification. They are not, I agree, specifically forbidden ever to prescribe such a drug. They are discouraged from doing so and do so at their own risk, of course, from the point of view of remuneration. At the same time, as a matter of principle from the way the profession is organised in this country the doctor does finally have discretion to prescribe what he, in his clinical judgment, regards as right for his patient. That is the position.

1239. Yes, but I must press this point again. This great evil about which we have heard so much on the Committee of the high pressure advertising to the individual doctors surely would be automatically stopped if the decision as to which drugs could be prescribed freely was entrusted to an independent medical committee? I would like to ask, has the Ministry ever made a comparison between the British prescribing costs per head of population and those, shall we say, of Australia, New Zealand, Western Germany, and so forth?—Yes, Sir, we have some information about that which does not suggest that there would be a dramatic change in cost, because so many of the most expensive drugs, the life-savers as they are called, must, of course, be on any white list.

1240. Exactly?—The only figures I have available are, for example, for New Zealand where there is a full service as distinct from a restricted health service, relating to 1955-56, and those show that their costs were very substantially higher than ours at that time, although they then had this white list system. Denmark, almost identical. Australia, quite a bit less; but that is a restricted as distinct from a full service.

1241. To take New Zealand, to what extent is the cost put up by the distance the drugs have to be carried?—Do you mean inside New Zealand, or as a matter of importing?

1242. Importing. They have got to be taken across the world?—If we are thinking of American imports, it is not very far from equidistant between this country and America.

1243. I think it would be a bit further?—I have not got the information to answer your question, I am sorry.

28 February, 1961.]

Mr. B. D. FRASER, C.B., and
Mr. T. D. HADDOW, C.B.

[Continued.]

Mr. Hoy.

1244. Mr. Fraser, you might find a considerable number of doctors whose average dispensing cost is regarded as acceptable but within that there may be a number of them who are prescribing expensively, either in quantity or in quality, in some cases. How do you track that down?—That is one of our great problems. You are perfectly right. You may well have a doctor whose prescribing, taken as a whole, matches the area average, which itself may not be a terribly good criterion, but within that he may, of course, have had a good deal of cheapish prescribing on a 'flu epidemic, shall we say, but has bad habits about prescribing too much or too expensively or prescribing at all when he ought not to. This is a thing which has not been shown up hitherto by the sort of statistics we have worked on. He is not, so to speak, caught by the criteria we use, and just how to get at that sort of case, which I quite agree we ought to continue to strive for, is one of the things in which I hope that the new Cohen Committee will help us.

1245. Would it not be better to look at a certain specific individual's prescribing? Would that not bring it out rather better than overall averages?—One does look at the individual doctor's prescribing.

1246. In the course of that, surely, you would come across the cases you are looking for, would you not?—Indeed, Sir, yes, when an individual doctor's prescribing results show up above the norm and therefore there is a *prima facie* reason for having a talk with him, then all this sort of thing we have been talking about will come out. The question is how one can pick out from the people who are at a level the ones whose habits do conceal excessive prescribing mixed with unexcessive prescribing.

1247. I would have thought that type of case and doctors who continued to prescribe drugs of doubtful value which you know to be of doubtful value might quite well be dealt with if in fact you had a little personal persuasion in place of the general exhortation to doctors?—Yes, Sir; and, of course, one tries to get that personal persuasion by the visits by the Regional Medical Officers, which are not confined to these doctors

whose prescribing is above the average. They will tend to try to drop in, for example, on a young doctor in the first couple of years of his putting up his plate just to see that he is in line with the proper ways of thought here and has not yet fallen into bad habits.

1248. Mr. Haddow, how would you deal with this problem in Scotland? For instance, this doctor from the Orkneys might have been found out a little sooner?—(Mr. Haddow.) He was found out. He was found out some time ago and the Local Medical Committee did an investigation and surcharged him by quite a considerable sum. The effect has now worn off and they want us to try again.

1249. How much was he surcharged?—They withheld £75 at that time.

1250. Would you call that a considerable sum, in view of the figures you have just given to the Committee?—Sometimes sums withheld are lower than that and sometimes they are higher.

1251. This is only high in comparison to the low ones?—Yes.

1252. So it does not mean very much?—It has not meant enough in this case, obviously.

1253. Then may I put to you the questions I put to Mr. Fraser? How would you find out about these doctors who might be prescribing excessively even though their average, in fact, appeared to be all that one would desire?—I cannot suggest any better means than Mr. Fraser. I confess, Sir, we have concentrated more on cases where there is *prima facie* evidence from the original analysis of excessive prescribing. We have more hope of dealing with this, I think, than with getting effectively at the man whose odd excess is concealed, shall we say, by an odd under-prescribing; but I have not given up hope of doing that.

1254. I am not concerned with the odd one. It may be that within the Service there is a considerable amount of over-prescribing?—I just do not know. One would need a much closer, finer analysis of prescribing than we have so far been able to carry out.

1255. But you admit it is a possibility?—It is a possibility.

1256. If it is a possibility, we would like to know what steps the Scottish Department are taking to deal with it?—We

28 February, 1961.]

Mr. B. D. FRASER, C.B., and
Mr. T. D. HADDOW, C.B.

[Continued.]

are attempting a much finer analysis of prescriptions than we have so far been able to do.

Mr. *Arbuthnot*.

1257. Mr. Fraser, last year Dame Enid Russell-Smith in Question No. 2402 told the Committee about the limitation on advertising and the adoption of the advertising code. In Question 2410 the Chairman asked Dame Enid: "You think it"—excessive advertising—"has been cut out now, do you?", and Dame Enid replied: "We hope so now we have got this code". Would you agree that that is the position?—(Mr. *Fraser*.) Only on an interpretation of the word "excessive" which is pretty generous to the advertiser. What it has cut out—I think I put it this way the last time I appeared—is the worst excesses, but the result remains excessive in terms of the amount of stuff which gets through doctors' letter boxes. There is no doubt about that, that remains so.

1258. So, there is still a case for further pressure to be put on the industry to reduce the cost of this advertising?—There is certainly a case for doing that. Just how one does it, I do not know. It would be more effective, of course, if one could get a system whereby this advertising ceased to be worthwhile to the advertisers because the doctors were so well educated and so well advised by the Government Departments concerned that they responded to that advice rather than to the glossier advice which comes to them from the manufacturers.

1259. If you were to adopt the suggestion that was put to you just now by Vice-Admiral Hughes Hallett, that an approved list of drugs could be kept up to date and that it should not be within the powers of doctors to prescribe others, would that not be a gross interference with the freedom of the doctor to prescribe what he thought was best for his patient?—It would be an interference. The word "gross" would be added, I do not doubt, by the British Medical Association.

1260. Probably by the patient, too. Mr. Haddow, reverting to this Orkney doctor, how many patients has he got, do you know?—(Mr. *Haddow*.) No, I do not know off hand. It is not a tiny practice. It is quite a large practice for the Islands.

1261. A thing that puzzles me, Mr. Fraser, in the Comptroller and Auditor

General's Report is that the figure for county boroughs goes up to 635·22d. The figure for counties goes up to 662·07d. and yet the reason advanced for the discrepancy is that "many prescriptions are dispensed outside the area of the Executive Council with which the doctor is in contract". Would you not have thought that that would result in a higher figure in the boroughs than in the counties?—(Mr. *Fraser*.) Yes, Sir, but I think this point about the things being dispensed in a different area from where the patient or the doctor lives is by no means put forward as an explanation either for the full range of difference within county boroughs or for the difference between county boroughs and counties. It does distort the figures to an extent, but only to the extent indicated by those I quoted a short time ago which showed a span somewhat narrower than this, but not very much narrower.

1262. But you would have expected them to have shown up the other way, would you not?—I think it would tend to exaggerate the cost per person in the more populous area.

1263. Sir Edmund, have you got any comment on this?—(Sir *Edmund Compton*.) No, Sir, beyond saying it is an explanation which I repeated in my Report for which the Ministry is responsible. I think the Ministry did, in fact, give it in a paper which they prepared for the Standing Committee on Operational Research.

[Mr. *Arbuthnot*.] That is why I put the question to Mr. Fraser rather than to you in the first place.

Mr. *Cledwyn Hughes*.

1264. Going back to paragraph 56, can you give the Committee details of the number of cases where remuneration has been withheld in whole or in part?—(Mr. *Fraser*.) Yes. Do you want it for particular years?

1265. For the last year?—Yes. Would you like me to bring up to date the information which was put in in a note last year?

1266. I would be much obliged, yes?—Yes, certainly*.

1267. On paragraph 59, has the expert standing committee met?—Oh, yes.

* Information supplied: not printed.

28 February, 1961.]

Mr. B. D. FRASER, C.B., and
Mr. T. D. HADDOW, C.B.

[Continued.]

1268. When is it likely to report?—It is, as you say, a standing committee and it will be reporting constantly. We have not yet, I think, received a formal report from them but you will appreciate that they are working very closely with the Ministry and I think we are educating ourselves the whole time. In the initial stages, of course, what we are wanting to get out of them consists to a large extent of their advice as to what sort of statistics they want us to collect for them and how they want them to be processed, which is perhaps hardly a matter for a report; but nothing dramatic has emerged yet by way of getting hold of the reasons for these variations outside those which I have mentioned. The variations are much wider than one can really stomach as being wholly explained in that way.

1269. On this question of variations again, would you say that the country doctor is less inclined to prescribe expensively than the urban doctor?—It is extraordinarily difficult to generalise. One finds the most inexplicable features. You find two towns with, one would think, no particular reason why they should be different, with quite a wide variation. One finds large areas of the country which are very markedly above other areas. Wales, if I may say so, is one of the highest cost areas.

1270. Are any of the variations traceable to the hospital in which the doctor was trained, for example?—I do not think that we have got any precise correlation of that sort, no.

1271. Have you got any concrete evidence of cases where over-prescribing was directly attributable to high pressure salesmanship or advertising?—I think there is considerable ground for saying that when a very persuasive representative with, let us say, a very good drug has recently been round an area, that does show up in the prescriptions over the succeeding month.

1272. In a significant way would that, in your view, result in a substantial increase in costs?—Yes. There is evidence that the activities of the representatives step up the use of their product. That is not the same thing as saying there is over-prescribing.

Sir George Benson.

1273. The variation in doctors' prescriptions is so great that some doctors'

costs are double other doctors'. The Comptroller and Auditor General gives the figures at 333d. to 635d. and 275d. to 662d. Have you noticed any variation that correlates with the social status of the areas of the doctors?—I think we have some figures on that Sir, yes.

1274. Has it a marked effect?—Yes, but not as consistently as one would expect. You might find, as I say, two areas which on social and other grounds might appear to be much the same and yet there is a difference in cost per person of the doctors prescribing. There is certainly much here which we do not yet understand.

1275. One would assume that there was a tendency in, shall I say, a wealthy district for doctors to prescribe rather more generously than in a poorer district?—That would be one factor.

1276. That is an assumption that might be made. Has it ever been checked?—I do not think that we have really got the figures correlated to the different factors. One would expect that factor to be present, just as the factor of the average age of the population would have an effect. The industrial character of a district would be a factor. One would expect that industrial towns, if there is reason for thinking they are not too healthy, because of special industrial risks, and so on, would be in the high categories.

1277. Have you any explanation at all for this extraordinary variation that in some cases one extreme is the double of the other?—I think one can only put it that one can think of reasons which would lead one to expect quite a considerable variation, but it is very difficult to persuade oneself that they adequately explain a variation as wide as this. There must be something else.

1278. What steps do you take when you find a doctor's prescriptions are very expensive, any?—Oh, yes, the Regional Medical Officer has a talk with him, at first informally and disposes of a good many cases that way, and then formally with a view to his case being referred to the Local Medical Committee.

1279. What is the result of these steps? Do you get a drop in prescription costs?—Yes. There is no doubt that these visits do have a very considerable effect.

28 February, 1961.]

Mr. B. D. FRASER, C.B., and
Mr. T. D. HADDOW, C.B.

[Continued.]

1280. It would pay you to increase the number?—We have formed that view and have set about increasing the number of Regional Medical Officers. We are quite certain that it is of value.

Mr. Hoy.

1281. Mr. Haddow, if I may get back to the Orkneys again for a moment, when was this man surcharged £75?—(Mr. Haddow.) 1955.

1282. So it is six years since this man was surcharged. Have you had any complaints during the intervening six years?—Complaints?

1283. Say, from the Local Medical Authority about this man, or have you ever noticed that he has been over-prescribing in those six years?—I think we have watched his figures come back up. The immediate effect of the £75 deduction in 1955 was to keep him down for a bit, but he has crept back up. Obviously the dose has to be repeated.

1284. It is going to be very expensive if you are going to wait six years before you take action, is it not?—Yes. This is, of course, quite unique. It is the first time we have had to step in ourselves.

1285. Mr. Fraser, sometimes comparisons are made that the Scots cost a lot more than the English and the Welsh, but if one looks at the average cost of these prescriptions apparently the English and Welsh are simply pouring medicines down their throats compared with the Scots. Is there any reason for the differentiation between these costs in England and Wales and Scotland? Why should it be so much higher in your part of the country?—(Mr. Fraser.) I do not think there is all that difference, is there?

1286. I think so, from what I can see. I am told that in Scotland the average cost was between 297d. and 560d., is that right?—The figures I gave a moment ago were 320d. to 560d.*

1287. At the beginning of paragraph 59 the Comptroller and Auditor General says that the range is from 333d. to 635d. and 279d. to 662d. Is that right, or am I wrong?—No, you are quite right. The figures I quoted are the adjusted variations.

1288. Have you compared those with the figures given for Scotland? Why

* See footnote to Q. 1219.

should there be that difference?—I do not think there is any significant difference which points to any particular explanation. If Orkney is a long way at the top of the list a comparatively minor adjustment there makes the Scottish span very much narrower. One is not really dealing with very different situations.

1289. Do you think so? I just do not agree with that. If you take these figures, the top rates for the county boroughs and counties in England and Wales are 635d. and 662d. as against 560d. in Scotland. Is that right, or is it not?—That is quite right.

1290. That seems to me to be a fairly wide difference. Remember, we are dealing with about 220 million prescriptions so it amounts to a lot of money, and that seems to me to be a substantial difference. All I want to know is, is there a reason for it?—I do not know of it, Sir.

1291. Has anybody thought of finding out? Have you ever consulted with the Scottish Department as to why their top rate should be about 100d. less than it is in England and Wales?—We are, of course, concentrating on why our top rate is 100 per cent. higher than something else in England and Wales, but the work of the expert committee I have been describing is, of course, available to Scotland too and any work they are doing is available to us.

Mr. Hoy.] Well, I should hope so.

Chairman.

1292. Since the point has been raised, Mr. Fraser, can you say whether the average cost of prescriptions per person in England and Wales is higher than in Scotland or lower than in Scotland?—It is higher. These are average costs per person.

1293. But I thought these figures were a spread from all county boroughs. What is the average for the country? The spread may be rather unevenly scattered?—Yes, Sir. I think this is the answer to your question: For 1959, which is the last complete year for which we have figures, the annual gross cost of pharmaceutical services per person was in England and Wales £1 14s. 3d. and in Scotland £1 14s. 2½.

1294. In other words, Mr. Hoy's point is not really valid in suggesting that there is more medicine poured down

28 February, 1961.]

Mr. B. D. FRASER, C.B., and
Mr. T. D. HADDOW, C.B.

[Continued.]

English and Welsh throats?—I think the question has been most valuable in bringing out this extraordinary similarity between the two countries.

Mr. Hoy.] I did not want to take it any further than that. That figure has a certain content in it which we will deal with later when we deal with the average costs. I hope to make that a little clearer later.

Chairman.

1295. Would the Comptroller and Auditor General like to comment on this point?—(Sir Edmund Compton.) I think I could do no more, Sir, than produce these facts as I have done and await the expert investigation which is going to be given to them.

1296. The Committee have understood rightly, have they, that there is broadly no difference between England and Wales and Scotland; but that if you take a spread of different areas, and perhaps the concentration is rather more wide-ranging in one country than in the other, they reach higher totals in England and Wales compared with Scotland, but it does not follow that the average is any different?—(Mr. Fraser.) I think that is right, Sir. It is not unnatural to find a wider spread in a country which has far more Executive Council areas.

1297. Is not the figure the Committee really ought to have this £1 14s. 2½d. or £1 14s. 3d. for the two countries taken back for a series of years to see how this particular figure is going up?—(Sir Edmund Compton.) With respect, Sir, that was not the object of that paragraph of my Report, which was to bring out the wide variations as indicating that there was a certain incidence of over-prescribing.

Chairman.] Yes, I feel the Committee took that point, but from the point of view of Mr. Hoy's intervention it was rather important to get the other figures.

Mr. Hoy.

1298. Yes, I do not doubt it, but all I am saying is that included in the England and Wales total there are certain people who are simply pouring stuff down their throats compared with the best Scotland can do?—I do not know whether this might help a bit: On such figures as I have seen, if one excludes one county at the top of the table you do not in fact get anything like the high ceiling

in England; in other words, the scatter in England means that there is one particular place where the average is very high indeed. If you take that one out then I do not think there is nearly such a discrepancy.

Chairman.

1299. You mean, an English "Orkney"?—(Mr. Fraser.) Or Welsh.

Mr. Arbuthnot.

1300. Which is the English "Orkney"?—(Sir Edmund Compton.) Caernarvonshire.

Chairman.

1301. I think we might pass on to paragraphs 61 to 74, Chemists' Remuneration, taking first paragraphs 61-67, General. Mr. Fraser, the chemists asked for the inquiry referred to in paragraph 62 at the end of 1956, but it was not started until April 1958. Can you say why the delay?—(Mr. Fraser.) The chemists asked for a new inquiry to take account of the effect which they foresaw of the change from 1s. per form to 1s. per item which came into effect on the 1st December, 1956. It was agreed to give a period during which experience of that change could be gained and that is why the inquiry was not launched until just over a year after that.

1302. It was the chemists who were pressing for the inquiry to be made?—Yes.

1303. They thought that the change-over at the end of 1956 would be to their detriment, did they?—Yes.

1304. And it has been found that the contrary was the case?—In our view, yes.

1305. Why was their response so poor? Did they suddenly feel that this inquiry was not going to help?—I think it is fair to say that the response was poor among the small independent chemists because the questionnaire which they had to fill up for the purpose of the inquiry was a very complex one. The homework they had to do before they could fill it in was very difficult and complex and many of the smaller men just felt they could not cope.

1306. Who drew it up, the Whitley Council or the trade association?—The Whitley Council.

1307. Until you received the joint accountants' Report, which apparently

28 February, 1961.]

Mr. B. D. FRASER, C.B., and
Mr. T. D. HADDOW, C.B.

[Continued.]

put a new complexion on the thing, was your Department satisfied from your own estimates of chemists' expenses that their remuneration was no more than fair and reasonable?—We did such figuring as we could on the information that we had. We knew, of course, what the income side of their account was and we did some calculations on a pretty rough basis on what the expenses side of their account might be, projecting forward from the experience of the earlier inquiry of 1954; and that, frankly, led us to expect that this would not throw up a case for any reduction in their remuneration. That is what we rather thought. The result of the inquiry came as a little bit of a surprise to us.

1308. Have you completed your examination of the joint accountants' Report?—Yes.

1309. What figures does it show for actual profit?—On the sample and on weighted average it shows a gross profit per N.H.S. prescription of 25.25d. and a net profit, that is, after taking off the chemist's expenses, of 3.865d. This is related, roughly speaking, to the calendar year 1957.

1310. How does that compare with the profit you intended when the scheme was last reviewed?—The previous settlement in 1956 was intended to result in a profit of 2½d. It is a matter of dispute between us and the chemists whether that agreed intention was an adequate settlement, but it certainly was the actual intent.

1311. What was the profit you found after the accountants' Report from the sample, did you say?—3.865d.

Mr. Stevens.

1312. 3.865d. per what?—Pence per prescription.

Chairman.

1313. What are you doing about it?—We projected this forward to the years later than 1957 by the use of various indices, and as it seemed to us it was fair to conclude that their profit now is higher than 3.86d. per prescription, we therefore made proposals to the chemists for a reduction in their remuneration.

1314. To what figure?—Negotiations are not finished yet, Sir. We first of all proposed that adjustments should be made—never mind in what form—so

as to bring their profit down to about 2½d. per prescription which, as I say, was the intention of the 1956 settlement. They gave reasons why they thought that would not do and we have now—as I say, this is subject to negotiation—revised our proposals, feeling that there was something to be said for some of the arguments the chemists used why they should have a higher profit per prescription now than then; and we have put to them a set of proposals the net result of which would be to reduce their remuneration by about 1½d., making it about 3½d.

1315. So you are proposing now to give them 3½d. whereas in 1956 you thought 2½d. was enough?—Yes.

1316. Mr. Haddow, have you obtained any results from your own enquiries?—(Mr. Haddow.) We have now provisional results. They are not finally thrashed out.

1317. Do they show the same sort of thing?—They show the same trend, but apparently not so marked. The 1956 settlement brought out a profit of rather over 2½d., about 2.3d. per prescription. The latest figures suggest that it is something like 3.5d. That, I should explain, is on certain assumptions unfavourable to the chemists. We have not yet got an agreed report on all of this. The chemists would argue we have not made sufficient allowance for certain factors. If we were to accept their argument that 3.5d. would come down to something considerably smaller, so that, in a way, at the worst it is 3.5d. There is no claim in Scotland from the chemists.

1318. Mr. Henley, the Ministry told you of the unfortunate position revealed by the joint accountants' Report, I take it?—(Mr. Henley.) Yes, Sir.

1319. What are the Treasury doing about it?—We have been in close touch with the Department in these negotiations and we have given them our views throughout on the particular proposals which they were going to make to the chemists.

1320. Are you satisfied with the thoroughness of the inquiry in 1956 now that you see what has been thrown up?—I think we are satisfied, given the considerable difficulties of arriving at these figures and the National Health Service proportion of these figures, that the inquiry was in itself a reasonable

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28 February, 1961.]

Mr. B. D. FRASER, C.B., and
Mr. T. D. HADDOW, C.B.

[Continued.]

attempt to get the facts. But, of course, the response that was made was not particularly good. However, we did in fact agree when further inquiries had been made that it should nevertheless be used as a basis for present negotiations.

1321. Were you satisfied with the way this was done in 1956?—With the way the inquiry was done?

1322. With the way the margin was fixed in 1956?—We accepted that, Sir, yes. You mean the 2½d.?

1323. Yes? You accepted it then but you are not satisfied now that it was accurately done at the time, I take it?—I do not think we have any grounds for thinking that it was not in the circumstances of the time a reasonable settlement.

Sir George Benson.

1324. With regard to the cost of prescriptions given in paragraph 64, apparently in the three years from 1956 to 1959 the cost of prescriptions has risen from 2s. 11d. to 4s. 4½d., which is exactly 50 per cent. What is the explanation of that?—(Mr. Fraser.) You are speaking now of reimbursement, not remuneration?

1325. No, this is the ingredient cost I am talking about?—That is the reimbursement.

1326. Yes. Why in three years has the reimbursement cost increased by 50 per cent.?—Of course the chemist is not making a profit out of this. This is the reflection of the increased use of the more expensive new drugs.

1327. The point is that it is an enormous increase?—Yes.

1328. An enormous proportion in three years. Have you investigated the reasons?—They are, as I say, the different cost of the ingredients which the chemist uses.

1329. Are you satisfied that it is justifiable?—That takes us back, perhaps, to what we were saying earlier, to the measures to prevent excessive prescribing; but once the prescription has been written one has to reimburse the chemist for what he puts into the bottle.

1330. That is perfectly true. The cost of drugs is one thing, but the point is that there is this enormous increase in prescription cost and I was wondering to what extent you had investigated the

causes?—Forgive me, Sir, I think this is what we were talking about a moment ago. All these statistical inquiries I have been mentioning are addressed to just that.

1331. You are looking into this question?—The prescribing habits of doctors, certainly, Sir. I am so sorry I gave a wrong answer first. I did not understand what you were at.

Mr. Cledwyn Hughes.

1332. Is not something like half of the present remuneration derived from the 25 per cent. oncost on net ingredient cost?—Yes.

1333. Surely there is little real connection between ingredient cost and chemists' expenses?—The oncost is designed, together with the dispensing fee, to remunerate a chemist covering his expenses of business and yielding him a reasonable net profit. These two methods have gone along side by side and one of course has to look from time to time, as we are looking now, at whether between them they produce a fair and reasonable result.

1334. Was there no reason to suspect that the steady, substantial increase in net ingredient cost over the past four years might be making remuneration somewhat excessive?—As I have said, Sir, we think remuneration has become excessive and no doubt that is partly—if not mainly—due to the influence which this oncost has in increasing the chemists' remuneration at a time when drug costs are rising; and this is what we are proposing to try and cut down.

1335. Can you give the Committee any idea of the profits obtained by the different classes of chemist, for example by the small chemist and by the large multiple firm?—Yes; there is a very considerable difference in the profitability of the small and the large firm. Some of the smaller firms on their National Health Service prescribing actually make a loss, and some of the big chemists undoubtedly make a profit considerably higher than the average profit which I quoted earlier. When I say "small firm," of course, it does not necessarily mean a man in a small way of business; it means a man with a small National Health Service dispensing business.

1336. So, the 25 per cent. oncost on net ingredient cost is far more important

28 February, 1961.]

Mr. B. D. FRASER, C.B., and
Mr. T. D. HADDOW, C.B.

[Continued.]

to the small individual than it is to the large multiple firm? It is a far more significant factor?—I think I would put it this way, that there is less chance of its being excessive in the case of the small man than in the case of the man with a big turnover.

1337. Could you say how many of the large multiple firms are themselves manufacturers of drugs?—Well, Boots of course are. I do not know offhand of any other.

1338. Is that factor taken into account in the calculation of profit?—Yes, Sir. In the calculation of chemists' remuneration one excludes from their expenses, which have to be ascertained in order to strike the balance of net profit, anything which you could describe as wholesaling costs or distributing costs so as to try to get the big multiples, including Boots for this purpose, on the same basis as an ordinary retail chemist.

1339. To come back to the form that was sent out to the chemists, you received usable replies from 878 chemists. What percentage is this of the total number of chemists in the country?—There are about 13,000 chemists, and the sample to whom requests for information were sent was 1,920, covering a one-seventh sample.

1340. Did you realise that the form that was being sent out was one of such complexity that you were not likely to get adequate replies?—No, we did not realise that. We knew it was complicated, but we were disappointed by the smallness of the response.

1341. Could you, in fact, on reflection, have produced a less complicated form which might have been capable of being filled in by a large number of the chemists?—You have put your finger on one of the weaknesses of the thing. It is certainly something we shall have to continue to think about. The problem is to devise a form of questionnaire which is sufficiently simple to meet the point you have made, and at the same time sufficiently complete to produce results which can fairly be taken as a basis for negotiation.

1342. It seems to me that, in order to produce an equitable result, the very persons about whom information would be available and the persons who need the greatest protection are those very

chemists who because of the complexity of the forms are unable to fill them in?—I agree, Sir.

Mr. Stevens.

1343. I think I heard you say just now, Mr. Fraser, that the Ministry are satisfied that the remuneration of chemists for the last four years has been excessive. I think I also understood from answers you gave to the Chairman that the chemists in principle are inclined also to agree. Am I right?—No, Sir, the chemists are hotly resisting our attempts to reduce their remuneration.

1344. They maintain that over the last four years they have not received more than is fair and reasonable?—That is their contention, Sir, yes.

1345. Yet the Ministry still maintains its viewpoint that it has been excessive?—Yes.

1346. If the Ministry is able to maintain that standpoint are there any grounds for recovering any part of the excessive remuneration which the Ministry deems the chemists to have had in the last four years?—Frankly, I think that most unlikely, Sir. The question whether remuneration is excessive is, of course, a matter for judgment. We think that it is now excessive. Just how much it was excessive in the earlier years is, perhaps, a different matter; but, of course, they were entitled to receive the remuneration which was in force and in the relevant documents and their contract of service, and so on, at the time when it was paid and it is naturally very difficult to make a reduction in remuneration effective retrospectively.

1347. And yet, so far as the future is concerned, if the Ministry maintains its viewpoint, that could be taken into account in fixing the margin for the future, could it not?—One is bound to say, I think, in fairness here that that might be just a little bit unjust to chemists entering into the business for the first time. There is room for more than one view about this. My own instinct is that if one is doing a negotiation of this sort this is one of the factors, and there may be others, which would lead one to look towards the lower end of the bracket of possible settlements, any one of which one may regard as reasonable.

E 2

39389

28 February, 1961.]

Mr. B. D. FRASER, C.B., and
Mr. T. D. HADDOW, C.B.

[Continued.]

1348. I may have missed this point, Mr. Haddow, and if so I apologise, but I do see from paragraph 66 that the results of a questionnaire sent to 100 chemists were not available. You may have answered this already. Have they come in since the date of the Comptroller and Auditor General's Report?—(Mr. Haddow.) I did indicate earlier, Sir, that we have provisional results on that which do not give us so much cause for concern as the English ones; but we are not by any means convinced that we have got the final answer.

Mr. Arbuthnot.

1349. Mr. Fraser, by your failure to keep abreast of the remuneration that is going to the chemists you have, in fact, been throwing away about £1 million a year, have you not?—(Mr. Fraser.) I do not know how we get to that figure, Sir.

1350. 214 million prescriptions at about 1d. a time?—Yes.

1351. Seeing that out of the total cost to the public of a prescription one-third of it goes to the chemist, either in expenses or in profit, does that not rather suggest that there is room for reduction in the overhead costs of the chemists, that there are too many chemists and that their overhead costs are too high?—I think that the wide difference in profits which can be made by chemists according to their size does, perhaps, suggest that there are a lot of small men who are not perhaps too economically viable, and one has to consider whether it is right for the Exchequer to make such arrangements as will keep these people on in business. One does not want them to disappear in areas where one is really relying on them. But this certainly is a factor one has to bear in mind in trying to make one's proposals for a change in remuneration fair both as regards the absolute reduction in total remuneration that one is making and also in the distribution of that reduction, differentially speaking, as between large and small firms.

1352. Have you thought of a differentiation to operate in favour of the man in the less populated areas and to operate against the man in the more populous areas?—A differential according to the amount of National Health Service business done is a feature of our present

proposals, but that is not quite the distinction that you are drawing.

1353. Does not the outcome of your inquiry suggest that a serious error has been made either in the previous inquiry or in the method adopted to bring the 1953 expenses level up to that appropriate for 1956?—I think that what it does show is that, if you have an industry whose expenses are clearly not moving in precisely the same way as national figures would suggest, it takes a long time and a great deal of work to ascertain exactly what is happening in that industry which leads to this exceedingly undesirable time lag, undesirable, that is, if one is overpaying in the result.

1354. Would you not think it might suggest that there might have been excessive remuneration before 1957?—No, I would not draw that deduction. I think that a remuneration which resulted in a net profit of 2½d. per prescription was not, in fact, excessive remuneration at all.

1355. Since the joint accountants' Report is to be used as a basis of negotiation, have you found a satisfactory way of eliminating any bias due to the poor response from the individual chemists included in your sample?—We have had to take the results of the inquiry as we find them. We have, I am afraid, had to assume—this is implicit in the acceptance by both sides of these results as a basis for negotiation—that by and large not only was the sample representative but also the response. We did of course have some reservation about that, feeling that we might nevertheless have to propose an adjustment later on in the negotiations.

1356. So you have not found a satisfactory way of eliminating any bias?—I do not think there is one, no.

1357. I thought you said just now that the smaller chemist was not able to fill in the form?—Yes.

1358. And the larger chemist was. Does that not create quite a considerable bias?—It may do, Sir, but it may not, if the small number of small chemists who have filled in the form are themselves representative of the whole of the sample which we hoped would fill in the form.

28 February, 1961.]

Mr. B. D. FRASER, C.B., and
Mr. T. D. HADDOW, C.B.

[Continued.]

Mr. Hoy.

1359. Mr. Haddow, are there any differentiations which distinguish Scottish chemists from English chemists?—(Mr. Haddow.) Well, this is an old story.

1360. What I want to know is, does it still go on?—It still goes on in the terms of the Scottish chemists having a larger average dispensing fee. He has the same rate of oncost, he has a larger average dispensing fee, and he has a smaller turnover in the number of prescriptions. At the end of the day his profit is, so far as these figures indicate, not more than—in fact, if anything, slightly less than—that of his English colleague. The problem is that we have rather more chemists than, frankly, we would like.

1361. What is the difference in the dispensing fee, again?—1s. 8d. in Scotland, 1s. 2½d. in England. Those are average figures.

1362. Mr. Haddow, you say this is perhaps not too much, but on the figures you have given it works out at 3.5d.?—I must emphasise that is a provisional figure. We are by no means satisfied that that is a final answer either way.

1363. I am grateful for that, in view of the estimate which was made originally in 1956 and what the figure actually turned out to be. Mr. Fraser, in reply to a question put by Mr. Arbuthnot you said that 2½d. did not seem to be an excessive amount, but in the result it turned out to be not 2½d. but 3.86d. per prescription?—(Mr. Fraser.) No, 2½d. was what was actually intended in 1956.

1364. At least, what you thought it was?—No, it is what it was in 1956; that is what it was intended to produce. It has gone up since.

1365. As a result of that basis it has gone up to 3.86d.?—Yes.

1366. And you consider this to be excessive?—Yes.

1367. But I understand you to say that, despite the fact that you thought this was correct, you only proposed a reduction of about ½d. per prescription. Is that right?—The figure of 3.86d. relates to the year 1957. Projecting that forward, the figure of profit now is undoubtedly higher than 3.86d.

39389

1368. This means that the chemist is, in fact, getting profit which you think he is not entitled to?—That is exactly why we are trying to reduce it.

1369. So you are not entitled to use that as a basis for negotiations?—But that is what we are doing. We are using it as a basis for negotiations and trying to negotiate a new figure of remuneration in order to reduce the profit from the present figure down to 3½d., which is our present objective.

1370. I thought you said 3½d.; I beg your pardon. So, you are in fact prepared to deduct ½d. per prescription?—It is more than that on what he is getting now. It is more like 1½d. on what he is getting now.

1371. I do not follow the figures. You told me a moment ago that you thought the profit per prescription was 4d. Is that right? You said this figure of 3.86d. in 1956 has now risen to about 4d.?—I think I must have spoken indistinctly, Sir. The figure of 3.86d. relates to 1957 and we think that now, working on these figures and projecting them forward, the figure of profit is about 4½d. We propose to reduce that by 1½d. to yield 3½d.

Vice-Admiral Hughes Hallett.

1372. Leaving out the big chain chemists and thinking of the small ones, have you any idea at all what proportion of their retail business takes the form of National Health Service prescriptions as opposed to selling goods and drugs and soaps, and all the rest of it, without prescriptions at all?—No, Sir, I do not know.

1373. It is a fact, is it not, that there is a certain number of small chemists who do not supply for the National Health Service at all?—Yes.

1374. Does this present any difficulties? Have any complaints been received that there are areas in which the small chemists collectively refuse to do it?—There are areas where there is, at any rate, an insufficiency of chemists small or large to cope with the prescriptions and there, as you know, Sir, the local doctor does his own dispensing. I am not aware of any general reluctance among small chemists to undertake National Health Service prescribing to an extent which seriously embarrasses us. The figures I have been quoting are, of course, related wholly to National Health Service business.

E 3

28 February, 1961.]

Mr. B. D. FRASER, C.B., and
Mr. T. D. HADDOW, C.B.

[Continued.]

1375. From the point of view of the taxpayer is the practice of doctors themselves dispensing to be encouraged? Is it more or less economical than to do it through the chemists?—I am sorry, Sir, I do not know.

Mr. Arbuthnot.

1376. Mr. Fraser, you are concentrating all the time on this figure of profit and wish to bring it down to 3½d. If you bring it down rather further than that, you might, might you not, knock some of the excessive overhead costs off the industry? You might squeeze the chemist to be more economical in his overhead expenses; that is to say, if you concentrate on this 3½d. figure you might lose sight, might you not, of the broader factors which would enable you to obtain a larger saving?—I think if one keeps the profit to a figure which does not represent a very high percentage profit on turnover, the running expenses and the overheads both taken into account, one is surely giving the chemist the incentive to reduce his overhead expenses so as to put up his profit, expressed as a percentage on turnover. So, I think it really comes to much the same thing. One attains one's objective if one tries to limit the rate of profit per prescription to something which is not excessive, expressed as a percentage on turnover.

Chairman.

1377. When Mr. Cledwyn Hughes and Mr. Hoy were asking about the history of this business I thought you answered Mr. Cledwyn Hughes by saying that you now feel that the remuneration has been excessive, but you did not suggest that the Ministry thought at the time that the remuneration was growing excessive?—No, Sir. We did not, of course, know the figures until we got the results of the inquiry, and I think I said that they came as rather a surprise to us. Such figures as we could think up ourselves, such indices as we could ourselves apply to the facts as revealed by the earlier inquiry in 1954, suggested to us, and suggested wrongly, that the remuneration was not running as high as, in fact, it has proved to be.

1378. Have there not been two things wrong, first, that in 1956 you thought the remuneration was running at 2½d. when it was obviously running at a much higher figure, and, secondly, that

you did not seem to show any awareness that because of the relation between the oncost and the ingredient cost there must be a very rapid rise going on year by year in remuneration?—That, of course, depends on how far the rise in expenses is keeping pace with the rise in income, which I agree we knew about.

1379. You knew that there was a rise in income of something like 50 per cent. in three years. I think this came out of Sir George Benson's question. The ingredient cost per prescription was 2s. 11d. in 1956 and 4s. 4½d. per prescription in 1959, that is, an increase of 50 per cent. in three years?—Yes.

1380. That means that ingredient costs were rising by, on the average, rather less than 17 per cent. per annum?—I think that is right, yes.

1381. Therefore, the expenses on this oncost relationship were also rising by 17 per cent. per annum?—That part, yes.

1382. That part, which is the major part. Had you any reason to think that the expenses were rising by 17 per cent. per annum it would be really runaway inflation if chemists' expenses were rising by that amount?—Yes. There is, of course, the other element that the dispensing fee which was not rising in the same way—

1383. But that is a much smaller element in the total, is it not?—(Sir Edmund Compton.) On my figures, the 1959 figures, the amount paid in dispensing fee was £13·1 million and the amount in respect of oncost was £11·7 million.

1384. I see, about the same. Therefore, for the Ministry to be justified in not being alarmed during all this period they must have been consciously or subconsciously assuming that chemists' expenses were rising by about 8 per cent. per annum?—(Mr. Fraser.) I would just like to check that figure, because I am not certain that it is right.*

* *Note by Witness:* The average increase in the oncost allowance per prescription between 1956 and 1959 was, as stated, about 17 per cent. per annum: in the oncost allowance and dispensing fee combined the average increase per prescription was about 6·6 per cent. per annum. But the number of prescriptions dispensed dropped between 1956 and 1959, and the total receipts of chemists from both sources increased during this period by an average of only about 4 per cent. per annum.

28 February, 1961.]

Mr. B. D. FRASER, C.B., and
Mr. T. D. HADDOW, C.B.

[Continued.]

1385. Or were they not thinking about it at all?—Oh, yes, but you are quite right in saying that we had launched the inquiry which was going to produce the actual facts and while the inquiry was running we had some reason to think that the chemists' expenses were rising fast enough to leave them with no more than a reasonable rate of profit. That was wrong. The results of the inquiry showed that the expenses were not rising as fast as we supposed they were and that the rate of profit was at a figure which we, but not the chemists, regard as too high.

1386. I want to get this established. The Ministry were wrong twice over. First their starting figure was wrong; the 1956 assumption of 2½d. must have been wrong since the 1957 figure was proved, I agree much later, to have been something like 3¾d., and, secondly the rate of increase above the already erroneous starting figure seems to have been much more rapid than the Ministry realised?—That is quite true, yes.

1387. And, in fact, if the figure was 3·86d. for 1957, since there has been a very rapid increase since then owing to this oncost feature, the figure today must be running into 4d. or 5d. must it not?—Yes. We make it about 4¼d. for 1961 on a forward projection into 1961. We guess it at about 4¾d.

1388. You want to cut it now to 3¼d.?—Yes.

Chairman.

1389. Paragraphs 68 to 71. Mr. Fraser, we are now on the Purchase by Chemists of Drugs at less than Tariff Prices. Why did the chemists wish to defer adjustment until after the first twelve months of the inquiry, until the prices of unbranded standard drugs were available? I am looking at line 8 of paragraph 69?—They wanted first to get a breakdown of the evidence on which was based our proposition to cut rates to yield £20,000 per annum, and by the time we had sent them that the twelve months' results were available and were sent to them.

1390. Have you now been able to agree further adjustments in the tariff rates?—I am sorry to say we have not.

1391. And negotiations are continuing?—Yes.

39389

1392. Are you proposing to review the position, so far as this is concerned, regularly in the future?—Yes.

1393. Have you completed your discussions with the chemists about the discounts on the proprietary preparations?—No.

1394. How big are these discounts?—These are discounts given by manufacturers to chemists who buy straight from manufacturers. They vary from about 2½ per cent. up to about 15 per cent.

1395. When do you expect to eliminate them from the tariff rates?—I am not certain what success we are going to have in this, Sir. We have ascertained that wholesalers do not, in general, give discounts to retail chemists. They are only given by manufacturers to those chemists who order direct from the manufacturer. This applies to only about 13 per cent. of the total trade, and, of course, a much smaller percentage of the total number of chemists, because it is the big ones who go to the manufacturers. The claim which the chemists, or that minority of them who are affected by this, maintain to us is that none of these discounts should be regarded as over-reimbursement. They merely represent reasonable reward for wholesaling work done by the retailer, that being work for which, as I explained earlier, he does not get any remuneration out of us under the remuneration head, the oncost or the dispensing fee. That is their view. We are in discussion with them. It is impossible to say there is no force in that view, and it is a matter of very great difficulty to see how without immense administrative difficulty, even if it were right to do so, we could eliminate this element from just a few of the chemists. Clearly, one cannot make a cut across the board, that would be grossly unfair to the majority.

1396. This is a problem comparable to the uplift problem in Customs and Excise, the purchase tax point?—I am sure it is if you say so, Sir.

1397. I think you came to the Ministry of Health from the Treasury, did you not?—Yes, but not from Customs and Excise.

1398. Mr. Fraser, I think you have been at the Ministry only a relatively short time, and you came there with a

E 4

28 February, 1961.]

Mr. B. D. FRASER, C.B., and
Mr. T. D. HADDOW, C.B.

[Continued.]

fresh mind. Now, I think last year was the first time the Committee was told about this below-tariff buying. In view of all the other horror stories that have been brought out in the last three years does it not seem to you that the Ministry have been very innocent in the treatment of this profession?—I would much rather answer for my own stewardship really, Sir.

1399. Yes, but we are here to see what has been the cost in terms of Government money over a long period of time, and we have had a whole succession of stories. We have had the question of the purchase at less than tariff prices, we have had the miscalculation about the 1956 basic price, the unawareness of the increase in the rise of profits since that period, and some doubt about the position of the big multiple firms. Might it not be a good thing if you borrowed some of the Customs and Excise people and put them into the Ministry to watch this industry?—Of course, there have been imperfections, Sir. If a penny is overspent for a day, that is an imperfection. I think it is fair to say this has proved to be an exceedingly difficult operation. There are a great many complications in this industry, and I do not think, with respect, it is fair to say that the Ministry have been wholly innocent about this. After all, they have not been entirely relying on their own resources; they do have the benefit of advice from the Treasury, from Scotland, from the Board of Trade accountants, and so on, and this is a problem which has proved a real facer for many people in the Government machine who have attempted to tackle it.

1400. I admit it is difficult, but has the Ministry not felt that the chemists have been less than frank with you on some of these questions, and should that not make you more suspicious for the future?—I am not sure that there are grounds for saying they have been less than frank.

1401. I am referring particularly now to the drugs at less than tariff prices where there was some withholding of information?—I do not think there has been any *suggestio falsi*; there may have been some *suppressio veri*.

1402. Mr. Haddow, have you any idea how much hidden profit Scottish chemists have been making on this question?—

(Mr. Haddow.) I cannot put an up to date figure on this. As noted in the Comptroller and Auditor General's Report, we expect the first results from our current survey in March, but as I think I told the Public Accounts Committee last year, we did on a review of the individual items with the chemists between 1957 and 1959 achieve altogether savings amounting to £160,000 a year. That was over a range of over 400 drugs, both standard and proprietary, which were investigated on the basis of a sample of chemists by arrangement with the chemists. It was interesting to see that on 141 drugs we found that the tariff rates were excessive, in the sense that the tariff was priced on the basis of too small quantities. In no fewer than 139 we found that the tariff was priced on the basis of too large quantities. Fortunately, the cases where the tariff was, shall we say, unkind to the chemist related to drugs in very small use, so rectification of that error in no way offset the amount derived from the rectification of the other error. We abandoned that particular line of inquiry when we found ourselves unable to produce any more drugs which looked as if they would pay us a dividend from this type of investigation.

Vice-Admiral Hughes Hallett.

1403. I am not quite certain, Mr. Fraser, that I understand entirely how this system works. I wonder if I could ask you to explain it by taking a very, very simple example indeed. If the ordinary person wants a bottle of aspirins they go into the chemist's and buy one, and it costs, shall we say, 2s. 6d. I suppose it is possible to persuade a doctor to prescribe a bottle of aspirins and to go in and present a National Health Service prescription for it?—(Mr. Fraser.) Certainly, yes.

1404. And presumably that does happen?—Yes.

1405. Because it means a slight saving. Now, in that simple case how is the chemist's remuneration made up?—He is reimbursed the drug tariff rate for 200 aspirins, or whatever it is.

1406. For what costs the private citizen half-a-crown, we will say, which presumably will be a good deal less?—Oh, much less. This is the price to the retailer.

28 February, 1961.]

Mr. B. D. FRASER, C.B., and
Mr. T. D. HADDOW, C.B.

[Continued.]

1407. He gets 25 per cent. on that?—By way of reimbursement he gets the drug tariff rate for 200 aspirins which is the list price to the retailer.

1408. Plus something?—Plus a container allowance, which is quite small. That is all reimbursement. Then he gets by way of remuneration a dispensing fee—exactly what it is for a bottle of aspirins I do not know, but the average is 14.6d.—and he gets an oncost of 25 per cent. at present on the drug tariff rate for aspirin.

1409. From what you have said earlier, the suggestion is that the dispensing fee plus the oncost are, presumably, less than the difference between the normal retail price and whatever he has to pay for the stuff?—Yes, the ingredient cost.

1410. Yes?—Yes, that would be the case.

1411. The administration of this system, particularly as brought out by these paragraphs, is obviously very complicated indeed. I would just like to ask as a matter of interest, whether the possibility was ever considered of making a radical change and operating the dispensing part of the Service rather as shall we say, the Post Office employ sub-postmasters?—I am not sure just how this works. You have not got the problem with sub-postmasters of reimbursing them the cost of their materials.

1412. No, but they do not get oncosts on the stamps they sell. They are paid a fixed sum for the service they are giving?—On a sliding scale, yes.

1413. Is that entirely impracticable in this field?—It is practicable, I think, to a small extent by way of a sliding rate of oncost giving more for the first so many prescriptions a month and a lower percentage rate beyond that. That, indeed, is a feature of our present proposals to the chemists.

1414. But that will not simplify the problem; if anything it will be more complicated, I take it?—Not much more complicated, but it does not do anything to simplify it, I agree.

Mr. Arbuthnot.

1415. What is the justification for oncost?—A historical justification, I suppose. It always had been a feature, certainly in Scotland. It was introduced

in 1947 at a much higher figure than at present. It was reduced in 1950 to its present figure following an arbitration award which, indeed, applied to Scotland, not to England and Wales, which laid down the 25 per cent. That is the history. I suppose that the rest of the justification would be this, that in retail business as a whole operators are accustomed to getting a given percentage on their turnover, and to work on turnover strikes them, at any rate, as a very natural way of remunerating them. It is, of course, offset by the flatness of the dispensing fee.

1416. "Rates for 41 drugs were adjusted in February and March, 1960, after examination of the results of the first six months of the initial period". Have there been any adjustments since then?—We are now on unbranded standards?

1417. Yes, paragraph 69?—Yes, there have been some reductions, of course, due to reductions in manufacturers' prices. There were some last December and January. But there have been, as yet, no further reductions in the tariff rates apart from reductions due to manufacturers' reductions.

1418. In fact, the impetus given by the inquiry has rather come to an end?—No, that is not right, Sir. We are at present in negotiation with the chemists about this, and we are not yet in sight of a settlement, but we are pressing for further reductions.

1419. You are expecting further reductions, but you have had a year's stand-easy?—That is about it, yes.

Sir Colin Thornton-Kemsley.

1420. Mr. Fraser, am I right in assuming that the £241,000 mentioned in paragraph 69 represents the profit made by a representative selection of chemists in England and Wales on the selling of unbranded standard drugs in a year?—It is not a selection, it is all chemists except the very largest multiples, and it represents the degree to which reimbursement on our present tariff rates represented over-reimbursement because they could, in fact, get the stuff cheaper.

1421. So it would be, in fact, an element in their profits?—An unintended element in their profits, yes.

28 February, 1961.]

Mr. B. D. FRASER, C.B., and
Mr. T. D. HADDOW, C.B.

[Continued.]

1422. Unintended by you?—Oh, yes.

1423. Why did you exclude the two largest multiple firms from this inquiry?—This is an attempt to get at what the retail chemist actually has to pay for his stuff. It is very difficult to find a realistic figure for what these two big multiples have to pay at the retail end for their stuff because they are, in fact, buying from their own wholesaling and distributing organisation. There may, indeed, be a retail figure entered in their own accounts as a matter of the internal book-keeping of the business, but one cannot really get from them the factual answer that one is aiming to get from retail chemists about their experience as retailers.

1424. Who are these two big firms?—Boots and Timothy White's.

1425. They would not be the only multiple chemists, would they?—Not the only multiple chemists, they are the only ones to which this factor applies.

1426. They have their own wholesaling organisation?—Yes.

1427. Can you give the Committee any idea of the number of retail establishments owned by those two companies?—Yes, it is, I think, about 1,800.

1428. The two of them together?—Yes.

1429. In those cases would the manufacturers who give some discounts to those two companies deliver in bulk to the wholesaling organisations of those companies or would they deliver in detail to retail establishments all over the country?—I think in the case of proprietaries they deliver straight to the retail end.

1430. Did you not say that the justification urged by the manufacturers for giving any discounts at all was that these large concerns to whom they gave the discount fulfilled the functions normally fulfilled by wholesalers?—Yes, I think I gave a wrong answer. I am not sure that I really know enough to satisfy your question. I think I was getting a bit confused between the standard unbranded drugs and the proprietaries.

1431. The position, then, is that manufacturers give discounts to the two multiple firms that you have named,

Boots and Timothy White's and Taylor's. Do they give them to any other large or small organisations?—On the proprietaries, Sir, discounts are given only by manufacturers to those who go to them direct, and the chemists who go direct to manufacturers include only those two big firms and some others also. That is as regards the proprietaries.

1432. Do you know how these discounts run? Are they fairly substantial?—The manufacturers' discounts on the proprietaries do vary from 2½ per cent. on the smallest orders to 12½ per cent. and 15 per cent. on the biggest orders. There are variations as between different manufacturers and as between different drugs.

1433. To what proportion of the total retail establishments in England and Wales would these discounts apply?—We are speaking still of the discounts on the proprietaries?

1434. Yes?—They apply to about 13 per cent. of the total trade and also to Boots and Timothy White's.

1435. As those two firms are presumably able to obtain better discounts than other chemists, will they not still be making a profit on the adjusted tariff prices?—If we are still speaking about proprietaries, Sir, I do not see any adjustment in tariff prices for them. As I was explaining earlier, there is this difficulty about getting any of these manufacturers' bulk or quantity discounts out of the picture because these go only to people who are doing their own wholesaling, and there is the argument, therefore, that it is not over-reimbursement.

1436. Yes, but in so far as they are going to firms with 1,800 branches—or whatever it was, did you say?—I think it is about that, yes.

1437. One thousand, eight hundred retail establishments—presumably those two concerns are able to obtain better discounts than other shops, for example, independent chemists?—In so far as they are giving bigger orders, yes, certainly, they will get bigger discounts than other big firms who are also going direct to manufacturers.

1438. And the extent of that additional remuneration would vary, as you have told us, between, what was it,

28 February, 1961.]

Mr. B. D. FRASER, C.B., and
Mr. T. D. HADDOW, C.B.

[Continued.]

2½ per cent. and 15 per cent.?—That is the amount of the quantity discount, yes.

1439. Are you trying to eliminate that?—We are still negotiating about it, but this is the one on which I see great difficulty in getting anywhere.

1440. Are you holding out no hope at all to the Committee that you can cope with this one?—I think it is awfully difficult. As I say, there is something in the view that this is not over-reimbursement but merely fair remuneration for wholesaling activities which are not otherwise remunerated.

1441. And yet in many cases they deliver in detail to stores all over the country, as you have just told us?—I think that was the reply I made wrongly.

1442. I see. Then your impression is, let me put it like that, that these manufacturers deliver in bulk to wholesaling organisations within these two firms and that the bulk is broken by the firms and distribution made in detail to their retailers all over the country?—That is my impression, but I would like to check up to see if I have in any way misled you. There may, of course, be other firms, big chemists' concerns, who will go direct to manufacturers and who may not have any intermediate wholesaling or distributing organisation.

1443. Mr. Haddow, you mentioned to the Chairman just now the investigation which you have made. Did that cover the large multiple firms?—(Mr. Haddow.) The previous investigation, the one of which I gave the results, did include the rates at which the multiples were using the drugs, I think. Our current investigation does not for the moment cover the large multiples—Boots is the only one that is really significant in Scotland—because we are in the same difficulty as Mr. Fraser because we do not know what to take as retail prices. That we regard as a

joint exercise that we will have to undertake together.

1444. Are you collaborating over this or are you both tackling the thing separately?—Our immediate line of attack on the non-Boots question is our own, but when it comes to Boots we are certainly collaborating.

1445. Supposing we said the larger multiples, because it is not only Boots, is it?—The larger multiples.

Chairman.

1446. Paragraphs 72 to 74. Mr. Fraser, have you found in your remuneration inquiry that the profits earned by chemists have varied in relation to their National Health Service business?—(Mr. Fraser.) Yes.

1447. Have you found also whether or not the discounts on tariff prices have been mainly earned by the large firms?—Yes.

1448. In view of all this, are you inclining in general towards a differential system of remuneration now?—We are proposing it, yes. The differential system we are proposing is on the remuneration side, not on the reimbursement side.

1449. Mr. Haddow, your inquiries in Scotland are designed to produce information for these large, medium and small pharmacies?—(Mr. Haddow.) Yes.

1450. Is there anything you have drawn from that information you particularly want to comment on?—It broadly confirms previous indications that the firms doing very little dispensing, not necessarily small firms but firms doing very little National Health Service dispensing, are doing it at less profit than average, and the medium and large firms are doing it at a much better profit than the average, which undoubtedly underlines the case for some form of differential remuneration which the chemists so far are very reluctant to envisage.

THURSDAY, 2ND MARCH, 1961.

Members present:

Mr. Harold Wilson, in the Chair.

Mr. Arbuthnot.
Sir George Benson.

Mr. Stevens.
Sir Colin Thornton-Kemsley.

Sir EDMUND COMPTON, K.B.E., C.B., and Mr. D. O. HENLEY called in and examined.

CIVIL APPROPRIATION ACCOUNTS (CLASSES VI-X), 1959-60.

CLASS VI.

VOTE 2.

BOARD OF TRADE (ASSISTANCE TO INDUSTRY AND TRADING SERVICES).

Sir RICHARD POWELL, K.C.B., K.B.E., C.M.G., Permanent Secretary, Board of Trade; and Mr. A. G. B. BURNEY, formerly Director of Reorganisation under the Special Committee of the Cotton Board, called in and examined.

Chairman.

1451. Will Members please turn to the Comptroller and Auditor General's Report on the Civil Appropriation Accounts, Classes VI-X, to paragraphs 8-9, General? Sir Richard, in the third sentence of paragraph 8 the Comptroller and Auditor General says: "The Board of Trade were to be satisfied that it made adequate provision", for the purposes of the Act. Were they specifically required to be satisfied that the rates of compensation were not excessive?—(Sir Richard Powell.) No.

1452. So, there was in a sense a moral floor to this but no moral ceiling, so far as obligation on the Board is concerned?—That is so. They had the two obligations, the one you have mentioned and the other one to see that compensation was paid to employees displaced.

1453. Did the Board of Trade satisfy themselves that rates of compensation were not excessive?—Yes.

1454. You mean, without an obligation you decided it was your duty as custodian of public funds?—I think, as a matter of fact, the Orders confirming the schemes had to go from the Board of Trade to Parliament, and I do not think the Board of Trade would have put forward proposals which they had not believed to be sound.

1455. Mr. Henley, were the Treasury required to be consulted about the rates

of compensation or any other features of the scheme?—(Mr. Henley.) I am not quite sure whether we were in any formal way required to be consulted but we certainly were consulted.

1456. You approved the rates of compensation as reasonable and not excessive?—Yes. I am quite sure we approved the rates of compensation because the whole of the details of this scheme were agreed with us at the time. (Sir Richard Powell.) But the responsibility for the schemes was on the Cotton Board. They had to prepare them in detail and to administer them. The Board of Trade technically had no power to vary the proposals put forward by the Cotton Board. They could only have accepted them or disagreed with them as a whole; but naturally there were informal consultations throughout the proceedings which would prevent the second of the situations arising.

1457. But, in point of fact, the Board of Trade by one means or another satisfied themselves that the compensation rates were about right?—Were reasonable, yes, allowing for all the circumstances, and, of course, they had to be negotiated with the industry.

Mr. Arbuthnot.

1458. By what yardstick, Sir Richard, did the Board of Trade satisfy themselves that the rates of compensation were not excessive?—Mr. Burney,

2 March, 1961.] Sir RICHARD POWELL, K.C.B., K.B.E., C.M.G.,
and Mr. A. G. B. BURNEY.

[Continued.]

who is here with me, who was the Director of Reorganisation in the Cotton Board until last October, and whose firm is still responsible for the schemes, will amplify what I say if I get the details wrong; but, as I understand it, the compensation was worked out by, first of all, assessing what inducement was necessary to persuade firms to go entirely out of business, that being considered to be more calculable than the amounts required to induce people to close down part of their capacity. This was done first on the spinning industry, and having worked those figures out, after allowing for the fact that these firms would have to get rid of stocks and buildings and other things which people who were not closing down would not have to do, the rates were translated into terms relating to people who were remaining in business, first in relation to capacity which was active at the time and, second, in relation to capacity which was idle; and that set the premium rates, the standard rates and the discount rates.

1459. Did the original figures that you suggested to induce firms to go out of business hit the jackpot, so to speak?—They more than hit it.

1460. So that, in fact, your rates of compensation were more than were required to get the firms to go out of business?—They proved to be more than were required to secure the minimum figures provided for in the scheme, but it was the intention of the Government at the time to get more than those minima.

1461. But if they more than succeeded in getting the firms to go out of business did you not, in fact, offer more than you need have offered?—No; this is a policy matter, of course, and not an accounting one, but I think the result of the scheme would be regarded as eminently satisfactory.

1462. Who are the members of the Special Committee?—The Lord Rochdale, the two independent members of the Cotton Board and two specially appointed independent members for this purpose.

1463. Can you give us their names?—Mr. Rostron of Ferranti, Mr. Bertoya of Renold Chain, Mr. Robinson, who is a woodworking machinery manufacturer, I think, and Mr. Hall who is a Trade Union representative.

1464. Do the Special Committee employ a separate staff for this work?—Yes, under Mr. Burney, who was the Director of Reorganisation.

1465. Do the Board of Trade undertake any internal audit staff inspection in order to satisfy themselves that the Special Committee are working in a manner proper for the handling of large amounts of public money?—We appointed an independent firm of auditors to do that work for us, and the accounting methods adopted were checked once by the Board of Trade's own accounting staff to make sure they were all right and have been since checked again, or are being checked again, I am not sure which.

1466. Who were the independent firm of auditors?—They are a firm in Manchester. I am afraid I do not know the name. (Mr. Burney.) Ashworth, Moseley and Company.

Mr. Stevens.

1467. Sir Richard, the proposals were promulgated by the Government in May, 1959. Did the proposals then promulgated give any details of the basis of the proposed compensation?—(Sir Richard Powell.) Only, as far as I remember, to the extent of saying that the Government would take two-thirds of the cost and one-quarter of the cost of the re-equipment grants, but the detailed figures were set out in the three Statutory Orders which were put before Parliament in July and which came into effect on the 30th of July, 1959.

1468. So, the actual details which the manufacturers would need in order to form a view as to what compensation they might receive were not available until July?—No.

Sir George Benson.

1469. Had you in mind any clear figure of the total reduction required in the industry?—The figures of minima were calculated, as I understand it, to get rid of the excess capacity at the time the schemes came into effect, after making an allowance for the fact that there has to be a margin of capacity over what is active at any one time to allow for repairs, maintenance and any sudden emergencies.

1470. Can you put any figure in terms of percentages to the minimum scrapping that you hoped to achieve?—The

2 March, 1961.] Sir RICHARD POWELL, K.C.B., K.B.E., C.M.G.,
and Mr. A. G. B. BURNEY.

[Continued.]

minimum figures were 6 million spindles, 400,000 doubling spindles and 45,000 looms.

1471. What is that in percentages, have you any idea?—Of the looms it was about 20 per cent.

1472. 20 per cent. looms, and spindles approximately the same?—Spindles, no, 25 per cent. The total was 25½ million, I think, at that time.

1473. Of those proposals, how much have you achieved?—We have more than achieved the figures for spinning spindles and looms; on doubling spindles we were a little under.

1474. You have got down to 50 million?—We have got down to 12½ million or 13 million.

1475. Was it that you wanted a reduction of 25 million spindles?—No, the starting figure was 25 million. The minimum reduction provided in the schemes was 6 million and, in fact, the reduction achieved has been just over 12 million.

1476. So you have got down to half. What about looms?—With looms the reduction has been about 100,000 on 260,000.

1477. Just over one-third?—Yes, a bit more; 38½ per cent. I think.

1478. Just over one-third, then?—Yes.

Mr. Arbuthnot.

1479. This all suggests that you have over-cut down the industry. What would your reaction to that criticism be?—Well I would say that neither the industry nor the Government thinks so. I think it was always hoped that the setting of the minimum would provide an incentive to get a further measure of reduction afterwards; and that is why the scheme provided for a bonus of 5 per cent. on the compensation for people who put in their application in the first of the two months which were allowed for applications to be made. In fact, the minima were reached in the first month and everything after that was regarded as a bonus.

1480. Because you have compensated more generously than was necessary to achieve your minimum and have thereby cut down more than your target figure, does that not suggest to you that your compensation was too generous and the whole matter has been overdone?—No, because the minimum was not also a maximum. It was a genuine minimum.

1481. What was your bracket figure, so to speak?—There never was one, as I understand it; no maximum was ever fixed in mind. It was left to the good sense of the industry to work it out and to get the relation between the three sections of the industry right.

1482. You would have been perfectly happy to see a top bracket figure which would have thrown the whole thing out, would you?—No, I do not think that would be so. In fact, it did not happen, so that is a hypothetical question.

Chairman.

1483. Would it be accurate to say that, in fact, the minimum and the target were two different things? If the minimum were not achieved, you would not co-operate with the industry in the re-organisation scheme?—That is so.

1484. This was a test of their good faith in the matter?—Yes.

1485. Their target was, in fact, rather higher, even if you did not give a figure?—No target was set; certainly, no target was every published.

1486. In the Minister's statement on the 24th April, 1959—drawing entirely from memory now—did he not indicate a rough target of something like one-third?—(Mr. Burney.) May I answer this, Sir? I think we were really relying in the first instance on the figures which were published in the White Paper, where the target which was mentioned by the industry was about 12 million spindles. For looms it was 70,000, but this was, in fact, a net figure representing the scrapping of 100,000 looms and the re-equipping with some automatics; so, in fact, the targets which were reached, 12 million in spindles and 100,000 in looms, were almost identical with the targets set by the industry and approved by the Government in the White Paper. The minimum figure was the figure which it was considered was the minimum elimination of capacity which would represent a genuine achievement of something towards the problem, namely, the complete elimination of the basic idle capacity.

1487. You were not going to put Government money in unless there were a minimum reduction to achieve the other objective, is that so?—Quite correct, Sir. (Sir Richard Powell.) That is so.

2 March, 1961.] Sir RICHARD POWELL, K.C.B., K.B.E., C.M.G.,
and Mr. A. G. B. BURNEY.

[Continued.]

1488. Paragraphs 10-14, Reorganisation Schemes. Sir Richard, it was one of the conditions of the Act that the Board must be satisfied that adequate arrangements were made for compensating redundant employees. Can you say what the arrangements are?—They were made by the Cotton Board. We were satisfied by the Cotton Board. I could not tell you what the arrangements were. Mr. Burney may be able to give you that information. (Mr. Burney.) They were negotiated, Sir, by the industry with the trade unions and submitted to the Cotton Board for their approval. The Cotton Board did not take any responsibility for the terms of the schemes themselves and were not, indeed, called upon to do so. Their responsibility was to see that they were administered, through trustees, on the terms agreed by the industry with the trade unions; and also it was the responsibility of the Cotton Board to see that no compensation was paid out unless in respect of that particular mill the arrangements with the employees had been satisfactorily concluded.

1489. The industry's share of expenditure on this employee redundancy compensation scheme is collected from the industry by Cotton Board levies?—That is correct, Sir.

1490. Is there any estimate made yet as to the total the Cotton Board will collect for this purpose?—(Sir Richard Powell.) I understand the amount paid out is £5 million for the compensation under that section of the levy.

1491. Am I right in recalling that the compensation arrangements were such that it would not be possible in advance to calculate what the cost would be because they were contingent partly on whether the redundant employee found other work or not? Is that not right?—(Mr. Burney.) Yes, that is correct, Sir.

1492. If he found other work he got less compensation?—That is correct. He got part of his compensation in any case as a lump sum, and part of it was contingent on whether he remained unemployed or got re-employed in the period during which he was entitled to weekly payment.

1493. If he had not got quick re-employment your £5 million figure might have been a much bigger figure?—(Sir Richard Powell.) Yes.

1494. What has been levied by the industry for their share of machinery compensation payments?—The total amount which they will meet by levy is, again, £5 million.

1495. And £5 million has been paid for employees' compensation?—Yes.

1496. The second sentence of paragraph 11 refers to "stated minimum numbers of machines" which had to be offered for scrapping before the schemes could come into operation. What were the minimum numbers? Are those the figures you gave us?—Six million spindles, 400,000 doubling spindles and 45,000 looms, yes.

1497. I think you answered in reply to Mr. Arbuthnot that you feel that the rates of compensation were reasonable. Was compensation payable whether the machinery was in use or not?—Yes. There were different rates for active or stopped machinery and for complete mills or sheds shut down or active. The rates were different. That was the difference between the standard and discount rates, very broadly. (Mr. Burney.) There was a proviso that no compensation would be paid in respect of machinery which could not be brought back into use without undue difficulty or expense.

Sir George Benson.

1498. Paragraph 11 refers to the accounts of 30 firms which were, apparently, small companies. Why did you choose the small companies to be investigated and not the large ones?—Because we were examining, first of all, companies which were likely to be the ones which might go out of business altogether, because we were trying to establish the premium rates for people who would go out of business altogether. Therefore, the people most likely to fall into that category were the small companies, not the large ones.

1499. What was the proportion of capacity of the small companies?—Of the whole?

1500. Yes, of the whole, and of the 30?—The 30 were 75 per cent. of the 43 companies and the 43 companies were about 30 per cent. of the capacity.

1501. I have not got that?—I am sorry. The 30 companies which were examined represented about 75 per cent. of the capacity of the 43 small companies in that section.

2 March, 1961.] Sir RICHARD POWELL, K.C.B., K.B.E., C.M.G.,
and Mr. A. G. B. BURNEY.

[Continued.]

1502. But what did it represent of the total capacity?—I think, about 30 per cent.

1503. You chose the small companies to give you a representative figure?—I think it was the only way of approaching it.

1504. Did you deal with weaving and doubling together?—(Sir *Richard Powell*.) No, there were separate schemes for each one.

1505. But you took 30 companies in each case?—No, the 30 companies were only in the spinning section.

1506. How did you deal with the weaving?—That was done, as I explained before, by an abstraction or translation from the spinning section to the other two sections. The calculations were started by working out a premium rate for the spinning section and that rate was then carried through into the other sections.

1507. How did you work out the premium rate?—By deciding what inducement was needed to get the firms to go out of business.

1508. How do you do that, by trial and error or consultation?—I think it was by Mr. Burney's calculations, very largely. (Mr. *Burney*.) It was by reference to capital employed, profitability and the fact that we realised that people who were going out of business altogether would have to realise their stocks and fixed assets and therefore would require some compensation for that.

1509. In paragraph 13 there is a reference to mule equivalents. Roughly, what is the proportion of mule and ring?—Two ring spindles to three mules.

1510. I was thinking in terms of production. Three mules to two rings?—Two ring spindles produce as much as three mules, in rough terms.

1511. But the mules spin much finer counts do they not?—They generally do, yes.

1512. As far as I remember, ring spin was for the coarser counts?—Indeed, that was so, and still is to some extent, but there are a number of people in the industry today who say they can spin fine on the ring spindles, with the improvement in the ring spindles.

1513. There has been an improvement in ring spindles?—Yes.

1514. And, of course, it is much more efficient, is it not?—Yes.

1515. Does that mean, as the ring spindles have been made more efficient, that your mules are now going out of production?—Definitely, yes.

1516. There is a general swing towards ring spinning which is more productive per man and per machine?—Exactly. You work them in two or three shifts.

Mr. *Stevens*.

1517. Sir Richard, I think it is a fact that no compensation was payable in respect of machinery scrapped before the 24th April, 1959?—(Sir *Richard Powell*.) Yes.

1518. How was the 24th April, 1959, fixed?—The 24th April, 1959, was, I think, the date on which the President of the Board of Trade made the first announcement of the Government's intention to assist the industry.

1519. Although the proposals were only announced in May?—Yes. The White Paper came out in May and the first announcement of the Government's intentions was made on the 24th April. The White Paper appeared in May, and the Orders setting out the three detailed schemes were laid before Parliament in July.

1520. You told the Committee just now in answer to a question which I asked you that the announcement in April and in May would simply have been in broad terms. The details were not available until July. What happened in the case of capacity which was scrapped between the 24th April and the date in July when the details were published? Were those machines treated on exactly the same basis as machinery which was scrapped after the detailed proposals were known?—Yes. They fell within the scheme in exactly the same way.

1521. There must, too, have been in place in the cotton mills after the 24th April, 1959, machinery which had, in fact, been scrapped but yet still had not been actually bodily removed from the factories. Would that machinery have been subject to compensation?—No, that was debarred from the scheme because it could not have been brought back into production without undue difficulty and expense; and that type of machinery was ruled out of the scheme.

1522. That would deal with that sort of borderline case?—Yes.

2 March, 1961.] Sir RICHARD POWELL, K.C.B., K.B.E., C.M.G.,
and Mr. A. G. B. BURNEY.

[Continued.]

1523. How did the Special Committee satisfy themselves that the machinery in respect of which compensation payments were made was, in fact, scrapped?—They had a team of inspectors doing technical investigations, and I think it was physical verification. (Mr. Burney.) Physical verification and certificates by qualified surveyors and dealers. Everything had to be certified as to having been physically scrapped and destroyed.

1524. Still on the point of scrapping, I see from paragraph 11 that there were circumstances in which the last date for scrapping could be extended. What circumstances would those be?—(Sir Richard Powell.) That was intended to cover firms who were dealing with a long run of business which could not be completed in time to come within the scrapping date, and where it was agreed by the Special Committee that they should be given a special exception. In fact, only 3 per cent., I think I am right in saying, of the total amount of capacity scrapped fell in that category which was left over beyond the 30th March, 1960.

1525. Who approved those extensions, the Cotton Board?—The Special Committee of the Cotton Board.

Sir Colin Thornton-Kemsley.

1526. Mr. Burney, following up the questions that Mr. Stevens has just asked you, were any arrangements made to ensure that equipment which had been scrapped had not, in fact, been cannibalised so that spare parts could be put aside for use in machinery that was retained in use?—(Mr. Burney.) Yes, indeed, Sir. We took the advice of the Shirley Institute as to the degree of destruction that was necessary to prevent that happening and we issued rules and regulations to the people giving certificates on scrapping to see that it was carried out in such a way that that would not be possible.

1527. You were satisfied, were you, that observance of these rules would lead to no possibility of any of the parts being used as spares?—Well, I think I should make it quite clear, Sir, that, for example on a loom, they were not required to destroy the shuttles. You could not say which loom they belonged to, but we were satisfied that the degree of destruction was such that none of the main components, either of ring frames or of looms, could be used again in cannibalisation for another loom.

1528. Was any allowance made in the compensation for the deduction of the value of the scrap?—No.

1529. Presumably the scrap had some value on the market?—The scrap was an additional bonus, so to speak, to the people who participated in the scheme.

1530. Do you think it was of any value, or much value?—In the case of spindles from a mule, about 1s. a spindle up to, possibly, 5s. in the case of a ring spindle; and in the case of a loom, something like £1 or £2.

1531. Nothing sufficient to warrant your taking physical possession of the scrapped equipment yourselves?—No, it would have meant a most terrible operation. In fact, the policy of the scheme was that we should never take possession of any assets at all in any circumstances unless there was default in people scrapping, in which case we had to take possession and destroy them ourselves.

1532. What sort of inspectorate had you to ensure that this scrapping was really done effectively?—We used a number of estate agents, reputable people, who were recommended by the Cotton Board in Manchester and in Lancashire, and we also were assisted by technicians from the Cotton Board's own Research Centre and from their Productivity Centre who were lent to us and who acted as inspectors, over and above this other team of people.

1533. They had to provide you with certificates, had they, that the scrapping was carried out in accordance with instructions?—Yes, that is correct.

Mr. Arbuthnot.

1534. Are these the technical inspectors referred to in paragraph 12?—(Sir Richard Powell.) I think those were the experts who were consulted about the preparation of the scheme. I think that is what that refers to. (Mr. Burney.) They may have been the same or different.

1535. I was wondering who they were?—The technical experts on the scheme were the Shirley Institute, the Cotton Productivity Centre, the Manchester Institute of Technology and various other people.

1536. In answer to Sir George Benson you rather suggested that there was one law for the small and another for the large companies. Would you agree with

2 March, 1961.] Sir RICHARD POWELL, K.C.B., K.B.E., C.M.G., [Continued.
and Mr. A. G. B. BURNEY.

that?—If I did so, Sir, I am afraid it was a misapprehension. What I was trying to convey was this, that we were at some pains to establish a rate of compensation for people who were going to go out of business altogether. It would have been unrealistic to have thought that the Lancashire Cotton Corporation, for example, were going to go out of business under this scheme and therefore we had to consider the small companies. I say “small companies”. It is really the one-unit companies which were people likely to close down and go out of business altogether, and that is the reason we directed our attentions to the one-unit companies rather than the large companies; but exactly the same rates applied whether it was a one-unit company or a larger company.

1537. Sir Richard, why did it take so much longer to produce schemes for the finishing sections of the industry?—(Sir Richard Powell.) I think the reason was, first, that the Cotton Board and the Special Committee and Mr. Burney had more than enough on their hands to get the first three done, which were the urgent ones; the second was that it was not such an urgent problem to deal with the finishing section as the other three sections; and, thirdly, the finishing section presented very much more complicated problems and the scheme that finally emerged for that section is, in fact, quite a different scheme.

1538. So you would admit, in fact, that there was no real urgency about this scheme?—About the finishing scheme?

1539. Yes?—There was not so much urgency about it as the others. I think it was still an urgent interest to get it done; but it was, I think, settled by questions of practicability.

1540. Do the sections covered by the schemes referred to in paragraphs 11 and 14 comprise the whole of the industry?—Yes, so far as I know. (Mr. Burney.) Apart from the merchants, Sir. (Sir Richard Powell.) It covers the whole of the production part of the industry.

1541. Did it cross your mind, Sir Richard, that 150 years ago they used to hang Luddites?—Well, I can say it certainly did not, because I was not in the Board of Trade at the time when the scheme was formulated.

Chairman.

1542. It crossed the minds of lots of other people. I made some speeches

about it. Is the point not that the Luddites of those days were not protected by an Act of Parliament?—Yes.

Sir George Benson.

1543. I heard you say that on this question of machinery you consulted Manchester estate agents. As a Manchester estate agent of some 30 years standing I just wondered how the estate agents helped you on the question of machinery?—(Mr. Burney.) It was a question of scrapping, not actually machinery. There are a lot of surveyors and estate agents there who had been dealing with this question for a long time and are experts on the subject. They have assisted the Cotton Board in many directions over the years and we started off with them. I am afraid I cannot remember the names of the firms offhand.

1544. I wondered how estate agents were called in as experts on machinery?—They were experts on this particular side of it.

Chairman.

1545. Sir Richard, from paragraph 13 we see that during the financial year 1959-60 about £1.4 million was paid in respect of about 100 applications. Could you say what progress has been made since that time?—(Sir Richard Powell.) We are now, I think, up to £8.965 million by the 31st January, which is the last date to which we have figures. We shall have virtually completed payment of compensation in the current financial year. We shall need a little money, I think £½ million or so, next year to catch up with the tail end.

1546. By “the current financial year” you mean by the end of this month?—The bulk by the end of this month, yes.

1547. How many premium applications have been made?—I think 180 firms have made premium rate applications. (Mr. Burney.) 184 in the weaving section.

1548. Have any of them been paid out in full yet?—(Sir Richard Powell.) No, no premium rate payments have been paid out in full. The Special Committee of the Cotton Board decided to pay out the standard rates only to all applicants for the premium rates and to pay the additional percentage only when the strictest verification had been made that

2 March, 1961.] Sir RICHARD POWELL, K.C.B., K.B.E., C.M.G.,
and Mr. A. G. B. BURNLEY.

[Continued.]

the companies had gone completely out of business in the spinning, doubling and weaving sections, which is a requirement of both the Act and the scheme.

1549. What steps are you taking to satisfy yourselves that they have ceased to carry on business? That is the reason you are waiting, but how will you prove it at the end of the day?—That, again, is the Special Committee's business. They are responsible for the administration of the scheme and it is being done, again as far as I know, by physical verification and by examination of accounts and by all the other methods open to them. (Mr. Burnley.) Most of the companies, Sir, will have gone into liquidation before they, in fact, become eligible to receive their final payment. We deal with them as a matter of individual cases, seeing that they have disposed of their stocks, seeing that they have really closed down and disposed of all their assets. They are treated on an individual basis, each firm being audited separately.

1550. Are there not long histories in the cotton industry of firms going into liquidation but individuals not doing so? What steps are you taking to see that these chaps do not appear somewhere else in some other name?—We are following that through to see on the disposal of the stocks where they went to, what happened to the order book, that it has not been transferred to another firm, that orders for yarn for example—this has only occurred, as far as I know, in the weaving section—have not been carried through into another firm. We are following all those items through to see that that has not happened.

1551. Do you remember a few years ago there was quite a major scandal about the closure of firms in the cotton industry for tax purposes, which led to such an outcry that the Chancellor himself made some very strong remarks about it and altered the income tax legislation? In view of this record and the fact that these people are quite enterprising when there is money going are you quite satisfied that none of those in the list are not going to appear somewhere else, set up another business or even do it in the wife's name, or all the other methods they used a few years ago?—I would not like to say we are quite satisfied about this, but we believe

we can police this scheme satisfactorily and avoid this happening.

1552. If an individual did that in his wife's name without actually transferring the order book or the physical assets, does he still qualify for the payment under the first closure?—He would, really, because we went into this question as to whether one could define the expression "corporate body". If a company goes out of business altogether you cannot say the shareholders are the same people if they start up again in business in another place.

1553. Supposing you have a small partnership of two people, to simplify it. They announce that they are going out of business and they get the standard rate on account and they get the premium rate in due course. Suppose they then set up in another town under another name with brand new equipment and new order books and new stocks of material, is there anything you can do about it?—Nothing at all, Sir. I think it is exactly the same as if two new people came into the industry, brought a weaving shed, bought new equipment and started up.

1554. Do they get the re-equipment subsidy for the equipment they put in in the other town?—(Sir Richard Powell.) No.

1555. The subsidy only goes to a continuing organisation?—Yes.

1556. What is the latest estimate of the total cost to public funds of the reorganisation scheme? I am taking the reorganisation side separately?—I think, about £10 million.

1557. The figure you expected to pay this year was a little bit over?—Yes.

1558. That will complete it?—That will complete the reorganisation side of the scheme, yes.

1559. Apart from what will finally come on premium applications?—No, the estimated figure includes the premium rate applications. That is for the three schemes that have come in so far. The finishing scheme, of course, is quite separate.

1560. May we turn to paragraph 15, Weaving Reorganisation Scheme. The Special Committee recognised, we see from paragraph 15, that when the schemes were announced there were

2 March, 1961.] Sir RICHARD POWELL, K.C.B., K.B.E., C.M.G., [Continued.
and Mr. A. G. B. BURNLEY.

spare looms available in the industry. Were those additional to the 264,000 referred to in paragraph 13?—No, Sir, I think that estimate of 264,000 made an allowance for this quantity of spare looms.

1561. What estimate was made of the number of spare looms?—About 5,000, as I understand it.

1562. That was made at the time?—Yes.

1563. Was there any similar spare capacity in the spinning or doubling sections?—Not so far as I know.

1564. Were any special steps taken at the outset of the scheme to find out about the existence of spare machines of this kind and to make provisions preventing them being used to replace machines that were scrapped under the compensation scheme?—The answer to the first part of the question, Sir, is that everything was done short of taking a special census of the equipment in the industry at the time, which would, I think, both have added delay at a time when the greatest speed was necessary, because it was the intention to get these schemes going as fast as possible, and might, I think, also have led to somewhat inflated statistics appearing had there been a special count. The original figure on which the Cotton Board based these calculations was taken from a return produced as a matter of routine for the Cotton Board to show changes in active employment of machinery. It was known at the time that it was not 100 per cent. accurate but it was regarded as accurate enough for the purpose of getting the schemes working.

1565. You mean, the regular figures for the quarterly statistical bulletin of the Cotton Board?—Yes.

1566. You say everything was done short of a special census?—Yes.

1567. What was done?—Consultation with the industry and all the experts who were available and who might know what the number of looms in store might be.

1568. Was it not possible, then, under that scheme that old machinery could be scrapped and compensated and then be replaced by other old machinery or even older machinery instead of being replaced by new machinery under the re-equipment scheme?—There was nothing to stop that, but the old machinery, of

course, would not be eligible for any grant from public money. Perhaps I should say here, Sir, that this scheme was a purely voluntary scheme. It was never a scheme which was intended to plan the industry down to any precise figure fixed by the Government or by the industry itself; and I think it is true to say that these 5,000 looms, or whatever it was, were regarded as part of the effective capacity of the industry at that time.

1569. You say it was voluntary, but although it was voluntary there was public money to ease it along?—An inducement, certainly.

1570. As you say, they did not get the compensation for the re-equipment if this happened, but it is not a bad sort of venture, is it, if you get paid for scrapping, shall we say, 100 looms and then bring 100 in from the backyard and keep the mill going as before?—But you have got rid of the 100 looms and you have removed that overhanging threat to the industry of excess capacity.

1571. But you have another 100 in the backyard which you hung on to in the hope of using and now you are going to use them and you have got compensation?—Seeing that you had no hope of using them, they would have to be pretty readily usable to be of any use at all.

1572. Does this not come back to the question Mr. Stevens put a few moments ago, supposing there had been machinery there which qualified for scrapping but had not been physically scrapped, did that qualify for the grant or not?—No, it was not in place at the time.

1573. Supposing it had not been scrapped, you had already closed down, had entered into some contract to sell it but had not sold it?—If it was in place it came within the scheme. (Mr. Burnley.) This is a matter which is *sub judice* at the present time. The Cotton Board and the Board of Trade take the view that very definitely it does not rank for compensation because it was eliminated before this scheme came into operation.

1574. You mean, if there was a contract for sale?—When it had been sold, but there is still some argument going on about that very point.

1575. Do you mean *sub judice* in a legal sense?—In the legal sense. (Sir Richard Powell.) There is an appeal to the courts against any of these schemes if the parties do not like what is being done to them.

2 March, 1961.] Sir RICHARD POWELL, K.C.B., K.B.E., C.M.G.,
and Mr. A. G. B. BURNEY.

[Continued.]

Mr. Arbuthnot.

1576. Sir Richard, am I right in thinking that unless all the looms in any one weaving shed were scrapped an applicant for compensation formerly only received the discount rates?—(Mr. Burney.) No, Sir, the weaving scheme was divided up differently from the other two schemes. In the weaving scheme there were two rates for looms active and looms stopped, and the stopped loom rate was 25 per cent. less than the active loom rate. So, in effect, the discount rate was given in that way and then there was this partial scrapping of a weaving shed which, as you say, only ranked for a discount rate whereas the whole shed ranked for the standard rate; but effect was given to the idle machinery by having the different rates of compensation, one for active looms and one for stopped looms.

1577. So you would feel, would you, that there was no risk that applicants might re-equip by repairing looms allegedly scrapped?—No, they could not do that because the scrapping was such that they could not repair them. They were completely destroyed.

Sir Colin Thornton-Kemsley.

1578. Sir Richard, what would be the approximate compensation payable for 5,000 looms scrapped?—(Sir Richard Powell.) If you take a flat figure of £80 a loom, that is £400,000.

1579. Even if the Act did not prescribe the number of looms for which compensation was payable as the difference between those in being at the beginning of the scheme and those there at the end of the scrapping period, would it not have been a useful criterion to have applied?—I do not think so. I think it would have been inconsistent with the scheme. It was not intended for the purpose, as I said, of shrinking the industry down to any particular size. The object was to get rid of the excess capacity in the industry and that is why compensation was only paid for machinery actually scrapped.

Chairman.

1580. Is the point not really this, Sir Richard, that you were running the sort of scheme that is sometimes done in agricultural areas where you give a shilling for every rat's tail that is brought in, and you try as far as you can to count the rats' tails; but surely there are

some rather odd things about the number of rats there are at the start of the thing?—That is, I think, a fair analogy except that I think I would say that the odd things are a very small percentage indeed. In this particular context the 5,000 looms is 1 per cent. of the total capacity with which we started, and on a very large scheme of this kind I think that is a reasonable margin of error.

1581. You just did not know how many rats there were?—That is perfectly true.

Sir George Benson.

1582. And rats are easy to breed?—Yes.

Chairman.

1583. Paragraph 16, Re-equipment Grants. Sir Richard, what progress has been made with re-equipment? I take it this comes later in history, really?—Yes. It has gone reasonably well so far, but I think it is still much too soon to give you any forecast of what the complete effect of the scheme will be as applications can come in up to the 9th July 1962. So, there is still another 18 months to go before the end of the scheme and I would hesitate very much to make any guess about the total effect that it will have.

1584. No grants were paid in 1959-60, I think?—No, that is so.

1585. How much have you paid since then?—As far as I remember, it is about £2½ million.

1586. Can you say what applications you have for other grants still before you?—I think the total value of the applications is about £21 million. I think the value of the applications so far received is £21.6 million, of which the Government's share will be £5.4 million.

1587. Are you satisfied or disappointed with the rate of applications?—Well, I think we are certainly not satisfied. It is too early, I think, to say we are disappointed, but I think we would have liked to see more of them.

1588. They are coming in rather slowly?—Yes.

1589. Was that not the experience in the case of the previous re-equipment subsidy on the spinning side under the 1948 Act?—That I do not know, Sir. I would defer to your knowledge of that.

2 March, 1961.] Sir RICHARD POWELL, K.C.B., K.B.E., C.M.G.,
and Mr. A. G. B. BURNEY.

[Continued.]

1590. I think it was generally agreed that it was a very disappointing series of applications. You would not care, I rather gathered from earlier answers, to make any estimate at this time of what you think the total liability on public money will be at the end of the scheme?—I think on that, Sir, I would simply say that the figure of £30 million which was given at the beginning would still stand, so far as I was concerned.

1591. But that was for both schemes?—It was for both schemes.

1592. Reorganisation plus re-equipment?—Yes, that is so.

1593. £10 million for reorganisation?—£10 million for reorganisation and £20 million for re-equipment. I am leaving the finishing scheme out, of course. It will be a little more, I think. The cost of the reorganisation scheme will be between £12 million and £13 million, probably, altogether and the balance, whatever it is, will be for the re-equipment.

1594. So, the statement of the previous President of the Board of Trade in, I think it was, September, 1959, that the figure of £30 million was always an under-estimate and that he did not dare

tell Parliament how much it would really cost is not really justified by all the experience to date?—I did not know he had said that, Sir.

Sir George Benson.

1595. On this question of re-equipment, you have spent a large amount of money in destroying plant and now you are spending a large amount of money in re-equipping. Has there been so much technical advance in spinning and weaving?—I think the answer is certainly, yes, there has, particularly on weaving, but I think equally on both; but Mr Burney is better informed on that. He has been in closer contact than I have, and perhaps he might like to add something to that. (Mr. Burney.) I think it would be very true to say there has been a great advance. The great advantage of installing modern equipment is that it can be worked on a shift basis, thereby getting less costly production.

1596. You are getting an entirely different type of machine and greater efficiency?—In the case of weaving I would say it is an entirely different machine. The modern Swiss Sulzer loom is more of a weaving machine than a loom.

TUESDAY, 7TH MARCH, 1961.

Members present:

Mr. Arbuthnot.
Sir George Benson.
Mr. John Hall.

Vice-Admiral Hughes Hallett.
Mr. Stevens.
Sir Colin Thornton-Kemsley.

In the absence of Mr. Harold Wilson, Mr. Stevens was called to the Chair.

Sir EDMUND COMPTON, K.B.E., C.B., Mr. D. O. HENLEY and Mr. S. GOLDMAN,
called in and examined.

TREASURY MINUTE ON PARAGRAPHS 80-87 AND 88-94 OF THE SECOND
REPORT OF THE COMMITTEE OF PUBLIC ACCOUNTS, 1959-60.

Sir JAMES DUNNETT, K.C.B., C.M.G., Permanent Secretary, Ministry of Transport,
called in and examined.

Mr. Stevens.

1597. Will Members turn to the Treasury Minute on paragraphs 80-87 of the Second Report of the Committee for 1959-60? At the end of paragraph 1 of the Treasury Minute reference is made to the improved estimates which have resulted. Sir James, can you give us any examples of improved estimating as a result of this new procedure?—(Sir James Dunnett.) Yes, Sir, I have got figures for all the schemes costing over £½ million that have been completed in the course of the last financial year, and in a number of them the final cost has been almost exactly what the estimate was, or, indeed, in a number, below the estimate. In fact in the case of the Ross Spur the final cost was £6.1 million as opposed to an estimate of £7.8 million; so that there was a very substantial saving on that contract. On the northern approach to the Blackwall Tunnel the final cost looks like being £1.297 million as opposed to an estimate of £1.6 million, and there are others such as the Stamford By-pass where the final cost on the project, estimated to cost £1.357 million, has come out at £1.254 million. So, taking as a whole schemes completed in the last year, there are a number in which the cost was substantially less than the estimate and a larger number where it was pretty well right on. I think that is evidence that our estimating is improving.

1598. A very considerable improvement on previous form?—Yes.

Mr. Arbuthnot.

1599. Sir James, the fact that your cost sometimes comes out at less than the estimate is not, of course, an indication of accuracy of estimating, is it?—It is, of course, very difficult, as you know, to know exactly how many people at any particular time in any particular part of the country will be very anxious to get a contract, and there are variations which are due to the fact that you may on occasion get people very anxious to get the job, so that you do in fact find that there are substantial variations in different circumstances as to the keenness of the quotations for our contracts. In fact, we have some evidence that some quotations probably result in a loss being made to the people who put them in.

1600. You have given us a list of items which show improved estimating. What is the worst item in the list that you have?—I was talking about schemes completed in the last financial year. The worst item we had was the Kingsferry Bridge. This was a classified road scheme and not a trunk road scheme, and, of course, we were merely paying grant on it and were operating through the local authority; but there the estimate was £800,000 and the final cost was £1.2 million. That was the worst in the year, in fact, substantially the worst.

1601. That is a 50 per cent. increase?—That was a case where we were paying grant and were not actually letting the contract ourselves.

7 March, 1961.]

Sir JAMES DUNNETT, K.C.B., C.M.G.

[Continued.]

Mr. John Hall.

1602. On the occasions when you have real competition how do you guard against the possibility of the firm putting in a deliberately low tender which afterwards has to be increased as the work is carried out?—This is really a very difficult situation. Obviously, we do not let a contract unless we are satisfied that the firm has the resources, financial and technical, to carry it out. There would be occasions when we would pass over a firm on the ground that we did not think they had the resources to do it. But if we are satisfied that they have the resources to do it and they put in a price which we think will leave them very little, if any, profit, we in fact would normally accept that, though I am bound to admit that in that kind of case once the contractor realises he looks like losing money we have a great deal of trouble over claims, because obviously once he realises that position he will try and build up claims for everything he possibly can, so it is not a very satisfactory position to be in when somebody has cut the price to that extent.

1603. Do you see any possibility of safeguarding yourselves against that?—We or our agent, of course, make very sure that we do not admit any claims which cannot be fully backed up, but it does make a great deal of extra work and it can lead to a position of unpleasantness between the contractor and our agent.

1604. I was interested to hear you say the position had improved over the last financial year, the final cost had come out rather nearer the original estimate. Would it be true that it is becoming a little more difficult to get firms to tender for this class of work because they are already overburdened and there is a general reluctance to tender, perhaps, except at unrealistic prices?—It is perfectly true that in one or two big schemes we have been worried that we have not had more firms tendering. We have been considering that and we have had discussions with the Federation as to what it is due to. This usually happens on the very big schemes, and we are considering whether it will be possible to split these big schemes up into smaller bits to bring in a wider spread of contractors; and there is also evidence that the number of firms you get competing varies from different parts

of the country. There have been some cases where we have not had as many firms tendering as we would certainly have liked.

1605. In the case of the big schemes where you have this difficulty of getting a sufficient number of firms to tender, has there been any suspicion at any time that there might have been prior consultation between those who tendered?—I would say no to that, but in the two cases where we have been worried about the fact that there were so few, in both cases the matter has been taken up with the Federation, and in one of those cases, for other reasons also, we went out to tender again, and the second time round more firms tendered.

Sir George Benson.

1606. Have you got sufficient technical experience in the Department to form any reasonable idea of what a job is going to cost?—We have, as you know, a large engineering staff in the Department, and I think I could claim that we are now building up much more experience than we had before. After all, M.1 was the first motorway that we had constructed, and the more jobs we do, we get much better information on what a job should cost; though, of course, it does vary in different parts of the country and according to the nature of soil conditions.

1607. When you decide on a job you probably make some estimate in your own mind of what it is going to cost?—The difficulty about these things is that it is very difficult to make any kind of an estimate until you have actually done the detailed survey of the route and soil samples, and so on; but at a very early stage we have to give a kind of guess estimate to the Treasury, as I explained last year, and it is very difficult at that stage to be at all accurate, but the more experience we have the better we should be able to judge the general magnitude of the cost.

1608. What do you put as your probable error?—An awful lot depends on what stage one is talking about. It is terribly difficult to be at all accurate until one has actually done the detailed survey and ground soil samples. At that stage once again, of course, so much depends on what you actually find when the job has been done, the weather conditions

7 March, 1961.] Sir JAMES DUNNETT, K.C.B., C.M.G.

[Continued.]

you meet, whether you run into difficulties, and so on. In normal conditions it depends on the size of the job, but I should have thought, about plus or minus 10 per cent.

Mr. Stevens.

1609. Will Members now turn to the Treasury Minute on paragraphs 88-94? Reference is made in the Treasury Minute to a new reporting procedure?—Yes.

1610. It is a fact that last year this Committee was concerned with large unforeseen expenditures which were incurred without the knowledge of the Ministry. Now, presumably this new reporting procedure is designed to obviate that possibility. Is that so?—That is so.

1611. Could you tell the Committee something about this new procedure?—What we were mainly concerned to do was to make sure that we got at regular intervals the information we required to watch the progress of schemes in the form in which we wanted it, and very shortly after the Public Accounts Committee last year we took this up with the Association of Consulting Engineers, and subsequently we had discussions with the County Councils Association, because, of course, they do work for us, as well. We thought we had reached agreement on the details of these forms with the Association last autumn, but when they circularised all their members they came back with a number of points, some of which were valid because we do not want to ask for more information than is necessary for our purpose, and some of their members felt that perhaps we were asking for too much, and this was putting too much on the consulting engineers which might lead to delay, which might cost money. But the position we have now reached is that on every large scheme going ahead we have got agreement with either the consulting engineer or the authority that they will let us have these reports broadly in the form we have asked for, and as soon as the details have been settled we will then have a standard form for every contract. We are getting these forms—basically they are monthly reports—giving the value of the work done, the consulting engineer's latest estimate of the total cost, the description of any variation orders issued, that kind of information; and on top of that we

get a fuller report every three months telling us exactly how the work is going ahead and any revised final cost for the whole project. So, by and large, for the schemes now going ahead we have got agreement to have the information in the form we want.

1612. I understood you to say you have not yet reached full agreement with the Association of Consulting Engineers?—There are a number of detailed points outstanding before we get an absolutely common form that will apply to all large schemes, because there are one or two points of detail where they think we may be asking for too much; but I did want to make clear that although there are those points of detail substantially in the jobs we have let and which are now going ahead we are getting information in a form satisfactory to us.

1613. Not all consulting engineers are members of the Association, are they?—No; but we have also taken up that point with one, and I think he is the only one we employ outside the Association, and he has agreed to give us the information in the same form.

1614. So that for the future the new terms will be incorporated in any contract, will they?—We will have a clear written understanding with the consultant that he will give us this information in the form in which we want it, and that will be part of his terms of employment.

Mr. John Hall.

1615. Sir James, I take it that the new payment certificates which are referred to in the Treasury Minute form part of this new procedure?—Certainly.

1616. Are you quite satisfied that these new payment certificates will give you all the information you need to satisfy yourself as to the justification or propriety of the contractor's claim?—We will not pay unless we have got the information which satisfies us that work has been properly done, the charge properly incurred, and we pay on that basis.

1617. That will be the information contained on the new form of payment certificate?—Yes.

1618. Have you got the right under your standard agreements to inspect the records in the consultant's possession relating to the works which these certificates will cover?—To inspect the records of the contractor?

7 March, 1961.]

Sir JAMES DUNNETT, K.C.B., C.M.G.

[Continued.]

1619. The consultant, presumably, maintains records of the work that has been carried out and to which the payment certificates will relate?—Yes.

1620. Have you got the right to look at those records?—As I understand it, in the main, of course, we look to our agent, the consulting engineer in this case, to do this work for us. If at any time we wanted to check up on it we would have the right to do that. That is my understanding of the position.

1621. Have you done so at any time?—I am not aware that we have ever done so. We could if it were necessary.

1622. You could if you wished to do so?—That is my understanding.

Mr. *Arbuthnot*.

1623. Sir James, the Treasury Minute says that “a reporting procedure on similar lines has been introduced experimentally for a number of motorway schemes undertaken by local authorities”. Which are the schemes and authorities concerned?—The schemes to which we have applied it are the Medway Bridge which is going ahead, the Bristol-Birmingham Motorway and the Stevenage Bypass, although that was suspended during the winter because of bad weather. Those schemes are covered by the new procedure. In addition to that, there is the Birmingham to Preston Motorway, that part of it in Staffordshire. There is the part of that in Cheshire and the part of that motorway in Lancashire. All those schemes will be covered.

1624. Are there any results to be reported yet?—Our experience so far on the returns which have been coming in is that they have been giving us the information we want, and it represents a considerable improvement on the previous position.

1625. Can you require all local authorities who are acting as your agents to adopt this reporting procedure?—I am glad to say it has not so far come to the position of requiring them. We found that the County Councils' Association were very co-operative on this, and any local authority that has undertaken a scheme for us has been quite prepared to play. So, so far it has all been done, I am glad to say, by agreement and amicably.

1626. You do not know whether you can require it if you do not get them to

play, is that it?—We would make it a condition of our agreement with them. Exactly what the legal position would be if they refused I could not say offhand, but I should be very disappointed if it ever came to that stage. Certainly, it would be a very unsatisfactory position, and I think we would have to take it to the highest levels because, clearly, we should not be satisfied to let a contract in future, whether to a local authority or to a consulting engineer, unless there were agreement that we were to have this information.

1627. If and when you have introduced this new procedure for both consultants and local authorities, will there be any difference in the exercise of your control in the two types of case?—Not in principle. There are, of course, certain things that local authorities do under our agreement with them which a consultant does not do. For example, they actually pay the bills, and that is reflected in the fee they get. Apart from that kind of difference, our relationship is broadly the same; in fact, it is the same with the consulting engineers as it is for the local authority acting for us.

1628. They pay the bills and that is reflected in the fees they get. What percentage charge do they get for doing so?—It is a complicated position, but with local authorities we pay 4 per cent.

1629. For just paying the bills?—No, for doing the whole work; but what I am saying is that in the case of local authorities, in addition to all the design and the supervision, they actually pay the bills, which, of course, a consulting engineer does not. We pay in that case on the basis of his certificate.

1630. You told last year's Committee, Sir James, that you were intending to set up a special motorways branch with representatives actually on site?—Yes.

1631. Has this now been done?—Yes, we have set it up.

1632. If so, to what extent?—It was always the intention to keep the branch fairly small, because we are employing either a local authority or a consulting engineer to act as our agent. The idea of this branch was a headquarters branch progressing all these schemes and a very limited number of people in the field maintaining liaison with the contractor and the consulting engineer. We have, in fact, got two men out at the moment

7 March, 1961.] Sir JAMES DUNNETT, K.C.B., C.M.G.

[Continued.]

on two new schemes that have started, and we have set up the headquarters branch and will put further people out as the schemes reach the stage where that is necessary.

1633. In what way have you found that this improves your control over the schemes?—It means that we are much more closely in touch with the scheme as it goes ahead, and we would have much earlier information if the contract was getting into difficulties than we had, for example, in the case of M.1. It is improving our reporting system.

Sir George Benson.

1634. What is the criterion by which you decide to have a civil engineer or a local authority in control of your road scheme?—There are a number of factors and this has been a fairly vexed subject because, of course, local authorities would like to do practically all the

work. But the kind of factors we take into account are, first of all, if there is a scheme which passes through two or more counties our preference would be in such a case to use a consulting engineer who can survey the whole scheme. Apart from that, the kind of considerations we take into account are the load that the county already has on its technical staff, the quality of its technical staff, and that kind of thing; but, broadly, normally on a scheme inside one county we would use the County Surveyor from the start.

1635. Do you pay the costs of the survey or do the local authority?—If we are talking about trunk road schemes and motorways where we pay 100 per cent. of the cost, the local authority is our agent and we pay them a fee of 4 per cent., which covers all their work on our behalf.

TREASURY MINUTE ON PARAGRAPHS 95-100 OF THE SECOND REPORT OF THE COMMITTEE OF PUBLIC ACCOUNTS, 1959-60.

CONFIDENTIAL NOTE BY THE TREASURY ON FEES TO CONSULTANT ARCHITECTS, ENGINEERS AND SURVEYORS.

Mr. Stevens.

1636. Will Members now turn to the Treasury Minute on paragraphs 95-100, and I suggest that with these paragraphs we might take the confidential paper submitted by the Treasury, which covers the same subject. Mr Henley, I would like to ask you one or two questions on this paper which you have kindly submitted and which, if I may say so, seems to set out the principles very clearly. First of all, it is marked "Confidential". Could you tell us what there is confidential about this paper?—(Mr. Henley.) Mainly, I think, Sir, that some of the arrangements which are summarised in this paper, which depart from the recognised normal scales of fees, have resulted from confidential negotiations on particular projects with the various professional associations, and we felt that it would be to some extent a breach of confidence and perhaps would also affect our future negotiating ability if this were made public. I think that there are passages in the paper which indicate the kind of approach of Departments to negotiations of this kind; and, as I say, we feel that on the whole we could give a fuller review of the present position to the Committee if it were done on this basis. We did in the Treasury Minute,

of course, include, I hope, a fairly full report, a summary of the paper from that point of view.

1637. I see no reference in the paper to the Ministry of Health, bearing in mind that there is a substantial hospital building programme envisaged. Can you tell the Committee what is your practice with regard to fees to consultants?—We are very conscious of the fact that there may be other Departments, notably perhaps the Ministry of Health and, of course, the University Grants Committee, who are, of course, more directly under the supervision of the Treasury, who also have large building projects on which consultants might be engaged, and we are taking steps to ensure that these views are widely disseminated among all Departments. But I am fairly confident that the particular principles set out in this paper would be followed by all Departments. What I would not be 100 per cent. sure about at the moment is that all the Departments with major building works are fully aware of the practices of all the others and the need to review their own arrangements with this in mind. As I say, we have that very much in mind in the Treasury.

7 March, 1961.]

Sir JAMES DUNNETT, K.C.B., C.M.G.

[Continued.]

1638. Are you taking steps to get the news round to all Departments?—Yes, we are.

1639. Would that include the University Grants Committee?—Yes.

1640. There are just one or two detailed points I have in mind. In paragraph 7 of the paper reference is made to the appointment of only those consultants who are of standing in their professions. How is it decided that a consultant is or is not of standing in his profession? Who decides that?—This would be decided, I think, in the Department in the light of its own experience, in the light also of advice from other Departments who might have had experience, and I am fairly sure in the last resort, if need be, by reference to the professional association.

1641. Just a little lower down you say that nearly all Departments employ professional staffs. Could you let us know off the cuff which Departments do not employ professional staffs since you say nearly all of them do?—I cannot think of any major building Department, by which, running quickly through them, I mean the Service Departments, Aviation, Health, Works, Transport, who do not employ professional staffs of some kind. They may not, of course, all employ engineers, for example, but they may employ architects. I am fairly certain that the smaller Departments, who may from time to time have fairly large building works to do or to be responsible for, would not have professional staffs.

1642. They would be in some difficulty in the terms of this paper, then, would they not?—Yes, that would be perfectly true, but I think it is also true to say that those smaller Departments on the whole would not be faced with the need for such large and expensive building projects as the others, nor, of course, with such a large programme.

1643. Later on, in paragraph 17, is set out the scale of fees provided by the Association of Consulting Engineers, but it seemed to me that the last sentence of that paragraph rather took away from the value of that scale. Extra percentages are payable for work of a specialised character, but the instances of specialised work are reinforced concrete or structural steelwork. Surely, in connection with any major road programme, certainly, reinforced

concrete or structural steelwork would be normal; that is not specialised work, is it?—I would not like to be too firm about this, but I must confess, reading this paper through recently, this same point struck me, and it may be that Sir James can help here. I think what we may have in mind here is that there may be rather specialised work of this type. (Sir James Dunnett.) This is their general scale of fees, it is not our scale of fees. What the Treasury are drawing attention to here, as I understand it, is that these are the fees they charge normally on non-Governmental work. Our percentages are lower, and in addition to that we do not pay extra for reinforced concrete or structural steelwork. So, our scale is advantageous not only on percentages but also on the fact that we do not pay extra for this work.

Sir Colin Thornton-Kemsley.

1644. Sir James, do your professional staffs go into the detail of designs and into the detail of the proposed method of construction?—Yes, they do, and this depends, of course, on various considerations according to whether it is a bridge or a road, but as far as actual roads are concerned the broad design is settled by the Ministry in consultation with the consulting engineer, and certainly in the case of a bridge our bridge engineers would be very closely in touch with the consulting engineer as to the form of structure and the form of construction proposed.

1645. I wonder if we could follow that up with reference to one particular instance, the instance of the Birmingham—Preston Motorway, and in particular to the Lancashire part of that, about which there was a question in the House on the 17th November last year, which had a written answer at some length from the Minister, a question asked by the hon. and gallant Member for Knutsford. You may perhaps recall it?—Yes.

1646. From the answer it is clear that your Ministry made substantial economies in design when you had found that the lowest tender was much higher than you had expected. Who produced the original design in that case?—That was a local authority scheme, and the original design was produced by the Lancashire staff.

7 March, 1961.] Sir JAMES DUNNETT, K.C.B., C.M.G.

[Continued.]

1647. So, this was an exception to the usual procedure which you told the Committee, that where the motorway goes through more than one county you like to use consultant engineers?— Yes; but we have let out the Birmingham—Preston Road into different contracts, and Lancashire, I think I am right in saying, are merely doing the bit in Lancashire.

1648. So, in this case the Lancashire officials did the original design?— Yes.

1649. What was the original tender price, can you tell the Committee?— It was £—.

1650. What was the price after the economies which are referred to in the answer to the question on the 17th November had been made?—It came down to £14,615,000.

1651. So, the saving was of the order of £—. Had your professional staff checked the original design?—The difficulty about this is that where we use agents or consultants we do not seek to have staff to check everything they do, because that would be very wasteful in staff and in money and everything; so, by and large, once the broad specification for the road has been settled, that is, that there are going to be two carriage-ways of three lanes, and so on, and of a certain construction, we leave the detailed design to our agents. We do not seek to check it in detail. I want to be fair about the difficulties on these schemes, but in this particular case, it is perfectly true that as a result of detailed discussion with Lancashire various modifications were introduced. For example, it was decided as a possible economy to have rather different gradients at certain levels of the road so that you did not have to take away so much earthworks, and that kind of thing. At the same time I think it is fair to say that Lancashire's original estimates of quantities were probably very conservative and when we went into that I think they agreed that they were conservative and in the event we would not have quite so much in the way of quantities. Therefore, I think it is fair to say of this saving that a substantial part of it is a real saving, that is, that the specification has been changed, but I think it is also fair to say that had they gone ahead on the original basis when the work was designed and costed it would not have come to as much

because, as you know, people tender on the basis of estimated quantities. So, I think there was an element of conservatism in the amount of earth, and so on, that had to be moved in Lancashire's original ideas.

1652. Why were those economies not made in the first place?—It is difficult to say, but I think it would be fair to say this, that Lancashire had had experience with the Preston By-pass, about which I was examined last year, where the original estimates were too low, and I think they felt that having been hauled over the coals then they were going to be conservative this time.

1653. Would it be true to say, do you think, that if the gap between the original estimate and the original tender had not been so striking you would not have reviewed this scheme and the economies in design would not have been made? —I think it is probably true to say that that is the position, yes.

Mr. Arbuthnot.

1654. Mr. Henley, my problem is this: I accept that there is a scale of fees. I accept that the Ministry negotiates on large contracts lower fees than the scale that is officially laid down. What I do not accept is that a private contractor doing similar work does not negotiate a substantially lower scale of fees than is negotiated by the Ministry. With that suspicion in my mind, your confidential memorandum is really just about as obscurantist as it could be. Would it be possible for you to provide evidence that would overcome that particular doubt? —(Mr. Henley.) This is a point, Sir, that we have thought about, and I know that the Ministry of Transport has also thought about it. We have found it very difficult to get any evidence on this particular point, perhaps not unnaturally, and none of the Departments that we have consulted in this general question of fees has been able to help us very much. I think it is fair to say that such inquiries as the Ministry of Transport in particular have made have not suggested up to now that there is the type of disparity which you suggest, but I would be the first to agree that it is very difficult to produce any firm evidence which substantiates that general feeling. You mentioned, Sir, that you thought that our memorandum was obscurantist. From this point of view I must leave the choice of words to you, Sir, but what I thought

7 March, 1961.]

Sir JAMES DUNNETT, K.C.B., C.M.G.

[Continued.]

you were going to say, as a matter of fact, was that you thought that our memorandum was unduly complacent; but what we had hoped to do in this memorandum was to set out on the basis of our experience so far the considerations which Departments had in mind, and we had to some extent, I think, put into the minds of some of them, in negotiating these fees, and let the Committee see the kind of approach we have in mind. I would only add that I think it is fair to say that the Treasury is not at the moment fully satisfied about these very large projects in particular, but equally we have no evidence to suggest that the kind of scales of fees that have been negotiated have resulted in unduly large awards to the consultants concerned.

1655. So, the truth is that you do not know the answer to the question either? —No, I do not, Sir.

1656. Is there any pressure that you can bring to bear to get the information which would enable you to satisfy the Committee and the Committee to satisfy Parliament that the scales being charged for these larger projects are no more than fair and reasonable?—I think we have gained, largely through the investigations of the Ministry of Transport, a certain amount of circumstantial evidence to that effect. What I have in mind is that such inquiries that have been made have suggested that the scales of fees which the Departments have negotiated on these large projects are not out of line with what, for example, other large public authorities have negotiated, and I understand there have been some complaints, or, at any rate, some suggestions, from some of the consultants who have been engaged on substantial projects that the scale is working out to their disadvantage in that they feel they have not perhaps done quite as well, having met all their expenses, as they had hoped to do. But I am afraid we cannot go beyond that. (Sir James Dunnett.) We have accumulated quite a lot of information. If you would like to have that on a confidential basis, we can let you have it.

Mr. Stevens.

1657. I think it would be helpful, Sir James?—First of all, as Mr. Henley has said, we have positive evidence from a public authority in this country that on big schemes they pay rates substantially higher than ours and they can

check from the work they do with direct labour that even paying these higher rates it is as cheap as doing it with their own labour. So, there is some evidence from a public authority paying higher rates than we would. We have also had evidence from the Association of Consulting Engineers how a public authority in this country on a scheme costing over £12 million remunerated the consulting engineer. * * * So, that is further evidence there. We have also had evidence of schemes for Water Boards for things like reservoirs costing up to £3 million. * * * That is further evidence, because that is higher than we would normally pay in such a case; so that we are paying less than would be paid to consulting engineers in reservoir schemes. We have also been given evidence from overseas. * * * So, there is good evidence in this work overseas that the consulting engineer is getting rather more than we pay. We have also been in touch with two large firms. * * * It is difficult to find anything exactly parallel with ours, because on the whole they are building large process plants, and, of course, they are able for that kind of work to deal with two or three firms where the firm both designs and constructs, which is rather a different proposition from what we are doing. Certainly, I think it can be said that where they use consulting engineers in the way we do they would probably pay, even on fairly big schemes, something pretty close to the scales made available by the Association. I say that is also corroborative evidence, and I have not been able to come across any private firms I have been consulting that have got down lower than the rates we negotiate on big schemes.

Mr. Arbuthnot.

1658. Sir James, the last sentence of paragraph 6 speaks of a competition for the design of the bridge. Has this been arranged yet, and if so with what result? —Yes. Following last year's Public Accounts Committee, we have arranged with the local authority in the West Riding of Yorkshire for a competition for a bridge. We are giving a prize of £5,000 for the winner, a second prize of £2,000 and a third prize of £1,000, and we shall be very interested to see what designs we get in from that competition.

1659. Will the successful designer supervise the construction?—I think it will

7 March, 1961.] Sir JAMES DUNNETT, K.C.B., C.M.G.

[Continued.]

almost inevitably follow that, having produced the design, he will have to supervise its construction.

1660. Which is this bridge?—This is the bridge on Ferrybridge By-pass on A.1 in the West Riding of Yorkshire.

1661. What is the significance of the statement that the “consultant’s legal liability does not taper”? That is in paragraph 5 of the Treasury Minute, the last line but three?—Quite honestly, I do not know what it means.

1662. Can you help, Mr. Henley?—(Mr. Henley.) If I might answer that, Sir, I think the point here is simply that if anything goes wrong in the course of one of these projects legal recourse against the consultant may, of course, be available to the Department in the last resort; and it is simply that when one has a very large amount of money at stake what may go wrong is correspondingly greater and to that extent the consultant is at risk.

1663. Sir James, what exactly is the liability of a consultant for a scheme designed by him but which has been checked by the Department’s own skilled and experienced professional staff, as was indicated in paragraph 4 of the Treasury Minute?—(Sir James Dunnett.) I am bound to say that I think that the answer is, practically none. We are, in fact, employing him as a professional man to carry out this work and I find it very difficult to conceive the circumstances in which we would have grounds for a legal action against him except for gross incompetence.

1664. Is the fee that you pay correspondingly reduced because of the fact that he does not carry any legal responsibility?—I think the question is, what legal liability does he carry in normal commercial schemes. I have known of some schemes where the client has been let in for very heavy additional expenditure almost certainly attributable to bad design, and I am informed that in those cases there is not really, even in normal commercial cases, a remedy against the consultant.

1665. The last sentence of paragraph 5 says that to seek a lower fee on the grounds of repetitive work might “provide a stimulus to complexity in design which would prove costly in construction”. How do you square that with the statement in paragraph 4 that

Departments’ professional staffs ensure that designs are produced without extravagance?—Obviously, if you employ a consultant to look after your interests you do not want to have to supervise everything he is proposing to do. Personally, if I may say so, I think the point taken is a valid one and that if he began designing unnecessarily elaborate bridges, or something like that, our professional staffs would certainly pull him up. But I think there might be small ways in which he might seek to do this, and we do not seek, nor have we the staff, to supervise everything he does in detail. But in anything of any consequence our staff would pull him up. I think the real truth of the matter is that when you get down to — per cent. excluding costs of supervision, which is what we do get down to (and the scales of the Association always exclude supervision) you are really getting down to a point where we are satisfied that there is not much left over over and above cost for the remuneration of the partners. We have, in fact, had some information which the Association have given us confidentially to show that that is the position.

1666. You told us last year, Sir James, that you had no information as to the fees paid to consultants for very large private schemes. You have told us just now that you have information from two firms. Would it be possible to let us have a note of that confidentially so that we can check the schemes?—Well, I cannot say anything more. I personally had a discussion with them. I have no more information really to give you than what I have told you. It is very difficult to get anything exactly comparable to what we do on these bridges and roads. Their very big schemes are for technical process plants and, as I have said, they can get quotations from firms which do design and construction. What I have said is that I have been assured by them that where they use consulting engineers on anything like our basis they would regard the rates we negotiate as being very favourable; and, certainly, they have assured me that they would not expect to get rates any better, if as good.

1667. In fact, you have no real specific information, just a general assurance?—Well, I have seen them both and discussed in detail with them what

7 March, 1961.]

Sir JAMES DUNNETT, K.C.B., C.M.G.

[Continued.]

their practice is. That is the information they have given me and I am afraid I cannot go further than that.

1668. And you are content to let it rest at that?—I do not think they could give us any more information. They have got nothing comparable to our really big schemes.

Vice-Admiral *Hughes Hallett*.

1669. In paragraph 3 of the Treasury Minute the disadvantages of the percentage system are set out and in paragraph 4 the first of the disadvantages is dealt with a little bit namely the possible design of extravagant schemes; and the Minute says that the Department choose their consultants carefully. Then it goes on to say that the Departments' professional staff can ensure that designs are not extravagant. Are you satisfied, Sir James, that that is in fact the case in road schemes, or would you say that "ensure" was rather a strong word?—No, certainly in road schemes I would say that is true. The broad plan of the road is of course, largely settled by the Department as to whether it is to be dual carriageway three lanes, the broad design of the road, the amount of drainage, and so on; and therefore the consultant is primarily concerned, as far as the road is concerned, with the detailed site surveys, planning the line of the road, and that kind of thing. So I would say I think that answer is correct.

1670. We were told before that one firm of consulting engineers was engaged for the preliminary work on the whole of M.1 and that the detailed preparation and supervision of Section 1 was also entrusted to that firm. Are you committed to the same firm for the remaining length of M.1?—We are, in fact, going to entrust the same firm of consulting engineers with the detailed design of the road from its northern point up into Yorkshire, yes.

1671. What is the approximate value of the further work?—The whole scheme will be of the order of £40 million.

1672. Presumably the firm will not get the work regardless of what fee is asked or considered reasonable. How will you handle that side of the question? * * *

1673. Of course, one is bound to accept, I take it, that no form of com-

petition for a scheme as a whole on that scale would be practicable?—Not as far as the consultant is concerned.

1674. That I accept, but I must confess to a little disappointment at the closing words of paragraph 6, which deals with competitions for bridges. This is a subject which I have always been rather given to pressing. From what you told Mr. Arbuthnot in reference to the implications I gathered it might be a few years before the thing happened. Is that really so, because I gather one competition is already being held?—We are organising one now.

1675. It is also implied but not said in this paragraph that the idea of a competitive decision is limited to important bridges. Is that really so? Why should it not be applied to small bridges?—I think part of the difficulty is that if one is going to get competitive designs it means really quite a lot of organisation, as I have explained, for prizes, and so on, and getting people to go in. I think one can do that in one or two cases, but I do not think it would be practicable as a general rule.

1676. Is it not a fact that, allowing for adjustments of scale, the designs for a lot of the bridges, for example, on M.1, are really identical?—In the case of the M.1 the consulting engineer did design a bridge which could be applied almost exactly as the bridges went along, yes.

1677. That is really what I had in mind when I asked whether the principle of competitive design could not be applied to small bridges. Could not the same principle be applied to putting out to competition?—If one had an absolutely standard bridge but I think that would mean taking the bridges out of the general contract to the consulting engineer and bringing in two consulting engineers; and I think there would be considerable difficulties about the overall policing of the scheme on that basis.

1678. Would it be true to say that the idea of competitive designs is exceedingly unpopular with consultants of standing?—I think it would be true to say it is unpopular, yes.

1679. Would you say it is more favoured perhaps by some of the younger consultants in that field?—I would not say that we had any evidence on that. It is, of course, our policy with the amount of work now available to

7 March, 1961.] Sir JAMES DUNNETT, K.C.B., C.M.G.

[Continued.]

bring in younger designers as well on our work and to spread the work among all firms capable of doing it; and this does, of course, give us comparisons between the work of differing consultant engineers.

1680. When you employ a council as your agent for one of these schemes is the choice of design left wholly to the council?—He produces a design of the bridge but it is discussed with our bridges section, our engineers at Headquarters, and they would pass the scheme and look at it from the point of view of economy and effectiveness of design.

1681. I would like to ask the Comptroller and Auditor General what, I am afraid, may be an ignorant question. When a council undertakes one of these very big schemes and the question of the audit arises, as it will be paid for by the Ministry do you audit the accounts insofar as the expenditure has been incurred by the council or is that a function of the District Auditor?—(Sir Edmund Compton.) It is the District Auditor's function. The actual audit is the District Audit.

1682. I do not know whether this is the correct technical term, but I think it is right to say that your kind of audit, the Comptroller and Auditor General's audit, is described very often as an efficiency audit. Does that apply in any way to a District Auditor's audit? Is he at all concerned with efficiency and economy in the way money has been spent as opposed to the fact that it has not been misspent?—It can come within his scope. (Sir James Dunnett.) The position broadly on this, as I understand it, is that the District Auditor would no doubt satisfy himself that all the money spent in the year by the Bridges Department or the Engineering Department of the County Council had been properly spent; but I am not aware that the work actually done on our account, as opposed to work that they are doing in the county, would be separately costed out. I do not know whether that is the point?

1683. I was really wondering to what extent these big schemes, when they are carried out by Councils, are independently audited from the point of view of economy within the county in the way the money has been spent, in the same way that direct public expenditure is audited?—What the council is doing in most of our schemes is acting as our

39389

agent from the point of view of design and supervision. The work is actually carried out, as you know, by a contractor so that where the efficiency would come in as far as the Council is concerned is on the design where, certainly on bridges, they would be in touch with our engineers and on the actual supervision of the work done by the contractor; while we would hope, I think, from our contacts with the Council and our motorway resident engineer to be in touch with them and to have a very good view as to whether they were carrying it out effectively. We would not do a detailed audit of efficiency but we would be able to have a general view.

1684. In the case of M.1 certain, possibly one might say, irregularities came to light in connection with payments by the consultant running ahead of what was really authorised. That was brought to light in the Comptroller and Auditor General's Report. What I am not quite clear about is, if a similar state of affairs occurred in the case of a big scheme being carried out by a Council would that come out, or not?—It would come out. That is why we have applied this new reporting procedure to Councils as well as to consulting engineers, and it would certainly come out in the signed statements of work done on which the bill would be paid to the contractor. So that is why we are proposing to apply to Councils this new reporting procedure just as much as to consulting engineers.

Mr. John Hall.

1685. Sir James, we know that the consultants' fees are calculated in two parts, the first being 60 per cent. of the scale fee up to the stage, I think, of inviting tenders, which I suppose we can describe as the design fee. Then you have got 40 per cent. which is calculated on the final cost for supervision. As I understand it, if the final cost of the scheme exceeds the tender price then that 60 per cent. design fee is assessed on those final costs excluding any variation due to price variation. Have I understood that correctly?—That is correct, with one reservation which I would like to make. The point is this, that it might appear from the 60 per cent. and 40 per cent. that it represents a considered estimate of how much of the work is in respect of design and how much is in respect of supervision. The truth of the matter is that this 60 per cent. is really

F

7 March, 1961.]

Sir JAMES DUNNETT, K.C.B., C.M.G.

[Continued.]

a payment formula because the consulting engineer wants to know where he will be if he does all his design work and the scheme is dropped. So, the division 60/40 has been designed primarily with that in mind, rather than being a very exact definition in a major scheme of how much represents design and how much supervision.

1686. If the consultant does the design and carries it right through to the point of inviting tenders but is not responsible for the supervision of the scheme would he still get 60 per cent. of the final cost if that final cost exceeded the tender price?—I cannot think of any case where we have swapped horses in that way and I think it would lead to very considerable difficulties. The 60 per cent. and the 40 per cent. is really a part of one agreement, and certainly that is the way the consulting engineer looks at it. The significance of the 60 per cent. to him is merely that he knows where he would be if, having done all his design work, his client then drops the scheme for one reason or another. I think that we would certainly be accused of breach of faith if we dropped him and employed another consultant at that stage and the scheme went on.

1687. It would be possible for the consultant himself to be unable for one reason or another to carry out the supervision, having got to completion of the design stage?—I suppose theoretically it would be, and then in those cases I think we would have to negotiate a settlement *ad hoc*.

1688. You cannot recall an instance?—I cannot recall an instance where that has happened.

Sir Colin Thornton-Kemsley.

1689. I wonder if I could ask the Treasury witness one thing before we pass from the Minute on these fees? He will realise that because a paper is marked "Confidential" Members of this Committee are precluded from discussing its contents with any colleagues in the House or elsewhere and are unable to show it to them or to ask them questions which might help the Committee in forming a judgment on these things. I was wondering whether it would be possible for the Treasury witness to downgrade, perhaps, a large part of this paper and reissue it, or such paragraphs as could be downgraded, in a form in which it could be shown to others and discussed with them so that we might

perhaps get some help from, it might be, friends of ours in the House and outside who might help us to form a judgment on these matters?—(Mr. Henley.) Certainly, Sir, we will look at it with that aim in mind. I am just wondering whether, in fact, it would not be possible for Members of the Committee to make such private enquiries as they think would be useful on the basis of their general knowledge of this subject as indeed it has come up in discussion here. I know that Sir James, and perhaps I myself, would want to ask for certain of our evidence to be sidelined; but I rather fear that if we sideline our paper, as it were, what you will be left with will not be of very much use to you. It is merely a suggestion that possibly one could approach the matter in the way I have suggested. What we principally had in mind, of course, in classifying this paper was that it should be very much a free exposition which would not be published for everyone to see. But I think there is a certain gap between that and confidential talks with, say, Members outside the Committee itself.

Mr. Arbuthnot.

1690. What is sidelined is a matter for the Committee, surely, is it not?—Certainly, Sir.

Sir George Benson.

1691. I think there is a very important point of principle here. Any piece of evidence we receive here is confidential until we release it, and release it with our Report. We cannot release it halfway through our sessions. Any document we receive from a Department must be strictly confidential until we decide at the end to publish it with our Report?—(Sir James Dunnett.) Could I just say one thing? I think the Association we are dealing with, the consulting engineers, would take a very dim view of it if the concession rates they give us were made generally available, and that I think would put us in a very difficult position for the future because they would say: "We give you special rates because you are the Government", but if everybody knows they are prepared to give us those rates it would put them in a very embarrassing position.

Sir George Benson.] There is a further point. This is a confidential paper presented to us by the Treasury. I do not think that we could publish it either in full or in excerpt except by agreement

7 March, 1961.] Sir JAMES DUNNETT, K.C.B., C.M.G.

[Continued.]

with the Treasury. Once a Department feels that confidential information may be published by this Committee it is going to have a very inhibiting effect.

Mr. *Stevens*.] I thought Sir Colin was clearly accepting that and merely asking for the substitution of a memorandum which was not quite so confidential, which the Treasury could release.

Sir *Colin Thornton-Kemsley*.] That was my intention, yes.

Mr. *Arbuthnot*.

1692. May I ask one further question? Sir James, what is the total that the Department has paid out in the last twelve months in fees to consulting engineers?—I did ask for some information on this. I have some information about what we have paid particular consultants, but I have not got the total.

1693. Would you like to submit a paper on that?—I could let you know what the total is, yes.*

* *Note by witness*: The total amount paid in fees to consulting engineers in the year 1959-60 was £572,287 14s. 9d.

1694. Mr. Henley, can you let us have a paper* showing fees paid, combining Departments together, because there are other Departments in a similar state such as the Ministries of Health and Works, giving the amounts that are being spent on fees to consulting engineers?—(Mr. *Henley*.) You mean the actual expenditure?

1695. Over a period of twelve months?—During a recent twelve month period, the actual expenditure?

1696. Yes?—Yes indeed, Sir. May I add something to the discussion just now about the confidential memorandum? We did, of course, in preparing the Treasury Minute on the basis of the confidential memorandum try to put into it as much information as we could which we thought could be made public; and what I had in mind replying to the hon. Member just now was that I did not think we could go very much further than that.

* Information supplied: not printed.

TREASURY MINUTE ON PARAGRAPHS 101-105 OF THE SECOND REPORT OF THE COMMITTEE OF PUBLIC ACCOUNTS, 1959-60.

Mr. *Stevens*.

1697. Will Members now turn to the Treasury Minute on paragraphs 101-105 of last year's Second Report, concerning advances by the Ministry to the British Transport Commission? Sir James, at the end of the first sub-paragraph there is a statement of intention: "It is not intended to ask Parliament to make a separate grant in respect of maintenance . . . in the forthcoming financial year". Have you any intentions which go on beyond the forthcoming financial year? Is it intended to ask Parliament for grants in the future?—(Sir *James Dunnett*.) No, the situation now is that the whole position in respect of payments to the British Transport Commission has changed so greatly in the two years since this arrangement was made that we do not now propose to make any special payment in the foreseeable future to the Commission in respect to level crossings and bridges and that, for as far ahead as we can see, any payment made will be part of the general deficit payment which, as you know, is now borne above the line.

1698. How have conditions changed so greatly?—It was not until April last

year that the Chancellor announced that he was going to meet the current losses of the Commission by a deficit payment above the line. Previously to that deficits were being met on a loan basis, as you know, and the Commission was under an obligation to repay. The Chancellor is now making these payments as grant above the line as clear deficit payments, and in view of that very clear change in the general situation of the Commission it was decided to abolish these special payments for bridges and level crossings and meet such payments out of the general deficit.

1699. In the next sub-paragraph it is stated that you have asked for returns of expenditure on maintenance to be certified by the Commission's auditors. Have those certified returns been received?—Yes, we make no payments there except on receipt of a certificate. The certificates we have received show that in a full year the Commission's expenses on bridges and level crossings exceeded £5 million and our final payments are not made until the certificate from the auditors is available.

1700. Can you say what is the relationship between the amounts of the

F 2

7 March, 1961.]

Sir JAMES DUNNETT, K.C.B., C.M.G.

[Continued.]

certified returns and the estimates upon which the Ministry's contribution was originally based?—When the figure of £2 million was settled the information we had then was that the Commission's expenditure on bridges and level crossings was certainly £4 million, if not in excess of £4 million. The evidence we now have supported by the auditors is that in fact their expenditure is over £5 million. It is true that at one stage there was a suggestion that these payments were to be in respect of improvements, but I explained last year that they are not in fact made on that basis nor is that the provision in the Vote. But the auditor's information shows that the Commission's expenditure is, as I say, over £5 million per annum on these services.

1701. Is there any difficulty in classifying expenditure as between maintenance and improvement?—The Commission so far have not been able to give us any information in that form.

1702. Mr. Henley, at the beginning of sub-paragraph 3 there is another statement of intention—indeed, of hope. It was hoped and intended that the contribution would not only assist the British Transport Commission with regard to their maintenance but would also help them on a programme of improvement. Do you know, in fact, how much of this contribution was spent on improvement?—(Mr. Henley.) We understand, Sir, that the Commission did not in fact find it possible to spend any amount of this money on something which could be called an improvement as distinct from something which might be classified as ordinary maintenance of the existing facilities.

1703. But if there had been a condition attached to the contribution then you would have known how much was spent on improvements and you would have seen that it was spent on improvements?—As I understand, this was not a specific condition. The view was expressed, I know, in the Treasury—I am not quite sure whether the Ministry fully accepted this—that this was, in fact, for the purpose of enabling certain improvements to be made. As I say, it was not a specific condition of the grant. (Sir James Dunnett.) That is the position.

1704. Do you think Parliament should be asked to vote money without any particular strings attached to it or any

particular condition?—The Vote makes it clear that it was a contribution to the cost of bridges.

1705. I was really asking Mr. Henley for the moment. I shall come back to you later, Sir James?—I beg your pardon.

1706. Mr. Henley, do you think Parliament should be asked to vote sums of money for no particular purpose?—(Mr. Henley.) I think it was made clear in the Vote, Sir, that this money was intended for the upkeep of these particular overline bridges and level crossings. There was no suggestion that the information in the Estimates was misleading in this respect. It was merely an expression of hope on the Treasury's part and, as I say, it may also have been on the Ministry's part, that this would enable the Commission to go rather further; but in practice I am afraid it did not work that way.

1707. Sir James, you evidently wanted to say something?—(Sir James Dunnett.) Yes. On the Parliamentary position, I just wanted to point out that the new Subhead in the Vote clearly described the sum as a "Contribution to the British Transport Commission in respect of their inherited liabilities for the maintenance of their overline road bridges and public road level crossings." That is in fact what Parliament was asked to provide the money for, and I think that makes it clear that the moneys which have been paid were paid in accordance with what Parliament was asked to find them for.

1708. The Treasury did hope that the money would be spent on improvements?—That is so, so did we.

1709. There is a little bit of contradiction?—There was a hope at one stage that this would be expended on improvements, but what Parliament was asked to provide money for was as I stated.

Mr. Stevens.] In terms of the Vote, yes.

Vice-Admiral Hughes Hallett.

1710. I must say I read these paragraphs with some surprise. I quite realise how when the railways were first established this idea that the railways should be a road-providing organisation as well, where the roads had to go over railways, came about. Now that the railways have been publicly owned for some

7 March, 1961.] Sir JAMES DUNNETT, K.C.B., C.M.G.

[Continued.]

years what possible advantage is there in the case of bridges—and I draw a sharp distinction between bridges and level crossings—for the responsibility for the bridge and the roadway over it remaining with the railways?—I think the difficulty is this: if you transfer it from railways, whom are you going to transfer it to? As far as trunk road bridges are concerned a deal was done between the Ministry and the railways under which, in return for an annual payment from the railways, we have taken over their responsibilities in respect of trunk road bridges. In the case of classified road bridges one has to persuade somebody to take this responsibility over from the railways, which means in this case the local authority, because classified roads are a local authority responsibility. Therefore, this depends on complicated financial arrangements really in respect of every bridge, and there are about twenty thousand of them, on the basis of which the local authorities would take them on; and, although discussions have been going on for a very long time between the Association representative of local authorities and the railways as to the basis on which local authorities would take them over, I regret to say not very much progress has been made, and the difficulty is the financial terms on which local authorities would take over this obligation from the railways.

1711. But supposing we just stopped discussing and changed the responsibility by legislation it is quite true that a percentage of the cost would fall on the rates and a percentage would doubtless be provided by a small increase in the general grant. Has anyone worked out what effect on the rates it would be likely to have in the average local authority?—I think the answer to that is No.

1712. Is there any reason to suppose it would be anything except negligible?—It would vary between authorities, of course. In some rural authorities with a large number of bridges it might be more than infinitesimal but in the overall context it would not be a large sum, I quite agree. It could be done by legislation.

1713. After all, so much has been taken off the plate of local authorities in recent years that it is rather ridiculous that one should have a lot of discussion, one would have thought, over a comparatively minor matter, and I ask you again: is it not very inefficient having this road responsibility duplicated at every railway crossing?—It makes for complications, but we cannot say that it does not work reasonably.

1714. Turning now to the question of level crossings and the very slow rate at which they are being replaced by bridges, what part does your Ministry play in trying to expedite this process, and what is the financial comparison between the cost of maintaining a level crossing with all the personnel to work it and the amortisation of the cost of the capital if you put a bridge down?—I am not aware that any study has been done on the last point, but, as you know, the railways, with a great deal of encouragement from us, have been experimenting with automatic barriers. There is, for example, a stretch of line in Yorkshire which is going, I think, to have automatic barriers all the way along. This is the direction in which railways are trying to tackle this, rather than wholesale replacement by bridges.

1715. Are you satisfied that the reluctance to replace the level crossings is in no way due to pressure from the Unions because of the big losses of jobs that would follow?—Well, I have no evidence to that effect.

CIVIL APPROPRIATION ACCOUNTS (CLASSES VI-X), 1959-60.

CLASS IX.

VOTE 2.

ROADS, &c., ENGLAND AND WALES.

Mr. Stevens.] Will Members turn to the Civil Appropriation Accounts, Classes VI-X, and the Comptroller and Auditor General's Report on Class IX, Vote 2, paragraphs 79-81, Motor Tax Account. I have no questions.

39389

Vice-Admiral *Hughes Hallett*.

1716. I have a question I would like to put to the Comptroller and Auditor General. We learn from paragraph 79 that the cost of collecting motor vehicle duties amounted to 3.41 per cent. of the

F 3

7 March, 1961.]

Sir JAMES DUNNETT, K.C.B., C.M.G.

[Continued.]

amount of the duties. I would like to ask how that compares with the cost of collecting comparable taxes, if there are any comparable taxes, when it is done by the central Government, by the Revenue as opposed to a local authority?—(Sir *Edmund Compton*.) I am very sorry, offhand I cannot give that figure. You would like a comparison, say, with the costs of collection of the Inland Revenue, or something like that?

1717. I wondered whether you have any views as to whether this is really nowadays an economical method of collecting tax?—If I may say, I would rather you asked that question of the Accounting Officer who is responsible for the efficiency of collection of this system. (Sir *James Dunnett*.) Yes, we have from time to time discussed this. We are satisfied that this is the most economical way in which we can deal with this particular job. I might just point out, as we are on this, that, of course, this percentage is taken on the net amount. There is quite a lot of work involved in repayment, and so on, and, of course, if you take it on the net amount that work gets excluded. We would be inclined to say that if you took it on the gross amount, you get a lower percentage and it would not be unfair to do it on that basis. I am merely saying that I think one could argue that 3·4 per cent. has been taken on the net, which shows it is rather higher than in fact it is. (Sir *Edmund Compton*.) I would agree that is a valid point. After all, refunds add up to something like £5½ million. That is quite a high proportion of the total.

Mr. *John Hall*.

1718. Sir James, does this include the revenue from driving licences?—(Sir *James Dunnett*.) Yes.

1719. Can you say offhand how much that amounts to?—I am sorry, I have not got that figure offhand. I could let you have it.

1720. Have you any idea whether it amounts to anything like the total cost of collecting all duties on road vehicles? Does it amount to anything like the sum of £3·1 million?—No, it does not, and the steps we have taken recently for three-year licences have, of course, reduced the cost of collecting it very considerably, though I think most of this expenditure is involved in collecting duties.

1721. So, you make really a considerable profit on the actual collection of the driving licence fees; the amount you collect is considerably in excess of the cost of administering it?—Well, it is a theoretical figure. There has to be an office to do this work as a whole, and how you would allocate part of it to the collection of driving licences revenues would be rather arbitrary.

1722. It does not cost you any more to issue the 15s. licence, for example, than to issue a 5s. licence each year?—That is true, but the number of staff employed in offices does vary according to the volume of the work. We are hoping also to have an economy by spreading the period during which motor vehicle licences are issued, and that also ought to avoid these great humps of work at the beginning of the year.

1723. The point I had in mind was, of course, that the fee for the driving licence was meant really to cover the cost of administering this. Now it is another form of revenue?—I think it would be fair to say, certainly, that the cost of collecting it is substantially less than the amount of the fee.

Mr. *Stevens*.

1724. Paragraphs 82-86, Advance payments in respect of land acquired for trunk roads. Sir James, in paragraph 82 the Comptroller and Auditor General says that the acquisition of land ordinarily takes some time to complete. Could you give any kind of indication of what sort of period is indicated by that?—The reason why we have introduced the scheme to which the Comptroller and Auditor General refers later is that the time taken to complete the full conveyances in some cases amounted to as much as two years.

1725. It can be as long as two years. What takes the time, is it the investigation of the title or the actual conveyancing, or what?—This work, as you know, is done for us by the Treasury Solicitors Department, but in the main it is the time taken to establish title in certain cases, to draw up the conveyance and settle it all.

1726. But you know your road programme for some way ahead, do you not, some years ahead? Do you start your negotiations for the acquisition of the land in good time? Have you done so in the past?—Well, of course, we do not want to acquire land a long time in advance of a scheme starting, as you

7 March, 1961.] Sir JAMES DUNNETT, K.C.B., C.M.G.

[Continued.]

can understand, and it is not all that easy to settle a very long time in advance exactly when a scheme is going to be ready to start, because you have got to go through all the preliminary stages of planning the route, you may get a lot of objections, and so on. So, there may be factors outside our control which affect the starting date, but we do try to estimate when a scheme will be ready to start, and we do try to get ahead with the land acquisition in parallel with that. That is our objective.

1727. It does seem to me that if you know your programme for some years ahead, even though there is a two-year gap between the intention to acquire and the actual acquisition of the title, if you start two years ahead of the date when you want the land it should come in at the right time, should it not?—Well, the trouble is that the process takes such varying amounts of time that we would find ourselves, if we started as early as that, owning quite substantial bits of land long before we were ready to start on the scheme.

1728. And yet legislation is going to be introduced to shorten the acquisition procedure, according to paragraph 85. How will that be done, do you know? Have you any idea what legislation is envisaged?—I do not know how far it is in order to discuss the content of future legislation, but by and large what this would be concerned with would be a simplified procedure for the land vesting in the Government. That is what takes the time at the moment. I am not denying that even with a simplified procedure of that kind there might still be some cases in which we would have to make an advance payment for some reasons, but provision for that would also be taken in the Bill.

1729. At the moment you are working under a temporary procedure. Is that temporary procedure working well?—Yes, it is, certainly. All the complaints, and there were a very large number of them, as the Minister announced before we introduced this procedure, have practically disappeared; and, as the Comptroller and Auditor General says, there is no case which has gone sour on us so far.

1730. You confirm that?—I confirm that.

1731. How many instances of this new temporary procedure have in fact
39389

reached completion?—In twelve months from 1st May, 1959, to 30th April, 1960, 237 applications were received. We granted 176, and the total money advanced was £350,000. During the present financial year up to 31st December, 119 applications have been approved, and the sums of money involved were £426,000.

1732. If the temporary procedure is working so well, why do you want more legislation?—I think the answer to that is that, as the Comptroller and Auditor General's comments show, this procedure is not wholly foolproof, although I am glad to say we have not yet been caught in any particular case. It was introduced to deal with this situation, and the general view is that faced with this kind of situation it would be more satisfactory on the long term to put it on a sound legislative basis.

Sir Colin Thornton-Kemsley.

1733. Mr. Henley, paragraph 83 deals with arrangements made for making advance payments to persons whose land is compulsorily required for highway purposes. Are there similar arrangements for making advance payments in other cases of compulsory acquisition?—(Mr. Henley.) You mean, compulsory acquisition of land for other purposes?

1734. Compulsory acquisition of land for purposes other than for highway purposes?—I would not, I am afraid, like to be sure about that. I think there must be individual cases, but we certainly have not, so far as I know, been faced with the need for making advance payments on anything like this scale, which is, of course, understandable, because you have a very large number of people affected, perhaps to a small degree, by a roadway of this sort.

1735. On whose authority is the upper limit, in this case of 90 per cent. for the amount of advances made?—That was agreed between the Ministry and the Treasury.

1736. Who decides whether the owner has suffered sufficient hardship to make a payment warranted under the terms of this arrangement?—Of course, the hardship criterion was the original criterion for making payments, and those payments in the first instance were on a much more restricted basis than they since became. In these cases the Ministry would put the cases individually to

F 4

7 March, 1961.]

Sir JAMES DUNNETT, K.C.B., C.M.G.

[Continued.]

the Treasury and we would agree or comment on them. Subsequently it was agreed that there should be a much more general arrangement for making advance payments irrespective of whether or not hardship was involved.

1737. The decision as to hardship rests with your Ministry, does it, Sir James?—(Sir James Dunnett.) What happens now is that hardship in each case only comes into it if we are making a payment before entry on to the land. In the light of the experience we have had we decide these cases except when we go to the Treasury if we are going to make a payment nine months before we enter on to the land or if there are any exceptional circumstances. Except for those two cases we decide.

1738. Is there any appeal against your decision?—No, there is not. In fact, I am not aware that we have had any particular case, but I think the answer is that there is certainly no appeal against our decision. It is at the discretion of the Minister.

1739. It is to cover cases, is it not, where you take possession of the land in advance of completion of the purchase, so that the title of the land is still with the owner but in fact you are exercising ownership through taking possession?—Normally what we are doing under the new scheme is to make payment post-entry but before title has been established and the conveyance has been completed. What I am saying is that in those cases a man applies, and he does not have to show hardship, we just pay on application, subject to the District Valuer satisfying himself and issuing a certificate. In addition to that, in pre-entry cases before we actually get on to the land, then the person applying has to show hardship for some reason.

Sir George Benson.

1740. I do not quite understand why there should be, as it appears to be from this, a considerable period of time between possession and completion?—There are cases where, by agreement, or indeed under the Compulsory Purchase Order, we take possession of the land before title has been established and the conveyance has been drawn up and completed. It is those that take all the time.

1741. Well, does it?—This is our experience. There are cases, as I have said, in which it takes up to two years.

1742. That is what I do not understand. I do not know whether Sir Colin does, who has also had experience in conveyancing matters. I do not understand, once you have title to purchase or take possession, why there should be two years' delay between that and the conveyance, which is normally a comparatively simple matter?—We are dealing here with pretty large areas of land if it is a motorway and very often split into very small bits, and this is our advice from the Treasury Solicitor, that it can take in certain cases up to this period.

1743. Because you have so many different conveyances to make, is that it?—That is part of it. I would not like to suggest that the delays are merely at the Treasury Solicitor's end. He is negotiating with other parties. In fact, I merely say that our experience before we introduced this, and there were a great deal of complaints from M.P.s., was that it was taking up to two years.

1744. I have not really got a clear idea, unless it is that you are taking a long, narrow strip of land and you may have ten, twenty or fifty different owners to deal with?—That is happening frequently.

1745. That is the reason for the delay between the entry and the conveyance?—Yes.

Sir Colin Thornton-Kemsley.

1746. Arising from that, it would be true, would it not, that this procedure would not only apply to the motorway going through open land but would apply also to comprehensive redevelopment in an urban area where you would have a multitude of owners and all sorts of different interests?—It applies to trunk roads and motorways. It does not apply to classified roads—and all roads inside boroughs are all classified roads—but it applies to motorways and trunk roads only. Trunk roads, of course, may be in fairly built-up areas.

Mr. Stevens.] May we now turn to the Accounts themselves, Class IX, Vote 2, on pages 187-191? I have no questions.

Vice-Admiral Hughes Hallett.

1747. I notice with some interest, if you turn to page 189, that this figure of £93,690,000 odd is apparently the total sum which has been spent on roads in one way or another?—Yes.

7 March, 1961.] Sir JAMES DUNNETT, K.C.B., C.M.G.

[Continued.]

1748. I take it that is really the total sum spent on maintenance and extensions?—No, that is the total of the whole Vote and includes all these other things, the £2 million to the British Transport Commission and these contributions to Road Safety, and so on, so that the sum spent on roads is less than that by a certain amount.

1749. Does it include money which is not directly related either to the maintenance, extension or administration of the roads?—If by "roads" you include road safety measures, no.

1750. Certainly I would, yes?—Yes, that is right.

1751. Is this not getting very close to the total amount that you are collecting that we saw a few minutes ago from the licences?—It is getting close to that figure, but you will be aware that the protagonists of a bigger road programme take other things in as well, fuel tax and purchase tax.

1752. That is another question?—But it is getting very close to the duties and licences, yes.

LISTS OF MAJOR WORKS ON MOTORWAYS, TRUNK ROADS AND CLASSIFIED ROADS IN PROGRESS DURING 1959-60 (ENGLAND AND WALES).

Mr. *Stevens*.] May we now turn to the Lists of Major Works on Motorways, Trunk Roads and Classified Roads in Progress During 1959-60 in England and Wales? I have no questions.

Mr. *John Hall*.

1753. Item 27 of the major works refers to the London—Fishguard Road. There you have the Western Avenue Improvement Scheme. If we look at the section relating to the Hanger Lane Underpass, which is 27 (d), we find that the preliminary estimate, £643,000, which was arrived at in 1954, was revised in 1958 to £861,000, and now in 1959, to £922,000. I am a little puzzled to know how I reconcile this with the information which is given to me in answer to Questions. I asked what this Hanger Lane Underpass was costing, and I was told that when the completion date was originally given as March, 1960, the amount was estimated at £761,000. The estimated date was then advanced to July, 1960, at an estimated cost, so the Minister said, of £830,000, and the last estimate given to me in answer to a question on the 1st February of this

year was £925,000. I find it very difficult to associate these figures with the information given on these sheets?—The £925,000 is fairly close to the £930,000.

1754. But the original estimate of £761,000 does not appear anywhere, as far as I can see. What interests me very much is that if the figure of £761,000 was right when the estimated date of completion was given as March, 1960, then the increase between that estimate and the actual cost is far greater than would appear from this return?—I am afraid I cannot recognise off-hand the figure of £761,000 which you have referred to. Could I let you have a note* on that?

1755. If you would, because if you look at these two columns, it looks as if the difference between the latest revised estimate and the estimate after detailed preparation is not all that much. But that is not the impression given by the answers to Parliamentary questions?—If I may, I will look at that.

* Information supplied: not printed.

TUESDAY, 21st MARCH, 1961.

Members present:

Mr. Harold Wilson, in the Chair.

Mr. Arbuthnot.
Sir George Benson.
Mr. John Hall.

Mr. Cledwyn Hughes.
Mr. Stevens.
Sir Samuel Storey.

Sir EDMUND COMPTON, K.B.E., C.B., Mr. D. O. HENLEY and Mr. J. P. CARSWELL called in and examined.

CIVIL APPROPRIATION ACCOUNTS (CLASSES VI-X), 1959-60.

CLASS VI.

VOTE 9.

MINISTRY OF LABOUR.

Sir LAURENCE HELSBY, K.B.E., C.B., Permanent Secretary, and Mr. G. J. NASH, C.B., Accountant General, Ministry of Labour, called in and examined.

Chairman.

1756. Sir Laurence, I do not think you have appeared before this Committee before, and on behalf of the Committee I should like to welcome you?—(Sir Laurence Helsby.) Thank you, Sir.

1757. Will Members please turn to the Comptroller and Auditor General's Report on the Civil Appropriation Accounts (Classes VI-X), to paragraphs 20 to 24, Costs of Placing and Advisory Services, taking first paragraphs 20 to 22, headed "Cost". Sir Laurence, paragraphs 20 and 21 seem to draw a distinction between the placing and advisory services, though one would have thought that the giving of advice and information was the first step to placing a worker in employment or finding suitable workers for employers, looking at it from the other point of view. What advice and information is given which is not directly connected with placing?—I think, Sir, that the person who goes to an Exchange for advice in the first instance may in some instances find his own job thereafter, or he may decide to stay where he is. Some of those who come for advice are, of course, in jobs and are only seeking about for opportunities to improve their position or to get a job with greater hope of advancement.

1758. Can you give us any idea—it may be, perhaps, only a very rough estimate—what proportion of the £5.7 million mentioned in paragraph 20 is,

in fact, in respect of advice and information which is not attributable to placing?—I am afraid not, Sir. It is really impossible to disentangle the two, and I suspect it was for that reason that the Comptroller and Auditor General put the two together.

1759. How do you explain the high cost of the Professional and Technical Registers in terms of actual placings?—There are three factors in it, I think. First, as you move down the four types of work which are specified in paragraph 21, the advisory element, although it is difficult to quantify precisely, undoubtedly gets greater. There is a very big advisory element in dealing with disabled persons, and on the professional and executive side it is also very high, partly because some of the clients, as it were, of that service are people, such as retired regular officers or people retired from the overseas Civil Service, whose bent needs some searching for; and one has to be rather careful to direct them into the right channels. The second factor is that the ratio between placings and what we call submissions, that is to say, the putting forward of an individual's name as a candidate for a job, is considerably higher by the time you get to the Professional and Executive Register. In the general work of the offices, the first heading in paragraph 21, on the average we reckon that there are 2½ submissions

21 March, 1961.] Sir LAURENCE HELSBY, K.B.E., C.B., and
Mr. G. J. NASH, C.B.

[Continued.]

for every one placing. Among disabled persons the ratio is about 6 to 1, and in the professional and executive field, 12 to 1. Thirdly, a rather different factor, the staff employed on the Professional and Executive Register work have to be of higher grade in order to cope with it, and the firms who seek people for vacancies generally ask for a short list, so that there is more work to be done on that account. You may happen to have noticed, Sir, that today's "Daily Mail" happens to carry a headline on the centre page saying: "Why your firm will pay £500 to fill one top job". That is referring to the normal market rate operating at this level through a private enterprise agency.

1760. Yes, I think we may want to come afterwards to that point about the private agency. Are the persons comprising this Technical and Executive Register unemployed or are they employed and looking for a job?—In the Technical and Scientific field about 61 per cent. of those placed are unemployed and the remaining 39 per cent. in employment.

Mr. John Hall.

1761. Sir Laurence, you were referring to the cost of obtaining employees through a private agency. As I understand it, if one goes to a private agency either the employee, or, more generally, the employer, has to pay a fee. That fee is calculated by the agency to be high enough to cover its expenses whether or not the particular persons are successful in getting the job. Is that not right?—I believe that is how they work. I think in the cases of unsuccessful, of course, the whole financial burden would have to fall on the would-be employing firm.

1762. Furthermore, if an employer does not use one of those agencies but advertises instead, he has to bear the cost of the advertising, the interviewing, and all the costs that follow from that method of selecting employees?—Yes.

1763. Is there, therefore, not a case for the Ministry of Labour charging a fee, at least to employers, for the placings for which they are responsible?—I think, first, one has bear in mind that quite a high proportion of those individuals who are clients of the Professional and Executive Register are

people to whom the Government owes a certain obligation, the sort of people I was speaking of, the ex-regular Army officers, ex-Colonial civil servants, and so forth. Secondly, as things stand, the Minister of Labour has a duty placed on him by the Employment and Training Act to provide services of this sort, but has no power to charge.

1764. The Department is not directly prevented or prohibited from charging, is it?—The legal advice given us is to the effect that where Parliament imposes a duty but does not expressly confer a power to charge the Department is inhibited from charging.

1765. I think it is true, is it not, that employers will go to a considerable amount of expense in order to find suitable employees, not only at professional level but at all levels of the staff they require; if they cannot get them through the labour offices they will try and get them through private agencies to whom they have to pay quite considerable fees. Therefore, in logic, why is it that you think the Ministry of Labour should not, if it were so authorised, charge a similar fee for the service it gives to employers?—I think we would feel that there are classes of people to whom the Government as a matter of policy owes a duty in this field and that it is difficult to distinguish between them and others.

1766. But, surely, the persons to whom you are referring form a very small proportion of the total number of placings for which you are responsible during any one year?—I have not got a precise figure by me. I have not got a figure for the Professional and Executive Register. When we come to the Technical and Scientific Register there is, of course, a high proportion of Government usage of the Register.

1767. Through your offices you supply, for example, private secretaries, do you not? It is possible to go to one of your offices and apply for a private secretary, although you may not have much hope of getting one, but at least they are on your register. Is that so?—Yes.

1768. If you go to a private agency you pay quite a lot to get a secretary, especially as you probably have to change them two or three times. Why can you not charge a moderate, perhaps more competitive, fee to that firm or Member of Parliament, for example,

21 March, 1961.] Sir LAURENCE HELSBY, K.B.E., C.B., and
Mr. G. J. NASH, C.B.

[Continued.]

for finding a private secretary?—I think it would be possible in that particular instance because private secretaries, by and large, are very scarce, and people who seek to become private secretaries are not, in general, at any rate, within the categories of people to whom I have suggested the Government owes some obligation. On the other hand, it is very difficult to differentiate between groups in this employment field. From the very beginning of the Exchange service just over fifty years ago it was felt that the general increase in the mobility of labour and the removal of friction in the employment market were valuable and worth while to the country at large; and it was recognised that unless you fulfilled this function for all you could not create a general labour market. If you differentiated between classes you would spoil the market for the clients who were more difficult to place, whom you particularly wanted to help.

1769. Do you not think, Sir Laurence, that is an out of date conception now?—No, I confess I do not. I think that there probably never was a time when mobility of labour and reduction of waste through friction in moving from one job to another were more important. I think it is becoming increasingly clear that the economic growth of this country will depend to a large extent on our power to use our limited manpower to the very best advantage.

1770. Can you explain to me how it is that the number of private agencies that exists and the increasing number of those that deal with the specialised employments manage to compete successfully with the special and free services offered to employers by the Ministry of Labour?—Undoubtedly the private enterprise agencies do specialise to an extent that is extremely expensive and outside the scope of what we would think reasonable in a general service.

Mr. Arbuthnot.

1771. Sir Laurence, what are the professions which come under the Professional and Executive Register mentioned in paragraph 21 and not under the Scientific and Technical Register mentioned in paragraph 22?—I think it is easiest, Sir, if I may do it by exclusion. The Professional and Executive Register deals with all the professions which are not named in paragraph 22, lawyers, doctors, accountants, and so forth. The whole range, in effect, except for the scientific,

engineering and constructional occupations mentioned in paragraph 22.

1772. Are not vacancies in professions advertised largely in the newspapers by the professional bodies?—Yes, they are advertised largely; though the professional bodies do not, I think, go in for such a measure of display advertising as some firms go in for.

1773. Do you, in fact, make many placings except in the public services?—From the Technical and Scientific Register?

1774. At all, and also from the Technical and Scientific Register?—In the Technical and Scientific Register the Government's share is roughly 40 per cent.—that is an estimate. That 40 per cent. accounts for about 90 per cent. of the Government's recruitment of temporary staff of this kind. In the Professional and Executive Register field the Government element is pretty well negligible.

1775. In fact, what proportion of the 1,174 placings mentioned in paragraph 22 went to other than Government Departments?—60 per cent., roughly—40 per cent. Government, 60 per cent. other.

1776. Do Government Departments have to notify their vacancies to the Ministry of Labour?—Yes.

1777. You said that there were many people to whom you owed this service. Do you have a substantial proportion of people under the age of twenty-five whom you place through it?—I am afraid I cannot recollect the proportions for age distribution. (Mr. Nash.) No, I do not think we have got the figures. There are a substantial proportion on the Professional and Executive Register who are over the age of forty and over the age of fifty. It is rather heavily weighted in the upper age groups.

1778. Would you let us have a note on that?—(Sir Laurence Helsby.) Yes, certainly*.

Mr. Cledwyn Hughes.

1779. I was surprised to see, Sir Laurence, that you record 10,136 placings in nursing appointments. What sort of appointments do you handle?—The whole range of nursing appointments as notified to us by hospitals and the like.

1780. How many nursing appointments are made annually in England and

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21 March, 1961.] Sir LAURENCE HELSBY, K.B.E., C.B., and
Mr. G. J. NASH, C.B.

[Continued.]

Wales?—9,800 appointments were made through the nursing appointments system in the year 1960.

1781. I am not quite clear. You record 10,136 placings in nursing appointments. What I really would like to know is how many placings there are annually throughout the country, including yours?—I am afraid I cannot give you that figure.

1782. In order to seek to arrive at the proportion of placings—?—Which we do?

1783. Which you do, yes?—I am afraid I have not got that figure, Sir.

1784. It is the case, though, is it not, that the hospital authorities do regularly advertise their requirements in the professional journals and in the Press?—Yes. It is our experience, though, that the people, particularly young people, who are interested in a nursing career, want to know a good deal about it before they go into it. It is novel to most of them, and they more than most, I am told, come to ask for preliminary information before they commit themselves.

1785. Is it not the case that the young people would get that information not from your offices but largely from youth employment officers or from the careers master or mistress at the school?—We have an arrangement with the youth employment officers whereby they pass on people who want pretty detailed information to those offices of ours that deal with nursing appointments—there are 157 offices which deal with nursing appointments—so that they can get a more complete picture. At one time we made it a practice ourselves to employ a number of nurses especially for the job of advising. That we have almost dispensed with entirely. I think we have got a total of only four on our strength now, because we found that by concentrating the work in 157 of our Exchanges up and down the country we could ensure that we have got a knowledgeable staff who can deal with this as well as other work.

1786. Are you in a position to say how many placings are made direct from schools or by youth employment officers, as apart from your offices?—We might be able to get that figure, but I have not got it with me.

1787. I would be much obliged if you could let us have a note* on that?—Certainly, Sir.

1788. Reverting to the advertising expenses now, the taxpayer has to pay those and also the £102,000 staff costs. Do you not think that is rather expensive in total, Sir Laurence?—Given the importance to the Health Service of getting these appointments made and the number of vacancies notified to us, which is always considerably larger than we can fill—you know that nurses have been very scarce—I doubt whether it could be said that this is unreasonable expenditure in the public interest.

1789. Do you include in your figures of placings jobs which have been found by the applicants themselves?—No, these placings include only those cases where there is a direct connection between our putting the name forward and the appointment. I am reminded that at the end of 1960 we had 24,000 vacancies for nurses on our books—over 24,000—so that the number of vacancies we are able to fill is only going some distance towards filling the gap in the service.

1790. On the general question of staffing, what formula do you use in fixing establishments in any given area?—The general establishments of the Ministry of Labour offices?

1791. Yes?—There are two formulae which work together. We differentiate between fluctuating work, which varies with the level of unemployment, and fixed work which goes on irrespective of that. For fluctuating work, for general purposes, the current ratio is one unit of staff for 105 on the unemployed register, but that is broken down by reference to a number of particular factors in the actual work which affects particular offices. For instance, our Regional Controllers will allocate staff to particular offices by reference not only to the number they have on the unemployed register but also to the number of fresh signatures they have, to the number of payments of insurance benefit that they make, and so forth. On the other side, the fixed work, which includes the placing work, is governed by a series of pointers by which headquarters governs the allocation of staff to the Regions, and the Regional Controllers in their turn govern the allocation of staff

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21 March, 1961.] Sir LAURENCE HELSBY, K.B.E., C.B., and
Mr. G. J. NASH, C.B.

[Continued.]

to individual offices. These pointers are based on a series of time factors, so much for each placing in general work, in nursing work, and so forth. It is really based on time for the job, and at bottom it depends on work study carried out by headquarters staff inspectors.

1792. Where you are anticipating an expansion of industry, for example, such as is taking place in Lancashire at the moment, or where areas are benefiting under the Local Employment Act, would you then in anticipation of that expansion increase the staff in the area?—On the contrary, the tendency would be for unemployment to be falling, and therefore a reduction of staff would take place.

1793. Although, in fact, by virtue of the fact that employment opportunities are increasing, it would follow, therefore, that there might even be more work, nevertheless you would in those circumstances reduce your staff?—It would depend on a balance between the placing work on the one hand and the unemployment insurance work on the other, and circumstances would govern how that balance fell.

Sir Samuel Storey.

1794. Can you tell us what proportion of the nursing appointments are recruits to the profession and what proportion are trained nurses being placed in posts?—No; the latter are in a minority. I have not got a figure for the proportion, I am afraid.

1795. Owing to the very great shortage of nurses, what steps do you take to get recruits to the profession?—I think the main step is to see that the youth employment officers are well aware of the need and bring it to the notice of suitable young people.

1796. You do not advertise in any way?—We do not ourselves, I think. The Ministry of Health, I should say, is the Department directly responsible for recruitment of nurses. We operate on their behalf, as we do on behalf of people who are interested in the employment of other sorts of staff, but the campaign for recruitment of nurses is their responsibility.

Chairman.

1797. Paragraphs 23 and 24, Incidence of Charge. Sir Laurence, can you tell us in what ways your placing service benefits the Insurance Fund?—In two

main ways, I think. First, it provides a test of whether unemployment is genuine, and, secondly, the existence of the Exchange service does serve on the average to get unemployed people back into work quicker than would otherwise be the case.

1798. On the first of those two parts of the answer, this means, then, does it, that if the Ministry of Pensions and National Insurance had to carry out its statutory obligations to verify the period of unemployment and the suitability and availability for work, if the Ministry of Labour were not doing it, they would have to set up their own organisation?—I think some organisation would undoubtedly have to be created in those circumstances.

1799. On your second point, you feel that the more efficient your placing service the quicker there is a reduction or the less there is a call for unemployment benefit, is that right?—Yes.

1800. As both you and the Ministry of Pensions and National Insurance have to have the equivalent of a placing service, do you feel it would be reasonable to share between you the costs, including the overheads, which are incurred by your Ministry on work of benefit to both?—I think a case undoubtedly can be made; and, of course, there are historical precedents for recognition of that degree of help to the Insurance Fund. The argument has been set forth by my predecessor in appearing before the Public Accounts Committee, I think some seven or eight years ago. He advanced the argument strongly, and clearly it has force. On the other hand, it seems to me that possibly with the passage of time the argument for a payment from the Insurance Fund to the Ministry of Labour in respect of placing work has lost a little of its force in the sense that, with the full recognition of the policy of full employment and the increasing recognition of the importance to the national economy of mobility of labour, we have come to regard the placing service as important to the nation in its own right, and not so much as something ancillary to the operation of the National Insurance system.

1801. You do recover from the Ministry of National Insurance the cost of training courses?—Yes.

1802. What is the argument for doing that, then, and not for charging for plac-

21 March, 1961.] Sir LAURENCE HELSBY, K.B.E., C.B., and
Mr. G. J. NASH, C.B.

[Continued.]

ing?—I think there is an administrative argument of convenience there. The cost of training can be ascertained within pretty close limits. The advantage which the Fund gains from our placing work and the cost to the Fund of what we do is very difficult to ascertain as a matter of accounting. You see, probably the most effective placing work that the Ministry of Labour does is where we succeed in getting the individual placed without an interval out of work which is long enough for him to figure in the unemployment returns at all; where, for instance, redundancy occurs in a particular firm we normally nowadays set up special arrangements to try to get jobs for the people before they are actually thrown out of work, and very often we succeed. That is a direct saving to the Insurance Fund. But it would be very difficult to assess all these cases and put a figure on them. In other words, if the Insurance Fund were to make a contribution to the cost of the Ministry of Labour's placing work now, I fancy it would have to be a somewhat arbitrary amount. It would have to be, not the reimbursement of an ascertained cost incurred for them, but a contribution to a general service.

1803. Mr. Henley, is the Treasury view today on this that the advice that you gave after considering a previous Report of the Public Accounts Committee of ten years ago is still correct?—(Mr. Henley.) Yes, it is, Sir.

1804. You have not changed that view?—We have not changed it. We have looked at it again since the Comptroller and Auditor General raised it in his Report, and we think that the arguments as Sir Laurence has explained them are fundamentally the same as they were in 1951-52, and we would not wish to depart from the conclusion we came to then.

1805. Paragraphs 25 to 28. Sir Laurence, in paragraph 28 the Comptroller and Auditor General says you have no statutory powers to charge employers for training services.

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1808. When was it that you first started to accept persons from industry for training?—(Sir Laurence Helsby.) Soon after the war, Sir, 1948 or 1949.

1809. And you considered then the possibility of making a charge and

decided at that stage not to impose a charge, is that right?—Well, it started on a very marginal basis. The Letchworth training, for instance, was intended primarily for our own instructors, and then we found that from time to time we had a few vacant places which could be given to firms from outside at rather marginal cost, but the thing grew bit by bit.

1810. How much does the "training within industry" scheme cost each year?—£55,000 in terms of staff costs.

1811. What will the apprenticeship scheme cost when it is fully operative?—It cost nothing within the year under review.

1812. No. How much will it cost when it is fully operative?—£12,000 rising to £30,000. Those are rather round figures.

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Sir George Benson.

1817. I would like to ask how these trainees are selected. Are they selected when they are already in employment in specific firms?—Are these the paragraph 26 trainees, Sir?

1818. Well, the whole thing, paragraphs 25 to 28. Are they dealing with different types of trainees?—Yes.

1819. I am not referring to the disabled people. I am only referring to the apprentices?—The paragraphs 26 and 27 people are in the employment of firms and they are nominated by their firms.

1820. You do not charge even for those?—We do not charge for any because, as paragraph 28 says, we have been advised that it is legally impossible so to do.

1821. Yes, legally impossible to enforce a charge, but is it legally impossible to agree a charge?—We are told that it is unconstitutional and improper to make a charge where Parliament has not specified that a charge should be made but has imposed a duty of providing a service.

Sir George Benson.] That is rather a blanket for the whole thing.

Mr. Cledwyn Hughes.

1822. * * * Are the employers generally satisfied that this is a good thing from their point of view?—On the Letchworth Staff College course employers certainly are fully aware of its

21 March, 1961.] Sir LAURENCE HELSBY, K.B.E., C.B., and
Mr. G. J. NASH, C.B.

[Continued.]

advantages, and we normally have a long waiting list of people nominated by their firms to come. In the training within industry field, among the larger firms who are only allowed to send trainers who will subsequently train the firm's own supervisors in training within industry methods, among those there is a pretty good response. A greater difficulty is to interest the smaller firms who are allowed on occasion to send supervisors as distinct from trainers. We call the smaller firms those which have less than fifteen supervisors on their strength, and we do allow them to send supervisors to be trained, although we try to do that not more than we can help because we do not get the advantage of the multiplier effect in our service, by training trainers who train other people, so that the end result is greater.

1823. What I am really after is to find out whether the employers are satisfied with the standard of training that the employees receive. Have you any system whereby you can find out from the employers whether they have any criticisms to offer as to the way the scheme is being run?—We have methods of consultation with industry; the whole scheme was set up after consultation, through joint committees, with both sides of industry, and in general there is no doubt that industry is well satisfied. But it is less easy to give an unequivocal answer when one is thinking of the response from the individual firm, particularly if it happens to be a very small firm which is unfamiliar with the kind of techniques which other firms have been using for a long time.

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Chairman.

1825. Are there any more questions on paragraphs 25 to 28? If not, we pass on to paragraphs 29 to 33, Control of Staff Complements: paragraph 29, General, and paragraphs 30 and 31, Internal Control. How are the fixed and fluctuating staff allowances determined?—They are determined by the Headquarters of the Ministry of Labour after consultation with our local people, the Regional Controllers, and in consultation with the Treasury. The main basis for determining the needs of fluctuating work is the ratio between the number of staff and the number of unemployed, with allowance for the fact that as the

unemployed become more numerous a unit of staff can cope with a larger volume of work; mass-production methods become possible, within limits.

1826. How often are the returns from local offices rendered?—The larger local offices send in fortnightly returns. In the smaller offices, where the possibilities of changes in staff are less, they send them in less frequently. In general, the larger offices have to run the gamut of criticism of staff numbers, adjustments of staff numbers, at something like monthly intervals; the smaller offices, which employ only 4 or 5 staff, at longer intervals. (Mr. Nash.) Quarterly.

1827. What do the returns from the local offices show?—(Sir Laurence Helsby.) They show the precise way in which the staff has been used, under a number of detailed heads of work; not only will there be the main division between the fluctuating work and the fixed work, but the two main classes will be subdivided and analysed in considerable detail.

1828. How is the overall regional ceiling fixed for each Region?—That is fixed by Headquarters, after considering a return which the Regional Controller sends in setting out his estimate of the precise use of his staff under the various heads which I have mentioned.

1829. Are those returns from the local offices used for the purpose of fixing the ceiling, or only to allocate people within the ceiling?—Both, to a certain extent.

Sir Samuel Storey.

1830. How do you determine where you put your local offices and what measure do you use as to their placing?—It is a question of the amount of use; by and large we try to avoid any need for a substantial number of unemployed people to travel more than 4 miles, but there are cases where marginally it is better administratively to exempt them from the need to sign on at the usual regular intervals by paying their insurance benefits by post.

1831. In my constituency, which is Stretford, they started a subsidiary office in Trafford Park; is that the usual practice?—Where a need comes up, as it may on a trading estate, we open what is called an outstation, which will probably be manned from a larger office on a part-time basis. Staff are sent out to man the sub-office for a given num-

21 March, 1961.] Sir LAURENCE HELSBY, K.B.E., C.B., and
Mr. G. J. NASH, C.B.

[Continued.]

ber of hours per day, or they may decide to man it full-time.

1832. To what extent are your offices joint with the Ministry of National Insurance, and how are the costs shared? Is there any interchange of staff between the two?—It is general policy to work the local offices of as many government departments as possible into one building now, but some 5 years ago we conducted a fairly comprehensive experiment in sharing offices in the way that you suggest, especially with the Ministry of Pensions and National Insurance with whom we have most in common, and the experiment was not really a success. It is quite true that the work was done, and we hope that the public were not inconvenienced; but we could not find any advantage from the point of view of the public, and from the point of view of the Exchequer there was very little gain. We discovered, to our disappointment, that the common element between the work of the departments was smaller than had been hoped. (Mr. Nash.) Perhaps I may add this: at the present time, out of some 985 Employment Exchanges and sub-offices, there are no fewer than 383 housed in the same building as other government departments.

Mr. Cledwyn Hughes.

1833. Paragraph 30 says that control by the Organisation and Establishment Department is supplemented by surveys carried out by the Organisation and Methods Section. How long does it take O. & M. to complete a cycle of visits to all branches of the Ministry?—(Sir Laurence Helsby.) I should imagine it would take two or three years at least to get round the lot. You see, we have over 1,100 local offices, and as long as you have got a team going round a representative selection of offices all the time I do not think it is necessary that they should visit every individual office. So long as they see a fair sample of offices with a staff of, say, 20, then they can draw deductions from that for all offices with 20.

1834. Is that what they do?—That is the principle, yes.

1835. Did they visit any regional offices last year?—Yes.

1836. What did they find as a result of those visits?—Detailed findings of various kinds, but the adjustments to be made could fairly be said to be marginal.

The result of inspection in the past year, where our own O. & M. people were supplemented by Treasury inspectors, was devoted mainly to the allowances for fixed work and the like, which are under consideration both in our department and presumably in the Treasury who now have the report. I think from time to time we have to face the need for revision of the system of pointers which decides the allocation of staff for fixed work.

1837. Do you keep a record of the staff economies which result from visits by O. & M.?—Yes, Sir, there is such a record.

1838. What is the complement of the Organisation and Establishment Department?—May we turn that figure up for you, Sir?

Chairman.

1839. Yes?—(Sir Edmund Compton.) The total staff, including registries, typists, messengers, etc., is 973 in the 1960-61 Estimates.

1840. That is for the Organisation and Establishment Department?—That is in the 1960-61 Estimates. (Mr. Nash.) At the present time for Headquarters Organisation and Establishment, excluding common services, it is something over 300. The common services, like looking after the premises, stationery, and that sort of thing, amount to quite a lot more, in fact the 600 difference between the figures—that is, typists, messengers, cleaners and so on—but the operative strength of the Organisation and Establishment Headquarters is something over 300.

Mr. Cledwyn Hughes.

1841. How much does that cost annually?—About £300,000, perhaps, in salaries; it is rather difficult to say; it depends on the average salaries of the people covered.

1842. Have you had an O. & M. survey of the Organisation and Establishment Department itself?—Oh, yes, they are not exempted.

Mr. Stevens.

1843. Sir Laurence, there seems to be a column missing from paragraph 31; there is "Staff in Post" on various dates, then "Understaffing" and "Overstaffing", but not the estimated number of the establishment under the "staffing basis scheme". By a simple mathematical

21 March, 1961.] Sir LAURENCE HELSBY, K.B.E., C.B., and
Mr. G. J. NASH, C.B.

[Continued.]

calculation you can arrive at it, but the actual figure is not there. But as to the number estimated under the "staffing basis scheme", are those the number requested by the local offices on the "staffing basis scheme"?—(Sir Laurence Helsby.) Yes, I think the "Percentage of Understaffing or Overstaffing" shown in the last column of that table indicates the understaffing or overstaffing as against what the staff should have been if the "staffing basis scheme" had worked perfectly.

1844. The number of staff, in other words, requested by the local offices?—Not only requested by the local offices but endorsed by the controlling authorities.

1845. Yes—requested by the local offices, and then endorsed by Headquarters?—Yes.

1846. And in arriving at these figures of establishment, reference has to be made to the fixed and fluctuating staff, and if an unduly generous allowance is made in respect of fluctuating staff requirements, then these figures of "Understaffing" and "Overstaffing" might be misleading, might they not? If your yardstick of establishment is wrong, then the percentage of understaffing or overstaffing will also be wrong, will it not?—That could happen, but what the final column really shows is the time-lag, I think, in achieving the actualities of what ought to be.

1847. Will not the tendency of local offices be to over-state their staff requirements?—I do not think so, in this sense, that what tends to happen is that unemployment rises, perhaps, quite sharply and quickly in an area where it has been low; the staff needs of the local office rise sharply; but even if they were able to foresee what was going to happen in advance, pretty certainly their request for additional staff could not be authorised and the bodies actually found and transferred to them in time to meet the need. The first strain is nearly always taken on fluctuating work by existing staff, and then gradually the allocation of staff to meet the increased need catches up, but there is a time-lag; and similarly, when unemployment turns down and staff should be reduced, unfortunately there is a time-lag there also, partly because you are dealing with staff which is dispersed over a very large number of offices, some of them very

small. When the need for cuts in staff first emerges, you may find that a particular office could take, say, a 10 per cent. cut in staff, but it has only got 5 staff, and you have to wait a bit longer before that is absorbed. And then again, even temporary staff are subject to one month's notice, or it may be a question of transferring an individual from one office to another, and all that takes a little time to arrange.

1848. Everything you have said rather confirms my view that these percentages, so far from being accurate, for reasons which are outside your control are very approximate. And again, I heard you say, quite truly, that in any given office the conditions may vary between one month and another—unemployment increases, or whatever it may be—and it is also true that between one office and another the conditions vary considerably. Would it not follow from that that the time taken for a particular task in one office may vary quite a lot from the time taken to do the same task in another office?—That may happen to a certain extent; but when the task is broken down into its constituent elements, as it is, then I do not think the variation is very great.

1849. One has in mind that where there is a strong demand for employment the fixing of a particular applicant is a rapid matter, whereas where the demand for labour is not so great, then that same work must take substantially longer. How do you allow for such variations in fixing your standards?—We do allow for differences on the fixed side of the work, in that although Headquarters operates by way of giving the Regional Controller a fixed ceiling for his staff, he has a certain discretion in using that staff as between one office and another; and although in doing that disposition of his staff the Regional Controller takes into account the pointers which emerge from the detailed analysis of the work of individual offices (the pointers are an indication of the sort of standards he will probably want to apply), he has a certain discretion. There is a certain flexibility in the system.

1850. And how often are the standards revised?—Quarterly, in the main.

Mr. Stevens.] Thank you.

Chairman.

1851. You said to Mr. Cledwyn Hughes that you do have records of the

21 March, 1961.] Sir LAURENCE HELSBY, K.B.E., C.B., and
Mr. G. J. NASH, C.B.

[Continued.]

economies effected as a result of the operations of O. & M. Are those records kept in a meaningful way—in a way that would be meaningful to this Committee? Would it be possible for you to give us a summary* of what they achieved?—I think we could do it for specimen cases. We could see what emerges from certain surveys.

1852. Could you do that?—Yes, Sir.

1853. Paragraphs 29 to 33, Control of Staff Complements. Paragraphs 32 and 33, Treasury Control. How do you arrive at the number of staff required when you are asking for a manpower target from the Treasury?—It is built up in the way I was describing it in relation to paragraph 30; that is to say, we start on the basis of an estimate of the level of unemployment at the time to which the staff ceiling relates; we then work out the fluctuating staff allowance for that, and similarly we work out, through this system of pointers, the appropriate allowance for the fixed work.

1854. What is the present fluctuating staff ratio?—105-to-1, Sir.

1855. Has this varied very much in recent years?—Yes, quite considerably. The present arrangement is that that figure of 105-to-1 would apply to a register of anything up to 450,000. If the register went higher, the figure would be raised, that is to say, each staff unit would have to correspond to a larger number of unemployed. In 1955 the ratio was 125-to-1; that is going back some way. The tendency has been, I must admit, for the ratio to fall, for the reason that it is agreed on all hands that with the passage of time the insurance scheme becomes more complex; it gathers to itself more regulations, more case law, and is more difficult for the staff to administer.

1856. When you say the ratio falls, you mean the proportion of staff to the numbers on the live register is rising?—The number of unemployed people per staff unit falls.

1857. What was the figure before the war?—May I put in a note on that, too, Sir?

1858. Yes?—(Sir Edmund Compton.) I see the ratio was 190-to-1 in 1938.

1859. You were then dealing with a register of 2 million unemployed or more; is that the main difference?—

(Sir Laurence Helsby.) Yes. In the thirties, for good or ill, methods of dealing with unemployed in our offices had come to be accepted which we should not think very appropriate now; it had come to be accepted that a somewhat mass-production technique of bringing them in, queuing them up and paying them would be allowed.

1860. You mean that for one reason or another your staff are now spending more time per week per individual on the live register, taking into account all the work they have to do?—Yes, Sir.

Mr. Stevens.

1861. Judging by paragraph 33, Mr. Henley, the Treasury in respect of wages inspectors seems to change its mind as often as a woman is entitled to do: "Up to the summer of 1958 the complement of wages inspectors was in the proportion of four higher grade to five lower grade inspectors", and then later on: "two higher for every one lower grade inspector", and then it is said "it was agreed with the Treasury in August 1960 that the ratio should be two higher to three lower grade inspectors." Is there some principle behind these changes?—(Mr. Henley.) I am not sure that it is true to say that the Treasury has changed its own mind to the extent which is indicated in paragraph 33 of the Comptroller and Auditor General's Report. These particular proportions which varied over the period of this report do reflect different ideas as between the Ministry and the Treasury as to what was the appropriate grading as between Grades 4 and 5 for these particular wages inspectors' work, and I would even hesitate to say that the final result was entirely in line with what the Treasury may have felt to be strictly appropriate. But that is quite normal in these matters. We do tend to take a somewhat more stringent view than the department, and, after discussion and further reviews of this particular work, and comparisons with what we regarded as comparable work in other departments, we came to a settlement with the Ministry on the basis of two higher to three lower grade inspectors.

1862. And that is the reason that the position has now been stabilised at 2 higher to 3 lower grade inspectors?—I do not think we would regard it as stabilised for all time because circum-

* Information supplied: not printed.

21 March, 1961.] Sir LAURENCE HELSBY, K.B.E., C.B., and
Mr. G. J. NASH, C.B.

[Continued.]

stances change, and I think it is accepted by the Ministry and ourselves that revision may have to take place, but we have accepted for the time being that the present settlement is a reasonable one.

1863. I did address that question to Mr. Henley, because paragraph 33 does start by referring to the interest which the Treasury takes in this matter, but I think you, Sir Laurence, clearly wanted to say something?—(Sir *Laurence Helsby*.) Strictly on your last point, Sir, we clearly recognise that circumstances do make a difference to the precise balance of the grades employed at a particular time. In the summer of 1958 we were concerned with two factors: first, the Baking Industry (Hours of Employment) Act was coming into operation in that year, and it seemed to us likely that it would throw up a large amount of difficult work. It seemed to us that the completely new (as it was then) task of keeping a watch over the hours of work at bakeries up and down the country did create a very real problem. It was not going to be sufficient simply to police the work; we had to have people who were capable of giving sensible and adequate advice to bakers, because they would be asked: "What is the best way for us to meet the requirements of the Act?" Secondly, we had decided in 1957 that the time had come to make some economy in the general overall complement of wages inspectors, and we decided that we should economise to the tune of £35,000 a year, and that economy was made in 1958 despite the upgrading. Indeed, the upgrading of a number of the inspectors was regarded, in the circumstances of the time, and especially in relation to the Baking Industry (Hours of Employment) Act, as the best way of achieving the economy. The upgrading of inspectors in 1958 cost approximately £6,000 a year, but the net saving which we achieved was still £35,000, and we thought—whether rightly or wrongly—that we would not have been able to achieve so much net saving if we had not made that upgrading. In fact, our fears about the baking industry were to some extent unfounded. A very large proportion of the bakeries with which we were concerned entered into national agreements about employment conditions which enabled the Minister to make

orders exempting them from the provisions of the Act, and the need for inspection of these bakeries therefore disappeared. That is largely the change of circumstances which has brought about the present view in the Ministry of Labour that the work of the wages inspectorate has grown simpler.

1864. Would you think, then, that in the absence of other legislation similar to the Baking Industry (Hours of Employment) Act, the position is likely now to remain fairly stable at this ratio of 2 higher to 3 lower grade inspectors?—I would think so, but we shall not simply put the matter aside; we shall continue to watch how it develops.

1865. I have another point for you, Mr. Henley. In paragraph 33 of the Comptroller and Auditor General's Report he does say that you carry out these staff inspections from time to time. To what extent, and how often, do you look at these fluctuating staff allowances? How often have you looked at them in recent years?—(Mr. *Henley*.) I am afraid that I cannot answer that off-hand, Sir. We have just completed a review of the fixed allowances. I cannot remember when we last did the fluctuating allowances, but I think it was in the last year or so.

1866. So you would not have any idea as to what the result of that might be? Have you at the moment in mind to make any such examination in the near future?—I am told that the last examination of fluctuating allowances was in fact in 1958, and my impression is that these are done every two or three years. We have just done one on the fixed allowances.

1867. And that is quite soon coming up now, is it?—Yes, that is coming up soon now. I might have another look at the fluctuating allowances.

1868. I did ask Sir Laurence if he knew whether there was much variation in performing a particular task in one office as compared with another. Would the enquiries of the Treasury cover points like that?—Yes, Sir. In fact, as you were asking your earlier question, I thought a number of the points you raised were indeed points which the Treasury would take into account in examining the effect on actual staff requirements of the application of the fixed or fluctuating allowances as they then stood.

21 March, 1961.] Sir LAURENCE HELSBY, K.B.E., C.B., and
Mr. G. J. NASH, C.B.

[Continued.]

1869. So the Treasury's own examination must cover a reasonable cross-section of offices in different parts of the country?—Yes. In the last examination of the fixed allowances, as we must cover offices in different parts of the country, they ranged from London and the south-east up to Scotland.

Mr. *Cledwyn Hughes*.

1870. What is the total complement of wages inspectors mentioned in paragraph 33?—(Sir *Laurence Helsby*.) 153, I think it is.

1871. When you received the Treasury staff inspector's report, were you surprised to find that so many of your wages inspectors were considered by him to be overgraded?—I think the analogies which he drew are very difficult to draw. It is very, very difficult to compare the work of an inspector in one government department with that of an inspector in another government department. We feel that the work of our wages inspectors is pretty wide in its scope, and we are impressed, too, with the need for an effective wages inspectorate to perform advisory functions. We find that the average firm which the inspector visits, if it is on the wrong side of the law, is there by inadvertence or through lack of knowledge rather than by wilful misdoing, and that what is often wanted is help in setting things right.

1872. How do you think the overgrading came about?—It came about as a deliberate provision for the two factors that I mentioned just now: first, the difficulty of the work, particularly on the advisory side, arising out of the Baking Industry (Hours of Employment) Act; and secondly, our feeling that you could best economise on staff costs by increasing the proportion of higher-grade inspectors.

1873. When were you first told of this overgrading by the Treasury Inspector?—We were first told of this in 1959.

1874. How long did it take you, then, to agree the appropriate complement?—I think it would be a matter of 6 months to 8 months. We did a further factual review of our own, as the Report records, and then we discussed the matter with the Treasury. In the light of the facts which we had ascertained, plus the factors ascertained by their Inspector,

it was not very difficult to agree a proper conclusion with the Treasury.

1875. But you took rather a long time to agree, though—8 months?—(Mr. *Nash*.) There was the very complicated subject of the comparison with the work of inspectors of other departments, which was very, very intricate.

1876. How many of the 40 posts have been downgraded so far?—(Sir *Laurence Helsby*.) 24 by February. The exact total is 36.

1877. And when do you expect the downgrading to be completed?—By the autumn, roughly.

Sir *Samuel Storey*.

1878. Does that downgrading affect the present holders of the posts, or is it simply achieved by not filling them?—It is achieved by natural wastage; by moving people when vacancies occur through retirement or promotion, and also some have been transferred to other work.

1879. So that it does not really affect the present holders?—No individual so far has been told "You were Grade 4; you are now Grade 5."

Sir *George Benson*.

1880. To what extent do you feel that the Treasury are apt to downgrade in the interests of possible false economy?—There is a natural tendency for the Treasury to seek a little more economy than is palatable or acceptable to the operating department, but I am bound to say that, within my own experience, I have not come across any extreme examples of that—anything which could not be met by way of discussion and agreement on the factors concerned.

1881. Is that a polite way of saying that you have had a bit of an argument with them?—There are times when there has to be a fairly downright argument on the matter, but the sort of argument which is indicated in paragraph 33 is always difficult; where the argument proceeds by a comparison between the work in different departments which are concerned with different subject-matters, it is always intricate.

1882. To what extent do you think the Treasury are too keen on undergrading? I am looking at it from the point of view of the general effect on the efficiency of the department?—I

21 March, 1961.] Sir LAURENCE HELSBY, K.B.E., C.B., and
Mr. G. J. NASH, C.B.

[Continued.]

would not say that they are too keen, but I admit that they are keen, and occasionally they are keen in cases where the employing department thinks that there is good reason to the contrary. But the Treasury are not unreceptive to reasonable arguments contrary to what they have suggested.

Chairman.

1883. Regarding the recent inspection on the fixed staff allowances, Mr. Henley, did your inspector find any more overgrading?—(Mr. *Henley*.) His terms of reference were not strictly concerned with the actual grading, but in the course of the inspection he did draw attention to a number of ancillary points, of which it is possible that what he regarded as very small overgrading may have been one.

1884. You say he covered a wide area of the country. Was he satisfied that the local offices were run with reasonable economy as regards staffing for the common services—typing, telephones, stationery and so on?—He did recommend—and this is under discussion between the Treasury and the Ministry now—that some economies could be made in four of the so-called pointers

which determine the number of staff required in the service as a whole.

1885. Sir Laurence, has your department accepted the conclusions of the staff inspector in this particular report?—(Sir *Laurence Helsby*.) Not in that form. The report is still under discussion.

1886. When did you receive it?—In December, Sir. (Mr. *Nash*.) Two or three months ago. (Sir *Laurence Helsby*.) What we have been doing is to approach the same problem by a somewhat different route. We have been considering an alternative method of revising the pointers (I think I had better not try to go into any detail at this stage) by which we have achieved somewhat similar results, and we hope to discuss that with the Treasury.

1887. Will this be as quick?—The Treasury inspector in two cases had said that he would like to see an arbitrary reduction of certain pointers. Being arbitrary is always very quick, but it is not always very satisfactory.

1888. When do you expect to finalise the consideration of this report and discussion with the Treasury?—Within the next month or so, Sir.

Chairman.] Thank you, Sir Laurence.

THURSDAY, 23RD MARCH, 1961.

Members present :

Mr. Arbuthnot.
Sir George Benson.
Mr. John Hall.
Mr. Hoy.

Vice-Admiral Hughes Hallett.
Mr. Stevens.
Sir Samuel Storey.
Sir Colin Thornton-Kemsley.

In the absence of Mr. Harold Wilson, Sir Colin Thornton-Kemsley was called to the Chair.

Sir EDMUND COMPTON, K.B.E., C.B., Mr. D. O. HENLEY and Mr. S. GOLDMAN called in and examined.

TREASURY MINUTE ON PARAGRAPHS 67-72 AND 73-79 OF THE SECOND REPORT OF THE COMMITTEE OF PUBLIC ACCOUNTS, 1959-60.

Sir JOHN WINNIFRITH, K.C.B., Permanent Secretary, Ministry of Agriculture, Fisheries and Food ; and Mr. M. CAMPBELL, C.B., Secretary, Department of Agriculture and Fisheries for Scotland, called in and examined.

Sir Colin Thornton-Kemsley.

1889. Will Members please turn to the Treasury Minute on the Second Report of the Public Accounts Committee for last year, paragraphs 67-72, General Fertiliser Subsidy (United Kingdom)? Sir John, what kinds of assurances about the future level of profits are you seeking from the fertiliser suppliers?—(Sir John Winnifrith.) I do not think I can answer that quite in one sentence, Sir, except that our objective is to get assurances from the two chief suppliers which satisfy the conclusions of the Monopolies Commission ; and those conclusions were different in the case of each of the two firms.

1890. Would I be right in assuming that the two principal suppliers are Fisons and Imperial Chemical Industries?—Yes, indeed, Sir, they supply two-thirds of the total output.

1891. You have started discussions with them, have you?—We have ; indeed, we have been discussing ever since this time last year.

1892. But they are not concluded?—Not finally concluded, but if I may venture it, in a very satisfactory state.

1893. Can you give the Committee any indication as to when you expect to complete them?—It is always hard to know when the last stage will be finished, but I hope it will be a matter of weeks.

1894. What has been causing the delay? It is about a year now is it not?—It is about a year. I think there are two main reasons: the first is that in the case of I.C.I. we started from a position where the Monopolies Commission had said that they found nothing wrong as at the time when they reported, nothing to suggest that the level of profit of I.C.I. was more than they considered reasonable. That gave us rather a difficult point from which to start discussions, but I am glad to say that I.C.I. manifested a very proper public spirit and they recognised that there was a public interest to be satisfied in getting assurances about their profitability. That was one reason. The second reason, again, because we were talking to I.C.I., was the great difficulty that they calculate their capital employed on the basis of replacement costs as opposed to historical costs. That is always a great difficulty when you are trying to work on a formula for measuring the level of profitability on the normal basis which we take in the ordinary way.

1895. How did you get on with Fisons?—There the position was rather different, because we started off with the Chairman of the company having made a public declaration that his Board accepted the conclusions of the Monopolies Commission. It was, therefore, in their case more a question of getting those assurances formalised and checked ; and that was rather an easier process.

23 March, 1961.]

Sir JOHN WINNIFRITH, K.C.B., and
Mr. M. CAMPBELL, C.B.

[Continued.]

Vice-Admiral Hughes Hallett.

1896. Sir John about how many of the 3,000 different kinds of fertilisers, I think it is, are supplied by I.C.I. and Fisons?—I am sorry, I have not got the complete list with me. It may be that those two big firms do not supply more than—I really do not think I ought to hazard a guess about that. I could easily find out.

1897. What I was really leading up to ask is this: will the other suppliers be required to give assurances as well?—So far our view is that if we can get these arrangements with I.C.I. and Fisons in the form we want we can leave the other suppliers, accounting for the remaining one-third, without scrutiny in detail of their activities. The laws of competition alone will ensure that if the profitability of the two big firms is no more than reasonable so will theirs be.

1898. Yes, but if some of the other suppliers are supplying fertilisers which possibly I.C.I. or Fisons do not manufacture, how will you then satisfy yourselves that their prices are fair and reasonable?—I think it is all a question of constituents. The main subsidised elements in the fertilisers which will be sold by any fertiliser firm will be the standard products, superphosphates and nitrogen.

Mr. Hoy.

1899. Sir John, you said that you expected to have this finalised in weeks. How many weeks?—Under 10. That was the sort of order of time that I was thinking of.

1900. That is much more definite. You say, of course, that it was a different matter discussing this as between Fisons and I.C.I. because Fisons had accepted the findings of the Commission. In the course of these discussions did they ever make any offer to repay you any of the money they had got?—No, Sir, possibly because we did not ask them.

1901. Why did you not? It is public money and I should have thought that would have been a very interesting question to ask them if in fact they accepted the findings of the Commission, would it not?—I was anxious throughout that the result of these discussions should be to ensure the future. I did not think it profitable to raise a point about the past which might have been controversial.

1902. They had found it profitable, anyhow. Sir John, last March you told the Committee you were going to ask Parliament for powers in connection with the authorisation of fertiliser merchants and the audit of their books. You remember you said that?—Yes.

1903. What has been done?—We have not yet been able to get Parliamentary time for a Bill to include this enactment. Indeed, as comes up on another item raised this afternoon, we have not been able to get our other legislation through. I am glad to say that in the meantime there has been no case whatever where we have approached a merchant that we have not got this information voluntarily.

1904. But you still regard it as important?—Indeed, yes.

Sir George Benson.

1905. You have the power, so far as lime transactions are concerned, to investigate both the cost of production and the profits?—Yes.

1906. The Public Accounts Committee last year, I think, recommended that you should have the same powers with regard to fertilisers?—Yes.

1907. Have you taken those powers?—We have not, Sir.

1908. Why not?—We have obviously considered very carefully the suggestion made by last year's Committee. Very respectfully, our conclusion is that if we can get the assurances which we think we have almost got from the two big fertiliser firms we shall there have a system for verifying the profitability of the industry which will give us all we want.

1909. The profitability, yes, but what about efficiency? It is not only the profitability but their costs also which surely require an investigation?—Yes. Would it not be fair to say that, if we can ascertain what is the percentage of profit on the capital employed in nothing but the fertiliser activities of these two firms, we then know to what extent the public through the payments which we are making is getting a fair deal?

1910. Not unless you know how far their production is efficient?—I see the point.

1911. The cost to the consumer is the cost of production plus the profit. The profit may be very small but the production costs may be very high due to

23 March, 1961.]

Sir JOHN WINNIFRITH, K.C.B., and
Mr. M. CAMPBELL, C.B.

[Continued.]

inefficiency?—Yes. I should be most surprised if these two particular firms are guilty of that failing.

1912. So should I, but surely you are taking it on trust if you do not investigate, are you not?—I think that is undoubtedly so. I should have thought we were taking in this case something on trust in a way which is justified.

Sir George Benson.] Well, I am not sure.

Mr. Arbuthnot.

1913. Sir John, in answer to a question you said that I.C.I. are using the replacement capital cost rather than the historical cost. You said to Sir George Benson that if you include the percentage of profit on the capital employed you would have what you want. Did you in your reply to Sir George Benson imply that you accept the I.C.I. thesis that the replacement cost is the appropriate one that you should use rather than the historical cost?—No, Sir, we do not. That is to say, when we are getting our yardstick as to what constitutes reasonable profit we should certainly wish, as the Monopolies Commission did, to translate the figures calculated on the basis of replacement cost capital into terms of historical cost capital which, of course, can be done, though it is very difficult.

1914. Do we take it that I.C.I. and Fisons will both be treated the same?—Yes.

Mr. Hoy.

1915. Mr. Campbell, what view has the Scottish Department on all this? Are you in jointly on all these negotiations?—(Mr. Campbell.) No, this is entirely the responsibility of Sir John's Department.

1916. And yet you use the fertilisers in Scotland, and we have had one or two instances where, the farmers have done rather well out of it. You remember in one case a farmer got 105 per cent. of his cost, and I should have thought you would have wanted to take some special interest in this to make sure you are not paying them too much?—I think we trust Sir John to look after this matter.

1917. Sir John trusted the others. Surely there is some form of liaison, is there not?—(Sir John Winnifrith.) If I could answer that question, we do tell our Scottish colleagues how we are get-

ting along; and in these discussions I have been describing there is not only the Ministry of Agriculture, there is also the Board of Trade which has widespread ramifications.

Mr. Hoy.] I can well understand that, but there is a Department of Agriculture in Scotland which is complete and separate and they have got to pay for the fertilisers the same as you have. I just wanted to be assured that they were in on this.

Sir Colin Thornton-Kemsley.] I think, Mr. Hoy, if you look at the Account on page 112 of the Civil Appropriation Accounts, the general fertiliser subsidy is stated to be United Kingdom.

Mr. Hoy.

1918. Yes, I am not quarrelling with that. I am merely saying that a considerable proportion of this will go to Scotland for which the Department of Agriculture will be responsible, and all I wanted to be assured of is that they too assure themselves that the money has been properly spent. After all, they have got to bear the cost even though it does come under this. They are responsible for the farmers in Scotland, at least for their supervision. Is that not right?—(Mr. Campbell.) For the administration of particular schemes which may involve the use of fertilisers, but not for the general subsidy.

Sir Colin Thornton-Kemsley.

1919. A United Kingdom subsidy like this is administered entirely by the Ministry of Agriculture, is it not?—(Sir John Winnifrith.) Yes. The responsibility for the fairness of the price is undoubtedly our sole responsibility.

Mr. Hoy.

1920. Yes, I am not quarrelling with that. All I am saying is that a considerable quantity of it is used in Scotland and the Ministry of Agriculture and Fisheries would expect the Scottish Department of Agriculture to look after it, would they not? You would not seek to interfere with its economic use in Scotland?—No. On the administration of the scheme north of the Border the Department of Agriculture is supreme.

Sir Colin Thornton-Kemsley.

1921. Mr. Henley, the Public Accounts Committee recommended that the Ministry should have the right to investigate

23 March, 1961.]

Sir JOHN WINNIFRITH, K.C.B., and
Mr. M. CAMPBELL, C.B.

[Continued.]

producers' costs and approve prices for fertilisers, as is done in the case of the lime subsidy scheme?—(Mr. Henley.) Yes.

1922. Now, the Treasury Minute is silent on this proposal. Why is that?—This is because we felt, in agreement with the two Departments concerned, that the most profitable way of dealing with this problem was by the approach from the Monopolies Commission Report; and we did not think that while the negotiations with the principal suppliers on that basis were going on there was point in following up the alternative approach which the Committee recommended and which, I think, I myself said last year would in certain circumstances have to be considered.

1923. You think it would have been advantageous to have mentioned that in the Treasury Minute?—We were conscious, Sir, that we had, as it were, failed to comment on this point at the time. The reason for that, and I am sorry that we had to make the Minute rather thin in that respect, was bound up with the state of these negotiations at the time.

1924. May we now pass to the Treasury Minute on paragraphs 73-79, Grants for Ploughing up Grassland? Sir John, what are the steps which you have taken to rectify the system so as to avoid overpayments of grant?—(Sir John Winnifrith.) I think that I outlined to the Committee this time last year the immediate steps we are taking, and I can give a full report now.

1925. If you will?—We had already at that time instituted a cross-check in four Divisional Offices—there are 32 in England and Wales, so that covered one-eighth—and we have got the complete result of these checks. They have resulted in avoiding overpayments amounting to about 1.2 per cent. of the total; that is, about £9,000 in each of two years. Meanwhile, a further check covering the whole of the 32 Divisional Offices has been in progress. The results of that check are not so far completely to hand. There is no reason to think that the results would be greatly different from those in the pilot check and, therefore, we might be avoiding overpayments to the extent of, say, £75,000. May I mention one other development? As a result of these checks I am glad to say, though I do

not say it in any vindictive spirit, that we have been able to mount very many more prosecutions. Last year I reported that in seven years we had only had 11 prosecutions. Now, as a result of this new machinery we have already had 12 prosecutions, 9 of which were successful. In some cases we have got quite heavy penalties imposed, and there are another 14 in the pipeline. This I mention because I am sure it will have a very salutary effect. There is no evidence of widespread intent to deceive. There is evidence of a certain amount of carelessness, and these prosecutions and this check will, I think, make claimants more conscientious.

1926. What steps do you take to make sure that these prosecutions are widely publicised?—We do our best to get the farming papers and local papers to give them as much space as they will.

1927. Do you find the farming papers respond?—Yes, indeed, they have given us quite a lot of space.

1928. Mr. Campbell, what is the position in Scotland?—(Mr. Campbell.) The position in Scotland, Sir, is that we did complete a check on the 1959 scheme last year, which showed overpayments of some £11,700. We have now recovered the whole of that money. For the 1960 scheme we have had our new system in operation whereby all the cereal deficiency claims are notified to the Areas and checked against the ploughing grant claims, so this year we have prevented these overpayments from arising.

1929. Are you satisfied that the measures taken will ensure, as far as possible, that overpayments of a similar nature are not in future made in Scotland?—Yes, I am satisfied that the new system achieves that.

Sir George Benson.

1930. You say that you have only prosecuted 12 farmers in England?—(Sir John Winnifrith.) Yes, in one year.

1931. What were the results of the prosecutions?—The biggest penalty we got was, I think, £200. That is, of course, in addition to getting costs and full recovery of the overpayment.

1932. Are you satisfied that that has had a salutary effect?—Oh, yes.

1933. It was widely known?—Widely known, and created quite a stir.

23 March, 1961.]

Sir JOHN WINNIFRITH, K.C.B., and
Mr. M. CAMPBELL, C.B.

[Continued.]

1934. In Scotland the position is that you have had, did I gather, no prosecutions?—(Mr. Campbell.) We had none last year, except in one particular case of fraud which involved an officer of the Department. This year we have prevented the overpayments, but there are two cases which at present have been sent to the Procurator Fiscal to consider proceedings.

1935. So, you are satisfied that these proceedings are having a very salutary effect in both countries?—(Sir John Winnifrith.) I certainly am. (Mr. Campbell.) What I would say is that I am satisfied that the check has prevented the trouble arising.

1936. That is what I meant, yes?—Yes.

Sir Samuel Storey.

1937. You are checking between the cereal deficiency claims and the ploughing-up grants?—Yes.

1938. Where a cereal crop is under-sown before 1st June in any year is it not possible for it to qualify for cereal deficiency payment and yet still to qualify for the ploughing-up grant four years later?—The scheme lays down the precise date by which the grass must be sown. If the crop is under-sown with grass in the first year there will be three later years in which there is grass without crop.

1939. When you are checking between your cereal deficiency payments and your ploughing-up payments how do you distinguish between those cases?—We have built up, of course, a series of all the deficiency payment claims for recent years. We have a complete set. I think the whole matter is covered.

1940. You check also the date of under-sowing?—All we need do is check whether a cereal deficiency payment was made.

1941. No, the ploughing-up grant would be payable a year earlier if it was under-sown before May 31st?—No, because the scheme lays down the precise date before which the grass must have been sown.

1942. May 31st?—Yes. It does not mention the number of years. It deals with it by a precise date.

Sir Colin Thornton-Kemsley.

1943. It is a date in 1955, is it not?—Yes.

Sir Samuel Storey.

1944. A claim for ploughing-up grant in 1958-59 would be available if the grass had been sown before 31st May, 1955?—That is correct.

1945. If there is a cereal deficiency payment for that year how do you check when the crop was sown?—If there is a cereal deficiency payment for the year 1955 that does not rule out the ploughing grant for the year 1959. What we have to check is that there have been no cereal deficiency payments for any of the years 1956, 1957 or 1958.

Mr. Arbuthnot.

1946. Sir John you told us that you have had a cross-check in four Divisional Offices out of 32. What is the nature of your cross-check?—(Sir John Winnifrith.) Precisely the check which we are now having all over the country. It was only pilot in the sense that we started it off in four Offices, mainly to get lessons from the practical working of the cross-check. But it was, for all intents and purposes, the same check which we have now got going in the whole 32.

1947. What lessons have you learnt?—Quite a lot in employing peoples' time to the best advantage. It is mainly a question of the work flow.

1948. You have had 12 prosecutions and there are 14 in the pipeline. Have there been any instances where you have decided not to prosecute although you have evidence of slackness or intentionally incorrect returns?—Our legal advice is that we have to prove in court intent to defraud. There may be a number of cases where we suspect intent to defraud but we cannot prove it. That is the test we apply in deciding whether to take the case to court or not.

1949. What proportion do the 12 prosecutions bear to the number of cases where you suspect intent?—I do not think I can give you a figure for that.

1950. Can you give us a rough indication?—I am just wondering if I can help you. If I take the pilot check, I think we probably had about 43 cases.

1951. The whole of this is the pilot check, is it not? The 12 prosecutions resulted from the pilot check?—They are mainly pilot check, but already in the nationwide check we have got some into the net. You see, it started up only a few months after the pilot check; but

23 March, 1961.]

Sir JOHN WINNIFRITH, K.C.B., and
Mr. M. CAMPBELL, C.B.

[Continued.]

if I could take the pilot check to give an indication, we had about 43 cases which we thought smelt. The prosecutions we mounted were 14, and I think that is an indication of the proportion.

1952. Are you satisfied, then, with the efficiency of your check in that in such a large proportion of cases you cannot get the evidence to prosecute?—Well, intent to defraud is quite a hard thing

to prove and I do not see what we could do by improving this machinery that is going to give us evidence. I think it is much more important to let it be known that there is a check which is resulting in both a considerable number of prosecutions and very many more cases where people are being questioned and as a result are having payments withheld. I think that will undoubtedly be salutary.

CIVIL APPROPRIATION ACCOUNTS (CLASSES VI-X), 1959-60.

CLASS VIII.

VOTE 1.

MINISTRY OF AGRICULTURE, FISHERIES AND FOOD.

Sir Colin Thornton-Kemsley.

1953. Will Members now turn to the Comptroller and Auditor General's Report on the Civil Appropriation Accounts (Classes VI-X), to paragraphs 61 and 62, Failure to recover costs? Sir John, you told us a little while ago, in connection with other legislation about which we had enquired, that there had not been time for Parliamentary enactments. I see that in this case again you need legislation for your fees?—(Sir John Winnifrith.) Yes.

1954. Does not the fact that you are losing money on these fees make it all the more important that a Bill should be introduced as soon as possible?—It does indeed, and the Minister is fully conscious of this. Nothing would please him more than to get this Bill included in the programme.

1955. Some of these fees seem to have been unchanged since 1916?—Yes.

1956. Would it not have been possible to obtain the necessary powers by clauses in recent agricultural legislation?—I must clearly answer that question, Yes. There have been some miscellaneous provisions Bills since 1916, and I think it was unfortunate that we did not get on to this question earlier.

1957. But you are now fully seized of the importance of getting the legislation as soon as possible?—Yes.

1958. Mr. Henley, can you tell us at all whether anything can be done to expedite legislation?—(Mr. Henley.) I do not think I can usefully add to what Sir John has said on that, Sir. We, too, are, if anything, even more conscious of the need to get this legislation through

for this particular purpose. We hope that it may be possible in the near future, but clearly this is a matter for Ministerial decision. As regards the particular fees under paragraph 61 (iii) of the Comptroller and Auditor General's Report which apparently have remained unchanged since 1916, I think I am right in saying that these are matters which have not been brought to our attention until the recent past; but we certainly are in contact with the Ministry about these and the other fees for the stallions, the bulls and the boars.

1959. Which are the fees which have remained unchanged since 1916? Those are the fees under the Inclosure, &c., Expenses Act?—(Sir John Winnifrith.) Those would be all those in that category, Sir, in paragraph (iii) of the Comptroller and Auditor General's paragraph 61.

1960. Does that amount to anything very much?—The loss, £9,000 a year.

Mr. John Hall.

1961. When did it first become apparent that these fees were rather too low, and I am talking now of the fees in paragraph 61, sub-paragraphs (i) and (ii), not those in (iii)?—If I can take the fees in paragraph 61 (i), the stock improvement fees, if I may say so they always were inadequate. When the bull licensing scheme was first introduced the Minister, when dealing with the matter in the House, said that he proposed to charge a nominal fee; and, in fact, the fee of 5s. in the Bill had to be set against the figure which he gave to the House of an assumed cost of 10s.

1962. So, it was always the intention that this should be a subsidised service,

23 March, 1961.]

Sir JOHN WINNIFRITH, K.C.B., and
Mr. M. CAMPBELL, C.B.

[Continued.]

in effect?—That clearly was the intention then. I think it is a matter for consideration now whether one should go for full recovery. What is quite clear, I think, is that the 5s. which was considered adequate in 1931 is inadequate today.

1963. The Minister in 1956 considered that the fees referred to in paragraph 61 (iii) were too low, and he was considering then taking some action to raise them?—Yes.

1964. Was the same consideration applied to the fees in relation to the Improvement of Livestock Act of 1931?—Yes, they were considered at about the same time.

1965. Not earlier than that?—I cannot be quite definite on that, but I do know that they were considered in 1956 and 1957.

1966. Would you not consider that there had been ample opportunity to put this right between 1956 and now by the introduction of the necessary legislation?—All I can say is that the clauses were drafted and were awaiting inclusion in a miscellaneous provisions Bill, but we were not able to get it in the programme.

1967. How long have they been waiting for inclusion?—That particular clause has been waiting, I think, since 1957.

Vice-Admiral *Hughes Hallett.*

1968. Mr. Henley, bearing in mind that it is now 47 years since we had a stable currency, what is the Treasury's attitude towards writing fixed fees into Statutes?—(Mr. Henley.) In general, Sir, I think we would not do that. We would not recommend that to be done nowadays—without, if I may say so, necessarily accepting the premise to your question.

1969. Forty-seven years takes us back to 1914, since when there has been a period of tremendous inflation, and a long period of great deflation followed by another inflationary period. I think it is true that we have not had a stable currency period for 47 years. What I do want to ask is, do the Treasury accept that it would be better in present circumstances to put a fee-levying power into a statute, subject to affirmative order?—In general, yes, that is right, subject to the form of the subordinate legislation. (Sir John Winnifrith.) If I may say so, that is our undoubted intention in

this legislation. We should take these enabling powers to vary those fees.

Mr. *Hoy.*

1970. Sir John, what part of the loss of £42,000 a year mentioned in this paragraph relates to bulls and boars?—£38,000.

1971. The Treasury were not aware of this concealed subsidy, were they?—I think so, Sir. (Mr. Henley.) Yes, Sir. I think we were aware of the bulls and the boars.

1972. Yes, but were you aware what they were costing you, because they were rather expensive at £38,000 a year?—I doubt whether we have had that precise figure, but I must say if we have not had it I think I must say it is perhaps our fault if we have not asked for it.

1973. Did the Treasury ask you, Sir John, because the Treasury apparently does not know. Did they ask you what this was costing?—(Sir John Winnifrith.) I could not say. I think it is apparent from the Accounts. Anybody who studies the Accounts and the Estimates will see that it is running in that way.

1974. At the time that you agreed to take these powers under the new legislation was this agreed with the Treasury so that these charges could be varied without new legislation?—I do know that there was correspondence between the Ministry and the Treasury about this forthcoming legislation.

1975. So that these fees could be kept under review all the time?—Yes.

Mr. *Arbuthnot.*

1976. You have been forestalled in the legislative queue by the Minister of Transport? Is there any justification at all, Sir John, for a continuing subsidy for this service?—I think I said just now that this was arguable. I am sure that you can argue in both directions. You can say that there is no reason why this service should not be fully self-supporting. You can, I think, equally argue, as I imagine was the case in 1931, that this is a service performed for the community. You are walking into a man's farm and you are saying that he may only keep an entire animal on certain conditions in the interests of the community, and you can argue that for that reason it is not right to charge him the full cost of that service. There is a

23 March, 1961.]

Sir JOHN WINNIFRITH, K.C.B., and
Mr. M. CAMPBELL, C.B.

[Continued.]

further consideration—I do not press either of these points particularly strongly—that it is a little hard to decide where the act of inspection and the act of giving advice begins and ends. The same man, the same member of the N.A.A.S., who goes along to look at the bull will almost certainly combine that visit with one of his advisory visits. It is very hard to know and measure accurately precisely what part of his time has gone on the one operation and the other.

Sir Samuel Storey.

1977. How many miscellaneous provisions Bills have you had since 1957?—I am told none, Sir.

1978. Will your proposed new clauses deal with all three sets of fees?—I hope that one clause will see the lot through. There will be no differentiation as between these three categories. To cover the lot we shall have one enabling provision, I hope.

1979. An enabling provision to charge fees and to fix them as necessary?—Yes, subject to a statutory instrument being ratified by Parliament.

Sir George Benson.

1980. These losses that you have given the Comptroller and Auditor General and which he reports in sub-paragraphs (i), (ii) and (iii) are not very informative because they do not say what proportion of the costs they are. They may be 50 per cent. or they may be 5 per cent. Could you give us the proportion in each case? What are the total fees under sub-paragraph (i)?—For male animals, the expenses were £50,000, the fees were £12,000.

1981. How do you manage to get a loss of £42,000 out of that?—That is £38,000 for the bulls and boars. Added to that there are the expenses of stallions. On stallions, the expenses were £4,000 and the fees were, I think, £200 or £300.

1982. Do the same proportions apply to the other two figures of £7,000 and £9,000?—I can give you those figures, Sir. The veterinary fees on imported animals: costs were £25,000, the fees a far higher proportion, £18,000, and the

loss £7,000. The land fees, the last category: the cost £14,700, the fees £5,600.

1983. That means that you are losing a very, very high proportion on the first and the third?—In the first category and the last; not so high a proportion in the second, yes.

1984. Is it not possible to step your fees up?—That will be the general objective of the legislation, though I would like to qualify that. This matter is in process of being discussed with the Treasury and the Treasury may have views on it; but for some of the activities we would certainly not feel that full recoupment of costs was justified. In some cases, even, we would feel that the service should be done free of charge. In this land category there is a whole jungle of transactions, many of them dealing with commons. If a public authority wishes to take common land to put up some public amenity, a bus stop or a public lavatory, they have to apply to us for permission. We then in the interests of the commoners and the public generally go through much the same processes as a local planning authority would go through if it were a case of other land. Now, the planning authority make no charge for that service. We do make a charge, a charge inadequate to cover our services, but I think quite possibly there should be no charge at all.

1985. So, you bear these costs with regard to bulls, stallions and boars in order that there should be a given standard of quality?—Yes.

1986. Are you satisfied that you are getting any advantage by the maintenance of the quality of stock?—Oh, yes. The introduction of this bull licensing scheme in 1931, I claim, made an enormous difference to the standard of stock throughout the country. In those days far too many farmers were quite content with any kind of animal which was capable of getting the cow in calf.

1987. The farmers must have benefited even more than the public?—The farmers do, but after all that is the object of our agricultural policy, to step up the efficiency of farming.

23 March, 1961.]

Sir JOHN WINNIFRITH, K.C.B., and
Mr. M. CAMPBELL, C.B.

[Continued.]

VOTE 3.

AGRICULTURAL AND FOOD SERVICES.

VOTE 11.

DEPARTMENT OF AGRICULTURE FOR SCOTLAND.

Sir Colin Thornton-Kemsley.

1988. Will Members now turn to paragraphs 63-66, Poultry Progeny Testing Stations? Sir John, how many stations have you in England and Wales?—(Sir John Winnifrith.) Three, Sir, in Staffordshire, Yorkshire and in Surrey.

1989. According to paragraph 65 receipts at these stations fell short of cash expenditure by £18,700. What is the cost to the Exchequer after charging administrative and technical staff salaries?—Quite a bit more, Sir. The N.A.A.S. staff who supervise these stations and the clerical staff who keep the very complicated records involve costs running at about £22,000 a year.

1990. So, you have got a deficit of more than £40,000?—Yes.

1991. Are trading accounts prepared for these stations?—Not in the accepted sense. We keep our own running records; in fact, from those records I have produced those figures.

1992. Of sales of poultry, produce, and so on, yes. What is the total operating deficit, including the staff costs and depreciation, for the last year for which you can produce some sort of accounts?—If I add depreciation at £25,000 and £22,000 for the N.A.A.S.—£65,000.

1993. £67,000, is it not?—Yes, Sir.

1994. Do you agree that the scheme has turned into a continuing and unintended subsidy to the industry?—It certainly has been unintended. The intention at the start was that it should not only pay its way but should have a small operating profit; and that intention has not been carried out.

1995. The operating profit, presumably, would have come from the sale of eggs and poultry, and so on, from these stations?—Yes.

1996. Why is it that the thing has not turned out as you had hoped?—I think there were four reasons which, indeed, are mentioned in the Comptroller and

Auditor General's Report. Perhaps I could go through them in turn. The first feature was that in the scheme as planned we were going to carry out not only the test which is now in operation but in addition we were going to have a cockerel scheme, the object of which was to find out how the progeny of that particular cockerel performed in the way of laying tests. That scheme involved mating that cockerel with birds of other breeds and the resulting tests would be with cross-bred birds. Those cross-bred birds would also have been kept in pens of 50 as opposed to the pens of 25 which we have got for this other series of test. The larger pens would in themselves have been more profitable, but much more important, the cross-bred birds would have had a far higher egg rate. Finally, in that scheme we were going to make quite a big charge for entering, £5 a time. It was assumed there would be 500 cockerels and there would have been £2,500 of revenue. We had, in fact, assumed that that scheme alone would have permitted a surplus of £30,000. In view of our experience on the rest of the scheme I do not suggest that we would have achieved that £30,000, but we certainly did lose here a feature in the scheme which would have helped on the revenue side. The second cause of the failure to keep up to estimate was that we undoubtedly made quite inadequate estimates of the amount of labour required. We had assumed that one man could handle 850 birds. In fact, we need one to handle 300, so three times the labour was required; and to make things worse, wage rates during that period have gone up by 33½ per cent. Then I come to two other reasons which in themselves, I think, account for the cash deficit. We had assumed that the birds entered would consistently have been birds producing large numbers of eggs. We assumed that there would be an average laying rate of 200 a bird. In fact, the average has been about 160 and that makes quite a big difference to the accounts—we calculate £5,500. I may say the best birds are well above the 200, but it is the laggards which have

23 March, 1961.]

Sir JOHN WINNIFRITH, K.C.B., and
Mr. M. CAMPBELL, C.B.

[Continued.]

let the side down. Finally, part of the assumption of the scheme was that when we had finished with the laying trials we would sell the birds off and we had assumed that they would fetch, on average, 20s. In fact, they have fetched 11s. I do not think we can be blamed for that last error in estimating. That is due very largely to the enormous expansion of the broiler industry in these four years. If we had got our price for our birds we would have been better off to the tune of £13,000.

1997. What action now are you taking to balance the accounts?—Our main aim is to get the industry at this stage to take over responsibility for this experiment. We do not want to see the experiment relinquished. We think it is a very useful one, but we hope we can persuade the industry to take it over.

1998. What is the position in Scotland, Mr. Campbell? You have got one station, have you?—(Mr. Campbell.) We have one station in Edinburgh. In 1959-60 we made a deficit of £3,423. We estimate another £2,800 should be added to that to take account of other staff costs in the Department and if depreciation were taken in at, say, 5 per cent. of the capital cost that would make the total loss something of the order of £12,000.

1999. What action are you taking to balance your account?—We, as Sir John says, are relying on the hope that the industry may be willing to take over the stations in both countries.

2000. You have not thought at all of passing this over to the East of Scotland College for Agriculture?—Not to the College. We think the industry is the more appropriate body to take it over. They have subscribed the capital and they are interested in improvement of the egg laying capacity of their flocks.

Mr. Hoy.

2001. Where is it, exactly?—At the Bush, the Edinburgh Centre of Rural Economy.

Sir Colin Thornton-Kemsley.

2002. That is why I asked about the East of Scotland College, because they are in the same place, are they not?—Yes.

Sir Samuel Storey.

2003. You said you have three stations in England, Sir John?—(Sir John Winnifrith.) Yes.

2004. Are they on a much bigger scale than the Scottish station?—Yes.

2005. Because they cost nine times as much, I notice?—Yes.

2006. If the industry does not take the stations over, then I take it you will fall back on the proposal in paragraph 66 to increase the fees. If so, will you require legislative power for that, as you did in the previous case, and how much of the deficit will the increases cover?—I am glad to say we do not need legislative authority, so we can put up the fees just by saying so. I think that it will not be only just a question of putting up fees. If we fail in our endeavour to get this taken over there are various courses open to us. One which I would deplore would be that we gave up the venture entirely. But perhaps there is a halfway house and if it had to continue for a time under Ministry management before handing it over to the industry there are a number of things we would like to do to reduce the cost which were looked into by the working party which I think is referred to by the Comptroller and Auditor General. One fairly obvious step to take would be to reduce our stations from three to two. We have got surplus capacity at the moment, and we could undoubtedly carry through the volume of tests likely to be required at two stations. We could increase the fees, and probably increase them quite a bit. We could introduce various other features into the scheme, which are rather technical, which we hope would step up the return from our egg sales, all of which I think would go to making this scheme more self-supporting.

2007. Is the progeny testing devoted simply to increasing the laying capacity, or does it deal with the qualities required for the broiler industry?—The stock improvement plan is open to table birds as well as to laying birds, but this testing is confined to laying birds.

2008. Why do you not extend it? As the broiler industry has become so important why is it not extended to cover it?—My first answer would be that the broiler industry is doing so well that I do not think it needs any support from the State.

23 March, 1961.]

SIR JOHN WINNIFRITH, K.C.B.

[Continued.]

VOTE 3.

AGRICULTURAL AND FOOD SERVICES (Continued).

Sir Colin Thornton-Kemsley.

2009. May we now turn to paragraphs 67 to 78, taking first paragraphs 67 and 68, Fowl Pest, and paragraphs 69 to 72, the difficulty of diagnosing fowl pest. Sir John, under the 1950 Act it is, I understand, illegal to pay compensation for birds which are affected with fowl pest?—(Sir John Winnifrith.) Yes.

2010. I see from paragraph 70 that the Comptroller and Auditor General asked you whether you were satisfied that compensation had not been paid on birds so affected. I am going to ask you what is the short answer to that question? Shall I put it again: are you satisfied that compensation has not been paid on birds affected with fowl pest?—Subject to human error, I may answer that confidently, yes, we are satisfied.

2011. I note that you say, and it is reported in paragraph 71, that the blood test is not an infallible guide to the presence or absence of the disease, but is it not reasonably certain that if 41 out of 50 blood samples are positive, as stated in this case about the pedigree turkeys, some at least of the turkeys in that flock were suffering from the disease?—I know, Sir, it sounds extremely hard to ask this Committee to believe, but that can be so. The only answer I can give is that in the opinion of veterinary surgeons that is a perfectly fair conclusion. The truth is that this blood test is a test of the presence of antibodies which are built up during the onset of the disease. Two things are, therefore, perfectly possible. You can have a blood test and you can have a negative reaction and yet that bird may already have the disease on it. But more important, and that is the explanation for these turkeys, a bird may have had the disease, may have recovered, and may be in the happy state of immunity to the disease; and in the case of these turkeys that is the probable conclusion, that the turkeys had had the disease, had recovered from it, and from the point of view of the owner were not only recovered birds but immune birds.

2012. Mr. Henley, were you aware before the Comptroller and Auditor General made his Report that contrary to the position as it was understood in 1934 it may now be very difficult to distinguish between healthy and diseased birds by

39389

clinical inspection?—(Mr. Henley.) I cannot be sure, Sir, whether we were aware at that particular point. We certainly have been worried about the very heavy expenditure on this compensation, and we did look into it ourselves in the Treasury from our own knowledge in the course of early 1960, as a result of which we took the general issue up with the Ministry. But as regards your specific point, I am not sure that that was covered.

2013. Are you satisfied that the amounts actually paid as compensation are all proper to be charged against the Vote?—I am sure they are proper to be charged against the Vote, Sir, and they are covered by the Vote. What we cannot, of course, really make a very useful contribution on is the scientific tests which the Ministry applies.

Sir Colin Thornton-Kemsley.] Yes, that is hardly one that the Treasury could be expected to interest itself in.

Mr. John Hall.

2014. Sir John, in view of the very large number of apparently healthy birds that were slaughtered, is the Ministry still satisfied that slaughtering is really the best way of dealing with fowl pest?—(Sir John Winnifrith.) That, I think, is the most important question now at issue. During the earlier years when this disease was raging the number of outbreaks was within tolerable limits. The number of birds that had to be slaughtered was within tolerable limits. But once we get to 1959-60 there was an enormous increase both in outbreaks and in birds to be slaughtered, and it was at that point that we had most serious doubts about the case for continuing with the slaughtering policy, and at that point we appointed this independent committee to go into the question and to make recommendations. The Ministry is extremely worried at the enormous sums of public money that are going out in compensation.

2015. I do not remember the provisions of the 1935 Act. Could you tell me very briefly why it was decided not to pay compensation for diseased birds?—When we legislated in 1935 it was for the acute form of the disease and a diseased bird was virtually a dead bird,

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23 March, 1961.]

Sir JOHN WINNIFRITH, K.C.B.

[Continued.]

and there was no case for compensation for that class of bird.

2016. But if you were to extend your investigations a little further and take birds which might have only a very mild form of it which you suspect now might have got compensation although legally they should not be getting compensation, might there not be a case for examining whether you should not now pay compensation for birds that have the disease?—I hope I did not suggest that we are paying compensation on birds which have a mild form of the disease.

2017. I get that impression from reading the relevant paragraph?—If our diagnosis is right, any birds with the disease will be classified as diseased birds and will not attract compensation. I may have confused the Committee by referring to these blood-tested birds which showed a positive reaction when I said they were recovered birds, or could be.

2018. I do not think you confused the Committee, Sir John; I think it is a comment on the last sentence of paragraph 69, where the Comptroller and Auditor General says: "It appears, however, that a milder form of the disease has since appeared which may be more difficult to diagnose"?—Yes, but in 1935 we still had the acute form. From then on it became a less acute form, and diagnosis is more difficult. In those early days you practically picked up the dead birds and said: "Those birds have had it". Now you have a rather more difficult job of detecting the clinical signs.

Vice-Admiral Hughes Hallett.

2019. Sir John, who actually decides on the rate of compensation to be paid for the birds in any particular flock?—The distinction, I think, lies between what you might call common or garden birds and birds of higher value. For the ordinary run of bird the practice is for the vet who has made the diagnosis and who has ordered the slaughtering to agree the compensation with the owner, within the limits of general tables which Headquarters have sent him. If they are more valuable birds then we resort to valuers, and if there is dispute between the owner and the Ministry the matter can be referred to arbitration.

Sir Colin Thornton-Kemsley.] I wonder if we could pursue that on paragraph 73? You see, I want only to go as far as

paragraph 72 at the moment. I think the question of compensation really arises on paragraphs 73 and 74.

Vice-Admiral Hughes Hallett.

2020. I appreciate that, but what I was really leading up to is that from paragraph 70 it appears that the rate of compensation to the turkeys worked out at £13 to £14 a bird?—Yes.

2021. I was really wondering how it came about that these birds were so exceptionally valuable?—Those were pedigree breeding turkeys. They were not just being fattened for the market.

Mr. John Hall.

2022. Or were said to be?—Well, that would have been checked by the valuers.

Vice-Admiral Hughes Hallett.

2023. One question arising from these paragraphs—it may be a very ignorant one—is, how long does it take after the birds have been slaughtered before the blood test can be carried out?—The blood test takes three to six days to develop. The blood is taken from the bird when alive. You do not take it from the dead bird.

Mr. John Hall.

2024. Before slaughtering?—You take it before slaughtering.

Vice-Admiral Hughes Hallett.

2025. If the blood test is all right, then presumably the bird is not slaughtered?—No; all birds are slaughtered. If the vet has satisfied himself that there are birds in the unit which have got the disease, then every bird in the unit is slaughtered, and that accounts for this hideous holocaust which is recorded in this paragraph of 120,000 birds being destroyed in a single day on a single farm.

2026. What I do not understand is, when the bird is found to be all right and is none the less slaughtered, can it be nevertheless sold and eaten?—No, because it has not only been slaughtered, it has been either buried or burnt. That is part of the treatment. It cannot be sold. It would be an offence to sell it, and the whole of our precautions are directed to preventing that sort of thing happening.

23 March, 1961.]

Sir JOHN WINNIFRITH, K.C.B.

[Continued.]

2027. Then, even in the mild form of the disease it would be a bad thing to cook and eat one of the birds?—Yes, because the virus could linger in the carcase and the disease be spread through the carcase.

Sir George Benson.

2028. Does it affect human beings?—Apparently not.

2029. Then, why worry?—Oh, we worry because the human being who has eaten it may be careless in disposing of the carcase and another outbreak may start; so often foot and mouth disease spreads in that way.

Vice-Admiral Hughes Hallett.

2030. The virus survives the cooking, does it?—I am told that it does not, so apparently I have been misleading you.

Mr. John Hall.

2031. Is it not a question of the offal which might be taken out of the bird which is the trouble, not the bird which has been cooked?—I am quite confident on my first answer that unless there is a deliberate evasion of the law or carelessness the birds slaughtered will not be put on the market. Part of the expense which is involved in this Vote is in burning or burying the carcasses.

Mr. Arbuthnot.

2032. Is a recovered bird, to which you referred earlier on, a diseased bird?—No, in our opinion it is an undiseased bird—it is a healthy bird.

Sir Colin Thornton-Kemsley.

2033. So, you pay out on that one?—We pay out on that bird.

Mr. Arbuthnot.

2034. Would it not, therefore, be best to breed from recovered birds a race of birds which were immune?—That is one of the questions. Not exactly that, but that may very well be the sort of outcome of this committee's deliberations. In some other countries where this disease is prevalent the authorities have given up the idea of controlling by slaughter and have encouraged immunisation by vaccination. Therefore, in that way you get birds which are immune from the disease.

2035. I see from paragraph 70 that compensation was paid to these 120,797
39389

broilers although only 300 were stated to be diseased. How long does it take the disease to develop?—The disease develops very, very rapidly. I think that case becomes a little more credible when I describe the layout of that establishment. It was a farm which had never had this disease before. There were two units; there was a big broiler unit with 106,000 birds in it. There was a smaller unit of 15,000 breeding birds which produced the raw material for the broilers. The disease broke out in the breeding pen, and it was solely in the breeding pen that the disease was observed, and a number of birds were marked down as showing clinical signs of having the disease. Once that had been established, which was done virtually the same day, the usual decision was taken that all birds on that farm were to be destroyed, and therefore in the process 106,000 broilers, almost certainly none of which were suffering from this disease, were slaughtered.

Mr. John Hall.

2036. They were kept in a completely separate unit?—A completely separate house.

Mr. Arbuthnot.

2037. Arising from that, then, would you agree with the British Veterinary Association's statement which was issued to the Press, I believe, in April, 1960, which said that early signs of fowl pest in large intensive units are difficult to discern before the disease is widespread?—The last thing I would do would be to disagree with an opinion by that very responsible body. I can only say that in this particular case the veterinary officer who made the inspection was clear that only that small proportion of birds was showing sufficient clinical signs of the disease to justify marking them down as diseased birds.

2038. So that in this case you would think that the large proportion of birds that were not regarded as diseased amounted, in the main, to recovered birds?—Some of them might have been recovered birds, I do not know.

2039. If you do not accept that, it follows that by the time the disease is detected, reported and dealt with by the Ministry a large proportion of the birds would be infected?—It all depends, I think, how quickly we are on the scene. In this case, for all I know, the vet. was brought in by the owner at a very early

G 2

23 March, 1961.]

Sir JOHN WINNIFRITH, K.C.B.

[Continued.]

stage; and it is quite possible, and I think this is consistent with the opinion you have quoted, to be so promptly on the scene that even with this rapidly spreading disease the disease may not have got very far.

Mr. Stevens.

2040. Sir John, I think I heard you say earlier on that if one diseased bird was found in a flock the whole flock was slaughtered?—Yes.

2041. Indeed, owing to the difficulty of diagnosis by other means, the diagnosis on that particular bird must have been a clinical diagnosis?—Yes.

2042. It must have shown clinical signs?—Yes.

2043. And yet it is quite clear, I think, that other birds in that flock showed no clinical signs but, none the less, were diseased birds?—Could be diseased birds.

2044. Yet again I thought I heard you say earlier on, with particular reference to the last sentence of paragraph 70, that you were satisfied that compensation was not paid in respect of diseased birds. Does that not contradict what you have just said to me?—I said, subject to human error. It might be that a particularly skilled vet. could have detected more than that one bird. I think it is very rare to have no more than one bird. He might have detected more. There might also have been in that flock birds which were suffering the first onslaught of the disease and were not manifesting any symptoms at all, and for that reason it is possible that a few birds, which if only one had the knowledge one would have classified as diseased, were classified as healthy and attracted compensation. I must admit that. But I would also say that I cannot see any other means open to us for getting at a more accurate result.

2045. It is not only human error, is it, Sir John, it is also the difficulty of diagnosis?—It is the difficulty of diagnosis because even if the blood test were a reliable measure one could not possibly set about taking blood tests covering the whole of a unit.

2046. I was just going to suggest that, and more than that, owing to the fact that the blood test is not, as I understand it, entirely reliable one wonders why the blood test is still used. Why would that be?—The vets say that it is a useful ancillary, that possibly in a

case where the clinical symptoms are borderline if you take a blood test and you get a number of positive reactions that would, on balance, mean a case for saying the disease is there. It is also useful as a means of checking up the spread of the disease in a neighbourhood. Directly you get an identified attack you go round to every fowlhouse within a quarter of a mile and you take blood tests to see whether there are any positive reactors.

2047. Where this single bird in a flock is found to be diseased and the others are slaughtered blood tests are carried out on a sample quantity of the remainder which are slaughtered, is that so?—They may or they may not. I think in that case if it was only a single bird they probably would.

2048. That is an exaggeration, but here we have an example which is an even greater exaggeration, 300 diseased birds and 120,000 slaughtered?—Yes; although, as I explained, those 300 birds were within a unit of 15,000.

2049. Supposing a sample test is taken on the birds in the flock which show no clinical signs of the disease and the blood tests give positive results of the presence of antibodies in respect of those showing no clinical sign of disease, is compensation none the less paid in respect of those birds whose blood test is positive?—It is. Those birds are treated as healthy birds, and for the reason I gave rather earlier.

2050. I did just wonder why, if the blood test on the face of it is not used by the Ministry. I think that is right, is it not, it is not so much used by the Ministry as by the vet, who uses it as a guide?—Yes, the vets equally say we cannot accept that a bird showing a positive reaction is a diseased bird.

Sir Samuel Storey.

2051. Reverting to the policy of slaughter, is there any evidence that where a bird has recovered and established an immunity, like these turkeys, there is any permanent effect on its laying or fattening qualities, or has the policy of slaughter prevented any such evidence being gathered?—No, the evidence for the turkeys is that they will be perfectly profitable birds to keep.

2052. And on the laying?—There may be some setback in laying, but eventually they will lay just as well as before.

23 March, 1961.]

Sir JOHN WINNIFRITH, K.C.B.

[Continued.]

2053. So, there is no reason for slaughter because of the after effects of the disease where a bird recovers?—No.

2054. Have you any evidence from various sections of the industry of the loss they incur over and above the compensation they receive?—Yes. In the first place, the compensation is purely for the value of the birds. There is no compensation for the man being out of business in the six weeks which will elapse between the outbreak and his freedom to start up again. Secondly, a number of owners have insured to cover themselves for the difference between what they regard as adequate compensation for the birds and what the Ministry pays. I think it has been getting progressively harder and harder to get satisfactory cover for such a risk.

2055. Would it be reasonable to assume that in the broiler industry, owing to the shorter cycle, they do not suffer anything like the losses they do with laying flocks?—I think it is hard to be too sweeping. As I understand it, in the broiler industry your profits depend on maintaining an even flow, that all the time there are birds coming forward from the day-old stage to the moment when at about twelve weeks they are slaughtered. If you break that rhythm and have to start up again the broiler owner could be out of pocket.

2056. As much as the laying flocks?—Well, I find it hard to say which is more adversely affected.

2057. Are you satisfied that the loss which falls on the producer over and above the compensation is the policy to ensure that they co-operate to the fullest extent in dealing with the outbreaks?—I think all the evidence is that owners have been conscientious for one reason or another in notifying outbreaks.

2058. And taking all steps to prevent spread of the disease?—Yes.

Sir George Benson.

2059. What percentage of birds who get fowl pest would die if they were not slaughtered?—It all depends on their age. The mortality is much heavier amongst the younger birds, where the mortality rate may be very high indeed. As the bird gets older, so is its likelihood of survival the greater.

2060. Is this extremely infectious once it gets into a flock? Is it likely to spread right through?—Yes; but not only is

it likely to spread right through that flock, but its power to proliferate through the neighbourhood is quite frightening. Whenever we get an outbreak we plot the spread of the disease, and you get something like an atomic fallout, particularly where there is a broiler establishment and you have got these forced draughts going up through the house. The virus goes up in the air, and then you can trace how that falls out with the prevailing wind.

Sir Samuel Storey.

2061. To what extent is the fallout?—How many miles?

Sir Samuel Storey.] Yes.

Sir Colin Thornton-Kemsley.

2062. Presumably a quarter of a mile?—A quarter of a mile is the sort of circle which we expect, but it has, I do not know whether directly or indirectly, gone far wider.

2063. In fact, you only inspect within a quarter of a mile?—We inspect within a quarter of a mile, occasionally wider.

Sir George Benson.

2064. So, in effect, the slaughtering policy is really the only effective one?—So far it is the only policy.

2065. You cannot immunise, I suppose?—We have set our face against immunisation so far, since if we could have controlled it by slaughtering that would have been more satisfactory and cheaper, because vaccination will not be all that cheap.

Sir Colin Thornton-Kemsley.

2066. Sir John, what is the period of incubation?—I am afraid I do not know, Sir.

2067. The reason I ask that is this: you have told the Committee that the result of the blood tests takes three to five days to come through. During that time is it not possible that there could be considerable contamination through the flock? Suppose there is an owner who has played the game and reported at once to you, and the Ministry vet descends on his farm and then takes charge, a blood test is taken, he then has to wait five days, during which time the thing could have spread very badly, and he loses compensation on the diseased birds?—That is, if I may say so, a very important point you have made,

G 3

39389

23 March, 1961.]

Sir JOHN WINNIFRITH, K.C.B.

[Continued.]

that if one did adopt a practice of blood testing and waiting for the results to develop and in the meantime doing nothing, precisely that result would occur, the disease would be spreading, and therefore in the ordinary way the blood test we take is followed by immediate slaughter, and the results of the blood tests are not developed until after the slaughter has been complete.

2068. Would it surprise you to know of a case that I know about in this year under review in Hertfordshire where the farmer at once got in touch with the Ministry on detecting clinical symptoms, the Ministry vets came down as usual and took charge of the whole of the thing and took blood tests; meanwhile the first blood test which came back in, I think, about three days was negative, and they took another, and that was positive, and by the time they got the positive answer back a week had passed and there was a very considerable degree of contamination, with the result that he was very aggrieved because he had lost compensation, as he thought unfairly, because of the delay in getting an answer from your Ministry?—I am surprised by that case, because it is quite contrary to this normal practice of immediate slaughter following diagnosis. The only guess I can make is that detection of the clinical symptoms was more tricky on that particular farm, though I think you did say that the clinical symptoms were obvious from the word "go".

Sir Colin Thornton-Kemsley.] I am told so, yes.

Sir George Benson.

2069. If this fowl pest is becoming a serious menace, would it not be as well to limit the maximum size of a poultry farm so that if you do get an outbreak you limit the casualties?—I think you are absolutely right, that if one's sole objective was to control the spread of this disease and certainly to limit the amount of compensation that had to be paid, limitation of the size of units would be extremely valuable. But I think you have to set against that that it is just because those who have developed the broiler industry have operated in these large units that they have been so extremely successful in their operations and have been able to run a profitable industry without any subsidy from the State.

Sir Samuel Storey.

2070. You told us that, generally speaking, the producers were co-operative in their actions. Have you any instances of contributory negligence on the part of producers?—There have been cases and there have been, I think, prosecutions. I am afraid I have not got chapter and verse here.

2071. You have prosecuted when there has been negligence?—Yes.

Vice-Admiral Hughes Hallett.

2072. I understood you, Sir John, to say that the virus is thought to be propagated through the atmosphere?—Yes.

2073. And furthermore in these big broiler units the ventilation is artificial?—Yes.

2074. Has any work been done in endeavouring to filter either the intake or the outlet of the ventilation plant in the same way that you can filter out poisonous gases?—I think the trouble is that this is a virus disease and no filter has yet been found which will stop a virus.

2075. That applies even to charcoal, and things of that sort?—I could not be confident about this.

2076. Is any work being done on this at your research establishment, do you know?—I do not know the answer.

Sir George Benson.

2077. On that point, surely if the disease is spread by the effluent air the simplest thing is to pass the effluent air over heat, pass it through a furnace or something of that sort?—Yes.

2078. Then you raise the temperature of the air and bake the virus out?—Yes, bake it out.

2079. Has that been tried?—It has not been tried, as far as I know. I think it would be quite a hard thing to mount.

Sir George Benson.] That I do not know. I cannot quite visualise these establishments, but I should have thought it possible.

Vice-Admiral Hughes Hallett.

2080. I appreciate, of course, that it is a complicated scientific problem, but we have this very big establishment which deals with biological warfare?—Yes.

23 March, 1961.]

Sir JOHN WINNIFRITH, K.C.B.

[Continued.]

2081. Have you any machinery whereby this particular problem could be referred to them?—Certainly, and I will undertake to do so.

Sir Colin Thornton-Kemsley.] Now may we pass to paragraphs 73 and 74, the rates of compensation? This was the point that you were on, Admiral Hughes Hallett.

Sir Samuel Storey.

2082. Can you tell us what were the largest amounts of compensation in any one instance in the outbreaks in the last two years?—I did ask what the greatest claim was. I am told that the biggest payment for a single unit that we have paid has been £184,000 for a broiler establishment, £102,000 for a big turkey establishment, and there is a claim now in for turkeys, I think, over £½ million.

Mr. John Hall.

2083. A question on broilers, Sir John, on the point in paragraph 73. Can you tell me when the original scale for broilers was first established?—I am not sure whether the scale which we had in operation before March, 1960, had been in operation for a long time. I think it had. I cannot give the exact date on which it started, but it was fairly constant for quite a long period up till March, 1960.

2084. What information did you get which led you to change it?—The information we got was that we were at fault in assuming a constant rate of improvement from the day-old stage to the finished article at twelve weeks. The truth was that the rate of improvement was lower during the earlier weeks. On the other hand, we had put too low a value on the finished article, and it was in the course of sorting that out that we came to this other discovery about the rates in the earlier stages.

2085. What reductions were made in the scales? Were they appreciable?—They were quite appreciable. I have got the table here. I see that for a five-week-old bird we had been paying 2s. 6d., and we reduced that to 1s. 11d. plus in each case the day old price.

2086. In that case would we not have made an appreciable saving if this scale had been in operation throughout the whole year?—I must say quite definitely we should have done. We ought to have got on to this earlier.

39389

2087. Is there any particular reason why you did not get on to it earlier?—I think in mitigation the only thing I can say is that the development of the broiler industry has been phenomenally fast and developments occur very unexpectedly.

2088. That is true, except that you did say earlier that this old scale had been in operation for some considerable time?—Yes.

2089. So there should have been plenty of time, one would have thought, to have measured up the old scale against the new experience?—Yes. I admit we were at fault. We ought to have got on to this earlier.

Sir Colin Thornton-Kemsley.

2090. I understand the particular arrangements you have made with the broiler industry about the reduced scale of compensation. Have you discussed with that part of the industry at all the possibility of their making some contribution to the scheme, and if so what was their reaction?—We have not put that proposition to the broiler industry.

2091. You inferred, I think, in answer to an earlier question that the broiler industry was very prosperous?—Yes.

2092. Would you think that they would not be in a position to make some contribution?—I think it would be uncommonly hard when you are paying out State compensation to differentiate between one section of the industry which you consider prosperous, possibly on very inadequate evidence, and other sections again which on inadequate evidence you consider to be less prosperous. Another point about the broiler industry, I think, is that one hears of big profits being made, but there is evidence that the margin of profit has been falling off. I would stand on the first proposition that I do not see how you can differentiate merely on a basis of unascertained profitability.

2093. I think you told Sir Samuel Storey that there were some instances where producers whose flocks had been affected by fowl pest had contributed to the trouble by their own negligence. Do you pay compensation if negligence can be proved?—I am afraid I cannot answer that question definitely because I have not come across any of these negligence cases in the last two years. In making that statement confidently I

G 4

23 March, 1961.]

Sir JOHN WINNIFRITH, K.C.B.

[Continued.]

was relying on my memory of earlier years, and I cannot remember what the impact on compensation was.

2094. Paragraphs 75 and 76, Costs of cleansing and disinfection. Sir John, why was it decided that only occupiers of public premises should bear the cost of cleansing and disinfection?—The case for charging the occupiers of public premises is that it is very much part of their job as owners of markets and warehouses to carry out regular disinfection. They are doing that every day, and there is no reason why because there has been a case of fowl pest on their premises you should treat them any differently. That is why we make the charge in those cases.

2095. Is it not in the interests of the industry as much as in the interests of the Ministry that the cleansing and disinfection should be carried out as thoroughly as possible?—I undoubtedly is in the interest of the individual that he should be able to start up operations again, and to start up operations again his premises must be disinfected. But in all the other animal diseases where we have control by slaughter it is accepted as a liability of the State to compensate not only for the animals slaughtered but for the cost of disinfection. We could think of no good reason for treating a poultry disease any differently.

2096. Or a prosperous broiler industry any differently?—There, again, supposing one decided that in general it was right for the State to bear the cost of disinfection, I do not see how you could have this means test in reverse.

2097. Mr. Henley, what are your views about this?—(Mr. Henley.) I think this is a difficult one, Sir. I must confess that if the Ministry, as we have up to now accepted, has a duty to ensure that this disease should be eradicated as far as possible, I think it is very difficult to suggest that part of the cost of this essential operation should be met by particular groups of producers. This does not in any way detract from the fact that we are very glad to see that there is an examination of the whole of this expenditure.

Mr. John Hall.

2098. Sir John, would it not be possible to get some contribution towards this cost by a form of levy based

on the size of flock; for example, if you have to disinfect the premises of a small poultry owner, his levy on a small flock would be small but on a big one it would be considerable?—(Sir John Winnifrith.) It undoubtedly would be workable and equitable if it were calculated on that sort of basis. I still think it would be inequitable as between poultry owners and owners of other livestock that was slaughtered in the common interest.

2099. Perhaps one ought to consider applying it to other livestock owners as well?—One other point I would make on that is that for all these diseases which cause so much damage it is absolutely essential that you should have the co-operation of the owner in telling you about the outbreak of the disease. If you pay what an owner considers is an unreasonable amount of compensation, then he is less likely to co-operate, and that goes just as much for trying to make him pay part of the cost of disinfection as in paying him an inadequate amount on the compensation.

Sir Colin Thornton-Kemsley.

2100. Now, may we go on to paragraphs 77 and 78? Sir John, what was the cost to the Exchequer of fowl pest in each of the three years 1956-57, 1957-58 and 1958-59?—If I read on from 1956-57, £1,474,000, £1,291,000, £1,026,000, and then this frightful year 1959-60, £4,655,000. I can carry that a stage further, if it would be of any interest. In the current year, 1960-61, we expect the cost to be £3,413,000.

2101. Up to what you call the frightful year did you regard a cost of about £1½ million as normal and tolerable?—As just about tolerable. Of course, even more significant was the number of outbreaks. Again, reading through those years, in 1956-57, 1,036, the next year 978, the next year 782, and then came the jump to 2,726.

2102. And this year, do you know?—This year about 1,800.

2103. When did you set up the Independent Committee of Inquiry?—July of last year.

2104. Halfway through the bad year?—No, at the end of the bad year, because the bad year ended in March, 1960, and we set up the Committee in July, 1960.

23 March, 1961.]

Sir JOHN WINNIFRITH, K.C.B.

[Continued.]

Sir Samuel Storey.

2105. When do you expect the Report?—We expect it in the course of this year, 1961.

Sir Colin Thornton-Kemsley.

2106. Why did you wait until the disastrous outbreaks of 1959 before setting up the Committee?—That is always the difficulty, to know when you have reached the point of no return. That 1959-60 outbreak developed during the winter months—it always does—and I am afraid it took that amount of time, say six months, to realise that it had got beyond the point where you could just rest on the existing policy.

2107. Have you got to await the Report of the Committee before making any changes at all in the present financial arrangements?—I do not quite see what other financial arrangements you could make consistently with a slaughter policy. As I said just now, the first thing you must ensure is that the owner regards your compensation as reasonable. If you do not he will not co-operate. Quite apart from that, I do not see how on any principle of natural justice you could pay less than the proper value of the birds which are considered to be disease-free.

2108. Have you had a thorough investigation of the 1959-60 outbreaks of fowl pest?—Oh, yes, and that will all be available to this Committee of Inquiry.

2109. Do they show you any marked geographical incidence?—It is marked, but it is not really any more significant than being concentrated in those parts of the country where there is the main concentration of poultry.

2110. Largely the Eastern Counties?—The Eastern Counties and Lancashire.

2111. Could it be anything to do with the very large concentration also of American airfields in those counties?—Certainly, in the early days we suspected that outbreaks may have come from the American Air Force camps.

2112. You are looking at that?—Yes*.

2113. Due to the imports of frozen poultry from the United States direct to those camps?—Yes. The virus can survive frost.

2114. And deep freezing?—Yes.

* *Note by witness:* We have not found any evidence of carelessness in recent years.

Sir George Benson.

2115. What is the total output of broilers per annum, have you any idea?—100 million birds.

2116. And you have paid £4 million compensation on that 100 million birds in the last year?—I cannot say how much of that went on broilers.

2117. Presumably a good lot to the broiler industry?—The broilers must have had a large slice of it.

2118. As a rough approximation?—The total was £4,600,000. Broilers probably took about £1 million.

Sir Samuel Storey.

2119. You told us that the review shows that the incidence of the disease is very largely geographical. Is there anything to show that the larger establishments are more liable to the disease?—I do not think I can answer that.

2120. You told us earlier on that the industry has great difficulty in insuring the difference between the compensation and the loss?—Yes.

2121. Have you considered a comprehensive national insurance scheme for the whole industry, underwritten by the Ministry?—No, Sir, I think it would be a very unprofitable business.

2122. Would it?—And it would be rather odd, would it not, for the Ministry to be insuring against their own inadequate compensation?

2123. Surely it might be cheaper to underwrite an insurance scheme than to pay out £1½ million compensation every year and regard that as normal?—I do not think we are equipped to run an insurance scheme.

Sir Samuel Storey.] You would need another Miscellaneous Provisions Act.

Vice-Admiral Hughes Hallett.

2124. Can you tell us who are the members of the Independent Committee that is referred to in paragraph 78?—

Yes. The Chairman is Professor Sir Arnold Plant; the members are Mr. Aillsopp, who is a merchant banker and Chairman of the Hops Marketing Board; Mr. Layborn, who is an insurance broker, and who, I am sure, would cover this insurance point; then there were two Members of Parliament, Mr. John Mackie and Sir Richard Nugent. Sir Richard Nugent has asked to be allowed

23 March, 1961.]

Sir JOHN WINNIFRITH, K.C.B.

[Continued.]

to go out of the Committee at this stage of its proceedings. Professor Mather, who is a Professor of Genetics and a member of the Agricultural Research Council; Professor Alexander Robertson, who is a Professor of Veterinary Hygiene at Edinburgh, and Professor Cyril Tyler, who is a Professor of Physiological Chemistry and a great authority on poultry metabolism.

2125. Do the terms of reference specifically cover the question of whether, and if so what, compensation should go on being paid and whether the industry ought itself to contribute to the costs of cleansing and disinfection?—They do not in so many words, but they undoubtedly cover the topic, and the Committee, I know, are addressing their minds to it. The terms of reference are “To review the policy and arrangements for dealing with fowl pest and to advise

whether any changes should be made”, and that undoubtedly covers the compensation arrangements under the present system.

2126. Mr. Henley, are the Treasury satisfied that in the meanwhile the Exchequer should continue to bear the full burden of these payments?—(Mr. Henley.) I think we must, Sir, yes.

Mr. John Hall.

2127. Sir John, how many other countries have a slaughter policy?—(Sir John Winnifrith.) Quite a few. In the Netherlands slaughter combined with vaccination, France and Switzerland, slaughter, Yugoslavia, slaughter.

2128. While you are looking through that list, can you tell me if their compensation scheme is on a comparable basis with our own?—I am afraid I do not know the answer.

THURSDAY, 20TH APRIL, 1961.

Members present:

Mr. Harold Wilson, in the Chair.

Mr. Arbuthnot.
Sir George Benson.
Mr. Hoy.
Mr. Cledwyn Hughes.

Vice-Admiral Hughes Hallett.
Mr. Stevens.
Sir Samuel Storey.
Sir Colin Thornton-Kemsley.

Sir EDMUND COMPTON, K.B.E., C.B., Mr. D. O. HENLEY and Mr. D. MCKEAN, an Assistant Secretary, Treasury, called in and examined.

TREASURY MINUTE ON PARAGRAPHS 20-24 OF THE SECOND REPORT OF THE COMMITTEE OF PUBLIC ACCOUNTS, 1959-60.

Mr. H. HARDMAN, C.B., Permanent Secretary, Ministry of Aviation, called in and further examined; and Mr. F. J. DOGGETT, Under Secretary (Air B), Ministry of Aviation, called in and examined.

Chairman.

2129. Will Members please turn to the Treasury Minute on paragraphs 20-24 of last year's Report, Investigation and Evaluation of a Navigational Aid. Mr. Hardman, in sub-paragraph (2) of the Treasury Minute it is accepted that the cost accounts system should be developed as a matter of urgency. Could you say what progress has been made so far?—(Mr. Hardman.) The efforts which we are making, Sir, have taken the form, first of all, of in each of the Establishments providing for systems of cost accounting initially, and those will later be developed to private cost estimates. During the year 1961-62 we expect that we shall have cost accounting in operation at four of our major Establishments, the Research and Development Establishments, namely, the Royal Aeronautical Establishment, the Royal Radar Establishment, the National Gas Turbine Establishment and the Rocket Propulsion Establishment at Westcott. We hope that in 1962-63 we shall have cost-accounting in the Aircraft and Armaments Experimental Establishment at Boscombe Down and in the Explosives Establishment at Waltham Abbey. So far as cost estimating, that is to say, using our techniques for budgeting, is concerned, we believe that at the Royal Aeronautical Establishment at Farnborough and at the Rocket Establishment we shall be able in 1961-62, the current financial year, to introduce these techniques. The other Establishments will follow next year.

2130. How many Establishments have you altogether? I think you mentioned six?—There is in addition the Signals Research and Development Establishment, seven in all. The seventh, S.R.D.E., as we call it, was lagging behind, but we have been putting special effort in there.

2131. So, you will have the system extended to another two Establishments? in the financial year we are now in and extended to another two Establishments?—To three, we hope, in the following year. Certainly two, probably three.

2132. And that will be all your Establishments?—It will.

2133. It will be in full operation at them?—We shall have a cost accounting machine, though we shall not, in the sense of using the techniques for estimating, be in full operation until 1962-63.

2134. Have you made a start yet with the introduction of a system of budgetary control?—That follows from the cost-accounting arrangements. That is in process of introduction.

2135. How long do you think it will be before the system will be both reliable and effective at the four where you are starting it up this year?—I find it difficult to answer that question, Sir. We are feeling our way, but we are relying not only on the introduction of these arrangements but on discussion at headquarters with the staff concerned in the Establishments. Perhaps I could add to

20 April, 1961.]

Mr. H. HARDMAN, C.B., and
Mr. F. J. DOGGETT.

[Continued.]

my reply to your first question. During the course of last year we arranged for my predecessor to bring together the heads of all the Establishments and the senior officers concerned with issues of costing so that we could discuss common problems and in order that there should be an exchange of experience between one Establishment and another. A third step we have taken is to appoint in a new post a Director of Intramural Costing who has only recently taken up his office, but whose sole task it is to encourage the development of these costing arrangements in the Establishments and to speed up the process of exchange of experiences. When this will mean that we have a reliable system I find it very hard to say. We are feeling our way; we are devising a technique and we hope we can learn better ways of using the machinery that we are devising.

2136. "Intramural" means a headquarters officer, a man at your headquarters who is responsible for all your headquarters and Ministry-owned outstations, is that right?—He is concerned with costing within our own Establishments. We are making a distinction, that is to say, between cost investigations on work done in industry and costing within our own Establishments, and it is solely in relation to costings within our own Establishments that the new post is concerned.

2137. You said your predecessor called together the representatives of the various Research Establishments. In this case he called together the heads of the Research Establishments, not merely the financial officers, is that right?—The heads of Establishments, yes, the Director of Farnborough, the Director of Malvern, and so on, it being their responsibility and part of their duties, even though they have expert staff with them, to oversee and encourage the development of this new system.

2138. But you went to the top people, not merely the financial people?—Certainly.

Vice-Admiral *Hughes Hallett*.

2139. Arising from the answers you gave to the Chairman, I must say I am still a little surprised at this statement that it will inevitably take some

years to develop a system. If Mr. Hardman had said, some weeks, I could understand it, but are you quite satisfied that there is, perhaps, not too much discussion and too little action taking place in the matter?—I am, Sir. I think that the system, if it is to be an effective one, involves the recruitment at the Establishments of quite an appreciable staff. We are in terms of executive officers thinking of a total of at least thirty in the various Establishments with subordinate staff below them. It means the getting across to the scientists in the various research activities within the Establishments the implications of these new arrangements. We feel that if we are to build effectively then there is, perhaps, a danger in rushing some of the problems that are involved.

2140. Are these staff going to be additional to what you have at present?—Certainly, there will be additions to the complements of the Establishments.

2141. I meant, additional to the Crown. Will they be transferred from some other place or will they be newly recruited people?—Some of them may be transferred from other posts, because some parts of the Department's activities may be waning, but so far as the Establishments are concerned, we are adding to their complements.

2142. Are you quite certain that the savings will exceed their salaries?—It is, obviously, very difficult to be sure of that at any point. The savings which we make against activities which we are not engaged in are, obviously, very hard to assess. But we believe there will be a better use of our resources if we have this staff and that the cost, which is likely, we think, when we have a full system in operation, to be of the order of £200,000, will be justified. £200,000 represents about $\frac{1}{2}$ per cent. of the annual expenditure on the Establishments, so we think that $\frac{1}{2}$ per cent. is very well spent. It certainly is no higher than the expenses incurred by comparable establishments on this kind of activity. I have in mind, for example, the data we have been able to get from concerns in the United States in attempting to make a comparison, which suggested that $\frac{1}{2}$ per cent. was rather lower. But it is, of course, too early to be sure of the consequences that will flow. We are still in the process of devising our machine.

20 April, 1961.]

Mr. H. HARDMAN, C.B., and
Mr. F. J. DOGGETT.

[Continued.]

2143. I should like to ask one final question of rather a reactionary nature, you may think. We hear a lot about incentives these days, but are you satisfied that the deterrent of severe disciplinary action when mistakes and negligence do come to light, such as did in one or two occasions during the Committee's investigations last Session, and the action taken in those cases is sufficiently severe to make people extremely careful to proceed as economically as possible?—I can speak, I think, of the concern which has been shown by the Establishments, for example, at the meeting on which I said a word or two earlier, for getting right this machine for the proper control of expenditure. I think there is certainly a recognition of the importance of the devising of ways and means of getting better value for money in research activities, alongside, of course, a very real recognition of the complexities of the task. I believe, therefore, that in so far as the Committee by its comments on the expenditure at Boscombe Down has drawn attention to this problem, it has helped to create the atmosphere of concern that there should be wise spending in research activities.

Mr. Arbuthnot.

2144. Mr. Hardman, have you read the book "Plain Words" by Sir Ernest Gowers?—Indeed, Sir.

2145. Were those plain words in your mind when the appointment of the Director of Intramural Costing came into existence?—I think they were tempered by the fact that there had grown up in the Department a great jargon, a great specialist language, where intramural meant very much those working in the organisation, and that, perhaps, countered any impact left by Sir Ernest Gowers.

2146. Would you agree that the Chairman has already drawn from you the fact that this gentlemen would probably be more appropriately called the Director of Extramural Costing?—In our jargon "extramural costing" means the costing of activities undertaken by private firms, and, the Establishments being within the Ministry's organisation, we had thought that "intramural" was the more appropriate title.

2147. Are any research projects carried out on repayment, for example, for industry?—I believe there are. I

wonder, Sir, whether I could call in aid my colleague, Mr. Doggett, who is the Under Secretary in charge of Aircraft on the Defence side? I think he could better answer that question.

Chairman.

2148. Yes, certainly?—(Mr. Doggett.) Yes, Sir, this is done occasionally, and where we do a job specifically for industry we charge them on a repayment basis.

Mr. Arbuthnot.

2149. Who would authorise the work?—It is authorised within delegated powers up to, I think it is, £5,000, by the Establishment themselves, otherwise by the Finance Officer at headquarters.

2150. "By the Establishment themselves or by headquarters". Those are two terms with which I am not familiar?—The Director of the Establishment has certain delegated powers, otherwise it has to be referred to the Finance Officer at headquarters.

2151. The Director of Research?—The Director of the Establishment.

Chairman.

2152. I think you mean Farnborough or whatever it might be when you say "Establishment"?—Yes.

Mr. Arbuthnot.

2153. Do you recover the full cost in such a case or only the extra cost?—In those cases we seek to use our costing system to assess the full cost, as far as we can do so.

2154. Are you satisfied that you can assess the cost correctly in the present state of the cost accounting system?—As the Secretary has explained, we cannot be sure yet that our system is completely reliable, but we are trying to follow standard commercial practice in our costing system, and we hope that it will give the right result.

2155. This is a matter which will be investigated, I take it, by the Director of Intramural Costing?—Yes.

[Chairman.] The Treasury Minute on paragraphs 24-25, Development and Production of Guided Weapons. I have no questions on this part of the Treasury Minute because the new arrangements referred to in sub-paragraph (2), line 16, are the subject of paragraphs 41-53 of

20 April, 1961.]

Mr. H. HARDMAN, C.B., and
Mr. F. J. DOGGETT.

[Continued.]

the Comptroller and Auditor General's Report on the Accounts for 1959-60, which are before us. So, I suggest this subject might, therefore, be examined by the Committee on that Report.

Vice-Admiral *Hughes Hallett*.] It will be in order, I take it, to refer back to

certain points in the Public Accounts Committee's Report which are not answered in these paragraphs at that time?

Chairman.] Certainly, yes, but I think it would be more convenient to take them all together.

CIVIL APPROPRIATION ACCOUNTS (CLASSES VI-X), 1959-60.

CLASS VI.

VOTE 10.

MINISTRY OF AVIATION.

VOTE 11.

MINISTRY OF AVIATION (PURCHASING (REPAYMENT) SERVICES).

Chairman.] Will Members please turn to the Comptroller and Auditor General's Report on the Civil Appropriation Accounts, Classes VI-X, paragraphs 37-40, Transfer to the War Office of certain functions of the former Ministry of Supply. I have no questions.

Mr. *Arbuthnot*.

2156. Was one of the things that were transferred to the War Office the matter of the Royal Air Force shirt order,

which cost £117,000?—(Mr. *Hardman*.) I do not think so, Sir.

Chairman.

2157. Can the Comptroller and Auditor General help on this? This is probably a transfer between the Ministry of Supply and the Air Ministry, is it not?—(Sir *Edmund Compton*.) I think that the point that the hon. Member has in mind arises on the Army Account and does not arise on the transfer of functions.

TREASURY MINUTE ON PARAGRAPHS 25-45 OF THE SECOND REPORT OF THE COMMITTEE OF PUBLIC ACCOUNTS, 1959-60.

CIVIL APPROPRIATION ACCOUNTS (CLASSES VI-X), 1959-60.

CLASS VI.

VOTE 10.

MINISTRY OF AVIATION (continued).

Chairman.

2158. Will Members now turn to paragraphs 41-53, Control of expenditure on—I am sorry, Mr. *Arbuthnot*—Extramural Research and Development, taking first paragraphs 41-43, General. Since these are in the main a summary of the previous Committee's Report of last year, I have no questions. Paragraph 44, Design studies. Mr. *Hardman*, what sorts of cases do you consider are appropriate for design study?—(Mr. *Hardman*.) All those cases where it is not, in relation to an operational requirement, possible to define the objective of a development contract or to assess the time scale and the probable cost in a sufficiently accurate way.

2159. This is something new, is it? You are now referring to the design

study technique, things which three or four years ago you would not have done by this means?—I would say rather that the design study was a technique which was being worked out within some parts of the old Ministry of Supply. What we are doing now is, first, to make its use universal; secondly, to extend its use so that where there is doubt we do strive by means of a design study to make clear the definitions for a development contract.

2160. Most of the big cases, then, that were reported last year were not design studies first?—So far as I know, they were not.

2161. But today if you were starting anew on them you would probably have a design study?—Yes.

20 April, 1961.]

Mr. H. HARDMAN, C.B., and
Mr. F. J. DOGGETT.

[Continued.]

2162. So, this is a change of practice?—Applying the best practice of the old Department universally to all our activities.

2163. On what basis do you select the contractor for a design study?—I think we should want to have regard to, first of all, the advice of our technical staff, whether, that is to say, there was technical competence, the technical resources and the experience on the part of the contractor which would seem likely to lead to a satisfactory result. We would also have regard to the possibilities of production; that is to say, we should want to think in terms of how far a contractor could, if the project continues, undertake the development and subsequent production. Also we should want to look at—and here we would be guided not by our technical staff but our accounting staff—the financial standing of the firm. We should also have an eye on general policy, for example, our policy towards the aircraft industry or towards the engine industry.

2164. Do you ever have more than one design study contract for one requirement in order to find the most suitable contractor for a development contract?—Indeed, Sir, yes. We should normally regard the possibility of alternative design as more important than the possibility of, as it were, competition in terms of finance; and, therefore, where we could get competitive studies we should strive to do so as desirable objectives at this stage.

2165. Then, you start afresh, do you, when you come to the development contract? You are not committed by who has done the design?—No, but, clearly, there would be an advantage in so far as there has been thought given by some design contractor to some of the fundamental problems.

2166. If you went to firms A and B, and firm B had the design study contract and you based the development contract requirements on the designs submitted by firm B, you are still equally free to go to firm A, firm B, or firm C, for that matter, for the development contract?—I am sure we should prefer firm B. (Mr. Doggett.) We should have, indeed, in those circumstances to accept certain obligations to the firm whose design we were using that they would have certain rights in that design, and we

might have, possibly, to compensate them if we went elsewhere.

2167. In the third sub-paragraph, Mr. Hardman, the Comptroller and Auditor General says that the value of 71 design study contracts was about £1 million, so they are apparently quite small on the average. Are they let on a fixed price basis?—(Mr. Hardman.) Some of them would be, although I think normally design studies are not so placed.

2168. How many of the 71 have now been completed?—I think very few, Sir, though offhand I could not say. They are rather work in progress.

2169. This seems rather a large figure. It means that the Ministry have got down very quickly to this design study contract basis since you introduced the new arrangement. Is that right?—I hope we have shown a proper zeal, Sir, but I would not want to suggest that we had not over the period from the 1st April, say, to 5th November, or the end of the year, which is the figure which I have got, placed far more contracts. Over the period from the 1st April till the end of December we placed over 900 contracts, of which 87 were design study contracts. There were, in addition, as quite the vast number, relatively small contracts which were cost plus, small in the total value. There were nearly 200 other contracts with fixed or maximum prices, and another 180 cost plus, with full-costed programmes. The number of design studies, therefore, is no more than about one-tenth of the total contracts placed.

2170. Of the 71 or, as you now say, 87, you said, I think, that only a small number have been completed. Of the completed ones have you subsequently placed development contracts in those cases?—I cannot answer that offhand, Sir, I am sorry.

2171. Perhaps you could let us know in due course?—Perhaps we may put in a note, Sir.*

* *Note by Witness:* Of the 87 design study contracts, 45 have now been completed. In the majority of cases there is inevitably an interval between the completion of the design study and the placing of the development contract, to allow for a full assessment of the results obtained from the study and for the negotiation of the terms of the development contract. The 45 completed design studies have so far led to 14 new development contracts and the extension of 2 existing contracts.

20 April, 1961.]

Mr. H. HARDMAN, C.B., and
Mr. F. J. DOGGETT.

[Continued.]

Sir Samuel Storey.

2172. Some of these design studies, I take it, may be of value to the firms carrying them out for civil work as well as for Service work, and if so do you ask them to bear any part of the cost?—Some of them certainly might be of value. We have a number of contracts relating to aircraft, others relating to electronic equipment, which are design studies. The value to the concern is, I think, to be taken into account in the assessment of the payment to be made for the work done for the Ministry.

2173. But you would charge them part of the cost?—We would, in fixing the price, have regard to what they themselves would be likely to learn.

Mr. Stevens.

2174. Mr. Hardman, I am not entirely certain that I know what a design study is. Could you define it?—Perhaps I could do so most effectively by showing where it comes in the stages of the development of a contract. Obviously, the first step starting possibly long before the Ministry is brought in, is associated with the operational requirement, be it of this or that Service Department. It may be in the course of the discussion of that that there is doubt as to whether the proposal is a practicable one, whether it is, in fact, feasible to carry out what is desired, and we should in that case think in terms of what we speak of as a feasibility study merely to ascertain whether technically it is or is not in fact feasible. After that there would be the process of translating what is technically feasible to be put as a problem for solution within a workshop; and it is at that stage, intermediate between proving that a project is feasible and deciding how it would be developed by means of a development contract in a factory, that a design study finds its place.

2175. I tried to work out a definition. I do not know whether you would agree with this: it is a technical appreciation of a particular design claimed to meet certain functional requirements. Would you agree with that?—I think so, yes.

2176. A technical appreciation of a particular design claimed to meet certain functional requirements?—We would want to add, I think, as indeed the Comptroller and Auditor General does in his Report, to enable us also to assess

the time scale and the cost of development.

2177. I was just coming on to that because I thought you used the words "design study" in a rather wider sense than is used generally speaking in industry, coupling it with the time scale and probable cost. The point I want to ask you is this: surely there is nothing new in design studies? I thought I heard you say earlier on in answer to a question that the use of design studies is a fairly recent innovation. Is that right?—I was saying rather, I think, Sir, that design studies have been used in various parts of the Ministry. What is novel about the arrangements we now have is that we have extended their use over the whole range of the Ministry's activities. We want also in far more cases where there are technical assessments to use them; but that they did not exist before I was not intending to suggest.

2178. They did exist and were used to a substantial extent, but now it has been spread much more widely?—We have tried to generalise the practice.

2179. When the design study contractor has completed his design study, is he required by you to produce a detailed report covering the time scale and probable development cost and all the rest of it?—Indeed, Sir, that is the whole purpose of the exercise on which he embarks.

2180. I gathered that it is not only always the contractor who produces the design study who necessarily gets the development of the contract?—Yes.

2181. What happens, then, if the design study contractor completes his design study, includes in that a detailed report, and the development contract is then awarded to another contractor? Are the terms of the design study report included in the development contract?—I would say, rather, Sir, that the design study enables us to set out with much greater accuracy and in much greater detail what the development contract is to cover, but it is rather on the basis of the design study that the development contract terms are worked out.

2182. I think I heard you say earlier on, too, that this new system whereby design studies are asked for much more frequently than was the case before, has not been running long enough for you to be able to give an indication of how

20 April, 1961.]

Mr. H. HARDMAN, C.B., and
Mr. F. J. DOGGETT.

[Continued.]

it is working; but, on the other hand, just now you told the Committee that design studies have been required in a much more limited sense for a long time. Have you nothing to say about the results of those design studies?—I think what I was intending to suggest was that there was sporadic use of design studies, but it followed no general pattern. We have begun to collect, as part of the new arrangements, information about design studies, partly to answer questions such as are now raised, partly to see in the Department how we are using these techniques. But they are not universal and, therefore, it is more difficult to ascertain the extent to which they are valuable—although we are satisfied that they are valuable.

Mr. Arbuthnot.

2183. I take it it is your inspection staff who write the specification. Is that correct?—It is rather our technical staff, the staff in the technical branches.

2184. Are your technical staff, therefore, present at all the parts of the design study?—The design study would be worked out by the contractor to whom the study is given, but there would be very close contact with the officers of the Department.

2185. So that, in fact, your design study does enable your technical staff to write the detailed specification with which to go to production eventually?—Yes, in order to get a development contract and out of that the final production contract.

Mr. Hoy.

2186. Mr. Hardman, how many studies were involved in these 71 contracts? I understood you to say that on occasion you in fact offered them to competition and asked three or four different firms. Did I catch that correctly?—I was saying, rather, where there were the possibilities of competition, and of more than one firm being able to do the work, we should regard not so much competition in terms of price as competition in terms of ideas and techniques.

2187. So this, in fact, represents 71 different contracts for different things?—They do, Sir.*

* Correction by Witness: The 71 design study contracts were in aid of 62 separate projects. Competitive studies were obtained for 7 projects, 3 each for 2 projects and 2 each for 5 projects.

Vice-Admiral Hughes Hallett.

2188. I want to try to relate this paragraph, or see if you can help me to, to the previous Report of the Committee and also the Treasury Minute. Turning to the Committee's previous Report, in paragraph 43 we said: "Your Committee have noticed an additional defect. The instructions to the main contractors responsible for the guided weapons project were in such general terms that difficulty must have been experienced in ensuring that all the work paid for was properly directed to the objects desired by the Ministry". Would it be fair to assume that the increased use of design studies is the Ministry's answer to that criticism?—I would rather say, one of the answers. We think the design studies will enable us to be more detailed in specifications and, therefore, we shall find it easier to relate what is done to what has been asked for, what is done to what is paid for, but it is only part of a process which continues. In the machinery for supervision of development contracts, including the development of Management Boards, there is a whole array of schemes for the supervision of the working out of development contracts.

2189. If we can go back to paragraph 27 of the Committee's last Report, you will notice that they said—this, of course, was the Report on the guided missiles that they went into last year: "Your Committee are not convinced that the Government Research establishments responsible for the preliminary work might not with advantage have continued to play a more direct part in the development of this weapon". As I think this is the only opportunity, I would like to ask in a moment if you could make some observations concerning the views of the Ministry on that comment of the Committee, because this is not referred to at all in the Treasury Minute, as far as I can find; but, in particular, referring only for the moment to paragraph 44 of the Comptroller and Auditor General's most recent Report, I would like to ask why it is that the big Government Research Establishments cannot perform this function of carrying out the design contracts themselves?—Where it is a question of anything as complex as a guided missile, a major weapon, I think it is true to say that the design or the

20 April, 1961.]

Mr. H. HARDMAN, C.B., and
Mr. F. J. DOGGETT.

[Continued.]

development would be beyond the resources even of our biggest Research Establishments. The development of engineering techniques which will be used in the subsequent production stage, the preparation for a very large industrial operation, we feel is an area where the skill and resources of our Establishments could be less effectively used than helping in the monitoring and supervision of the extramural work. Certainly, this is perhaps more true of the aircraft side than the guided missile side. There is an immense amount of expertise, but I still think it is insufficient to enable us to cope with a major project. In the guided missiles field we have, of course, very much less experience, and it would be even more difficult on that.

2190. I must say I myself find this a very disturbing answer, because if one considers the scale of these Research Establishments one would have thought that the least they could do is to get down to the nub, the basic problem, at these Establishments as opposed to being concerned with the subsequent minutiae of tests and trials. If you are forced, as I infer from your answer, to rely from the very beginning on industry and for the reasons you gave usually place the development contract with the people who did the design contract in the first place, surely you are delivering yourself into the hands of the various consortia firms from the very beginning?—The nub of the problem very, very often, Sir, is the translation of scientific ideas, ideas which technically are feasible, into the environment of modern industrial factories with large scale production. It is in that field that the Research Establishments are lacking, that is, the field in which the industrial concerns to which we go are normally expert.

2191. I am not challenging your statement that they are lacking, but what I am asking is why they are lacking? Why have they not got up to date and moved with the times?—I think the answer is that they are expert in issues of research, in technology, not so much in large scale industrial organisation. The problem is the organisation on a large scale of scientific techniques and the like which the Establishments know perfectly well are practicable. They may have contributed to their development but they are not skilled, however, and should not, I suggest, be

encouraged to become skilled, in translating those into terms of industrial operations. Mr. Doggett is an expert in this field. Perhaps he would like to add a word or two from his experience. (Mr. Doggett.) I think the comment I would like to make is that one of the essential elements at the design study is, as Mr. Hardman has been saying, to transfer the thing for study from the scientist to the engineer and to find out in engineering terms how the design can be made as a practical proposition for production; and research, development and production is a continuous spectrum, but it is in fact much easier and more sensible to relate design to production than to relate it to research. This we believe to be true, that it is more important that the design should be elaborated and worked out by the man who is going to produce it than by the research organisation.

2192. I am still not satisfied by this answer, because what you are inferring is that there are, in fact, no high grade design engineers or production engineers in the Government Research Establishments who are capable of undertaking this particular task?—I think that is broadly true. Our people are not skilled designers.

2193. May it not then save the country a lot of money if some were recruited so that you had, as it were, an independent view on what was going to be involved in these tremendous projects instead of having to rely from the very beginning on the people who afterwards are going to undertake them on a cost plus basis?—(Mr. Hardman.) I think that would imply creating an environment in which they could operate. They would have to go to the outside contractors and get the circumstances which would pose their problem.

Chairman.

2194. Is not what you are saying to Vice-Admiral Hughes Hallett that your people at the Research Establishments are not people with production experience, but is this not different from the other Service Departments? Is not the problem here that your Ministry and the Air Ministry before you in pre-1940 days never did go in for the production unit in the sense, for example, of the Royal Ordnance Factories or the Admiralty Establishment?—That is true, Sir, yes.

20 April, 1961.]

Mr. H. HARDMAN, C.B., and
Mr. F. J. DOGGETT.

[Continued.]

2195. It is a historical problem?—With the relatively sophisticated weapons of today there has not been a system of production through Royal Ordnance Factories, as with ammunition hitherto.

2196. Even with the unsophisticated weapons of the 1920's and 1930's you never did go into production in the sense that the other Departments did?—No.

2197. Is this not, therefore, a fair question that the Admiral has put to you, that now that weapons have become more sophisticated and infinitely more costly, and as the Committee has reported, infinitely more difficult to control from the financial point of view, might it not be an economy to the country if you take on people who could take on this kind of study which can be done, if I may coin a phrase, intramurally?—That would depend on large changes of policy, the introduction of Government activity into fields into which so far it has not been regarded as appropriate.

2198. Is that answer not wrong? Do you not mean the incursion of Ministry of Aviation activity into fields where it has not been considered appropriate? Is it not a fact that the Admiralty, for example, did far more work than your Ministry or your predecessor Ministry have done in the early stages of development of missiles for which they were responsible, because of their rather different historical set-up if I understand correctly the questions previously put by Admiral Hughes Hallett? This is not a matter of general Government policy, it is a matter of the historical development of the two Ministries. Perhaps Mr. Doggett would care to comment on that?—(Mr. Doggett.) I cannot just now remember the year, but there was a conscious decision of policy to change the Royal Aircraft Establishment from an aircraft production factory, as it once was, into an Aircraft Research Establishment and not to have it dealing with design or production.

2199. This is really the problem?—This was a definite policy decision made, but I cannot immediately give you the date or the reference to this, Sir.

Chairman.] This is the sort of problem which lay behind the Admiral's questions, I think.

Vice-Admiral *Hughes Hallett.*

2200. If I may come back, what I am not happy about is this: I am not

suggesting in my questions for a moment that the Ministry's Establishments should go into quantity production of these weapons, but that is quite a different thing from not having them in a position to make a prototype, and it is an even more different thing from suggesting that they can make a design study for a prototype, which is all I am asking for the moment. I would ask again whether you are absolutely satisfied that the present method of going at the very beginning to outside industry, with all the difficulties of controlling subsequent development and production from the financial point of view is the most economical from the point of view of the country?—(Mr. *Hardman.*) I think there are really two questions here, Sir. There is, first of all, how far the Government should go into production of the actual weapons. You, Sir, pointed out that there is a difference of pattern as between the Army and the Admiralty. It is also fair to say that within the Ministry of Aviation there is some difference of policy. So, there is some variation as between one field and another. I think the second question is the one posed by the hon. Member, where I should have thought that it probably would be extremely difficult for anyone not associated with a large production organisation to get the kind of experience which is called for.

Chairman.

2201. Mr. Henley, have the Treasury given thought to this question that has been raised by Admiral Hughes Hallett, that there is this difference of approach between the Ministry of Aviation on the one hand and the rather older Ministries on the other? Have they given thought to this question?—(Mr. *Henley.*) I am quite sure, Sir, these general questions have been in our minds for a long time past. I cannot say that there has been any specific consideration until recently, although, perhaps, Mr. McKean, who is from the Defence Division, will elaborate on that in a moment. I feel fairly sure that the general question of policy as to the lengths to which development and production should be carried within Government Establishments would be kept under review. Mr. Hardman referred just now to the final production of certain types of weapons in Government Establishments where, I think I am right in saying, rather special considerations

20 April, 1961.]

Mr. H. HARDMAN, C.B., and
Mr. F. J. DOGGETT.

[Continued.]

clearly apply; and I think also that if one is considering the very complicated problems of production of missiles and similar equipments, one has to bear in mind that this involves a very wide range of industrial experience and technique, some of which is of very considerable importance in the civil field as well. But I am very conscious that I am speaking from lack of knowledge, and perhaps Mr. McKean could add to that and say whether it is right. (Mr. McKean.) I do not think, Sir, there is much I could add to that. We have considered these general issues from time to time in the past. We have been conscious that there are some fields, as Mr. Henley says, in which there are rather special reasons for keeping production within, so to say, the Government machine. We have not until recently considered the problem particularly in relation to the aircraft industry or to the problem of guided missiles.

2202. You say you have considered the question of production, but on the Admiral's question this is not a question of production, it is a question of the preparation of designs. Have the Treasury given specific consideration to that? Have you reported to the Chancellor about the problems arising from the fact that the Ministry of Aviation are differently organised from, for example, the Admiralty in respect of the initiation of a project and getting the design in such a form that it can be carried through with the minimum expenditure? Has this been specifically considered, for example, in the last year?—Not, I think, Sir, in those terms, no.

2203. And yet you have had before you Reports of the Comptroller and Auditor General and of the Public Accounts Committee showing very considerable expenditure of a kind which, as the Committee said last year, was entirely outside the experience either of the Committee, the Treasury or the Government system. You then apparently in the light of those Reports considered the particular problem, which Admiral Hughes Hallett has been putting this afternoon?—I said, not in those terms, and I was speaking perhaps rather narrowly. We have considered it in this way: we have wondered whether the problems of design and of translating the ideas of the scientists into production terms, so to speak, can be dealt with otherwise than

they are at present within the resources of the Ministry of Aviation, as Mr. Hardman has described them. But we have always concluded, I think, when looking at this problem that the Ministry of Aviation were right in supposing that it would be very difficult for them to acquire the necessary expertise in the production field unless they were actually going into the business of production themselves, as the War Office, for example, and the Admiralty do.

2204. In relation to the question put by Admiral Hughes Hallett as to whether these Research Establishments should take on staff with production experience so that the design studies can be formulated in a way to save money, has the Treasury considered that proposal and turned it down in the last year, or have they not considered it?—We should consider a proposal of this kind in specific terms primarily if the Ministry of Aviation were to propose to us that they should change their organisation in this sort of way. They have not made any such proposal to us and we have not thought it right to stimulate them to do so.

2205. Mr. Henley, when did the Treasury adopt this purely passive attitude that when you are dealing with a Department spending hundreds of millions of pounds about which the Public Accounts Committee is very much concerned, you only consider a change in practice when the spending Department puts the proposal to you? Have you ever heard of the Gladstonian doctrine of chasing candle ends?—(Mr. Henley.) As a general proposition we do not follow that system. We regard ourselves as fully competent to make suggestions to a Department at any time which we think will either be conducive to further economy or will assist them in their own problems. (Mr. Hardman.) I think we should feel it incumbent on us to act if need be. But our difficulty could be put in these terms: the translation of the design from development to production is not merely a matter of know-how in production generally, it is know-how in a particular environment, it is know-how in relation to a particular factory, the process of design leading on to a development contract, and, much more, a development contract intended to lead on to production. It enables answers to be found to all manner of problems in the

20 April, 1961.]

Mr. H. HARDMAN, C.B., and
Mr. F. J. DOGGETT.

[Continued.]

development programme, but, more important, to organisational problems within the factory.

2206. The Treasury also has a special responsibility, as we understand it, especially when vast sums of, up to now, uncontrolled expenditure are involved, and apparently the Treasury have not pressed this proposal on the Ministry but have waited to see if it came from the Ministry?—(Mr. *Henley*.) If I may say so, I think we should approach the problem in this way: there was, as you know, a very full discussion of the control of this expenditure at the last two sessions of this Committee, and we are fully confident that the Ministry has considered—in fact, we know that they have—all the points that were made in the Reports of the two previous Committees. The reasons why the line is drawn between research and design and production at this particular point have, I think, been touched on before and have now, perhaps, been rather more fully explained, but we are quite confident that this is a matter which the Ministry has had in mind and that, had they felt that there was anything to be gained by pursuing it, they would have come to us.

2207. They have considered the various ideas which came from this Committee?—I would like to ask Mr. *Hardman* to confirm that, but I am confident it is so. (Mr. *Hardman*.) Indeed, yes.

2208. Presumably, the Ministry and the Treasury will consider in the course of the next year the suggestions which Admiral Hughes Hallett has put up today?—Yes, Sir. (Mr. *Henley*.) Certainly.

2209. If Mr. *Hardman* does not, the Treasury will see that he does, will it?—Indeed, Sir, but I am fairly confident that the Ministry has already had that kind of question in mind.

Sir *Samuel Storey*.

2210. Mr. *Hardman*, if you were to attempt to get the men with practical production experience which Admiral Hughes Hallett suggests, would you not have very great difficulty in recruiting men with a wide enough experience of various types of production, and would they not very soon be out of date with modern techniques if they

became civil servants?—(Mr. *Hardman*.) Certainly, I think both those would be difficulties, the more so if there were questions of the translation of design study contracts into development contracts at factories, into environments, in which our staff had not had experience. It is not, that is to say, merely experience of a particular field of industry but, really, of the particular factory when it comes to production.

2211. Then you would really have to go into big scale production to have the necessary experience to carry out these design studies yourselves?—That is the conclusion to which we have come.

Chairman.

2212. Paragraphs 45-47, Technical Programmes. Mr. *Hardman*, lines 10 and 11 refer to the "phased and costed technical programme" which has to be prepared. When a design study is required for this programme is it the Technical Director who decides that a design study is required or who is it?—It is the Technical Director who is responsible for the decision then to go ahead, for defining the design study, the task.

2213. In paragraph 47 the Comptroller and Auditor General says that costed technical programmes have been adopted for 174 contracts. Is it possible to say in how many of these there has been a design study?—Offhand I do not think it is, Sir.

2214. If you have the information readily available, could you let us have it in due course?—I think perhaps if we could put in a note—

2215. Perhaps you would let us have a note?—We will, Sir*.

2216. Could you produce a satisfactory costed technical programme without a design study normally?—I would say, not normally. In some cases it may be possible. It is a matter of judgment in each particular case, I think.

2217. Paragraph 47 in line 3 refers to "fixed and maximum price contracts". What sort of development contracts do you place at these fixed or maximum prices?—We regard fixed and maximum price contracts as from our point

* *Note by Witness:* Between 1st April and 31st December, 1960, the Ministry placed 187 contracts with costed technical programmes to a total value of some £84m. Eight of these contracts amounting to £46m. had been preceded by design studies and 7 contracts amounting to £20m. were let at fixed prices.

20 April, 1961.]

Mr. H. HARDMAN, C.B., and
Mr. F. J. DOGGETT.

[Continued.]

of view, of course very attractive; they after all afford an incentive; they might be for a whole range. It so happens that over the period April to December we have concluded 7 fixed price contracts with fully costed programmes which are to a total value of £20 million. They would, therefore, cover big projects.

2218. I presume the Technical Directors referred to here vary in status and importance depending on the project. What sort of status are Technical Directors normally?—As you say, Sir, it is depending on the project. For a big project it might be a Director General who would be in charge. The Blue Streak Project we are to discuss was in charge of a Director General of Ballistic Missiles and it was virtually his whole task. There may be in the electronics field on the other hand a great many relatively small contracts where an Assistant Director is designated for one project. The pattern will vary from one side of the office to another in detailed terms, but broadly, yes, the aim would be to ensure that for each project there was an authority concerned with policy, an authority concerned with technical control and an authority concerned with detailed design, and at Headquarters it would be a Director General who would be responsible for policy, the control of the programme, the cost, the time scale and the general supervision.

2219. Some of these Directors might have more than one project under their control?—In the electronics field where the projects are relatively small there would be normally one man covering a number.

2220. Take the one you have just mentioned. What rank in the Ministry would the Technical Director on that contract hold?—(Mr. Doggett.) That was dealt with, Sir, by the Director General of Engine Development who is equivalent approximately to an Under Secretary.

2221. The Director General himself took that one on, did he?—Yes.

Vice-Admiral Hughes Hallett.

2222. Is the "Phased and costed technical programme" which is referred to here agreed with the contractor?—(Mr. Hardman.) Indeed, Sir, yes. This will be a document which attempts to lay down both for cost and for time what is involved in any particular

development. I have a specimen here for a Guided Missile which I asked to be prepared which will show under the heading of "Airframe Development" all the various items which will be involved such as the contact fuse, fuse case, other fuses, the mechanical arrangement, perhaps 16 or 17 headings there. Then there are other headings in relation to controls, the various controls envisaged, the power supply, the ground handling, what is called for in terms of testing environment, each setting out the time that will be involved in terms of calendar years and financial years with the latter covered by a cost figure, that being agreed with the contractor and the basis of all the subsequent discussion about the development of the weapon.

2223. That is normally a condition of the contract?—Normally it is not a condition written into the terms of the contract. It is the basis on which the contract is entered into and it is subject to constant discussion at regular intervals with the contractor. Any change of magnitude has to be agreed not only within the Department but, if necessary, with the Treasury and Service Department concerned.

2224. Then, does the contract provide for any limitation of expenditure for specified periods either in time or stages of the programme?—Not normally, Sir, I think. Normally there is an overall figure of the contract and that is the limit of liability.

2225. It would not be drawn up on the same lines, for instance, as the building of a house, where you have a general agreement that you are going to spend so much each month?—That could be written in stages—with payments in relation to stages, but I do not think it is normal in relation to these contracts. (Mr. Doggett.) Our aim would be to fix an overall limitation of liability in the contract and we seek to make as good an estimate as possible at the time of the work which the contractor is being asked to undertake; but in a major project, having worked out the kind of costed technical programme that Mr. Hardman has referred to, we may not immediately authorise the contractor to go ahead with all stages of this. His contract in the first place may be limited to certain stages, in which case the limitation of liability would be written in terms of these stages.

20 April, 1961.]

Mr. H. HARDMAN, C.B., and
Mr. F. J. DOGGETT.

[Continued.]

2226. In the last two lines of paragraph 45 reference is made to "remedial action when progress is not satisfactory". What sort of remedial action is open to the technical director?—(Mr. *Hardman*.) I think that where there is some discrepancy between the plan and the actual performance, the first task of the technical director would be to find out the reasons. It might be that they were in consequence of unforeseen difficulties, so that what would be involved would be some alteration, be it of time scale or of cost, that was called for by this hitherto unexpected difficulty. If, however, it emerged that the contractors were at fault, then it would be for the contracts department to consider the steps to be taken, maybe some penalty on the contractor or in the extreme case, of course, we should want to take the job away from the contractor; but that would be very much an extreme case. Normally, however, the difficulties which arise and the discrepancy between plan and progress will not mean remedial action in the sense of some change in the contract, rather some re-assessment of the task because it is proving more complex than we had thought.

2227. We can assume that these development contracts, if not in the past, at any rate in the future, were based on design studies, presumably? In the case of development contracts for weapons, that is to say, for items for which there is no civil market and no standard of comparison, can we assume that an important development contract would always be based upon a design study arrived at in competition, that there would have been competitive design studies before the decision was made as to where to go?—I do not think that would always be the case and if they were competitive they would more probably be competitive in relation to design rather than to price. A design study would indicate the nature of the way to solve the problem, and attempt to throw light on the time scale and the cost.

2228. Are we to understand, then, that there is no competition at all at the design stage in these enormous projects?—As I said earlier in relation to design studies, we would normally regard it as more important to get competition in the ideas put forward. It is, I think, infrequently the case that there are many firms and it is in the ideas that we feel competition is called for. The design

study would only, of course, be the basis for the subsequent development contract, and it would be in the scrutiny of the development, the progress against the development contract, that we would be concerned to see that value for money was secured.

2229. What I do not understand still, then, is what you told us that one of the difficulties about your doing your own design studies is that these development contracts and subsequent production involved processes of enormous complexity, and so forth. How do you know that the process need be complex if there has been no competition in design study to begin with?—We know because it is inherent in the ideas which are put forward, the ideas which have been analysed in the feasibility study, the whole development of guided missiles being in large measure in a field in which there is no experience and in which a good many problems remain to be solved. We devote our energies, therefore, to exercising control stage by stage both as to time and as to cost, and to detailed scrutiny of what in the carrying out of the development contract is undertaken by the contractor.

2230. Then, in fact, in the Government service, either in your Ministry or in the research Establishments you have got men who are qualified to make a critical appraisal of what is going forward in these contracts we are considering now?—We regard our technical staff and our technical costing staff and also our accountancy staff, as all qualified to exercise oversight on what is going on in the concern to make sure that we get value for money.

2231. I am thinking of something rather simpler. If the contract here suggests that, shall we say, the structure has got to be made of beryllium, have you got people who are in a position to say: "Yes, this really is necessary" or somebody who might say: "Well, no, it might be done at one thousandth of the expense to make it of aluminium"?—We regard our technical staff with the resources of the establishment behind them as competent to comment on that kind of issue.

2232. With authority?—With authority, yes, Sir. (Mr. *Doggett*.) This I think, Sir, is probably one of the greatest contributions which our research Establishments can in fact make to the project by organising the groups in the

20 April, 1961.]

Mr. H. HARDMAN, C.B., and
Mr. F. J. DOGGETT.

[Continued.]

Establishments so that they do work along certain lines which are foreseen as likely to raise problems in a project. The Establishment tries to be ahead of the contractor in thinking of the most likely solution and the best solution and this is almost their major contribution to a project.

2233. I am sorry to take so long over this. I still find difficulty in understanding how it is that on the one hand you have not got staff qualified to undertake a design study but on the other hand you say you have got staff who are qualified to confirm that the design study and the development contract done by somebody else is right?—(Mr. *Hardman*.) The particular question which I think was raised, Sir, was a technical question. In the example of the beryllium against aluminium I would feel we were particularly well qualified in the Establishments behind the technical directors. I think in terms of our staff on the accountancy side we feel we are qualified also to handle the approach in terms of costs of the concern. We can analyse the way in which their costs are made up. That remains the case although we look to our contractors for guidance on large scale industrial organisation.

Sir *Colin Thornton-Kemsley*.

2234. I want to ask, if I may, one or two questions on the subject of control over modifications of developments. Do you freeze a technical programme and say: "From this point there may not be any changes at all"? Does there come a time when you can do that?—Indeed, the whole purpose of our development contract being to translate the design to production, we find that constantly we have to consider modifications. The modifications will be considered at the technical level by the staff associated with the supervision of the contract, be it the resident at a particular factory—the resident project officer he is called—be it the officer concerned with the contract, the project development officer, be it as is the case for big projects, the management board, set up of various parts of the Ministry concerned generally to supervise. If there be some substantial change proposed then we should want to alter the terms of the contract. It would be a question, therefore, of discussing with the other Departments concerned, including the Treasury, the desirability of the change,

the Service Departments obviously would be informed there, of the amendment of the contract if the modification were generally agreed upon. This procedure would, of course, be modified, if the amendment, the change or modification were a minor one.

2235. But for a major one who would authorise the change?—The Ministry itself would have to discuss the change with the Service Departments as the consumers, with the Ministry of Defence and the Treasury, and it would be only after authority had been secured in that way that the change would be made, if it were really major.

2236. If that happened, if the technical specification has been revised, how do you maintain your phased and costed technical programme?—We recognise that the programme must constantly be revised against modifications.

2237. Do you have to get a fresh one signed?—We would be, in very big projects, setting particular contracts for parts of the whole programme. This would mean that the particular contract might be altered, and it might be that the subsequent ones might take a different form. (Mr. *Doggett*.) Part of the problem of assessing whether the modification was worthwhile or not would be its effect on cost and time scale of the project as a whole, in other words its effect on this phased programme. This would be part of the problem of assessing whether to proceed with it or not.

2238. That would be borne in mind by the authority who has to authorise the change, if change is contemplated?—(Mr. *Hardman*.) Yes.

Mr. *Cledwyn Hughes*.

2239. Paragraph 45 refers to the "instructions defining the responsibilities of technical directors in the control of expenditure on research and development projects", which were issued in June and August, 1960. This has meant that the technical directors have, in recent months, been given a good deal of additional work that was formerly the responsibility of the finance staff. That is the position, Mr. *Hardman*, is it not?—I think certainly they have been given a good deal of additional work. In this as in other fields the Ministry has been making general what was the practice in some parts. As I said, the work

20 April, 1961.]

Mr. H. HARDMAN, C.B., and
Mr. F. J. DOGGETT.

[Continued.]

of the Ministry would differ from one part of the office to another.

2240. Has this involved the appointment of additional technical directors or has it involved increasing their staff?—So far it has involved no additional directors. It has involved some increase in staff and there is a good deal of pressure for yet more. A short time ago I went round no less than ten directors for different projects to find out what they were doing. There was only one thing in common in their comment, they all said they must have more staff. That is in part their reaction to the additional load which they have to take on.

2241. This additional work which they have been given is of the first importance. Do you think that with the existing staff they are competent to do it properly?—I think in this field as in others about which we have been talking, we must feel our way. If in order to do it properly more staff are required then we must consider the appointment of more staff. I think there is no doubt that we must put the pressure—we recognise this—on having the work done properly. Technical directors are finding new ways, and, we hope, will find by looking at the financial aspect rather more than they have in the past. In some cases they will get benefits in relation to the work they are doing or have been doing in the past.

2242. When you said that their staffs have been increased, can you say to what extent they have been increased, and was the increase made by transferring from the finance staff, or is the finance staff now still at its previous strength?—I do not think I can give you off hand a figure; perhaps we may try and assess what the increase in staff has been. The changes have not been very large, I think it is true to say, so far. I think the changes, too, have been in the form of additional responsibilities, the finance staff remaining as the part of the organisation which is concerned with the scrutiny of expenditure, with all the work associated with the incurring of commitments after the technical branch have done their task.

2243. What I am referring to is that the technical directors are now primarily responsible for preparing initial estimates. That seems to me to be a detailed, complicated and important work.

Are you now suggesting that the finance staff are still in on that work with the technical directors, or what is the position?—The finance staff is still concerned. I find myself here forced to repeat that there has been in the new arrangements a making general of a practice that was found in some parts of the office though not in every part. Some, therefore, of the technical staff have always been concerned with a proportion of the detailed plan, defining the task, assessing the resources required, and drawing up the phased programme. In other parts of the office they are doing more in that field and perhaps substantially more than was true in the past. It remains the case that the administrative staff are still concerned with considering the proposals from the financial angle and satisfying themselves that the estimates are valid so that the burden on them is in no sensible degree abated by the new arrangements. There is still a role for that finance staff. They are associated, of course, too, with all the figure side, associated with estimating and securing parliamentary grants.

Sir Samuel Storey.

2244. Mr. Hardman, you have told us that you have a preference for fixed or maximum price contracts. You would agree that such contracts make it essential that you should be sure of the standard of the work produced. Are you satisfied that you have adequate inspection staff and inspection facilities to ensure that?—I am, Sir. We have in the technical directorate of whom we have been speaking and in the department of technical costs, as well as on the accounting side, officers with a long experience, and we are able to draw on an immense reservoir of knowledge. We can, I think, ensure that the quality is maintained and that we get value for money. Over and above that we have the whole inspection service looking at the actual products which emerge alike from development contracts and production contracts to ensure that the appropriate standards are secured.

Sir George Benson.

2245. In paragraph 45 the Comptroller and Auditor General uses the phrase: "a phased and costed technical programme controllable by stages". To what extent are you in control actually once you start on a weapon?—To the

20 April, 1961.]

Mr. H. HARDMAN, C.B., and
Mr. F. J. DOGGETT.

[Continued.]

extent that the programme, the costed technical programme is agreed at the outset with the contractor, we are supervising constantly performance against that programme. If there be any falling away, be it in time or in money, that is an issue which has to be discussed by our staff with the contractor. Any substantial change which is thrown up, is, as I described earlier, for discussion with the other departments. The issue in the case of big changes is whether we go on with the contract, or whether we alter the contract or have a new contract which meets the changed situation?

2246. To what extent do you have to have new contracts in the production of these new weapons under this system?—If there be any substantial modification not covered by the existing contract certainly there would have to be a new contract.

2247. Approximately how much does this represent increased cost and how much increased cost is there over the development of a new weapon as compared with the original estimate? Does your original estimate bear any relationship to the final cost?—If we are talking in terms of projects under the new arrangements it is very difficult, of course, because little or nothing has yet been completed. What we would be concerned about is to secure that our estimates, where we are arriving at a final figure, should be, as we have said, as realistic as the circumstances allow. We should want, that is to say, to have an estimate which was as close as possible to the final cost. We would in some cases, of course, with very complex projects have to start without a final figure agreed. We would then aim at getting as many of the detailed parts produced against a specific figure as possible, working to a specification every time. If I may take an illustration, we have now in development an aircraft, the so-called T.S.R.2, the tactical and strike reconnaissance aircraft, a very great project involving sums of up to a total of £—million. We will be concerned, the work now being in hand, to secure as far as we can for all the detailed parts, the parts associated with the airframe and the parts associated with the electronic equipment, detailed specifications. * * * We know this is feasible technically. We have not developed it; and we have not yet been able to get a reasonable estimate

of total cost. We are working all the time on this problem and as soon as we can we would hope to get a total figure but always that is a problem when we are looking at the total cost.

2248. What I want to know is, when you have got a specific figure early on, to what extent is that specific figure related to your final cost?—It would differ from project to project. We know that in the case of some projects—we shall be discussing Blue Streak later on—we have not been very much concerned with the total figure in the early stages. We have been concerned rather with what we spend over a period of time. The figure, therefore, does not bear any very close comparison with the final figure. I cannot for all projects which are started now give a total figure. I cannot, say, for particular ones over the past tell you what the difference is. In some cases, as the Committee has brought out, it has, of course, been substantial.

2249. In other words when you start on a project you have no idea what it is going to cost you?—On the contrary, we are concerned, so far as we can, to fix particular and specific estimates. We want to get as real estimates as we can. If it is something which is well-known, where there is experience, we can work on the basis of a fixed price contract and that is the ideal. If it is something where no one knows what the problems are, we have to work on the basis of a cost-plus contract with constant attention, the aim being, as far as we can, to get a figure which is a specific one.

2250. The Comptroller and Auditor General refers here to "Phased and costed technical programme controllable by stages". Does that mean that when you have decided on the particular work you have not the faintest idea what it is going to cost?—On the contrary we have in this phased programme—if I may go back to the illustration I used earlier, say a guided missile—all the various items which will make it up, the time which should be taken and the cost. We would want at regular intervals to compare progress against that particular programme.

2251. What I want to find out is how accurate your original estimates are, and that is the point you will not come to?—My difficulty is that if we are think-

20 April, 1961.]

Mr. H. HARDMAN, C.B., and
Mr. F. J. DOGGETT.

[Continued.]

ing of production under the procedures we have now which we are trying to perfect, they have not been going long enough for us to come to any conclusion. If we are thinking about projects in the past, the Committee knows even more than I do about the difficulties and about the mistakes in estimating which have been made.

2252. Are you getting periodical estimates of expenditure regularly and punctually from all contractors?—Not from all contractors. We are extending our system as quickly as we can and taking the major contractors first. Our aim is to get returns regularly from all our contractors over a period of time. In the case of electronics I think within two years we are hoping to cover virtually all the major contractors and some of the minor ones.

2253. In the 169 contracts referred to in the last four lines of paragraph 46 on how many contracts are you not getting regular returns?—We have always, I think, had quarterly returns against expenditure. The particular reference in paragraph 46 is about additional returns in relation to Guided Missiles and to electronic equipment. These are intended to give us more immediate indications of changes and to put us on to the possibility of departure from the programme. We have not required this in more than part so far of the organisation because we are not certain that they are going to be useful, the danger being that we may have, as it were, too many returns.

2254. Are you getting these monthly and six-weekly statements from the majority of your contractors or the minority?—They are related to Guided Missiles and electronics. We get in virtually all contracts, certainly all except very small ones, quarterly returns. In future we are going to get them from all contractors but these are supplementary returns, monthly or six-weekly. We are trying an experiment and we do not know whether we want them over the whole field.

2255. You do not know yet whether they are worth while?—Exactly, Sir.

Chairman.

2256. Paragraph 48, progress payments. From lines 7 and 8 the Ministry, I see, told the Comptroller and Auditor

General that it would not be possible for the Technical Director to certify that work had proceeded in accordance with the programme without a substantial increase of staff and also without delay in payment. How do you reconcile this with the statement in the last three lines of paragraph 45 that the Technical Director compares statements of expenditure with the planned expenditure and with progress?—Perhaps I should explain first of all that when we speak of progress payments we are normally speaking of what might be better referred to as cash reimbursement payments. We have, it is true, also payments against stages in progress but those are not what are referred to here, I think, under the heading of "progress payments". In all cases, of course, we want to check the records of contractors as soon as we begin a contract for general accuracy but these particular progress payments are intended to be in the form of a reimbursement of a proportion of the cash actually paid out by contractors to avoid work being held up because of difficulties over short term financing. The question of using them, as it were, as a sanction to ensure that there is satisfactory progress would mean that in addition to checks related to expenditure we were also attempting to check progress against claims for cash. Now, of course, the actual cash which is spent may not be in any close way related to the progress of expenditure. The claim for cash is at the discretion of the contractor and I am not sure that it is always true that the contractor who is most efficient will be slow to ask for cash. It may be rather that the most efficient contractor comes the more frequently to get all the cash he can to reduce the claims on his own liquid funds. We would, if tempted to use these progress payments, find ourselves required to check, as it were, in parallel against expenditure and against cash since the returns are not readily reconcilable with progress reports and with the actual expenditure incurred. The staff demands would be the greater and we feel, perhaps last but not least, that we would in a sense be defeating the aim of the payments which is to prevent work being stopped because the contractor is short of liquid capital.

2257. So the two statements I asked you to reconcile you reconcile by saying that one of them relates to cash payments and the other to reimbursement

20 April, 1961.]

Mr. H. HARDMAN, C.B., and
Mr. F. J. DOGGETT.

[Continued.]

of out-of-pocket expenses, on the one hand?—Yes*.

2258. Secondly, you say you cannot do it without additional staff or delays later as to certification of the work done against the whole programme that had been set out. That is the difference between paragraphs 45 and 48, is it?—Essentially, yes, Sir.

2259. So far as this holding up of his payment is concerned, you said at the end of your answer that you would not want to hold up his payment and then stop the work because he had run out of liquid capital. Could you not require the Technical Director to produce a certificate periodically without holding up payment in the meantime?—We are, of course, looking at the progress in terms of expenditure quite separately and in those cases where we get monthly or six-weekly returns we can do it the more quickly. If progress were not satisfactory we would want to hold up the payments irrespective of whether he had cash or not.

2260. You mean to see that he was working to the programme?—We could use this as one of the sanctions if we were dissatisfied with the progress he was making. The sanctions we have include revision of the contract and ultimately taking work out of the contractor's hands, but we feel we have a good enough weapon at our disposal if work is not satisfactory and it is relatively easy to operate.

2261. In paragraph 45 you see the phrase "remedial action". Does this mean deductions from subsequent progress payments or withholding of the reimbursement moneys or what?—In most cases contractors take note of what we say but if we had to impose the big stick, in the last resort we could impose a penalty or we could take a contract away. That big stick is not often used but is always there.

2262. I am not talking about reimbursements of expenditure but the paragraph 48 problem. Are you still

* *Correction by Witness:* The distinction is between on the one hand quarterly returns of costs incurred by the contractor and his sub-contractors, which can be related to the technical progress of the work and, on the other hand, claims made at the discretion of the contractor for reimbursement of a proportion of his cash outgoings, which do not bear a constant relation to the costs incurred and the technical progress of the work.

bound under the contract to pay the contractor's costs?—I am quite sure if we thought progress was not satisfactory we could use this as an additional sanction.

2263. That means you do not pay the contractor's costs?—We have not regarded stopping or delaying progress payments as a very important sanction, the others being more valuable. (Mr. Doggett.) I think we have to take a very careful judgment here as to the reason why the programme was not going in accordance with the forecast. It might be due to no culpable fault of any moment on the part of the contractor; it might be that the problems set had turned out to be far more difficult than were forecast and to which no ready solution could be found. I think what we would do, if we were satisfied there were some culpability on the contractor is that we would attempt to bring that home to him and exact some penalty at the final settlement.

2264. You would not be required to pay him the whole of his costs if you felt he were culpable?—If we could find some part of the cost and identify it and say: "This should not have been done" then we would not be liable to reimburse him.

2265. Does the same apply to profit?—Another penalty we could use in certain circumstances would be to reduce his profit.

Mr. Cledwyn Hughes.

2266. Mr. Hardman, in sub-paragraph (c) the Comptroller and Auditor General says that the Director of Accountancy Services makes sample checks of claims. Does this mean that he does verify the contractor's costs in some cases?—(Mr. Hardman.) Yes.

2267. Does he do this before or after the progress payment is made?—He would do it first of all to learn something of the records which are kept by the concern with which the contract is placed. If the concern is a new one he would do it straight away. A good many contracts, of course, will come to concerns with which the Director of Accountancy Services will have had contacts. He will in any case want to make checks against payments as a constant process to ensure that claims are allowable.

2268. How frequently are such verifications made?—I would say that we have inspections at least every twelve

20 April, 1961.]

Mr. H. HARDMAN, C.B., and
Mr. F. J. DOGGETT.

[Continued.]

months. The claims will be checked all the time, also inspection of the records and examination of all the claims on a sample basis.

2269. Are you quite satisfied that there would be no possibility of a contractor continuing to claim progress payments perhaps for years, in excess of what is properly payable?—I am absolutely satisfied.

Vice-Admiral *Hughes Hallett*.

2270. Have there been many cases besides those that have been brought to the notice of the Public Accounts Committee where progress has not been as satisfactory as was intended?—It is very difficult to answer a general question of that kind especially in a field of development where we are striving to find solutions to problems when it is by no means certain that the solution will be there.

2271. Let me put the question another way. Do you as the Accounting Officer find yourself frequently or infrequently confronted with a decision as to whether or not payments should be withheld owing to lack of satisfactory progress?—So far as progress payments in the sense in which they are discussed in the Report are concerned, normally payment would be automatic.

2272. I am talking of work that has not gone forward as well as it should have done, as discussed in paragraph 48 and hinted at in paragraph 45?—Paragraph 48 is concerned with these payments against cash, and one of the questions I have asked since I became responsible is the extent to which there has been payment which has been in error in these progress payments. There are no cases, so far as the Department can ascertain, where we have paid in any case over the sum which was due. Paragraph 45 is, however, concerned with the measure of progress against the development cost programme and there there will be constantly modifications called for because of difficulties either of time or of money or both; and one of my major problems is to look in relation to projects at what difficulties have arisen, some of them being settled within the department, and some going to other departments for analysis under the new procedure, to consider whether we should go on or not.

2273. It was pointed out by Mr. Doggett that before you considered

actually withholding payment you had to consider whether the holdup was the fault of the contractor or whether it was due to causes which could not reasonably have been foreseen. How often does that have to be considered in practice? Have you ever known of a case?—This is a problem which we are looking at in relation to a whole range of our activities fairly frequently as a result of these checks. There may be small aberrations in some cases, bigger in others, but our organisation, including our Research and Development Board, would regard it as one of its tasks to review cases of this sort and consider the reasons for deficiency and what steps shall be taken as the end of a long process of discussion within the department. The making certain that work is going satisfactorily inevitably involves those contractors where progress is less than it should be. (Mr. Doggett.) This is not a common occurrence, but cases have occurred where we have exacted a penalty of some sort from a certain number of contractors, either reduction of profit or disallowing some expenditure.

2274. In making that decision presumably you rely on technical advice within the Ministry?—Yes.

2275. At what level is that advice given?—I think it would depend on the nature of the field, and the amount of money that was at stake. The actual negotiation of the settlement, while based on technical advice, would be done by our Director of Contracts.

2276. Would the advice be anonymous in the sense that it would be unknown to the contractor who was rendering the advice?—Oh, no, the technical man would be brought into the discussions if necessary and there would be quite frank discussions about the reasons.

2277. Would it be known to the contractor on whose advice you were relying?—Yes, certainly.

Chairman.

2278. I think it is probably clear as we shall want to put questions on paragraphs 49-53 and the specific problems about Blue Streak, that we shall not be able to get through all the Ministry of Aviation evidence to-day, and we shall therefore need to meet next week. Mr. Hardman, it is not in accordance with

20 April, 1961.]

Mr. H. HARDMAN, C.B., and
Mr. F. J. DOGGETT.

[Continued.]

precedent, but I think I should have welcomed you as our centenary witness to-day. I think probably our predecessors here nominated a hundred years ago yesterday might have been rather appalled at the magnitude of the expenditures we have been discussing and some of the problems with which you and the Treasury and we have to deal with?—Could, I, Sir, as a Permanent Secretary, as one of the toads under the harrow, as it were, the toad who “knows Exactly where each tooth-point goes”,

offer felicitations to the Committee if that be not entirely inappropriate? I think, as one Permanent Secretary, I can speak for all in recognising that the Committee lives up to its Victorian origins. If it hurts then we can be sure that it is for our own good, the maxim of the good Victorian parent!

Chairman.] I do not think there is any precedent for those felicitations, but I have no doubt we shall see a lot of you during our second century.

TUESDAY, 25TH APRIL, 1961.

Members present:

Mr. Harold Wilson, in the Chair.

Mr. Arbuthnot.
Sir George Benson.
Mr. Chetwynd.
Mr. John Hall.
Mr. Hoy.

Mr. Cledwyn Hughes.
Mr. Stevens.
Sir Samuel Storey.
Sir Colin Thornton-Kemsley.

Sir EDMUND COMPTON, K.B.E., C.B., Mr. D. O. HENLEY and Mr. A. D. PECK, M.B.E., an Under Secretary, Treasury, called in and examined.

TREASURY MINUTE ON PARAGRAPHS 25-45 OF THE SECOND REPORT OF THE COMMITTEE OF PUBLIC ACCOUNTS, 1959-60 (continued).

CIVIL APPROPRIATION ACCOUNTS (CLASSES VI-X), 1959-60.

CLASS VI.

VOTE 10.

MINISTRY OF AVIATION (continued).

VOTE 11.

MINISTRY OF AVIATION (PURCHASING (REPAYMENT) SERVICES)
(continued).

Mr. H. HARDMAN, C.B., Permanent Secretary, and Mr. F. J. DOGGETT, Under Secretary (Air B), Ministry of Aviation, called in and further examined; and Mr. W. G. DOWNEY, an Under Secretary, Electronics and Guided Weapons Division, Ministry of Aviation, called in and examined.

Chairman.

2279. The Committee will recall that we were on paragraphs 41 to 53 of the Comptroller and Auditor General's Report on the Civil Appropriation Accounts (Classes VI-X), 1959-60. We had, in fact, finished paragraph 48 and we now go to paragraphs 49-53, Verification of Expenditure. Mr. Hardman, what are the duties of these resident technical and project officers referred to in paragraph 49?—(Mr. Hardman.) The resident officers act broadly as eyes and ears for the Department in the factories concerned with contracts placed by the Department. They will have responsibility in relation to minor modifications within the programme, though normally they will simply examine and report on proposals for amendment which will be referred to the development project officer and to the technical director. They are, as it were, the representatives of the Department at the contractor's works linking up with all our research and development.

2280. They are on the staff of the Technical Director in charge of the programme, are they?—They are.

2281. Is their authority required for any expenditure incurred by the firm on the contract, for example, sub-contracts or purchases or for special items of work?—Normally they would report on what was proposed. They would be the channel through which the decision would be passed, but the decision would be taken higher up.

2282. Have they power to stop work or expenditure which they feel is outside the authority?—If any considerable issue is involved they would normally report to headquarters rather than take action themselves.

2283. When authorisation is given, as you say, at headquarters, for the expenditures of the kind I have mentioned or any decisions taken that work must be stopped, how are these recorded on headquarters' files?—Oh, yes, if there were a question of stopping the work then a very big issue would be raised. We would have discussions in which the technical staff and the Finance Branch would all be involved as to the consequences of a stoppage.

2284. But the authority that I referred to earlier on, which you said was not

25 April, 1961.]

Mr. H. HARDMAN, C.B.,
Mr. F. J. DOGGETT, and Mr. W. G. DOWNEY.

[Continued.]

given by the technical resident people but given by headquarters, authority in respect of expenditure on sub-contracts, on purchases or special items of work, has got to be given by headquarters and is recorded by headquarters. Are all those things communicated to the resident technical and project officers so that they know what decisions headquarters have taken?—Indeed, Sir, yes, a resident project officer is normally aware of developments in relation to the contract which would affect, perhaps, more than one department of the Ministry on a particular project. They would be coming to him as the focal point on the spot.

2285. Are all the various things found out by the resident technical and project officers and also decisions on the points that I have asked you about, taken at headquarters, made available to the costing officers for checking the contractor's claims?—Indeed, Sir, yes.

2286. My last question on this is, what, roughly, is the range of salary of your resident technical and project officers? What rank do they hold?—They are normally Principal Scientific Officers or Engineers I, or the equivalent rank if they are serving officers. The salary range would be £1,700-£2,200 or £2,500.

Mr. Arbuthnot.

2287. Mr. Hardman, the professional accountants verify that the accounting system is satisfactory and make test checks to see that it is operating properly. Is it their duty or the duty of technical cost officers to check charges for unproductive costs such as idle time, and so on, to the Ministry contract?—The professional accountants would, I think, equally be responsible for any question of special charges associated, for example, with idle time. They are examining the accounts which are submitted by the concern but they would, of course, have available for consultation both the technical costing staff and the Technical Director concerned with the project.

2288. What about unproductive costs?—I am not entirely clear, I am afraid, about unproductive costs. Is it items of overhead expenditure?

2289. That might be one of them, yes?—Clearly, one of the main tasks of the Director of Accountancy Services and his staff is work on all the firm's arrangements, so far as overhead costs are con-

cerned, to eliminate those which are not regarded as appropriate. They will recognise some as appropriate but they might, for instance, in relation to advertising, want to limit what was allowable. Advertising for staffs for the particular task would be allowable. Prestige advertising, of course, would be ruled out.

2290. And idle time?—I think that the issue of idle time would depend upon the circumstances of the case, why the idle time had to be paid for. I do not think I could give a general statement as to how it is treated. (Mr. Doggett.) I think I agree with what Mr. Hardman has said. In the case of idle time we would have to try to find out where it had arisen. It might have been because of some inability on the part of the Ministry, perhaps, to have provided some item on time, and so on, which had caused idle time at the works. But, in any case, I should have thought, in a large job of this kind, it is almost certain that some small element of idle time would crop up from time to time and would have to be accepted as a risk incident to the job. I do not think one would expect entirely to exclude idle time.

2291. Have you had frequent cases of the Ministry failing to provide materials for the job?—I do not quite like the way you put it, Sir, that we failed to provide the materials for the job, but I think we must recognise in a major development project where you have to develop not only the main equipment itself but also a whole series of subsidiary equipments, that it may be extremely difficult to ensure that a particular sub-assembly or component will be there exactly on time to match the original programme that was envisaged.

2292. So, in fact, the answer is yes?—The answer is that this does happen sometimes, yes.

2293. Are the accountants kept fully and regularly informed by the Technical Branch of all decisions affecting admissibility of expenditure, or do they only consult when they require the technical information?—(Mr. Hardman.) There is general encouragement of collaboration between the technical cost staff and the accountants' staff. The accountants have, of course, access to the resident officer who will have available a vast range of material about the

25 April, 1961.]

Mr. H. HARDMAN, C.B.,
Mr. F. J. DOGGETT, and Mr. W. G. DOWNEY.

[Continued.]

particular contract with which they are concerned.

2294. What is the machinery to encourage collaboration?—The essential part of it on the job itself is, of course, the Resident Project Officer and the Resident Technical Officer, but there are also other arrangements to ensure that there is no possibility that the two sides of the Ministry's officers are not in touch, the one with the other.

2295. So, you would say that the accountants are kept fully and regularly informed?—They are, Sir, by a whole variety of methods.

2296. Responsibility for seeing that no inadmissible expenditure is reimbursed is divided, as I see it, between technical officers, technical cost officers and accountants. Are there arrangements for routine communication of information between them?—That follows, I think, from the arrangements I have spoken of already, Sir.

2297. May I press you a little bit further, then, as to what routine communication does take place between them?—The accountancy officer to begin with, the accountant who is working on a particular concern's activities, in relation to any particular item of expense where he feels that the total is out of line, will want to refer it to the Director of Technical Costs or his officer concerned, this being part of the regular routine. Whenever there is an exceptional appearance about an item, some sort of enquiry would go to the Director of Technical Costs.

2298. So that the real responsibility rests on the accountant where he feels that expenditure is out of line, not on either the technical cost officers or the technical officers?—There will have been, of course, the earlier consideration by the Director of Technical Costs or his staff, in particular about the prime costs. The Director of Technical Costs will be concerned about the whole approach to the handling of the job, all the calculation of prime costs. Beyond that the accountant will come in with the stress on overhead cost items which are added to those on the workshop floor. The Director of Technical Costs will be maintaining liaison with the technical branches, obtaining information from the technical branches about the programme and about the accounts. Similarly, the

Director of Accountancy Services or his staff will be maintaining contact with the Director of Technical Costs.

2299. So, no initiative really rests with the technical officers to bring to the notice of the accountants when they feel that something is going wrong in this respect?—Indeed, yes, because they will be looking at questions of costs against the estimates. They will have the costed technical programme which will be of concern to them alike as regards time and also estimates of costs. They will compare against this the quarterly returns of expenditure. If anything were going wrong in the terms of swelling of expenditure against estimates they will be on to it at once. If it is a question of cost in excess of the estimate, the point will be examined very carefully by the Director of Technical Costs, the stress being, as I have said, on prime cost, as well as by the accountants.

Sir Colin Thornton-Kemsley.

2300. These contracts will normally run for many years, will they not? The work will be spread over probably several years?—I think there will be a very wide range in different kinds of contracts. The more we strive to ensure that our contracts are in fairly specific terms, of course, the shorter the stages by which we will be able to proceed in the development of anything which is complex. We might, in relation to a particular project, find it possible to have development contracts over some of the field, over part of the way. The increasing tendency will be, I think, for the contracts to be for shorter periods.

2301. Do you envisage your Resident Technical Officers and your Resident Project Officers being the same individuals living, as it were, cheek by jowl with the contractors over quite a long period, working with them and getting to know them very well or do you envisage changes from time to time?—We would regard changes as part of the way in which we would prefer to use all our technical staff. People would move from a post as a Resident Technical Officer to another post in an Establishment or another post at headquarters in the normal course of a career. We would, obviously, want to have regard on the one hand to the advantages of having some experience of the concern, knowing

H

39389

25 April, 1961.]

Mr. H. HARDMAN, C.B.,
Mr. F. J. DOGGETT, and Mr. W. G. DOWNEY.

[Continued.]

the details of its operation in relation to prime cost treatment or overhead costs, and on the other hand to all the dangers that can arise if our Resident Project Officers are too close.

2302. It was really on that latter point that I was directing my questions to you, wondering whether you had in your experience, or whether there had been in the experience of your Department, examples of these Project Officers and Technical Officers on retirement having been given employment by the firms with whom they had been working so closely on these contracts?—I could not with any real basis of knowledge answer that, Sir. This is, obviously, an issue which could arise and may very well arise. If the officer were sufficiently senior in rank it would be an issue on which, of course, Her Majesty's Government would be consulted before there was any possibility of employment. With staff lower down the line that is not an essential requirement.

2303. Going to another point, these paragraphs which the Committee is now considering deal mainly with contracts. Would you care to tell the Committee the procedure with regard to sub-contracts? If I were to direct certain questions which might show you what I have in mind, for example, have you the same rights of access to sub-contractors' books as you have to those of the main contractors? That is one point, and if the answer is "Yes", how often are those rights exercised? I should like to know a little about that. Is the right to sub-contract subject to any kind of control by your Technical Branch, or can sub-contracting be done without reference to your Technical Officers? Then, I would like to know a bit about the basis on which these sub-contracts are fixed. Are they fixed on a fixed price basis? I think, finally, I should like to be told whether any competition is obtainable on these sub-contracts or whether the main contractor usually goes to one man and places a sub-contract with him without inviting competitive tenders?—If I may, I will ask Mr. Doggett to reply to that. (Mr. Doggett.) I should like, if I may, to start first with the selection of the sub-contractor. What we do with a major project is, when we are formulating this costed technical programme of which we have spoken, that we seek to set out all the major items that go to make up the

whole equipment, things like the radar, the electronic systems, and so on. They are all set out individually as part of the whole project. We then discuss with the contractor and our own technical people where these items should be done. Some we may wish to do under direct contract ourselves. We decide which shall be sub-contracted in agreement, preferably, with the main contractor. We then go further than that and discuss and agree with the main contractor the sub-contractors who would appear to be acceptable sub-contractors for this equipment. If there is more than one acceptable, then the main contractor would be asked, if necessary, to get competitive tenders from them or to do some investigations with them and then submit to the Ministry the results of his investigation, and in agreement with the main contractor we would then select the sub-contractor. If there were any disagreement between us and the main contractor, we accept it as part of our responsibility that we must decide this issue if we think that a particular sub-contractor must be chosen. It might be, for instance, because we already had similar equipment under development with a particular contractor. On the question of pricing, as I have said, if we are dealing with a small component and it is possible to get competitive tendering and to lead up to fixed or maximum prices, this would be done. If that is not possible, then the pricing will have to follow the same lines as the pricing on the main contract, which means, in effect, probably a costed contract. Then, our main contract requires the main contractor to secure for us the right to investigate the sub-contractors' books in the same way as we investigate those of the main contractor.

2304. Is that done regularly or do you envisage that it would be done regularly?—Yes, certainly, it is regular practice.

Mr. Stevens.

2305. Mr. Hardman, at what stage in the proceedings are the Ministry's professional accountants called in?—(Mr. Hardman.) They would be called in first of all, Sir, if we were entering into a contract with a concern with which we had not previously had dealings in order to look at the records of the concern and to satisfy at an expert level the requirements that we lay down for them, the records that a contractor should

25 April, 1961.]

Mr. H. HARDMAN, C.B.,
Mr. F. J. DOGGETT, and Mr. W. G. DOWNEY.

[Continued.]

keep. They would then be brought in in relation to particular schemes, as I have explained earlier, scrutinising overhead items in any estimate, linking with the Technical Director responsible for a particular development contract, and the project as a whole, and with the Director of Technical Costs, giving guidance on evidence of prime cost and interpreting that.

2306. In the first instance, then, they are called in before the contract has actually begun to run, is that right?—That is so, yes.

2307. What are their terms of reference, their instructions?—To satisfy themselves about the records which are maintained by the contractor. We have links, of course, with a very large number of contractors, but the bulk of our dealings tends to be with a relatively small number for substantial amounts. In 1959-60 we had links with nearly 2,500 contractors, the total payments being of the order of £120 million. Out of the 2,500 contractors, 33 were responsible for £100 million of the payments—83 per cent. With those 33 firms our accountants would be in constant touch. They would know a great deal about their records. They would not, therefore, have to make checks in relation to particular contracts unless something was going radically wrong. In the smaller concerns they would be going in so that we could satisfy ourselves alike in accounting as in other respects, that the firm was a suitable one to have a contract from the Government.

2308. There have been occasions in the past, have there, when the professional accountants have found, in either contractors' or sub-contractors' records accountancy systems which were not satisfactory? Would that be right?—I think, yes, Sir. I would say that the chief impact tends to be in terms of indicating to firms how they are to improve them if they are to qualify.

2309. I was just going to ask you, what powers have the Ministry's professional accountants to superimpose better systems on contractors?—There is no form of sanction. It is simply the possibility that there may be no Government contracts unless the accounting systems be improved. That kind of persuasion is frequently salutary in the extreme.

39389

2310. It is a powerful form of persuasion?—It is indeed.

Sir Samuel Storey.

2311. Mr. Hardman, your Technical Officers, I gather, are responsible for such questions as manpower and materials, progress and costs. Who is responsible for the inspection of the quality of the work, the Technical Officer, or do you have a separate inspection staff?—We have a quite separate Inspection Department staffed by technical experts of various kinds, in engineering, chemical products, etc. It is an inspectorate which is linked with the War Office, the task of the inspectorate being to look at all products, to certify that the product is up to specification.

2312. They are engaged with all contractors, are they?—They are engaged with all contractors.

Sir George Benson.

2313. Mr. Hardman, you have now some years of experience of dealing with these non-fixed price contracts. Do you feel that you are more efficient in controlling them than you were, say, five years ago?—I think we have learned a good deal about the techniques of control and all that has been developed within the field of contracts in terms of the use of non-fixed price contracts. Within the field of supervision of our costed technical programme, of the use of our staffs, we have, as it were, made general the best practice of the Department. A good deal of this, if not all, was the custom in some parts of the Department before. We have now endeavoured, and I think are succeeding, to generalise that approach.

2314. To put the question in reverse, if you look back five years, do you realise that blunders had been made then?—I think our blunders have been not so much within the field of verification of expenditure as in the initial estimating, the initial approach towards the scale of the project where we have not, against the background of the new techniques in fields where there is no experience to guide us, been as aware as, with the benefit of hindsight, we concede we ought to have been aware, of the complications and the difficulties. But I do not think it is true to say that in our verification of actual expenditure we have been so much at fault.

H 2

25 April, 1961.]

Mr. H. HARDMAN, C.B.,
Mr. F. J. DOGGETT, and Mr. W. G. DOWNEY.

[Continued.]

2315. It is not so much an accounting question, it is really a question of the checking of methods and of the efficiency of the firms, surely?—Yes, it is in the field of estimating. In verification, where I believe that our standards have been always very high, the fact that we have so seldom found we have erred is encouraging. I think our big faults have been in the field of estimating where, as I think the Committee recognises, there is a constantly occurring dilemma, because it is on the development contract that we very often are not clear on more than what the requirement is, and the task is to get the people designing what we cannot describe save in the most general terms; our techniques increasingly are to try and define small parts of the general field gradually and, as we get more and more knowledge, to cover the whole contract, but with the certainty that we are going to be very often wrong because on parts difficulties are likely to emerge which we could not have foreseen.

2316. What I was really wondering is, how far your experience has taught you to avoid snags and taught you better techniques?—I would have said, in relation to the verification of expenditure, that we have constantly improved and I hope will go on improving. Our deficiencies have not been, so far as we can tell, very considerable. In the field of estimating it is true that we have learned a great deal where we hope generalising new techniques will enable us to be, at any rate, more effective than we have been; but we recognise that there is, in some ways, an almost insoluble problem where requirements are put to us that are extremely vague and how to achieve them is only known in the laboratory and not in the workshop.

2317. Mr. Henley, is the Treasury satisfied with the Department's control of expenditure on work of this kind?—(Mr. Henley.) We are quite confident, Sir, that the new systems, or the improved systems, which Mr. Hardman has now described at some length, will do a great deal to get better results in the future in the sense of, firstly, a closer correspondence of estimates with expenditure, and, secondly, a closer day to day control on individual contracts and contractors; though we would agree that this is a matter of development of techniques that

have been gradually improved with the increasing knowledge of the whole of this sort of expenditure.

2318. You are satisfied that the techniques are developing?—Certainly, Sir, yes.

Chairman.

2319. Paragraphs 54-58, Development of a medium range ballistic missile. Mr. Hardman, the main contractor in this case, the Blue Streak case, we all understand to be De Havilland's. Who were the other firms concerned?—(Mr. Hardman.) There were, in all, four firms, Sir, that were brought in to the development of Blue Streak. The plan was to look where expertise existed, and so far as the propulsion was concerned, the motors for Blue Streak, it was to Rolls-Royce that the contract was given. As regards inertial guidance, it was to Sperry's, who have done a great deal of work on gyroscopes. As regards radar, it was Marconi's, and then De Havilland's contracts were on two bases, the first being associated with general co-ordination, and, secondly, the airframe. The airframe of the rocket presented problems similar to those of an aircraft, for instance.

2320. Why did the estimated cost of development increase from £50 million as mentioned in paragraph 54, to over £300 million, mentioned in paragraph 55?—I think I must begin any explanation by stressing that the original estimate of £50 million in 1955 was, as the term used then had it, conjectural, and it was accepted by those concerned in the Treasury as tentative and with considerable reserve. It was a figure which attempted to quantify a task involving very formidable technical problems which had not been solved before, the whole essence of the approach at that time being in terms not of the total cost, but rather of the initial expenditure, the annual budget through which control was exercised. I think the second point I must make is that the estimate was an estimate for extramural expenditure on development and it did not include all the work associated with Blue Streak in one form or another in Establishments at Spadeadam and elsewhere. That forms an item of the order of £50 million in the total of £300 million to which you have referred. My third

25 April, 1961.]

Mr. H. HARDMAN, C.B.,
Mr. F. J. DOGGETT, and Mr. W. G. DOWNEY.

[Continued.]

point is that the cost of £50 million was essentially a cost for development and did not include the cost of a full programme of development firings, it being envisaged then that there would be anything from five to eight firings, the programme by 1960 being a programme of about thirty-six firings, each firing at £2 million a time making a very substantial sum in the total. I would say, therefore, that it was £50 million conjectural, which did not include intramural expenditure, nor full expenditure on firings.

2321. How much of this increase was firings?—There were no firings, Sir.

2322. How much of the estimated increase was firings?—I was doing a sum, and as far as I can gather it was round about five to eight firings initially, and thirty-six in the final figure, a difference of thirty, at an average cost, I believe, of about £2 million; but, if I may, I will seek confirmation from my colleague, Mr. Downey, who, with your permission, Sir, I am going to ask to enlarge on some of the points, Mr. Downey being the Under Secretary concerned with guided weapons and electronics. (Mr. Downey.) It is very difficult, Sir, to analyse out from the total costs how much would have been the cost of one particular firing. As Mr. Hardman has said, we estimate the cost of a particular firing at something of the order of £2 million. That is within the context of the programme which finally involved thirty-six separate firings. If one takes the cost of the actual manufacturing of the round that is going to be fired and all the handwork that is required before a full production line is set up, our estimate of the cost of doing that is something of the order of £½ million, but to that has to be added the cost of checking that on the ground, including static firings at Spadeadam, the transport to Australia, and then all the supporting staff in Australia. Our estimate of the cost of doing that is of the order of £2 million a round. It depends very much, of course, upon the frequency with which one is firing the rounds in any particular year. I am sorry—I cannot be more precise than that.

2323. Mr. Hardman, in paragraph 41 the Comptroller and Auditor General summarises the relevant paragraphs of the Report of the Committee of Public Accounts for the last Session, which set out some of the defects of financial

39389

control. Would you say that these defects did apply in the case of the Blue Streak development, particularly in relation to the increase from £50 million to £300 million?—(Mr. Hardman.) I think, Sir, the contrast is simply not really £50 million to £300 million unless we allow for the factors of which I have spoken. There was, nevertheless, I accept, a very appreciable increase. I think it is certain that all the points set out in the Report of the Committee were not in 1955, before, of course, there was any material available, followed at all points in terms of Blue Streak. We had this difficulty about specifying precisely what was wanted, which meant that we were committing ourselves to cost plus contracts without being at all detailed about the specification on which the contract was based. That is just one example, and there were others.

2324. So, many of the things we drew attention to last year were operative in the case of Blue Streak?—In the initial stages of Blue Streak, yes.

2325. That is what I meant?—As time went on we strove to improve control, and by the time the early part of last year was reached, especially the particular example of the specification which I have used, we had reached the point where on all the separate parts of Blue Streak there were fairly detailed specifications. We were hoping to have a complete specification for the whole project. We had, that is to say, applied the lessons of the comments which had come from the Committee and our own experience in relation to Blue Streak as time went on.

2326. You mean, after about six years, when you finally decided to abandon the project, you had just about got a specification available, by the time of abandonment?—We had a specification available for many of the details, in terms of the motor, in terms of the guidance, and so on, but there was not a complete specification.

2327. Just about the time of abandonment?—It would have taken several years to achieve. That is the dilemma which faced us over the T.S.R.2. We are covering the ground with part of the specification.

2328. Is this a problem which is inherent in the development of guided missiles? Do you ever get in any case a complete specification before you are

H 3

25 April, 1961.]

Mr. H. HARDMAN, C.B.,
Mr. F. J. DOGGETT, and Mr. W. G. DOWNEY.

[Continued.]

either able to hand it over as a development project or abandon it?—We can only get a specification over part of the field. Whether we ever get a complete specification very early in the stage of development is doubtful. This all springs, I think, from the difficulty of these fields in which there is no knowledge, but we would certainly hope to get a specification in the course of development of the project which would cover the whole range just as we are in relation to T.S.R.2 now.

2329. You gave me the impression just now of some gradual improvement in financial control as time went on during the life of Blue Streak. You said that by 1960 it was getting a good deal better, but does not line 4 of paragraph 58 suggest that even by 1959-60 there was not very much improvement?—This was a difficulty of over-spending in a particular year where we were working against totals of expenditure that were still at a relatively low level, the actual spending in any one year being only a tiny part of the total estimate.

2330. This was the year in which it was abandoned?—Well, in fact just before, yes.

2331. April the 13th?—Yes, but the Estimates for this year were, of course, prepared in the latter part of 1958.

2332. Was there any reason to suppose, do you think, that because of the growing expectation of abandonment there was a sudden stepping up of expenditure to carry it on as far as it could be carried on before it was abandoned?—I do not think so, Sir, stepping up of expenditure within a financial year?

2333. Yes?—I do not think so, Sir.

2334. It had been fairly common gossip from November onwards or even earlier that this thing was, in fact, going to be abandoned. Was there either by the contractors or by those working on the project a sudden attempt to speed it up so that it could get as far as it possibly could before it was abandoned?—I am not aware of that at all, Sir, no. I think there was a certain confidence engendered by the White Paper of 1959 which indicated that it was going on.

2335. Is this contractor responsible for individual current projects?—De Havilland?

2336. Yes?—Oh, yes, Sir. It is part of one of the two big groups of the

aircraft industry who are responsible for a fairly wide range.

2337. In the missile field?—In the missile field; Red Top, I think, is its responsibility.

2338. Have the new financial procedures that you have been telling us about been introduced for these projects?—The projects on which De Havilland are now engaged?

2339. Red Top and all the rest of it?—Are covered by our procedures, yes. I think, as I explained at our previous discussion, the introduction of the new procedures may take time. We are concentrating on the bigger proposals on which, in the electronics field, we hope that by next year we shall have covered virtually all the new projects, but we are proceeding as fast as we can towards application of today's techniques.

2340. And, so far as you can say, with reasonably satisfactory results?—We think so, yes.

Mr. Cledwyn Hughes.

2341. Mr. Hardman, paragraph 57 says that the expenditure up to the 31st March, 1960, was about £67 million. What do you expect will be the eventual total cost of the military project?—About £87 million, I think, Sir, with the addition of a sum covering the cancellation charges.

2342. £87 million in all?—That is not a final figure, that is our present best guess.

2343. Does that include current intramural costs?—(Mr. Downey.) It includes costs, I think, up to the date of the cancellation of the military project.

2344. How much is it going to cost to develop the system as a satellite launcher?—(Mr. Hardman.) A good deal turns here, Sir, on the precise arrangements, if the project goes ahead, that will be worked out with the other countries that may participate. The figure which was discussed at a conference at Strasbourg, at which we considered it with other European countries for the total for space launching was £70 million.

2345. What would our share be of that?—(Mr. Downey.) Our share in the sense of our contribution, or the work that is done in the United Kingdom?

25 April, 1961.]

Mr. H. HARDMAN, C.B.,
Mr. F. J. DOGGETT, and Mr. W. G. DOWNEY.

[Continued.]

2346. Our contribution?—The proposal for our contribution is that it would be one third of the total cost.

2347. One third of £70 million?—Yes.

2348. Are you happy that that is a reasonable estimate in view of your experience in connection with the military side of the project?—(Mr. *Hardman*.) We have learnt from that, that is an estimate based on the difficulties we have experienced in the past with our estimated figures. It is the best estimate we can make.

2349. This involves firing as well, does it not, firing tests?—Oh, yes. This would be a satellite launcher used with satellites.

2350. In addition to the sums you have already mentioned in connection with the military project?—I cannot off-hand give you the make-up of the £70 million. It is merely an estimated figure which is as yet only material for discussion.

2351. Are you personally happy with this estimated sum of £70 million?—I am satisfied that it is an estimate which is as accurate as we can get at this stage and it is a reasonable one to discuss with the other countries who have given an indication that they may be willing to collaborate.

2352. And we are not going to be confronted with a sum of about £500 million in about four years' time?—I hope not.

2353. How long is it going to take to complete the project?—I think a good deal here turns on what the project is. Our production would be essentially concerned with the space launcher.

2354. Has any final decision been reached as to the future?—Not yet, Sir, no.

2355. Can you give us an idea when the final decision will be arrived at?—Clearly we are anxious very quickly to reach a decision, but a good many issues are involved, not only European but Commonwealth collaboration, and this has commanded the attention of Ministers at the present time.

2356. Can you tell us what are the total current costs of keeping this project going in the meantime?—The figure which my Minister gave in the House comparatively recently of £350,000 still

holds, of which £20,000 is intramural costs and the rest extramural costs.

Chairman.

2357. £350,000 for what period, per week or what?—I am so sorry, per month.

Mr. Cledwyn Hughes.

2358. What is the overall total cost likely to amount to if the space satellite project is cancelled as well?—(Mr. *Downey*.) I am not quite sure of the question, Sir. Since the project was cancelled we have been spending currently approximately £350,000 a month. The total cost if the project is cancelled will, of course, depend on when it is cancelled. Each month that goes by without a cancellation adds another £350,000 to the total bill. As my Secretary said, that is why we are anxious to get a decision as quickly as possible.

Mr. Stevens.

2359. The Committee, I think, was told a few moments ago that Blue Streak cost £2 million a round to fire, is that right, of which £1½ million consisted of expenditure on Spadeadam and transport, and that kind of thing, which leaves a residuum of £½ million per firing. Could you give the Committee some idea how that £½ million per round was made up?—The £½ million which I mentioned to the Committee when I was answering the previous question is the cost of making one round by hand-made methods, as one has to do in the early development stages. It is very difficult to get out a precise cost of that because the cost of actually making one round is all bound up with the cost of designing the round, of designing the tooling, testing the components, and so on; but, if we had in any one year ordered one additional round it would have cost an additional £500,000 to make that additional round.

2360. That would include the fuel, would it? I have not the slightest idea about these things. I have no idea whether the fuel is very expensive or very cheap?—Relatively cheap. I am not sure, but it would be something of the order of £50 to fill the tanks. That is of the order; that is not precisely it.*

* *Note by Witness:* £50 is the estimated cost of the fuel for a typical short static trial. It is estimated that the cost of the fuel for a full duration firing would be about £1,000.

39389

H 4

25 April, 1961.]

Mr. H. HARDMAN, C.B.,
Mr. F. J. DOGGETT, and Mr. W. G. DOWNEY.

[Continued.]

2361. I imagine that the cost of transport is not a very large item either, per round?—Not significantly. It depends again on the circumstances. Normally we transported them from the construction shops at Hatfield by road to Spadeadam. They were then taken from Spadeadam to an airfield if they were going out to Australia and then flown out by the Royal Australian Air Force.

2362. So that the major part of the cost per round would be, surely, an apportionment of the costs incurred at Spadeadam in testing?—Quite; that is indeed so.

2363. What is happening at Spadeadam now?—At Spadeadam we are maintaining the facilities and doing static tests on both the motor and the missile at a very slow rate, leading up to the development of the round as the first propulsion stage of a satellite launcher, if the project goes ahead, keeping at the minimum level to maintain the facilities.

2364. The tempo at Spadeadam has been very much slowed down, but the moment a decision is reached to go ahead on the basis of a satellite deliverer, then the tempo can be speeded up again so as to bring it into a full state of readiness for dealing with the satellite carrier?—I must distinguish here. We maintain a permanent staff at Spadeadam to maintain the facilities. For the tests the contractors developing either the missile or the motors will have their own expert staff up there. As soon as we revivify the thing that expert staff will be increased very substantially. The ground staff for maintaining the facilities will be increased to a lesser extent.

2365. But the staff would be increased, in part, from the contractors' own staff and not from the Ministry's staff, is that right?—Spadeadam is run for us on an agency basis by Rolls Royce. It is not staffed by Ministry employees at all.

2366. Mr. Hardman mentioned a few moments ago a figure of £350,000 per month. That would be inclusive, of course, of the costs of Spadeadam, and that figure of itself includes a much lower monthly rate for Spadeadam than would be the case if Spadeadam were at full stretch?—(Mr. Hardman.) That is so. The figure for Spadeadam in the total of £350,000 is £60,000.

2367. The £350,000 is limited to Spadeadam?—It includes a figure of £60,000 as the cost of Spadeadam.

2368. That was really the figure I wanted. So, Spadeadam at the moment is costing £60,000 a month at this lower tempo?—Yes.

Mr. Hoy.

2369. Mr. Hardman, you said that the ultimate cost looked like going up from £67 million to £87 million. Is that correct?—That is correct.

2370. Is this extra ministerial cost of £350,000 included in the £87 million?—(Mr. Downey.) No, Sir.

2371. In that case, if my figures are correct, you have got something over £4 million to add to that that you have spent since April, 1960. Is that right?—The £87 million takes us up to the end of the break clause period, when we cancelled the military weapon. Under the normal break clause we have to give our contractors reasonable time in which to run down their staff; that is normally three months. Therefore, the £87 million which Mr. Hardman has referred to covers the period up to about the middle of July. After that we have carried on at this lower level and the additional cost of maintaining this is, as we have said, £350,000 per month for each month that we keep it going.

2372. Apparently you have reached some agreement at Strasbourg, at least, some plan for spending £70 million to develop the space rocket. Is all this money we are spending included in the third which you regard as being Britain's share of the additional £70 million?—In our negotiations, when it is agreed in principle that an international organisation shall be created, we shall seek to get our work on maintaining the facilities agreed retrospectively as being part of the total cost of the satellite launcher. We shall try to negotiate that settlement.

2373. If it is not accepted it will land us in an additional expenditure, even at a very conservative estimate, of something around £3 million to £4½ million?—That is indeed so.

2374. Mr. Hardman, apart from the failures in estimating, were you satisfied with the technical progress made by the main contractor?—(Mr. Hardman.) We had, of course, constant supervision of the activities of all the contractors through our technical staffs. There was a machinery for supervision of the different parts and of the whole, and so far as I am aware all the work that had

25 April, 1961.]

Mr. H. HARDMAN, C.B.,
Mr. F. J. DOGGETT, and Mr. W. G. DOWNEY.

[Continued.]

gone on had been to the satisfaction of our technical staffs. There were failings at times but technically the work was regarded as competently done.

2375. Yes. It may have been competently done, but I want to know if the estimate made of the progress was realised. The work may be done technically very well indeed, but what about the progress of the work? Were you satisfied on that?—We were working against a ten-year development, and since we had only got half way through it was not easy to be sure that at every point we were keeping up with our long ten-year programme.

2376. Presumably payment was made on the basis of cost plus profit, is that correct?—Where we could we introduced other kinds of contract. Some parts of the whole system were much less sophisticated than others, and in some cases, therefore, fixed contracts were possible; but, of course, a great part of the work, involving as it did, developments in quite unknown fields, had to be done on the basis of short term specifications with cost as the basis for the payment.

2377. In that case, did you take into consideration the contractors' efficiency when, in fact, you were fixing a profit rate?—We had regard, of course, in the original choice of the contractors, to their efficiency. There was a whole host of considerations taken into account before any particular contractor was chosen. As it happened the first feasibility study of Blue Streak was made by English Electric but it was decided, for reasons associated with its burdens elsewhere, that it was not the right firm to design and develop. We had regard to factors of that sort in the distribution of the contracts.

2378. In fact, has any profit rate yet been fixed? You have fixed it, have you?—It is agreed in the separate contracts. There will be, of course, a very large number of contracts.

2379. I will not ask you what it is just at the moment, but perhaps you would be able to tell us how the profit rate on this job compares with the profit rate you allow on other contracts to the same firm, because I understand that this firm

is carrying out a number of contracts for you?—Do you wish me to put in a note?

2380. Perhaps you can tell the Committee?—We should adopt the same approach to this contract as to other contracts. We would want in the calculation of the profit to look at the capital employed, all the factors that our accountants are accustomed to analysing, and Blue Streak was in no way different from any other contract in this respect.

2381. If you can assure us that there is no difference in the profit rate, that will satisfy us?—No, indeed, Sir, this was treated by the normal machine. I think last year the Committee was given a note about how we calculate the profit arrangements on a cost plus contract, and that was the pattern that we followed.

2382. Supposing you were dissatisfied with the technical progress in the development, had you any penalties that you could impose on the contractors?—Oh, indeed, the whole pattern of the system that I spoke about last time was being developed in relation to Blue Streak, because of its great importance. We had the technical advisers at Headquarters and we had the research and development staff in the Establishments all monitoring the activities of the separate parts of Blue Streak as an important part of our control. In the end we had a total staff concerned in monitoring on the technical side of the order, I think, of about 170 people.

2383. I do not think that is quite the question I was asking, Mr. Hardman. What I was asking was, supposing your Department came to the conclusion that the technical progress did not measure up to the estimate, were you in fact able to impose a penalty on the firm for not carrying out its part of the work?—I am sorry, we were proceeding on the basis of contracts for particular parts with short term contracts where we could not be very specific. Clearly if there were unsatisfactory progress against those contracts we had the sanctions both of stopping work on the contract and refusal of new contracts. In that sense we were clearly constantly able to exercise a sanction.

25 April, 1961.]

Mr. H. HARDMAN, C.B.,
Mr. F. J. DOGGETT, and Mr. W. G. DOWNEY.

[Continued.]

2384. I would have hardly regarded that as a penalty, just saying you would not give them another contract. I would not regard that as a penalty?—To stop work on the existing contract, too.

2385. You could do that?—Oh, yes.

2386. Did you do it?—If we were able to say that technical progress was not conforming to the requirements then, clearly, we could stop work. I believe that in some cases also we did pay a reduced profit rate where we were dissatisfied about the work which had been done.

2387. That is what I was asking. You are satisfied, or you were satisfied, that your technical staff were able to assess the competence or otherwise of the main contractor? You could do that independently? You were not dependent on the main contractor?—We had our technical staffs at Headquarters who had had production experience and we had our scientific staff constantly engaged on this.

2388. Mr. Henley, may I just ask you a question? You heard Mr. Hardman say a little while ago that the first estimate of £50 million was in fact pure conjecture. You heard that answer?—(Mr. Henley.) Yes.

2389. You know that this is not an isolated case. A number of Departments find themselves very far out in their estimates and the ultimate cost and every Department comes with the same story: "Of course, this was merely conjecture". What does the Treasury do about all this?—We would accept, Sir, that the degree of accuracy that one can get with contracts and projects of all kinds varies very widely indeed. In the case of Blue Streak, it was, as Mr. Hardman has said, made quite clear to us that this was a conjectural estimate for the reasons that have been explained to the Committee. As the project went forward and in the normal course of the control of the project, we were very fully supplied with further estimates, and naturally we took different views from time to time. We formed our own views on the accuracy of these estimates, in the light of experience; but I would like to emphasise that although we certainly hope that we can get the best possible estimate at any given stage in a project, we fully

accept that not only in the past but in the future we cannot at the outset of a project of this kind get a very accurate estimate. What we must be satisfied is that we have got, at the time in question and in the light of a full assessment of all the facts as then known, the best possible estimate, but that may still be a conjectural figure.

2390. If we come to a much later date, however, it would be for Mr. Hardman to account for this as well, because we were having a lot of improved accountancy, we are told, by 1957, and if you look at paragraph 55 the Comptroller and Auditor General says: "In October, 1957, the Treasury were informed that it was then estimated that the total cost of development, including the whole test firing programme, would amount to between £160 million and £200 million". Now, two years later, in 1960, the estimate had risen to between £280 million and £310 million. How does the Treasury account for this tremendous gap? Were you fully informed on this?—We were fully informed, Sir, and broadly the same sorts of reasons are responsible. I do not want to give the Committee the impression that when, say, nearly half way through a project of this kind, we get an increase of this order, we simply accept it quite happily. It is a matter of concern, possibly as evidence that a better estimate might have been produced originally and, perhaps more important, we may then have to re-assess the project as a whole, and this in fact is done from time to time. I do not know if, possibly, Mr. Peck who is in charge of the Defence Division, would care to add to that?—(Mr. Peck.) No, I think that with the new system of design studies and project studies it may be possible to form more accurate estimates as we go along; but on a major project of this kind it will always be the case, in my view—I do not know whether Mr. Hardman would agree with this—that we will not be able to give more than an order of magnitude until we have spent significant sums of money.

2391. That I can agree with. All I am saying is that the Committee are told that this was a conjectural estimate at the beginning. We accept that, but we

25 April, 1961.]

Mr. H. HARDMAN, C.B.,
Mr. F. J. DOGGETT, and Mr. W. G. DOWNEY.

[Continued.]

then come to 1957. Both the Treasury and the Department are saying that it was still conjecture?—(Mr. *Hardman*.) Could I say about the Estimate of October, 1957, that it was the first estimate which could be based on any substantial work by the firms involved and that even at that stage the total sum which had been expended was no more than £10 million? No considerable experience had, therefore, been gained, but we were looking ahead on the basis of the £10 million spend to say: "Well, the figure is of the order of up to £200 million instead of the £50 million about which we had all spoken". The spend did not begin to increase until the following year, the spend in terms of actual expenditure by the concerns, £10 million being the figure in October, 1957.

Mr. *John Hall*.

2392. Mr. *Hardman*, in an earlier reply to Mr. *Hoy* you said that in fixing the profit rates to the firms doing this work you followed the usual machinery and systems adopted for work of a similar character given to those firms, but I was not quite clear from your answer whether the profit rate fixed in respect of this particular work was the same or greater or less than normal?—(Mr. *Hardman*.) This was treated as a normal contract following the normal arrangements which I have described to the Committee.

2393. The profit would be of the same order?—Of the same order.

2394. In paragraph 57 the Comptroller and Auditor General refers to the new Research Establishment in Cumberland and the Weapons Research Establishment. Both these Establishments, I take it, do some research work on guided missiles quite apart from that which was produced specifically for Blue Streak, do they?—Certainly, the Research Establishment at Woomera in Australia does a good deal of work on guided missiles generally.

2395. And will continue to do so?—And will continue to do so.

2396. Would it be, perhaps, not fair to put the entire cost of this Establishment on to Blue Streak?—No. The figures provide no more than a proportion of the total cost at Woomera.

2397. So the costs of this are only a part of the total cost, are they?—Yes, but all the expenditure incurred at

Spadeadam is the cost of the whole project.

Chairman.

2398. When you referred earlier to a figure of £70 million for the possible cost of the space launcher project, which you said was the best estimate?—That is the figure which was put to the Conference at Strasbourg which was invited to listen to and make inquiries about the space launcher project.

2399. Would that figure include the cost of production and also the cost of production of the launcher sites?—(Mr. *Downey*.) On that, Sir, the launcher sites are substantially built.

2400. In Australia, at Woomera?—In Australia for actual launching and the facilities at Spadeadam can be used with only insignificant adaptation. The £70 million includes the cost of developing the satellite launcher only although it is expected that in proving the last three rounds which we fire, if all goes well, there is the possibility of actually putting a satellite in orbit with those rounds. But, of course, it may be that this is purely conjecture. It depends on our success in the programme.

2401. Mr. *Hardman*, going back to paragraph 54, in line one there is a reference to a preliminary study. This is going back right to the beginning of the project. Are we to understand that this was a design study in the sense in which you explained the term last week?—(Mr. *Hardman*.) No, Sir, this was a feasibility study.

2402. Not the sort of design study that we were talking about last week?—To throw light on the feasibility of ballistic missiles.

2403. This is the one done by English Electric and not by the subsequent contractor?—That is so.

2404. Were the conclusions reached in this feasibility study adopted for the purposes of the development contract?—The study threw no light on the basis of estimated costs and time scale. It was essentially a scientific and technical study. It threw light there.

2405. How much did it cost?—£176,000 up to January, 1956.

2406. And you think you got value for money?—In these technical fields, it is very difficult to judge that, Sir. This

25 April, 1961.]

Mr. H. HARDMAN, C.B.,
Mr. F. J. DOGGETT, and Mr. W. G. DOWNEY.

[Continued.]

threw light on the possibility of what previously had been a matter of immense uncertainty.

2407. Since the early estimates were so substantially exceeded and since they must have been based to some extent on this feasibility study—?—No, they were not, Sir. The study did not help at all on time scale or on cost issues.

2408. So, the original study was not related to financial control in any sense?—It was to tell us whether it was possible or not to have a ballistic missile.

2409. Just a very theoretical ivory tower sort of job?—It enabled us to move forward, a decision having been taken that we should, but essentially solving technical and scientific problems.

2410. In view of the ultimate cost you would not like to reconsider the word "forward"? Had this study given a different answer, presumably the project might not have been instituted?—If it had shown that it was not feasible to have a missile, certainly, Sir.

2411. How do your present design studies compare in scope with the feasibility study that was carried out for this project? Your design study now is based much more on a specification and does set out the design to be worked to, is that right?—We would regard the progress, as it were, though I hesitate about that word, Sir, if I may say so, as from a feasibility study, which is very often carried out intra-murally but might, as in this particular case, be carried out extra-murally, leading to a decision on whether to undertake a design study, and beyond the design study either a development contract, or, if there were doubt about whether there should be a development contract, we have the technique of a holding contract where we simply hold firms until we can decide in the light of what further information can be gathered, whether it is justifiable or not to have a development contract.

Sir George Benson.

2412. I should just like to ask with reference to the satellite project, have you any idea of the timetable attaching to it?—This is very much a proposal which has been put both to Commonwealth Governments and to European Governments. We have been anxious to secure a decision, as we say. The reaction of a number of countries has been

to ask for more guidance. The Germans have a team from our Ministry this week answering questions of a technical kind. Clearly time is of great importance against the background of our spend—this is, of course, for Ministers—but political advantages as well as technical and scientific advantages are to be gained. Those are the factors which must be taken into account.

2413. I was on the question of timing. In what year do you expect to launch a satellite?—(Mr. Downey.) We cannot give a categorical answer—

2414. I am not asking for a categorical answer, I am asking for an estimate?—as to our expectation because we are only able to do our forward estimating on the basis of matters under our own control. We have estimated that if we develop the first, second and third propulsion stages ourselves we could do this, if all went well, within four years. But part of the proposal for an international consortium is that the second and third stages shall be done elsewhere, the second possibly in France and the third stage somewhere else in Europe. It would be presumptuous for us to hazard a guess as to how long that will take when we do not even know which country will be developing it.

Mr. Hoy.

2415. I am interested in this £70 million and the launching sites. I rather gather from the witness that it was going to be very costly. I think he said that the cost of adaptation would be insignificant. I think those were the words you used?—I said, Sir, that the cost of adapting the capital facilities already constructed at Spadeadam to be able to test Blue Streak with another stage on top, would be relatively insignificant in relation to the total capital cost of Spadeadam.

2416. You say, "in relation to". I wondered what you meant by "insignificant", because there are some rather peculiar ideas as to how much is insignificant. What do you mean by "insignificant"?—Something below £½ million, in relation to a total capital installation of £20 million.

Chairman.

2417. Paragraphs 59 and 60, Store Accounts and Stocktaking. Mr. Hardman, in paragraph 60 the Comptroller and Auditor General reports that the Ministry "are giving special attention

25 April, 1961.]

Mr. H. HARDMAN, C.B.,
Mr. F. J. DOGGETT, and Mr. W. G. DOWNEY.

[Continued.]

to the 22 contractors who failed to complete a stocktaking". Are you satisfied with the stocktaking done by those particular contractors now?—(Mr. Hardman.) We have been going on since the Report was prepared, Sir, dealing with these contractors. We have now had certificates in all except ten cases; that is to say, another twelve have sent in their particulars. We have all these ten under very careful examination, there being special circumstances in each of the cases, I think.

Chairman.] May we now to go the Accounts themselves, Class VI, Votes 10 and 11 on pages 46 to 63. I have no questions.

Mr. Stevens.

2418. I have one question on Vote 10, Appendix V on page 59. The expenditure on 13 hostels for industrial civil servants is shown as £389,000 and income only £271,000. Is no effort made to obtain a reasonably economic return on these hostels?—A constant effort is made to get an economic return though we do make a distinction between the hostels for apprentices, and there are some apprentice hostels included, and the hostels for adults. During the course of the year we have closed a number of hostels previously under the supervision of the Ministry of Supply and of the Ministry of Transport and Civil Aviation where we were not satisfied that there was a prospect of getting a reasonable return against the outlay. We closed two of the old Ministry of Supply hostels and four of the Ministry of Transport and Civil Aviation hostels. We are also in the case of those which are continuing striving both by the cutting of costs and by raising the charges to involve no element of disbursement so far as the taxpayer is concerned; but normally the hostels have been provided in areas where there was no alternative facility in order to enable us to employ staff where we wanted them and, therefore, we start off, if I may so put it, on a rather difficult wicket.

2419. That sounds rather contradictory. I thought you said earlier that you hoped to get an economic return from other than apprentice hostels. Now you are rather indicating that, on the other hand, you supply cheap accommodation because there is no other accommodation in the neighbourhood?—The accommodation is not necessarily cheap. The fact is that there is no

accommodation at all and in the beginning the hostels owe their origin—perhaps I should better put it—to the absence of other accommodation, the need for the Ministry to secure staff prompting the establishment of the hostels.

2420. So, as a matter of policy you establish hostel accommodation rather than give lodging allowances?—These are hostels which go back very many years; they have not recently been established. Our aim, in spite of that background, is to try to make them economic.

2421. In the case of other than apprentices?—We do temper the wind rather more in the case of apprentices.

Chairman.

2422. Where are these hostels?—We have the old Ministry of Supply hostels at Boscombe Down, at Malvern, at Burghfield, and at Farnborough. There is in addition another establishment catering not for industrial workers but other workers at Aberporth where there is a testing station. We have other apprentice hostels at Farnborough, Denham, Malvern, Bournemouth and so on.

2423. They are nearly all related to Research or Testing Establishments?—To Research Establishments or Ordnance Factories. Most of the hostels related to industrial plant where there are industrial workers to be found; some do relate to Testing Establishments.

Sir Samuel Storey.

2424. I would like to ask a question on Appendix II, Power Jets Limited. You receive a very substantial dividend there. What have you received in the past and what are the future prospects of that Company?—The special payment that was made in the last year was the outcome of a policy of not holding so much in the way of reserves in Power Jets but of distributing to the shareholder, the shareholder being the Ministry. The Company has paid dividends of 10 per cent. in 1949, 20 per cent. in 1958-59, and 61 per cent. in 1959-60.

2425. What are its future prospects?—It is essentially a holding concern which secures revenue from patent rights arising from Power Jets in the past. The answer to that question, therefore, turns on the extent to which patents are used and I find it very difficult to speculate.

25 April, 1961.]

Mr. H. HARDMAN, C.B.,
Mr. F. J. DOGGETT, and Mr. W. G. DOWNEY.

[Continued.]

2426. What about S.B. (Realisations)? What are their prospects?—This is a holding company for a concern which is at the moment doing substantial work in the production of aircraft for Her Majesty's Government and for private concerns. The concern has been attempting to diversify and to venture into other fields than aircraft production. Its prospects depend on the orders it gets from the aircraft field and on the success which it achieves in its diversification policy. It represents a substantial element in Northern Ireland industry and has all the burdens that a

great deal of Northern Ireland industry has.

2427. Note 7 on page 53, disposal of machine tools, shows that there was a heavy loss. Had they been used for some time or were they specialised tools for which there was only a small demand?—I think these are all tools which had been bought a substantial period before and which we disposed of after a fairly substantial use.*

* *Correction by Witness:* The tools were in fact unused. They were ordered at the time of the 1950 Defence Programme, but proved to be surplus to requirements.

THURSDAY, 27TH APRIL, 1961.

Members present:

Mr. Harold Wilson, in the Chair.

Mr. Arbuthnot.
Sir George Benson.
Mr. Hoy.

Mr. Stevens.
Sir Samuel Storey.

Sir EDMUND COMPTON, K.B.E., C.B., Mr. D. O. HENLEY and Mr. A. D. PECK, M.B.E., called in and examined.

AIR SERVICES APPROPRIATION ACCOUNT, 1959-60.

Sir MAURICE DEAN, K.C.B., K.C.M.G., Permanent Under-Secretary of State for Air, called in and examined.

Chairman.

2428. Will Members please turn to the Comptroller and Auditor General's Report on the Air Services Appropriation Account, 1959-60, to paragraphs 2 to 6, Outturn of the Account? Sir Maurice, can you tell us how the payment of £100,000 to the Maldivian Government fits into the settlement reached?—(Sir Maurice Dean.) Yes, Sir. You recollect that there was a settlement reached in February last year—it was published and printed as a Command Paper—and the payment of £100,000 was one of the features of the agreement. It specifically took the form of a promise in an exchange of letters between the Prime Minister of the Maldivian Islands and the Minister of State for Commonwealth Relations. It was part of the packet.

2429. Are there any conditions about how it is to be spent?—No.

2430. You say it is "part of the packet". Is this the only payment or will there be others of this kind?—The totality of the payments involved over Gan were, first of all, of course, the ordinary payment of our own works contract for building the airfield. Then, there was the £100,000 which was part of the packet deal and was reported in the Paper. I should mention, though it is really none of my business, being more in the realm of the Commonwealth Relations Department, the fact that we are devoting a further sum of £750,000 for economic aid though I personally regard that as rather apart and separate from that picture, as being connected with economic aid. I just mention that in passing though, as I say, I think it is a little out of the picture. Apart from those factors the items are, first,

as you remember, we were going to provide some housing for the islanders whom we had to displace from one island to another. That is not absolutely completed yet but that will involve anything up to £200,000, not in the year of account, of course, but in total. The other items are various payments which we promised at various times in the way of compensation for the trees we had to cut down and subsistence for the islanders while they planted other trees and waited for them to bear.

2431. Do you regard this as a satisfactory settlement?—Yes; I would say, a satisfactory settlement.

2432. With full value for money?—Yes.

Mr. Hoy.

2433. In paragraph 5, Sir Maurice, the Comptroller and Auditor General says that cancellation payments are said to be lower than expected. Can you tell the Committee how much they were and what you expected them to be?—Yes, we expected them to be round about £2 million and they were in fact round about £900,000.

2434. What was the reason for the difference?—It was really a combination of two factors, Sir; first, that some of the payments were lower than we thought they might be, and, secondly, there was a variation in the incidence of the payments and certain delays in reaching settlements.

2435. Does that mean that the expenditure has just been postponed?—Partly that it has been postponed, partly that it will not happen.

2436. How much is involved?—That is rather difficult to say; I could not quantify that. You will appreciate,

27 April, 1961.]

Sir MAURICE DEAN, K.C.B., K.C.M.G.

[Continued.]

Sir, that each of these cancellation payments is a matter for negotiation and you never know the accurate answer until the negotiation is completed.

2437. What were the main items that were cancelled?—In the year of account?

2438. Yes?—The biggest feature was aircraft cancellations.

2439. Amounting to how much?—Amounting to about half a million pounds.

Mr. *Arbuthnot*.

2440. Sir Maurice, when you were here in 1959 you told the Committee that the final cost of developing Gan was likely to be about £4 million. What was it eventually?—The cost so far, either paid or committed, is about £4.7 million, in very round terms.

2441. Why has there been this further increase?—Once again, Sir, I think, a combination of two factors. We have added one or two items to the works programme and once again we have at the end of the day found that we have had to pay rather more than we expected.

2442. Why?—Basically I think, Sir, that if you build an air station on a desert island in the middle of the Indian Ocean you cannot tell with exactitude how much it is going to cost.

2443. Why did you add items?—I am afraid the establishment has increased at Gan, by which I mean the number of men to be housed; and inevitably when a station of this kind gets running new items of building are found to be necessary.

2444. Why has the establishment been increased?—It would be connected with the functions. Gan is a staging post.

2445. Have the functions changed?—No, I do not think they have changed.

2446. So your original estimate was wrong?—Oh, certainly.

2447. You say that so far the cost has been £4.7 million. Is the implication of that that you expect it to be a substantially larger sum before you are through?—No, I was being a little cautious because it may be that as time unfolds other commitments, other pieces of work, will be found to be necessary.

2448. Is the airfield now built or do you contemplate further capital expenditure?—No, the runway is complete.

2449. What further expenditure have you in mind?—It is a little difficult for me to foresee the future, Sir, but our experience has been that when a station is built in the middle of the Indian Ocean it may well be that additional refinements of accommodation may be necessary.

2450. Empire building?—No, I would not personally use that term.

Chairman.

2451. Air conditioning?—Well it could be, yes.

2452. Paragraphs 7 to 10, Vote 8, Works and Lands, Offences connected with Air Ministry maintenance work. Sir Maurice, the offences described in these paragraphs came to light as a result of information received by the police. How was it that your Ministry had not discovered them?—The offences, as you know, Sir, consisted of two elements. One was what I can very loosely call sums corruptly received. The other kind of offence involved was false pretences. Now, it is very difficult to tell that a man has received a payment by any check short of being found out. In the case of the false pretences the offences were connected with certification of works services and involved only one or two forms within a whole multitude of such claim forms.

2453. How did the police come to hear about it?—The police came to hear about it because they received information which, I think, probably came from a former member of the firm.

* * * * *

2455. The scale of the bribes, £370, £20 and two motor cars suggests that the company got more out of it than the figures mentioned of £225 and £461, or that if they did not get much more out of it they got a very bad bargain for their corrupt practices. Did your investigations disclose any other fraudulent payments or malpractices?—No, they did not. As you know, Sir, there were two further charges, as mentioned in paragraph 7 of the Report, alleging false pretences that remain on the file of the Court but were not adjudicated; but apart from that we know of no other consideration that the firm received.

2456. As far as you know were there any other bribes paid, apart from the sums mentioned in this case? Were there other suspected irregularities not proceeded with in the courts?—Oh, yes.

27 April, 1961.] Sir MAURICE DEAN, K.C.B., K.C.M.G.

[Continued.]

The total sum involved in the case of the former Air Ministry official was probably more in the nature of £2,500 but charges were only laid in respect of some of those sums.

2457. You know or have reason to think, then, that the company in question was laying out money to the tune of between £2,000 and £3,000. As far as you know they only got value for their money to the tune of about £700, a very poor investment even for a company with these moral standards. Are you satisfied the company has not got anything out of it in any other way?

—All we know, Sir, is that sums totalling, I think, about £2,500 were received by the former Air Ministry official, that two former members of the staff got cars and that another member of the staff got £20. We know that in the case of the member of the staff who got £20 there were bills falsely certified which gave the company the advantage recorded in paragraph 7 of the Report, but we do not know as a matter of fact what other consideration, if any, the firm received.

2458. Have you carried out an investigation of all the company's transactions with the Air Ministry over the period in question to see if there was any other business which might have been associated with this deal?—The police, Sir, naturally made a very full investigation and we have supplemented that by such enquiries as we have been able to think of.

2459. What was the weakness in the regulations and instructions which allowed these payments to get through?—When you say "these payments", Sir, the only payments in question that we know of are the two recorded in the Report, namely, one of £225 and another one of £460. I would say that the weakness that enabled those payments to get through was not primarily a question of regulations but the fact that we were let down by our quantity surveyor who was employed by us to check bills and did, in fact, falsely certify some of them. Apart from that, I think there was in respect of these particular bills a certain laxity in completing the claims for payment which we have followed up and made the subject of further letters and instructions.

2460. So this was really a question of being let down by the imperfect honesty of a small number of your staff, not of

defect of the machine, in your view?—May I repeat, Sir, that two quite different kinds of things happened in this case. There was a man at the Air Ministry who received a sum of money. There were the people who received cars. Now, in respect of those three people we have no idea what, if anything, was given in exchange. Nothing was proved in evidence in that case. In the case of the fourth man who was the quantity surveyor we do know that he did falsely certify certain bills and for that offence he went to prison. But that is really all we know.

2461. What I am really trying to get at is this: your difficulty is that no system can really prevent this sort of thing happening when you are, in fact, let down by personal defects in your officers?—Yes.

2462. You do not think any tightening of the system would have affected it?—No, I was saying in the particular case of the quantity surveyor who falsely certified bills, that this was a case of the policeman turned poacher. In the case of the other sums which were paid, our information is really very scanty indeed, but there are certain things you can do to tighten up. The first thing you can do is to tighten up on the regulations and in the application of the regulations for certifying payments; and the second thing we can do is to have a small flying squad from the Director-General of Works who go round and descend on a station unexpectedly and do an instantaneous audit. I might, perhaps, mention in connection with this work that it was almost all in the nature of agricultural maintenance which means in part cutting grass, cutting hedges, laying field drains, and so on. In the case of that work it is a thing that is particularly difficult to watch because you cut the grass and in three day's time it has grown again.

2463. Have you introduced any new safeguards against similar frauds in the future?—We have tightened up the regulations about certifying bills and certifying payments and I have invited the Director-General of Works to strengthen his little flying squad of inspectors if he finds it necessary to do so.

Sir George Benson.

2464. Is there any reason why we should not know the name of the firm?—No, none at all. The name of the firm is E. S. Walley and Company.

27 April, 1961.]

Sir MAURICE DEAN, K.C.B., K.C.M.G.

[Continued.]

2465. Was this done with the cognisance of the heads of the firm or was it done at a lower level?—Two members of the firm were prosecuted.

2466. They were actually members of the firm?—Yes.

2467. Is it a limited company?—It was a limited company, yes.

2468. What happened to them?—They were both sent to prison.

2469. And what happened to the firm?—I think the firm is in liquidation. I beg your pardon, it has a receiver in.

2470. As a result of this?—I think it very probable.

2471. With regard to your two former officials, were they holding responsible positions?—The Air Ministry official was a Senior Lands Officer and a responsible official. The two officials at the Works Area headquarters were an assistant Quantity Surveyor and a Lands Officer. Once again, I would say responsible officials. The official who was at the station was an Inspector of Works, which again is a fairly responsible position.

2472. I am not quite clear. You refer to grass cutting, but what kind of a firm was this?—The firm was in the business of agricultural maintenance, which means cutting grass, attending to gardens, attending to hedges, attending to ditches and putting in agricultural drains.

2473. It was not a manufacturing firm?—They did also manufacture certain agricultural machinery. Basically, they were connected with agricultural maintenance.

2474. I see. Where was this?—This was in the north. The headquarters of the firm is at Nantwich.

2475. How long had this firm been contractors to the Air Ministry?—Over a very long period, ten years or more.

2476. Were they involved in large sums?—Over the ten years or so that I have details of they had contracts to the tune of something like £1½ million.

2477. Mainly on agricultural work?—Mainly on agricultural maintenance work.

2478. Maintaining the airfields?—Yes.

2479. And they had to do the cutting of the grass?—Yes. An airfield is a large grass area, you see, which has to be attended to in various ways.

2480. You found it cheaper to get a firm to do it rather than do it yourselves?—Yes.

2481. Do these people do anything for the Air Ministry, apart from maintenance of airfields?—No, I think not, not in any substantial way.

2482. What are you doing now? Have you gone to another firm?—Yes. Perhaps it would be helpful to the Committee if I explained the nature of the contracts. The contract is really in the nature of an enabling document which sets out certain rates which are paid for certain classes of agricultural work. Once that contract is placed it means that a particular Works Area can call on a particular contractor for work at pre-specified rates. Periodically these contracts are put up for tender again.

2483. What happened was that the quantity surveyors certified that work had been done which had not been done?—In one particular case. There is no suggestion that these four people were in collusion. It may be that they were but it has never been suggested. They were tried together.

2484. It was the firm that corrupted your staff, is that it?—Yes.

Sir Samuel Storey.

2485. Was this assistant Quantity Surveyor one of your headquarters staff or was he out in the provinces?—The organisation of the Works Department was in four different horizons, with the Air Ministry headquarters at the top, the Area Works headquarters on the second level, the section, which ran a few stations, on the third level and at the bottom layer of the sandwich there was the station. The Area assistant Quantity Surveyor was in the Area headquarters.

2486. Are you satisfied there is sufficient supervision of the Area headquarters staff?—Yes, I think so, in general.

2487. What form of certificate was he required to give, and what check is there on that certificate other than your flying squad of auditors? How long, normally, does it take to audit the work that has been certified?—The form on which the final payment is authorised is a form which provides for a series of signatures of which the first is a signature by the contractor to say that the work has been done; and then over on the next page the next signature is by the section officer

27 April, 1961.] Sir MAURICE DEAN, K.C.B., K.C.M.G.

[Continued.]

in charge of the work who also certifies that it has been satisfactorily performed. The third signature is of the Quantity Surveyor. There are subsequent signatures connected with payment so that, in theory, you pass a number of check points. A contractor cannot certify unless he really honestly believes that he has done the work and ought to be paid for it. The section officer in charge ought not to certify unless he is satisfied that the work has been satisfactorily performed, and then you come to the Quantity Surveyor who, in a sense, is the key to the whole thing, because that is what you have quantity surveyors for, and he has to sign a piece of paper which says: "I certify that the measurements and descriptions as stated in this bill", and so on, "are correct and the prices charged are in accordance with the rates in the contract as far as they are applicable".

2488. In this particular case was the section officer in collusion with the Quantity Surveyor, or how did he come to sign the certificate? Was any action taken against him?—There are two cases, Sir, dealt with in the Comptroller and Auditor General's Report. In the first one the Quantity Surveyor who signed it was a man who subsequently was sentenced to six months' imprisonment. What he did was to invite an officer in the Section to certify that the work had been done, and this officer did in fact so certify it, but it was purely a formality. He did not, in fact, check up. He took the word of the Quantity Surveyor.

2489. How did they get over the section officer not having certified it?—I beg your pardon, Sir, he did certify it.

2490. Was he in collusion with the Quantity Surveyor? Was any action taken against him?—There was no suggestion that he was in collusion, but what clearly happened was, for whatever reason, that he signed it without checking up properly.

2491. Surely some action should have been taken against him, should it not?—It is necessary to look at this in perspective. This was a bill for something like £500. Many such bills pass through the hands of these officers in the course of a week's business.

2492. But surely the first man who is responsible is the section officer, whose job it is to see that the work is carried out?—Yes.

2493. If he signs the certificate he is, surely, the prime cause of all the trouble? Surely some action should be taken against him, should it not?—With great respect, Sir, I think the person who bears the biggest responsibility, in a way, is the Quantity Surveyor, because it is his job to measure. I think that the fault of the section officer who signed in the case of this bill was that he gave his signature without taking any steps to confirm that the work had been done and in that he was slack, casual, whatever you like to call it.

2494. There was no action taken against him?—He has in fact retired fairly recently.

2495. Because of this?—No, not in the least. He was, in fact, 64 years old.

2496. So, in other words, no action was taken against the man who certified work as having been done which had not been done?—That is true, but in a busy week's work it sometimes is not possible to read everything that might be put in front of you.

2497. But he was the man responsible for seeing the work done?—Yes, that is quite true.

2498. I do not see, even in a busy week, how he could miss that?—I was just making the point that I am sure that a great many bills passed through his hands in the course of a week's work.

2499. When these certificates have been signed how soon do you get a check on them except when you have your flying squad of officers? How long is it before the accounts are audited?—It would vary from bill to bill, Sir. In the particular one which I have in my hand which was the subject of the prosecution there was, in fact, an interval of nearly a year between the work being authorised and the claim being presented. I should think that was tending to be well above the average.

2500. To what extent now, with your increase in auditing staff for spot audits, has the time lag been lessened?—I do not want to mislead you, Sir. This case came up at the Chester Assizes last October and the disciplinary aspects of the case were disposed of fairly recently. Our decision to strengthen the number of travelling inspectors is of a most recent date as a result of our discussions about this case.

2501. Have you any reason to think that this is not an isolated case, that

27 April, 1961.]

Sir MAURICE DEAN, K.C.B., K.C.M.G.

[Continued.]

similar sorts of things have been going on for some time?—I have no facts on that point at all.

2502. Have you any suspicions?—No suspicions, but I do repeat that agricultural maintenance is a field where I think a good deal of care is necessary owing to the transitory nature of the work that is done, of which the most notorious example, of course, is grass cutting.

2503. You are satisfied now that these spot audits will tend to lessen the chance of these occurrences?—I would hope that at least three things will happen as a result of this case. First, I hope there will be a general stiffening up of procedure about certifying these bills and impressing upon all concerned that these signatures are the thing that opens the cash box and, therefore, the work must be done with responsibility. Secondly, we have improved the form in certain technical respects, which I will not weary you with, to require a responsible signature as opposed to any signature. Thirdly, I have invited the Director-General of Works, if he thinks it useful and I think he will, to strengthen his team of visiting inspectors; and fourthly we have issued a great many exhortations from the Air Ministry which I feel confident will have a good effect.

Mr. Stevens.

2504. Am I right in thinking that the conviction of the managing director would invalidate the contract between the Company and the Air Ministry?—We have in fact terminated it.

2505. I presume, on the grounds of this conviction?—Yes.

2506. I heard you say just now, I think, that a receiver has been appointed for the company. The receiver may well be carrying on the business of the company. There is no chance of the Air Ministry placing any further contracts with this particular company, is there?—We have decided not to place further contracts.

2507. Do you know if this company carries out contracts for other Government Departments?—My impression, Sir, is that by far their biggest client was the Air Ministry.

2508. Perhaps I should ask Mr. Henley. Do you know, Mr. Henley, if this particular company had any contracts with any other Government

Departments?—(Mr. Henley.) I know of none, Sir, but that is not to say there might not be other contracts. (Sir Maurice Dean.) I think you would be safe to assume that the Air Ministry contracts were a very large part of this company's business.

2509. Even if the other contracts were relatively small, I wondered if there was any system whereby other Government Departments could be notified of this particular event so that if there were any contracts running with any other Government Departments they could at once also be terminated?—(Mr. Henley.) There is a body called the Contracts Co-ordinating Committee which sits under Treasury chairmanship and is responsible for general contracts questions of all kinds, and I do not doubt that the Air Ministry, who are members of this Committee, would, if they thought it necessary, bring this case to the attention of the Committee for any general information that might be thought desirable, or that they would taken suitable action even without the existence of that Committee, which does not normally deal with this kind of thing—but this kind of thing does not normally happen. The Air Ministry themselves would, if necessary, take action over this or through us. (Sir Maurice Dean.) There is a double point here. First, that I think the name would automatically go on the black list for future contracts.

2510. And that black list would be widely circulated?—Yes; and we could take it up with the Contracts Co-ordinating Committee if weaknesses of procedure had come out which we could usefully pass on. (Mr. Henley.) Yes, but, as I understand it, what went wrong in this case were not essentially contract points but points of Air Ministry systems. (Sir Maurice Dean.) That is quite right.

2511. Turning to two other points, this £461 which was allowed to remain on the file of the Court was in respect of bills for work that was ordered but subsequently became unnecessary and was not carried out. What was the work and how was it that although it was ordered it subsequently became unnecessary?—There were two works orders, Sir, one to apply weedkiller, and the other one was for putting in agricultural drains. The work was ordered in 1957. It was never carried out and the bills were paid in 1959.

27 April, 1961.] Sir MAURICE DEAN, K.C.B., K.C.M.G.

[Continued.]

2512. I am sorry, I am not quite clear about this business of remaining on the file of the court. If the work was not carried out but payment for it had been made why could not the Air Ministry claim the £461 back?—That we have done.

2513. What is the meaning of this phrase "remaining on the file of the court"?—The people came up at the Chester Assizes and this particular episode was the basis of some of the charges, but for legal reasons that I cannot enter into, it was decided not to proceed with that count; but the charge did, in fact, remain on the books of the court.

2514. It is the charge that remains in the court, not the money? Then, that is clear. Now with regard to the four people that were sentenced, two of them were former Ministry officials, and two of them were then serving Ministry officials. The two serving Ministry officials who were dismissed presumably lost their pension rights?—Yes. The question whether or not they had a pension to lose would, of course, depend on whether they were established or a temporary member of the staff.

2515. Can you say whether they were established or not?—Yes, I can indeed. The senior of them, who was a Senior Lands Officer at the Air Ministry, who had retired, lost those parts of his pension which he had not already allocated away. A civil servant has an opportunity to assign part of his pension, and the officer who was at the Air Ministry headquarters who had already retired lost that part of his pension which he had not already assigned away. The second officer, who was a Lands Officer at the Area headquarters was a temporary officer, so there was no question of his getting a pension, but he lost his gratuity. Then there was the assistant Quantity Surveyor—

2516. Now we are coming to the ones, are we, who were former Air Ministry officials, because there were four of them?—Two of them were serving and two of them were former officials.

2517. In the case of the two who were serving one lost that part of his pension which he had not assigned away?—No, I beg your pardon. The officer who was in the Air Ministry, the Senior Lands Officer, had retired and was drawing his pension, but he lost that part of his

pension which he had not assigned. I was then going on to the Lands Officer who was at the Area headquarters. He was a temporary officer, and he lost his gratuity. Then there was an assistant quantity surveyor who was at the area headquarters. He was a temporary officer and he lost his gratuity. Finally, there was an Inspector of Works at the actual station. He was an established officer and he lost his pension.

Chairman.

2518. Just on this point about the Contracts Co-ordinating Committee and the black list, has this firm in fact been black listed in respect of all other Government Departments?—Yes.

2519. It has been black listed?—Yes.

Mr. Arbuthnot.

2520. When was it black listed, at what stage?—I have not the exact date, but the trial ended in October, 1960, and it would be some date soon after that.

2521. So, it may well have been that you knew perfectly well that this firm was doing things which led to the misappropriation of public funds without immediately seeing to it that other Government Departments should be informed?—I do not think we could have taken any action before the trial.

2522. Why not?—Two of the officials of the company were up for trial at the Assizes.

2523. Why could you not have taken any action before the trial to warn other Government Departments that your experience with this firm was such as to make you highly suspicious of them?—I think it would have had to be done with a certain amount of care. After all, the case might have resulted in an acquittal.

2524. And if it had would you think it appropriate that other Government Departments should be allowed to run the risk of public money being misappropriated?—Well, it may be that we were at fault in not warning other Government Departments, but I have no reason to assume that any other Government Departments had any contracts with them. It may be that we were at fault in not finding out if they had such contracts and warning them, but in fact we did not so so.

2525. But, surely, this is not a matter of whether any other Government Departments have contracts, it is a matter

27 April, 1961.]

Sir MAURICE DEAN, K.C.B., K.C.M.G.

[Continued.]

of whether any other Government Departments might consider placing contracts, is it not?—Yes.

2526. You told the Committee in answer to a question from Sir Samuel Storey that in a busy week's work it often happens that a paper is signed by an official—in this case he was dealing with the section officer—without knowing what he was signing. What is the point of signing the paper, then?—There is no point in giving a signature if it does not mean something.

2527. Why, if you defend the section officer for signing a paper without having read it do you not also defend the Quantity Surveyor for having signed a paper without having read it?—The assistant Quantity Surveyor signed a piece of paper which he knew was false, and that was a criminal offence. The section officer gave his signature to a paper without checking that it was correct. I do not attempt to defend that, and I think it is the sort of thing that one must crack down on unless all our defences are going to collapse. But I draw the clearest possible distinction between deliberate falsification of a certificate and somebody, through neglect, being not sufficiently zealous in checking up as he should have done.

2528. You told the Chairman that you knew of no other consideration that that firm had received, and the Chairman was suggesting that if there were not any other consideration it would be a poor investment on the firm's part. That would also be open to the interpretation that it was a poor investigation on your part, would it not?—If you identify a lack of result with a poverty of investigation, that would be so.

2529. Who was the managing director of this firm, Walley and Company?—He was a Mr. Eric Walley.

2530. Am I right in supposing that you have running contracts setting out rates for maintenance work and that from time to time specific orders are placed with the contractor?—That is so.

2531. What is the principle for placing an order once a contract is in existence?—The particular Air Ministry form has to be completed ordering certain work and this goes to the contractor, subject to certain exceptions.

2532. If work becomes unnecessary, as mentioned in paragraph 8, is the works order formally cancelled, and would that not effectively prevent the payment being

made on it?—Yes. If a works order is not carried out it ought to be cancelled and it ought to be cancelled quickly, because the existence of an order floating around which has neither been cancelled nor discharged is an obvious danger.

2533. Why was not the works order relative to this £461 cancelled?—I think that was a piece of laxity of administration.

2534. What have you done to tighten things up?—We have done a number of things. In the first place, I should explain that this particular episode which concerns the two charges which were allowed to remain upon the file occurred when the particular Works Area was just on the point of disappearing. We were reorganising and this particular Works Area, which was No. 6 Works Area, was on the point of disappearing. There is no doubt that that fact played a part, because the office concerned was melting away and I think because of that there was less rigour in applying the regulations than there should be. Specifically, what we have done is that we have written round to all responsible authorities and require the Area authorities to keep a very careful scrutiny over works orders and if they are not carried out to see that they are cancelled. This, I am afraid, is in the nature of shutting the stable door after the horse has bolted, because this is exactly what happened in this case.

2535. Bearing in mind that some of your people do not seem to read the things that they are signing have you any reason to think that they will have read your letter?—Yes, I am sure they will have read our letter.

Mr. Hoy.

2536. Sir Maurice, the money that changed hands here was considerable, running into hundreds of pounds and motor cars. It obviously was given for a purpose. I was interested to hear you say that this firm had carried out work to the extent of £1½ million over ten years. As near as possible, that is £3,000 a week for cutting grass and trimming hedges?—Etcetera.

2537. What were the "etceteras", because you told the Committee this cutting the grass and trimming hedges was a very big part of your work?—I said agricultural maintenance was. On an Air Ministry station there is a runway, there are technical buildings and there

27 April, 1961.] Sir MAURICE DEAN, K.C.B., K.C.M.G.

[Continued.]

is a great deal of land ; and land requires certain operations to be done to ditches, drains, grass cutting, hedging, planting gardens, and all that sort of thing. But the figure you mention, of course, is correct.

2538. But it is averaging £3,000 per week?—Yes.

2539. Could you tell me what the total annual turnover of this firm was if in fact you were making a contribution of £150,000 a year?—I cannot tell you the annual turnover of the firm, but I feel pretty confident that our contracts were a very large share of their business.

2540. I was interested in the last line of paragraph 10 where the Comptroller and Auditor General says that he has been informed "that there is no evidence that contracts were awarded to the Company as a result of the gifts". That might well be so, but in view of the fact that this firm was so generous might not the prices have been generous even if the contracts had not been given?—Over the ten years or so that we have investigated this firm got 16 contracts, and they were in the nature of running contracts with fixed rates against which orders for work could be placed at pre-specified rates. In the case of all but four of those 16 contracts the firm in question was the lowest tenderer. We got effective competition and they were the lowest.

2541. That is all right if, in fact, you are judging like with like ; but, in fact, if bills had been presented which were all false the price at which the contract is taken does not matter two hoots?—That is quite right. That would be the subject of technical audit. In the form it would have to be supported by detailed claims which would be the subject of technical audit. So, if there was any departure from the terms of the contract that would be picked up by auditors, those at the Area and at Air Ministry headquarters.

2542. Let me ask you this about these terms of contract: you know that when terms of contract are drawn up there is a certain number of items within the contract and frequently a price is attached to an item at an infinitesimal amount because the contractor knows that he is not going to be asked to carry out that part of the contract ; and at the end of the day what appears to be the cheapest contract is, in fact, the most expensive. Has your Department checked these

tenders?—The tenders were judged one against the other on the basis of a specimen year's work.

2543. That is not quite the point I am making. When tenders are issued it is not unknown for certain items within the tender to be priced very low by a contractor who knows full well that those items will not be undertaken. As a result of that his contract might turn out to be much more expensive than any other tender that has been lodged. Have you so examined these tenders that you are able to tell this Committee that something of that kind did not happen?—We have, naturally, thought very carefully about the possibility. The tender document contains a set of percentages adding to or subtracting from a set of rates, rates for different kinds of work. We, of course, state the rates and he quotes up or down on these rates. If that is so, if we state the rate and the contractor states the variations from the rates, I do not see how that particular form of abuse could creep in.

2544. I would have thought not, but you were trying to tell us that in addition to this there were certain form contracts, and all I was asking you was how the tender was drawn up, because I know that this malpractice goes on. I am asking for this assurance, that you can assure the Public Accounts Committee that this in fact could not happen?—I am sure it could not happen in this case.

2545. You did inform the Comptroller and Auditor General that additional safeguards have been introduced to deal with exceptional circumstances when the usual certifying officers are not available. What I would like to know is, what are the additional safeguards?—In the original form there was a space for a certificate to be given by the section officer, and the precaution we have introduced is that the regulations now provide that if the appropriate officer is not available the bill has to go to the Area headquarters for countersignature together with certain requirements about the rank of the officer who countersigns.

2546. Are these bills paid locally or do they go to headquarters?—They are paid from the Air Ministry headquarters.

2547. Let me ask you this then: if in fact they go there, are the paying officers in any position to make a check of the bill, or having got the bills do those officers who are responsible for payment

27 April, 1961.]

Sir MAURICE DEAN, K.C.B., K.C.M.G.

[Continued.]

accept them as they come to them?—They would carry out certain checks before payment, but what they could not check at Air Ministry headquarters would be that the dimensions had been wrongly given or that the work had not been carried out, which was certified as having been carried out.

2548. All they would do would be to accept it and see that the cheque was issued?—Yes, they would apply checks of a different kind if it was a vast sum of money. They would make enquiries.

2549. They would check on the rates, I presume, and the extensions, and that is all they could do, no more than that?—That is right.

2550. I want to return to this schedule. I do not know what was in it—you have spoken about rates and percentages—but supposing included in the schedule there was an item for preparatory work which has to be undertaken—was there?—No, it was not that kind of contract. It was just agricultural maintenance work of a specified character at different rates, for digging ditches, so much a yard, cutting grass, so much an acre, applying weed killer, so much an acre, together with prices; and the tenderer simply gave a list of percentages up or down on those prices.

2551. And apparently he must have been doing the same with the acreages, too, moving them up and down?—Not the contractor.

2552. Somebody must have been?—Possibly.

2553. I am not saying who was, but somebody was?—Yes, certainly.

2554. That is the sort of thing I was suggesting was taking place?—Well, in reply to your specific point there was a specific falsifying of documents, not in fact about acres but it was about measurements of drains, and so forth.

Mr. Hoy.] I do not know if I could ask this, Mr. Chairman: I think it would be not a bad thing if a copy of this tender were submitted. I would like to have a look at it.

Chairman.

2555. Could you let the Committee have this?—There are, of course a number of them, but I happen to have only one in my hand. There will, of course, be a number of them.

2556. I think we should like to have that?—Yes. Do you mean a specimen, or all of them?

2557. A specimen*, I think?—Yes, certainly.

Mr. Hoy.

2558. I will tell you what might be very interesting: you might supply us with a copy of the last tender submitted by this firm, because this was one which was accepted by your Ministry, and it would be very interesting just to have a look at it?—Tender documents as well, perhaps, and the tender.

2559. May I ask a final question of the Treasury? Mr. Henley, this discloses a particular weakness and it may extend to a number of Departments; I am not saying it does, but it may. As a result of this case what steps has the Treasury taken to advise Departments with regard to payments on this type of contract?—(Mr. Henley.) I should say that this case, at the moment, under our existing rules with Departments, comes to us, and it has, in fact, come to us quite recently, and the discussions have been bound up with the preparation for the Committee's examination. If we felt that this case showed weaknesses in a Department's system we have a procedure for notifying all Departments who might be similarly concerned. I am at the moment not at all convinced that this is such a case. I think that in this case the primary thing that went wrong, clearly, is that one of the officers of the Department in whom one could normally for very good reasons place trust, proved untrustworthy. I think a second point is that to some degree the implementation of the regulations for certifying payments, and so on, could be tightened up and has been tightened up in the Air Ministry; but I do not think we would derive from that any conclusion as to what ought to be done in Departments generally where we can reasonably expect that regulations are adequate and that necessary steps are taken to bring to the notice of all concerned—the certifying officers and so on—what they should do and what their responsibilities are. But again, if we did feel that anything of that sort was lacking we should take the necessary steps. Perhaps I might just comment on one further point which occurred to me in previous questioning, and that is the question of the action to be taken in bringing to the notice of all Departments the fact that a particular firm was under suspicion, though not, at the stage in

* Document supplied: not printed.

27 April, 1961.] Sir MAURICE DEAN, K.C.B., K.C.M.G.

[Continued.]

question, convicted. I would like to check up exactly what our arrangements are, but I think I shall find that there are, in fact, arrangements for action in that case, too*.

Sir Samuel Storey.

2560. Action when?—As soon as it becomes apparent that suspicion rests against a contractor or a company.

2561. I can understand that if Sir Maurice had taken the action Mr. Arbuthnot suggested and failed to get a conviction he might have found himself in very serious difficulty, but the same does not apply to the black list, and I should like to be assured that when the case does arise you take action with regard to the black list as well?—That is the case I am discussing. When the case arises we should take action, but clearly it must be confidential.

Mr. Arbuthnot.] I think that is what I was advocating, is it not?

Sir Samuel Storey.] I thought Mr. Arbuthnot advocated that Sir Maurice should take action. If he failed to get a conviction he might have laid himself open to serious consequences.

Chairman.

2562. Sir Maurice, you said to Mr. Hoy that in twelve of the sixteen cases this firm was responsible for the lowest tender. Had any of the four officials concerned in this case anything to do with the allocation of the tender?—(Sir Maurice Deun.) Only one of them. Sir. Only one of the four officers in question was in the Air Ministry headquarters, and he was in the Lands Branch and so was in a position to offer advice about tenders. The executive authority would rest with the Director of Contracts and the Director of Works, and the advice of the lands and works maintenance aspect would be given by a branch of which the official to which I referred was a member—was head, indeed.

2563. Would this official have any information about competing tenders?—He could have had information about past tenders but he could have had no information about a future tender until all the tenders had been opened by a Tender Board.

2564. The tenders are not opened until the time is past for the last to be

* Note by Witness: There are no formal arrangements; Departments would consider any cases individually.

received?—No; there is the usual tender procedure, there is a Board and a date and a sealed box.

2565. They are all sealed; until the time for opening arrives?—Yes, and then they are all entered.

2566. But he might have past information about the sort of tender prices which had been passed on a previous occasion?—Yes. This again is a point we have thought about, but it is not easy to see what advantage could have been gained in that way, because it would depend on what other firms were tendering, which it would be very difficult for him to know, and so far as his knowledge of the past was concerned, it would not necessarily be terribly helpful.

2567. On this question of countersigning, does the Ministry regard countersigning of work done as a formality, or not? I am thinking of the special case of the man who signed without having checked that the work had been done?—No.

2568. You do not regard it as a formality?—By no means. We regard it as one of our essential safeguards.

2569. It is not like one of those things that happens in a hat shop when they say: "Sign please", and somebody just signs without reading it?—It should not be. We regard it as a vital stage in our defences.

2570. Are you now satisfied that every officer who has to countersign must personally investigate that the job has been done before he signs?—We have issued instructions reinforcing that point.

2571. You are satisfied that these instructions are carried out?—I am satisfied that we have told people.

2572. I was not quite clear on something you said about strengthening the flying squad of inspectors. In one of your answers you said a decision to strengthen the flying squad of inspectors was only very recent, but I think twice you said that you had invited the Director-General of Works—if that is the right title—to consider whether he wants to strengthen his staff. Is the decision so far merely to invite him to strengthen his staff if he wants to do so, or is there a decision to strengthen his staff?—After this case had occurred we went over the whole of our defences, if I may use that term, with a fine-tooth comb. You look at the form and you say: "Can you tighten this up?" and

27 April, 1961.]

Sir MAURICE DEAN, K.C.B., K.C.M.G.

[Continued.]

you tighten it up as far as you can go. You send out works instructions saying: "These forms are important. Watch out how they are handled". You take up the point about works orders being given and then neither cancelled nor carried out, and you say: "These things have got to be watched carefully." You give instructions about the seniority of people who give signatures on these forms. I then scratched my head and said: "What else can we do?" and I was up against the fact that this kind of agricultural maintenance is a curiously transitory phenomenon in that you cut a hedge, you put on weed killer, you put on fertiliser, you cut grass, and three months pass and nobody can tell whether you have done it or not. One answer to that is to have an inspector who goes on the station and looks at it, not in three weeks' time, but right now, to discover what is going on—what are the facts. I asked the Director-General of Works whether in fact he did that, and greatly to my pleasure he said, yes, he did, on a very small scale. I said to him: "If you think it would strengthen our defences to increase this staff, please do so", and he told me that he is in fact going to do so, but it is directly as a result of this case.

2573. That was not quite clear from your previous answers, one of which suggested that the decision had been taken, the other merely that you had invited him to do it. However, you have now made the position clear?—Yes.

2574. I want to put one or two questions about the Air Ministry official mentioned in paragraph 7. Had he any connection with the company from whom he got these gifts of money?—No connection; no formal connection.

2575. How could he benefit the company's local maintenance contracts?—I do not know.

2576. Was he concerned in selecting the firms employed on any kind of local airfield maintenance work?—No.

2577. This is the man who gave advice to the Director of Contracts?—Yes, and he was at the Air Ministry.

2578. At Air Ministry headquarters?—Air Ministry headquarters.

2579. He was not concerned in selecting the firms employed on any kind of local work?—I beg your pardon, Sir. This contract would specify this firm as the accepted contractor for doing agricultural maintenance work at the station,

and from that point the local works officers would place orders under the terms of his contract.

2580. If he had been concerned in the selection of this firm for any work that was not the subject of a contract, for instance the grass cutting, is any of that done without a specific contract?—No.

2581. Then if he was not in a position to benefit this firm, why did they give him some money?—I do not know.

Sir *Samuel Storey*.

2582. Had he been in a position to benefit them before he retired?—I have no evidence that he was. The Committee will realise I am not trying to be difficult about this. Once one leaves the realm of fact and gets into the realm of speculation one finds that a very wide horizon opens up.

Chairman.

2583. Sir Edmund, did your investigations throw any light on this rather mystifying point that this firm seems to have given these presents to a man who, as far as we know, was not in a position to help them?—(Sir *Edmund Compton*.) No. Indeed that would be my point of mystification, as well; and that is why I did ask specifically a question on that point of the Ministry and recorded the answer that the Ministry gave me, which the Accounting Officer has just repeated now.

2584. The answer was that there was no evidence that the contractor was helped as a result of the gifts. The Accounting Officer's answers to me now show that this man was not in a position to help the company in any way as a result of these gifts except very, very indirectly?—(Sir *Maurice Dean*.) Confining myself, Sir, to the realm of fact and leaving speculation aside, the officer who was in the Air Ministry was a member of the Lands Branch, which was one of the departments consulted before contracts were awarded. It could be argued that he used that position to secure that contracts went to this firm which should not have gone to them. We have looked at the evidence to see if we can find anything to support that. The facts are these: this firm were given contracts in sixteen cases. In twelve of those cases the firm were the lowest tenderer. In four cases they were not the lowest tenderer, and we looked at those four cases with special care to see if there were any indications that this official had

27 April, 1961.]

Sir MAURICE DEAN, K.C.B., K.C.M.G.

[Continued.]

given advice which had the result that they got the contract when they should not have got it. There is nothing to support that view. In three of the four cases the difference between the price that Walley's offered and the price of the lowest tenderer was trifling in relation to the sums involved. In the fourth case it was as high as 5 per cent. but in all four cases there were what seemed to us sound reasons why the contract was awarded to Walley and not to the lowest tenderer, even in those four cases. We have also examined the question of how successful this firm were in getting contracts, how often they tendered, and their success rate seems to have been about one in five, so that they made four unsuccessful tenders for every one tender they succeeded with. We also examined their profits in so far as you can see them from published documents, and they were comparatively modest, for what that is worth.

Chairman.] That is hardly surprising if they gave away these prizes and got nothing in return for them.

Mr. Hoy.

2585. Did it never strike you, Sir Maurice, that the officials were given motor cars to keep them out of the way?—I do not think that would help, would it?

2586. I would have thought, in the case of anybody who might have been at the depot, certainly not the man at headquarters, it might have been a good idea to have the man who was there when the grass was being cut away from the place?—The work has got to be ordered and then certified.

2587. But we are faced with this, that there were a lot of things certified that were not done. That is where the breakdown is?—Yes.

Chairman.

2588. Not certified by this man, is the point. It was not this headquarters official?—Exactly.

2589. Is it not possible that this man held himself out as able to help the firm in the matter of contracts but he was not in fact so able, and managed to get some money for that purpose?—It is perfectly possible, Sir.

2590. Paragraphs 11-15, Store Accounts. Paragraph 14 says that large quantities of surplus stores have been

disposed of since 1955-56. Have you any significant stocks of surplus stores now?—The process of getting rid of surplus stocks is a continuous one. I am sure we have surplus stocks still in our hands, which we are getting rid of from time to time.

2591. But they are smaller?—Certainly, a great deal smaller.

2592. The figures in paragraph 15 show a welcome reduction in stocktaking discrepancies. Is this the result of improved methods?—Oh, undoubtedly.

2593. You are fairly satisfied with them now?—I think that continuous vigilance is necessary about stores accounts, but within those limits I think there has been a great improvement.

Mr. Hoy.

2594. How many depots have been closed in the last five years?—I have not got the figure in my head, Sir, but I should think, probably, half a dozen.

2595. Were these closures the result of the disposal of stores? I suppose so?—They were closed mainly as a result of the general contraction of Maintenance Command and the concentration of stores.

2596. What about the buildings and the land, were you able to dispose of those quickly?—There is a regular procedure for disposal of Government land, which we followed.

2597. Are you having any difficulty, or not?—It is always a long business disposing of land, a long and complicated business, as you know.

Mr. Stevens.

2598. Sir Maurice, can you say how the Royal Air Force stores are physically held these days? Is there a number of equipment depots which contain the whole range of R.A.F. stores, or is a limited range of stores held at each of a number of different depots?—No, we have turned over to single point holding now.

2599. So that a given depot holds only a limited range of stores?—That is right, yes.

2600. And the Royal Air Force Stations know which depot to demand on?—That is so.

2601. What form of stores accounting is used, a mechanised form, and if so what kind of mechanised form?—Yes,

27 April, 1961.]

Sir MAURICE DEAN, K.C.B., K.C.M.G.

[Continued.]

we have a mechanised system of accounting. We use the National Cash Register system and the Hollerith system.

2602. That, I think, has been so for many years, has it not?—Yes.

2603. So it would not be a new form of mechanised accounting which has accounted for the remarkable improvement in stocktaking?—No. The improvement which has taken place is, I think, the result of an assault on many fronts. Our system was basically a good one, but we have been able over the years to concentrate and to exercise greater care in the stocktaking and perhaps a little greater stability in the organisation.

2604. I forget for the moment, is there a system of continuous stocktaking?—Yes, it is continuously taken every two years.

2605. Is an attempt made to get through the whole range of stores over a twelve-month period?—It is every two years.

2606. Two years is a long time, is it not, but I presume that to do it every year would mean a vastly increased staff?—We have about 400,000 items on active charge, and the counting of them is, as you can imagine, a very considerable labour. We are going over to a computer, of course.

2607. That is interesting. You hope to make some staff economies as a result, do you?—Yes. I am afraid, as always, the first effect of going to a computer is that you employ more staff with the two systems in parallel, but there is a pot of gold at the end of the rainbow, I hope.

THURSDAY, 4TH MAY, 1961.

Members present:

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

Mr. Hoy.
 Mr. Stevens.
 Sir Samuel Storey.
 Sir Colin Thornton-Kemsley.

In the absence of Mr. Harold Wilson, Sir Samuel Storey was called to the Chair.

Sir EDMUND COMPTON, K.B.E., C.B., Mr. D. O. HENLEY and Mr. A. D. PECK, M.B.E., called in and examined.

ARMY APPROPRIATION ACCOUNT, 1959-60.

Sir RICHARD WAY, K.C.B., C.B.E., Permanent Under-Secretary of State for War, called in and examined.

Sir *Samuel Storey*.

2608. Will Members please turn to the Comptroller and Auditor General's Report on the Army Appropriation Account, 1959-60, to paragraphs 6 to 11, Store Accounts, taking paragraphs 8 to 9? Sir Richard, paragraph 9 states that more than half of the stocktaking discrepancies recorded arose at one Depot. What Depot was this?—(Sir *Richard Way*.) It was the Central Ordnance depot at Donnington.

2609. What are the reasons for the large discrepancies at this Depot?—I think it is important to remember that the holdings at Donnington, in any case, are a large proportion of all the holdings of the Central Ordnance Depots, so it is not surprising that half the discrepancies occurred there and it is not disproportionate with the holdings at Donnington. The reasons are really threefold. In the last five years we have reduced our holdings in the Central Ordnance Depots by two-thirds from about one million tons to 350 thousand tons, which is a very big effort indeed; and it is not surprising, I think, that during the process there have been a good many accounting discrepancies. When you have a large movement of stores like that there are bound to be accounting discrepancies thrown up and mistakes made. In the Depots, for example, there are 3½ million accounting transactions each year; it is a very big task. The second thing is that this period of stocktaking, which is on a two-year cycle, covered the Suez operations in which there was a considerable movement of stores both in and out in a very short period of time, and there was a very heavy load on the Depot accounting machine. The stocktaking discrepancies are now appearing in the 1959-60 Account. The third thing is that during the past three years the Central

Ordnance Depot account at Donnington has absorbed the accounts from the Depots at Bicester, Weedon and Old Dalby; and Bicester's account was always a very bad one. It covered a lot of stocks left after the war, packing cases left unopened, and we knew that there were many accounting discrepancies there. The Donnington account has absorbed the Bicester account now. These three factors have culminated in the discrepancies you see in front of you in this Account.

2610. What steps have you taken to improve the position?—We have done a number of things. The main thing of course is the reduction of stocks. One of our troubles in the past in achieving accurate accounting has been the large volume of stocks, and the simple reduction of that by two-thirds will be the biggest single contribution to an improvement. There are certain other things which have been done. The procedure has been improved and we are going to introduce an automatic data processing machine at Donnington, we hope, in two years' time. It is not ready yet, but I think that will achieve an improvement. We have, in any case, introduced new accounting machines there in the last two years, and I think the improvement achieved by this is one of the reasons for the large volume of discrepancies here. We have also introduced in the last few years storehouse records which is a system of duplicate accounts kept in the storehouse. This gives the storekeeper an interest in his stores which he has not got if the only account is kept in the office, maybe 100 yards away. He knows what he ought to have and he is more interested in seeing that he has got it.

2611. What are the further discrepancies found in 1959-60?—The carry forward from 1959-60 to 1960-61 is far

4 May, 1961.]

Sir RICHARD WAY, K.C.B., C.B.E.

[Continued.]

smaller than the carry forward from 1958-59 to 1959-60—very much smaller indeed—but I think the discrepancies referred to in the Comptroller and Auditor General's Report are the combination of this process of clearing up past accounting errors. I hope that we are over the hump now. I have never said that before. I have always hesitated to say it, but I really do think that we are now going to improve.

2612. Why is it taking so long to take these stocktaking losses into account?—I think the only answer to that, really, is the pure volume of the work, and the difficulty of keeping staff in the numbers and quality capable of dealing with what is a very big problem indeed.

Mr. Hoy.

2613. I was rather disturbed to hear you say that this is due to the pressure of work. Apparently, what you are saying is that if some pressure takes place the machine you have is unable to bear that pressure. Is that what you are saying?—Are you referring to the pressure of Suez that I mentioned?

2614. Yes?—To some extent, yes, when one is talking about detailed accounting, and I think it is right that it should be so. I do not believe we could justify having a machine at a strength so much above its normal working level that it could cope with any emergency.

2615. So what, in fact, you are telling the Committee is that if a similar proceeding were to take place in the future you could not be held responsible for any deficiencies which might arise?—I would not say I could not be held responsible, I would say I should not be optimistic that we could avoid numerous accounting errors.

2616. Would you not think that, really, at this time of the day you ought to have a machine which could cope with that sort of thing?—I do not think so, Sir. If you have a machine that is dealing with the normal course of day to day business and you suddenly multiply that business by, say, ten, I do not think you can not expect something to go wrong.

2617. Something may go wrong, but the extent of this is considerable, and with all this modernisation which has taken place in stocktaking and accountancy, and so on, you should be much better able to absorb that sort of thing than you have been able to do in the

past?—I do not think it is quite right to talk about modernisation of stocktaking methods. The only method of stocktaking is to count what you have in stock and if that goes wrong there is not much you can do about it. Accounting methods, yes. I hope the new systems will give us a reserve on the accounting side which should reduce the volume of errors there.

2618. May I ask the Treasury a question on this? This is a question which is continually occurring at this Committee both in regard to stocktaking and accountancy. Do you think the Departments are doing all they can in this respect?—(Mr. Henley.) In general we would say we think they are doing all they can. As I think the Committee has recognised for many years since the war whenever this question has come up, it is a problem of enormous proportions. Certainly in the past some of the methods which were used to deal with it were susceptible of improvement, but I think at the moment we do feel, as the Accounting Officer has said, that very definite progress has been made, more in some Departments than in others, and we do not think we have any further basic suggestions to make as to how further improvements could be secured.

2619. You have just heard the witness say that, supposing a pressure of this kind comes again, deficiencies even to this extent might possibly arise in the future. Do you think that they together with yourselves might be devising some system to see that they do not arise?—I think that would be pretty difficult unless one were prepared to have an enormous increase in the staff—a relatively large increase in staff—at the time when these sudden pressures occur, if the Department could get the necessary staff, which I doubt very much would be possible.

Colonel Crosthwaite-Eyre.

2620. Sir Richard, I think I am right in saying that this Committee has always viewed surpluses with the same horror as deficiencies. How do all these surpluses arise?—(Sir Richard Way.) The Committee, I am sure, is right to view surpluses in the same light as deficiencies because they are both in almost every single case accounting errors. They are not surpluses in the sense that stores have suddenly appeared from

4 May, 1961.]

Sir RICHARD WAY, K.C.B., C.B.E.

[Continued.]

nowhere any more than the deficiencies are evidence that people have walked out of the Depot gates with something belonging to the Government. That is not so. They are all accounting errors. Somebody enters a wrong figure in the account as compared with the voucher or adds up the column wrongly.

2621. But if one looks at page 33, to which one is referred in paragraph 9 of the Report, I think I am right in saying that the whole of the surplus arises out of 62 cases?—Yes.

2622. If that is so, then, each of those cases is of a considerable sum?—The word "cases", perhaps, is misleading—62 sections of stocktaking, not 62 individual items. It does not mean that 62 items of stores gave rise to this total figure, it means 62 sections of stocktaking, which could cover hundreds of items.

2623. Then what is the biggest single item of surplus that was discovered at Donnington out of the £934,000? Was it one of those things one reads of in the Press, of 200 tons of unwanted blanco, or that sort of thing?—That would not be a surplus in this sense, it is a surplus in another sense.

2624. I am asking you, what is the largest surplus in this sense?—I cannot tell you which is the largest surplus. I could, of course, have the records looked at to see which was the largest surplus but they are very, very voluminous records indeed. One of these 62 cases could cover many, many sheets of stocktaking over possibly a whole section of the Depot.

2625. Would you say that there was no item of surplus, that is, a particular item, in any of these sections that exceeded, say, £5,000?—It would not be right for me to say that because I simply do not know. I could find out for you, if you wish.

2626. Would it not be a good thing for your own accounting purposes that such a surplus, say, of £5,000 should be thrown up automatically, not only for your own information but also for this Committee?—I am not quite sure what value it would be for the Committee to know that any particular item showed a surplus of £5,000.

2627. If I understood your evidence correctly, Sir Richard, you are really saying that there are 62 cases which cover sections, and you are giving this

Committee to believe that possibly it is only a couple of pounds here, a couple of pounds there and thirty shillings somewhere else; and that the total is derived, of course, of the numerous number of items rather than the gravity in any particular case?—Yes.

2628. I would like to be re-assured on that by knowing that if there were a £5,000 surplus it would be thrown up in a particular place so that both you and I could know. Would that not be fair?—I can certainly let you know what the largest item of surplus in these 62 cases was.

2629. That was not quite my question. I asked how many incidents, possibly of £5,000 or more, there were, to which I thought you replied you could not tell me?—I cannot tell you.

2630. Do you not think it would be a good thing if that sort of information were readily available?—The information is readily available, of course, to the people who can make use of it in the War Department.

2631. I would have thought this Committee were probably the people who could make more use of it than anybody else?—I can certainly let the Committee have whatever information you wish. I must say that I do not consider that the information would be of any value to me.

Mr. Arbuthnot.

2632. Sir Richard, there were 68 cases of deficiencies of stores in Depots, and 62 cases showed surpluses. What percentage does that represent of the number of cases? You say that cases are not individual items. How many accurate returns were made as compared with the inaccurate returns?—How do you measure it? You can measure it against the number of items, for example, 500,000 items at these Depots. You can measure it against the number of transactions, because each of these mistakes will have occurred in one of the 3½ million transactions in the year—assuming they all occurred in one year which, of course, they would not have done, anyhow; they would have been spread over more than one year. That is the sort of measure of the comparison.

Sir George Benson.

2633. What is the quality of the lowest grade employee in your stores Depots? Are they privates?—They are nearly all civilians.

4 May, 1961.]

Sir RICHARD WAY, K.C.B., C.B.E.

[Continued.]

2634. That is a change?—Yes, it is part of our deliberate policy of doing with civilians what civilians can do rather than using soldiers.

2635. Ultimately your surplus depends on the man who has counted the bin?—Yes.

2636. What quality of employee do you get there?—Storeholders normally, storekeepers.

2637. What quality of man is he? What is his educational standard and what is his wage?—I should have said his wage—I am merely guessing—would be in the region of, probably, £700 to £900 a year.

2638. £14 to £18 a week?—About £15 a week, yes. I think the real point is that these mistakes are not normally made by the storekeeper in stocktaking, they are made by the individual who keeps the account, who is a clerk. Most of them are accounting errors made by the accounts people.

2639. It is not the actual counting, because I know in one case the man added the number of the bin into the number of the articles?—There are mistakes in stocktaking, but most of the mistakes occur in the accounts themselves. Somebody enters 50 instead of 80 or 80 instead of 50.

2640. Have you ever taken a period of, say, 5 years to see how far your figures rectify themselves, because an error one year ought to be thrown up in the next year?—Yes. I have in fact a return of the losses over the past 5 years, but I do not think they will altogether help you. They merely show the volume of the discrepancies on either side of the account. I should not like to say that they normally balance themselves out, and there is no reason why they should because once you have rectified a mistake it should stay right.

2641. If you take a certain article, you find that your accounting indicates that you have got four more than you ought to have. The next year your store account indicates that you have four less than the previous year indicated. The two errors cancel themselves out?—In the same item, yes.

2642. That is what I want to get at. If you based your store accounting on, say, a five-year period instead of a one-year period how far would you even out your discrepancies?—Of course, the

stocktaking covers a two-year period now.

2643. Has that period been adopted to minimise your errors?—No, I should have said not. The figures for this year are by far the biggest we have had for many years.

2644. When you say “this year” you mean, the year of account?—Yes, the mistakes brought to account in this Appropriation Account.

2645. How do you track mistakes down?—They are discovered, of course, on stocktaking when the stocktaker finds that the number he has counted does not agree with the account. Then each case is investigated to see where the mistake has occurred.

2646. Do your records show that you have got less or more stock than you ought to have, or is it about fifty-fifty?—On the average it is about fifty-fifty, though in this year the deficiencies are greater than the surpluses.

2647. But next year the surpluses may exceed the deficiencies?—Yes; we have had years in which the surpluses exceeded the deficiencies.

2648. Broadly speaking, would your surpluses exceed your deficiencies over a period?—I should have said, if one excluded 1959-60, the answer would have been yes; but I am slightly shaken by the considerable excess of deficiencies in 1959-60.

2649. I remember I went round some Navy stores and it struck me that their lowest grade people were much more efficient than your lowest grade. The people who do the actual counting were all of a higher grade in the Navy than in the Army, and the Navy stores accounts were always much more accurate. Is that due to the quality of the staff?—I think the volume of stores has a good deal to do with this, and I should hope that the dramatic reduction in the volume of stores we have achieved in the last five years would of itself result in a considerable improvement.

2650. The less stores you have the less the possibility of making mistakes?—And also the better the staff you can put on the work.

2651. Apparently, from what you say you must have improved very considerably in the past 10 years your lower grade staff who do the counting?—

4 May, 1961.]

Sir RICHARD WAY, K.C.B., C.B.E.

[Continued.]

I think we have. After all, 10 years ago was only four or five years after the end of the war when the staff was of very poor quality.

Mr. *John Hall*.

2652. I understand these deficiencies arose mainly in Donnington, and the problem was increased by the transfer of Didcot to that Depot?—Not Didcot, Bicester.

2653. Is it not a fact that the Central Ordnance Depots at Bicester and Donnington both have probably the most up to date accounting system of the Ordnance Depots?—I do not think it is true of Bicester. I do not think Bicester has ever overtaken the vast volume of stores that were dumped there after the war. I do not think it would be true to say they have the most up to date methods; for example, undoubtedly now Chilwell is the most up to date.

2654. Has experience of bookkeeping errors arisen over the last few years?—Yes. One thing that I think is important is that Donnington is very, very much worse than any other Depot. The position at the other Depots we regard as very satisfactory. The discrepancies are very small and they are not in the same category as those at Donnington.

2655. I think I am right in saying that over the last few years the number of military employees in the Depots has decreased and the number of civilians has increased. Is that right?—Yes.

2656. Has the propensity to error increased with the greatest proportion of civilians to Army?—No, I do not think it has. I think the contrary is true, and I would expect the contrary to be true, because the civilian is there much longer than the soldier. He gets far more used to the sort of work he has to do. I think one of the contributory factors in the past to accounting errors has been the use of military labour, National Servicemen especially, who had no interest really in what was going on and were not there long enough to learn what they were supposed to be doing.

2657. I understood you to say that the experience of stocktaking and bookkeeping errors has increased over recent years?—You say "the experience". Do you mean the volume?

2658. Yes?—The volume has increased because of the factors I gave, I think before the hon. Member came in.

I mentioned Suez as having imposed a great load on Donnington which the accounting machine simply was not capable of handling with accuracy. There are special factors. I do not believe it is a deterioration in the quality of the accounting that leads to this result.

2659. Has it been possible to arrive at a percentage which these discrepancies bear to the annual turnover at these Depots?—We have not got the annual turnover. I think I did mention that there are at these Depots 3½ million transactions a year. What turnover they represent we have no means of ascertaining.

2660. In Appendix I, which details the statements of store losses, Item 54 refers to the loss of tyres. The deterioration was considered to have been due to faulty re-treading. Was there no claim against the processor who was responsible for the re-treading?—That will certainly have been considered before it was written off. The Treasury would never have considered the write off unless they were absolutely satisfied we had explored every possibility of recovery.

2661. Item 56 concerns the disposal of teleprinter paper largely because there was too large a stock held in the Depot and it had deteriorated. Is it true to say that no individual could be held responsible for that loss? Is it not due to over-buying in the first place?—It depends when the teleprinter paper was bought. If, for example, it was bought during the war it is understandable that the stock was too large. If it was bought at a time when the Army looked like continuing at a greater strength than it now is, then it is understandable that it would be much more than we wanted. One of the results of the Army having come down very much in size is that our requirements have reduced.

Sir *Samuel Storey*.

2662. Arising out of Colonel Crosthwaite-Eyre's questions about surpluses, do you think any items were ordered unnecessarily when there was a surplus already in stock?—I have no evidence at all of that on this Account.

Colonel *Crosthwaite-Eyre*.

2663. This is a very interesting question. You say you have got no evidence, Sir Richard. What steps did you take to find out whether any evidence was available? What checks did you make

I

39389

4 May, 1961.]

Sir RICHARD WAY, K.C.B., C.B.E.

[Continued.]

to see that over-ordering had not, in fact, taken place?—It is very difficult to answer that question. Over-ordering should not take place. If over-ordering does take place then it normally is revealed in the form of actual surpluses for disposal. This is the point I made a little earlier in my evidence, that that sort of surplus is not this sort of surplus at all; that sort of surplus is where you have stores in excess of your requirement. Over-ordering is revealed when stores are declared for disposal, not in this sort of transaction at all; and there has been no evidence during this year of stores being declared for disposal where the surplus was due to over-ordering in the past.

2664. These stores of which you have surplus, as I understand it, you account for by there having been an accounting error, the number has been possibly subtracted wrongly in the bin, or something of that nature?—Yes.

2665. Some natural mechanical mistake?—Yes.

2666. But supposing a bin is shown to be down, say, to 30 but in fact it has 100 and 30 is recorded, surely a replacement order is put through, is it not, and that must lead to over-ordering?—Yes, the normal provisioning action would follow.

2667. I am trying to follow your argument. When you say over-ordering, I think you are thinking of ordering more than is required rather than ordering unnecessarily?—I take your point.

2668. What steps have you taken to see that unnecessary ordering is not actually taking place, particularly at Donnington?—What you say is theoretically perfectly true; if the stock is more than the account shows the assumption is that provisioning action will be taken earlier than it will normally be taken.

2669. That is the point?—Unless there were a very large discrepancy indeed on one item this would not be of any long-term significance, because by definition they would be stores that are in constant use. It would merely mean, probably, that you had bought a few months earlier than you would otherwise have bought. The only gross error would be where it led to such a mistake that stores really became surplus in the other sense, in the sense of being not required in the long term.

Sir Samuel Storey.

2670. Paragraphs 10 and 11. What were the reasons for the large fall in 1959-60 in the losses arising from deterioration?—The reason, Sir, was that this category of loss, as the Committee will recall, was first introduced, as a result of past Reports of this Committee, in 1958-59. It had taken a good deal of time to agree with the Treasury the rules to be applied to this sort of loss and there was a very big backlog in the 1958-59 Account going back for some years. The fall represents our having caught up with that backlog and in the future, one would hope, this category of loss should show a decrease in volume. Of course, all these stores, or nearly all the stores that have deteriorated in store, are ex-wartime stock. It should not happen very much in the future.

2671. In three of the cases recorded this year the storage arrangements were apparently unsatisfactory. What improvements have you been able to make in your storage arrangements since these cases came to light so as to reduce the risk of deterioration in the future?—I am sorry to be repetitious, Sir, but the reduction of our total stocks by two-thirds will secure a very big improvement in the storage arrangements. Of course, we have the same amount of storage, subject to what we have given up—we have given up a certain amount—but we have more storage available in proportion to the stock we have got. On the whole, we are not dissatisfied with the storage arrangements now. The trouble in the past has been too many stores competing for too little room.

2672. Lack of storage has been the main cause?—And stuff has been stored outside which we would have liked to have under cover and which we can now have under cover.

Mr. Stevens.

2673. We have just heard that the main reasons for these large deficiencies and surpluses were inaccurate accounting and stocktaking errors, but now we find that in accordance with normal custom, as in previous years, a number of accounts were missing or abandoned; and from Appendix VII on page 41 I see that 24 accounts of 17 units were lost or destroyed. In what circumstances do units lose or destroy accounting records?—There are various categories of lost accounts. Before I go through

4 May, 1961.]

Sir RICHARD WAY, K.C.B., C.B.E.

[Continued.]

them I should like to say that the loss of an account, of course, does not necessarily imply any discrepancy in the stores, certainly not any failure to note a loss because losses are noted as they come along, they do not wait for the end of the account. Of these accounts missing, 9 were simply missing, they either went astray in transit or were lost in some way, they just could not be found. They are mainly losses in transit. As there are 35,000 accounts every year perhaps that is understandable, a certain number going astray wrongly addressed or just lost. Fifteen of those 24 were incomplete or unreliable and were reconstituted. In other words, possibly when they were audited it was considered that there were mistakes that made it desirable to start a new account. They are all small accounts. They are unit accounts, of course, they are not the big static Depot accounts or anything like that. They are possibly, say, the petrol account of a unit in Aden, very often monthly accounts.

2674. Though I fully agree the loss of an account does not necessarily mean, and obviously could not mean, the loss of the stores, the accounts are surely valuable recording documents, are they not?—Of course, and they should not be lost. No one would disguise that.

2675. The statement on page 41 says: "18 accounts relating to prior years". For how many years should these unit accounts be retained?—I think that means that the account was closed at the end of, say, March, 1958, and was lost subsequently. The account related to the prior year and it was possibly lost in transit.

2676. Is there any instruction about how long these accounts should be retained?—Oh, yes, there is.

2677. What is the instruction?—Speaking from memory, I believe they are normally retained for three years, but I think it does depend on the account and, of course, the really big accounts go on all the time. They are never closed and in this sense they cannot be lost. These accounts that are lost are single unit accounts, a unit equipment account, perhaps, or a unit supply account. They are much smaller accounts than the ones we have been talking about.

2678. Granted that there are large numbers of accounts every year and this is only a small percentage, have you looked at the filing systems employed to

see if they could be improved?—I do not think one could generalise. They are such a small number that were lost. For example, there were 11 lost last year, and 24 this year is quite a large number. Seven of those 24 accounts, for example, were from units in the Arabian Peninsula. It is not impossible to envisage circumstances in which they might have lost an account. That is 7 out of the 24. Five of them were in Sierra Leone. They are all small unit accounts. I do not believe one can generalise.

Sir Samuel Storey.

2679. Are you quite satisfied that none of these accounts was lost intentionally to cover up anything?—I think I am, because it would not really pay. To lose an account draws attention to a unit. The auditors, I think, would ask themselves the same question that you have just asked me.

Mr. Arbuthnot.

2680. You say, Sir Richard, that 18 accounts related to prior years. The implication of that is that a unit is not instructed to send in its account immediately that account is complete. Is that correct?—Not all the accounts are sent. Some of them are audited on the spot, and sometimes I can quite imagine an instruction relating to a particular account would be for the unit to hold it until the auditor visited the unit. The instructions are quite clear. Either the unit sends the account to the auditor, which I imagine is the normal rule, or it holds on to the account until the auditor visits the unit. The instructions would be perfectly clear.

2681. Once the account has been audited presumably it is not one that is put into the category of lost or destroyed?—No.

2682. How many years back do these prior years refer to?—I should be surprised if it referred to more than one year back.

2683. In fact, "a prior year" would be more accurate?—"The prior year", yes. As the Comptroller and Auditor General has said, we are fairly up to date in our auditing so there is no serious backlog in our audited accounts.

2684. There seems to be a differentiation between lost and destroyed. How would you differentiate them?—I think when an account is missing it is difficult to know whether it is lost or destroyed.

4 May, 1961.]

Sir RICHARD WAY, K.C.B., C.B.E.

[Continued.]

2685. So that "missing", again, would be a more accurate description?—"Missing" covers both, yes.

2686. What do you do about it when an account is missing?—The auditor who is responsible, of course, would criticise the unit and I do not suppose any one unit would lose more than one account in a very long period of time. It is a very unusual affair. As you can see from the numbers, 24 out of 35,000 is not a very big incidence, although 24 is far too many.

2687. There would be no disciplinary action taken?—I think that would depend on the case. If there were evidence that a Quartermaster wanted to lose an account, if one could find sufficiently solid evidence, action would be taken.

2688. Have there been any cases in the last year in which disciplinary action has been taken?—I am quite sure there has not been, because if there had been I should have been told.

Colonel *Crosthwaite-Eyre*.

2689. What is an "unreliable" account, Sir Richard?—It is an account where for various reasons there is such a discrepancy between the stock and the account, or there are so many accounting errors, that the auditor decided that the account was so bad that it was not worth continuing and it would be re-started.

2690. How many of these particular cases that are noted in this Appendix were of that category?—One of them, for example, at the Ordnance Depot at Aden, which is mentioned specifically in the Account, is such an account; and the reason there is explained at some length. The account was carried on under great difficulties. Of the 24, the sub-division is that 9 were missing, as I said before, and 15 were incomplete or unreliable. I have not got the breakdown of that 15 between their being incomplete and being unreliable, but I should have regarded the two words as overlapping.

2691. You said in answer to Mr. Arbuthnot that there had been no action taken as regards any of these, but from your definition of "unreliable" I should have thought that there was a very good reason for taking action?—It does depend on the circumstances. I said that 7, for example, related to the Arabian Peninsula. It might be a very hard judgment to decide that a unit,

even though it had an unreliable account, was really blameworthy in the circumstances ruling in the Arabian Peninsula. It is very difficult to generalise.

Mr. *John Hall*.

2692. What was the largest amount involved in these unit accounts?—I cannot answer that question, but the largest normal account would be, I should have thought, an annual unit equipment account covering all the equipment on charge to the unit, covering the whole of one year. In the case of an armoured unit, of course, with its tanks, that could be a very considerable amount.

2693. Did these 7 units in the Aden Peninsula come under the category of "lost" or "incomplete and unreliable"?—I think they covered both categories. I have not got the split of those 7 units.

2694. Of course, one could understand them being unreliable. It is a little more difficult to understand them being lost, even in the circumstances in the Aden Peninsula?—They are more likely, I agree, to have been unreliable than lost.

Sir *Samuel Storey*.] I have no questions on the rest of the Army Appropriation Account. Are there any questions on the Account, Votes A and I to 11?

Mr. *Arbuthnot*.

2695. On page 19, Vote 18, Subhead D, the note says "Settlement of claim in respect of hired and requisitioned land was slower than expected". Why, Sir Richard?—I think the only answer I can give without further research, and I could, of course, let you have a note on it, is that these processes tend to be slower than one expects. Land transactions in general have an almost invariable habit of lagging behind one's expectations.

2696. In that case had not one better put one's expectations a little longer?—I agree.

Sir *Samuel Storey*.] Are there any questions on the Appendices?

Colonel *Crosthwaite-Eyre*.

2697. I would like to ask three questions. I cannot understand, looking at page 30, item 16, how it came about that the War Office sent £20,000 in cash and did not take any insurance policy out for the transit?—It is not the Government's normal policy to insure in any circumstances, and I think the answer

4 May, 1961.]

Sir RICHARD WAY, K.C.B., C.B.E.

[Continued.]

is that this was no exception to the general rule. The Government does not normally insure, it carries its own risks.

2698. It always carries its own risks?—It always carries its own risks.

Sir Samuel Storey.

2699. Even when it is transporting goods by sea?—Oh, yes, certainly, when it is transporting goods by sea.

Colonel Crosthwaite-Eyre.

2700. You prefer to take the loss rather than to pay the small insurance premium?—Well, by definition when you pay insurance premiums over a very wide field and a long period, if the insurance company is to stay in business you will lose.

2701. What was the £30 you got back, then, an *ex gratia* payment?—I am afraid I cannot answer that in detail.

2702. I thought it was probably because of the shock suffered by the operator on discovering the money lying around him?—The £30 was recovered in the normal payment for the freight, I think.

* * * * *

2704. Could you tell me what item 11 is?—That covers vehicles handed over by the British Military Administration in Malaya to the Malayan Government when the Malayan Government took over the colony again in 1946. It has been one of these very tiresome claims, of which there are several in the Account, where there has been a great deal of argument about whether they should pay. There was some doubt

about this. The Malayan Government say it was an understanding at the time that they would not pay for these vehicles, but we have never admitted that and this represents a package settlement.

Mr. Arbuthnot.

2705. Would you tell us something about item (a) 1 on page 28, "Fraudulent charges estimated at £15,267 by two transport contractors". How did those arise?—I am afraid I can tell you no more about those than is in the Account, but I can let you have a note.

2706. Can you let us have a note giving the names of the transport contractors and what action you have taken to see that other Government Departments are made aware of these matters so that they do not get had the same way?—I will,* Sir.

Sir Colin Thornton-Kemsley.

2707. On item 18 on page 30, could Sir Richard tell the Committee something about this meat business?—Again, I am afraid I cannot, other than the statement there; but shall I include that in my note?

2708. In a case like that would not the meat in fact be issued through N.A.A.F.I.?—No, not normally, through the R.A.S.C. The R.A.S.C. provides the rations for soldiers and families. Would you like a note on that?

[Sir Colin Thornton-Kemsley.] I do not think it is of sufficient importance.

* Information supplied: not printed.

WAR OFFICE (SUPPLY) APPROPRIATION ACCOUNT, 1959-60.

Sir Samuel Storey.

2709. Will Members now turn to the Comptroller and Auditor General's Report on the War Office (Supply) Appropriation Account, to paragraphs 5 and 6? What action was taken with regard to the five contractors who only carried out partial stocktaking, Sir Richard?—(Sir Richard Way.) The action which was taken has now led to our getting up-to-date certificates from four of them. One is still outstanding. This is a contractor who holds just over £2,000 worth of War Department stores and a great deal in excess of that of Ministry of Aviation stores, and so far we have not been able to get any certificate for them. We are still pressing them,

39389

but four of the five contractors mentioned there have now produced complete certificates.

2710. Do you expect to get it from the fifth?—We shall insist on getting it from the fifth. One of the difficulties is persuading these contractors to take these certificates as seriously as we do.

2711. What sort of equipment do these contractors hold?—Are you talking about all five, Sir, or just the one?

2712 All the five?—Broadly either it is equipment to be repaired or it is equipment for incorporation into something they are making for us or, alternatively, it may be tools and jigs that they are holding from us in order to increase

I 3

4 May, 1961.]

Sir RICHARD WAY, K.C.B., C.B.E.

[Continued.]

their capacity. There are those three types of loan.

2713. What are the quantities and values of these stores?—In the case of the firm which has not yet rendered a certificate it is £2,250.

2714. And the others?—One holds £600 worth of stores. That was one of the certificates that was not available. They are all fairly small amounts, usually in the region of about £1,000, no very large holdings at all. Strangely enough, all these contractors were Ministry of Aviation contractors as well and had far more from them than they had from us. These, of course, were taken over from the Ministry of Supply. They were a part of our legacy when we took over part of the Ministry of Supply.

2715. Do you agree they are valuable Government stores and are you satisfied they are in safe keeping now?—We are satisfied they are in safe keeping. We are not satisfied about the delay in getting certificates. There is no reason at all to suppose they are not being perfectly well looked after. In fact, there is every reason to suppose that they are.

2716. What steps are you taking to get these certificates?—The only definite step available to us is to keep up pressure on the firm to let us have the certificates because they are essentially certificates that only they can provide. We have, as I say, applied pressure with success in four out of the five cases. The other so far has refused—perhaps “refused” is too strong a word—failed to let us have it.

2717. In the last resort would you not give these people contracts?—I think that would be an extreme step to take, Sir.

Mr. Arbuthnot.

2718. These are perfectly respectable firms? There is nothing wrong with any of them, is there?—Very respectable indeed. I have a list of them in front of me and they are all very high class firms. It is merely, I think, that they are dilatory, that this is a job they are reluctant to turn labour on to. They do not take it terribly seriously, I think. There is nothing sinister in it, I am quite sure.

Sir Samuel Storey.] Will Members now turn to the Account itself on pages 2 to 6, and Appendices I to IV on pages 7 to 10? I have no questions.

Mr. Arbuthnot.] I think under that comes the shirts statement?

Sir Samuel Storey.] Yes.

Mr. Arbuthnot.

2719. May I thank Sir Richard for the note* that he put in as a result of my query. In the note it is said that the mistake was discovered when the Air Ministry examined the contracts. Did the Air Ministry not see the contracts before they were placed?—No, and they would not normally. It is not the normal custom to do that.

2720. On the next page in paragraph 3 it is said: “Most of the records relating to this transaction have been destroyed”. Is it usual to destroy records before the Public Accounts Committee has had an opportunity to ask you questions about them?—It is not usual, Sir, no.

2721. How did it come about in this case?—If I may say a word on this case in general, obviously it is not one that we are proud of and there are, I think, two very blameworthy features about it. The first is that contracts were placed to a wrong specification. The second, and almost more blameworthy, is that it took so long to come to light. This was not discovered in the Ministry of Supply until 1958 although the contract had been placed in 1951. I think the answer to your question, really, is that it was discovered so long after the event that it is unusual. Normally the Public Accounts Committee would have had an opportunity of talking about it much earlier, before the records were destroyed.

2722. What steps are you taking to make sure that does not occur again?—This is a problem that is peculiar to a production Department, and until a year ago the War Office, with minor exceptions, was not a production Department; and therefore the War Office, as such, did not have this problem. This case has caused me to have an inquiry made in the War Office, which is still going on, as to how one can avoid a repetition of this in the future. As regards placing the contract to the wrong specification, no one can entirely avoid the possibility of plain mistake and plain stupidity. It should not happen and it cannot happen unless someone makes a gross error. What one must ensure is that one discovers it much earlier than this was discovered. I cannot answer

* Not printed.

4 May, 1961.]

Sir RICHARD WAY, K.C.B., C.B.E.

[Continued.]

your question specifically because this problem has only recently come to our attention, and I am making sure that as far as is humanly possible this sort of thing does not occur in the War Office.

2723. Some of the shirts and the material were disposed of to other Government Departments at full cost. Bearing in mind what happened to the rest, the implication is surely that the other Departments overpaid, is that not so?—I do not think so. The Prison Commissioners, for instance, bought some for prison warders, and I see no reason to believe that the shirts were not worth to them their full cost. It was when they were being disposed of in bulk to buyers who had no interest in them for uniform purposes that they ceased to realise any worthwhile value.

2724. Would it not have paid you to hold on to them so as to be able to dispose of the rest of them at their full cost to the people who had a use for them?—I do not think so, Sir. We did hold on to them for a long time. They were delivered early in 1952 and disposal did not even start until 1954 and it did not finish until 1959. We held on to them for a long time and I doubt whether it would have been right to hold on to them any longer.

2725. But if you held on to them for a long time and in 1952 this came to light from the point of view of having to hold on to them, why was it not brought to the attention of the Public Accounts Committee?—That is a question I cannot answer, and here one is bedevilled by the fact that this occurred in another Ministry 10 years ago and our investigations have been very difficult indeed. The organisation that did this has now ceased to exist as such.

Colonel *Crosthwaite-Eyre*.

2726. I would like to follow Mr. Arbuthnot's question a little further. This apparently arose out of a decision by the Air Ministry in 1948?—Yes.

2727. Over the next three years a certain amount of shirting according to their new standard was bought, and a certain amount, as you say, according to alternative specifications?—Yes.

2728. Does that mean that this was the only case in which an alternative specification was turned down?—Yes, it does, but none of the alternative specifications was the pre-war specification.

39389

2729. No. What I am getting at is that they issued what they said was their specification, but for one reason or another over these three years alternative specifications were adopted?—Yes.

2730. How many were those occasions?—There were 13 orders.

2731. And this was the only one the Air Ministry refused, is that correct?—Yes, it was the only one.

2732. Did they give any particular reason for it?—No, and I have no evidence before me, again because of the lapse of time and the loss of records, of what pressure was brought to bear on them, and this is one of the inexplicable features of the case. Were it to occur now I cannot believe that I would find it impossible to persuade the Air Ministry that they had got to take these shirts.

2733. If, for one reason or another, there is this loose pattern of ordering, and I am not questioning for a moment why that arose, and if you have thirteen cases and one is turned down by the Air Ministry, is there not any authority that you want to see for that refusal?—What we are told, and it is hearsay, remembering that one is relying entirely on personal memories, is that the Air Ministry, when they saw the contract, said: "This is the wrong specification. We shall not take this material or these shirts". Beyond that there is no evidence as to what further pressure was brought on them to take them. We simply have not got any evidence on that part of the transaction at all.

2734. Would it be fair to put it this way, that because of the action of the Air Ministry in repudiating this one order out of thirteen it might well be said that the country has lost the amount of money shown in your Account?—Yes, it could be.

2735. Could I ask the Treasury what they have got to say to that?—I should like to make it clear that I am not criticising the Air Ministry, because I do not know what reason they gave at the time for not taking them. (Mr. *Henley*.) We fully agree, of course, with Sir Richard Way; this is clearly a very bad case. It is not possible to say at this stage just how bad it is because the records are not complete. It came to us in 1959 under the arrangements which apply at present for this sort of thing; and at that time we asked, I think, most of the questions which Members

I 4

4 May, 1961.]

Sir RICHARD WAY, K.C.B., C.B.E.

[Continued.]

of the Committee are asking now, and we got certain assurances about the future. But it is an extraordinary thing, and we made the point at the time, that there is no evidence that an attempt was made to dispose of this shirting—which was, as far as one could tell, perfectly good shirting though not standard pattern—despite the fact that the Air Ministry had changed their requirement.

Mr. *Arbuthnot*.

2736. If it came to the notice of the Treasury in 1959 why was it not brought to the notice of the Comptroller and Auditor General earlier?—This is on the 1959-60 Account, Sir. (Sir *Richard Way*.) Mr. Henley is right, the Treasury learned of it in 1959 and in fact it was brought to account in that year. This is the 1959-60 Account. It was brought to account as soon as the volume of the loss was known. In fact, when it was first brought to the attention of the Treasury there were still some shirts left and it was not known precisely what the amount of the loss would be. The remaining shirts were then disposed of, the loss was finalised and as soon as it was finalised it was brought to account. I do not believe there was any lapse of time then.

2737. In fact, if the Treasury heard about it in 1959, surely some action ought to have been taken in an earlier Account so that we could have got on to it a year ago. The Treasury were on to it in 1959. We examined you last year when the fact that there was a grave discrepancy here was perfectly well known both to you and to the Treasury?—I do not think you could have examined me, could you, before one got to the account in which the transaction was recorded? Last year we were taking the 1958-59 Account, and the amount of the loss was not even known then.

2738. This is the account in which the matter was finalised. Should not some interim statement have been made in the Account of the year before, in view of the fact that both you and the Treasury knew about it?—(Mr. *Henley*.) If I

may say so, I do not think that is the normal arrangement under which all these cases are dealt with. I see it did, in fact, first come to us just in the middle of March, 1959, which is admittedly just before the 1959-60 financial year began. But the normal arrangements are, and I think this normally works well, that the case is reported at the time when the investigations have been made as necessary, and the extent of the loss is known. This does not, of course, prevent the Comptroller and Auditor General, if he sees fit, making a special Report on a case which is still not finalised, but that would be in a different category; at least, I think I am right in saying that.

2739. Have you anything you would like to say about this, Sir Edmund?—(Sir *Edmund Compton*.) If I or my officers had spotted this case in the Accounts I might have been able to report upon it, but in fact it did not come to my notice until the present stage when it was brought to account as a loss, the amount of the loss was identified and the loss was reported with a note in this Account.

Mr. *John Hall*.

2740. I would like to follow up this Memorandum, too. I notice in the first paragraph that although the Ministry of Supply apparently could not trace receiving a letter from the Air Ministry, nevertheless they did from time to time buy shirtings to the new specification, which presumably means that the specification must have been received by them, at any rate?—(Sir *Richard Way*.) Yes. I have no reason to believe that the Ministry of Supply did not know about it. They must have received the letter even though there is no copy of it.

2741. Do you know whether there is any marked difference between this specification and the pre-war specification?—I do not, no. I imagine there must be a marked difference since the Air Ministry were prepared to take one and not the other.

2742. It does not necessarily follow?—No, I agree.

4 May, 1961.]

Sir RICHARD WAY, K.C.B., C.B.E.

[Continued.]

TREASURY MINUTE ON PARAGRAPHS 109-112 OF THE SECOND REPORT OF THE COMMITTEE OF PUBLIC ACCOUNTS, 1959-60.

Sir Samuel Storey.

2743. Will Members now turn to the Treasury Minute dated 24th November, 1960, on paragraphs 109-112 of the Second Report of the Public Accounts Committee for 1959-60? Sir Richard, are you now in a position to give reasonably firm estimates of future Army requirements of explosives?—(Sir Richard Way.) Since the Committee last discussed this subject a decision has been taken on the volume of reserves which the Army should hold, which was one of the unknown factors which made it very difficult to know what our future requirements from the Royal Ordnance Factories would be. Since that decision was taken we have set up a Committee in the War Office under the Parliamentary Under-Secretary of State to review in the light of that decision the whole capacity of the Royal Ordnance Factories. The Committee is still considering the question; it has only been in existence for three or four months, and I hope that in this calendar year we shall reach a decision on the volume of Royal Ordnance Factory capacity which we want in the Explosives Group and in the other groups.

2744. How soon this year do you expect that decision?—It is quite a complicated question, because one has all the difficulties that were referred to last year of knowing to what extent it is prudent to concentrate your explosives capacity; the explosion, for example, last June at Bishopton of a nitroglycerine plant there brought this question up in very sharp relief, because one of the two nitroglycerine plants was completely demolished. Therefore, I think prudence requires a fair amount of spare capacity in this field, but I would hope within the next six months we should have an answer from the Under-Secretary of State's Committee and we should be then able to consider the future of the Royal Ordnance Factories, whether we need all this capacity; and if we do not, where a reduction should be made.

2745. The Treasury Minute states that the scale of manufacturing capacity in the Royal Ordnance Factories has been much reduced since 1958-59. Can you tell the Committee what you have done in this year?—The main reductions

are in the closure of a considerable number of whole factories. These factories were closed in the financial year 1958-59. The total number was reduced from 22 to 16 in that year, and those are the main reductions that have taken place. There have been reductions within factories. The Explosives Factory at Bishopston has been reduced by putting out of use one of the plants. The capacity at Cardiff, which is one of the factories now retained by the Ministry of Aviation, was reduced before it was handed over to the Ministry of Aviation, but the main reduction lies in the six factories that were closed, and one further one, the factory at Fazakerley, the closure of which was announced last year.

2746. What progress have you made in your review of the future scale of manufacturing capacity?—That will be covered by the Under-Secretary of State's Committee that I referred to just now.

2747. What, broadly, are you doing about explosive capacity?—We are not doing anything until we have the Report of this Committee on the future requirement and the extent to which it should be covered. We are awaiting the Report of this Committee to cover the whole complex of the Royal Ordnance Factories.

Mr. John Hall.

2748. Sir Richard, the Committee of Sir Lewis Hutchinson, which was considering the future of the Woolwich Arsenal site, has now reported?—Yes, it has.

2749. What action have you taken, if any, on its recommendations?—The recommendations, you remember, were announced in the House last July by the then Secretary of State. The recommendations, broadly, were that we should explore the possibilities of using the old filling factory site for either a power station or a helicopter station. We have been in touch with the Central Electricity Generating Board on that. They have carried out certain tests in that area, and it is possible that they may decide to site a power station in that part of the estate. One of the other recommendations was that we should use the area for the maximum possible concentration

4 May, 1961.]

Sir RICHARD WAY, K.C.B., C.B.E.

[Continued.]

of Government activities from elsewhere, and we have been in touch with the Ministry of Works, who are responsible generally for Government accommodation, on possible moves into Woolwich from areas where the land is more suitable for development for housing. One of the troubles about Woolwich is that it is low-lying. It is not a very attractive site for housing development. Of course, there is a good deal of discussion with the London County Council, who are the planning authority for this area, which is still going on. We always knew this would be a fairly long pull because it is a very difficult operation.

2750. So, nothing concrete has been done yet except discussion and negotiation?—Yes.

2751. And none of the considerable quantity of surplus land which is not being used, to which you referred, I think, in a paper you put in last year, has yet been sold or disposed of in any way?—No. Of course, we have been ready to consider any inquiries about it. Very few have been made, mainly because it is not a very good site for development.

2752. No inquiries even for industrial purposes?—There have been two inquiries, only two for the whole area; that is, not counting the Central Electricity Generating Board and the possible power station. Neither of them is very attractive, but they are both being considered at the moment by the Government Departments concerned.

2753. Do you think that is surprising, or do you think that is understandable?—I do not think it is surprising. The reason why the Hutchinson Committee recommended that the main use of the site should be for Government purposes was that it was not regarded as a very attractive site for housing and industrial development.

ARMY (ROYAL ORDNANCE FACTORIES) ACCOUNTS, 1959-60 (Continued).

Sir Samuel Storey.

2760. Will Members now turn to the Comptroller and Auditor General's Report on the Army (Royal Ordnance Factories) Accounts? Paragraphs 1-3 are omitted from the Agenda because they have already been taken by the Committee and are covered by our First

Mr. Arbuthnot.

2754. Which are the six factories which have been closed down?—The ones at Maltby, Poole, Wigan—when I say “closed down”, I mean, of course, closed down as Royal Ordnance Factories, they have not been closed down as factories but we have got rid of them—Dalmuir, Irvine, Thorp Arch and Swynnerton. I think that is seven.

2755. Those are all filling factories?—No, they are not. Maltby, Wigan, Poole and Dalmuir were engineering factories. Thorp Arch and Swynnerton were filling factories. Irvine was an explosives factory, and now, and this is the eighth, we are in the process of getting rid of Fazakerley, which is an engineering factory.

2756. So far as Woolwich is concerned, is there any filling going on there now?—No, Woolwich is purely an engineering factory, the filling part of it having been closed down some years ago, and the site of the old filling factory being the site that is being considered for a possible power station.

Sir George Benson.

2757. You referred to the Bishopton explosion. Was there any loss of life?—Yes, I think seven people were killed.

2758. What was the cause of it?—We do not know. One of the troubles is that when that happens there is no means whatever of discovering the cause of it. I have seen the site of it, and I do not suppose anyone could draw any conclusions from it. The whole place just went completely up with all the seven people near it.

2759. Nitroglycerine is unstable, is it not?—Nitroglycerine is unstable, and I think the experts say that there is, worldwide, a nitroglycerine explosion once every eighteen months. It is physically unstable, and trifling things can lead to an explosion, but we are developing techniques for remote handling now.

Report of this Session, when the Committee saw no objection to the deficit being met by an Excess Vote. Paragraphs 4-6. Sir Richard, which factory is this which is referred to?—(Sir Richard Way.) This was the Royal Ordnance Factory at Birtley.

4 May, 1961.]

Sir RICHARD WAY, K.C.B., C.B.E.

[Continued.]

2761. How does your Headquarters Finance Branch exercise control of the current expenditure of the Royal Ordnance Factories?—A good deal of financial power is delegated to the Superintendent. On the forward ordering of materials, which is the sort of transaction which gave rise to this incident, the Superintendent can order material which he requires to meet the firm orders that have been placed on him. Beyond that he has to go to the Headquarters of the Royal Ordnance Factory Organisation, so the control of the Finance Branch at Headquarters is exercised over any ordering of material beyond what is required for the firm contracts placed with the Royal Ordnance Factory.

2762. Did not the forecast of outturn by the factory in question indicate that they would be overspending as the result of these abnormal purchases of copper and zinc?—It did not.

2763. Should it not?—Of course it should. It was a grave mistake.

2764. How do you regulate the issue of cash to Royal Ordnance Factories to meet their current expenditure?—The issue of cash is dealt with centrally in the War Office, and, of course, demands are received from a very large number of paying points. The issue of cash as such is not controlled, except on very general lines. In other words, no one could institute a system whereby the branch in the War Office charged with issuing cash could satisfy themselves as to why the cash was required. The task would be beyond possible bounds. The real control, of course, is in the spending of the cash, not in the issuing of the cash from a central point, and this is, I think, true of all Government expenditure.

2765. Was any question asked when Birtley demanded cash in excess of the estimates to meet these very considerable payments?—There was no reason why questions should have been asked, because the cash issuing branch would not even know what Birtley's estimate was.

2766. Should they not know?—I do not think so. I do not think it would be feasible to get one branch that was issuing £500 million a year, and it is a purely mechanical process, at the same time having to satisfy itself that the cash was properly required. The financial control is over the spending of the cash. What went wrong here was not the issue

of cash from Headquarters to Birtley but the spending of the cash by Birtley.

2767. What is their authority for issuing the cash?—The requisition from the head of the office that requires the cash, in this case the Principal Clerk at Birtley. He would tell the War Office that to meet his outstanding requirements he needed so much money at a certain time. The cash issuing branch in the War Office would issue it; at the same time they are getting demands for cash from a lot of other places.

2768. When, in fact, did your Headquarters Finance Branch first become aware of the abnormal purchases?—The abnormal purchases, not the abnormal payments?

2769. Yes?—They did not become aware of them until after the payments had been made, after, that is to say, the end of March, 1960.

2770. Would it be a fair conclusion to say that your system of Headquarters financial control did not prove effective in the present instance?—No, I do not think that would be a fair conclusion at all. It would be a fair conclusion to say that the operation of the machine in the factory broke down completely. I believe that the procedure is perfectly clearly laid down and is a perfectly satisfactory one. I believe that the operation of it in the factory went completely wrong on a number of points. The fault lay in the factory, not in the procedure.

2771. I take it that you have reviewed your existing financial instructions and procedures? What changes have you decided upon?—We have indeed reviewed the procedures. In many ways I think it is a pity that we have now had to introduce certain additional safeguards, because I do believe that the procedure as it existed before this occurrence was a perfectly sensible one and gave reasonable freedom and flexibility of action. As it broke down in this case we have done three things, or we are doing three things. We are defining the responsibility within the factory for ensuring that financial authority is obtained for the advance ordering of materials. We are instructing factories that any requisition for stores costing more than £50,000 has now to be referred to Headquarters, even though it may be covered by firm orders placed with the

4 May, 1961.]

Sir RICHARD WAY, K.C.B., C.B.E.

[Continued.]

factory, and we have instructed the Contracts Branch that before they take contractual action on a demand from a Royal Ordnance Factory they must get a positive certificate that financial approval has been obtained.

2772. Is it a fact that in this particular instance the man ordering the supplies went beyond this authority by ordering for stock?—Yes, it is.

2773. What checks have you taken to prevent that happening in future?—May I make this point: it should not have happened, and had gross errors not been made it could not have happened. The checks existed, they simply did not operate.

2774. Why did they not operate?—They did not operate because several people made serious mistakes. I am not hiding that fact at all. If mistakes are made no system can be proof against them.

2775. Was any disciplinary action taken against those who made the mistakes? * * *

2776. What action are you taking at War Office Headquarters to check overspending?—The system should normally work perfectly well. The system is that the factory at the beginning of the year is given an allotment of money. Every quarter it sends in a return to Headquarters giving its latest forecast of how much money it will in fact spend, and that forecast is checked against its allotment. During the last three months of the financial year it sends in a monthly statement of any change in its December forecast. In other words, on the 31st December it forecasts its expenditure for the rest of the financial year; if there is any change it should notify Headquarters at once. In this case Birtley did nothing about it, and the December forecast showed no substantial change from their allotment of money, and in January, February and March they notified Headquarters of no change in the forecast. This is a mistake that I cannot begin to justify. I do not believe that the system needs change. The system is perfectly all right; it simply did not work.

2777. Are you satisfied that steps have been taken now to see that it does work?—It will not go wrong at Birtley again.

2778. Part of this loss was due to the fact that they paid for stock when prices were high?—Yes.

2779. Have they any expert advice about the condition of the market for buying, because presumably the Superintendent at Birtley has no particular knowledge of the copper and zinc market?—No, they have no particular expertise, but I think it is important to remember that the very reason why they bought this copper and zinc in advance was the reason why prices were high, that there was a strike in America. They were frightened at the possible running down of their steel stocks. They were frightened at the possible difficulty of getting copper when copper was their alternative material for keeping the factory at full blast, which obviously was a very desirable thing, anyhow. The reason why they laid in these stocks of copper was that there was a strike in America, and, therefore, the fact that prices were high because there was a strike would not have deterred them from the action they took.

2780. But copper and zinc, I take it, are required at other factories as well, and if so should not the War Office have someone who is experienced in the market to advise them as to when to buy and when not to buy?—The Contracts Branch is experienced in the market, but in this particular case I do not believe, given the reason why they were buying it, that advice of that sort would have been acted on. There is no doubt that Birtley bought too much copper, far too much, but they were buying because they were afraid that supplies were going to dry up, and the alternative in the eyes of the Superintendent at Birtley to buying this copper was that his factory might come to a grinding halt in the last quarter of the year, which would have been a very bad thing. I have criticised Birtley, but I think it is fair to say that the action they took was certainly prudent, and a good deal of it, even had it come to Headquarters, and in spite of the high price of copper, would have been approved, though not all of it.

2781. Were there other factories buying copper and zinc at the same time?—No, Birtley has by far the biggest output of brass cartridge cases, which is what this was for.

4 May, 1961.]

Sir RICHARD WAY, K.C.B., C.B.E.

[Continued.]

Sir George Benson.

2782. How much copper had they in stock in March?—In March?

2783. I take it that is the end of their year?—Yes. They had 2,500 tons of copper and zinc. May we deal with the two together; they both go to make up brass.

2784. What does it represent in terms of period of production?—To give you some guidance, the total consumption from the 1st April, 1960, to 31st March, 1961, was 1,600 tons.

2785. So, they had roughly eighteen months' stock?—Of course, they did not plan to have that. The reason why they had that was because their usage in the last quarter of the financial year was far less than they thought it would be because steel supplies resumed their normal flow.

2786. Had they any reason to think that steel supplies would or would not resume?—They had every reason to believe that steel supplies would become difficult.

2787. In other words, they bought on the assumption that they would require more than normal quantities?—Yes, they bought on the assumption that the whole factory would be working a double shift on brass cartridge cases in the last quarter of the year.

2788. Was that a reasonable assumption?—I think at the time it was a reasonable assumption. In October, 1959, deliveries against our steel contracts were becoming very slow indeed. The motor car industry was taking a great deal of steel. Our particular sort of steel is rather specialised. The steel-makers very often will not quote delivery dates because it is quite a difficult commodity, and the factory undoubtedly in October had every reason to suppose that steel supplies might be short in the last quarter of the year.

2789. In other words, they took reasonable precautions?—They took reasonable precautions, but they overdid it.

2790. Was there any reason for them to suspect that they were overdoing it? If they are faced with the possibly drying up of steel they must take precautions. Were the precautions they took unreasonable? I do not say were they wrong, but were they unreasonable?—I consider that they were unreasonable in that they ordered too much. I do not believe

that they were indefensible. But they ordered more than they should have ordered even in face of this possible shortage of steel.

2791. Is there any possibility of estimating the resulting loss?—Yes, I have tried to do that. It does require an exercise of judgment as to how much they should have ordered. They ordered, in fact, 4,000 tons for delivery in the last four months of the financial year. Of that they ordered about 2,600 tons without authority. Their own factory authority would have justified their ordering about 1,400 tons against firm contracts which had been placed with the factory. They ordered 4,000 tons. My own view is that it was entirely reasonable to order 3,200 tons, and I believe the over-provision was roughly to the extent of 800 tons.

2792. About 20 per cent.?—Yes; and the extent of the loss, therefore, is the extra money they paid because of the high market price at that time for that 800 tons.

2793. The market presumably dropped later?—The market dropped later, and again one is trying to judge when they would otherwise have bought the copper, because, although it should not all have been bought at the top of the market, nor would it all have been bought at the bottom. I consider the loss was about £20 a ton, a loss of between £20,000 and £30,000.

2794. If they had not bought and had run out of material they would have got into trouble for that, would they?—If they had not bought and the factory had come to a halt in February because steel supplies dried up they would certainly have got into trouble.

2795. Did they consult anybody?—No.

2796. Could they have done?—They could have got authority from Headquarters.

2797. Can you say what advice Headquarters would have given them?—That is a hypothetical question. I can say what advice I think Headquarters would have given them.

2798. What would they have advised?—The factory thought that by working a double shift it was going to use about 2,700 tons of copper in the last four months of the year. That was its forecast. I think Headquarters would probably have said: "You can order 3,000

4 May, 1961.]

Sir RICHARD WAY, K.C.B., C.B.E.

[Continued.]

or 3,200 tons of copper", which would have enabled them to start the following financial year with a stock of about 500 tons, and it would have meant a total order of about 3,200 tons, and that is what I base my 800 tons on.

2799. So, what it really boils down to is that they made a guess and they guessed rather too pessimistically?—Their approach was undoubtedly right and perfectly defensible, but it was exaggerated.

* * * * *

Mr. Stevens.

2801. The Superintendent should have been aware, should he not, that when purchasing for potential contracts he should have obtained the approval of higher authority?—Yes, he was aware of it.

2802. Did you tax him with that, and if so what explanation did he give?—I did tax him with that. I think it is fair to say that this advance ordering of materials is a fairly unusual thing, it is not normally necessary. It is a power which the factory does not normally ask Headquarters to exercise at all. The Superintendent said that he was unaware that his staff had ordered this material without having obtained Headquarters authority. I do not believe, in fact, although the Superintendent is constitutionally responsible, that the fault was with him personally. I think he was rather let down by his staff.

2803. But you have no reason to think that the people in senior positions at that factory were unaware of this regulation?—No, they must have been aware of it.

2804. One just wonders, as it has happened here, if it could conceivably happen at other War Office factories?—If there were ever any danger of it, I believe this incident has greatly reduced it.

2805. One just wonders whether it would be worth while sending a general instruction on it?—A general instruction is being sent out with the three safeguards that I did mention earlier in my evidence, and that will now be promulgated. I need hardly say that in the Royal Ordnance Factory organisation this case has now become quite widely known.

Colonel Crosthwaite-Eyre.

2806. When actually were these orders for the copper and zinc placed?—Mostly in October and November, 1959.

2807. For delivery in March?—For delivery by the end of the financial year, by the 31st March.

2808. So, in fact, it was possible for these orders for which there was no authority to be on the books for six months without anybody in Headquarters discovering it?—The factory had asked the Contracts Branch in the War Office—

2809. To place the orders?—the Ministry of Supply at that time—to place the orders.

2810. So, there were orders for which there was no proper authority in the War Office Contracts Branch for six months without being spotted. Is that correct?—Yes.

2811. What was the price in October of copper and zinc?—Between October and about the following June, the price varied from £251 to £264 a ton for copper.

2812. There was only that difference in those six months, is that right?—It varied over that range of £13, but it came down after July, 1960.

2813. What was the actual contract price, was it contracted forward or merely for settlement at the ruling price at the date of delivery?—The latter.

2814. Why?—That is the normal method of contracting for deliveries of copper.

2815. You do not buy forward at all?—No.

2816. If you want copper you would say: "I want to place an order for so much copper", shall we say, "for delivery on the 1st July, and I will pay the price ruling on the 1st July"?—I beg your pardon, I am sorry, I did not understand the question. The contract would be placed at prices agreed when the contract was placed.

2817. That is what is puzzling me? Why was not the price of the copper in this case settled in October?—I misunderstood the previous question. I have no reason to suppose that it was not, but the price was high then. There had been a strike in America since the previous August. I do not believe the price in October was necessarily

4 May, 1961.]

Sir RICHARD WAY, K.C.B., C.B.E.

[Continued.]

materially different from what it would have been in March. The price was high during the whole of that period because of the strike.

2818. What experience has your Contracts Branch of forward dealings in markets of this nature? May I rephrase the question. Are these orders placed by civilians or by serving officers?—They are placed by civilians.

2819. What experience have they got?—They have the experience arising from the fact that this is their main job, that this branch of Contracts does in fact deal with the metal market and is expert in that market. This was a branch that was at this time, of course, in the Ministry of Supply.

2820. If they were expert, surely the first thing they would have said is: "Do not buy at the present time"?—But the Superintendent would have said: "But that is exactly what I want to do". I do not think it would have been constructive for them to say that. He wanted to buy because he believed the factory was going to come to a halt.

2821. Without going into this too far, you can buy, as you know, for certain specified dates forward. There is no need to go on the market six months forward?—One of the main points was that because of the strike in North America, which spread to South America, which covered a vast proportion of the available supplies of copper, they wanted firm deliveries so that the factory had copper to work with.

2822. I follow that. May I come on to that question now. If I am correct, you said that this particular factory used 1,600 tons in a given financial year?—Yes.

2823. I am also correct in saying that they placed orders within six months of 4,000 tons?—Yes.

2824. That, in fact, is two and half years' supply?—I do not believe that

is a fair way of stating it. They anticipated using 2,700 tons by working a double shift in the last quarter of that financial year.

2825. But you have also said, Sir Richard, have you not, that they had no authority for that assumption?—I have, yes. They did not need authority to assume that they were going to work a double shift on the brass cartridge cases. What they had not got was authority to convert that assumption into a firm order for copper.

2826. Whatever may have been their personal ideas, the fact is that they bought two and a half years' normal consumption at the height of the market, that that order was in the War Office for six months without anybody in the Contracts Department notifying this incredible increase to anybody in authority, that apparently the Contracts Department bought six months in advance at the highest price at a time when it was known the markets were completely against the purchaser? * * *

Mr. John Hall.

2827. I also understood you to tell the Committee that the financial officer, I think you called him, knew the instruction to refer to Headquarters for authority for purchases of this kind?—Yes.

2828. But that he went ahead and made the purchase without asking for that authority?—Yes.

2829. As a consequence of this action which he did in defiance of existing instructions we stand to lose £20,000 to £30,000?—Yes.

* * * * *

2831. Do you think that in other spheres of activity outside Government service any officer who was responsible for causing a loss of £20,000 to £30,000 to his company would have got off so lightly?—I do not think I am competent to answer that question.

TUESDAY, 9TH MAY, 1961.

Members present:

Mr. Harold Wilson, in the Chair.

Mr. Arbuthnot.

Sir George Benson.

Colonel Crosthwaite-Eyre.

Sir Samuel Storey.

Sir Colin Thornton-Kemsley.

Sir Gerald Wills.

Sir EDMUND COMPTON, K.B.E., C.B., Mr. D. O. HENLEY and Mr. C. W. FOGARTY, an Assistant Secretary, Treasury, called in and examined.

TREASURY MINUTE ON PARAGRAPHS 128-132 AND 133-140 OF THE SECOND REPORT OF THE COMMITTEE OF PUBLIC ACCOUNTS, 1959-60.

Sir ROGER MAKINS, G.C.B., G.C.M.G., Chairman, and Sir ALAN HITCHMAN, K.C.B., Member for Finance and Administration, United Kingdom Atomic Energy Authority, called in and examined.

Chairman.

2832. Will Members please turn to the Treasury Minute on paragraphs 128-132 of the Second Report of the Public Accounts Committee, 1959-60, Contract for the purchase of a chemical. I have no questions on those paragraphs?—(Sir Roger Makins.) Perhaps I might say, Sir, that the Authority is at the present moment re-negotiating this contract with the company with a view to obtaining some concession from it. Agreement has already been reached in principle on a more favourable arrangement.

2833. Thank you. Now, paragraphs 133-140, The Programme of Nuclear Power (i) Royalties on nuclear power stations. Mr. Henley, has a firm agreement been reached between the Authority, the Electricity Boards and the Departments concerned as to the basis on which the Boards shall contribute to the Authority's expenditure on the development of nuclear power?—(Mr. Henley.) Not yet, Sir. Following the Committee's Report last year and the Treasury Minute on it, the Authority and the Central Electricity Generating Board have been in touch with each other on this matter, and there have been consultations, so far as the Authority are concerned, with us; but at the moment, as I understand, they have not yet reached agreement on the royalties for the stations coming into commission after 1965.

2834. You say that the existing agreement does establish the principle that the Authority's expenditure should be

recovered in whole or in part. What does "in part" mean? Does it mean a big part or a small part? Do you not agree that the size of the part is obviously highly relevant here?—As you know, Sir, as was explained to the Committee last year, the existing rates of repayment by way of royalty for the research and development, which is reflected in the cost of these stations, does not in fact cover other than a relatively small part of the total expenditure of the Authority on this work. We would, of course, hope that the future negotiations would recover a fair part of that research and development expenditure, but exactly how big this would be I do not think we could say at the moment. The goal obviously would be to recover it all in due course.

2835. The Authority's expenditure is designed, is it not, to improve the economics of nuclear power?—Yes, indeed, Sir.

2836. So, if the Electricity Board cannot afford to pay for all the development expenditure, does this not suggest that the Authority is spending more on development expenditure than might be economically justified?—I think that that must be so, if one has regard, perhaps, to a certain period. I would not feel competent to say whether it would be the same if one were looking forward over a much more lengthy period, up to the time when the generation of electricity by nuclear power had become more efficient and, therefore, the cost per unit had gone down substantially.

9 May, 1961.] Sir ROGER MAKINS, G.C.B., G.C.M.G., and
Sir ALAN HITCHMAN, K.C.B.

[Continued.]

2837. Do you take into account the Board's likely contributions on account of this development expenditure when you authorise the Authority's development expenditure? —We certainly have in mind, when we are authorising this expenditure, that the ultimate goal is to recover such part of research and development expenditure as can reasonably be attributed to the development of commercial reactors.

2838. You have the principle in mind. Do you have any estimate of how much you are likely to recover from the Board? —I do not think we have any precise estimate at the time when we authorise the research and development expenditure itself.

2839. So it is possible, then, that you may agree to authorise expenditure which, in the event, turns out to have been uneconomic in the sense that the Boards cannot pay for it? —May I just explain that? Perhaps Sir Roger would like to add something, but I think one must distinguish between the position which has, in fact, arisen up to now, from the inception of the Authority's own work in this field, and the policy for the future. We have in fact, as you know, Sir, not found it possible to approve arrangements which would secure that the whole of the research and development costs so far incurred on the civil work would be recovered, up to this present time. The further question as to what our policy should be in the future and to what extent it will be possible to recover these charges is a matter of policy of considerable importance on which, as I say, we have some general views and ideas.

2840. Sir Roger, perhaps you would like to supplement that? —(Sir Roger Makins.) I think the Committee will remember that at the outset of this programme the question arose as to whether royalties should be charged on the first stations which were to be built, and the Authority started from the position that royalties should be charged at the outset. The Central Electricity Generating Board started from the position that no royalties should be payable. This eventually went to the Government and an arrangement was then approved by the Government under which the royalties on the first three civil nuclear stations would be waived but that a royalty would be payable on the two which were then

expected to come into commission before the end of 1965; and that thereafter for stations coming in after 1965 the royalties to be payable on those stations should be negotiated nearer the time. The Authority, in pursuance of the recommendation of this Committee last year, approached the Central Electricity Generating Board with certain proposals for royalties on stations coming in after 1965, and the Central Electricity Generating Board made observations on those proposals, with the result that the matter is still unresolved for those later stations. These negotiations are proceeding with the knowledge of the Treasury. What was established, I think, at the outset was that royalties were in principle payable and were in fact agreed to be paid on two out of the first five stations and in principle on all those that would come afterwards. What is outstanding at the moment is the amount of royalty which will be payable and the principles on which it should be paid for stations after 1965. So it is clear that the words "in whole or in part" certainly, as applied to the first stations, imply that since the royalties have been waived on the first three stations, there will be no recovery in respect of royalty on those stations.

Colonel Crosthwaite-Eyre.

2841. Sir Roger, you said "waived on three", as I understood it, out of the first five, is that right? —That is so, Bradwell, Berkeley and Hunterston.

2842. That is rather different from what is said in paragraph 135 of the Committee's Report, is it not, where we said "combined with the waiver of royalties on the first four stations"? —I beg your pardon, I must correct myself. Yes, it is the first four stations, not the first three stations. Hinckley Point is in, as well. What misled me was that it was the first three English stations and the Scottish station.

2843. Is it then correct to say that it is a waiver of royalties on the first four out of six stations? —Four of the six stations expected to come in before 1965, which was the term of this particular arrangement.

2844. Later in the same paragraph we referred to your estimate that it will result in a lump sum payment of £2.5 million. Is that still correct? —That is on each station?

9 May, 1961.]

Sir ROGER MAKINS, G.C.B., G.C.M.G., and
Sir ALAN HITCHMAN, K.C.B.

[Continued.]

2845. Yes, on each station?—That is the agreement. £2.5 million on each station, but owing to the system for paying the royalty which was adopted at that time, namely, that the royalty should be payable as a fraction of a penny on the unit sent out, the royalty will be payable over the whole life of the station and, therefore, the £2.5 million will accrue over a fairly long period of time.

2846. Then, it is fair to say that the lump sum payment mentioned in paragraph 135 is not quite correct. Is that right?—It is equivalent to a lump sum payment of £2.5 million on the completion of each station. I think that is just a calculation of what it would be if it was payable in a lump sum.

2847. Instead of being a lump sum payment, you expect to get £2.5 million over the life of each station, is that correct?—That is correct, plus interest.

2848. Interest at what rate?—Calculated at 5 per cent. at the time this was arranged.

2849. Would it be fair, then, to say that out of the first six stations over their life time the total return of royalties you expect is £5 million?—Yes, plus interest.

2850. Could I ask the Treasury now if we could come back to “in whole or in part”, what was “the whole”?—(Mr. Henley.) I think, Sir, that the figure is the figure of £15 million which is quoted lower in this same paragraph, but I think the Committee was told last year that it was not possible to calculate very precisely which part of the research and development programme of the Authority was attributable to the civil power programme.

2851. Is it fair to say, then, that, really, instead of “in whole or in part”, for practical purposes you can put one-third?—Up to that point of time I think that would be arithmetically correct.

2852. How far have you got, Sir Roger, in negotiations for an agreement to that effect after 1965?—(Sir Roger Makins.) As I said, we have not yet reached agreement with the Boards. We have been in negotiation with them for some time.

2853. If I am correct it is possible, indeed probable, that you are already incurring expenditure which will only be

recoverable after 1965; you are doing that at the present time. Is that not correct?—Not, I think, on this particular type of station.

2854. I am sorry, may I put it this way, that you are doing work by way of research and development which will only be of use after 1965 in this field. That would be correct, would it not?—There are two stations, Sizewell and Oldbury, which have now been ordered, one of which may just come in in 1965, but probably will not. There is no agreement as to the amount of royalty which is payable on these two stations.

2855. But if you are undertaking development work at the moment, shall we say, for these two stations without any agreement, are you not weakening your position very badly in any future bargaining?—No, I do not think we are because it is agreed in principle that a royalty shall be paid. I suppose it is possible to imagine, as occurred on the previous occasion, that it might not be possible for the Authority and the Generating Board to come to an agreement on what should be paid, because the Generating Boards are representing the electricity consumer and the Authority is dealing with public money, that is to say, the taxpayer. This type of question boils down eventually to a decision as to how much of the cost of introducing nuclear power should fall upon the electricity consumer and how much on the taxpayer. That is a decision, I think, which neither the Authority nor the Generating Boards, nor both together, can really settle.

2856. Could I ask one final question: Is it possible for you to say how much money or at what annual rate is money being spent on development and research programmes which will only come into operation after 1965?—It is sometimes a little difficult to segregate the expenditure relating to a particular station. We have done a lot of work on the main system, that is to say, on the general design, construction, and so on, of these stations and it is a little difficult to say that so much has been spent on the Sizewell Station and so much on the other stations. When it comes to the fuel element, which is the other point at which we seek to recover our expenditure, of course, it is much easier because the design of the fuel element is specific and

9 May, 1961.] Sir ROGER MAKINS, G.C.B., G.C.M.G., and
Sir ALAN HITCHMAN, K.C.B.

[Continued.]

we manufacture to that design. So, it is easier to say how much is at stake. But I think it is a little difficult to segregate the development expenditure on these two stations. I do not know whether you would like to say anything on that, Sir Alan? (Sir Alan Hitchman.) What I would say, Sir, is that the development work on the stations of the type which are now being built applies to the stations which will be constructed before 1965 as well as stations such as Sizewell and Oldbury, which will probably come on power after 1965. But it is true, we are doing substantial work on another system which we call the advanced gas cooled system which will not, if it is adopted, come on power before the end of the decade, in short, after 1965, and that is a substantial programme for which so far there is no certainty of recovery, partly because so far there is no decision to adopt the system.

Mr. Arbutnot.

2857. Sir Roger, the Lords Commissioners of the Treasury refer to "the need to settle a mutually satisfactory pattern for subsequent contracts". What do you regard as the essential elements in the pattern to be aimed at, from your point of view?—(Sir Roger Makins.) What we are seeking to do is to recover our development expenditure in two ways, partly through a royalty and partly through the arrangements for the sale of the fuel elements. We set out with the objective of recovering as much as we can. There are various methods which can be followed in regard to paying royalty, either in terms of unit sent out or in terms of kilowatt installed, and these are methods which are being discussed. But we set out to make the best arrangement we can having regard to the fact that, as the Committee was informed last year, as between the Generating Board and ourselves, two public boards, we do not seek to make a profit.

2858. You make some proposals to the electricity authority and they have come back with some alternative proposals to you. What is the measure of difference between you?—The measure of difference is, at the moment, fairly considerable because they did not accept the proposals that were made to them but replied with some sort of general observations to the effect that they were

not satisfied as to the amounts which they should pay on these stations. This is a matter of argument.

2859. You asked for £2.5 million per station. What are they offering?—They have not made an offer.

2860. So that you do not know what the measure of difference between you is?—Not in terms of money, no.

2861. I take it from what you said to the Chairman that there is, in fact, a commitment in principle to pay, but nothing stronger than that?—It is very difficult for me to answer for the Generating Board in this respect. Whether they will seek to claim that, after all, royalties again should not be payable on some of those stations, I am not in a position to say. But we shall continue to uphold the view that a royalty is payable and there will no doubt be some argument as to what it should be. If we eventually reach an impasse then, as was the case before, I think we can only report this matter to the Government. We are, in fact, keeping the Treasury informed of the course of these discussions.

2862. Do you have regard to the amount that you think you can recover in deciding the scale of your development expenditure?—The object of the Authority is to develop a system which will be economic and which will work successfully. Sometimes it has proved difficult four or five years ahead to estimate exactly what the development of this new technology is likely to involve.

2863. So, you do not really have regard to what you think you can recover?—We make the best estimate we can.

2864. But, if you think you can recover more will the scale of your development expenditure also increase?—No, because the development expenditure is designed to produce the system which will work efficiently. In the course of that development over a period of four or five years difficulties may occur which may increase the amount of development expenditure which we have to embark upon, which could not have been foreseen. Therefore, the Authority makes, as I say, the best estimate it can of what the system is likely to cost to develop.

2865. Do large scale recoveries depend on nuclear fuel becoming competitive with conventional fuel?—I think that

9 May, 1961.] Sir ROGER MAKINS, G.C.B., G.C.M.G., and [Continued.
Sir ALAN HITCHMAN, K.C.B.

is really a question of the system. If the next system, the advanced gas-cooled reactor system, is successful and a large number of stations are ordered, then, naturally, recoveries will be greater than if only a small number of stations are ordered. Therefore, it depends on the success of the whole system as to the amount of recoveries which will be made.

2866. Is nuclear fuel now likely to become competitive, would you think?—My view is that it should become competitive towards the end of this decade, that is to say, somewhere between 1968 and 1970.

Chairman.

2867. Paragraphs 133-140 (ii) Supply of fuel elements and graphite. Sir Roger, the Treasury Minute accepts the Committee's recommendation that the Authority and the Electricity Boards should come to a clear understanding on their respective financial responsibilities for capital expenditure and long-term commitments, and that this understanding should be incorporated in firm and binding agreements. The Treasury Minute accepted that recommendation. Have firm and binding agreements on these financial matters been concluded?—They have in certain cases. For example, the contract with the Central Electricity Board for the sale of fuel elements for the first nuclear station, that is, Bradwell, has been settled.

2868. Are the Authority continuing to incur capital expenditure and long-term commitments in connection with the supplies for the nuclear power programme?—Oh, yes.

2869. Have the Electricity Boards agreed to take all the supplies and to repay your costs?—These supplies are coming in in pursuance of contracts made some time ago.

2870. What protection have you against a further slowing down of the nuclear power programme and then, in consequence, an over-provision of these supplies?—It depends on what type of supplies you have in mind. In the case of raw material we have no protection because we have these long-term contracts for the supply of uranium which stand. We have had some success in stretching out these contracts, arranging for the supply of the material over a longer period, but there is no escape for the Authority from taking these

supplies under these contracts insofar as they have been re-negotiated. We shall expect to get it back eventually in the fuel price, but, of course, the stretching out of the programme, if it were stretched out further, would mean that we would have to carry these supplies for a longer period.

2871. In view of the apparently one-sided nature of so many of these arrangements between you and the Boards under which if something goes wrong you seem to be at the receiving end of it financially, would you feel that the Treasury has been using the Atomic Energy Authority as a means of subsidising the nuclear generation of electricity?—I do not think so at all. It is really necessary to look at the historical background of this process because in 1956 or 1957, when the programme was decided upon, the Authority was called upon to provide the raw materials and supplies which were needed in order to meet this programme. Had the programme stayed at the level it was then anticipated, then the purchases for which the Authority then contracted, both for the military and for the civil programme, would have been matched by the demand. It was certainly the duty of the Authority at that time to make this provision, and this was done, as I understand it, with the full knowledge and consent of the Treasury who naturally accepted that the programme which had been laid down by the Government should be supplied by the necessary materials. As events turned out the scale of the nuclear programme for one reason or another has fallen very substantially and this has led on the one hand to an over-supply of uranium and on the other hand the incurring of penalties on the arrangements which were made for the supply of graphite.

Chairman.] I think we may be returning to this at a later stage. I do not propose at this stage to put any questions about the sale of fuel elements because this will arise on the Comptroller and Auditor General's Confidential Memorandum, and it may be more convenient to take them there.

Sir George Benson.

2872. On this point in paragraph 135, why do you get the equivalent of a lump sum payment of £2½ million for each completed station? What is the true

9 May, 1961.] Sir ROGER MAKINS, G.C.B., G.C.M.G., and
Sir ALAN HITCHMAN, K.C.B.

[Continued.]

cost of a completed station? Can you give some rough figure?—The cost of a station?

2873. To the Atomic Energy Authority?—As I say, it is very difficult to segregate that part of the development effort which went to a single station. (Sir Alan Hitchman.) There are two difficulties about that. There is the one that has just been referred to, the difficulty of segregating out the amount of development applicable to a particular system. The other is that the amount of development expenditure has to be incurred whether you have six stations or sixteen. But if you have a lot of stations, if the programme is very successful, then the development expenditure is spread over a much bigger programme and the cost per station is correspondingly reduced.

2874. What is the present position?—I have not a figure in my mind.

2875. The royalties are estimated roughly at £2.5 million per completed station. What I want to get at is, a very rough figure of what it costs you to build a station. Does it cost you £25 million, or what?—(Sir Roger Makins.) We do not construct the stations. The stations are built by the consortia for the Generating Board and we supply the know-how, the information. We supply the results of our development.

2876. Let me put it this way: Certain royalties accrue which, apparently, amount to £2.5 million per completed station. I want to see what relationship these royalties bear to the approximate cost of the completed station?—The completed station is about £50 million. I think.

2877. So, the royalties are not very much, 5 per cent.?—(Sir Alan Hitchman.) They amount to about 5 per cent. of that cost, but that cost is made up of a great deal of what is called conventional engineering, and the nuclear part to which the royalties are really attributable is roughly about half of that total cost, because the turbines and the heat exchangers and all the civil engineering work does not derive from any techniques developed by the Authority. So, the royalty on the nuclear part of the station is nearer to 10 per cent., which is a pretty good rate of royalty.

2878. Who spends the money and who gets the royalties?—The Generating

Board buy the stations and they pay the Authority the royalty.

2879. What has been their capital expenditure on which you received a royalty of £2½ million? That is what I want to get at?—That means estimating the cost of development of the magnox from the date on which it ceased to be a military system and became a civil system. I think that could be done but I have not a figure in my mind.

2880. Does this £15 million represent it or does the £110 to £130 million represent it? I only want to know, roughly?—(Sir Roger Makins.) We told the Committee last year that these figures were still about correct but this, of course, as I see it, is for the whole civil power programme, not necessarily just the magnox system. The royalties we are discussing relate to the magnox stations only. One difficulty is that the magnox system was developed for the military programme. A great deal of the development work was really for the account of the military reactors. The civil stations are a development or are an extension of the same principle of design. It is very difficult to say that a particular piece of research is wholly directed to a particular station. You can say it is directed to the system.

2881. So that you have not the foggiest idea of what relationship your royalties bear to your cost of building stations?—As Sir Alan Hitchman has said, this £2.5 million works out at approximately 10 per cent. on the nuclear part of the station, which is all that our development is really concerned with.

2882. You get about 10 per cent. back?—On this figure, yes, but that is, I think, a fairly rough approximation.

2883. That is all I wanted. The £2.5 million roughly represents 10 per cent. of what you have expended?—No, 10 per cent. of the capital cost of the station. (Mr. Henley.) May I add a point here, because I think it also relates to my earlier answer* when I referred to the £15 million which is quoted in paragraph 135 of the last Report of the Committee. I think it is correct to say that the figure of £15 million up to 1956 was for the most part research and development expenditure incurred on the first civil stations, that is, the magnox stations.

* See Q. 2850.

9 May, 1961.]

Sir ROGER MAKINS, G.C.B., G.C.M.G., and
Sir ALAN HITCHMAN, K.C.B.

[Continued.]

Thereafter, as the programme goes on, there will be further such expenditure expected to amount to £110 to £130 million up to 1966, but that, as I understand, includes expenditure on other more advanced types of reactor which are not in question at the moment. I think that, in answer to this question, Sir Roger was referring to the actual cost of construction of the stations themselves which, of course, gives a different percentage.

2884. Normally, in the commercial world when one receives a royalty it has some relationship to the capital expenditure. Is it correct, then, that the royalty you receive is received on expenditure which is approximately £110 to £130 million? Is that true?—(Sir Roger Makins.) No, I am afraid that would not be so because this royalty is only related to this particular type of development.

2885. Can you tell us what the capital cost was of this development on which you got a royalty of £2½ million? If you cannot do it now, have you any idea, and if it is not too much of a job I would like to know what that royalty is on, approximately?—We will do what we can.*

Sir Samuel Storey.

2886. What part of the cost are you recovering under the contract for the sale of fuel elements at Bradwell?—Of the development of the fuel elements?

2887. Yes?—We are hoping to recover the whole cost.

2888. That will apply to the other stations, too?—In the fuel element field.

2889. You expect to recover the whole cost?—We hope to, yes.

2890. What progress have you made with the Central Electricity Generating Board about the responsibility for the supplies you have contracted for in excess of requirements?—I am sorry, I am afraid perhaps I was not clear. When I was talking about the supplies in excess of requirements I was referring to the uranium. Of course, we are not manufacturing any excess of fuel elements because they are ordered specifically in quantity for a particular station.

2891. This was the over-provision of graphite?—That is the same point, if I may say so, as the uranium, because

the Authority had to make these forward contracts for the supply of graphite sufficient to meet the extended programme. These contracts included certain penalties if we did not take the amounts for which we had contracted. Now, the stretching out of the nuclear power programme and also other circumstances, such as the fact that the design of the stations was improved so that they could be built using less graphite per station, a combination of these things meant that the amount of graphite needed for the programme fell to something like half what had been estimated would be needed when the contracts were concluded. It is therefore in that way that these penalties arise. The graphite is manufactured specifically for individual stations. The specification of the size of the graphite blocks, and so on, is different for each station and, therefore, the graphite is ordered for each station. But the contract provided for a supply of certain total quantities which will not all now be required.

2892. I understand that, but what I asked you was, what progress have you made with the negotiations with the Central Electricity Generating Board?—I beg your pardon. On that we have had some discussions with the Central Electricity Generating Board as to the manner in which we might share the penalties with them, and after these negotiations the best arrangement that we could reach was that the penalties should be shared equally between us. Again, we informed the Treasury that this was the best arrangement we could come to in negotiation and they have approved this division of responsibility for the loss.

Sir Colin Thornton-Kemsley.

2893. Following on that, perhaps I could ask Sir Alan: How are you going to deal with these losses in your accounts?—(Sir Alan Hitchman.) We shall have to write off the losses. The Treasury tell us how to keep our accounts but I feel pretty sure that we shall write off the loss and show it in the cost of operations.

Mr. Arbuthnot.

2894. Sir Roger, would you explain to me in words of one syllable, what is the difference between your magnox system

* Information supplied: not printed.

9 May, 1961.] Sir ROGER MAKINS, G.C.B., G.C.M.G., and
Sir ALAN HITCHMAN, K.C.B.

[Continued.]

and the other system which you are developing?—(Sir Roger Makins.) The magnox system is a gas-cooled natural uranium fuelled graphite moderated reactor. That is to say, it uses natural uranium as a fuel canned in magnox, a magnesium alloy. These are the fuel elements. The gas circulates round the fuel elements cooling them and at the same time carrying away the heat, thus producing the steam. The system which we are developing to follow on that, which is called the advanced gas-cooled reactor system, is still gas-cooled and graphite moderated, but the fuel elements are made of uranium oxide, not the natural metal, and are canned initially in stainless steel and eventually also, perhaps, in beryllium. In other words, it is a more advanced system and has a number of advantages, partly through the use of oxide and partly through the design of the system which makes it more compact. (Sir Alan Hitchman.) Essentially, if I might say, it works at a higher temperature, about 100° centigrade higher. It is therefore a more efficient steam raising system.

2895. You have incurred penalties due to the reduction in your requirements for graphite. Would it not be possible for you to have the graphite, store it and use it at a later date, or do you not expect ever to want it?—(Sir Roger Makins.) It seems impossible that we should need so great a quantity but, in any case, as I said, the graphite has to be specially made, machined and constructed for a particular station. I am not sure whether the quality of the graphite is different from station to station, but certainly the way in which the graphite is made differs from station to station. Therefore, unless you have got a station for which you are actually manufacturing the graphite there is no object in making it.

2896. What ratio do the penalties bear to the cost of the graphite, approximately?—(Sir Alan Hitchman.) The cost of the graphite is about £— a ton and the penalties look like being £— a

ton, but these are provisional figures; it depends on the eventual programme.

Sir Gerald Wills.

2897. Sir Roger, are you not in a position of some slight difficulty here in that you need a lot more money in order to make yourself competitive as quickly as possible and to produce electricity on competitive terms, and unless you can do that you will never be in a position to earn the royalties from future stations which should be built when you become competitive. A station like Hinckley Point, for example, is not competitive with the ordinary methods of producing electricity?—(Sir Roger Makins.) No, the first stations will not be competitive, and I suppose that is one of the considerations which led the Government to agree that royalties should not be payable on those stations.

Chairman.

2898. You said you had put your loss on this graphite into your nett cost of operations. Do you intend to show graphite as a separate item?—(Sir Alan Hitchman.) I am afraid we have not considered this yet, Sir, because the point has not arisen. It could be done. I do not think so far we have considered it.

2899. Where you have these substantial write-offs on one item after another would it not make your Accounts, which we all understand by the nature of things are not very meaningful, rather more meaningful if you were able to detach from the operational cost those items which have now been written off for one reason or another?—I certainly do not want to rule it out, Sir. So far we have not considered it. That would, in effect, mean showing separately in the Accounts the results of one particular trading account, and I should just want to consider if we did that for one trading account whether we should be asked to do it for others, for example, fuel elements, on which I think there will be difficulty. But subject to that, Sir, on consideration I see no difficulty.

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TUESDAY, 16TH MAY, 1961.

Members present:

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

Mr. Cledwyn Hughes.
Sir Samuel Storey.
Sir Colin Thornton-Kemsley.
Sir Gerald Wills.

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

Sir EDMUND COMPTON, K.B.E., C.B., Mr. D. O. HENLEY, Mr. A. D. PECK, M.B.E., and Mr. P. R. BALDWIN, an Assistant Secretary, Treasury, called in and examined.

Sir CLIFFORD JARRETT, K.B.E., C.B., Permanent Secretary, Admiralty, called in and examined

NAVY APPROPRIATION ACCOUNT 1959-60.

Mr. John Hall.

2957. Sir Clifford, I believe it is the first time you have appeared before the Committee?—(Sir Clifford Jarrett.) Yes, Sir.

2958. May I, on behalf of my colleagues, welcome you to the Committee?—May I, Sir, thank you very much?

2959. Will Members turn to the Navy Appropriation Account, to the Report of the Comptroller and Auditor General, paragraphs 9-14, Educational Services. Sir Clifford, taking first paragraph 9, could I ask you at what age do students go to these colleges and how long do the courses last?—They go to Dartmouth at the age of about 18 and they do a first year there, all of them, which includes a term in the training squadron. I am describing the current scheme which is, I am bound to say, different from the one which was in operation in the year of account, but I imagine you would rather have the up to date information?

2960. Yes?—They then do a year in the Fleet as midshipmen and at that stage they divide. The engineering cadets then go to Manadon where they do a course lasting four years in all, of which the first three are a course aimed as to the majority, we hope, in fact the large majority, at the external degree of London University, failing that a diploma leading to Associate Membership of the Mechanical Engineers Institution, and a fourth year which is specialised naval training in either air engineering, ordnance engineering or marine engineering. At Dartmouth, after return, they do another two years, largely

professional training of one kind or another but with an admixture of academic training designed to develop their general education. That is the current scheme.

2961. I was rather interested to see in paragraph 10 the cost per student at both Manadon and Dartmouth. If I read this paragraph correctly, the cost per student at Dartmouth was £1,250 a year and at Manadon over £1,500 a year, to which we have to add the cost of the training squadron. Am I reading this paragraph correctly?—Except that we would not regard the cost of the squadron as a fair charge on the student cost. In fact, the squadron is part of the Fleet and does perform duties similar to those of the rest of the Fleet.

2962. There is no cost on the part of the squadron by reason of its duties forming part of the rest of the Fleet?—Only in the capital sense that when ships are fitted out for the squadron they need a certain amount of adaptation to fit them to that purpose.

2963. What would be the effect on the cost per student if you included all the items of expenditure some of which are apparently at the moment excluded? If you look at the third sentence of paragraph 10 the Comptroller and Auditor General says: "An examination by my officers of the Accounts for 1959-60 suggested that, excluding such items as capital cost of buildings, staff superannuation and certain overheads, the cost per student was", and so on?—Ignoring the capital cost of buildings I would not have said, subject to correction by the Comptroller and Auditor General, that

16 May, 1961.]

Sir CLIFFORD JARRETT, K.B.E., C.B.

[Continued.]

the cost would go up more than marginally. In dealing with the capital cost of buildings one is up against a very difficult problem. How would one charge amortisation? Over 60 years? In which case again I do not think that the effect on the amount per student per year would be large, but I would not pretend that I have a figure readily available.

2964. When you say "marginal" and "not large", do you mean it would be less than £50 per student?—I would guess so, yes.

Colonel *Crosthwaite-Eyre*.

2965. In regard to overseas students, as I understand it from these paragraphs, the fees charged were £600 a year. Is that correct?—Yes.

2966. Fixed in 1955?—Yes.

2967. And no alteration has been made since then?—No, but it was reviewed in 1958.

2968. With no increase?—With no increase.

2969. Why is it necessary—perhaps I should ask the Treasury this question—for this large subsidy to be paid to overseas students from the Commonwealth?—Perhaps I could try first on that, if I may. First, I would argue that it is not right to regard the difference as a subsidy. The policy in settling fees for overseas students is to aim to charge them the extra cost due to their presence. A great deal of the expense at both colleges is unaffected by the presence of these overseas students and it has for a good many years now been the policy to base charges on the extra running costs attributable to the foreign students; and on that basis in 1957-58 when we checked we did not feel that any increase was called for. Indeed, one could have argued that there was something of a margin in hand then. We shall look at it all again in this current year when we get down to examining the detailed costing. They have just been finished now.

2970. Perhaps you could go a little bit further. What are the elements of this extra cost?—Things like extra stores consumed, a share of light and fuel, gas, water and electricity, a share of the maintenance of plant on the basis that it is being used more intensively because these people are there, and a share of miscellaneous recurrent costs, but not capital costs.

2971. When you say "stores", what do you mean by extra stores?—For example, if you take Manadon, there will be a certain number of blankets condemned every year, for one example. There is stationery, there would be actual material used in the workshops and all that sort of thing.

2972. In other words, "extra cost" merely means running expenses with no element of capital depreciation or capital amortisation at all?—That is so.

2973. Who took that decision?—This is a Government decision by Ministers.

2974. And it was made in 1955?—Oh, no, earlier than that—1951.

2975. How many of these students are there?—There is a number given in the Account. May I just refresh my memory? I have it here.

2976. What I want is the percentage?—(Sir *Edmund Compton*.) I have a figure if it would help. From my information it was at Dartmouth 124 out of 478 and at Manadon, between 90 and 100 out of 262. These are the total figures, taking the figures in paragraph 11 of my Report, and these are the proportions of overseas students which led me to say in paragraph 12 that a "quarter of the students at Dartmouth were from the Commonwealth and more than one-third of those at Manadon were from overseas".

2977. So, it is a very high percentage?—(Sir *Clifford Jarrett*.) It was in that year, but it will be dropping in future years. Could I just elaborate on that, because it has a bearing on all this? 1959-60 was a year when the student population, both at Dartmouth and at Manadon, was unusually low, and under present plans the population at Dartmouth will rise to about 700 and the population at Manadon will rise to about 450. Within those totals the absolute numbers of overseas students will, so far as we can foresee, be dropping. For example, in the current year there are 105 overseas students at Dartmouth in a total of 623; at Manadon the overseas figure has dropped to 64 and will clearly go lower.

2978. Surely, then, from what you have said, the term "extra cost" is a misnomer, is it not? What you really mean is "the subsidised expenses of"?—No, I would still claim that it was extra cost in the sense of an identifiable cost due solely to the presence of these students.

16 May, 1961.]

Sir CLIFFORD JARRETT, K.B.E., C.B.

[Continued.]

2979. But, as I understand it, you have not been able to cost the actual capital value per student at either Dartmouth or Manadon, is that correct?—If you choose to put the point that capital costs are not included, that is perfectly fair.

2980. Then, how can you say extra cost purely on revenue when you do not know the capital cost?—Because it is no part of the policy to include capital cost in the extra.

2981. I am sorry, I was not talking about policy, I was merely talking, if I may, about finance, purely as a simple thing. How can you say “extra cost” when you do not know what the capital cost is?—We could, of course, ascertain the capital cost. Whether it would have much meaning is another matter. It would be an accumulation of capital payments at various times in history, some of them going back a long way.

2982. I do not wish to pursue this too far, but it seems to be very difficult to talk about extra cost if you do not know what the initial cost is. May I ask the Treasury, are you satisfied about the definition of “extra cost” on this?—(Mr. Henley.) I would like to add something on this, if I may. As Sir Clifford has said, the broad policy, indeed, the detailed policy, of charging overseas students at all institutions run by the Services was laid down last in 1951 but was re-examined in 1958 as part of another exercise, and the conclusion we then came to was that the same principle should continue. However, although the concept of extra cost is a reasonably clear one it is, in practice, very difficult to decide at what point in all the categories of expenditure the extra marginal student leads to an extra structure or to extra stores of a particular sort, extra plant, and so on, being required. What we aimed to do, therefore, on the basis of full costing of these establishments from time to time—which is the responsibility of the Departments—was to agree on a broad assessment of what appeared to be a reasonable cost. In certain circumstances I think that one could say that this was rather higher than a strict definition of “extra cost”. In other circumstances one might argue the other way. There are other reasons than purely financial ones, as you will appreciate, for not necessarily charging the full average cost. As to the omission of capital cost—the capital cost of the buildings themselves—I think the view that has

been taken in the past has been that at the time when establishments such as Dartmouth are built, they are built for our own Services, and one probably could not say that there was any significant intention at that time to take on a large number of foreign students. But it is perfectly true, I think, from the Treasury point of view, that if and when we were considering major extensions of establishments involving large building costs, we should very likely take the point with the Service Departments that this was something to be borne in mind when doing this sum on “extra costs” for the future.

2983. Could I ask one further question on this in view of that answer? Could you tell me what were the staff costs per student in 1951 when you said the initial survey took place, in 1958 when, if I am correct, you said a review took place, and at the latest available date?—I do not know if Sir Clifford could provide that information. I should not think there was much difference. (Sir Clifford Jarrett.) I could not give it in 1951, but in 1958 the figure corresponding to those in the Comptroller and Auditor General’s Report was £1,100 a year.

2984. But you cannot compare it with the other two figures I asked for?—That does compare with the figures quoted by the Comptroller and Auditor General of £1,250 at Dartmouth and £1,500 at Manadon.

Mr. Arbuthnot.

2985. Sir Clifford, what did you estimate the overall cost per student at Manadon and at Dartmouth to be when you fixed the figure at £600?—It was of the order of £1,000.

2986. The same for each?—In those days they were running roughly parallel.

2987. How did you satisfy yourselves that £600 per annum was adequate to cover the extra costs at that time?—We did not, in 1955. This was a decision taken right at the top by the Board who looked at the then current figure and said that the fees charged at that time were not enough, and the figure of £600 a year was brought into force pretty arbitrarily, but in the belief that it was ample to cover extra costs as they have been defined in evidence. It was checked in 1957-58 and we were then satisfied that it did cover extra costs as defined.

16 May, 1961.]

Sir CLIFFORD JARRETT, K.B.E., C.B.

[Continued.]

2988. When you increased the fees to £600 in 1955, how much did you include for the training squadron?—Nothing. We have always regarded the ships as outside the true costs of the college.

2989. Do you not think that the costs at Dartmouth are considerably greater than those at Manadon?—No, I am sorry, is it not the other way round? Manadon is the more expensive at the moment.

2990. How do you justify an equal charge at both colleges?—This is the survival of the decision taken in 1955 and confirmed in 1957-58. What will happen this year when we have completed the analysis of costs and consider them, remains to be seen. They may not stay the same.

2991. Do you not consider that the fees, even on an extra cost basis, are now too low for both Dartmouth and Manadon?—I would hesitate to answer that question with great confidence. I would rather wait until we have done this analysis. But unless the elements of extra cost allowed for in 1957-58 have appreciated a great deal, even £600 a year may still cover extra cost, at any rate at Dartmouth.

Sir Colin Thornton-Kemsley.

2992. Sir Clifford, what proportion of these students from overseas comes from foreign countries?—Quite a small proportion.

2993. If you have the details in front of you, could you tell the Committee the countries that they come from and how many in each case over recent years?—Could I take the year 1959-60?

2994. Certainly, the year of account?—At Dartmouth there were 121 from the Commonwealth and 4 from elsewhere. At Manadon, 72 from the Commonwealth and 31 from other countries.

2995. So outside the Commonwealth there are very few indeed?—It is a small proportion.

2996. It is practically all Commonwealth?—And virtually confined to Manadon.

2997. Yes?—Could I just add one thing to that, if I may? There was quite a large contingent from one foreign country. They were being trained under a post-war arrangement whereby we agreed to give free training to a certain number of officers, so even they are untypical of the population.

2998. But did they not pay the extra cost of £600 a head?—No, they paid no cost.

2999. Was there any accounting arrangement whereby the Admiralty were not the losers over that?—No.

3000. That is usual, is it, in a case like that?—No, this was a very special case. It was a peculiar post-war settlement with that particular Government.

3001. So that, when the Comptroller and Auditor General is taking out his figures of average cost per head, that element would distort them to some slight extent? Perhaps I ought to ask the Comptroller and Auditor General if, in fact, in respect of students from Iran in any particular year no contribution was made at all by their Government, then it would distort your figures as given in paragraph 10 of your Report?—(Sir Edmund Compton.) All my figures are those of the cost per head, the actual sums paid by the Admiralty. I have not attempted any figures of what proportion of that was recovered from various sources.

3002. The per capita costs include all the Commonwealth and foreign students as well?—Yes.

3003. Sir Clifford, I wanted to ask you really some questions about the Dartmouth training squadron. Could you tell the Committee how many ships there are in the squadron?—(Sir Clifford Jarrett.) At the moment, three frigates and two minesweepers.

3004. How much of their total time at sea is spent on training the Dartmouth cadets?—I would have said, most of it.

3005. What duties are undertaken by the squadron that would otherwise have to be performed by other units of the Fleet?—The ships of the squadron took part, for example, in the Iceland patrol. They take part in N.A.T.O. exercises from time to time. They take part in submarine training and they also do a certain amount of visiting ports in this country and abroad.

3006. Can you tell us what duties of that kind the squadron undertook in the financial year which the Committee is now considering, 1959-60?—They certainly took part in the Iceland patrol during that year. They certainly would have taken part in submarine training

16 May, 1961.]

Sir CLIFFORD JARRETT, K.B.E., C.B.

[Continued.]

I cannot say for certain whether they took part in any N.A.T.O. exercises, but I could check up on that.

3007. It would be comparatively easy, would it not, to find out what proportion of their sea-going time was spent on such things as the Iceland patrol and submarine training?—In any particular year, yes.

3008. Have you any of those figures there for any year?—No.

3009. You would not care to make a guess at the kind of proportion?—I would have thought the trouble about this is that it must vary quite a bit from year to year. They were diverted to the Iceland patrol. That is not the sort of thing which would happen every year. On the other hand, there may be years when they take part in two or three N.A.T.O. exercises instead of, maybe, only one. But I do want to emphasise that they count as part of the active Fleet; they are operational ships. They are declared to N.A.T.O. In other words, they are just as much part of the fighting Navy as any of the other ships you would see around the ports of this country.

3010. What do they cost a year?—The average running cost of a frigate, speaking from memory, is £¼ million or thereabouts.

3011. A Fleet frigate or a frigate in the Dartmouth squadron?—There would not be all that difference in cost. The ordinary frigate might burn a bit more fuel but that is all there would be to it. The main costs are the same. (Sir Edmund Compton.) That seems consistent with the figure I had in mind, Sir. I had worked out by extracting from the ledgers of officers' pay, victualling, yard refit work, and so on, a total for the training squadron of £1,228,000, and the figure I give in my Report suggesting that if that was included it would add £2,500 a year per student is really that sum divided by the total number of students at Dartmouth, namely, 478.

3012. Do you think that is a fair figure, £1,228,000?—(Sir Clifford Jarrett.) We have no reason to disagree with the Comptroller and Auditor General's figures on this.

3013. It does not sound to you wildly out?—No.

3014. Mr. Henley, is there anywhere any homework done on the comparative costs of other Services' educational

establishments and the Navy's establishments? For example, the Royal Military College, Camberley, and so on, and also at civilian residential technical colleges, if there are any?—(Mr. Henley.) As regards the other Service colleges, Sir, it is the fact that within the last few years the Treasury has carried out a specific inspection of both Sandhurst and Cranwell. We have not inspected Manadon or Dartmouth for some time, but we did make certain comparisons or, rather, we have recently made certain comparisons since the Comptroller and Auditor General reported on the Admiralty establishments; and, of course, this is one of the matters which we would naturally bear in mind in seeing whether we could make any recommendations for economies in the staff or otherwise at any Service establishment. I would only add that we must appreciate that the circumstances are not, of course, exactly in line even between Service establishments in that the premises are different and to some extent the type of training is different. But we try to make allowances for that as well as we can. As regards your question about comparison with civilian colleges, the scope for that, of course, is limited because, as the Committee will appreciate from previous discussions, we do not get this type of detailed costing in relation to our control of university expenditure.

3015. Would it be possible at any appropriate time when your investigations are completed for the Treasury to bring before us or, perhaps, the Comptroller and Auditor General could bring before us, on a single sheet of paper some figures of comparative costs at these residential educational establishments?—Speaking for the Treasury, Sir, if I may, I think that either the Comptroller and Auditor General or the Treasury could undertake an exercise of that sort. I believe I am correct in saying that there has not been a recent costing at Sandhurst, for example, or at Cranwell, although the Admiralty themselves have such a costing in train at the moment for their establishments. But in principle there is no doubt it can be done.

3016. I would not want to ask anyone to do a vast amount of extra work, but if at some appropriate time, next year, possibly, or when your investigation is completed something like that could be produced for us I think it would be very

16 May, 1961.]

Sir CLIFFORD JARRETT, K.B.E., C.B.

[Continued.]

helpful to the Committee. These things are continually coming up. We get them on the Army, we get them on the Air Force and we get them on the Navy. It would be very helpful if we could look at all three Services together?— I am not certain whether you are proposing to ask the Treasury to do this, or whether it would be something for the Comptroller and Auditor General?

3017. May I put it this way to you: both of you know each other very well. Perhaps at some time behind the chair you could talk it over and see if you could be helpful to us in such a way?—(Sir Edmund Compton.) I would like to say, if such a statement were to be prepared, I am sure the Treasury would be the right people to do it rather than myself. I say that not because I want to avoid work which I ought to do, but because the crucial element in this, I would think, is what are comparable institutions, and I think that is a matter on which the Treasury rather than my office are the experts.

3018. That was why, in fact, I addressed my question to the Treasury witness, Sir Edmund. Just one more question, Sir Clifford. I understood you to say that the student population at Dartmouth was likely to be increased to, I think 700?—(Sir Clifford Jarrett.) Yes.

3019. And at Manadon to 450, or something like that. Will that be done without any very large increase in overheads for extra tutorial staff, and so on? The point I want to get at is whether we are likely to see the per capita cost fall fairly considerably as one would think it would with this large increase in numbers?—We have attempted to look into the future in this way, not in terms of cost because cost levels change over the years, but in terms of staff-student ratios, and it might be useful if I were to give the Committee the figures we have got out. They do involve, obviously, an element of guess work in looking into the future, but they come out like this: at Dartmouth in 1959-60 the ratio of teaching staff to students was .19 to 1. We hope that that would fall by 1965-66 to .16 to 1.

3020. When you say "staff to students"——?—This is teaching staff to students. The total staff ratios we would hope to move in the following order: in 1959-60 it was just over 1 total staff to 1 student at Dartmouth. We

hope that that will fall to .78 to 1, i.e., about $\frac{3}{4}$ to 1. At Manadon the ratio of teaching staff in 1959-60 was .28 teaching staff to 1 student. We hope it will fall over the next four years or so to .21 to 1. The total staff ratios for Manadon in 1959-60, 1.37 to 1, falling to a tiny fraction over 1 to 1. So one should have a considerable reflection on the cost per student.

Mr. Cledwyn Hughes.

3021. This is a very generous staffing ratio, Sir Clifford, that you have at Manadon and Dartmouth today?—That, we would feel, is a matter of opinion and there are a number of factors which, in our view, would make a straightforward comparison with civilian institutions misleading. We are aiming at a particular kind of product in a way that they are not. The purely professional training that goes on is expensive; for example, at Dartmouth they have to do a lot of parade work. They have to spend a lot of time learning seamanship, sailing about in boats. At Manadon we keep a couple of helicopters to familiarise them with the air and in both places the more technical kind of professional training involves the installation of a lot of specialised equipment identical with that in service. All that represents a kind of cost which the average civilian institution does not have to bear. Further, I think we could fairly claim that in these cadet colleges there is a more intensive concern with character building, inevitably. We have gone to a lot of trouble entering these young men. The aim is to develop qualities of leadership in them which will turn them into future naval officers, with the result that in respect of every individual student the staff are spending a lot of time watching over their character development, helping to foster it by taking part in all manner of external activities and keeping ample records of how the boys get on. There is another factor which stems from a rather similar source: the ordinary university college or technical college wants its students to get through, but it will not regard it as part of its duty to take any special steps to see that any particular one gets through. We feel that, because we need these people in the Navy, we have got to do our utmost to see that all of them are brought up to standard and, in fact, the failure rate is, so far as we know, extremely low. At Manadon it is virtually

16 May, 1961.]

Sir CLIFFORD JARRETT, K.B.E., C.B.

[Continued.]

nil. At Dartmouth it varies from virtually nothing to 11 per cent. It is running at about 7 per cent. at the moment. Now, there is not a great deal of published information about failure rates at universities, but there have been a number of public statements, and judging from those, their failure rate is a good deal higher. Then again, a university can arrange its intake to ensure at any given moment that it gets the optimum result from the facilities it is providing. Service institutions cannot. The actual intake turns on the changes in policy, on the degree of success or failure in recruitment, and as I have said earlier, in 1959-60 for that sort of reason the student population at both our colleges was well below the level which the establishment had been built and equipped for. So, that was a time when they were not unnaturally uneconomic. Finally, it would be wrong to conceal another factor. These young men are naval officers. They have to be brought up to take their place in the Navy and this does mean, in all probability, providing them with better domestic conditions than they would get in a civilian institution; in other words, they have something equivalent to a batman provision, with the sole exception of the cadets in their first year at Dartmouth who do have to clean their own boots, make their own beds, tidy up their dormitories and mess in a cafeteria. But, otherwise, we feel that here we are trying to produce naval officers who will have to take their place in the Fleet, who one day will have responsible duties to perform and they should be treated as such from the age of, say, 19 or 19 plus.

3022. I am obliged to you for that reply. When you talk about "the staff" by that do you mean the professional teaching staff?—In the figures I gave, the first set related to the teaching staff who would not necessarily be solely teachers in common parlance. They would include the civilian academic staff at Dartmouth, the naval officers engaged in teaching and some of the lower graded civilian instructors, for example, and at Manadon there are quite a number of civilian instructors in workshop practice, and that kind of thing. There are laboratory attendants and there are also, especially at Dartmouth, quite a number of ratings giving instruction. All those people would be in the teaching staff field as defined for the purpose of getting at the first set of ratios which I

gave. The second set relates to the total staff of these establishments, including everybody except works staff.

3023. Did I understand you to convey that there is far more intensive academic coaching at Dartmouth than there would be at a comparable civilian establishment?—Yes, in the sense that much more trouble is taken so that everybody, as nearly as possible, gets through; whereas the average university may take a certain amount of trouble, but it does not regard itself as under a liability to do its utmost to ensure that everyone goes away with a degree.

3024. Have you got comparable staffing ratio figures for the military and Air Force establishments, say, Sandhurst and Cranwell?—Yes, I have.

3025. Could we have those?—I have them for Sandhurst, Cranwell and Henlow. In giving them I have been asked to emphasise again that there is a danger in making very straightforward comparisons here.

Mr. John Hall.

3026. Do you wish them sidelined?—Oh, no. I am merely emphasising that one must not take them simply at their face value. There are differences, and often quite considerable differences, between Army establishments and ours or Royal Air Force establishments and ours. These are figures for 1959-60 in the case of Sandhurst. The teaching staff per student ratio was .25 to 1, that is, 1 member of the teaching staff to 4 students. The total ratio was just about 1 to 1, but one, perhaps, ought in fairness to Sandhurst recall that that total figure includes provision for a museum, a hospital and a pay and record office. At Cranwell the teaching staff figure was .2 to 1 in 1959-60 and the total staff ratio was 1.52 to 1. At Henlow in the current year, the teaching staff ratio was .32 to 1 and the total, 1.4 to 1.

Sir Samuel Storey.

3027. Sir Clifford, you told Mr. Arbuthnot that when the fee was fixed at £600 the cost was about £1,000 per student?—Round about that.

3028. When the charges were reviewed in 1958 what was the cost then?—£1,100.

3029. And no change was made?—No.

16 May, 1961.]

Sir CLIFFORD JARRETT, K.B.E., C.B.

[Continued.]

3030. In view of the fact that a quarter of the students at Dartmouth and one-third of those at Manadon come from overseas, how do you justify only asking them to pay the extra cost and not to bear their fair share of the overheads?—On the ground partly that the great bulk of the overheads are there anyway and, secondly, that there is some national advantage in training these students from Commonwealth and overseas countries here in the way things have developed and in the things that we hope to gain. If I may go on a stage further, one sees the difficulty of this. I did mention that these proportions, as far as we can see, are bound to decline very considerably. It looks now on the cards as though in a few years time the proportion at Manadon may be one-eighth or something of that order. Now, are you continually going to slither about from year to year according to whether there are more or less Royal Naval students there for reasons which have nothing to do with the foreign countries sending their students to take part in the tuition?

3031. You do not anticipate that when the numbers at both colleges are increased there will be an increase in the number of overseas students?—Indeed, all the signs are quite to the contrary. Some countries are backing out now. Canada has just backed out.

3032. When the charges are reviewed, will the question of overhead charges be considered at the same time?—We would look at the fees in the light which Mr. Henley described to you some time ago. If there were a particular overhead in the form of a new building which would be quite unnecessary but for the presence of the overseas students, one would consider whether one ought then to load this rather broadly deduced extra cost figure with something to take account of this peculiar capital liability; but I would not like to predict what the answer would be. (Sir Edmund Compton.) Perhaps I ought to add that I would consider that the overheads are not confined—I am sure the Accounting Officer would agree—to something for the capital cost of buildings. There are other items which would have to enter into a properly costed figure per student, such matters as headquarters administrative expenses, depreciation of plant and machinery and travelling, and there is also the superannuation element. I

merely mention that because I think the emphasis hitherto in this examination has been on the capital cost of buildings only.

Mr. John Hall.

3033. I understand from Sir Clifford in answer to a question of mine on this that the difference would be marginal on those overheads?—(Sir Clifford Jarrett.) I should have thought that the addition of superannuation charges in administration would be small. I would not like to say what it would be, but I would be surprised if it could amount to more than tens of pounds per student per year.

Sir George Benson.

3034. You claim that your staff-student ratio is not unreasonable. What criterion do you adopt in deciding that?—It was the criterion of the comparisons that have been given, the comparison with the other Service colleges.

3035. That is all; you had nothing other than that?—We had certain information about one civilian institution in particular, which was Loughborough Technical College. These are their classifications and their classifications may not be identical with ours and, of course, there are varying considerations of detail. The figure we have there for the 1959-60 academic year is that the teaching staff to student ratio is 19 to 1, which is very similar to the figures which I have already given for Dartmouth and not greatly below the figure which we hope to work down to for teaching staff at Manadon when the college is reasonably well occupied.

3036. Have you made any comparisons with the Army, for example?—We did compare it with Sandhurst.

3037. Or are they not really comparable?—We compared with Sandhurst and the figures are very, very much the same.

Mr. John Hall.] I think Sir Clifford did give us the figures for Sandhurst.

Sir George Benson.

3038. Yes. How much extra staff does this military training function call for?—I think one would have to produce a separate note on that. We can pick out things like the boat party of 25 at Dartmouth. The helicopter squadron at Manadon accounts for 12. The band at Dartmouth, I should say, was 20.

16 May, 1961.]

Sir CLIFFORD JARRETT, K.B.E., C.B.

[Continued.]

3039. The ratio at Manadon is higher than at Dartmouth. Is there any reason for that?—It is partly because the student numbers are so low in relation to the capacity it was designed for.

3040. I see. You are under capacity, is that it?—That is one of the main difficulties.

3041. Why?—At Manadon it was due to the fact that we changed the scheme of training in 1955, with the result that the period for which the cadets were in the Navy before they got to Manadon suddenly increased by two years, and so there were two years already missing and they had not been made up by 1959-60. In addition, the engineering entry has been disappointing of recent years, which also has caused a shortfall.

3042. What is the explanation of the change?—In other words, the pipeline stopped for two years.

3043. You will catch up in time?—That will flow again.

3044. It will rectify itself, I see. Why is staffing higher at Manadon than at Dartmouth? The ratio seems to be higher?—Of course, academically it is a more advanced training. It is now being advanced to degree standard.

3045. At Manadon?—At Manadon. Following that one gets specialised classes where the young officers are learning the actual kind of engineering they will have to do on naval aircraft or naval engines and they all do this. This may involve classes of very small numbers and will inevitably go on doing so, because you are splitting the engineering staff into three.

3046. Your staff consists of lecturers and instructors?—At Manadon they are all naval officers, either Instructor officers or Engineering officers.

3047. Are they lecturers or instructors, or do you not split them?—I think it would be fair to say they do both. They give lectures and take tutorial classes. They give instruction in the theory and practice of naval engineering.

3048. How many of these 360 staff are lecturers of any sort?—This is at Manadon?

3049. Yes?—In 1959-60 74 were instructing or lecturing or giving other forms of training.

3050. Might I ask the Treasury, how far do you scrutinise this staffing at the

training colleges?—(Mr. *Henley*.) Our main inspection of these staffs would be done on a specific inspection. We do, of course, have certain other controls over Admiralty personnel and, indeed, naval officers and ratings, in a much broader way, but so far as these colleges are concerned it would depend mainly on a specific investigation.

3051. You actually investigate on the spot?—Yes.

3052. Are you satisfied with the position?—We have not actually done such an inspection at Manadon or Dartmouth, certainly not recently.

3053. Are you proposing to do so?—Could I ask Mr. Baldwin, who is in charge of the Defence Personnel Division, to answer that? (Mr. *Baldwin*.) We have carried out inspections at some of the other Service institutions which have been mentioned this afternoon. The basis for inspection is this: Each Department has its own inspectorate and the establishment division at the Department arranges a programme for a number of years by which they endeavour to cover the whole field. The Treasury has inspectors who are invited to take part in these inspections and we try to spread our resources over the various Departments. In the case of the Admiralty the work which is to be done in future has already been taken up to some extent, though not by any means entirely, following the recommendations of the Select Committee on Admiralty Headquarters.

3054. When do you say Manadon and Dartmouth were last inspected?—They have not been inspected.

3055. May I ask the Comptroller and Auditor General, how did you happen to pick on the two which had not been investigated?—(Sir *Edmund Compton*.) I brought these figures to the notice of the Committee because they came to my notice in the course of audit.

3056. Did they come to your notice because they required criticism? Is that why they were brought to your notice?—As I hope my Report makes clear, there were some questions which I thought I should invite the Admiralty to reply to, and my Report does record their replies.

3057. But the question I rather want to get at is that Manadon and Dartmouth have been pinpointed. To what extent are they, shall we say, worse or

16 May, 1961.]

Sir CLIFFORD JARRETT, K.B.E., C.B.

[Continued.]

more extravagant than the other equivalent stations?—That is a question I cannot answer, for two reasons; one that I have not got the comparative figures and that for the reason I gave earlier, namely, that it is not really within my competence to say what figures for this purpose are comparative. The second point I would like to make is, as I say in my Report, that these figures which were produced are of necessity incomplete figures. They consist of these items of cost which were clearly identifiable with the training of these students and they are in anticipation of the overall costing of both colleges which the Admiralty propose to carry out.

Mr. *John Hall*.] I think it is right to say that the Treasury have agreed to produce comparable figures where figures can be prepared for establishments of this kind, and perhaps we could see that at some later stage.

Sir *George Benson*.] Yes.

Mr. *John Hall*.

3058. If there were no training commitments at Dartmouth at all would it be necessary for the Navy to retain the same number of vessels in the present Dartmouth Training Squadron?—(Sir *Clifford Jarrett*.) If one were going to have an active fleet of the same size, yes.

3059. Is the size dictated by the fact that you have to have a training squadron? In other words, is it included in the overall Naval requirement?—This is rather a circular question. Could I answer it by saying, if we were to keep our declarations to N.A.T.O. at the same level.

3060. You would want the same number of vessels?—We would still want these ships.

Sir *Gerald Wills*.

3061. You have referred once or twice to an analysis of cost that you are making or have made. Are these the costings that you told the Comptroller and Auditor General that you were going to undertake, which he reports in paragraph 14?—Yes, and they are just being completed now. We are getting ready to examine them in the Finance Committee of the Board.

3062. When you have got this completed would there be any difficulty in keeping the figures that you have produced up to date from year to year so

that you had a permanent record?—No more difficulty than in getting them out the first time. It would probably mean keeping some running records which are not kept at the moment, but that would be the sort of extra work involved.

3063. But it could be done. Do you think it would be of any value if you did that?—It would be some value.

3064. So that you could keep an eye on costs and how things were going?—Yes, but whether it would be right to give priority to these two aspects in terms of an annual effort of this kind, I think is arguable. It might be much better to use our resources to go on and look at something else which is needed, in the way we are using them at the moment.

Colonel *Crosthwaite-Eyre*.

3065. I thought, following up that question, that in an earlier answer Sir *Clifford* had said that the main point of the training squadron was to deal with the requirements of Dartmouth and Manadon?—It spends most of its time doing that, undoubtedly.

3066. But, with respect, we have had rather different answers, that if it were not for the training squadron we could not compete with our requirements under N.A.T.O. and various other things. What, really, is the prime job of the training squadron?—The prime job in peace is to train the Dartmouth cadets.

3067. Then you brought in various questions of Icelandic patrol and other things. Are those accidental to its main duties or are they the main duties, Dartmouth being incidental?—No, I would like to make this clear. Its main duty is to provide sea training for the students at Dartmouth but if you took it away, then to cover things like the Icelandic patrol, supposing you could have done it, you would have had to commission extra ships, and similarly if war broke out tomorrow and we were fulfilling our declarations to N.A.T.O. you could not do it unless the Dartmouth ships were there running.

3068. When you talk to the Treasury, in other words, you say: "This is for Dartmouth, but you know that you can use it, as it were, in part time to meet other commitments". Is that right?—Yes, that is so.

K

39389

16 May, 1961.]

Sir CLIFFORD JARRETT, K.B.E., C.B.

[Continued.]

3069. You said that in Dartmouth the average failure of cadets ranged between 7 and 11 per cent. Was that correct?—I said from very little to 11 per cent.

3070. I am sorry. I heard you as saying from 7 per cent?—And the current rate is about 7 per cent.

3071. When do you fail the candidate, after how many years?—We tend to fail him during the first year.

3072. Would you say the whole 7 per cent. is failed during the first year?—I would not like to give a categorical answer to that. I would have said the majority, certainly, and it is usually for reasons of lack of character development. In other words the qualities of leadership that we were looking for do not seem to come out.

3073. It would be fair to say that the number of failures you have at the later stages of the course is very small?—It is extremely small, yes.

Mr. John Hall.

3074. May we turn now to the next paragraphs, 15 to 26, taking first paragraphs 15 to 18 which deal with H.M.S. "Belfast". Sir Clifford, at the time that the plans for the modernisation of the "Belfast" were approved, which was in March, 1955, had the Admiralty any indication then as to how much it was likely to cost?—In 1955, no. The Admiralty had to go ahead without an estimate at that stage.

3075. So, would the work have been approved in any case regardless of the estimated cost?—Yes, because the ship was felt to be needed to keep up the cruiser strength of the Fleet.

3076. Six months after the work had started you then found that the design and drawing office work was beyond the capacity of your available staff. Do you think it would have been advisable or certainly desirable to have ascertained beforehand whether the staff were adequate to cope with the job?—It was assumed earlier that they would be.

3077. What was the basis of the assumption?—That the Dockyard at that time did not report an inability to do the drawing work.

3078. So it took them six months before they reported that they had not got the available staff?—Yes. That was because, of course, other work was crowding in on them.

3079. So it was not known that other work would in fact crowd in on them?—It is very difficult to forecast exactly what is going to happen in a Dockyard programme. The Dockyards have one great advantage which we exploit to the full and that is that they are the one place in the United Kingdom, if not in the world, where we can alter our priorities overnight where operational requirements can be met without hesitation and, therefore, although there is steady Dockyard programme planning, no Dockyard programme in the event will ever look the same as the one that was planned because all the changes, or very nearly all, are absorbed in the Dockyards and, therefore, it is a peculiarly unpredictable world.

3080. I see that you switched the job of modernisation to an extended refit. I am not quite sure of the actual difference between the terms "modernisation" and "extended refit"?—It is a difference of degree. In a modernisation one is aiming to go over the whole ship and bring the whole of it up to date, all the equipment, and so on. In an extended refit the main emphasis is on putting defects right on a pretty comprehensive scale, and, in addition, installing such new equipment as the Board may decide to fit in the circumstances of the particular job.

3081. It is rather hard to draw an exact distinction?—It is indeed, and I think it would be fair to say that in the event what happened in the "Belfast" was not all that far short of a modernisation anyway.

Sir George Benson.

3082. What would a cruiser like the "Belfast" cost to build *de novo*?—To-day?

3083. Yes, approximately, within £2 million or £3 million?—May I quote a very rough figure of £15 million. That is very rough.

3084. So that your expenditure was approximately one-third of what a new ship would have cost you?—This is not unusual in these big modernisations.

3085. I am not cavilling, I am only trying to find out the ratio?—I would ask you to treat that £15 million as very much a guess. It is taken very much off the ceiling.

3086. How superior would your new ship be to your refitted ship, completely modernised?—Of course, you would

16 May, 1961.]

Sir CLIFFORD JARRETT, K.B.E., C.B.

[Continued.]

not build another "Belfast" to-day. This is virtually an impossible question.

3087. What would you build?—I do not think you would build that sort of ship at all.

3088. Does that mean that this sort of ship is now of very little value?—It has great value for certain roles. * * * In function one could say that the role of the cruiser is to undertake long periods on her own, to provide heavy gun protection to the Fleet and to provide anti-aircraft protection both to herself and to other units.

3089. You spend roughly one-third of the cost of a new ship, but your new ship, apparently, would be something fundamentally different with a different function?—I would question the function. You have achieved the same function, you might even fulfil a wider function by different methods. If I may take the Committee a stage further, on page vi, paragraph 22, we have to admit that we decided that a cruiser with these old-fashioned guns was not worth completing. In other words, there has been a considerable change in policy since "Belfast" had got pretty well finished, and in current thinking.

3090. In fact the current thinking is subsequent to the work on the "Belfast"?—Yes.

Sir Samuel Storey.

3091. These difficulties which you have just told us about must have been fairly evident in 1955, must they not, when the work was put in hand?—They would have been much less evident than they are to-day, and what is more, in 1955 we were thinking of a considerably larger cruiser force than is now in the planned Fleet, and the only way of realising that force was to complete the "Belfast".

3092. Work had to be stopped on other ships in 1958 to enable work to be done on "Belfast". How early in 1958 did that become evident?—I would not have thought that at that time anything much was getting in the way of "Belfast", if you are talking of 1958.

3093. In paragraph 20 we are told that work had to be stopped on "St. James" and other ships so that work could be carried on on "Belfast"?—I am sorry, I thought you were asking about work which got in the way of "Belfast". One of the ships that were getting in the way of "St. James" and "Gravelines"

39389

* * * was the "Ark Royal" which was having a special refit and had a fire. There were some Darings having long refits to which we gave priority and there was a frigate, H.M.S. "Salisbury", which had to go in rather ahead of time in order to have a refit. All these were getting in the way of "St. James" and "Gravelines".

3094. That would be happening in the early part of 1958?—During 1958.

Sir Samuel Storey.] Why was work started on "St. James" in 1958?

[Mr. John Hall.] I think we come to that a little later.

Sir Samuel Storey.

3095. The one led up to the other, I am afraid?—I take your point. These were jobs injected into the programme, particularly * * * "Salisbury" which were not foreseen at the time when it was decided to put "St. James" and "Gravelines" in hand, and indeed it was thought that to take the other ships, the "Ark Royal" and the Darings and the "Belfast" could be coped with, but we over-estimated the capacity, if you like, or under-estimated the effective load during this period.

3096. So, this extra work did not materialise until after a start had been made on the "St. James"?—I think not. I have not the exact dates when they were taken in hand. I think not, but I would like to verify that if I may.*

Mr. Cledwyn Hughes.

3097. Sir Clifford, is the Dockyard authorised to incur expenditure in excess of the approved estimate and did it in fact do so before the estimate for H.M.S. "Belfast" was finally increased to £5,426,000 in May, 1959?—The Dockyard has to come to the Admiralty for approval to exceed an approved estimate of this kind. The finally revised estimate was virtually an out-turn figure when the work had been done, if you are referring to the May, 1959, estimate?

3098. Yes?—That one might be said to have been incurred without approval but that was simply a totting up of what had been in fact done. In other cases the Yard reported to the Admiralty that it foresaw the new estimated figure and the Admiralty said

* Note by Witness: The ships mentioned were taken in hand after work on H.M.S. "St. James" had started.

K 2

16 May, 1961.]

Sir CLIFFORD JARRETT, K.B.E., C.B.

[Continued.]

"All right, we will swallow it, you may carry on."

3099. So, in fact, a Dockyard cannot exceed the authorised limits of expenditure without first of all approaching the Admiralty and getting approval?—That is so.

3100. Why could the extended completion date of May, 1959, only be met by resorting to heavy manning and expensive overtime working in the later stages?—Because if that date was to be met the amount of work which had to be done in the remaining time was such that more men had to be put on the ship or, perhaps, more accurately, the labour force on the ship could not be run down at the rate which had been hoped and in addition, a lot of overtime had to be worked merely to get the ship done by the planned date.

3101. When did you know that the completion date would have to be deferred until May, 1959?—I am sorry, I cannot answer that question off-hand.*

3102. When you fixed the new date did you expect this heavy overtime? Was it something you anticipated?—When you talk of the Admiralty fixing the date, I do not think that it is an accurate picture. It is rather that the Dockyard comes up and says "With the resources available even throwing in all this, the completion date will have to go out from some earlier date to May, 1959".

Colonel *Crosthwaite-Eyre*.

3103. I think you said, Sir Clifford, that the modernisation of the "Belfast" was due to an overall requirement for a number of cruisers in the Fleet. I imagine the "Belfast" was taken out some time in 1955. When was it assumed to rejoin the Fleet?—She was expected to rejoin the Fleet—

3104. I am talking now of 1955, not when it did, but when it was supposed to?—I think, in 1958. I do not think we have a firm date. The completion date, about the end of 1958.

3105. When it was taken out it was for modernisation, was it not?—Yes.

3106. As I read the Comptroller and Auditor General's Report, at that time no estimate was put in for the cost of it?—Because the work was quite undefined.

* *Note by Witness*: August, 1958.

3107. But by November, 1956, an estimate had been produced of £4 million?—With a good many reservations attached to it.

3108. I was coming on to that in a moment. When it was taken out in September was there any estimate in the sense not of money but of what the refit would entail, and how far did that estimate compare with what occurred in November, 1956; in other words, what changes had taken place between those two dates?—Do you mean in terms of work to be done?

3109. Yes, work to be done?—I think the answer lies not so much in changes in work to be done but in growing definition of work to be carried out between these dates.

3110. What was the point then, of taking "Belfast" out of commission in September, 1955, if even in November, 1956, you still only had a growing appreciation of the work to be done? What happened during that twelve months?—This was not an uncommon feature of those days, which has since been changed, I may say, in that a job would be decided on, a large job, and the definition of the work to be done would proceed in step with the work itself.

3111. Surely, we have here fifteen months in which, if I am correct, a cruiser is taken out of the Fleet, is laid up, and for one reason or another nothing happens except a growing appreciation of the work to be done. Is that a fair statement?—Well, it would be going on.

Colonel *Crosthwaite-Eyre*.] Was anything done to modernise or refit the "Belfast" between September, 1955, and November, 1956?

Mr. *John Hall*.

3112. Would you prefer to put a note in on this?—It is a matter of dates.

Colonel *Crosthwaite-Eyre*.

3113. I am only quoting the dates from the Comptroller and Auditor General's Report?—What I have not by me at the moment is the exact date* she was taken in hand. From the moment she was taken in hand some work would be done. There is a lot of stripping to be done and there is a complete list available.

* *Note by Witness*: September, 1955.

16 May, 1961.] Sir CLIFFORD JARRETT, K.B.E., C.B.

[Continued.]

3114. Then, we come to the next question. In paragraph 16 the Comptroller and Auditor General says: "The Dockyard submitted to the Admiralty a preliminary estimate of cost of £4 million". I recognise that was hedged round with difficulties and limitations, and so on, and then he says that the work was expected to be done "with limited overtime and at current wage rates". Then, when you read paragraphs 17 and 18, it is apparent that a very great deal of overtime was incurred and that wage rates had increased, I think I am right in saying, by £300,000. What caused that between the first appreciation which would be done in the normal course of events and would not attract a very considerable on-charge and the final result which, if I am correct, resulted in £837,000 extra being spent?—It was due in respect of the £300,000 to the wage increases which just came along. One could not have predicted those. But, in respect of the overtime, it was due partly to the insertion later on in the refit of additional alterations and additions, and partly to an underestimate of the amount of work that would in fact be involved.

3115. What I find hard is this, that, going back, for a year it would appear that the ship was out of commission subject to either modernisation or an extended refit, whichever phrase is required, there is then put in an estimate which is assumed to include limited overtime, and then suddenly despite all these delays, occurs this very considerable extra charge because of working overtime?—I would quarrel, if I might, with the word "suddenly". This happened towards the end of the refit. It was assumed that it would be possible to complete it with fairly limited overtime and with a manning curve—to use the technical expression—which began to run down quite a long time in advance of the end of the refit. As the Dockyard got there they found that they could not release this labour, that they had to increase overtime in order to complete the remaining work to be done, and this is one of the bits of the experience we acquired in these years, that these big jobs do lead to a lot of heavy manning and quite a lot of overtime in their closing stages, much more than we had thought previously.

3116. Without wishing to come on to the matters we shall be discussing in the next section, is this not yet another

39389

example where there is not sufficient consultation between the Admiralty and the Dockyard to get a fair spread of labour and stop this sort of thing, because it is obvious that if you increase the manning of one particular vessel you are going to put other vessels back and make the situation worse all down the line? Is that not so?—True, but I would have said we are getting considerably better at this. For one thing, in the Dockyards themselves there has been a great development in the last two or three years of Dockyard planning, that is, the planning of the Dockyard programme as a whole from day to day, week to week and year to year. Also, for the more important jobs we have developed a technique called ship scheduling which is the same thing, dealing in greater detail but limited to a particular ship. As a result of this, and I would claim, of the experience gained on the "Belfast" and one or two other ships that were in hand at about the same time, I feel that the Dockyards are now getting a better and more realistic appreciation of the amount of work involved in these large jobs. But it can never be an exact science, particularly in the early stages.

3117. No, but what I am much more interested in is, do the Dockyards advise you properly as to the manpower available and what they can take on? It is easy enough for the Admiralty to say what they want, but do the Dockyards inform you adequately and responsibly as to what they can undertake?—I would say, yes, now. They have always done it responsibly, but I think their estimate of what they can take on and the amount of money it will cost has considerably improved. But I must go on to reiterate a point I made earlier. While the Dockyard is working on, let us say, ships A to D which were in the planned programme, two more ships may come in, one because it has had a collision or a breakdown, another because the Admiralty has suddenly altered its requirements, and in that situation obviously something has got to give, and the ship that gives will tend to suffer financially. It will deteriorate while it is under-manned or, perhaps, even suspended, and you have work possibly to do over again. Now, this is unavoidable, I think, if you are going to allow for flexibility of operational requirements and an ability on the part of the

K 3

16 May, 1961.]

Sir CLIFFORD JARRETT, K.B.E., C.B.

[Continued.]

Admiralty to change its mind in the light of changing circumstances.

Sir *Gerald Willis*.

3118. I see that of the excess over the original estimate of £1,500,000, no less than £837,000 is due to increased scope of alterations and additions. Was there never any firm plan as to what was going to be done in this case, or did it vary from week to week or month to month? If so, who varied it and why?—Could I attempt to describe the procedure? At the beginning the Naval Staff and the Material Design Departments will get together and submit to the Board a statement of the changes they want to make in the ship, either in full or after some reduction that will be approved and will be the basis on which the work proceeds from then on. But, of course, over any extended period like this all sorts of new equipments begin to loom up, become available, doctrines change, and this process is a continuous one whereby the Naval Staff, I would think mainly, and probably to a lesser extent but nevertheless to some extent the Design Department, are coming along and saying: "Would it not be nice to put this, that and the other into this ship", which is going to be there for some time, perhaps two years. So, if left unchecked, this is a steady process of accretion, but it would be wrong to assume that it is an uncontrolled process. We have a system whereby at fixed intervals either after the start of the work or before the intended completion date, a moratorium is imposed. Now, the moratorium is not necessarily a law of the Medes and the Persians never to be broken, but a very high level approval is needed to make a change if the moratorium has been put on.

3119. Nevertheless, £837,000 worth of extra approval was obtained presumably during these years?—That is true, and it would be equally true to say that at this time the drill was by no means under such good control. Things got through more easily inside the Admiralty, but all this would come from the Admiralty. It would be quite unfair to blame the Dockyard. They would have much more difficulty in getting so many changes through now. But I could tell you what some of the things were, if you like.

Sir *Gerald Willis*.] No, it is a matter of the general principle I am concerned with.

Mr. *John Hall*.

3120. One question on this general question of the estimate. You said in reply to Mr. Cledwyn Hughes that the increases in the estimates had been approved by the Admiralty up to probably the last one prior to the final outturn?—Yes.

3121. The last one, presumably, being the £4,950,000 estimate in January, 1959?—No, the one I had in mind then was the £5,426,000, which was not quite the outturn, but it was an estimate.

3122. Up to the £5,426,000. The final cost was in excess of that, so presumably the Dockyard were able to outrun the estimate without very much trouble?—At the tail end I have stated that that is so, but I have made the point that the last estimate was really the outturn. It often results from bringing to account a number of odd items which might have been overlooked earlier on.

Mr. *John Hall*.

3123. Would the Committee now turn to paragraphs 19-21, the "St. James" and the "Gravelines". Sir Clifford, when these two ships were taken in hand in January and February, 1958, was the Admiralty then aware of the Government decision on the future size of the operational and reserve Fleets?—Yes, it was, but at that stage the ships were expected to complete early in 1959 and to go to the scrap heap in the ordinary way in 1964.

3124. The proposed use of these two ships accorded with that policy decision, did it?—It did.

3125. We have had some discussion already on paragraph 20. When the Dockyard temporarily suspended work on those two ships in November, 1958, was this expressly authorised by the Admiralty?—Did you say paragraph 20, Sir?

3126. We had some discussion earlier on this paragraph. I was asking when work on these ships ceased in November, 1958, was that expressly authorised by the Admiralty or was it done by the Dockyard?—Yes, it was approved by the Admiralty.

3127. In that case, was it not then apparent that the Dockyard programme was becoming overloaded?—At that stage there was a hope that things would get better and that it would be possible to resume.

16 May, 1961.]

Sir CLIFFORD JARRETT, K.B.E., C.B.

[Continued.]

3128. Then, we go on to March, 1959. What action did the Admiralty take in March, 1959, when they were advised by the Dockyard that these and other ships were deteriorating as a result of the slowing down or the stoppage of work?—In March, 1959, the Board considered the situation and shortly afterwards approved a complete suspension of the work and asked for a report on the condition of the two ships, with intent to consider whether it was worth going on or not.

Colonel *Crosthwaite-Eyre*.

3129. As I understand it, the decision to scrap these ships was given in July, 1960, is that correct?—Yes.

3130. And the decision was based on a Government decision in 1958?—No, I would not have said that that was quite the way it was.

3131. I am quoting from the Comptroller and Auditor General's Report?—The Government policy was constant throughout. The Government policy decision was taken at the end of 1957, but when the ships were put in hand it was hoped that we would get them back into the Fleet in time to serve usefully until the date when they were due to disappear anyway under this policy. The delay in getting on with the work meant that by the time we could have hoped to have them back in service their remaining life would be so short under this policy that the expense would not have been justified.

3132. But, then, the Comptroller and Auditor General is correct in saying that there was a Government decision in 1958, but was it a sort of general decision then that did not become operative until the Admiralty wished to use it for some particular vessel or type of vessel?—No, this was a decision on the size of the active Fleet and on a formula to govern the size of the reserve Fleet and it remained constant all the time. But, as a result of it, these ships were to have a limited life up to 1964 in reserve, and that would have been a good thing to have if you could have got them out of the Dockyard in early 1959 as was originally planned.

3133. From paragraph 20 it appears that a report was submitted to the Admiralty in September, 1959. Why did it take from September, 1959, to July, 1960, for the Admiralty to reach a decision?—Because we were deliberating

very carefully whether or not to throw away these ships on which quite a lot of money had been spent. It was a very difficult decision to take and we did spend a lot of time thinking about it.

3134. But if I read these paragraphs correctly, from September, 1959, certainly onwards, the ships were deteriorating because of exposure, and every month that the Admiralty left the decision, the problem became worse if they wished to retain them. Is that not correct?—That would be fair, but, nevertheless, it is still a big decision to get rid of a ship which has useful life left in it.

3135. If you are piling up liabilities one thing to do is to take a quick decision, is it not, if you wish to save money?—But does it not depend on the nature of the decision? This was a lot of investment to throw away, and we were very deliberate about it.

3136. But by not taking the decision you were merely piling up the money you were throwing away?—No work was being done on the ships, but it is perfectly fair to say the ships were getting in a worse condition the longer we delayed.

3137. Supposing you had wanted to go on you would have been faced with a much bigger bill because you had not taken the decision?—But the decision was to get rid of the ships. This is the way things were going.

3138. If you wanted to get rid of the ships, surely nine months is far too long to make up your mind, is it not?—Except that getting rid of a ship which has a useful life in it is a big thing to do, and it is a very final act.

Mr. *John Hall*.

3139. I would like to follow up the question Colonel Crosthwaite-Eyre has just asked. Was the reluctance, indeed, the long delay in arriving at a decision in this and similar cases, due to any reluctance on the part of the Navy to get rid of any of its ships?—Obviously there was a reluctance to get rid of ships which had useful life in them.

3140. Although the useful life—?—would have been short. It still would have existed. It was a question of judging whether useful life of, say, two years instead of the five that we had planned for was worth having at the price.

39389

K 4

16 May, 1961.]

Sir CLIFFORD JARRETT, K.B.E., C.B.

[Continued.]

Colonel *Crosthwaite-Eyre*.

3141. I do not think that is quite right, because the whole point is that every month these ships were left exposed to the weather their expected life was lessening, and every month the Admiralty put off the decision it was becoming more uncertain that these ships would have any useful life at all?—I would not have thought that it was a case of the life lessening; it was a case of the cost of making them fit for the Service increasing; in other words, the deterioration could have been made good.

3142. You can always make deterioration good if you have unlimited money from the Treasury to foot the bill. That is self-evident?—There was a considerable saving, I must emphasise that part.

Sir *Samuel Storey*.

3143. By November, 1958, it became quite clear that you could not get these two ships back in commission early in 1959. Why did it take until July, 1960, to come to a decision on their future?—The first reason was that it took some months to obtain a report on their state. They were moored out in the stream, and the Dockyard were heavily pressed. They had had a blow in the form of the fire in "Ark Royal" which occurred in April, 1959, the effects of which had to be offset, and it was in September, 1959, that we got the report on the ships' condition, and an estimate of what would be required to finish the job. The Admiralty took from September, 1959, to July, 1960, considering whether the cost was worth the remaining life that one would get out of the ships if they were completed.

3144. But the decision on the size of the Fleets had been taken early in 1958. You continued the work on these ships because you expected to get them back early in 1959?—Yes.

3145. In November, 1958, it became quite clear you were not going to get them back in early 1959. Surely that was the time when a decision should have been taken to scrap them?—I think I must explain a bit more the nature of this decision. The decision was that we should have an active Fleet of a given size, that we should run the reserve Fleet down to a level which provided a working stock of ships to replace active ships which ran into trouble and to cover long refits and modernisations.

But the plan was to run down to that figure over a period of years and within that time not to throw away ships which had a useful life left in them. So that, in deciding to scrap these two vessels in July, 1960, the Board were in fact bringing forward the time at which the reserve Fleet fell by two.

3146. When was it expected to complete the rundown?— * * *

3147. How much of the expenditure on the two ships is likely to be recovered?—About £30,000 on one and about £14,000 on the other, plus some more returns which we may get but which have not been costed yet.

Mr. *John Hall*.

3148. May we now turn to paragraphs 22-24, which deal with H.M.S. "Swiftsure"? Sir Clifford, since the original estimates are very much the same, was the "Swiftsure" to be refitted to the same standard as the "Belfast"?—Broadly, yes.

3149. Did the Admiralty itself authorise the diversion of labour from the "Swiftsure" during 1957-58 and 1958-59 and the consequent deferment of its completion date by nearly two years?—They certainly did in the latter part of that period. There may have been some priority given by the Yard to other ships during the first few months, but in the latter part of the period the Admiralty not only knew what was going on but, in one case—in fact, in two cases—pushed additional ships in with the knowledge that it would inevitably delay "Swiftsure".

3150. Although they did not know in the first few months that the Dockyard was in fact diverting work?—They might not have done.

3151. As far as I understand it, you eventually scrapped the "Swiftsure" because she had no future under the plan for naval requirements introduced in 1958. How much was spent on the vessel from the date of that plan to the suspension of work in September, 1959?—I would not have said that the whole reason for getting rid of the "Swiftsure" was that she did not fit into the 1958 plan. Indeed, in a sense she did.

3152. I am quoting from the Comptroller and Auditor General's Report, and in paragraph 23 in the penultimate sentence he says: "I was informed that in the light of weapon developments

16 May, 1961.]

Sir CLIFFORD JARRETT, K.B.E., C.B.

[Continued.]

since 1956 and the plan for naval requirements introduced in 1958, the Board had decided that there was no longer a future for H.M.S. 'Swiftsure' as a cruiser"?—That is perfectly true, but there was a time when, to fulfil the active Fleet element for cruisers in the 1958 plan, we would have liked five cruisers in all. What really happened with "Swiftsure" was that we came to the conclusion that because of her gun armament and lack of anti-aircraft capacity she would not be a very effective element of the Fleet, and that we would take something of a risk in being content with four cruisers instead of five.

3153. I am really interested in the reference here. For example, the Comptroller and Auditor General says: "in the light of weapon development since 1956". It must have been known by the Admiralty that "Swiftsure" did not really meet the requirements of modern naval armament for anti-aircraft purposes, certainly after 1958?—In 1956 the position was the same as I described in relation to 1955 when we were discussing the "Belfast". We wanted a given number of cruisers, and the best, though admittedly imperfect, way of providing them was to modernise or give long refits to both of these vessels. That remained the position until we decided to get rid of "Swiftsure". But it would be fair to say that the case for completing her was growing increasingly open to question from the date of her suspension onwards.

3154. Could you tell me, Sir Clifford, for the Committee's interest how much in fact was spent from the date of the plan until the date of the suspension of the work? Is it possible for you to do that?—You have got the total expenditure, and that would have been up to the date when she was suspended in September, 1959. I do not think I have an exact figure of expenditure up to September, 1958.

3155. No, the month that I was quoting was September, 1959?—In September, 1959, we had spent the amount quoted in paragraph 24, £1.3 million. She was not worked on from September, 1959. (Sir *Edmund Compton*.) Perhaps you had the point in mind, Sir, that work was started in February, 1957, whereas the plan is a plan of 1958.

3156. That is as I understood it, the work was started earlier, surely, than the

development of the 1958 plan?—(Sir *Clifford Jarrett*.) Yes.

3157. A certain amount of work which is included, presumably, in the total expenditure referred to in paragraph 24 was carried out prior to the plan of 1958?—Yes.

3158. What was spent between the time of the plan and the suspension in September, 1959? You have quoted me the total amount spent throughout the whole of the refit*?—I could not give that off-hand. I could let you have a note of that.

3159. Could you let the Committee have a note of that, and perhaps you could let us have in a similar note at the same time the amount spent on the vessel between March, 1959, when the Dockyard reported her deterioration and September, 1959, when the work was stopped? Could you include that in the same note?—Certainly. We will cover both things.†

Sir *George Benson*.

3160. What exactly is meant by "deterioration", and how does it occur?—In one word, rust, really.

3161. Does the rust occur while you are contemplating the re-equipment or was it there before you started stripping for re-equipment, or what?—It gets worse all the time, unless one has taken great care to put the ship in a state of preservation, which you obviously do not do in one you are working on.

3162. Where does the rust occur, outside or inside?—Both.

3163. The hull rusts on the outside?—The hull will rust if you have got bare patches, and it will also occur inside.

3164. How rapidly does it take place? When we speak of rust, I assume it is serious damage?—Yes. Of course, you have not got to have serious damage before making good the deterioration involves you in work.

3165. I know, but deterioration takes place, and then you decide whether it is worth while completing the ship?—Not solely because of the extra cost involved by the deterioration that has occurred while one is making up one's mind. There is still a lot of work outstanding

* *Note by Witness*: The total cost of the refit, including all credits so far brought to account is £1,200,000.

† Information supplied: not printed.

16 May, 1961.]

Sir CLIFFORD JARRETT, K.B.E., C.B.

[Continued.]

which has got nothing to do with deterioration that was occurring while she was in Dockyard hands.

Sir Samuel Storey.

3166. When you expected the refit to be finished in February, 1960, what was the expected life of "Swiftsure"?—1965.

3167. Do you think that an expenditure of £4½ million was justifiable on a ship that had a useful life of five years, whose weapon equipment was known to be unsatisfactory before the refit was undertaken?—The Board did, and I do want to emphasise that at the time there was a requirement which could not have been satisfied in any other way. It may not have been a good way or a very good way of satisfying the requirement, but the alternative would have been to build a new ship, which would have taken a longer time still because one would have had to design it, and the cost would have been vastly greater.

3168. But, surely, when the refit was shown to be going to take several years more the decision ought to have been taken to scrap, ought it not?—The Board did not think so. This is another case where they really did deliberate a long time. I remember, this came up at one stage to a full Board meeting to decide in relation to cruiser policy as a whole whether it was right to abandon this ship and save the money or go on with her, recognising that she might not be a very effective hot war ship. She was still a very good cold war ship.

3169. But, surely, by February, 1960, when it was clear she could not be completed for a couple of years, say, it was not worth going on spending the money to give her three years' life at the most?—All I can say to that is that the Board of Admiralty did not arrive at that conclusion. They did not think so. There was a genuine debate which went on for a long time more about this ship than the two destroyers.

3170. Was this one of the four ships on which work was stopped, as reported in paragraph 20?—No, this was a different Dockyard. "Swiftsure" was at Chatham.

3171. What are the differences between "Belfast" and "Swiftsure" that made you scrap one and complete the other?—To a large extent, time. The more time went on the more one had a livelier appreciation of the kind of anti-aircraft

weapon you would need to deal with the aircraft threat of some years hence.

3172. The ships are of the same class, are they?—Not exactly. I have not got particulars here, but they do differ. "Belfast" is, I am pretty certain, a considerably bigger ship, a more powerful ship, but if you wanted a note on the difference I can give them.

3173. Was her weapon equipment more up to date than "Swiftsure's"?—I would not have said there was a vast difference. The big step was from guns of their vintage with the fire control associated with them to those that would be fitted to the "Tiger" class, which is a different kettle of fish altogether.

3174. We are told you expect to recover some of the £1,300,000. Could you tell us how much you expect to recover?—We have not got a final figure of recovery, but some has been identified. The figures I have are not quite the same. They are the figures of nugatory expenditure, not of recovery. We still have not brought to account all the things we have been able to take out of her.

Colonel Crosthwaite-Eyre.

3175. The more I hear of this the more I am alarmed by this word "deterioration". During this period that we are now discussing how many ships were suffering from deterioration and so reported to the Admiralty?—Of course, all ships are suffering from deterioration all the time, even the ships that are being worked on are suffering deterioration, and you are catching up with it all the time.

3176. I think, Sir Clifford, you know exactly what I am getting at. How many ships were reported by Dockyards as being subject to repair and by reason of the fact that the repairs were not going on at the scheduled rate, that led to notification of deterioration by the Dockyards to you?—Perhaps seven or eight, I would say, all told.

Mr. John Hall.

3177. May we now turn to paragraphs 25 and 26, Allocation of work to Dockyards. Sir Clifford, in the Report the Comptroller and Auditor General says: "The Admiralty stated that they had already approved a scheme of Dockyard reorganisation but it had made little progress by early 1959". Why had it made little progress?—Because it was still

16 May, 1961.]

Sir CLIFFORD JARRETT, K.B.E., C.B.

[Continued.]

very new at that time. It is a scheme that requires the redistribution of the staff on a considerable scale. It involves a big move from the tools to the offices, it involves an increase in the professional component of the Dockyard, and so on, and those were its very early days.

3178. When had the scheme been approved?—In 1957, I would say.

3179. So, in two years very little had happened?—A great deal of preparatory work had been done.

3180. When do you expect the Report of the Committee which has now been appointed?—Soon. It is being written now.

3181. What are the interim policy decisions that you have taken whilst waiting for this Committee's Report?—One, of course, is to lighten the load by taking a number of ships out of the programme, some of which have been mentioned, some of which have not but which were about to come in hand later. We have stopped the rundown of Dockyard numbers at home, although I am bound to say without the success we would have hoped for, because owing to recruiting difficulties the numbers are still falling. We have increased the allowance for overtime from 9 to 10 per cent. in 1959-60 to 14 per cent. in the current year. We have put a number of refits of Royal Fleet auxiliaries out to contract. In addition, we have tightened up quite considerably in the Admiralty on the arrangements for the approval of alterations and additions, and it is much harder to get that sort of change through than it was.

3182. Apart from the naval auxiliaries, do you make use of outside ship repairers to take up unforeseen fluctuations to which you referred earlier?—They are not very useful for unforeseen fluctuations because so often you want the ship that causes the fluctuation back again very quickly, and at most times the private yard has got its commercial commitments. It cannot drop everything and give priority to your ship, and that is why on the whole the unforeseen fluctuations come into the Dockyard.

3183. Is the Admiralty now satisfied that the labour force in the Dockyards is about the right size to meet the future load of work so far as they can foresee it?—I have explained, it is not as big as we had planned. We have not been able to recruit all we needed. What I

would feel confident about is that we have now got a sufficiently realistic estimate of load and of capacity and a sufficiently sensitive finger on the pulse to foresee really bad trouble if it is coming and in time to take remedial measures.

Colonel *Crosthwaite-Eyre*.

3184. I asked you, Sir Clifford, about the number of ships that suffered due to deterioration during the period. How many are there now of those ships on which work has been suspended or delayed in Her Majesty's Dockyards?—To the best of my knowledge, one.

3185. Only one as against the eight or nine in the period we were considering?—It has certainly reduced very considerably.

3186. That is most encouraging?—I am not going to say there may not be the odd ship delayed for very short periods.

3187. No, but talking in the same terms?—I recall only one big ship which has been suspended for a long time, and that was again done very deliberately.

3188. Am I right in saying that now if any change in the order of priority is authorised it is much more of a high level decision than it was in the time we are talking about, in the sense that it can only be taken by much more senior officials?—I was talking of alterations and additions then, that is to say, further improvements to a ship that is being refitted.

3189. What about changes to a ship's priority of working?—A lot of that is uncontrollable, of course; if a ship breaks down, there she is with her crew, and you want her back into the Fleet as quickly as possible.

3190. I am rather talking in the context in which we have been talking this afternoon?—You mean, changes of plan?

3191. Priority, if you like?—Those would all have come to a very high level anyway. It was the alterations and additions which tended to get approved at a lower level than happens today.

Sir *Samuel Storey*.

3192. Has any of the reduction in overload been achieved by stopping work on vessels which have a longer life than, say, "Swiftsure"?—When you say "a

16 May, 1961.]

Sir CLIFFORD JARRETT, K.B.E., C.B.

[Continued.]

longer life", you mean which would have lasted beyond 1965?

3193. Yes?—One I suppose would have done but she was a support ship, with a merchant ship hull, not a ship belonging to the fighting Fleet, where one's standards are quite different. There were in fact two of that character. I would not have thought that any of the others had a planned longer life if they were full fighting ships.

3194. So you are quite satisfied that the efficiency of the Fleet is not suffering by reason of this work having been stopped to reduce the load on the Dock-

yards?—I would not go so far as to say that if we had the money and the total resources there are none of these jobs that we would have liked to do.
* * *

Mr. *John Hall.*] May we now pass to Appendices I to X on pages 32 to 42? I have no questions.

Colonel *Crosthwaite-Eyre.*

3195. On page 35, Item 33 is "Loss of, and damage to, stores and equipment during a riot at a naval establishment abroad". Where was that?—Malta.

Confidential Supplements to Navy Appropriation Account, 1959-60 forwarded in compliance with Paragraphs 10 and 11 of the Third Report of the Committee of Public Accounts, 1946-47.

Mr. *John Hall.*] May we now turn to the New Works Statements? I have no questions on any of these sheets.

Sir *Colin Thornton-Kemsley.*

3196. May I just ask a question on the works services? There is quite a lot of work going on at Rosyth, I see. That is still in active use, is it, as a Dockyard?—Oh, yes, indeed.

3197. On the purchases of land and buildings, what is the story about purchases of sheep at Glen Douglas and running a farm there?—This was a case where we wanted part of a sheep farm, but in order to satisfy the owner we had to buy the whole lot with his sheep, and we were prevailed upon partly on the advice of the Scottish Department of Agriculture to indulge in a bit of temporary sheep farming. That has now come to an end.

3198. So it has cost you £—, or is that to buy the land?—Oh, no this was to buy the land, and indeed, we have since sold the superfluous bit of land at quite a favourable price.

3199. At Machrihanish you had to give about four times as much for the land as you originally estimated, had you not?—No, I am sorry, I think the table is misleading. The figures in the first column should really be aggregated. They equate to the £— in the next column.

3200. What is the "right of support for Machrihanish Airfield", which cost

£—?—This is what we have to pay to the Coal Board in order to ensure that they leave sufficiently big pillars of coal underneath to avoid subsidence in our land.

Mr. *John Hall.*

3201. Are they not liable for subsidence in your land?—All I can say is that we have had to do this on legal advice.

Colonel *Crosthwaite-Eyre.*

3202. I spent weeks on the Mining and Subsidence Bill and I would have thought you could have claimed the whole lot from the Coal Board without any trouble?—Could I undertake to get the papers out? I am quoting now information I had merely in going through this myself and I was assured that we had to do this on legal advice.

Colonel *Crosthwaite-Eyre.*] I would very much like a note on this.

Mr. *John Hall.*] I think the Committee would be interested to have a note* on that particular aspect.

Sir *Samuel Storey.*

3203. Would you not have to await any damage before you claimed from the Coal Board, whereas you wanted to safeguard against damage at all?—I think that is so.

Mr. *John Hall.*] I am not sure that that alters the position. However, we will await the note.

* Information supplied: not printed.

16 May, 1961.]

Sir CLIFFORD JARRETT, K.B.E., C.B.

[Continued.]

NAVY DOCKYARD AND PRODUCTION ACCOUNTS, 1959-60.

Mr. *John Hall.*] Will Members now turn to the Navy Dockyard and Production Accounts, to pages 7 to 16, the Dockyard Accounts themselves. I think there is a Memorandum* on the "Chichester" which comes in here. I have no questions.

Colonel *Crosthwaite-Eyre.*

3204. I believe the "Chichester" belongs to the same class as the "Salisbury". Am I right in saying that H.M.S. "Salisbury" was the first of this class?—She was the first to be completed.

3205. If you remember, Sir Clifford, we were talking about the "Salisbury" indirectly earlier on when she had to come in for urgent repairs and threw various others of your programme out of gear?—Because she steamed an awfully long way and had to have her engines overhauled, yes.

3206. Was the "Salisbury" more satisfactory than the "Chichester"? You talk about teething troubles, do you not, in the "Chichester" and I was wondering why perhaps the lessons of the "Salisbury" had not been learned?—It would be fair to say that all the ships of this class have had teething troubles, the "Chichester" in a greater degree than the others. As to learning the lessons, of course, they were completing at overlapping periods and it would have been very difficult to learn lessons in any one from the actual extensive running of any of the others.

3207. But you say, am I not correct, in paragraph 3 of your Memorandum that ships of this class are expected to have a refit in cycles of — months. I think I am correct?—Yes.

3208. And therefore you would expect them to be out of action refitting for — months every — years. Would that be correct?—Yes.

3209. Yet with the "Chichester" it is about one year in three refitting?—Yes, but you must look at the whole picture of the "Chichester". The first refit was not all that early, bearing in mind that she had been running trials before she was accepted in May, 1958. The second refit, admittedly, did occur

after an interval much shorter than — months. There was a deliberate reason for that in that her next tour of duty was to be in the Far East. We did not want to load Singapore Dockyard with a full refit of this ship and, therefore, we did her before she went out. But it is planned that she should do the whole of her next commission in the Far East without a refit at all; in other words, that there will be an interval of — months following the refit that has just been completed.

3210. You are referring to paragraph 5, are you, in your Confidential Memorandum?—Yes. The next one, we hope, will not be for somewhat longer.

3211. But you have in fact had to replace the engines, is that not so?—We have replaced one engine.

3212. How long have these engines been in use by the Navy?—The engine was replaced not because it had failed through inherent faults but because it was severely damaged through being allowed to over-speed.

3213. You are satisfied that this type of engine is well proven in naval terms?—We are satisfied with the engine. We are or have been less satisfied with the gear box and clutch.

3214. But they apparently have all had to be replaced, is that correct?—They have had to have a lot of work done on them, a lot of modifications, yes.

3215. Who is responsible for this; is it the Admiralty for accepting a wrong design or is it a faulty design by the ship builders or the suppliers of the engines?—I think this is one of the risks you take when you are trying to improve your material and go on steadily beyond the limits of previous experience and technique. You hope the thing will work but it may or may not.

3216. That is why I asked you about the "Salisbury" to start with, because as I understand it the clutches were modified before acceptance of H.M.S. "Chichester", on the 16th May, 1958, yet by July 7th in the same year they had to be modified again. I take that from your Memorandum?—She was accepted in May, 1958, and then she had to go into Portsmouth Dockyard to have the clutches dealt with.

* Not printed.

16 May, 1961.]

Sir CLIFFORD JARRETT, K.B.E., C.B.

[Continued.]

3217. The clutches were modified before she was accepted, that is, before the 16th May, 1958. That is correct, is it not?—Yes.

3218. And yet two months later she has to go in and be modified again?—Yes.

3219. Is that not rather odd?—It is unlucky, I think, if you like.

3220. Who is responsible for that?—I would not have said anyone is responsible in the sense that here was a new development which was based on a clutch and gear-box, admittedly on a considerably smaller scale, which had already been developed and surveyed. The contractor was given the job of producing this much enlarged version and there was no reason to suppose that it would not work. In practice, as does happen from time to time and with very sophisticated material I am afraid, once these clutches were subjected to the full rigours of operational service they broke down and gave trouble; and it took us a long time of successive modifications to get them more or less right.

3221. Are you satisfied you have got them right now?—They are not perfect, no, but we think they will run pretty well. There has been a lot of modification, I would not deny that.

3222. I understand these pieces of machinery are in rather an inaccessible part. That is taken from your paragraph 3 (a)?—Yes.

3223. Surely if you are going to have a very complicated piece of machinery like that you want it easy of access, do you not? Is it not a fault of design?—There may have been a certain amount of lack of foresight in one or two instances in the design of access or the absence of visible gauges, and so on, but one must remember that these ships are stuffed full of material. You simply cannot make everything easy of access unless you are going to pay the price of a much bigger hull and much more powerful engines to drive her at the same speed. A lot of these troubles are nearly always an inevitable consequence of gaining experience and getting a better power to weight ratio in order to keep the ship small.

3224. You think you have got that now?—We think the clutches are working pretty well and are pretty reliable, but they are not perfect. There is still the other trouble, the alternator

pole bolts which we cannot claim to have sorted out yet, but we think we have found the solution or hope we have, but we cannot be certain yet. This was another case of a product which was well proven commercially but which just did not seem to go under sea conditions.

3225. I was told—I hope it is not true—that after one of these refits H.M.S. “Chichester” went to sea and had to be towed back immediately she got outside the harbour?—The last one. This again was because of a human failure on board. The thrust blocks were allowed to overheat. Again, it was not the fault of the material, it was probably the fault of someone on board but I must be careful about that because we have not yet considered the report of the Board of enquiry.

Mr. John Hall.

3226. Are the engine and clutch and gear box of Admiralty design?—No, they are of commercial design, except for the engine.

Sir George Benson.

3227. Paragraph 3 starts off: “The refitting cycle envisaged for ships of this class allowed for an interval of — months between refits”. That seems an extraordinarily short period. What exactly is a refit?—Mending things which have gone wrong during the interval, catching up with any arrears of planned maintenance that have occurred. But, you know, they steam enormous distances in these times.

3228. Is a refit merely another word for an overhaul or does it mean something more?—It may mean that you take out a defective piece of apparatus or faulty piece of material and put a new one in.

3229. You would hardly call that a refit. To my way of thinking a refit is something much more drastic and general?—An ordinary refit, I think, in common parlance could be called a major overhaul of the whole ship hull and all. The refits we have been discussing earlier were much bigger things, but they had another term of art applied to them, which was an “extended refit”.

3230. So, a refit means any general overhaul that is necessary after a period of service?—It is one of the regular cyclical major overhauls.

16 May, 1961.]

Sir CLIFFORD JARRETT, K.B.E., C.B.

[Continued.]

3231. What would a refit cost?—
The standard figure for these refits is
£— in this class of ship.

3232. And your ship costs what,
approximately, to the nearest million

pounds?—This one actually cost about
£4 million.

3233. You spend £— on refitting
every two years?—Yes, but in practice
you may spend more or you may spend
less and one of these refits did, in fact,
cost a good deal more than that.

Secret Memoranda by the Admiralty relating to (i) New Construction ; (ii) Repairs,
Alterations, etc., to H.M. Ships ; (iii) Value of Stocks of Naval Stores.

Mr. *John Hall*.] Will Members now
turn to the Supplements to the Navy
Dockyard and Production Accounts,
1959-60. I have no questions.

Sir *Colin Thornton-Kemsley*.

3234. I have just one on the Secret
Statement on new construction. Sir
Clifford, in the blue paper, page 1, there
are one or two additional columns to
those given on page 16 of the Dockyard
and Production Accounts. One of those
additional columns is the one on the
extreme right which is "Original
Estimates" which in every case is very
considerably lower than the total ex-
penditure to the 31st March, 1960. Can
you tell the Committee when the original

estimates were made?—For the
"Hermes", in 1954. For the 2 sub-
marines, I would say about 1955.

3235. For both the submarines?—I
have not got precise dates for any except
"Hermes". The earlier ones would
clearly have been, I would think, 1955
or 1956; probably 1955 for the sub-
marine but I must admit I am guessing
on that. Would it be a good thing to
give you a note of the dates when these
estimates were prepared?

3236. I would not require that?—I
can tell you when they were laid down,
but when the actual estimates were
formulated I cannot say at the moment.

TUESDAY, 6TH JUNE, 1961.

Members present:

Mr. Harold Wilson, in the Chair.

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

Mr. John Hall.
Sir Samuel Storey.
Sir Colin Thornton-Kemsley.

Sir EDMUND COMPTON, K.B.E., C.B., Mr. D. O. HENLEY and Mr. A. D. PECK, M.B.E., called in and examined.

Sir ROGER MAKINS, G.C.B., G.C.M.G., Chairman, and Sir ALAN HITCHMAN, K.C.B., Member for Finance and Administration, United Kingdom Atomic Energy Authority, called in and further examined; and Mr. F. F. TURNBULL, C.B., C.I.E., Secretary, Office of the Minister for Science, called in and examined.

ATOMIC ENERGY AUTHORITY BALANCE SHEET AS AT 31ST MARCH, 1960.

* * * * *

Chairman.

3304. Will Members now turn to the Authority's Balance Sheet for 1960? Sir Roger, I think we have now reached the point where we would like you to go on to the record in answers to some general questions of the principles on which the nuclear fuel business is run. The first I would like to put is this: last year you told the Public Accounts Committee that it was your intention to recover all your expenditure in connection with fuel elements for the nuclear power programme. Have you any reservations to make to that statement now, as a result of costs following from the over-provisioning of uranium, beryllium and thorium?—It is still our intention to recover our costs. For reasons which were explained to the Committee last year, as far as the royalties are concerned, we are not recovering our costs on the first four nuclear stations because the royalties have been waived on those stations as a result of a decision by the Government. As regards the sales of the fuel, which is the other method through which we seek to recover our costs, it is our expectation that there may be a small deficit on the first charges of the first four civil stations, but we cannot estimate now what this might be.

3305. To that extent you are revising the statement you made last year?—Yes, I think this possibility of a deficit on the fuel for the first four stations is a point which has arisen in the course of this last year.

3306. I am right in saying this, am I, that the cost of developing fuel elements for new or future types of reactor will only be recovered if and when those reactors come into use?—Yes.

3307. This means, then, that substantial expenditure which in your accounts is charged to the item "Net Cost of Operations" will only be recovered in the long run if all turns out well or, perhaps, never recovered at all?—In the development of the reactor systems if a reactor system is successful in the sense that a substantial number of stations is ordered we would expect to recover our full costs. If a system is partially successful in the sense that a small number of stations of that particular system is ordered then we would expect to make a partial recovery of our costs.

3308. Have you any plans for showing specifically in your accounts the expenditure which remains to be recovered under the principle you have laid down and, on the other hand, any expenditure which has proved to be or is likely to be irrecoverable?—We make the best estimates we can of the likely development costs of the systems as also of the fuel elements for a particular reactor. We write off the expenditure in each year but in the expectation of recovering it later.

3309. You say you make these estimates but how far do these estimates show up in your accounts?—They do not show up in the accounts except in so far as the expenditure actually incurred in a year is obviously included in the account.

6 June, 1961.] Sir ROGER MAKINS, G.C.B., G.C.M.G., [Continued.
Sir ALAN HITCHMAN, K.C.B., and Mr. F. F. TURNBULL, C.B., C.I.E.

3310. But you have, at any rate notionally, in your minds or the mind of the Authority written off some of your stock losses but you have so far included it in net cost of operations. How far do you intend to make these figures specific and clear in the accounts?—(Sir Alan Hitchman.) We have not specifically considered this question so far, Sir. I think we shall have to consider it and I think it would require a note on the accounts in respect of the stock losses indicating that in the net cost of operations there was an amount in respect of certain write-offs. As to whether we should do this in respect of development expenditure, we have not considered it so far; I think that is all I should say. I do not think the occasion has so far specifically arisen because if our expenditure is of a basic character, I think it is understood we do not seek to recover whereas with other expenditure which is specifically allocated to particular systems we have not, so far at any rate, abandoned a hope of recovery.

3311. Now, for your research and development work on the reactor systems you get back as much as you can in the form of royalties; you have explained that to us. Have you plans to produce accounts showing the expenditure and the extent to which it is being recovered by way of royalty?—Yes.

3312. And the accounts will show this as a separate item?—They will not appear in the published accounts but we shall have such accounts for our own control purposes and for the purpose of assessing the charges.

3313. And for the Comptroller and Auditor General?—Certainly for the Comptroller and Auditor General.

3314. And, therefore, for this Committee?—Yes.

Colonel Crosthwaite-Eyre.

3315. Why should they not appear in the published accounts? It seems to me that it is a matter of great interest to the public to know what they are getting by the sale of these elements, and so on?—(Sir Roger Makins.) This goes back really to the form in which the Authority are directed to publish their accounts.

3316. Certainly you would like your accounts to be as informative as possible. Is there any reason in the public interest

why this gross figure to which the Chairman referred, should not be shown?—The reason why we are instructed to publish our accounts in a net form is, as I think you know, for security reasons.

Chairman.

3317. Mr. Turnbull, have you any comments to make on this?—(Mr. Turnbull.) The net cost of operations does include certain elements of defence expenditure, and as I think we explained last year, if this were broken down into its component elements for public use, this would necessarily display certain parts of defence expenditure, and that is the reason why the Authority have been required not to publish their accounts in analysis form which will show the civil expenditure as distinct from military expenditure.

Colonel Crosthwaite-Eyre.

3318. I follow that, but if I am correct, the total amount of royalties is so small as compared with the net cost of operations that I should have thought it would be perfectly possible to show that without disclosing anything more in the Balance Sheet except a revenue figure which would help the public to appreciate what you are doing?—It may be possible, certainly, to go some way in this direction provided it is limited in its extent. Sir Alan Hitchman said it would be possible to distinguish losses of certain kinds in the note, but I think we should have to consider rather carefully how far we could go in making this analysis.

Chairman.

3319. Mr. Turnbull, while recognising the security element which means that the Authority's accounts must be rather unusual, is there not a danger that because of this security element there will be a tendency for the Authority to shelter behind this reason and to fail to give details of items where security as such is not involved but where there is purely a commercial loss, a writing-off of stocks, and is it not important to distinguish between the question of security in the broad sense and ordinary commercial losses which in any other organisation would have to be separately noted?—Yes, I think there is a question here that we ought to consider, but we do have to watch the security aspect. (Sir Roger Makins.) I think I would like to say that the Authority has no desire to shelter

6 June, 1961.] Sir ROGER MAKINS, G.C.B., G.C.M.G., [Continued.
Sir ALAN HITCHMAN, K.C.B., and Mr. F. F. TURNBULL, C.B., C.I.E.

behind the security provisions in order, as you might say, to cover up any of its operations; and as far as these commercial accounts are concerned, they are very willing that they should be produced. They will be produced to the Comptroller and Auditor General and the Comptroller and Auditor General will be able to raise any points and bring them to the attention of this Committee.

3320. Although there is no desire to cover up on these accounts, up to now they have been covered up. I take it that the answer you have just given is in the nature of an undertaking for the future?—I think I might say that as far as the commercial accounts are concerned, up to and including the year we are considering, the Authority had done very little trading. The trading activities of the Authority have increased since 1959 and are increasing, and therefore the activities of the Authority, which will become the subject of the commercial accounts, have increased.

3321. But it is clear that by the date we are considering some of the operations that have occurred have involved fairly substantial losses which in one way or another are likely to have to be written off or put into suspense for many years ahead, so far as hope of recovery is concerned? Am I right in understanding you to say that it is the desire of the Authority to make information available on this without sheltering behind the cloak of security where there is no real issue of security involved? Is that right?—Certainly.

3322. That is the position of your Office, Mr. Turnbull, is it?—(Mr. Turnbull.) Yes, I think Sir Roger is saying we would make available to the Comptroller and Auditor General statements on these losses, and these will be made available to the Committee. I do not think he was undertaking anything more.

3323. At the earliest opportunity where this can be done without loss of security, this should be in the published accounts available to Parliament. I am not quite clear here who is protecting the tax-payer, whether it is the Office of the Minister for Science, who seems to be rather security-minded, or Sir Roger's Authority, who have got a great production job to do and a number of past stock losses to absorb in some way. Is it not a fact that the less you get out figures for your own use and the less

the Ministry of Science are pressing you on this, the rather more complacent one is likely to get about these past losses and about identifying them?—(Sir Roger Makins.) No, I would not accept that.

Colonel *Crosthwaite-Eyre*.

3324. Following that up and looking at your Balance Sheet, is there any way in which the average person could discover that you had waived £10 million in royalties on the first four stations? There is no Defence secret about that in any shape or form?—(Sir Alan Hitchman.) No, it does not appear in the Balance Sheet.

3325. There is no way in which anybody could possibly discover that unless he were a member of this Committee and he had been here on two days' sessions. Am I right in that?—It is a matter of public knowledge.

3326. No, it is not a matter of public knowledge, it should be reflected in your Balance Sheet, to my view at any rate. I am only giving you that as one example of what we have been discussing over the past two days?—(Mr. Henley.) May I just comment on this point from the Treasury's point of view? There are two distinct main questions here. One is the question of the form in which further information should be produced, either internally for the Authority, or for the Treasury and the Comptroller and Auditor General, the Office and the Public Accounts Committee, and so on. That is a matter on which we are currently discussing the possibilities with the Authority and we are confident we shall come to some agreement to get some more information. It is not necessarily very easy, in considering the form of the accounts, to bring out the particular losses or costs of certain types of operations which we have been discussing. This is a matter of the form of the actual accounts as distinct from the internal statements showing how this or that expenditure is incurred and met by certain receipts, and this question of the form of accounts is under consideration. The second quite distinct point is what could be done to publish more information. On that I think I should say that the Treasury has up to now accepted, in consultation with all the other Departments concerned, that not much more could be published at this stage, because

6 June, 1961.] Sir ROGER MAKINS, G.C.B., G.C.M.G., [Continued.
Sir ALAN HITCHMAN, K.C.B., and Mr. F. F. TURNBULL, C.B., C.I.E.

although it is not too easy to explain in detail, as soon as one starts breaking down global figures there is a security risk. On one particular point raised today, that is to say, how one shows publicly the fact that certain interest charges on these large uranium stocks are not in fact being recovered, we think we can probably come to some arrangement with the Authority and that will probably be, as I think Sir Alan suggested, by some sort of note to the published accounts.

3327. All I am interested in is that I cannot see any reason why the public should not know about a matter such as we have been discussing today in public session, such as the question about our commitments for the future without a firm contract. They may be right, they may be wrong. It is our job to try to evaluate, if we can, and above all where you waive £10 million of interest there cannot be a security risk in any shape or form in the public knowing that. I cannot follow the argument at all?—If I may say so, I think it is difficult to follow and, indeed, we in the Treasury have taken some convincing on this, but hitherto we have been convinced that if you start to show figures which, to the intelligent person can be related to the underlying operations, you tend to break down the different types of operations in which the Authority is engaged.

Colonel *Crosthwaite-Eyre*.] May I assure you, as far as I am concerned, I have to read a lot of Balance Sheets in my life and I have never seen one which is as completely unintelligible as that of the Authority. If anybody can get anything out of it he is much cleverer than I am.

Chairman.

3328. Are the Treasury quite clear as regards security between military security on the one hand and commercial prudence on the other? Obviously where you have a commercial purchasing programme there are things which you must withhold, at least for a time, from your competitors or suppliers, and obviously a question of security in a different sense is involved there. Could the Treasury give an assurance that in looking again at this whole problem of presenting the accounts, they will not shelter behind the military security argument in connection with the publication of items that the public has a right to

have?—I can certainly give that assurance, Sir. (Sir *Roger Makins*.) The form of our accounts, I think I might say, is prescribed to the Authority by the Government.

Colonel *Crosthwaite-Eyre*.

3329. I am not blaming you at all, Sir Roger, for one moment. I was merely congratulating the Treasury for having erected the finest smoke screen that I have ever seen?—(Mr. *Henley*.) I must comment that that is very far from being the Treasury's intention in this matter.

Chairman.

3330. I still have not got an answer to the rather simple question I put earlier on. In all this, since there are no published figures which mean anything to anyone, who is protecting the tax-payer? Is it the Treasury, the Office of the Minister for Science, or the Atomic Energy Authority? Who, in the view of the Treasury is fulfilling that function?—We should hope all three, Sir, but naturally we, perhaps, have a more direct interest than some others.

Chairman.] Apart from your last assurance that it was going to be looked at again, I have not had much proof that this is being done.

Colonel *Crosthwaite-Eyre*.] It must be considered a cause for congratulation, at any rate, that in the accounts the Treasury have allowed it to be announced that the Authority holds 3 per cent. Electricity Stock.

Chairman.] I think that comes up when we look at the accounts themselves.

Colonel *Crosthwaite-Eyre*.] It does.

Chairman.

3331. Will Members now turn to the Comptroller and Auditor General's Report on the Balance sheet, to paragraphs 4 to 7, Accounting for and Control of Recoverable Expenditure, taking first paragraphs 4 and 5, Research and Development? Sir Roger, what is the total outlay of the Authority on Research and Development?—(Sir *Roger Makins*.) The cash figure is about £— million.

3332. How much of this total are you spending on research and development in aid of the Nuclear Power Programme?—This is all civil?

3333. This is all Nuclear Power?—In a very broad sense.

6 June, 1961.] Sir ROGER MAKINS, G.C.B., G.C.M.G., [Continued.
Sir ALAN HITCHMAN, K.C.B., and Mr. F. F. TURNBULL, C.B., C.I.E.

3334. Is that all expenditure recorded in the memorandum accounts which you told the Public Accounts Committee you would maintain?—Yes.

3335. Do these accounts tie up with your financial accounts?—Yes.

3336. Do you allocate your outlay on research and development at the commitment stage?—(Sir Alan Hitchman.) Yes, we do.

3337. When you decide to incur research and development expenditure, do you at the same time decide how much is in aid of the Nuclear Power programme and then charge the memorandum accounts accordingly?—Yes, in broad terms. (Sir Roger Makins.) In broad terms. There is an area here where, perhaps, it is a little difficult to distinguish between basic research and research and development on a particular objective or system. We form the best judgment we can as to what is basic research and what is applied research and development.

3338. Arising out of this one reads in the Press an item of news which you may greet with greater or less enthusiasm, I do not know, that the Central Electricity Generating Board have now set up another expensive research laboratory costing, I read, £2 million for capital equipment with an annual expenditure of £1 million. Does this mean that you will be able yourselves to make economies in your own research and development for their work or is there some danger of duplication? Do you think they are duplicating your work or are they just setting it up to keep a closer watch on you?—On that I would like to say that the decision by the Central Electricity Generating Board to set up this facility was their own decision. They did not consult us, but they were aware in taking their decision of the facilities and the programme which the Authority have undertaken.

3339. Is their action going to enable you to make economies in your own research and development? Are you now thinking of cutting down certain sections which would otherwise have gone on?—Our research and development programme in aid of the civil reactor programme is established in order that we may discharge our responsibilities. We are constantly reviewing our pro-

gramme in this respect in order to ensure that it is not greater than is strictly necessary to the discharge of those responsibilities.

3340. But you have not greeted this announcement with an immediate cut of £1 million a year in your own research programme, for example?—No.

3341. There is no saving accruing to you as a result of this new organisation?—We must assume that in deciding to set up these laboratories the Central Electricity Generating Board in the knowledge of what facilities the Authority had, estimated that this was what they required in order to discharge their responsibilities for maintaining and operating the civil reactors after they had been commissioned.

3342. So, when I referred to greater or less enthusiasm, that "less" was an over-statement, Sir Roger?—No.

3343. You are very keen about it?—I have neither greater nor lesser enthusiasm in this respect.

3344. But you see no savings accruing to the Authority in consequence?—I do not see any savings accruing to the Authority.

3345. Mr. Henley, have the Treasury considered this point? Presumably the Electricity Establishment was set up with Ministry approval and therefore with Treasury approval, at any rate, planning approval?—(Mr. Henley.) That I could not answer, I am afraid, Sir. I am not at all sure that it was. (Mr. Peck.) We are looking into this, Sir.

3346. Do you mean that the Treasury have read this for the first time in the Press as we have and decided there was a case for enquiry, or were you consulted first?—My side of the Treasury, Sir, was not consulted and I am making enquiries to find out whether, in fact, we were told about this or whether this was a piece of expenditure which the Board could incur without coming to the Ministry.

3347. Presumably they did it within their statutory responsibilities. I imagine there can be no complaint there, but I was wondering whether the Treasury now are going to have a look at the whole question of whether excessive expenditure or duplication of expenditure is not going

6 June, 1961.] Sir ROGER MAKINS, G.C.B., G.C.M.G., [Continued.
Sir ALAN HITCHMAN, K.C.B., and Mr. F. F. TURNBULL, C.B., C.I.E.

on at the taxpayer's expense. This will now be looked at, will it?—It will, Sir. (Sir Roger Makins.) I cannot speak for the Central Electricity Generating Board, but I think it is fair to say that they will be responsible for operating an increasing number of large civil stations over a very long period. In this period the effort which the Authority devote to the work on the magnox system will decline and it would be fair to assume that the Central Electricity Generating Board in estimating their needs, which only they can estimate, are looking ahead.

Sir Samuel Storey.

3348. Sir Roger, did I understand you to tell the Committee that the total outlay on research and development was all for the nuclear power programme, broadly speaking?—In the very broadest sense. We are enjoined to undertake research on basic nuclear research.

3349. If this is broadly speaking all for the nuclear power programme, why is it difficult to make a precise allocation between the research and development charge costs for the nuclear power programme and the general research?—There is a great deal of basic work which is not directly related to a particular reactor system.

3350. Then, it is not so that the total outlay is mainly for the nuclear power programme?—(Sir Alan Hitchman.) If I might give an example of this Sir, a good deal of research is done, for example, on the behaviour of metals under irradiation, on uranium itself, steel, and so on. They are affected by radiation in a reactor and the basic mechanism of these reactions is one of the subjects of research, but it really is impossible to allocate that kind of expenditure to a specific reactor system. The behaviour of steel under irradiation applies in a whole range of systems. That is the sort of thing. (Sir Roger Makins.) For example, if you take the work on controlled thermo-nuclear reactions, this is basic research. It is in the broadest sense in aid of a future civilian application, but you could not attribute it or allocate that expenditure to any particular system at the moment. That is another example.

3351. That seems to me to contradict your statement to the Chairman, that,

broadly speaking, the total outlay was on account of the nuclear power programme?—I am sorry if I have misled the Committee, but I did say, in the very broadest sense. Our effort is divided into basic general research and research directed to the development of a particular system.

3352. If you had to produce trading and profit and loss accounts would you not have to resolve this difficulty?—We are operating under an Act of Parliament which tells us to engage in basic research.

3353. That would not prevent you producing profit and loss accounts which would definitely mean that you would have to distinguish between the special and the basic?—As we explained, we keep memorandum accounts of all our activities; and for all such work as is directed to the development of a reactor system, for example the magnox system, we have accounts which show expenditure on those issues.

3354. Sir Roger, even if a precise allocation between recoverable and irrecoverable expenditure is impossible, is it important to make as close an estimate as possible before you incur the expenditure?—We do.

3355. You do?—Yes. We are constantly trying to improve the methods by which we can distinguish a project in aid of a particular reactor system from work in aid of general objectives.

3356. Can we be assured that there is no danger that only the costs of successful projects are recovered and not the costs of the unsuccessful ones?—Our object is not to have any unsuccessful projects.

3357. But, in practice, you only recover on the successful ones?—When a decision has been taken to embark on a major development of a system, and we only have three or four such systems under development, then it is our expectation that the system will be successful because before taking the decision the Authority does the best it can to satisfy itself that the system has promise for commercial exploitation. From that point all the costs of that development are noted for recovery. It

6 June, 1951.] Sir ROGER MAKINS, G.C.B., G.C.M.G., [Continued.
Sir ALAN HITCHMAN, K.C.B., and Mr. F. F. TURNBULL, C.B., C.I.E.

is not possible to be certain that a particular system will be commercially successful. In a new field, perhaps, the uncertainties will be greater than they would be in some other fields, but if the system is successful then, in as much as a number of commercial stations would be ordered either in this country or by overseas countries, then we would expect to recover our full costs on that system.

3358. Before the decision is taken to proceed do you consult with the Electricity Authority?—We work in very close touch with the Generating Board and they express interest in the system.

3359. When the decision is taken with the consent of the Electricity Authority to proceed with this work, supposing it was a failure, should not the Electricity Authority pay part of the costs of the research?—No, because we take the decision and they, I think, take the view that it is the responsibility of the Authority to develop these systems.

3360. When the Electricity Authority consult and agree to your carrying the research further surely they bear some responsibility for the cost of it?—They do not go beyond saying that if this can be made a success, they would be interested in it. They do not accept a responsibility for the development.

Mr. Arbuthnot.

3361. Sir Roger, do you know what the Electricity Authority's independent research programme comprises?—I have not myself seen these facilities. They consist in part I believe of facilities for examining irradiated fuel elements and we would certainly agree that they will need some such facilities.

3362. Have they consulted you in preparing their programme?—I understand that they asked for our technical advice on the construction of the particular facilities for the examination of irradiated fuel elements.

3363. You do not examine irradiated fuel elements?—We do.

3364. So that there is in fact a considerable danger of overlapping between the two?—I think it is unlikely that there will be overlapping in the future but I cannot express a view on this because I would not go further than to say that the Generating Board need some

such facilities, and that it is for them to decide what kind of facilities they need in the knowledge which they have of the facilities which we have constructed or have under construction.

Chairman.

3365. Sir Roger, one last question on this new Electricity Generating Board Research Establishment. How many of your staff have they taken?—I cannot answer that question. With our full agreement they have engaged some of our staff to operate their reactors. It is quite necessary that they should have competent staff to operate these reactors. I cannot give you the exact figures, but in agreement with us they have offered engagements to some of our staff and our staff have accepted them.

3366. Does the first part of your answer relate to reactors that have been built in the past?—No, these are the civil reactors, Bradwell and Berkelev.

3367. How many of your staff have they taken for staffing their new research laboratory?—I have no knowledge that they have taken any.

3368. Now, paragraphs 6 and 7, trading results. What are your activities to which commercial principles are considered to apply?—Our activities in the fields of, for example, radio isotopes, the manufacture of fuel elements, purchase and sale of graphite and the sale of electricity. Those are the main branches of our activities in the commercial field.

3369. When, in the view of the Authority, commercial principles do apply, for instance to the fields you have mentioned, does this carry with it a requirement to break even as in the case of the ordinary nationalised industries?—Yes. We seek to operate on commercial principles.

3370. Do you keep records which would enable you to demonstrate either to this Committee or to the Treasury that you are breaking even or you look like breaking even over a period?—Yes. We keep full records of our expenditure in these fields, separate accounts.

3371. On commercial lines?—On commercial lines.

3372. How long has that been going on?—It started as soon as the trading in these particular commodities started.

6 June, 1961.] Sir ROGER MAKINS, G.C.B., G.C.M.G., [Continued.
Sir ALAN HITCHMAN, K.C.B., and Mr. F. F. TURNBULL, C.B., C.I.E.

3373. For what year do you first have accounts on these lines?—The first activity which was placed on a commercial basis was the isotope operations. (Sir *Alan Hitchman*.) With isotopes these trading activities have been carried on on a commercial basis for a number of years, ever since it got on a substantial commercial scale. Graphite, for two or three years, civil fuel elements, now that we have started activities, and the sale of electricity as soon as Calder Hall got started.

3374. Has the Comptroller and Auditor General any comment to make about this?—(Sir *Edmund Compton*.) I have seen certain statements prepared, as the witness has said, for graphite trading and isotope trading. What I have not seen is the trading account embracing all the Authority's commercial activities. I have assumed, when the Authorities said in reply to my question that they had established commercial budgets and trading and profit and loss accounts for all their substantial commercial activities, that they probably had it in mind that there would be prepared, in connection with these budgets, comprehensive trading accounts in the current year.

Colonel *Crosthwaite-Eyre*.

3375. Would it be true to say that, really, as far as the commercial trading accounts are concerned, you have not got a true picture of the position of your commercial activities at the present moment?—(Sir *Roger Makins*.) No.

3376. I understand from the Comptroller and Auditor-General that you have only just started selling certain items; therefore, is it not true to say that your costing must be experimental and your knowledge of sales experimental?—We are embarking on a new industry.

3377. I am coming back to my question, that you really have not a clear picture at the moment, have you, of your commercial sales?—Yes, we have.

3378. What is the total of your commercial sales?—In the year that we are talking about it was pretty small. I have a table here which shows that in 1959-60 our total sales of products and know-how was just under £18 million.

3379. I would like purely a figure for your commercial sales, that is, on the items you have mentioned, leaving out royalties and know-how?—That is £17 million for 1959-60.

3380. Would it be much bigger this coming year?—It is estimated to increase very largely from 1961-62 onwards.

3381. How do you put the costs against your sales?—Are they distributed according to some agreed formula with an outside consultant, or are they awarded by yourselves? (Sir *Alan Hitchman*.) They are done on an agreed formula with an outside consultant.

Mr. *Arbuthnot*.

3382. Your sales were £17 million. What were your costs?—(Sir *Roger Makins*.) We have not got the precise figures here.

3383. They could be produced?—(Sir *Alan Hitchman*.) I think we could produce them. They were about the same figure.

3384. So, you made no profit?—We made a profit on some things. (Sir *Roger Makins*.) But, in our transactions with the Generating Board, as we explained, we do not seek to make one.

3385. But are these commercial transactions transactions with the Generating Board?—Many of them are, yes.

3386. I thought you mentioned isotopes in that connection?—Isotopes are not, and on isotopes we make a profit.

3387. So that you do not know what profit you have made?—Yes, we do.

3388. Well, what was it?—On isotopes, in 1959-60, £—.

3389. What was the capital employed?—Just over £2 million. (Sir *Alan Hitchman*.) That is a profit after charging as a cost interest at the Government rate on all our assets. (Sir *Roger Makins*.) And charging out a figure of 7½ per cent. for research and development.

3390. Was it only on isotopes that you made a profit?—(Sir *Alan Hitchman*.) In that year, I think, yes. We should have made a small profit on fuel elements other than the civil fuel

6 June, 1961.] Sir ROGER MAKINS, G.C.B., G.C.M.G., [Continued.
Sir ALAN HITCHMAN, K.C.B., and Mr. F. F. TURNBULL, C.B., C.I.E.

elements for the civil reactors. We had to make fuel elements for research reactors and on those in principle we seek to make a profit. I have not got the detail here.

3391. Mr. Henley, Sir Roger told us that these budgets and accounts are primarily for the information of management in exercising internal financial control. Are you concerned in the form of the Authority's accounts other than the published Balance Sheet?—(Mr. Henley.) We are concerned, of course, Sir, with the form of the operating account which is not published. As regards these other accounts which are produced for internal purposes and to be produced on request to the Comptroller and Auditor General and us, we are at the moment discussing with the Authority the form in which these can most usefully be provided for our own purposes.

3392. Does the Authority furnish you with its budget and the outcome of its commercial activities?—It has not hitherto done so as a regular arrangement.

3393. In the absence of published accounts does the Authority do anything to account for their commercial activities to you?—As I say, Sir, this is a matter on which we are at the moment in very active discussion with them, firstly to consider the form of these accounts or statements which would most usefully supplement our own information about the progress of the Authority's activities and, secondly, to consider whether this can be made available in some wider sense.

3394. Does it account to anybody else?—It would account to the Office, as well as to us, of course.

3395. To the Office?—To the Office of the Minister for Science.

Sir Colin Thornton-Kemsley.

3396. Sir Roger, would you kindly look at the last paragraph of the Comptroller and Auditor-General's Report, the very last sentence of all in paragraph 7, and would you confirm or otherwise the accuracy of the statement that your Authority "have established commercial budgets and trading and profit and loss accounts for all their substantial commercial activities"?—(Sir Roger Makins.) Yes.

3397. That is an accurate statement?—Yes.

3398. Will you tell the Committee the overall profit or loss you expect to make in 1960-61?—I would have to supply you with that figure.

3399. But surely that would be a figure which you would bring when you are coming to this Committee, would it not? It is a matter of some importance, surely?—I am sorry, we have not got it with us, but we will supply it.

3400. So, although you have prepared these accounts you have not brought them with you, or even extracts from them?—We have not got the budgets here for the current year.

3401. Could you let the Committee know what overall profit or loss you expect to make in 1960-61 and in 1961-62?—Yes, we will do that.*

3402. Now, do your trading budgets and accounts include royalties and charges in respect of research and development expenditure?—(Sir Alan Hitchman.) Yes.†

3403. How does your budget for 1959-60 compare with the actual results?—The system that we have now was not fully operating in that year. We will produce the figures for that year that we can provide.‡

3404. It was partially operating, was it not, because you told Mr. Arbuthnot, I think, the outcome in respect of isotopes?—Yes, it has been operating for a number of years on isotopes.

3405. Perhaps when you are producing these figures you could give this Committee such figures as you can in respect of your budget for 1959-60 and its comparison with the actual results obtained?—Yes.

* Information supplied: not printed.

† *Correction by Witness:* Receipts from royalties and charges in respect of research and development expenditure are estimated in advance for each year, and included in the Authority's budgets and forecasts. They cannot be included as part of the trading budgets and accounts, since they are not directly related to the costs of research and development undertaken in the year.

‡ *Note by Witness:* The outturn for 1959-60 showed a trading profit of just over £100,000 which was marginally better than expected.

6 June, 1961.] Sir ROGER MAKINS, G.C.B., G.C.M.G., [Continued.
Sir ALAN HITCHMAN, K.C.B., and Mr. F. F. TURNBULL, C.B., C.I.E.

3406. My final question, then, would be: Do you prepare budgets now looking further ahead than one year or are they just on a one year ahead basis?—On isotopes we have produced a forecast of expenditures and receipts over five years. On civil fuel elements we have a forecast of our expected sales and we are operating on the principle that we shall recover in those sales all the costs of our operations, including the recovery of research and development. On royalties and patents we produce in particular terms a forecast of our returns, and on consultancy, the same. I think in general terms that is the answer.

3407. So, what in fact you are preparing is not one budget for the whole of your commercial activities; you are preparing partial budgets, or have been preparing some sort of budgets in respect of individual items of your commercial activities? There has been no consolidation at all so far?—There has not been so far, no.

3408. Do you intend that there shall be so that those who are interested can look at all your commercial activities together?—I think we shall have to do that, yes.

3409. Do you think you will be able to do it for the forthcoming year?—Yes, we shall certainly try to do it for this year.

Sir George Benson.

3410. The Comptroller and Auditor-General refers in his last sentence to "substantial commercial activities". What are excluded in the way of unsubstantial activities? What sort of amount are they?—It is such things as sales of small quantities of plutonium for research establishments abroad or for universities in this country. For this year we have a figure of £40,000 for miscellaneous other sales, which is that sort of thing.

Chairman.

3411. Sir Roger, a few minutes ago you said that these trading budgets and accounts do include royalties and charges in respect of research and development expenditure, but from what you told us earlier I gathered that that applies only to, as it were, the cost of successful research. Where you have been working

on some system that has not come off, that is not charged in the trading budgets and accounts. Is that right?—(Sir Roger Makins.) No, because there is first of all the distinction between general research and development of a system. We have not yet reached the point at which the development of a system has proved to be unsuccessful. We are developing the four main lines, the magnox system which is on its way, the advance gas-cooled reactor system, a fast reactor system, and as part of an international effort, the high temperature gas-cooled system. Those are the four systems which we have under major development.

3412. And royalties and development charges on all four are included in your trading accounts? They are or will be included when appropriate?—I am not sure what the case is as regards the Dragon project. I think that is regarded as research, but certainly the other three are. Full records are kept of the expenditure on these systems.

3413. I have two questions to ask Mr. Henley. Mr. Henley, we have been hearing about substantial trading losses which have fallen or will fall on the taxpayer as a result of the policies and the price fixing methods which have been adopted in connection with the nuclear power programme. The first question I want to ask you is; is the Treasury adequately consulted and its prior approval obtained before the Exchequer is committed by the Authority to trading losses or risks of trading losses or decisions that something has, in effect, to be written off?—(Mr. Henley.) In general, I think I can say we certainly are adequately consulted, Sir. I think that, of the items which the Committee has been considering in the last two sessions, the only point on which we were not specifically consulted was on the details of the negotiation of the price for the first fuel elements, and there the position is that we would certainly expect the Authority to come to us, and I think the Authority would accept this, if they were knowingly departing in any way from the principle of recovering full costs. This, of course, is what was done in the case of uranium.

3414. Consequently, am I to take it from what has been said earlier that you are in close touch, you and the Office of the Minister for Science, with the Atomic

6 June, 1961.] Sir ROGER MAKINS, G.C.B., G.C.M.G., [Continued.
Sir ALAN HITCHMAN, K.C.B., and Mr. F. F. TURNBULL, C.B., C.I.E.

Energy Authority in connection with an improvement in their accounts, if necessary, for the Treasury and this Committee to obtain a clearer picture of the outturn of these activities referred to in paragraph 7 to which commercial principles apply, or ought to apply?—Yes, Sir.

Colonel *Crosthwaite-Eyre*.

3415. I was not quite clear on Sir Roger's answers about research expenditure. Is any part of the money spent on research actually included in your trading costs under your commercial activities? As I read your Balance Sheet it is not?—(Sir *Roger Makins*.) On general research, no.

3416. Therefore, your commercial activities are confined to that and there is no additional element which you have to cover because of research activities? Is that correct?—(Sir *Alan Hitchman*.) Not quite correct, Sir. On fuel elements, in the charge we make for fuel elements we do seek to recover the cost of research and development attributable to fuel elements, and on isotopes we make a charge related to the turnover of the isotope production unit which is a contribution to research costs.

3417. May I put it this way: there is no general element of research costs that you include in your trading activities apart from the specialised ones you have mentioned?—We build up our trading activities by a series of budgets on individual items and we charge it in that way.

3418. I do not want to pursue it too far. Your annual commercial turnover at the moment is £17½ million?—(Sir *Roger Makins*.) That is for 1959-60.

3419. Of which you have, on radio isotopes, made £— profit, but you have probably lost on other activities. So, on a budget of £17½ million you break even in that year? I am merely condensing what I thought were your replies to Mr. Arbuthnot?—Yes, that is just about the situation.

Chairman.] May we now pass on to the Atomic Energy Authority Balance Sheet as at 31st March, 1960, pages 4 to 6, the Balance Sheet itself? I have no questions.

Colonel *Crosthwaite-Eyre*.

3420. Is it correct that you received £85 million by way of advances during

this year?—(Sir *Alan Hitchman*.) That is right, yes.

3421. Now, deducting from that the interest you have to pay and the net cost of operations, the net amount of capital out of that £85 million would be reduced to £6 million?—I am sorry. I do not follow that.

3422. By the time you have deducted the net cost of operations for the year plus the interest on capital you have had to pay, the actual net accretion of funds to the Authority was £6 million—the net retainable capital by yourself?—We have a difference of £48 million. We have cash and interest, £106 million, less £58 million, which is £48 million.

3423. No, I am sorry, I was talking about net actual increase to the Authority in reserves. If you take away the cost of operations and the interest on capital from what you received during the year by advances, the net actual accretion to the Authority is £6 million. I may be wrong in my calculation, but the reason I wanted to ask that question is that if you go to Note 1 we read that there is a capital expenditure of £56 million not shown in this Balance Sheet of which £23 million has been committed. I am not quite certain how it is possible actually to contract obligations of £23 million without showing it in the Balance Sheet?—The position in that these are commitments on which the actual expenditures have not begun.

3424. The money has been authorised but, as I understand it, is not shown in the Balance Sheet. Is that correct?—That is right.

3425. Should it not have been shown as some sort of reserve? I have never seen a figure of £56 million just put in in this way which has been partly authorised but is not accountable for in any part of the Balance Sheet. Perhaps I might leave it at that?—(Mr. *Henley*.) May I just try to clear up that point? The item No. 1 in the Balance Sheet on the liabilities side is the liability of the Authority to the Exchequer. It includes the opening balance of £430 million odd. It includes the advances during the year of £85 million and it includes, as part of the liability, the interest, a notional sum, of £21 million odd. From that total of £540 million is deducted the

6 June, 1961.] Sir ROGER MAKINS, G.C.B., G.C.M.G. [Continued.
Sir ALAN HITCHMAN, K.C.B., and Mr. F. F. TURNBULL, C.B., C.I.E.

£58 million which is the net cost of operations during the year, thus leaving the net figure of £480 million shown in the end column for the final capital liability of the Authority to the Exchequer at the end of the year. As regards the note to the Balance Sheet, I think, as has been said, that this refers to expenditure which has been authorised in consultation with us, if necessary, but which has not resulted in any expenditure during the year and, therefore, does not affect the year's accounts. (Sir Alan Hitchman.) Could I just say on this that the form of these accounts

is based on the advice of a very eminent accountant. On this the Authority do accept advice.*

* *Note by Witness:* There is an obligation on all companies under the Companies Act 1948 in paragraph 11 (6) of the Eighth Schedule to show by way of note the aggregate amount or estimated amount if it is material of contracts for capital expenditure so far as not provided for in the accounts. All major companies and all nationalised industries use a similar form of words. The information given in the Authority's note is more complete than the usual commercial practice in that it shows both authorised expenditure and the amount which has been contractually committed.

CIVIL APPROPRIATION ACCOUNTS (CLASSES VI-X), 1959-60.

VOTE 6A.

OFFICE OF THE MINISTER FOR SCIENCE.

VOTE 7.

ATOMIC ENERGY.

On these Accounts no questions were asked.

THURSDAY, 8TH JUNE, 1961.

Members present:

Mr. Harold Wilson, in the Chair.

Mr. Arbuthnot.
Sir George Benson.

Sir Colin Thornton-Kemsley.
Sir Gerald Wills.

Sir EDMUND COMPTON, K.B.E., C.B., Mr. D. O. HENLEY and Mr. J. GIBSON, an Assistant Secretary, Treasury, called in and examined.

TREASURY MINUTE ON PARAGRAPHS 46-53, 54-60, AND 61-66 OF THE SECOND REPORT OF THE COMMITTEE OF PUBLIC ACCOUNTS, 1959-60.

Sir EDWARD MUIR, K.C.B., Permanent Secretary, Ministry of Works, called in and examined.

Chairman.

3426. Will members please turn to the Treasury Minute on the Second Report of this Committee for 1959-60, paragraphs 46 to 53, establishment costs of the Ministry of Works. I would like to suggest that we take paragraphs 46 and 47 with paragraph 53 because they are on related subjects. These are: Increase in the ratio of establishment costs to work done and Comparison with outside professional charges. Clearly the question of the cost dealt with in the Treasury Minute does link with the investigation into the level of outside professional charges referred to in the Minute on paragraph 53; so, as I have said, I suggest we take them together. Sir Edward, has the investigation referred to in the Minute now been carried out?—(Sir Edward Muir.) The investigation of outside costs?

3427. Yes?—Yes, Sir.

3428. What figure did you arrive at for the charges likely to be incurred?—As far as we could judge, and we had the assistance of a number of architects in private practice who gave us a great deal of information and architects covering a range of types of practices, the fees payable by a private building owner on a particular building would be of the order of 13 per cent. That is made up of architects' fees, engineers' fees, quantity surveyors' fees and the cost of clerks of works.

3429. What is your own overhead cost of comparable work?—For comparable work at the moment we are reorganising ourselves with a target of 18 per cent.

3430. What has it been?—It was 21 per cent. at the time when these investigations were being made.

3431. Can you give us an outline of this reorganisation which you have just referred to? What are you trying to do?

—We are doing several things. To begin with, a major reorganisation of the layout of the staff is in progress. This had in fact already been put in hand about a year ago, but it is a very major change in the layout of the various professional divisions of the office, the basic intention being to bring the various people together in teams working under an appropriate professional head to deal with particular programmes or new jobs, mainly programmes. That is not a particularly easy thing to do or a thing that can be done very quickly, because the office has hitherto been organised in distinct divisions, a distinct series of hierarchies. What I am trying to do is to mix them up, the engineers, architects, quantity surveyors, estate surveyors, and so forth, into teams comprising the necessary expertise in the particular professions under particular heads who can be any one of them, whichever is appropriate. That has involved not merely a good deal of rearrangement of people into different sorts of divisions within the office, but also, of course, a fair amount of physical reorganisation, because it is no good saying that X and Y are part of a team if they are working in quite different buildings half a mile apart. We have got to bring them together. That process has been carried quite a considerable way now and is beginning to operate and beginning to show results. As part of this we have set certain targets of overheads which are expected to be reached for the various blocks of work. In order that people may know where they are going we have also instituted a much more elaborate system of costing and budgetary con-

8 June, 1961.]

Sir EDWARD MUIR, K.C.B.

[Continued.]

trol than anything we have had in the past. On every job costing more than £5,000 now in the different programmes of work of which we are speaking, the hours spent on work by all professional staff, and so on, will in future be recorded and we shall get at our costs that way in the number of drawings made, and so on; the whole idea being that for an individual job the objective is to keep within normal scale fees as they would be applicable to that job for the work to which they would apply. That, of course, also involves identifying and costing separately work which is covered in our 21 per cent. or our 18 per cent. but is not in fact covered by the 13 per cent., and there is a fair amount of that, because the two things are not strictly comparable. That, I think, in broad outline is what we are doing.

3432. This creation of teams means having a number of organisations consisting of a quantity surveyor, an estate man, an engineer and so forth, working together?—In one team.

3433. On a functional basis?—A horizontal basis rather than a vertical basis.

3434. How do you define the sort of nature of the horizontal basis? Is it limited, for instance, to Post Office work or is it *ad hoc* in particular jobs?—Of course, we cannot do this except *ad hoc* for particular individual large jobs. What we can do it for is programmes, and the Post Office programme is certainly one.

3435. That will be on a team basis now?—Yes, and the programme of Government office building generally up and down the country, buildings for the social service departments mainly, which is growing, is another.

3436. Mr. Henley, have the results of this investigation into the outside professional charges been made available to the Treasury?—(Mr. Henley.) Yes, they have, Sir.

3437. Have you started your own inspection?—Yes, we have. The inspection that the Treasury is carrying out has, in fact, started away from the centre in one of the main regional offices, the North Eastern Regional Office of the Ministry, primarily because of the major reorganisation to which Sir Edward has referred; and we wanted that to be carried through before our own formal

inspection came in. But that is, of course, quite a major exercise undertaken by the Ministry themselves.

Sir Gerald Wills.

3438. Up to now, have you had any system of keeping staff costs on works services within a budget based on the usual professional scale fees?—(Sir Edward Muir.) Not up till now. That is what we are now aiming at doing.

3439. That is what you are now trying to get down to, scale fees?—Yes.

3440. When do you think this new system will function efficiently?—It is beginning to function now.

3441. But it will take some time?—I have hopes that on certain blocks of work we shall achieve it during the current financial year, but overall it will take a good deal of time.

3442. Will you apply it to every division of the Ministry?—Yes, but it is a good deal more difficult.

3443. With budgetary control?—We shall, but we have got to devise sensible ways of doing it, for example, for overseas building where conditions vary so enormously in different countries; but we shall do it.

Mr. Arbuthnot.

3444. Sir Edward, how do you reconcile the figure of 21 per cent. which you gave to the Chairman with the figure of 23.5 per cent. which you gave to the Comptroller and Auditor General last year for doing precisely the same thing?—They do not refer precisely to the same thing, I think is the answer.

3445. Wherein is the difference?—The 21 per cent. leaves out of account certain types of work because they are the sort of difficult types I have just been mentioning which we cover by the 23 per cent.

3446. You mean, you have got some types of work which are even more expensive than the 21 per cent.?—Necessarily so, but which I hope we shall manage to bring under control. It is not a very big part of it.

3447. What is the highest percentage that your costs involve?—For works of adaptation, and so forth, in a large building which has been bought and is being adapted it can run as high as 30 to 35 per cent.

8 June, 1961.]

Sir EDWARD MUIR, K.C.B.

[Continued.]

3448. How many instances last year were there running up to 30 or 35 per cent.?—I cannot tell you that without notice.

3449. Were there any?—I have not the slightest doubt there were.

3450. May we have a list of them?—I think, with respect, that would be an extremely difficult thing to do because, as I have said, we are only now beginning to keep the costing for the individual jobs. Hitherto we have based our establishment charge on the overall cost of the department set against the overall expenditure which, of course, is useless for this purpose.

3451. When you went to the private architects and obtained from them the figure of 13 per cent. did you ask them to exclude adaptations from their figure?—Yes. The 13 per cent. figure emerged from a series of discussions with a series of private architects. Some said more for some things, some said less for others, but, on average, it seems to be pretty well right.

3452. Yet you are satisfied if your figure comes down to 18 per cent. for what a private owner would pay 13 per cent.?—For this reason, that the 13 per cent., as I said at the beginning, is the charge that a specific owner would have to pay on a specific building. Our 18 per cent. covers a good deal wider field than that, because we are engaged on programmes of work. There is quite often work which does not come to fruition. There is a good deal of preliminary investigation of the programmes as a whole quite apart from individual building. These things are reflected in the charges which we have to make in the end on individual buildings. If we could identify those and pull them out, and we are hoping to do so, then, of course, to the extent to which we are able to do so I would hope we would come within striking distance of the scale fee. That is our objective.

3453. But would it not be better in those circumstances if you were to pack up and behave like a series of specific owners of a series of specific buildings?—I am not quite sure what that means.

3454. If the specific owner of a specific building gets the work done for 13 per cent. and the minimum target at which you are aiming is 18 per cent. and has been up to 21 per cent., and even including 23 per cent. for last year, it

looks as though you could do it a good deal more cheaply does it not?—We have done in certain cases. We did, in fact, as a special exercise cost one very large building which we built which was completed very recently, which came out at 12·7 per cent. on the same basis, but we did that by doing, as I say, a special exercise and excluding everything. What we are hoping to be able to do is to know what we are doing on specific buildings with more accuracy than we have done in the past. One of our difficulties, of course, is this, that the figures of cost of the Department which we have to apply overall relate to costs incurred on projects which very often are not going to come into the picture for two or three years. In other words, we work on financial years. We are setting against a programme of work—I am going on to something rather different—in the charges we make for recoverable services, the costs incurred quite often in relation to work which is not coming into the programme for several years to come. Again, the system of keeping staff costs and budgetary control which we are now attempting to achieve should enable us to deal with a particular building in the way a private architect does without paying regard to the financial year in which the staff costs necessarily fall or the costs on the building necessarily fall.

3455. Are you telling the Committee that you are charging against certain buildings expenses that do not belong to them?—Yes, we are charging against certain programmes expenditures that do not belong to them. What I am trying to do is to devise a system under which we no longer have to do that.

3456. What is the total staff complement of the Ministry today, Sir Edward?—On the 1st April, 9,482.

3457. Presumably, as a result of re-organisation and other economy measures some staff will become redundant. How will you reduce the numbers in the various grades?—What has happened so far is this, that in preparing the staff estimates for the current financial year we assumed that we were moving in this direction and having compiled them on the normal basis we then made a lump sum deduction, as we do on new works estimates, of £500,000. In fact, at the 1st April there were already some 220 people less in post than those estimates would have allowed

8 June, 1961.]

Sir EDWARD MUIR, K.C.B.

[Continued.]

for without the lump sum cut. Now, moving further in that direction we are identifying month by month a certain number of posts as redundant and we shall take steps to ensure that those people disappear. Of course, if you identify a post as redundant in a certain month that does not mean, because we are dealing with established civil servants, that that man disappears within that month. But, on the other hand, we have notice that these posts should be given up and steps will be taken to adjust the staff in the ways in which staff can be adjusted, by transfers to other departments, and so on.

3458. So that you do not reckon that you have to dispose of anybody, but it will be through a process of wastage, will it?—Yes, it is partly wastage but we shall have to take definite steps to dispose of certain people. There is very little doubt about that.

3459. Such as recommending them for promotion to another department?—No, transfer. Some departments are looking for the sort of staff that we have here.

3460. What reductions have you achieved so far?—As I say, at the beginning of the year we were already 220 less in post than the Estimates allowed for and since 1st April, I cannot give the figures but I know, there has been a substantial further reduction.

3461. What is your target?—My target is to get rid of enough staff to enable me to get down to my target figure of 18 per cent. at present.

Sir Colin Thornton-Kemsley.

3462. Sir Edward, on this question of the 13 per cent. charged by professional men, what kind of work was that for?—That is for a straightforward new office building. I can give you the make-up of it.

3463. It might be helpful if you would?—The architect would be 5 per cent., the structural engineer 2 per cent., the mechanical and electrical engineer 1½ per cent., the quantity surveyor 3½ per cent., and the clerk of works 1 per cent. Now, according to the amount of work which is done by each of those consultants, the percentages vary. The architect's standard fee would be 6 per cent., but note that if he was making greater use of outside consultants he would then reduce his standard fees,

which is why we took 5 per cent. as a result of discussions with these people.

3464. Have you got any comparable breakdown of your own costs?—I have various breakdowns, but I do not know that there is one that is directly comparable because we are never quite sure that we are talking about the same thing. I have only got the total, which was 12·7 per cent. in that particular case. In other cases they varied very considerably up to 23½ per cent.—architects 6 per cent., structural engineers 1½ per cent., sanitary engineers—which we call public health engineers nowadays, who do not appear in the private architects here—1 per cent., site control, 3 per cent.—that is a good deal more expensive—mechanical and electrical engineer, 6 per cent., quantity surveyor, 3 per cent.

3465. The mechanical and electrical engineer 6 per cent.?—Yes.

3466. And quantity surveyor?—3 per cent. Then, I have another 3 per cent. in for the general clerical staff.

3467. It would include the clerk of works?—No, the clerk of works comes under site control. It is called "site control" because there are various different sorts of people in it some of whom are not called clerks of works, but that is the same thing.

3468. The mechanical and electrical engineer at 6 per cent. is a big difference?—That is a big difference.

3469. Can you explain that at all? That compares with 1½ per cent.?—Yes. One reason for it is that it is our practice ourselves—I am not arguing whether this is the right practice, though I could—to specify a great deal of work, the reason being so that we may get competitive tenders, whereas in the case of private building an architect will go for a nominated sub-contractor who will himself do the design work. That is one quite major reason for that particular difference, things like heating and electrical systems. As I say, I am not arguing at the moment which way is best. The primary reason why we do it the way we do it is the necessity for competitive tendering as we are dealing with public money.

3470. Had you been aware until you carried out this investigation that your method was so much more expensive in terms of the use of mechanical and electrical engineers?—We had been, shall I say, uneasy about it for quite some

8 June, 1961.]

Sir EDWARD MUIR, K.C.B.

[Continued.]

time, which is one reason why all these investigations got under way. Mind you, it does not necessarily mean that you are paying so much different cost. If you employ a specialised sub-contractor to design the thing as well as instal it you are obviously paying in the price you pay him some of the design costs which we incur ourselves by using our own staff. It would be almost impossible to get at any direct comparison here.

3471. I am still not absolutely clear how you started to set about making a comparison of your own costs with those of outside professional charges. I can understand how you investigated the thing with outside experts and how you arrived at their costs. What I cannot quite see is how you arrived at your own costs?—Only by the method I was explaining just now, taking one or two buildings, which we hope are reasonably typical of various ranges and doing an *ad hoc* exercise on those.

3472. How much of your own annual expenditure do you consider to be fairly comparable with outside professional work?—The great bulk of it.

3473. Most of it?—Yes.

3474. How much of your work is for post offices?—I am not quite sure what proportion, but a fairly substantial proportion. In the current year's Estimates our total for the Post Office is just on £16 million. That is out of a total overall of some £40 million.

3475. Can you give us the figure for the last year of account? You have given us the estimate, have you not, for this current year?—Yes.

3476. Can you give us the comparable figures for the current year?—The Post Office for the year of account which we are talking about today—this is on repayment services only—out of a total of £34,660,000 was £10,372,000. That, of course, does not take account of comparable voted expenditure which accounts for another £27 million to £30 million.

3477. In that year what did you charge the Post Office by way of overheads?—15 per cent.

3478. What would you have had to charge the Post Office in order to cover your costs?—I assume we shall be coming on to this on the next paragraphs, but what we are now charging

the Post Office is 20 per cent. for works with a different percentage for other things.

3479. I do not think that quite answers my question, does it?—No, it does not. The 20 per cent. which we are now charging them is in fact based on what is, I think, a pretty accurate estimate of what it is going to cost us. It cannot be absolutely accurate because we do not know in detail yet. In other words, what I am saying is that in the year of account if we had charged 20 per cent. we should not have been far wrong.

Sir Colin Thornton-Kemsley.] That does answer the question. Thank you very much.

Sir George Benson.

3480. Can you give the Committee any idea how much work you do direct as compared with how much work is contracted out?—Hardly any direct. The only direct labour work we normally do is maintenance of public buildings in the centres of a number of big cities where on the whole it is cheaper to do it that way than to employ contractors, for example, in the centre of London, the centre of Manchester or the centre of Edinburgh. That has been gradually eroded and we are going over to contracts on the outskirts of these cities but there will always be a core where it will be more economical to run our own labour staff. London is the biggest of these. The only other place where we are resorting to direct labour contracts, in other words, acting as our own contractors, is in a number of difficult places overseas where it is just not possible to get reasonable tenders even if there are contractors to tender at all.

3481. You are satisfied that you get more economical prices from outside contractors?—Yes.

Chairman.

3482. Sir Edward, when you gave Mr. Arbuthnot the total staff complement of the Ministry at the 1st April, that was presumably the total number of employees at the Ministry?—Yes.

3483. Is it possible to say how many of those are engaged on what might be called works services, on the kind of things we are talking about?—It is possible. The Directorate-General of Works is 3,555 and the Supplies Division, 908. That is at headquarters. In the

8 June, 1961.]

Sir EDWARD MUIR, K.C.B.

[Continued.]

regions, works, lands and supplies services are 1,900. In Scotland they are 380. I think that is about it. That is taken very roughly, I am afraid.

3484. How much of this particular kind of work is now decentralised to the regions?—All maintenance work and a great deal of smaller new work, but none of the larger new work.

3485. What is the sort of rank or title of the man in each region who looks after this?—We have a Regional Director.

3486. He covers all the work of the region?—He covers the whole of the work. He is of assistant secretary grade in the Civil Service.

3487. Is there a Regional Director of works or a regional architect?—No. He has people of the appropriate grade working to him. The regional director is responsible for the works side to the Director General. Of course, we have been combining our regions. They are very much bigger now than they used to be.

3488. Are the figures you have just given of the numbers employed on works services falling more rapidly than the total figures for the Ministry as a whole?—The fall is coming there, yes.

3489. Paragraphs 48-52, basis of charge for establishment costs. Sir Edward, were differential ratios of charge applied in 1959-60 and 1960-61 or did you continue to use the flat rate of 15 per cent.?—In 1960-61 we continued to use the flat rate of 15 per cent. In 1961-62, which is the year we are in now, we have introduced certain changes. We had to introduce certain changes rather more quickly than perhaps we would have liked to from the point of view of being strictly accurate because of the change in the status of the Post Office. As the Post Office became a non-Exchequer service on the 1st April of this year, that made it essential that we should do what I explained to the Committee last year we were not then doing, namely charge the Post Office the full cost of our service to it. So, we are now charging the Post Office 20 per cent. on works services, both new works and maintenance. In the past up till the 1st April of this year, there was no question of charging them for maintenance because this fell directly on our own Votes. It has now

39389

become a recoverable service. We are charging them 10 per cent. for supplies services whereas in the past we charged them a stores-handling charge of 5 per cent., and we are charging them actual costs for lands services on a normal fee basis. We have agreed with the Treasury that in the current year those same rates shall apply to other non-Exchequer repayment services. The Post Office are far and away the biggest in this field now. For Exchequer repayment Departments we are still charging, with the agreement of the Treasury, this year the 15 per cent. in the full knowledge that this is not final and we are discussing with the Treasury at the moment a system of differential charges which we shall bring in next year. The point about that is that it has been very difficult to break the thing down in a sensible way into these different elements.

3490. The Committee reported that under-recovery of departmental expenses on some repayment services last year was running at about £2 million?—Yes.

3491. Would it have been something like that for 1959-60 and 1960-61?—I should have thought it would be very much the same. It will not be this year because that was mainly on the Post Office.

3492. What figure do you say Exchequer repayment customers are paying?—At the moment we are still charging them 15 per cent. That will go up next year.

3493. And the Post Office, 20 per cent.?—The Post Office, 20 per cent. for works services.

Sir George Benson.

3494. On paragraph 4 of the Minute apparently you charge some Departments and not others. On what principle do you divide the sheep from the goats and which are which?—I think I explained to the Committee last year that I have never been able to discern any principle. I am afraid I must ask the Treasury to answer that question. It is under reconsideration now, I do know that.

3495. Is there any principle, or is it something that has just happened?—(Mr. Henley.) There are principles, Sir. I must confess that it is extremely difficult when one comes to apply the practice to different departments to decide whether, for example, they should pay the Ministry of Works for their building work and

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8 June, 1961.]

Sir EDWARD MUIR, K.C.B.

[Continued.]

thus become principals, or whether the work should remain as a final charge to the Ministry of Works as one of its allied services. When Sir Edward said it was under reconsideration, I think this is one of the subjects which has almost constantly been under reconsideration in one form or another, but, put briefly, the Treasury has tended to take the line that where the client Department is in the best position to determine the nature of the service, the type of accommodation which is wanted, the extent of it and, in effect, to exercise the greatest control over the policy governing it, then in principle the work should be on repayment. On the other hand, where, as in some types of buildings, the obvious case being Government headquarters themselves, the Ministry of Works is very clearly in control of the nature and to some extent the policy of the work as well as the execution of the works, then this is a final charge in the allied services of the Ministry of Works, since they are not just responsible for the execution of the works, the standards, and so on. But in between these two extremes there is, we must admit, a range of cases, and I am sure this is what has led to the present position, where one can argue, for example, whether Ministry of Aviation new works should be an allied or a repayment service. At the moment they are a repayment service.

3496. As I understand it it is a repayment service if the particular Ministry knows what it wants, but not a repayment service if it does not know what it wants?—(Sir Edward Muir.) If I may say so, nothing would be a repayment service if that were the criterion. (Mr. Henley.) I clearly would not express it in those terms. It is rather a question of who, in our view, is best able to control the service from start to finish; and there is no doubt, I think, that this is in certain types of works a highly arguable matter. So that we have this position that Sir Edward has described. (Sir Edward Muir.) May I say, in spite of what I said just now, I agree entirely with everything Mr. Henley has said? The general division is clear enough; it is when you come to apply it to particular cases that difficulties arise.

Sir Colin Thornton-Kemsley.

3497. May I just be quite clear about the Post Office works services about which I did ask you on the last paragraphs we were discussing? As I under-

stand it, in the year 1960-61 the cost to your Ministry of Post Office works services was 20 per cent. but, in fact, you charged 15 per cent.?—Yes.

3498. So to the extent of 5 per cent. off the cost of those works services the Exchequer subsidised the Post Office?—Well, I would rather put it in another way. I would say that the Post Office, who at the time were an Exchequer Department, were getting the benefit of the operations of the whole of my organisation.

3499. Yes. Now in the year 1961-62 the Post Office will continue to pay 20 per cent. in respect of works services, and I think I understood you to say in answer to a question I put to you last time, that in your view that would just about cover your costs?—Yes.

Chairman.

3500. I was not quite clear about that answer, if I may say so, or about the question, possibly because we had an all-night sitting last night. I thought Sir Colin asked you, and you said "Yes" that the Post Office will continue to pay 20 per cent. in 1960-61?—They will pay 20 per cent.

3501. I thought you said they actually paid 15 per cent. last year. They cost 20 per cent. and paid 15 per cent. last year and this year they will cost 20 per cent. and pay 20 per cent.?—Yes.

Mr. Arbuthnot.

3502. I think you told the Committee that you still have not fixed differential rates for Exchequer repayment customers, and the reason for this is that you find it difficult to break it down into its elements. What exactly did that answer mean?—Precisely what it says. If we are to get away from the system which for many, many years we have adopted of dividing the total cost of the works by the total cost of the Department we have got to identify in a sensible way different bits of work of the Department for which differential charges could be made and we have got to work out by pulling out the particular staff costs applicable to those particular blocks of work what those differential charges ought to be. That has not been a simple operation. We have in fact made certain proposals now which we think should be about right; those are at present under discussion with the Treasury.

3503. And you told us that you are going to have shortfall because of your

8 June, 1961.]

SIR EDWARD MUIR, K.C.B.

[Continued.]

not yet having fixed differential ratios, which will amount to something less than £2 million?—It is very difficult to judge of this for the reason which we were just discussing. When one comes to Exchequer repayment Departments the thing is very partial. It is not every Department to which we make these charges, it is only certain Departments. As a matter of fact, my suspicion is that on the major Exchequer repayment Departments for which we are doing work now, the 15 per cent. will probably cover the cost, but we have got to work it out in relation to the lot if we are to cover our departmental charges, because it was the Post Office that was, as I said just now, being subsidised at the expense of other people in the past. The Post Office has now been taken out of the picture.

3504. Can you give us a nearer figure than that £2 million?—If we charge the full 20 per cent. on those to whom we should charge we should get something like £2 million. We shall in fact be charging 15 per cent. That is not a sum I can do in my head. You take a quarter off. Of course, it is not settled yet that we shall make the same charge to everybody. As I say, our major Exchequer repayment Department happens to be from our point of view rather a cheap one. We may agree with the Treasury that we shall make a lower charge for them.

3505. When do you hope to introduce realistic repayment rates for your

Exchequer customers?—On the 1st April, 1962.

3506. Is there any significance in that date?—Well, it is the time when the financial year begins.

Chairman.

3507. I just want to get one thing clear. The present situation with regard to the Post Office now is that, for works services you are charging a rate which is designed more or less to cover the cost?—Yes.

3508. You rather boggled at the word "subsidy" before but there is no element of subsidy in it for works services?—None.

3509. But suppose some rather costly work came up, some adaptation, some tailor-made job, they still take the full benefit of your organisation?—Yes.

3510. Would you still charge 20 per cent. or would you charge a higher amount?—We would still charge 20 per cent. because it would only be one individual job, and this covers—we had the figures just now—a very large expenditure overall. We would hope that it would take care of that. It is intended as an average figure to cover the more expensive ones.

3511. And there is no element of subsidy, as far as you can see?—No. Of course, we shall look at it again in the light of the accounting system which we are now producing as time goes on to see whether it is right.

CIVIL APPROPRIATION ACCOUNTS (CLASS VI-X), 1959-60.

CLASS VII.

VOTE 3.

PUBLIC BUILDINGS, &c., UNITED KINGDOM.

On this Account no questions were asked.

VOTE 4.

PUBLIC BUILDINGS OVERSEAS.

Chairman.] Will Members now turn to the Civil Appropriation Accounts (Classes VI to X), 1959-60, Class VII, Vote 4, Public Buildings Overseas. I have no questions.

Mr. Arbuthnot.

3512. I would like to ask about the Commissioner's residence in Lagos?—*(Sir Edward Muir.)* Yes, Sir.

39389

3513. What were the circumstances in which that building with those facilities was put up at that cost?—That is a very broad question. The building had to be built fairly quickly because there was a deadline to meet. The standard of accommodation was agreed with the Commonwealth Relations Office and with the Treasury. It was thought well by the Minister of Works in this particular

L 2

8 June, 1961.]

Sir EDWARD MUIR, K.C.B.

[Continued.]

case, although it is a thing we do not often do, that the work of designing the building should be entrusted to an eminent outside architect, and that was done, and the building got built.

3514. Was that your decision?—It was the Minister's decision.

3515. The decision of the Minister of Works. Was anybody consulted who had ever been a High Commissioner as to what facilities were necessary?—With respect, yes. This is not the first High Commissioner's house the Ministry of Works has built, by a very long chalk. It is perfectly true that towards the end of the day we had to make certain alterations, in fact, an addition to the house. I think that is basically due to the fact that, not through any fault of the architect, the particular architect concerned had not built a High Commissioner's house before. I do not know that I can say very much more than that. It is true that with the full concurrence of the architect an addition was made to the house before it was completed. To that extent there was not, perhaps, a full appreciation at the beginning of the full requirements.

3516. Who was consulted who had experience as a High Commissioner?—The Permanent Under Secretary of State at the Commonwealth Relations Office and his predecessor.

3517. Is there any other High Commissioner's residence from which it is practically impossible for anybody to withdraw after dinner without it being extremely public that they are doing so?—I know one embassy where the same situation exists, but it is fair to say that that was not one which we had built, it was one we had bought.

3518. Is there any other High Commissioner's house where, when the rooms are being cleaned out in the morning, if you happen to be in the drawing room there is a possibility that the contents of the waste paper baskets may come down on your head?—I know quite well what these questions are directed to, Sir. This house has certainly a very unusual plan. There are a number of things on that plan. I have not seen the house myself, let me say, but I have seen the plans. I have seen photographs of it and I have talked to people, of course, who have seen it. It is an unusual plan. Whether it is one which

is likely to be adopted elsewhere, I am not at all sure.

Chairman.

3519. How much was the additional cost compared with the original estimates?—The cost of the work as originally laid out, based on tender prices, was £92,000. The final cost is likely to be £110,000. That includes, however, not merely what I was talking about just now, but it includes the addition of a swimming pool and a tennis court, which for reasons of economy and I think myself, and I will say this quite openly, entirely mistakenly, were omitted originally.

3520. That being a decision of the architect or of the Ministry?—The Ministry.

3521. The Ministry of Works?—Under very strong pressure from the Commonwealth Relations Office, naturally.

3522. The decision to omit that originally for reasons of economy was a Ministry of Works decision?—Well, quite a lot of people are trying to exercise economy when you are getting to that stage.

3523. We do understand from that, do we, that the plans were seen by the Commonwealth Relations Office before the work began?—Yes.

3524. So, they had every opportunity of seeing if the design was unsuitable?—Indeed they did.

3525. And they approved the plan?—Yes.

3526. It was only at a later stage that it was considered necessary for these changes to be made?—Yes. I should say that we also, as I said to the honourable Member and as he knows very well, have a very great deal of experience in these things and we passed these plans. The fault, if fault there was, lies between a number of people.

3527. One of the problems was that you selected an architect—I think a very distinguished architect?—A very distinguished architect.

3528. But he had not previously done a High Commissioner's residence. Was that what you had said?—That is so. He had built sizeable houses.

8 June, 1961.]

Sir EDWARD MUIR, K.C.B.

[Continued.]

Mr. Arbuthnot.

3529. May I ask about this £92,000? Was it not a generous offer from the Nigerian Government to give to the United Kingdom both the site and the High Commissioner's House?—The Nigerian Government have very generously contributed £40,000 towards the cost.

3530. Was that not the original estimate of what the cost would be?—Not the house, no, never. The cost of a house similar to an existing house;—the time was some years ago—we were told was estimated to be £40,000, but it was never of a size or layout for

a High Commissioner. It might have done, to get in there as a start. But the Nigerians have been extraordinarily generous here: they have presented what I believe to be, not having seen it, a superb site and they have presented £40,000 towards its very considerable cost. We do not often get that in these emergent countries, and it is very generous. I should like that to be put on the record.

3531. I should also like it to be put on record that I fully endorse that, and that no question I have put to you is in any way directed in any contrary spirit?—I am sure of that.

VOTE 7.

HISTORIC BUILDINGS AND ANCIENT MONUMENTS.

On this Account no questions were asked.

Secret Statement of new Works Services estimated to cost £100,000, etc.

Chairman.] On the Secret New Works Statement, I have no questions.

Sir Colin Thornton-Kemsley.

3532. Why is it necessary to estimate an expenditure of a quarter of a million pounds on Marlborough House?—*(Sir Edward Muir.)* Marlborough House has been made available by Her Majesty for use as a centre for Commonwealth meetings, primarily for meetings of the Commonwealth Prime Ministers, which take place with considerable frequency, and for other meetings of the same sort. That meant that works had to be carried out at Marlborough House because, for one thing, there was nothing which you could call a heating system in Marlborough House; furthermore, the wiring had come to the end of its useful life; furthermore, the sanitary arrangements required for that sort of thing are rather different from those which are needed even in a very large house, such as this is. On top of that, there are two wings to Marlborough House: one is a very large wing indeed, which was built, I think, in the 1860s to accommodate the servants, the kitchens and so on; that has been converted into offices for the Commonwealth Economic Committee, an inter-Commonwealth body who have already moved in there and who pay us a rent for it. The other wing is for a smaller thing. That all adds up to the latest estimate of £235,000.

3533. And there is no new construction at all?—There is a certain amount of new construction, not a great deal; but there is a very great deal of work which has to be done extremely carefully, which consists of putting a heating system into what is a very splendid house—the last major work of Sir Christopher Wren, and a very fine one. There has been a certain amount of constructional work, such as putting in one new lift, if not two, and work on the roof structure. It is a very big place. This is not a straight-forward job at all, and that is just what there is to it; and it is work which, given the nature of the building, has got to be done to a very high standard and very carefully.

3534. And when it is completed, you have every reason to believe it will be a very satisfactory job indeed?—I have every hope that it will be a splendid job.

Chairman.

3535. This is going to be used partly on the same lines as Lancaster House, is it?—Very much on the same lines as Lancaster House, but only for Commonwealth purposes.

Sir Colin Thornton-Kemsley.

3536. Will it be residential?—No, not at all.

3537. The Commonwealth Prime Ministers will not be staying there?—No.

8 June, 1961.]

Sir EDWARD MUIR, K.C.B.

[Continued.]

3538. But this also provides permanent office accommodation in one wing?—
Yes.

Mr. Arbuthnot.

3539. Regarding New Delhi, our High Commissioner has not been put in the diplomatic enclave as such?—He has not, and he is not going to be.

3540. So that this acquisition was an acquisition of the attractive building that the High Commissioner has been in for some time?—No; this is the compound. We have built a very much larger establishment in New Delhi in the diplomatic quarter, but the High Commissioner has not gone there, nor has the Deputy High Commissioner; but we have built four blocks of flats, five

houses, a new block of offices and all the ancillary accommodation. That is what this is.

3541. So this is not for the High Commissioner?—This is not for the High Commissioner's own use; it is for staff and offices, mainly.

Chairman.

3542. Downing Street is not in this list, is it?—No, it is not. There is a thing called "Treasury Whitehall Building Reconstruction" at the top of page 3, which in fact was an earlier stage of the scheme which is going on, and it was after this that we decided to combine the two jobs in one contract, which is what has been done.

Chairman.] Thank you.

TUESDAY, 13TH JUNE, 1961.

Members present:

Mr. Harold Wilson, in the Chair.

Mr. Arbuthnot.
Sir George Benson.
Colonel Crosthwaite-Eyre.
Mr. Hoy.

Mr. Cledwyn Hughes.
Mr. Stevens.
Sir Samuel Storey.
Sir Colin Thornton-Kemsley.

Sir EDMUND COMPTON, K.B.E., C.B., and Mr. D. O. HENLEY called in and examined.

MEMORANDUM* BY THE TREASURY ON FORM OF ESTIMATES.

Sir THOMAS PADMORE, K.C.B., a Second Secretary, Treasury, called in and further examined.

Chairman.] I think it would be convenient if we went through the Treasury Memoranda in Committee simply by calling them paragraph by paragraph, and Members can put questions on each paragraph as we come to them. First, the Memorandum on the form of the Estimates.

Mr. Arbuthnot.] Will anybody in this Committee have any questions on this? Is this not really a matter for the Estimates Committee rather than for us?

Chairman. -

3543. I was going to ask the Comptroller and Auditor General to comment. The Committee did have a deliberative meeting on this at an early stage but it was felt that we ought to have a last look at this at to-day's meeting. I think it was felt previously that paragraphs 19 and 20 might possibly raise questions of concern for us. I wonder if the Comptroller and Auditor General would comment on paragraphs 19 and 20 as they affect his work and the work of this Committee?—(Sir *Edmund Compton.*) Yes, Sir. The reduction in the number of subheads which is proposed would reduce the amount of detailed information given in the Appropriation Account. That is the consequence to the Account and to this Committee of this proposal. It will not necessarily reduce the amount shown in the Estimate where the major components of the new rolled up subheads will be shown in Part II. But the detailed information will come before me so that I shall still be in a position to bring before this Committee in my Report any divergencies between Estimate and

expenditure on component items calling for comment. That is the first point I wanted to make about the subhead proposals. My second comment is on the incidental effect mentioned in paragraph 20 about the reduction in applications to the Treasury for virement authority. That, it seems to me, is unlikely to have consequences for the Public Accounts Committee. I say that because it is only the use of virement to meet an excess on a subhead of an intrinsically different kind which has attracted the Public Accounts Committee's attention. As I see it, the new and amalgamated subheads are not likely to cover such intrinsically different services, and again, if they did, I would and should report on any reallocation of funds within a subhead which was open to critical comment on that account.

Mr. Arbuthnot.

3544. The thing that has been worrying me has been that the individual losses will not be reported in the Accounts again if we accept this. Does it follow that the individual losses in the appropriate accounts are prevented from appearing if we allow the proposal in paragraph 19? I am not quite clear from what the Comptroller and Auditor General said whether that is going to be the effect?—No, Sir. As far as I can judge, the proposals on the subheads are quite separate from the proposals in the next paper before this Committee on losses.

3545. Your first point, then, does amount to the suggestion that we are going to lose information by this amalgamation?—To the extent, Sir, that

* Not printed.

13 June 1961.]

Sir THOMAS PADMORE, K.C.B.

[Continued.]

there will be less opportunity to compare outturn with Estimates because the rolling up of subheads will have that effect.

3546. So that the Departments will be allowed to get away with bad estimating in a greater degree than they are doing at the moment without it coming to our notice unless you specifically bring it to our notice. Is that it?—I would, personally, say not, if I may express a view which I have formed after judging the effect of the subhead reform on the illustrative estimates in this paper. Really, the rolled up subheads will give a much more sensible allocation of expenditure under various heads: therefore the Committee will really be able to form a much more just appreciation of performance under the new régime than they do now.

Chairman.

3547. Paragraph 21. Have you any comment to make on this, Sir Edmund, as it affects the Committee?—Yes, I think I should say something about this, if only because the Clerk of the House did refer to it in his evidence before the Estimates Committee as a matter which should be noticed by me. Part I is the statutory definition of the Vote in the Appropriation Account, and I think I should assure this Committee that I do not see any diminution of authority for Parliament as a result of the proposal that Part I should be brief and cover broad areas of expenditure. I say that because I think that to a large extent

that is already the practice. I think that with the broadening of the area, the multiplying of the number of statutes under which the Executive act, we already have a situation in which Part I cannot possibly quote all the statutes under which a Department works, and Part I is already to a large extent a general description. Part I would still determine the scope of the Vote for appropriation purposes and I would still regard it as my duty, as I do now, to bring the facts to the notice of Parliament if a Department should attempt, merely by shortening and generalising the definition in Part I, to extend its field of expenditure without the knowledge of Parliament. There is the further safeguard that my Appropriation audit will continue to follow the details in Part II.

3548. Paragraph 28. I think the Comptroller and Auditor General might have a comment to make on this one as well?—Yes. On rounding, I would only say I see no technical objection to this proposal. Its only effect on Appropriation Accounts is to substitute in a small number of Accounts—all large ones—a summary of outturn for a summary account. It is really a statistically rounded summary statement that is now proposed. But the Account itself will still account for expenditure to the nearest £1 subhead by subhead.

Chairman.] Paragraph 31 I think we might leave until we come to the next Memorandum.

NOTE* BY THE TREASURY ON FORM OF NOTES TO THE APPROPRIATION ACCOUNTS.

Chairman.

3549. Will Members please turn to the Treasury Note on the Form of Notes to Appropriation Accounts. My first point arises on paragraphs 8 to 10, and perhaps we might take those paragraphs together since they raise the same problem. Sir Thomas, before we discuss the merits of the proposal in this Memorandum perhaps you could clear up a point which arose in evidence earlier in the year. On 4th May the Committee enquired into a very big loss noted on the War Office Accounts for the purchase of shirts for the Royal Air Force. They were told that in such a case the loss was not noted until the transaction was

finalised by the disposal of any unusable items, and that it might be a very long time before it was known that there was a substantial loss. In this particular case the disposals began in 1954 and ended in 1959. Is this a correct account of the procedure which was followed in this case and, presumably, other cases?—(Sir Thomas Padmore.) I believe it is.

3550. Do the Treasury regard this as satisfactory?—By no means. I am familiar with this particular case, and I believe that this Committee were assured by the Permanent Under-Secretary of State for War that every endeavour would be made to prevent such an episode happening again. But

* See Appendix 9.

13 June 1961.]

Sir THOMAS PADMORE, K.C.B.

[Continued.]

it does seem to us to raise a general question which is one of great difficulty. That is the timetable that is followed in this kind of case and the fact that generally, and particularly in cases relating to stores losses, the events which give rise to a loss may take place a long time before anything comes to the notice either of the Comptroller and Auditor General or the Public Accounts Committee and a long time before any kind of reflection of those events appears in the Accounts either by way of an entry in a subhead or a note. This is a general problem which has given us some anxiety and I believe it has given the Comptroller and Auditor General some anxiety too. I do not think, if I may say so, that these particular proposals that we have put before the Committee have very much bearing on it, indeed, any bearing at all, in the sense that whether these proposals are adopted or not, they would not have made any difference to the course of events in that case or other cases of the same kind. As I say, it is a general problem, it is one of great difficulty, and it arises very widely because many Departments are holding stores of all kinds all over the place and at any time something may happen which means that those stores are no longer worth what they were thought to be worth or what was paid for them; and there is, therefore, a loss which may not come home to roost in the sense of anything being charged in the Account for quite a long time—not until a decision is reached as to what is to happen to the stores, how they are to be disposed of, if at all, and therefore what is the amount of the loss. I can only suggest that as this problem has come particularly to notice in connection with this shirting case, if this would be acceptable to the Committee and to the Comptroller and Auditor General, we might try to see whether we could, in consultation with him, devise some measures which would speed up the operation of the machine in this particular respect.

3551. Do you regard this as just a sort of local breakdown in administration, the sort of thing which might happen in any case where there are big store or stock holdings, or do you feel that there is something wrong, perhaps, with the system due to the fact that, for example, unlike a commercial firm, you do not value your stock every year?—Whether this is remediable or not I do not know,

but it is a defect in the system, I think, that these things can take such a long time to come to notice. This particular episode happened a long time ago and the records are very incomplete, but on the face of it it does appear as though somebody made a mistake. One would suppose that when it was discovered that the Air Ministry were no longer willing to take this material because it had been placed on an out-of-date order, at any rate a great question should have been raised, considering the amount of the loss which would be likely to be incurred if they did not do so, whether they should not put up with it. That issue never seems to have been raised or thrashed out at the time and I think it is a defect in the operation of the system that that kind of thing can happen.

3552. Does not the system lead to a very nice way out when these things do happen, that you conceal a loss for a very long time merely by taking the articles into store and not disposing of them, and then when the time comes to dispose of them it is a long time ago and the records are not complete?—I quite agree, Sir, I think it is a defect in the system.

3553. Then, should not the system in some way provide that if somebody realises that a bloomer has been made of this kind, it should be immediately notified to the Accounting Officer or whoever is responsible, and reported so that action can be taken that year and cognisance can be taken of it?—Yes, indeed.

Mr. Arbuthnot.

3554. I was going to ask a rather similar question. Can it not be made a duty on the Department that as soon as a loss is known or feared by a Department it must be brought to the notice of the Comptroller and Auditor General and must be noted on the Account regardless of the fact that the sale has not been finalised?—I do not know, Sir. I would, if I might, like to think about that and to consult with the Comptroller and Auditor General. I do not know what his view would be about a system under which he received notifications of cases where a Department feared that there was going to be a loss but at that stage could put no measure on it. I think it perhaps is primarily for the Comptroller and Auditor General to say whether he would be helped and whether

13 June 1961.]

Sir THOMAS PADMORE, K.C.B.

[Continued.]

in turn he would be able to help the Committee by some system of that sort.

3555. Do you read the Minutes of Evidence taken before this Committee? —I do, from time to time.

3556. In this particular case the Department took a long time to finalise their sales and by the time it came to light they gaily said that the papers had been destroyed. That is really a quite insufferable state of affairs. Have you any suggestions for dealing with that? —I am not concerned to defend what happened in that case, Sir.

Chairman.

3557. Would the Comptroller and Auditor General like to comment on this?—(Sir Edmund Compton.) Only this, Sir, that it seems to me that there are perhaps two issues here: one is the long time that it took for this to come to notice, and the second is the further time that it took before the transaction was reported to Parliament. Now, on the first of those issues I should be very glad to discuss with the Treasury what can be done to improve and speed up the procedure. It has given me anxiety that, in fact, this loss took a very long time to pick up and that the conventional action, stocktaking, for example, does not obviously provide the answer. On the same point I would, if I may, discuss the hon. Member's suggestion with the Treasury, that is, the suggestion that I should be notified at an early stage as a matter of routine. But I say this without having previously had the chance to discuss the point with Sir Thomas Padmore. I think it likely that it needs to be looked at in connection with the relationship between the Treasury and the Departments in the matter of losses and Treasury authority for losses. I say that because, in fact, my point of entry into those transactions very frequently is the stage at which something is reported for Treasury authority by a Department. I do not know, but if there is to be any change of procedure as regards Treasury authority for losses, I would like to discuss the matter with them.

3558. Should not these discussions of possible changes of procedure consider the rather more limited idea than the one proposed by Mr. Arbuthnot, that where a loss is discovered, as in this particular case where it was clear that there

was some write-off, which, as I say, a commercial company would throw up in its ordinary annual valuation or stock-taking, in those cases at any rate, a note should immediately be given to the Accounting Officer so that he can, if necessary, take it up with the Treasury. At any rate, he knows about it and can start to act. Would it not be the case that if that were done and there were then a long period of years during which the thing was quietly smothered, some future Public Accounts Committee would deal with the Accounting Officer for having had it brought to his attention and then having withheld it from Report and any possible action? Is that not likely to be possibly an effective thing?

—(Sir Thomas Padmore.) If I may say so, something of that kind might be very useful, because the problem which arose in the shirting case, and arises very often, is that this kind of thing ought to be brought to the attention either of the Accounting Officer or of the Treasury or of the Comptroller and Auditor General—at any rate, some senior authority—at a stage before anybody knows and can talk about what the loss will be or can possibly talk about giving authority for write-off or anything of that kind. A long time elapsed, I think, between the period when it became clear in this shirting case that there was going to be a loss before anybody knew what the amount of it was going to be. It ought to be possible to bring it to notice long before any specific question of write-off could possibly have arisen.

Mr. Arbuthnot.

3559. In this particular case, though, the Comptroller and Auditor General was left in ignorance for a long time after the Treasury knew about it?—After the Treasury knew about it?

3560. Is that not so?—I respectfully doubt that, Sir. I do not think that is so.

Chairman.

3561. Can the Comptroller and Auditor General comment on that?—(Sir Edmund Compton.) I think I knew as soon as the Treasury did, and I am not disclosing a trade secret when I say this, because as I said before, my point of entry in these matters is the correspondence on a loss or similar case between the Department and the Treasury. If I may just make another comment, my anxiety in this case also

13 June 1961.]

Sir THOMAS PADMORE, K.C.B.

[Continued.]

relates, or partly relates, to the efficiency of my own audit, by which I mean that this case has caused me to ask myself whether there was any process of audit by which I should have myself picked it up by way of inspection of either the cash or the store accounting system.

Mr. Hoy.

3562. These proposals, as I understand them, would mean that there are many cases which will never come before this Committee at all or of which this Committee will have information unless in fact they are brought forward by the Comptroller and Auditor General. I think recently we had one or two cases where in fact fraud was being perpetrated and motor cars were being exchanged. Now, it would appear if we agree to all this that this will just be lumped together and we shall see in a headline that certain things due to a specific reason amount to £250,000, or whatever the sum is, but it will in no way convey to this Committee or to anybody else what the incidents were. I should have thought it is going a little too far. Is my interpretation of this correct?—As I read these paragraphs it is so in the sense that, I think, it is the essence of the Treasury proposal that individual loss cases will no longer be noted on the Account but that the losses will be reported to Parliament in categories, so many of a certain kind amounting to an aggregate figure. I would go on to say that if there was a change of that sort I would certainly regard it as my duty to provide this Committee with information in my Report about any loss case which I thought Parliament should be informed about either on account of its size or other significant features.

Mr. Arbuthnot.

3563. Would it expand the Accounts very much if all losses over £10,000 had to be individually itemised?—I would prefer that the Treasury should answer that question. (Sir Thomas Padmore.) Perhaps I may say a word on this generally. I do not think I can specifically answer that question, but I would like to say this, that these proposals admittedly have the effect that the hon. Member has mentioned, that instead of a series of notes on individual loss cases, the Appropriation Account will only have a note which shows losses by categories, the total number and the aggregate amount lost. The purpose of

making these proposals is not any desire—I hope the Committee will accept that—on the part of the Treasury to keep anything away from Parliament or from the Public Accounts Committee. It is simply that, proceeding in a sense from our proposals to reform and simplify and, as we think, greatly improve the presentation of the Estimates, we considered whether we could suggest anything on similar lines in the case of the Appropriation Accounts. And in particular when we came to examine the notes on the Appropriation Accounts we came to the conclusion that, so far from being helpful to this Committee they tended as they had developed over the years, to be rather the reverse in that, for one thing, there was an aggregation of detail which made it very difficult for anybody to find his way about in them; but more important than that, the loss cases that were picked out and, indeed, other categories of cases that were picked out for special noting in the Accounts, were selected mainly by reason of various requests which had been made by the Public Accounts Committee over a very long period of time, many of them in the last century. And some of them, with respect, are no longer relevant to modern conditions. We felt that if this Committee wished, as undoubtedly it does, to pick out and to discuss and to examine those cases which are most worthy of its attention, it would be much better that it should do so by calling on its own servant, the Comptroller and Auditor General, who has full access to all the records, to select by quoting in his Report those things which are worthy of its attention rather than that we should continue to put in these notes which, so far as they deal with individual losses, are selected on a highly arbitrary basis and do not necessarily and cannot give a full and adequate reflection of what is involved in the case and do not by any means comprise those cases which are most worthy of the attention of this Committee. It is on those grounds that we have proposed this and, as the Comptroller and Auditor General has just said, he would regard it as a corollary of these proposals if they were to be accepted, that he would regard himself as having, as it were, an additional duty to select those cases most worthy of the Committee's attention and put them before it in his Report.

13 June 1961.]

Sir THOMAS PADMORE, K.C.B.

[Continued.]

Mr. Hoy.] Sir Thomas, I must hasten to tell you that I do not think for a moment that you are trying to be anything other than helpful, but I think that this places a tremendous onus on the Comptroller and Auditor General as well as on the Treasury, and I was thinking ahead. There may be cases which might come to light through questions in the House itself, and it would not be to the credit of this Committee to say: "Well, we did not know because we had in fact agreed to the proposal of such and such a date and so we had to rely on the Comptroller and Auditor General to tell us if he thought it was fair". I would not regard that as a very good excuse from the Committee of Public Accounts and it was really not only to safeguard ourselves but perhaps even the Treasury and the Comptroller and Auditor General that I am just a little doubtful about allowing all this to be wrapped up into subheads without the details being available to the Public Accounts Committee, and I think it right to voice my doubts at this meeting.

Mr. Stevens.

3564. I am bound to say I like this simplified form, the shortened form, very much indeed. I think it makes it much easier to understand the Accounts but, on the other hand, I think there is great force in what Mr. Arbuthnot and Mr. Hoy have said. I am just wondering if a compromise might possibly be reached. If one looks at the Ministry of Aviation example which we have before us, the first heading under "Cash Losses" is "Claims abandoned, 78 cases, total £142,704". That could, conceivably, be 77 cases of £1 each and one case of £142,000 odd. Similarly, with regard to stores losses due to other causes, 482 cases totalling £221,752. That might be 481 trivial cases and one very large one. Would it be possible, for example, to deal specifically with Mr. Hoy's point, to have in brackets after the words "Cash Losses (a) Claims abandoned", "(23"—or whatever the number may be—"in excess of £10,000)"? That, I suggest, might possibly bring to the notice of this Committee the number of cases which were not trivial and might take some of the burden off the shoulders of the Comptroller and Auditor General and leave it to this Committee to ask, where it sees fit, for a detailed list of the bigger

cases?—I would think, Sir, that we could readily and without difficulty do something of that kind. I would only, if I may, just add this general fact to what I said before—that if the Committee regard these proposals as acceptable, if they have these things by categories, numbers of cases and aggregates, at any rate it will enable them to keep an eye on the comparative performance of the Department over a period of years in this respect and anything very major by way of a loss that arises will, of course, come to notice in the sense that the figure will show a bump in that particular year; and, of course, it would be perfectly open to the Committee to ask why, even if the case were of such a character that the Comptroller and Auditor General had not, although it was a large one, thought it necessary to bring it specifically to notice.

Colonel Crosthwaite-Eyre.

3565. Sir Thomas, the number of pages involved in setting out the present losses in the Civil Appropriation Accounts is not very big, is it?—I do not think it is.

3566. What is the actual saving in numbers of pages?—I should not think it is very great, nor would I think, if the Committee wished it, that there would be any insuperable difficulty about carrying on as we are now.

3567. Would you not agree that, really, one of the things that does more, possibly, to act as a deterrent than anything else, is the present system where any loss is noted and the fact that it can be challenged and challenged in detail? Do you not think that has some effect?—It certainly has some effect. There is a counter effect, I think, too, in that a Department that has involved itself in some kind of affair which is to its discredit and a difficult one in this sort of way, at present notes the thing in the Account and if it is lucky it may get away with it. Such a case under the system which we propose is, I think, much more likely than now to form the subject of a special report of the Comptroller and Auditor General because he may well feel now that if a thing is noted in the Account it has been brought to attention, but he will feel, as he said, a special duty on him to bring these things to notice if they are not separately noted.

3568. If you have losses, and I see your headings are "Theft, fraud or arson",

13 June 1961.]

Sir THOMAS PADMORE, K.C.B.

[Continued.]

you would only have to have one successful fire in a Department and it would hide everything for about two years. There is no differentiation between them. It goes in under a sort of bulk heading, does it not? The ordinary person seeing 20 cases due to theft, fraud or arson would gain no idea that it was just one unlucky incident that happened at a storage depot or the fact that four cashiers ran away with the money?—That is perfectly true, Sir.

Mr. *Arbuthnot*.

3569. As I see it, the Comptroller and Auditor General is going to underline the cases worthy of special note anyway so that, therefore, it is not quite right to say that this will throw a special responsibility upon him because he has it now and fulfils it. But if we insist on having the losses individually itemised that gives a much greater opportunity to the individual Members of this Committee, and after all we are individually responsible as well as collectively responsible, to make a thorough investigation. Is that not so?—(Sir *Edmund Compton*.) May I comment on that? The hon. Member has just said that I will underline the significant cases anyway. Frankly, it really has not worked out that way hitherto. All the losses, subject to certain delegations in the case of the big Departments, under the present system are reported on the Account to Parliament. Now, in so far as they have been brought to Parliament's notice in the Account, I have not felt it my duty to underline them, as I said, except perhaps where a particular loss has occurred which really was of such outstanding significance. Indeed I would say that in the course of my career so far as Comptroller and Auditor General I do not recollect that I have found it necessary to do that in any single case. Under the regime suggested where no single individual loss would be brought to Parliament's notice on the Account I would think that I have got an additional duty, which is to inform Parliament, but not necessarily in a critical way but certainly to inform Parliament, where individual cases had occurred which were either large or otherwise significant. I add the word "otherwise" because I would like to make a small comment on a suggestion which has been made, namely, that it is only the large losses which are significant. I do not think that is necessarily so and

39389

I think also that the difficulty that I personally would see about any suggestion of a uniform magnitude rule to be applied to Departments is that a loss that would be regarded as insignificantly small in one Department might well be significant in another. I think that divergence is recognised now by the different limits which the Treasury has in fact given to different Departments.

Chairman.

3570. Are we to understand, Sir Edmund, that if this were introduced you would in fact feel it necessary to be doing more than you are to-day on losses?—Certainly.

3571. That, in fact, you would have some machinery, whatever it might be, to go through all the losses and pick them out, qualitatively as well as quantitatively in a sense that you do not feel obliged to that to-day?—Yes.

Mr. *Arbuthnot*.

3572. But there is nothing at all to prevent you if we were to ask you to do so to-day from doing so, is there?—No, but my starting point to-day is that all the losses, within limits, are individually reported and explained on the Accounts. Under the new regime there would be no such individual losses brought to notice and I might well find it necessary to report quite a number of individual losses for the purpose of informing Parliament.

Sir *Samuel Storey*.

3573. Would that mean you would have extra audit work to do or simply that you would have extra reporting to do to the Committee on the Accounts?—I think, extra reporting.

3574. It will not affect the actual audit?—I do not think the actual audit is affected, no.

3575. But you would have to report in greater detail?—It would certainly add to my Report.

Mr. *Hoy*.

3576. I could not agree more with the Comptroller and Auditor General that it is not always the sum involved that will be the determining factor, and that is why I could not agree with enthusiasm to the suggestion that we might do it in sums of £10,000 or multiples. I am thinking, for instance, of a very recent case where in fact bribery took place and it did not

M

13 June 1961.]

Sir THOMAS PADMORE, K.C.B.

[Continued.]

involve £10,000, but the culpability of the people involved in the case and the heinousness of the offence was something, of course, that ought to have come before this Committee. That is the sort of case that I think we must be assured we do not miss. I remember on a previous occasion the Accounting Officer for a Department having to go through the mill a little at this Committee not on anything the Comptroller and Auditor General had brought forward, but by Members of this Committee going over these losses. He complained that if he had only known we were going to ask these questions he would have come better prepared for them. All I wanted to say was that if in fact we are going to allow this to take place we will be throwing a tremendous responsibility on the Comptroller and Auditor General and his Department, and that is why I am a little perturbed about the suggestion the Treasury make. I think this is one of the things the Committee of Public Accounts must accept responsibility for and Parliament itself would expect the Committee to accept that responsibility?—(Mr. Henley.) May I, with Sir Thomas's permission, just make two points? First, the fact is that under the present system—I say this purely for information—it is not possible to record anything like all the detailed losses for certain Departments—indeed for all Departments—because the number is too great; and we therefore have an automatic cut-off at £1,000, £10,000 or whatever it may be, which is not a uniform figure. Second, I think my recollection is correct that the case which has been mentioned, the Air Ministry fraud case earlier this year, was in fact a case reported by the Comptroller and Auditor General. It might or might not have been apparent on the face of the accounts.

Chairman.

3577. Sir Thomas, you have heard the questions to the Comptroller and Auditor General and some of the suggestions put forward. Have you any comments to add to your Paper?—(Sir Thomas Padmore.) Yes. I would like to say this, if I may: it is, of course, true that these proposals put an additional responsibility on the Comptroller and Auditor General and in a sense remove that responsibility from the Public Accounts Committee; but that is not a responsibility for doing anything about these cases, it is a responsibility only for selecting those cases

which ought to be brought particularly to the Committee's attention. One hon. Member said that if the Committee continued to have the detail that it has in the present case on Loss Accounts it could, as it were, by a certain amount of private enterprise on the part of the Members, pick out those cases which were worth a further examination. I respectfully think that the danger about these notes is one of misleading the Committee and in a sense wasting their time because the presentation of these cases which they get by reason of these notes is infinitely inferior to the presentation which they could get if the selection were made by the Comptroller and Auditor General. As I have said already, they are arbitrarily selected from among the totality of the loss cases by reason of these magnitude rules, and moreover, they are necessarily very cursorily described. I would think it was only by accident that the Committee would be able to pick out from such a description of such a collection of cases arbitrarily selected those which are really worth while having a good go at. That is why we have made this proposal. It is not because an immense amount of printing would be saved or an immense amount of trouble to anybody.

Sir George Benson.] Is it not likely that if we discuss only those losses to which the Comptroller and Auditor General draws attention, we shall discuss them very much more thoroughly and vigorously?

Mr. Arbuthnot.] Is it not likely that if we rely on the Comptroller and Auditor General, the moment the Comptroller and Auditor General's Report has been passed the departmental head will then heave a sigh of relief and this Committee will not be anything like the fear-provoking body that it is at the present moment?

Sir George Benson.

3578. I am not sure that that is correct. The departmental head who has a bad loss may be shivering in his shoes far more because he knows that in all probability his particular loss will be pin-pointed?—He knows also that the Comptroller and Auditor General has told this Committee all about it, not merely what is in a five-line note on the Account.

13 June 1961.]

Sir THOMAS PADMORE, K.C.B.

[Continued.]

Sir *George Benson*.] I think what this proposal does mean is that we shall concentrate a much heavier fire on future losses and the losses we shall concentrate on will not be chosen by the amount of them, but by the seriousness of them and that, I think, would probably be an even greater incentive not to make blunders.

Mr. *Arbuthnot*.] But the Comptroller and Auditor General can do that anyway, can he not, and we must ask him to.

Sir *George Benson*.] I feel very much inclined to be guided by the Comptroller and Auditor General on this.

Colonel *Crosthwaite-Eyre*.] I do not follow at all what we mean by this. I think it is agreed that the Comptroller and Auditor General has all the powers, the right and the duties at the moment to do it. We have got the information so that any of us, if we want, can pick up any particular case. Under this new suggestion, instead of having both fields open to us, as I understand it, we have to go purely on what the Comptroller and Auditor General is going to report. I should have thought it was better to have it both ways, not just one.

Chairman.

3579. What is the gain from this, Sir Thomas? You told us there is no gain from the point of view of trouble and no gain in the printing, although it might be easier for Parliament to read?—If I may respectfully say so, we think that the gain is that it would make it easier for the Public Accounts Committee to do, as has just been said, a more useful job in this field of its work.

3580. But what is your answer to Colonel *Crosthwaite-Eyre*'s point that if the Committee wants to have it in this way so that they can do the job in the way that they have done it in the past either individually or collectively and then ask the Comptroller and Auditor General to lay on the new drill which would have been proposed? There may be some gain from the extra emphasis on that, but what is the argument against that? It is not one of cost, is it?—No, Sir. It is not. My answer to that is that I think that these notes as they now are, tend to be positively misleading and may well tend to divert the Committee's attention away from the more fruitful fields of enquiry into less fruitful ones.

39389

Mr. *Arbuthnot*.

3581. Have you any instance where that has been so?—I cannot quote you one off-hand, Sir, but I think there are cases where, on the face of it, the little five-line account that one gets in the note to the Appropriation Account looks rather interesting and that will mean that the Committee will follow it up. In fact it proves to be not in the least an interesting, fruitful or profitable case to study, whereas there are others which may not look at all interesting on the face of it, but in fact where there is a lot more behind them. This is where I think the Committee would be greatly helped by additional aid from the Comptroller and Auditor General.

3582. Can the Treasury not make them look more interesting? One of the two cases you took sounded as though a rather dull and unrewarding case got a rather glamorous note to act as a kind of false trail to the Public Accounts Committee, whereas in the other case the Public Accounts Committee ought to be following, the Treasury have provided a note which would be likely to tempt the Committee to go in some other direction?—I am afraid you have caught me out, Sir; I do not know who writes these notes—the Department—that is what I thought. We do not write them. I hardly think we could, in fact, without enquiring into the full details.

3583. Do you read them before they are published?—I do not know whether we read them before they are published, because they are published in the Appropriation Account.

3584. I wonder if the Comptroller and Auditor General who has heard the particular twist the question has taken in the last few minutes, would like to make a further comment?—(Sir *Edmund Compton*.) Only this, Sir, that I do appreciate that the change if the Committee wished it to occur, would add to my responsibilities, and the Committee would depend on my discretion for the individual cases that came before it for notice. It would certainly be a shorter list of losses than now reported but it would be a selected list. I would myself say that the losses, as they now come out, do present a long and, perhaps, a haphazard list. In a way it would be a conceivable solution that the list should continue to be the long and, if I may say so, the haphazard list that it is now, but that I should do more

M2

13 June 1961.]

Sir THOMAS PADMORE, K.C.B.

[Continued.]

than I have hitherto done by way of commenting in my Report on selected items. I would really be rather reluctant to do that and I say so because I think that that really would give undue prominence to losses as a field for audit criticism. What I am feeling for is this: that it seems to me that losses are a matter on which this Committee wishes to look at individual cases because this is a field where clearly money has been spent in a way that Parliament did not intend and they want to keep a special eye on that. But, on the other hand, it is, as the Treasury Memorandum says, inevitable in the course of business that there should be a number of these loss cases and I do not think that my job in reporting them would be more for the most part than reporting the facts for the information of the Committee without necessarily putting a critical slant into what I have to say. What I am driving at is that, as things are at present, the Departments report a long and haphazard list of losses. Under the Treasury alternative I would be reporting a shorter list. Under the third course that is suggested there would be the long and haphazard list and if I were to select certain cases in my Report, I think that would really give undue emphasis to losses in what I have to say to Parliament about the outcome of the Accounts.

Chairman.

3585. Obviously this is a matter we shall have to consider further. My next point is on paragraph 20 of the Memorandum, Works Appendices. Sir Thomas, you are making changes in the works statements in the Estimates beginning in 1962-63. You are proposing to consider in the light of experience of this new form whether you can usefully supplement this with information about the outturn. In the meantime you are suggesting dropping, with effect from the 1st April, 1961, the information which you at present give on the Accounts of the major works on which appreciable variations have occurred. Now, the Public Accounts Committee are concerned, of course, with these individual works and with the outturn of those works. Why should you not continue to provide the explanatory note of major variations until you have proposals to make for replacing it with something else? Why the gap between these two series?—(Sir Thomas Padmore.) I think if the Committee feel that they

would like to continue to have information about outturn so that they can compare in relation to particular projects the outturn with the provision, it might be an all-round better and more helpful way of doing that if such information were to be included not in the Appropriation Accounts, but in the special Memoranda which all the big building Departments provide or the special Accounts which they render of their major building projects in progress or embarked on in the year.

3586. But in each year?—From year to year.

3587. You mean without having the gap which is at present proposed?—I think if it were done that way we could avoid a gap altogether.

3588. Between 1960-61 and 1962-63?—Yes.

3589. Has the Comptroller and Auditor General any comment on that?—(Sir Edmund Compton.) No, Sir. The information will be just as effectively before this Committee if it is, as it were, an additional column in the works statements as if it is, as at present, noted to the Appropriation Account.

3590. Provided that it continues as at present until there is some change, until it is presented on a different basis like that. I imagine, Sir Thomas, what you are suggesting now is just as an interim arrangement until the new things is produced?—(Sir Thomas Padmore.) I am not sure, Sir. It might well prove to be the most convenient thing to adopt in perpetuity, and in that case it would replace the suggestion that you quoted, that we could consider later on whether it would be supplemented with the detailed information about outturn. We are starting giving information about outturn straight away in this other return we make and will continue it.

3591. But I am right in assuming, am I, that if it is done this way there will be no gap to cover?—I think that is so, Sir.

3592. As was apparently previously contemplated?—I am assured that that is so.

3593. Are you satisfied about that, Sir Edmund?—(Sir Edmund Compton.) Yes, Sir.

Mr. Arbuthnot.] What about the last sentence: "The Committee may however like to consider whether they would wish

13 June 1961.]

Sir THOMAS PADMORE, K.C.B.

[Continued.]

to continue to receive these statements as a regular arrangement". I personally would have thought they would have been valuable. Is there any objection to that?

Chairman.

3594. I should have thought that is so, yes. Obviously, we shall say what we have to say in our Report on that point? —(Sir Edmund Compton.) The Accounting Officer has just suggested that the information about outturn should be added to this. Therefore, that should be continued. (Sir Thomas Padmore.) It was implicit in my suggestion that they should be continued.

Chairman.] Is there anything in paragraph 21?

Mr. Stevens.] On paragraph 21, I see it is suggested that as the scale of hostel activity is considerably less than it used to be, the information should no longer be disclosed, but from the Ministry of Aviation example we find straight away that 13 hostels for industrial civil servants cost £289,000, income £271,000, deficit £117,000. I should think that is a large enough sum to interest this Committee. That is not an isolated example. I think we have had some questions about it quite recently.

Chairman.

3595. What is the reason for this, Sir Thomas?—If I might I would ask the Treasury Officer of Accounts to explain this point. What happened, I think, was that this request was made soon after the war, when there were a great number of Government hostels and a great deal of public interest in them in connection with housing shortage; and I think we rather wonder nowadays whether this particular activity of the Government is of sufficient interest to this Committee for a special return to continue to be made about it and whether the Committee would feel that it is worth while in the future. (Mr. Henley.) That is simply the point, Sir.

In looking through these notes we considered all the cases that we could think of which Departments could bring to our notice in which there was, as it were, a long outstanding request, for which the Committee might like to consider now whether the need had passed or not. This is a matter on which we make no recommendation, as it were; we are entirely in the hands of the Committee on this point.

3596. It sounds as if some Members of the Committee feel that this should be continued but this again is a matter which we can deal with in our Report? —(Sir Edmund Compton.) May I just add a word on that, Sir? As I understand it, it was the proposal of the Treasury that they should cease to provide this information as a matter of routine, something obligatory on all accounts. I had also understood that in the particular case of the Ministry of Aviation, judging by the Appendix in the new form, they would have proposed to have given the information. In other words, that whereas the Treasury were seeking to be absolved from the requirement that it should be done in all cases, they were not, as it happens, in the particular case of the Ministry of Aviation. (Mr. Henley.) If I may say so, Sir, I do not think that was quite the way we approached it, though, I think, if I may say so, it is a perfectly reasonable approach. We had brought this to the notice of the Committee simply to see whether the Committee still had the kind of interest in this particular out-turn that they had when they first asked for the statements. If the Committee wish the statements to be continued, if they think they are worth this mention in this way, there is no difficulty about preparing them and certainly no objection from the Treasury's point of view to doing so. We mentioned the particular case of the National Assistance Board because we felt that rather special considerations applied to that, but that was really all there was to it.

REVENUE DEPARTMENTS APPROPRIATION ACCOUNTS, 1959-60.

VOTE 1.

CUSTOMS AND EXCISE.

On this Account no questions were asked.

39389

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13 June, 1961.]

[Continued.]

CIVIL APPROPRIATION ACCOUNTS (CLASSES I-V), 1959-60.

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 5A.

PRIVY SEAL OFFICE.

VOTE 6.

CHARITY COMMISSION.

VOTE 7.

CIVIL SERVICE COMMISSION.

VOTE 8.

CROWN ESTATE OFFICE.

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.

ROYAL MINT.

VOTE 15.

NATIONAL DEBT OFFICE.

13 June, 1961.]

[Continued.]

VOTE 16.

NATIONAL SAVINGS COMMITTEE.

VOTE 17.

PUBLIC RECORD OFFICE.

VOTE 18.

PUBLIC WORKS LOAN COMMISSION.

VOTE 19.

ROYAL COMMISSIONS, &c.

VOTE 20.

SECRET SERVICE.

VOTE 21.

TITHE REDEMPTION COMMISSION.

VOTE 22.

MISCELLANEOUS EXPENSES.

VOTE 22A.

REPAYMENTS TO THE CIVIL CONTINGENCIES FUND.

VOTE 22B.

CIVIL SERVICE REMUNERATION.

VOTE 23.

SCOTTISH HOME DEPARTMENT.

VOTE 24.

SCOTTISH RECORD OFFICE.

CLASS II.

VOTE 1.

FOREIGN SERVICE.

VOTE 2.

FOREIGN OFFICE GRANTS AND SERVICES.

VOTE 3.

BRITISH COUNCIL.

VOTE 4.

COMMONWEALTH RELATIONS OFFICE.

VOTE 5.

COMMONWEALTH SERVICES.

13 June, 1961.]

[Continued.]

VOTE 6.

OVERSEA SETTLEMENT.

VOTE 7.

COLONIAL OFFICE.

VOTE 10.

DEVELOPMENT AND WELFARE
(FEDERATION OF RHODESIA AND NYASALAND, AND SOUTH
AFRICAN HIGH COMMISSION TERRITORIES).

VOTE 11.

COMMONWEALTH WAR GRAVES COMMISSION.

CLASS III.

VOTE 1.

HOME OFFICE.

VOTE 2.

HOME OFFICE (CIVIL DEFENCE SERVICES).

VOTE 3.

POLICE, ENGLAND AND WALES.

VOTE 4.

PRISONS, ENGLAND AND WALES.

VOTE 5.

CHILD CARE, ENGLAND AND WALES.

VOTE 6.

FIRE SERVICES, ENGLAND AND WALES.

VOTE 7.

CARLISLE STATE MANAGEMENT DISTRICT.

VOTE 9.

COUNTY COURTS.

VOTE 10.

LEGAL AID FUND.

VOTE 11.

LAND REGISTRY.

VOTE 12.

PUBLIC TRUSTEE.

VOTE 13.

LAW CHARGES.

13 June, 1961.]

[Continued.]

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.

13 June, 1961.]

[Continued.]

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 13.

BROADCASTING.

VOTE 14.

SCOTTISH EDUCATION DEPARTMENT.

VOTE 15.

NATIONAL GALLERIES, SCOTLAND.

VOTE 16.

NATIONAL MUSEUM OF ANTIQUITIES OF SCOTLAND.

VOTE 17.

NATIONAL LIBRARY, SCOTLAND.

CLASS V.

VOTE 1.

MINISTRY OF HOUSING AND LOCAL GOVERNMENT.

VOTE 2.

HOUSING, ENGLAND AND WALES.

VOTE 3.

EXCHEQUER GRANTS TO LOCAL REVENUES,
ENGLAND AND WALES.

VOTE 4.

MINISTRY OF HEALTH.

VOTE 6.

MEDICAL RESEARCH COUNCIL.

13 June, 1961.]

[Continued.]

VOTE 7.

REGISTRAR GENERAL'S OFFICE.

VOTE 8.

WAR DAMAGE COMMISSION.

VOTE 9.

DEPARTMENT OF HEALTH FOR SCOTLAND.

VOTE 13.

REGISTRAR GENERAL'S OFFICE, SCOTLAND.

On these Accounts no questions were asked.

CIVIL APPROPRIATION ACCOUNTS (CLASSES VI-X), 1959-60.

CLASS VI.

VOTE 1.

BOARD OF TRADE.

VOTE 3.

BOARD OF TRADE (FORMER STRATEGIC STOCKS).

VOTE 4.

SERVICES IN DEVELOPMENT AREAS.

VOTE 5.

FINANCIAL ASSISTANCE IN DEVELOPMENT AND OTHER AREAS.

VOTE 6.

EXPORT CREDITS.

VOTE 7.

EXPORT CREDITS (SPECIAL GUARANTEES).

VOTE 8.

REGISTRATION OF RESTRICTIVE TRADING AGREEMENTS.

CLASS VII.

VOTE 2.

HOUSES OF PARLIAMENT BUILDINGS.

VOTE 5.

ROYAL PALACES.

VOTE 6.

ROYAL PARKS AND PLEASURE GARDENS.

13 June 1961.]

[Continued.]

VOTE 8.

RATES ON GOVERNMENT PROPERTY.

VOTE 9.

STATIONERY AND PRINTING.

VOTE 10.

CENTRAL OFFICE OF INFORMATION.

CLASS VIII.

VOTE 2.

AGRICULTURAL AND FOOD GRANTS AND SUBSIDIES.

VOTE 4.

FOOD (STRATEGIC RESERVES)

VOTE 5.

FISHERY GRANTS AND SERVICES.

VOTE 6.

SURVEYS OF GREAT BRITAIN, &c.

VOTE 7.

AGRICULTURAL RESEARCH COUNCIL.

VOTE 8.

NATURE CONSERVANCY.

VOTE 9.

DEVELOPMENT FUND.

VOTE 10.

FORESTRY COMMISSION.

VOTE 12.

FISHERIES (SCOTLAND) AND HERRING INDUSTRY.

CLASS IX.

VOTE 1.

MINISTRY OF TRANSPORT.

VOTE 3.

TRANSPORT (SHIPPING AND SPECIAL SERVICES).

VOTE 5.

MINISTRY OF POWER.

13 June 1961.]

[Continued.]

VOTE 6.

MINISTRY OF POWER (SPECIAL SERVICES).

VOTE 8.

DEPARTMENT OF SCIENTIFIC AND INDUSTRIAL RESEARCH.

VOTE 9.

ROADS, &c., SCOTLAND.

CLASS X.

VOTE 1.

SUPERANNUATION AND RETIRED ALLOWANCES.

VOTE 2.

MINISTRY OF PENSIONS AND NATIONAL INSURANCE.

VOTE 3.

WAR PENSIONS, &c.

VOTE 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.

MINISTRY OF DEFENCE APPROPRIATION ACCOUNT, 1959-60.

On this Account no question was asked.

LIST OF APPENDICES

	<i>Page</i>
APPENDIX 1	
Ministry of Health—Purchase of Drugs at Low Prices from the Continent ...	347
APPENDIX 2	
Ministry of Health—Expenditure on Advertising and Research in the Pharmaceutical Industry	347
APPENDIX 3	
Department of Health for Scotland—Average Rents of Local Authority Houses	348
APPENDIX 4	
Department of Health for Scotland—Extract from the Report by Mr. G. C. Emslie, M.B.E., Q.C., on the Local Inquiry in the matter of a review of rents of Council Houses in Dunbarton	348
APPENDIX 5	
Scottish Home Department—Effect on Exchequer Equalisation Grant of Restriction of Local Authority Housing Deficits	349
APPENDIX 6	
Post Office—Dates at which the Firms Party to the Bulk Supply Agreements were last costed	350
APPENDIX 7	
Post Office—Firms which have been invited to tender under the Reservation Clauses embodied in the Bulk Supply Agreements	351
APPENDIX 8	
Post Office—Reasons as to the Lack of Response to Invitations to tender for the Supply of Cable under the Reservation Clause Provisions	
APPENDIX 9	
Treasury—Form of Notes to the Appropriation Accounts	352

APPENDIX 1

PAPER submitted by *Mr. B. D. Fraser, C.B.*, on 19th April, 1961

PURCHASE OF DRUGS AT LOW PRICES FROM THE CONTINENT

1. At the meeting on 23rd February, 1961, the Committee referred to reports that certain hospitals were buying drugs from the Continent at prices much lower than those of drugs produced in the U.K. and asked for information as to the prices being paid for the home produced product and the imported product allowing for import duty (Question 1207).

2. The Health Departments know that purchases of patented drugs from the Continent at comparatively low prices have been made by some hospitals; such purchases have so far been on a small scale. The prices which it is understood have been paid for these imported drugs compare as follows with the prices of the home produced product:—

<i>Drug</i>	<i>Price to hospitals from Continental source (incl. import duty)</i>	<i>Home manufacturers' comparable price to wholesalers*</i>
Chlorothiazide ...	£5 per 1,000 tablets.	£8 1s. per 500 tablets. (A price reduction of 10 per cent. is about to be made.)
Tetracycline ...	£37 5s. per 1,000 tablets.	Before 27.2.61 £71 10s.—after 27.2.61 £62 18s. 6d. per 1,000 tablets.
Chloramphenicol ...	£27 per 1,000 tablets.	£43 19s. 6d. per 1,000 tablets.

* Somewhat lower prices are normally paid on contracts for supply to hospitals.

APPENDIX 2

PAPER submitted by *Mr. B. D. Fraser, C.B.*, on 19th April, 1961

EXPENDITURE ON ADVERTISING AND RESEARCH IN THE PHARMACEUTICAL INDUSTRY

1. At the meeting on 23rd February, 1961, the Committee asked how expenditure on advertising by pharmaceutical manufacturers compares with their expenditure on research in this country. (Questions 1097 and 1098.)

2. The Association of British Pharmaceutical Industry estimate that research expenditure in the U.K. in 1960 amounted to £6½ millions. The amount spent on mail advertising and samples in 1959 in relation to a turnover of about £52 millions, according to the information collected by the Association, was about £2½ millions.

3. It would be misleading to compare these two figures. The advertising figure is not comprehensive but it does include expenditure in this country by subsidiary companies of firms with headquarters elsewhere, mainly in the United States of America and Switzerland. The research figure is however the amount spent on research in this country. A substantial proportion of the preparations used in the National Health Service are the product of research activities overseas, in the United States, Switzerland and elsewhere.

APPENDIX 3

PAPER forwarded by *Mr. T. D. Haddow, C.B.*, on 14th March, 1961

AVERAGE RENTS OF LOCAL AUTHORITY HOUSES

At the meeting on 9th February, the Committee asked for figures for the average rents of local authority houses in England and Wales that could be compared with the figures quoted for Scotland (questions 481-485).

Through the co-operation of the Ministry of Housing and Local Government and the Exchequer and Audit Department, the following figures have been obtained:

1938-39	Average net weekly rent for all types of housing authority outside the London area (an approximate figure based on an examination of 10 per cent. of housing revenue returns)	7s. 6d.
1959-60	Average net weekly rent (based on the statistics for 1023 of the 1440 housing authorities in England and Wales outside London given in the Housing Statistics published by the Institute of Municipal Treasurers and Accountants)	19s. 6d.
	Percentage increase over the period	160%

The corresponding figures for Scotland are:

1938	Average net weekly rent for all local authorities (i.e. exclusive of rates)	5s. 0d.
1959	Average net weekly rent for permanent houses for all local authorities (also exclusive of rates)	8s. 8d.
	Percentage increase over the period	73%

APPENDIX 4

Part of PAPER forwarded by *Mr. T. D. Haddow, C.B.*, on 16th March, 1961

Extract from the Report by *Mr. G. C. Emslie, M.B.E., Q.C.*, on the Local Inquiry in the matter of a review of rents of Council Houses in Dunbarton:—

“ 18. The conclusions at which I have arrived are:

- (1) That the County Council is bound, in terms of section 73 (5) of the Housing (Scotland) Act, 1950, from time to time to review rents and to make such changes either of rents generally or of particular rents and rebates as circumstances may require;
- (2) that section 73 (5) re-enacts in a consolidating statute what was already the obligation of the County Council under section 47 (6) of the Housing (Scotland) Act, 1935;
- (3) that the occasion for review arose at least five times between 1950 and 1960 inclusive;
- (4) that the County Council has claimed on some of these occasions to have carried out ‘review’ within the meaning of section 73 (5);
- (5) that the County Council has not in good faith and upon a proper exercise of its discretion carried out between 1950 and 1960 any ‘review’ of rents within the meaning of section 73 (5) in as much as—
 - (a) the set policy of the County Council precluded any genuine review of rents;
 - (b) the decisions to make no change in rents were arrived at upon grounds which were irrelevant and not supported by any relevant evidence;

- (c) the said decisions were deliberately made for reasons which were unconnected with the due performance of the Council's duties under section 73 (5) ;
- (d) the said decisions ignored almost every factor which it was essential for the Council to take into account if they were properly to exercise their discretion ;
- (6) that in view of the foregoing conclusions it is unnecessary to determine whether there occurred in 1949 a review of rents within the meaning of section 73 (5)."

APPENDIX 5

PAPER forwarded by *Sir John Anderson, K.B.E., C.B.*, on 23rd February, 1961.

EFFECT ON EQUALISATION GRANT OF RESTRICTION OF LOCAL AUTHORITY HOUSING DEFICITS

I undertook when I appeared before the Public Accounts Committee on 9th February to supply an answer to the following question :—

"534. What would have been the effect on the aggregate Equalisation Grant in 1959-60 if the housing deficit of each authority ranking for the relevant expenditure had been restricted to one-third of its housing subsidies?"

The best estimate we can make of the effect on the aggregate Exchequer equalisation grant for 1959-60 of such a restriction is that it would have been reduced by approximately £1.6m. This is not a definitive result because all the relevant data are not yet available for 1959-60. It seems unlikely, however, that there would be any great change in this figure even when all the figures have become final.

APPENDIX 6

PAPER forwarded by *Sir Robert Harvey, K.B.E., C.B.*, on behalf of the Accounting Officer, Post Office, on 24th March, 1961

DATES AT WHICH THE FIRMS PARTY TO THE BULK SUPPLY AGREEMENTS WERE LAST COSTED

1. For each Agreement the prices are based on the costs of selected firms. The practice is to select for cost investigation the firms judged as being the most efficient of those party to an Agreement: usually two or more firms are selected. It follows from this that, depending on the way in which the relative efficiencies are judged to have moved, a particular firm may be costed for each successive Agreement, others less frequently and some not at all.

2. The costs of the reference firms are ascertained for a period of time before the commencing date of the Agreement to which they relate. The dates of the Agreements in the post-war years are as follows:

					<i>Period</i>
Exchange Equipment	...	...	...	...	1948-55 1955-63
Telephone Apparatus	...	...	...	...	1947-52 1952-57 1957-62
Cable	...	...	...	...	1947-52 1952-57 1957-61
Loading Coils	...	...	...	...	1947-52 1952-57 1957-61

3. The period in respect of which each of the Agreement firms was last costed is set out in the table below.

	<i>Period for which costs were last ascertained</i>	<i>Date of Agreement concerned</i>	<i>Remarks</i>
<i>Exchange Equipment Agreement:</i>			
Automatic Telephone & Electric Co. Ltd.	1952 adjusted for changes in methods of manufacture and to cost levels ruling as at 1.10.55.	1955-63	—
Standard Telephones & Cables Ltd.		1955-63	—
Associated Electrical Industries Ltd. (<i>Note 1</i>).		1955-63	For certain items only.
General Electric Co. Ltd.		1955-63	For one type of switch only.
Ericsson Telephones Ltd. ...	Not costed in the post-war period.		
<i>Telephone Apparatus Agreement:</i>			
Ericsson Telephones Ltd. ...	1955-56 adjusted to cost levels ruling as at 1.4.57.	1957-62	—
The Phoenix Telephone & Electric Works Ltd.		1957-62	—
Automatic Telephone & Electric Co. Ltd.		1957-62	—
Telephone Manufacturing Co. Ltd.		1957-62	—
General Electric Co. Ltd. ...	Not costed in the post-war period.		
The Plessey Co. Ltd. ...			
Standard Telephones & Cables Ltd.			
Associated Electrical Industries Ltd. (<i>Note 1</i>).			
<i>Cable Agreement:</i>			
Standard Telephones & Cables Ltd.	1951, adjusted to cost levels ruling as at 1.10.52.	1952-57	—
United Telephone Cables Ltd. (<i>Note 2</i>):			
(a) British Insulated Callender's Cables.		1952-57	—
(b) Southern United Telephone Cables.	1955, adjusted for changes in methods of manufacture and to cost levels as at 1.10.57.	1957-61	—
Pirelli-General Cable Works Ltd.		1957-61	—
Connolly's (Blackley) Ltd.		1957-61	For certain types of cable.
Hackbridge Cable Co. Ltd.	Not costed in the post-war period.		
Associated Electrical Industries Ltd. (<i>Note 1</i>).			
<i>Loading Coils:</i>			
Salford Electrical Instruments Ltd.	1952-53, adjusted back to 1.10.52.	1952-57	—
Standard Telephone & Cables Ltd.	1957, adjusted to 1.10.57.	1957-61	—
Automatic Telephone & Electric Co. Ltd.	Not costed in the post-war period.		
Associated Electrical Industries Ltd. (<i>Note 1</i>).			

Notes

(1) Associated Electrical Industries Ltd. are a party to the current Agreements in which they take the place occupied in earlier Agreements by Siemens Bros. and Co. Ltd. or Siemens Edison Swan Ltd. Siemens Bros. were costed in relation to the 1948-55 Exchange Equipment Agreement and Siemens Edison Swan were costed in relation to the 1952-57 Cable Agreement.

(2) Orders placed with United Telephone Cables Ltd. may be executed either by British Insulated Callender's Cables or by Southern United Telephone Cables.

APPENDIX 7

Summary of PAPER forwarded by *Sir Robert Harvey, K.B.E., C.B.*, on behalf of the Accounting Officer, Post Office, on 24th March, 1961

FIRMS WHICH HAVE BEEN INVITED TO TENDER UNDER THE RESERVATION CLAUSES EMBODIED IN THE BULK SUPPLY AGREEMENTS

Cable

1. Invitations to tender for the simpler types of cable covered by the Agreement have been issued each year since 1955 as shown in the table below:

For supplying in year	1955-56	1956-57	1957-58	1958-59	1959-60	1960-61	1961-62
Number of Firms	36	35	36	33	24	20	20
Estimated value	£400,000	£911,000	£914,000	£825,000	£510,000	£392,000	£406,000

2. Invitations to tender have recently been issued in respect of the remaining Agreements as follows:

Exchange Equipment

- (a) Private Automatic Branch Exchange Type SA 8100 (estimated value £40,000) and Unit Automatic Exchange Type 13 and associated equipment (estimated value £74,000): 11 firms.
- (b) Relay sets, etc. (estimated value £8,000): 7 firms.

Telephone Apparatus

Apparatus to an estimated value of £490,000: 9 firms.

Loading Coils

Loading Coils to an estimated value of £27,000: 5 firms.

APPENDIX 8

PAPER forwarded by *Sir Robert Harvey, K.B.E., C.B.*, on behalf of the Accounting Officer, Post Office, on 24th March, 1961

REASONS AS TO THE LACK OF RESPONSE TO INVITATIONS TO TENDER FOR THE SUPPLY OF CABLE UNDER THE RESERVATION CLAUSE PROVISIONS

1. Each year from 1955-56, invitations to tender for the supply of the simpler types of cable have been issued to 20 or more firms. These invitations have met with no response.

2. The Post Office has made informal enquiries of about half the firms that were invited to tender, in order to ascertain the reasons for this lack of response. Their replies indicated that the types of cable covered by the Agreement (paper core telephone cables) were not within their existing range of manufacture. Moreover, since there was almost no other demand for this type of cable (except by the Railways for the smaller sizes) and the established industry already had ample capacity to meet Post Office requirements, it appeared to be their view that it would be uneconomic for them to undertake the considerable capital outlay and provide the factory space needed to set up special paper cutting and lapping machines (not used for other types of cables) as well as twinning and stranding machines.

3. These considerations apply particularly to firms making power and other types of lead or rubber-covered cables for which the plant required and the sequence of manufacturing operations are different from those for telephone cables. They apply also, however, to firms currently making telephone cables of the polythene insulated type and are reinforced, in their case, by the fact that this type of cable is progressively displacing the paper-core type.

APPENDIX 9

PAPER forwarded by *Sir Thomas Padmore, K.C.B.*, on 31st May, 1961

FORM OF NOTES TO THE APPROPRIATION ACCOUNTS

Paragraph 31 of the memorandum on the proposed new form of Estimates submitted to the Committee of Public Accounts earlier this session referred to the review of the form of the notes to the appropriation accounts which the Treasury was making in consultation with other Departments. This review has now been completed and the resulting proposals have been considered and generally welcomed by all major Departments, including the Service Departments. This note summarises their main features; gives example, at Annexes "A"—"C"* of how they would affect the form of the notes of one or two major Departments; and seeks the approval of the Public Accounts Committee for their introduction.

2. The form of the notes was last reviewed in 1948, when, at the suggestion of the Public Accounts Committee, some simplification and reduction of detail was made. In the present review the main objects were to improve the layout of the notes in the interests of clarity and consistency; and to eliminate detailed information which no longer seemed necessary either for reasons of accounting propriety or to give an adequate supplementary picture of Departmental transactions in modern conditions. It is hoped that, as with the new form of the Estimates, the results will assist in concentrating Parliamentary and public attention on those matters which most deserve it.

3. In principle, there is no justification for restricting the scope of the notes to the accounts. Any one of a Department's numerous types of financial activity may in the event require some further explanation than the bare figures of outturn can provide. But the extent to which the published notes themselves can meet this need is clearly limited; and it is generally accepted that their main emphasis, apart from straight explanations of particular figures in the accounts, should be on those types of transactions which are either unusual for the Department concerned to engage in or are thought to merit the focussing of public attention in this way; e.g. losses, gifts, outstanding loans.

4. The review has concentrated on those types of note which are common to many Departments. Even so, since transactions of the same broad type vary considerably from one Department to another, complete uniformity is not always attainable or desirable. Moreover, there are several notes relevant only to one or a few Departments, and no attempt has been made to consider each and every one. In drawing the attention of the Public Accounts Committee to the main notes, and to others which have specifically engaged the Committee's interest in recent years, it is therefore intended, subject to the Committee's comments, to apply the same general approach to all the notes as and when proposals for their modification are made by Departments or the Treasury. The following paragraphs summarise the main proposals.

General Layout

5. Notes to the appropriation accounts can be divided into two main types:—

- (a) Explanations of the causes of variation between expenditure and grant, subhead by subhead, which, as at present, will be printed at the foot of each page of the account showing the subheads to which the notes refer. Explanations of the causes of variation between receipts and estimated receipts will be printed, as at present, immediately after the statement of details of receipts; (see below, paragraph 6).
- (b) All other notes will be included by categories in a general statement to be appended at the end of each appropriation account.

* Not printed.

Details of Receipts

6. The statement of receipts will continue to be given in basically the present form, showing estimates and amounts actually received. The major items, shown individually, will correspond to those separately mentioned in the new form of Estimates.

Notes Appendices

7. All other notes will be appended to the respective accounts under the following general headings, and as far as possible in the same order.

Losses etc. statement :—

Cash losses.

Claims abandoned.

Nugatory and fruitless payments.

Stores losses.

Extra Contractual Payments.

Compensation Payments.

Ex gratia Payments (other than to contractors).

Extra Statutory and Extra Regulatory Payments.

Gifts by Departments.

Gifts received by Departments.

Transfers of Land and Buildings.

Outstanding Loans.

[Hostels—outturn—see below, paragraph 21.]

In the case of the Service Departments' accounts, the notes will continue to be included in appendices at the end of the respective volumes.

Losses

8. At present it is usual for a special losses subhead to be opened for losses above a certain figure. In addition, the notes on most categories of cash and stores losses give a brief summary of each individual case over specified amounts, and in some accounts, notably those of the Service Departments, these notes run to several pages, despite upward revision from time to time of the limits below which cases are simply noted in bulk. We have carefully considered whether such detailed noting of loss cases is still appropriate, and have concluded that it is not.

9. Losses subheads cover part of the sums which feature in the detailed statements, but in three respects they are misleading: they cover only those cash losses which relate to the year of account; they are opened only if a Department has a "major loss", and thus do not include small losses; and in the interests of accounting simplicity certain types of loss are charged to the service subhead concerned—e.g. overpayments of family allowances. It is therefore proposed to discontinue these special subheads and to charge losses which relate to the year's accounts to the appropriate service subhead.

10. As regards the detailed statements, admittedly Parliament does not vote money to Departments so that it, or the stores purchased therewith, may be stolen, embezzled, burnt, sunk, or otherwise "lost". It is clearly right that the extent of Departments' losses, which usually result from unforeseen, and sometimes from regrettable events, should be brought to notice; and from time to time members of the Committee question Accounting Officers on particular cases in the accounts. But in fact most types of losses are an inescapable feature—to some degree—of Departmental business; the necessity of minimising them is simply one aspect of a Department's many preoccupations of management; it is seldom possible, within any reasonable limits of space, for an

adequate picture to be given in the accounts of particular cases; and it is impracticable to single out those cases which may appear most deserving of further examination. We therefore believe that the time has come to eliminate details of losses from the notes, but to summarise the totals of the main types of cash and stores losses by main categories appropriate to each Department's range of business. This would of course in no way detract from the ability of the Comptroller and Auditor General, as he saw fit, to bring to the Committee's attention on a full report any specific cases which in his view deserved further examination, either because of their intrinsic importance, or because of the general issues which they seemed to raise. The effect of this change is brought out in the attached examples of notes in the proposed new form; but a typical division would be:—

Cash Losses

- (a) Due to theft, fraud, or arson.
- (b) Overpayments of salaries, wages and allowances.
- (c) Due to other causes.

Stores losses

- (a) Due to theft, fraud, arson, or sabotage.
- (b) Due to deterioration in store:
 - (i) within Department's control
 - (ii) beyond Department's control
- (c) Losses discovered on stocktaking; (surpluses may also be recorded)
- (d) Due to other causes

The general form of these notes would be, for each category, "X cases amounting to £Y".

Claims abandoned

11. Claims abandoned will similarly be noted in one bulk note in the losses etc. statement, except that claims abandoned under inter-Governmental settlements will be noted individually.

Extra Contractual Payments to Contractors

12. These payments will in future be charged to the appropriate service subhead, and only payments which are of an ex gratia nature will be noted.

Compensation Payments

13. This category covers payments in respect of personal injuries, traffic accidents, damage to property, etc. The general form of the note will be as for cash losses. No note will of course be required where a special subhead is opened in the Estimates for a particular type of compensation payment. Where there is no such subhead the payments will be charged to the most appropriate service subhead and only those payments which are of an ex gratia nature will be noted.

Ex gratia Payments (other than to contractors)

14. These payments too will be noted in one bulk note.

Ex Statutory and Extra Regulatory Payments

15. Such payments, which are of rather special constitutional significance, will wherever possible be classified into definable and reasonably precise categories and noted in bulk notes under each category. It may sometimes be necessary to note individual payments which are not easily classifiable.

Gifts by Departments

16. Gifts will be noted individually where the value is £100* or more, or in the case of a number of gifts arising from the one decision where the total value is £100* or more. Gifts of lesser value will be noted in bulk. This note will include transactions which are virtually indistinguishable from gifts, e.g. permanent loans, indefinite loans, or loans for the expected useful life of the asset.

Gifts received by Departments

17. Gifts received whose value is less than £1,000 will not be noted. Gifts with a higher value will be noted individually.

Transfer of Land and Buildings

18. Transfers to non-Exchequer bodies at less than full value will be noted in the same way as gifts by Departments. Transfers of land and buildings between Exchequer Departments valued at £50,000 or more will be noted individually by the transferring Department and will name the receiving Departments.

Outstanding Loans

19. Subject to the provisions below, outstanding loans for the recovery of which the Department is responsible will be listed.

- (a) Loans falling within a well defined category will be aggregated and shown in one total except that individual loans of substantial amount, e.g. £25,000 or more, will be itemised in the year in which they are made.
- (b) Loans where the individual amounts outstanding are relatively small, e.g. £1,000 or less, and which do not fall within a well defined category, will be aggregated and shown in one total.
- (c) Remissions and other significant changes in the terms of loans will be noted as they occur.

Works appendices

20. Departments responsible for major building works at present include in the notes to their accounts, for those major works for which appreciable variations occurred, a statement of the amounts actually spent during the year as compared with the Estimate for that year. It is the experience of the Treasury, with which the Departments concerned agree, that this particular comparison for individual works does not significantly assist the Committee in their assessment of the performance of Departments in organising and controlling the building work for which they are responsible. It is proposed, in the new form of Estimates, that information about major building works should be given in appendices, showing, both for work to be started in the year and work already in progress, the main items concerned, together with the original and present estimate of the total cost of each, the amount spent to date, and the amount to be spent in the year. The Treasury will consider in the light of experience of the new form whether this can usefully be supplemented by detailed information about outturn. There is no doubt, however, that the present statement in the notes to the Accounts is of very limited value, and it is proposed that it should be discontinued. This does not of course affect the additional statements which are furnished by certain Departments to the Committee showing fuller details of all major works in progress during the year of account. The Committee may however like to consider whether they would wish to continue to receive these statements as a regular arrangement.

Hostels

21. In response to a recommendation by the Committee in their Second Report 1947-48, Departments responsible for controlling hostels show in a note to their

* £1,000 for certain Departments, e.g. Service Departments.

account the surplus or deficiency at each hostel after allowing for charges borne on other Votes. The appended Ministry of Aviation and War Office accounts* show examples. The scale of this particular activity is now considerably less than in the years immediately after the war and several Departments have suggested that the Committee might no longer wish to single out these transactions for specific mention in the accounts. Here again the main point is whether these, among the many other transactions for which Departments are responsible, should be brought to public notice in this particular way. The Treasury felt that the Committee would wish to consider whether the provision of this information as a matter of routine should now cease in the light of the general considerations affecting the notes set out above. It is however suggested that, whatever the decision about hostels in general may be, there is a good case for discontinuing the note on Polish hostels run by the National Assistance Board (Class X, Vote 5): the nature of this particular service inescapably involves a loss, which is in effect one type of assistance.

Other Notes and Statements

22. We have also taken this opportunity to consider, with the Departments concerned, whether there are any other notes or statements regularly submitted to the Committee in response to long-standing requests, which may no longer be required. There are in our view four such notes, as follows.

Noting of Emergency Expenditure by Service Departments

23. A Treasury Minute of 1880 required the Service Departments to note their appropriation accounts with the total cost of "a war or other special military or naval service". This rule has been in abeyance for many years, but under arrangements agreed with the Committee in 1952 the Departments still seek a renewal of the dispensation biennially from the Treasury and should apply the earlier procedure "in the event of a supplementary Estimate specifically providing for expenditure on a particular emergency not already covered to some extent in normal Estimates".

24. The Treasury is sure that these arrangements no longer serve any useful purpose and should be ended. To account for the cost of a particular "emergency" would nowadays cut right across the existing accounting pattern and would involve substantial additional work. If however an estimate of the extra cost of such an emergency was required special arrangements could be made to this end, as has in fact been done once or twice in recent years. It is therefore hoped that the Committee will agree that the present relaxation of the 1880 rule should be made permanent and complete.

Statement(s) of cumulative outturn of the Purchasing (Repayment) Services Votes

25. In response to a suggestion by the Committee in their Third Report of 1951-52, the Ministry of Supply/Aviation has been providing annually for the Committee a statement showing in summary form the cumulative outturn of the Purchasing (Repayment) Services Vote; i.e. the relationship between the expenditure incurred on this Vote in satisfying the requirements of the Service Departments and the payments to the Ministry by those Departments. Over the seven years 1952-53-1958-59 this statement showed, on a turnover of about £3,300m. a net credit balance of about 1½ per cent., due in large measure to payments for stocks and work in progress at the time when the Vote was introduced.

26. With effect from 1959-60 the P.(R)S. Vote was split into two, as a result of the transfer of certain supply functions from the successor Ministry of Aviation to the War Office; and the continuity of the original cumulative statement was thus broken. The Committee will have noticed that for the first year, 1959-60, in which the new division of responsibilities applied, two new statements were prepared, one each for the Ministry of Aviation and War Office P.(R)S. Votes; but the Treasury and the Departments consider that the original purpose of these statements has now been met and hope that the Committee will be prepared to agree that they should be discontinued.

* Not printed.

Statement of Estimated Forward Commitments (Ministry of Aviation Purchasing (Repayment) Services Vote)

27. About ten years ago, in connection with the proposal by the Ministry of Supply for the establishment of their Purchasing (Repayment) Services Vote, the Ministry offered to provide, with the annual Estimates and appropriation accounts, a statement of forward commitments on the new Vote, for a trial period. A copy of this statement has since been supplied annually to the Committee of Public Accounts but no points have been raised on them. For their part, the Treasury has not found these particular statements useful for purposes of financial control: comprehensive forward costings are of course regularly made for defence expenditure covering several years ahead. The Committee's approval is therefore sought to discontinue them.

Statement of Outstanding Loans (Ministry of Aviation)

28. Since the P.A.C.'s recommendation in their Third Report 1946-47 that all outstanding loans should be listed, the Ministry has submitted separately to the Committee an annual statement of outstanding balances of loans to commercial firms which it is considered undesirable to publish. The general arrangements described above for the noting of loans will in future apply to the Ministry of Aviation as to other Departments; and it is hoped that the Committee will be prepared to agree that the additional details of these particular loans need only in future be supplied to them on specific request.

Timing of changes

29. Subject to the Committee's approval or comments, it is proposed to introduce these changes in the notes to the appropriation accounts for 1961-62. They would thus antedate the changes in the form of the Estimates by one year, but this is not expected to cause any difficulty.

Conclusion

30. It will be seen that these proposals involve the elimination of some of the detailed information at present published. But if in considering any account the Committee wishes to examine further any types of transactions which are summarised in the notes, the Departments concerned will of course still be able to provide more detailed information, in whatever form best suits the Committee's requirements.

INDEX

N.B. In this Index, the figures following the name of the Witness refer to the Question number in the Evidence; the figures following p. or pp. refer to page numbers; the figures following *Report* refer to the numbered paragraphs of the Report; Appendices are indicated by number followed by page reference.

A

ADEN PROTECTORATE:
Poynton 690.

AGRICULTURE, FISHERIES AND FOOD, MINISTRY OF and AGRICULTURE AND FISHERIES FOR SCOTLAND, DEPARTMENT OF:

Failure to recover costs, *Winnifrith* 1953-7, 1959-67, 1970-71, 1973-87; *Henley* 1958, 1968-9, 1971-2.

Fowl pest:

Cleaning and disinfection, *Winnifrith* 2094-6, 2098-9; *Henley* 2097.

Compensation, *Winnifrith* 2082-93.

Cost to Exchequer, *Winnifrith* 2100-25, 2127-8; *Henley* 2126.

Diagnosing, *Winnifrith* 2009-11, 2014-81; *Henley* 2012-13.

General fertiliser subsidy, *Special Report* p. ix; *Winnifrith* 1889-914, 1917, 1919-20; *Campbell* 1915-16, 1918; *Henley* 1921-3.

Grants for ploughing up grassland, *Special Report* p. ix; *Winnifrith* 1294-7, 1930-3, 1935, 1946-52; *Campbell* 1928-9, 1934, 1935-45.

Poultry progeny testing stations, *Winnifrith* 1988-97, 2003-8; *Campbell* 1998-2002.

AIR SERVICES APPROPRIATION ACCOUNT 1959-60:

Gan Airfield, *Dean* 2428-51.

Stores accounts, *Dean* 2590-7.

Works and Lands, offences connected with Air Ministry maintenance work, *Third Report* 86-9; *Dean* 2452-507, 2508, 2509-58, 2562-82, 2584-9; *Henley* 2508, 2509, 2510, 2559-61; *Compton* 2583.

ANDERSON, Sir JOHN, K.B.E., C.B., and HADDOW, Mr. T.D., C.B.:

469-550.

Exchequer grants to Local Revenues, Scotland:

Local authority houses, 469-75, 478-81, 485-96, 500-4, 505-35, 539-41, 542-50.

ANDERSON, Mr. K., C.B., C.B.E., and HARVEY, Sir ROBERT, K.B.E., C.B.:

122-270.

See under Post Office.

APPROPRIATION ACCOUNTS, FORM OF NOTES

TO:
Third Report 1111-20; *Padmore* 3549-56, 3558-60, 3563-8, 3577-83, 3585-8, 3590-2, 3594-5; *Compton* 3557, 3561-3, 3569-75, 3584, 3589, 3593-4, 3596; *Henley* 3576, 3595, 3596; *App.* 9, pp. 352-7.

ARMY:

Charges by transport contractors, *Way* 2705-6.

Loss of accounting records, *Way* 2673-94.

Meat, issue of, *Way* 2707-8.

Non-insurance of money in transit, *Way* 2697-702.

Settlement of claim in respect of hired and requisitioned land, *Way* 2695-6.

Stock-taking discrepancies, *Way* 2608-17, 2620-69; *Henley* 2618-19.

Stores, losses arising from deterioration, *Way* 2670-2.

Vehicles handed over to Malayan Government, *Way* 2704.

ATOMIC ENERGY AUTHORITY:

Accounting for and control of recoverable expenditure:

Third Report 105-9.

Research and development, *Third Report* 108; *Makins* 3331-5, 3337-44, 3347-9, 3350-67; *Hitchman* 3336-7, 3350; *Henley* 3345; *Peck* 3345-6.

Trading results, *Third Report* 108; *Makins* 3368-73, 3375-81, 3382, 3384-9, 3396-401, 3411-12, 3415, 3418-19; *Hitchman* 3373, 3381, 3383, 3389, 3390, 3402-10, 3416-17; *Compton* 3374; *Henley* 3391-5, 3413-14.

Accounts, security, *Third Report* 107, 109; *Makins* 3315-16, 3319-21, 3323; *Turnbull* 3317-19; *Hitchman* 3324-5; *Henley* 3326-8, 3329.

Capital, *Hitchman* 3420-4, 3425; *Henley* 3425.

Contract for the purchase of a chemical, *Special Report* pp. xiii-xiv; *Makins* 2832.

Costs of nuclear power programme, *Makins* 3304-9, 3315-16, 3319-21, 3323; *Hitchman* 3310-14, 3324-5; *Turnbull* 3317-19, 3322.

Royalties on nuclear power stations, *Special Report* p. xiv; *Third Report* 108; *Henley* 2833-9, 2850-1; *Makins* 2840-9, 2852-6, 2857-66; *Hitchman* 2856.

Supply of fuel elements and graphite, *Special Report* pp. xiv-xv; *Makins* 2867-73, 2875-6, 2880-3, 2884-92, 2894, 2895, 2897; *Hitchman* 2873-4, 2877-9, 2893, 2894, 2896, 2898-9; *Henley* 2883.

AVIATION, MINISTRY OF:

Accounts, form of, *Third Report* 104; *Hardman* 857-61, 867-9; *Henley* 862.

Aerodrome accounts, operating expenditure, *Special Report* p. xiii; *Third Report* 90-3; *Hardman* 711-14, 716-25; *Henley* 715.

AVIATION, MINISTRY OF:—cont.

- Airports, revenue, *Special Report* p. xiii; *Third Report* 94-103; *Hardman* 755-804.
- Apron services, *Third Report* 98-101; *Hardman* 901-14, 918-32, 936-55; *Henley* 915-17, 933-5.
- Customs, *Hardman* 792-7.
- Development of medium-range ballistic missile, *Special Report* p. vii; *Hardman* 2319-22, 2323-42, 2344, 2348-57, 2366-9, 2374-87, 2391-8, 2401-12; *Downey* 2322, 2343, 2345-7, 2358-65, 2370-3, 2399-400, 2413-16; *Henley* 2388-90; *Beck* 2390.
- Extramural research and development, design studies, *Third Report* 48-53; *Hardman* 2158-66, 2167-91, 2193-7, 2200, 2205, 2207-8, 2210-11; *Doggett* 2166, 2191-2, 2198-9; *Henley* 2201, 2205, 2206, 2208-9; *McKean* 2201-4.
- Fuel, sale of, *Third Report* 96; *Hardman* 874, 881-90, 896-900; *Compton* 898.
- Helicopters, *Hardman* 786-90, 798-804.
- Hostels for industrial civil servants, *Hardman* 2418-23.
- Investigation and evaluation of navigational aid, *Special Report* p. vi; *Hardman* 2129-47; *Doggett* 2148-55.
- Landing fees, *Third Report* 94; *Hardman* 770-8, 870-3.
- London Airport Central Terminal Area, *Third Report* 102-3; *Hardman* 843-9, 852-61, 863-98, 899-900; *Henley* 850-1, 862; *Compton* 898.
- London, Prestwick and Gatwick Airports, *Third Report* 91; *Hardman* 805-30, 834-42; *Compton* 831-3.
- Machine tools, *Hardman* 2427.
- Manchester (Ringway) Airport, *Special Report* p. xiii; *Hardman* 726-54.
- Passenger service charge, *Third Report* 97; *Hardman* 756-7, 843, 875-8.
- Power Jets Limited, *Hardman* 2424-5.
- Progress payments, *Hardman* 2256-63, 2266-73; *Doggett* 2263-5, 2273-7.
- Recommendations, *Third Report* 50, 57.
- S.B. (Realisations), *Hardman* 2426.
- Store accounts and stocktaking, *Hardman* 2417.
- Technical programmes, *Third Report* 54-7; *Hardman* 2212-19, 2222-5, 2226-32, 2233-7, 2238-55; *Doggett* 2220-1, 2225, 2232, 2237.
- Technical services, *Third Report* 93; *Hardman* 726-54, 879-80.
- Transfer of aerodromes to municipalities, *Special Report* p. xiii.
- Transfer to War Office of certain functions of Ministry of Supply, *Hardman* 2156; *Compton* 2157.
- Verification of expenditure, *Hardman* 2279-90, 2293-303, 2305-16; *Doggett* 2290-2, 2303-4; *Henley* 2317-18.

B

- BALDWIN, Mr. P. R.:
Navy, Educational Services, Dartmouth and Manadon Colleges, 3053-4.

BRITISH GUIANA:

- Financial assistance to development programme, *Third Report* 10-12; *Poynton* 690, 695-703, 706-9.

BURNEY, Mr. A. G. B., see under Cotton Board.

C

CAMPBELL, Mr. M., see under Agriculture, Fisheries and Food, Ministry of and Agriculture and Fisheries for Scotland, Department of:

COLONIAL DEVELOPMENT AND WELFARE ACTS:

Financial assistance under, *Poynton* 551-6.

COLONIAL TERRITORIES:

British Guiana, see that title.

Jamaica, see that title.

Malta, see that title.

Delay in receipt of audited accounts, *Third Report* 6-9; *Poynton* 689-91, 695-709; *Compton* 692-4.

COMPTON, Sir EDMUND, K.B.E., C.B.:

Air Services Appropriation Account 1959-60, works and lands, offences connected with Air Ministry maintenance work, 2583.

Appropriation Accounts, form of notes to, 3557, 3561-3, 3569-75, 3584, 3589, 3593-4, 3596.

Atomic Energy Authority, accounting for and control of recoverable expenditure, 3374.

Aviation, Ministry of:

London Airport Central Terminal Area, 898.

London, Prestwick and Gatwick Airports, 831-3.

Transfer to War Office of certain functions of Ministry of Supply, 2157.

Colonial Territories, delay in receipt of audited accounts, 692-4.

Estimates, form of, 3543-8.

Exchequer grants to local revenues, Scotland, local authority houses, 482-4, 504, 541.

Housing, Scotland, 404, 417, 482-4, 504, 541.

Inland Revenue:

Balance of tax in assessment and arrears due for collection, 15-16, 81.

(P.A.Y.E.), 81.

Remissions and amounts abandoned, 86.

Labour, Ministry of:

Control of staff complements, 1839.

National Health Service:

Chemists' remuneration, 1383.

Investigation of costs of prescribing, 1263, 1295, 1297-8, 1300.

Navy:

Educational services, Dartmouth and Manadon Colleges, 2976, 3001-2, 3011, 3017, 3032, 3055-7.

H.M.S. "Swiftsure", 3155.

Roads:

Fees to consultant engineers, 1681-2.

Motor tax account, 1716-17.

COMPTON, Sir EDMUND, K.B.E., C.B.:—
cont.

Royal Ordinance factories, 271.
Supreme Court of Judicature, &c., 271.
Universities and Colleges, &c., Great Britain:
Auditors, 273-4, 294-7.
Control of capital expenditure, 272-5, 282, 291-7, 298-300, 336-8, 339.
War Office (Supply), shirrings, 2739.

COPLESTON, Mr. E. R., C.B., *see under* Universities and Colleges, &c., Great Britain.

COTTON BOARD:

Compensation, *Powell* 1451-4, 1456-66, 1467-85, 1487; *Burney* 1466, 1486-7; *Henley* 1455-6.
Re-equipment grants, *Powell* 1585-95; *Burney* 1595.
Reorganisation schemes, *Powell* 1488, 1490, 1493-7, 1504-8, 1517-23, 1524-5, 1534, 1537-42, 1545-7, 1548-9, 1554-9; *Burney* 1488-9, 1491-2, 1497-503, 1508-16, 1523, 1526-33, 1534-6, 1540, 1543-4, 1547, 1549-53.
Weaving Reorganisation Scheme, *Powell* 1560-73, 1575, 1578-82; *Burney* 1573-5, 1576-7.

D

DEAN, Sir MAURICE, K.C.B., K.C.M.G., *see under* Air Services Appropriation Account 1959-60.

DOGGETT, Mr. F. J., *see under* Aviation, Ministry of.

DOWNEY, Mr. W. G., *see under* Aviation, Ministry of.

DUNNETT, Sir JAMES, K.C.B., C.M.G., *see under* Roads.

E

ESTIMATES, FORM OF:
Third Report 110; *Compton* 3543-8.

EXCHEQUER GRANTS TO LOCAL REVENUES, SCOTLAND:

Local authority houses, *Third Report* 40-5; *Haddow* 469-75, 478-81, 485-97, 500-4, 505-8, 511-23, 524-33, 540-1, 543-50; *Anderson* 509-10, 523, 534-5, 539, 542; *Compton* 482-4, 504, 541; *Henley* 498-9, 536-8; *App.* 5, p. 349.

F

FALKLAND ISLANDS:
Poynton 690, 704-5.

FRASER, Mr. B.D., C.B., and HADDOW, Mr., T.D., C.B.:
956-1450.
See under Hospitals and National Health Service.

G

GALSWORTHY, Mr. A. N., C.M.G., *see* POYNTON, Sir HILTON, K.C.M.G., and others.

H

HADDOW, Mr. T. D., C.B.
384-468.

Housing, Scotland, 384-91, 395-404, 405-16, 417-68.

See also Anderson, Sir John, K.B.E., C.B., and *under* Hospitals and National Health Service.

HARDMAN, Mr. H., C.B., *see under* Aviation, Ministry of.

HARVEY, Sir ROBERT, K.B.E., C.B., *see under* Post Office.

HELSEBY, Sir LAURENCE, K.B.E., C.B., *see under* Labour, Ministry of.

HENLEY, Mr. D. O.:

Agriculture, Fisheries and Food:
Failure to recover costs, 1958, 1968-9, 1971-2.

Fowl pest:

Cleansing and disinfection, 2097.

Cost to Exchequer, 2126.

Diagnosing, 2012-13.

General fertiliser subsidy, 1921-3.

Air Services Appropriation Account 1959-60, works and lands, offences connected with Air Ministry maintenance work, 2508, 2509, 2510, 2559-61.
Army, stocktaking discrepancies, 2618-19.
Appropriation Accounts, form of notes to, 3576, 3595, 3596.

Atomic Energy Authority:

Accounting for and control of recoverable expenditure:

Research and development, 3345.

Trading results, 3391-5, 3413-14.

Accounts, security, 3326-8, 3329.

Capital, 3425.

Royalties on nuclear power stations, 2833-9, 2850-1.

Supply of fuel elements and graphite, 2883.

Aviation, Ministry of:

Aerodrome accounts, operating expenditure, 715.

Apron services, 915-17, 933-5.

Development of medium-range ballistic missile, 2388-90.

Extramural research and development, design studies, 2201, 2205, 2206, 2208-9.

London Airport Central Terminal Area, 850-1, 862.

Verification of expenditure, 2317-18.

Cotton Board, compensation, 1455-6.

Exchequer grants to Local Revenues, Scotland, local authority houses, 498-9, 536-8.

Hospitals:

Capital expenditure, 1024, 1048-51.

Reconstruction scheme at a teaching hospital, 970, 974-5.

Housing, Scotland, 392-4, 498-9, 536-8.

Labour, Ministry of:

Control of staff complements, 1861-2, 1865-9, 1883-4.

Costs of Placing and Advisory Services, 1803-4.

HENLEY, Mr. D. O.:—*cont.*

- National Health Service :
 Chemists' remuneration, 1318-23.
 Pharmaceutical supplies, prices of proprietary preparations, 1127-8, 1130-1.
 Navy, educational services, Dartmouth and Manadon Colleges, 2982-3, 3014-16, 3050-3.
 Post Office, control of capital expenditure, 124-9.
 Roads:
 Advance payments in respect of land acquired for trunk roads, 1733-6.
 B.T.C., contribution in respect of over-line road bridges and level crossings, 1702-3, 1706.
 Fees to consultant engineers, 1636-43, 1654-6, 1662, 1689-90, 1694-6.
 War Office (Supply), shirtings, 2735, 2738.
 Works, Ministry of, establishment costs :
 Basis of charge for, 3495, 3496.
 Comparison with outside professional charges, 3436-7.

HISTORIC BUILDINGS AND ANCIENT MONUMENTS:

Special Report p. ix.

HITCHMAN, Sir ALAN, K.C.B., *see under* Atomic Energy Authority.

HOSPITALS:

- Capital expenditure, *Special Report p. v* ;
Fraser 990-3, 995-1001, 1009-19, 1020, 1022-3, 1025-47, 1051-71 ; *Haddow* 994, 1002-8, 1020, 1021 ; *Henley* 1024, 1048-51.
 Reconstruction scheme at a teaching hospital, *Special Report p. iv* ; *Fraser* 956-60, 963-9, 971-2, 976-88 ; *Haddow* 961-2, 973 ; *Henley* 970, 974-5.

HOUSING, SCOTLAND:

- See also* Exchequer Grants to Local Revenues, Scotland.
Third Report 40-5 ; *Haddow* 384-91, 395-404, 405-16, 417-68 ; *Henley* 392-4 ; *Compton* 404, 417 ; App. 3, p. 348 ; App. 4, pp. 348-9.
 Recommendation, *Third Report* 45.

I

INDEPENDENT TELEVISION AUTHORITY:

Accounts 1957-58, *Special Report p. xv.*

INLAND REVENUE:

- Balance of tax in assessment and arrears due for collection, *Johnston* 1-14, 17-81, 82 ; *Compton* 15-16, 81.
 Fraud and evasion, *Johnston* 98-121.
 P.A.Y.E., *Johnston* 61-81, 82 ; *Compton* 81.
 Remissions and amounts abandoned, *Johnston* 83-6, 87-97 ; *Compton* 86.

J

JAMAICA:

Poynton 690.

JARRETT, Sir CLIFFORD, K.B.E., C.B., *see under* Navy.

JOHNSTON, Sir ALEXANDER, K.B.E., C.B., *see under* Inland Revenue.

L

LABOUR, MINISTRY OF:

- Control of staff complements, *Helsby* 1825-6, 1827-32, 1833-8, 1843-57, 1859-60, 1863-4, 1870-4, 1876-82, 1885, 1886-8 ; *Nash* 1826, 1832, 1840-2, 1858, 1875, 1886 ; *Compton* 1839 ; *Henley* 1861-2, 1865-9, 1883-4.
 Costs of Placing and Advisory Services, *Helsby* 1757-77, 1778-802 ; *Nash* 1777 ; *Henley* 1803-4.
 Training services, charges to employers, *Helsby* 1808-23.

M

MAKINS, Sir ROGER, G.C.B., G.C.M.G., *see under* Atomic Energy Authority.

McKEAN, Mr. D.:

- Aviation, Ministry of:
 Extramural research and development, design studies, 2201-4.

MALTA:

- Development programme, *Third Report* 1-5 ; *Poynton* 557-65 ; *Galsworthy* 566-7.
 Loans to the company converting the Dockyard, *Third Report* 1-5 ; *Poynton* 568-606, 608-25, 629-31, 640-3, 645-6, 649-50, 651-2, 654-5, 657-64, 669-88 ; *Galsworthy* 607, 631-8, 643-4 ; *Melville* 625-8, 639, 646, 650, 653, 655-6, 665-8, 688.

MELVILLE, Mr. E., C.M.G., *see* POYNTON, Sir HILTON, K.C.M.G., and others.

MUIR, Sir EDWARD, K.C.B., *see under* Works Ministry of.

N

NASH, Mr. G. J., C.B., *see under* Labour, Ministry of.

NATIONAL HEALTH SERVICE:

- Chemists' remuneration, *Third Report* 32-9 ; *Fraser* 1301-15, 1324-47, 1849-58, 1363-82, 1384-8, 1446-8 ; *Haddow* 1316-17, 1348, 1359-62, 1449-50 ; *Henley* 1318-23 ; *Compton* 1383.
 Expenditure on advertising and research in the pharmaceutical industry, App. 2, p. 347.
 Hospitals, *see that title.*
 Investigation of costs of prescribing, *Third Report* 32-5 ; *Fraser* 1218-23, 1228-32, 1235-47, 1257-9, 1261-2, 1264-80, 1285-94, 1296, 1299 ; *Haddow* 1224-7, 1233-4, 1248-56, 1260, 1281-4 ; *Compton* 1263, 1295, 1297-8, 1300.
 Pharmaceutical supplies, prices of proprietary preparations, *Special Report* pp. v-vi ; *Third Report* 24-31 ; *Fraser* 1072-124, 1128-9, 1132-215 ; *Haddow* 1125-6 ; *Henley* 1127-8, 1130-1.

NATIONAL HEALTH SERVICE:—*cont.*

- Purchase by chemists of drugs at less than tariff prices, *Fraser* 1389-401, 1403-42; *Haddow* 1402, 1443-5.
Purchase of drugs at low prices from the Continent, App. 1, p. 347.
Recommendations, *Third Report* 31, 37, 39.

NAVY:

- Allocation of work to Dockyards, *Third Report* 77-9; *Jarrett* 3177-94.
Educational services, Dartmouth and Manadon Colleges, *Third Report* 64-7; *Jarrett* 2959-75, 2977-81, 2983-3000, 3003-11, 3012-13, 3018-32, 3033-49, 3058-73; *Compton* 2976, 3001-2, 3011, 3017, 3032, 3055-7; *Henley* 2982-3, 3014-16, 3050-3; *Baldwin* 3053-4.
H.M.S. "Belfast", *Third Report* 68-70; *Jarrett* 3074-122.
H.M.S. "Chichester", *Jarrett* 3204-33.
H.M.S. "St. James" and "Gravelines", *Third Report* 71-3; *Jarrett* 3123-47.
H.M.S. "Swiftsure", *Third Report* 74-6; *Jarrett* 3148-55, 3156-76; *Compton* 3155.
Loss of and damage to stores and equipment during riot at a naval establishment, *Jarrett* 3195.
New construction, *Jarrett* 3234-6.
Recommendations, *Third Report* 67.
Works services, *Jarrett* 3196-203.

P

PADMORE, Sir THOMAS, K.C.B., *see under* Appropriation Accounts and under Universities and Colleges, &c., Great Britain.

PECK, Mr. A. D., M.B.E.:

- Atomic Energy Authority, accounting for and control of recoverable expenditure, research and development, 3345-6.
Development of medium-range ballistic missile, 2390.

POST OFFICE:

- Commercial Accounts 1959-60, form and results, *Anderson* 267-70.
Control of capital expenditure, *Special Report* p. xii; *Henley* 124-9; *Anderson* 130-7.
Engineering materials, bulk supply agreements, *Third Report* 58-63; *Harvey* 138-266; App. 6, pp. 349-50; App. 7, p. 351.
Recommendation, *Third Report* 62.
Supply of cable, reasons as to the lack of response to invitations to tender for, App. 8, p. 351.

POWELL, Sir RICHARD, K.C.B., K.B.E., C.M.G., and BURNEY, Mr. A. G. B., *see under* Cotton Board.

POYNTON, Sir HILTON, K.C.M.G., GALSWORTHY, Mr. A. N., C.M.G., and MELVILLE, Mr. E., C.M.G.
551-709.
Aden Protectorate, 690.

POYNTON, Sir HILTON, K.C.M.G.:—*cont.*

- British Guiana, financial assistance to development programme, 690, 695-703, 706-9.
Colonial Development and Welfare Acts, financial assistance under, 551-6.
Colonial Territories, delay in receipt of audited accounts, 689-91, 695-709.
Falkland Islands, 690, 704-5.
Jamaica, 690.
Malta:
Development programmes, 557-67.
Loans to the Company converting the Dockyard, 568-688.

R

ROADS:

- Advance payments in respect of land acquired for trunk roads, *Dunnett* 1724-32, 1737-46; *Henley* 1733-6.
British Transport Commission, contributions in respect of overline road bridges and level crossings, *Special Report* p. xii; *Dunnett* 1697-701, 1703-5, 1707-15; *Henley* 1702-3, 1706.
Control over schemes carried out by consulting engineers, *Special Report* p. x; *Dunnett* 1609-35.
Expenditure, *Dunnett* 1747-52.
Fees to consulting engineers, *Special Report* pp. x-xii; *Henley* 1636-43, 1654-6, 1662, 1689-90, 1694-6; *Dunnett* 1643-53, 1656-61, 1663-80, 1682-8, 1691-3; *Compton* 1681-2.
Increases in the estimated costs of road construction schemes, *Special Report* p. x; *Dunnett* 1597-608.
Motor tax account, *Compton* 1716-17; *Dunnett* 1717, 1718-23.
Western Avenue, improvement scheme, *Dunnett* 1753-5.

ROYAL ORDNANCE FACTORIES:

- Special Report* p. xii-xiii; *First Report* p. xix; *Third Report* 80-5; *Compton* 271; *Way* 2743-831.

S

SCOTLAND, HOUSING:

- Third Report* 40-5; *Haddow* 384-91, 395-404, 405-16, 417-68; *Henley* 392-4; *Compton* 404, 417; App. 3, p. 348; App. 4, pp. 348-9.
Recommendation, *Third Report* 45;

SERVICE DEPARTMENTS:

- Virement between Votes, *Second Report* p. xxi.

SUPREME COURT OF JUDICATURE, &c.:

- First Report* p. xix; *Compton* 271.

T

TURNBULL, Mr. F. F., C.B., C.I.E., *see under* Atomic Energy Authority.

U

UNIVERSITIES AND COLLEGES, &c., GREAT BRITAIN:

- Architects, *Copleston* 341-5.
 Auditors, *Compton* 273-4, 294-7.
 Control of capital expenditure, *Third Report* 13-23; *Compton* 272-5, 282, 291-7, 298-300, 336-8, 339; *Padmore* 276, 278-81, 283, 284-8, 290, 297, 301-4, 308, 312-19, 322-3, 326-30, 331-5, 339, 340, 346-8, 349-53, 359-67, 368-9, 379-80, 381, 382-3; *Copleston* 277, 283, 289, 305-8, 309-11, 319-21, 324-5, 331, 341-5, 349, 354-9, 367, 370-8, 380, 381.
 Furnishings and furniture, *Copleston* 325, 331; *Padmore* 326-30, 331-4.
 Professional fees, *Padmore* 283, 284; *Copleston* 283.
 Recommendation, *Third Report* 23.

W

WAR OFFICE (SUPPLY):

- Shirtings, *Way* 2719-35, 2736-7, 2740-2; *Compton* 2739; *Henley* 2735, 2738.
 Stores, partial stocktaking by contractors, *Way* 2709-18.
 WAY, Sir RICHARD, K.C.B., C.B.E.:
 2608-831.
 See also under Army.

WAY, Sir RICHARD, K.C.B., C.B.E.:—*cont.*
 Royal Ordnance factories, 2743-831.

War Office (Supply):

- Shirtings, 2719-35, 2736-7, 2740-2.
 Stores, partial stocktaking by contractors, 2709-18.

WINNIFRITH, Sir JOHN, K.C.B., see under Agriculture, Fisheries and Food, Ministry of, and Agriculture and Fisheries for Scotland, Department of.

WORKS, MINISTRY OF:

Establishments costs:

Basis of charge for, *Special Report* pp. vii-viii; *Muir* 3489-94, 3496-511; *Henley* 3495, 3496.

Comparison with outside professional charges, *Special Report* p. viii; *Muir* 3426-35, 3438-88; *Henley* 3436-7.

Increase in the ratio of establishments costs to work done, *Special Report* p. vii; *Muir* 3426-35, 3438-88.

Establishment, New Delhi, *Muir* 3539-41.

Marlborough House, *Muir* 3532-8.

Public Buildings, &c., United Kingdom:

Construction of research establishment for Ministry of Supply, *Special Report* pp. viii-ix.

Public Buildings Overseas:

High Commissioner's residence, Lagos, *Muir* 3512-31.

Treasury Whitehall Building, reconstruction, *Muir* 3542.

10